

Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulation, 2018 and SEBI (Depositories and Participants) Regulation, 2018 in regards to Fit and Proper Person

Important information regarding SECC & DP Regulations with regards to Fit and Proper Person.

Eligibility for Acquiring or Holding Shares of a Recognised Stock Exchange or Recognised Clearing Corporations

19 (1) No person shall, directly or indirectly, acquire or hold any equity shares or voting rights of a recognised stock exchange or recognized clearing corporation unless he is a fit and proper person: Provided that the onus shall be on the recognised stock exchange/ recognised clearing corporation to ensure that all its shareholders are fit and proper persons:

Provided further that such a requirement to ensure that all its shareholders are fit and proper persons shall not be applicable to a recognized stock exchange for shareholding of a person who directly or indirectly, acquires or holds less than two percent equity shares or voting rights of such recognized stock exchange.

(2) A person eligible to acquire or hold more than five per cent of the paid up equity share capital under sub-regulation (2) and (3) of regulation 17 and sub-regulation (2) and (3) of regulation 18 may acquire or hold more than five per cent of the paid up equity share capital of a recognised stock exchange or a recognised clearing corporation only if he has obtained prior approval of the Board.

(3) The application for seeking approval in terms of sub-regulation (3) of this regulation shall be made to the Board in the manner specified at PART - F of Schedule - II of these regulations through the concerned stock exchange / clearing corporation.

(4) The stock exchange / clearing corporation shall verify the declarations / undertakings given by the shareholders under sub-regulation (4) and forward the application along with its recommendation for approval to the Board.

(5) Any person holding two per cent or more of the paid up equity share capital in a recognised stock exchange or a recognised clearing corporation, as the case may be, shall file a declaration within fifteen days from the end of every financial year to the recognised stock exchange or recognised clearing corporation, as the case may be, that he complies with the fit and proper criteria provided in these regulations.

Monitoring of Shareholding Limits

19A. The recognised stock exchange / recognised clearing corporation shall put in place a monitoring mechanism as specified in Part G of Schedule - II of these regulations to ensure compliance with the shareholding conditions specified in these regulations at all times.

Requirement and Criteria of Fit and Proper

20(1) (a) The 'fit and proper person' criteria shall apply to the applicant, recognised stock exchange, recognised clearing corporation, its shareholders, directors and key management personnel at all times.

(b) The recognised stock exchange or recognised clearing corporation shall ensure that all its shareholders, directors and key management personnel are fit and proper persons at all times.

(2) For the purpose of these regulations, an applicant, a recognised stock exchange or a recognised clearing corporation shall be deemed to be a fit and proper person, if -

(a) such a person has a general reputation and record of fairness and integrity, including but not limited to -

- i. financial integrity;
- ii. good reputation and character; and
- iii. honesty;

(b) such a person has not incurred any of the following disqualifications -

- iv. conviction of the person by a court for any economic offence or an offence of the securities laws;
- v. an Order for winding up has been passed against the person;
- vi. the person has been declared insolvent and has not been discharged;
- vii. an Order; restraining, prohibiting or debarring the person, from dealing in securities or from accessing the securities market, has been passed by the Board and a period of three years from the date of the expiry of the period specified in the Order has not elapsed;
- viii. any other Order against the person which has a bearing on the securities market, has been passed by the Board and a period of three years from the date of the Order has not elapsed:

Provided that for the purpose of sub-clauses (iv) and (v), any Order passed by the Board, against a recognised stock exchange or recognised clearing corporation shall not affect the operation of such recognised stock exchange or recognised clearing corporation unless expressly mentioned in the Order.

- ix. the Board has initiated recovery proceedings under the Act or the Securities and Exchange Board of India Act, 1992 (15 of 1992) that are pending;
- x. the person is not financially sound or has been categorized as a wilful defaulter; and
- xi. any other disqualification as may be specified by the Board from time to time.

(3) For the purpose of these regulations, the shareholders, directors or key management personnel of the recognised stock exchange or recognised clearing corporation, shall be deemed to be fit and proper if -

- (a) they fulfil the criteria specified under sub-regulation (2) of this regulation; and
- (b) they have not been found to be of unsound mind by a court of competent jurisdiction and have not been declared a fugitive economic offender; and
- (c) they have not been convicted of an offence involving moral turpitude.

(4) If any director or key management personnel of a recognised stock exchange or recognised clearing corporation is not deemed to be fit and proper under sub-regulation (3), the recognised

stock exchange or recognised clearing corporation shall replace such a person within thirty days from the date of such disqualification, failing which the fit and proper person criteria may be invoked against the recognised stock exchange or recognised clearing corporation.

(5) Any disqualification of the recognised stock exchange or recognised clearing corporation under sub-regulation (2) shall not have any bearing on the fit and proper status of the directors or key management personnel unless the directors or key management personnel are also found to incur the same disqualification in the said matter.

(6) An order passed against the person by any other regulatory authority may be taken into account by the Board while determining the fit and proper person criteria.

(7) If any question arises on the decision of a recognised stock exchange or recognized clearing corporation as to whether a person is a fit and proper person, the decision of the Board on such question shall be final.

Eligibility for Acquiring or Holding Shares in a Depository

22. (1) No person shall, directly or indirectly, acquire or hold equity shares or voting rights of a depository unless he is a fit and proper person. The depository shall ensure that all its shareholders are fit and proper persons:

Provided that such a requirement to ensure that all its shareholders are fit and proper persons shall not be applicable to a depository for shareholding of a person who directly or indirectly, acquires or holds less than two percent equity shares or voting rights of such depository.

(2) Any person eligible to acquire or hold more than five percent of the paid up equity share capital under sub-regulation (1) and sub-regulation (2) of regulation 21 may acquire or hold more than five percent of the paid up equity share capital of a depository only if the person has obtained prior approval of the Board.

(3) The application for seeking approval in terms of sub-regulation (3) of this regulation shall be made to the Board in Form E of the First Schedule through the depository concerned.

(4) The depository shall verify the declarations / undertakings given by the shareholders under sub-regulation (4) and forward the application, along with its recommendation for approval of the Board.

(5) Any person holding two percent or more of the paid up equity share capital in a depository shall file a declaration within fifteen days from the end of every financial year to the depository that he complies with the fit and proper criteria.

Monitoring of Shareholding Limits

22A. The depository shall put in place a monitoring mechanism as specified in Part E of Second Schedule to ensure compliance with the shareholding restrictions prescribed in these regulations at all times.

Requirement and Criteria of Fit and Proper

23(1) (a) The 'fit and proper person' criteria shall apply to the applicant, depository, its shareholders, directors and key management personnel at all times.

(b) The depository shall ensure that all its shareholders, directors and key management personnel are fit and proper persons at all times.

(2) For the purpose of these regulations, an applicant, or a depository shall be deemed to be a fit and proper person, if -

(a) such a person has a general reputation and record of fairness and integrity, including but not limited to -

(i) financial integrity;

(ii) good reputation and character; and

(iii) honesty;

(b) such a person has not incurred any of the following disqualifications -

(i) conviction of the person by a court for any economic offence or an offence of the securities laws;

(ii) an Order for winding up has been passed against the person;

(iii) the person has been declared insolvent and has not been discharged;

(iv) an Order; restraining, prohibiting or debarring the person from dealing in securities or from accessing the securities market, has been passed by the Board and a period of three years from the date of the expiry of the period specified in the Order has not elapsed;

(v) any other Order against the person which has a bearing on the securities market, has been passed by the Board and a period of three years from the date of the Order has not elapsed: Provided that for the purpose of sub-clauses (iv) and (v), any Order passed by the Board against a depository shall not affect the operation of such a depository unless expressly mentioned in the Order.

(vi) the Board has initiated recovery proceedings under the Act or the Securities and Exchange Board of India Act, 1992 (15 of 1992) that are pending;

(vii) the person is not financially sound or has been categorized as a willful defaulter; and

(viii) any other disqualification as may be specified by the Board from time to time.

(3) For the purpose of these regulations, the shareholders, directors or key management personnel of the depository, shall be deemed to be fit and proper if -

(a) they fulfil the criteria specified under sub-regulation (2) of this regulation; and

(b) they have not been found to be of unsound mind by a court of competent jurisdiction and have not been declared a fugitive economic offender; and

(c) they have not been convicted of an offence involving moral turpitude

(4) If any director or key management personnel of a depository is not deemed to be fit and proper under sub-regulation (3), the depository shall replace such a person within thirty days from the date of such disqualification, failing which the fit and proper person criteria may be invoked against the depository.

(5) Any disqualification of the depository under sub-regulation (2) shall not have any bearing on the fit and proper status of the directors or key management personnel unless the directors or key management personnel are also found to incur the same disqualification in the said matter.

(6) An order passed against the person by any other regulatory authority may be taken into account by the Board while determining the fit and proper person criteria.

(7) If any question arises on the decision of a depository as to whether a person is a fit and proper person, the decision of the Board on such question shall be final.