

National Stock Exchange of India

Circular

Department: Defaulter Section

Download Ref No: NSE/ISC/62273

Date: May 31, 2024

Circular Ref. No: 28/2024

To All Market Participants,

Sub: Comprehensive guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having commodity derivatives segment

SEBI has issued Circular no. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/71 dated May 30, 2024 on Comprehensive guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having commodity derivatives segment.

The copy of the SEBI circular dated May 30, 2024 is attached as Annexure A.

Members and Market Participants are requested to take note of the contents of the circular.

For and on behalf of

National Stock Exchange of India Limited

Authorised Signatory

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CIRCULAR

SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/71

May 30, 2024

**The Managing Directors / Chief Executive Officers
All Recognized Stock Exchanges having Commodity Derivatives Segment**

Dear Sir / Madam,

Sub: Comprehensive guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having commodity derivatives segment

1. SEBI vide circulars dated September 26, 2016, June 13, 2017, March 14, 2018 and October 22, 2021 has issued provisions for Investor Protection Fund and Investor Service Fund for commodity derivatives segment. Further, circular on Price Dissemination through SMS/Electronic Communication Facility was issued on August 30, 2016. These aforementioned Circulars have been rescinded with issuance of Master Circular for Commodity Derivatives Segment dated August 04, 2023. SEBI vide Circular dated May 30, 2023 has issued Comprehensive guidelines for Investor Protection Fund and Investor Services Fund at Stock Exchanges and Depositories (excluding Commodity Derivatives Exchanges) with inclusion of new provisions. Further, representations were received from market participants with respect to propositions on Ease of Doing Business in commodity derivatives segment. Considering these developments, the IPF and ISF guidelines for commodity derivatives segment are being revised.
2. After due consultation with the stock exchanges, the new requirements have been framed as placed in **Annexure 1** to the Circular.
3. The Circular shall come into force from June 01, 2024.
4. The Exchanges are advised to:
 - 4.1. take steps to make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the same,
 - 4.2. bring the provisions of this circular to the notice of the members of the Exchange and also to disseminate the same on their website,
 - 4.3. communicate to SEBI, the status of the implementation of the provisions of this Circular.

5. This Circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
6. This Circular is issued with the approval of the competent authority.
7. This Circular is available on SEBI website at www.sebi.gov.in under the category “Circulars” and “Info for Commodity Derivatives”..

Yours faithfully,

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Annexure 1

A. Guidelines for Investor Protection Fund (IPF)

1. Constitution and Management of the IPF:

1.1. All stock exchanges shall establish an IPF. The IPF of the stock exchange shall be administered through separate Trust created for the purpose.

1.2. The IPF Trust of the stock exchange shall have a maximum 5 trustees as under:

1.2.1. Three Public Interest Directors (PIDs);

1.2.2. One representative from investor associations recognized by SEBI; and

1.2.3. Chief Regulatory Officer or Compliance Officer of the stock exchange.

1.3. The maximum tenure of a trustee (excluding the Chief Regulatory Officer or Compliance Officer of the stock exchange, whose trusteeship would be co-terminus with the service) shall be five years or as specified by SEBI.

1.4. The stock exchanges shall provide the secretariat for the IPF Trust.

1.5. The stock exchanges shall ensure that the funds in the IPF are well segregated from that of the Exchange and that the IPF is immune from any liability of the stock exchange. Further, supervision of utilization of IPF and interest or income from IPF will rest with the IPF Trust.

2. Contribution to the IPF: The following contributions shall be credited to the IPF:

2.1. One (1) percent of turnover fee charged by the stock exchange from its trading members or ` Ten Lakh, whichever is higher, in a financial year;

2.2. Interest or income received out of any investments made from the IPF.

2.3. All the penalties levied and collected by the stock exchange;

2.4. Any other contribution as may be specified by SEBI from time to time.

3. Manner of inviting claims from the Investors

3.1. In accordance with its byelaws, rules or regulations, the Exchange shall publish a notice inviting legitimate claimants to file claims against the defaulter trading member within a prescribed period of time called as the '**specified period**'.

- 3.2. The specified period for inviting legitimate claims against a defaulter-trading member, shall not be less than one year from the date of declaration of default.
- 3.3. The stock exchange shall publish the notice in following newspapers:
- 3.3.1. all editions of at least one English national daily with wide circulation;
 - 3.3.2. at least one regional language daily with wide circulation, in regional language, based on the maximum concentration of the clients of defaulter trading member from a particular region or state.
- 3.4. In addition to the public notice, the stock exchange shall send SMS and/or e-mails to all clients of the defaulter-trading member, informing them about the default of trading member and inviting claims in this regard.
- 3.5. The public notice calling for claims shall be displayed on website of stock exchange as well as on premises of stock exchange/s (including Investor Service Centers) for the entire specified period.
- 3.6. The public notice shall contain details of specified period, maximum compensation limit for a single claim of an investor, supporting documents required for filing claim and all other relevant information in this regard.
4. Eligibility of Claims:
- 4.1. The claims received against the defaulter-trading member during the specified period shall be eligible for consideration for compensation from IPF.
 - 4.2. If any eligible claim arises within three years from the date of expiry of the specified period, such claim shall be considered eligible for compensation from IPF, in case where the defaulter member's funds are inadequate. In such cases, IPF Trust shall satisfy itself that such claim could not have been filed during the specified period for reasons beyond the control of the claimant.
 - 4.3. Any claim received after three years from the date of expiry of the specified period, shall be dealt with as a civil dispute.
 - 4.4. The claims of only investors shall be eligible for compensation from IPF and in no case, the claims of a trading member or an associate of the trading member of the stock exchange, shall be eligible for compensation from the IPF.

4.5. The claims of the investors or clients arising out of speculative transactions shall not be eligible for compensation from the IPF.

5. Threshold limit for Claims:

5.1. The stock exchange shall fix suitable compensation limit for single investor, in consultation with IPF Trust and SEBI.

5.2. The stock exchange, in consultation with their IPF Trust, shall review and progressively increase the amount of compensation available against a single claim from an investor, at least once in every three years.

5.3. The stock exchange shall disseminate the compensation limit fixed by them and any change thereof, to the public through a Public Notice and through its website.

6. Determination of Legitimate Claims

6.1. The Stock Exchanges shall ensure that once a trading member has been declared 'defaulter', the claim(s) shall be placed before the Member Core Settlement Guarantee Fund Committee (MCSGFC) for sanction. MCSGFC's recommendation w.r.t. legitimate claims, shall be sent to IPF Trust immediately for expeditious disbursement of claim amount.

6.2. In case the claim amount is more than the coverage limit under IPF or the amount sanctioned by the MCSGFC is less than the claim amount, then the investor/s will be at liberty to prefer for arbitration outside the exchange mechanism / any other legal forum outside the exchange mechanism, for claim of the balance amount.

6.3. A detailed Standard Operating Procedure (SOP), stating the process and timelines for declaration of default of a trading member, processing of investor claims out of IPF and review of claim is placed at [Annexure 2](#).

7. Disbursements of claims from the IPF:

7.1. The IPF Trust shall disburse the amount of compensation from IPF to the investors and such compensation shall not be more than the maximum amount fixed for a single claim of an investor.

7.2. The compensation shall be disbursed to the investor from IPF in case there is a shortage of defaulter trading member assets after its realization, subject to the maximum amount fixed for a single claim of an investor.

7.3. The IPF Trust need not wait for realization of assets of the defaulter-trading member for disbursements of the claims. Upon receipt of recommendation from MCSGFC committee, for payment, the IPF Trust shall take necessary steps for disbursement of amount at the earliest. However, upon realisation of assets of the defaulter-trading member, the aforementioned amount so disbursed from IPF, shall be credited back to IPF.

7.4. The stock exchange would do away with the practice of obtaining indemnity undertaking from the clients.

7.5. Any amount realized from assets of defaulter trading member and not yet paid to investors / claimed by investors, shall be kept in a separate interest bearing account, for a period of three years after expiry of specified period. In case these funds remain unclaimed for three years after expiry of specified period, the same shall be returned to the defaulter trading member.

Provided, that in cases where any litigations are pending against the defaulter member, the residual amount, if any, may be retained by the exchange until such litigations are concluded.

7.6. The stock exchanges shall ensure that the amount realized from the assets of the defaulter-trading member is returned to the defaulter-trading member only after settling the claims of stock exchanges, clearing corporations and SEBI as per the by-laws of stock exchange.

8. Deployment of funds of IPF

8.1. Investment of funds of IPF will be as per relevant provisions of the Indian Trust Act 1882 / Maharashtra Public Trust Act and Section 11 (5) of Income Tax Act, 1961. The stock exchanges shall ensure that the investment of Trust funds is done with utmost caution and prudence.

8.2. Funds of the IPF Trust shall be invested in instruments such as Central / State Government securities, fixed deposits of scheduled banks and any such instruments which are allowed as per the investment policy approved by the Trustees of IPF Trust.

8.3. Additionally, the investments shall be adequately diversified with single issuer exposure, excluding Government securities, not exceeding 10% of the IPF corpus. The investment policy shall be devised with an objective of capital protection, portfolio diversification, liquidity, highest degree of safety and least market risk.

9. Utilisation of IPF: The amount of IPF shall be utilised to meet the legitimate investment claims of the clients of the defaulting trading members.
10. Utilization of Interest or Income earned on IPF: The interest or income earned on IPF shall be utilized for purposes as stated below:
- 10.1. Investor education and awareness: The stock exchange may utilize such amount towards promotion of investor education and awareness programmes to encourage participation in the commodity derivatives market in the following manner:
- 10.1.1. seminars, lectures, workshops, publications (print and electronic media), training programs (including virtually), etc.
 - 10.1.2. investor-education focused content on social media platforms and media sharing platforms like Facebook, Twitter, Youtube, Instagram, LinkedIn etc.
 - 10.1.3. Radio and TV advertisements;
 - 10.1.4. investor-education focused mobile application (not more than one mobile application may be launched by a stock exchange);
 - 10.1.5. Kiosks in trade fair, book fair etc.
 - 10.1.6. Price dissemination through SMS/Electronic Communication facility
- 10.2. Capital expenditure of ISC: Capital expenditure would be permissible w.r.t. setting up of Investor Service Centre (ISC) However, no expenditure incurred on product promotion, shall be utilised from IPF / interest / income of IPF, in any manner.
- 10.3. Research activities:
- 10.3.1. The stock exchanges shall be permitted to utilize IPF interest income for undertaking research activities related to commodities market, provided every such activity / project is undertaken only after obtaining prior written approval of the trustees of the IPF Trust. Such research may also be undertaken on commodities / goods which are not notified under Section 2(bc) of SCRA, 1956.
 - 10.3.2. The trustees of IPF Trust would, inter alia, consider and record the reasons, relevance and stated objectives of the research activity / project while according approval. Further, the Board of the stock exchange shall be apprised of the research programs / activities being undertaken at least once in half year of a given financial year.
 - 10.3.3. The amount apportioned for research activity / project shall not be more than 10% of the interest amount of IPF. IPF shall frame a policy towards identifying

/ recognising public and private academic institutions, professional bodies, trade (physical market) associations and industry bodies/ chambers through/ with whom such Research activities shall be undertaken/ organised/ sponsored.

- 10.4. Digital media: Stock exchange may set up investor-focused website and operational expenditure shall be permissible for maintaining the investor-focused website.
- 10.5. Administrative expenses: To meet the expenses related to dedicated employees of IPF Trust, administration of Investor Service Centers (ISCs), other administrative and statutory expenses such as applicable taxes, audit fees etc., a maximum of 10% may be utilized in a financial year. In case the expenses exceed the above limit, such excess expenses shall be borne by the stock exchange.
- 10.6. Only the interest amount credited in the last quarter of the financial year may be carried forward to next financial year for utilisation.
- 10.7. Apart from provision stated in Para 10.6 above, in case of non-utilization of such amount in the same financial year, the same shall be ploughed back to IPF.
- 10.8. In any other manner, as prescribed / permitted by SEBI, from time to time.
11. Review of IPF Corpus:
- 11.1. The stock exchanges shall conduct half-yearly review within one month from the end of March and September every year to ascertain the adequacy of the IPF corpus. In case the IPF corpus is found to be inadequate, the same shall be enhanced appropriately.
12. Disclosures: The stock exchanges are advised to:
- 12.1. Disclose the balance available in the IPF as at the end of each month and the amount utilised during the month including the manner of utilization, in the Monthly Development Report of the stock exchange.
- 12.2. Disclose the corpus of the IPF on its website and update the same on a monthly basis.
- 12.3. Disseminate its policy on processing investor claims from IPF on their website including the compensation limit fixed by them per investor.
- 12.4. To frame FAQs on their policy on processing investor claims for easy understanding of investors.
- 12.5. Give adequate notice (including a press release) to the investors before implementing any amendment in the policy on processing of claims. In case of any

amendment in the policy on processing of investor claims, the same should not be applicable to the trading members who have been disabled or suspended or declared defaulter or expelled by the exchange prior to the effective date of implementation of the policy.

13. Miscellaneous

- 13.1. In case the stock exchange is wound up, derecognised, or exits, then the balance amount in the IPF and / or ISF, shall be transferred to Investor Protection and Education Fund of SEBI in terms of SEBI (Investor Protection and Education Fund) Regulations, 2009.

B. Guidelines for Investor Services Fund (ISF)

1. The Stock Exchanges are mandated to set up Investor Service Fund (ISF).
2. In order to have efficient management of ISF, Regulatory Oversight Committee (ROC) of the stock exchange shall oversee the contribution to ISF and its utilization.
3. The stock exchange shall maintain separate bank account for maintaining corpus of the ISF and such funds should not be co-mingled with any other fund(s) of the stock exchange and shall not be used for any purpose except for those permitted in this Circular.
4. Pending utilisation of funds of ISF, stock exchanges shall be permitted to deploy such funds in fixed deposits of scheduled banks and any such instruments which are allowed as per the investment policy approved by the (ROC) of the stock exchange.
5. Contribution to ISF:
 - 5.1. The stock exchange shall contribute One (1) percent of the turnover fees charged by the stock exchange from its members, on monthly basis. Such contribution shall be made within 7 days of the end of the month, subject to minimum of Ten Lakh of such contribution in a financial year.
 - 5.2. The stock exchange shall plough back the income earned on ISF, if any, to the ISF within one month from the end of September and March of each year.
6. Utilisation of ISF: The stock exchange shall be permitted to utilize the corpus of ISF for the following:
 - 6.1. Conducting various investor education programs, investor awareness programs, and capacity building programs (including virtually);
 - 6.2. Maintenance of all price ticker boards installed by the respective stock exchanges;
 - 6.3. ISF shall not be charged against expenses incurred for sending SMS and E-mails;
 - 6.4. In any other manner as prescribed / permitted by SEBI from time to time.
7. **Investor Service Center:** The Investor Service Centers (ISC) shall provide following basic minimum facilities from ISF:
 - 7.1. Two financial daily newspapers with at least one in the regional language of the place where the ISC is situated. In case, the financial newspaper is not available in the regional language of the place, any leading newspaper in that regional language shall be provided.

- 7.2. Facility for receiving/recording investor complaints in both physical and electronic form. One dedicated staff at ISC will register the complaints and counsel the investors. The status of complaints shall be maintained and updated in electronic form.
- 7.3. ISCs shall assist the investors in the dispute resolution process. These centres shall, inter alia, provide investors the required documents or details, if any, in this regard.
- 7.4. ISC shall be able to accommodate 5-6 persons at a time.
- 7.5. Other infrastructure facilities such as telephone, photocopier, printer, scanner, furniture etc.
- 7.6. A library having information/documents shall be maintained both in physical and electronic form, on the following subjects for the benefit of investors:
 - 7.6.1. Relevant Acts & Rules;
 - 7.6.2. Regulations, Circulars or Master Circulars, Guidelines, etc. issued by SEBI;
 - 7.6.3. Rules, Bye-laws, Regulations, Circulars and Master circulars issued by stock exchanges and clearing corporations;
 - 7.6.4. Educational material on various areas of commodity derivatives markets including published commodity related materials of the stock exchanges etc.;
 - 7.6.5. Brochures detailing the rights and obligation of investors while dealing with brokers in commodity markets;
 - 7.6.6. FAQ's to disseminate clarity on various terms, process etc. in commodity derivatives segment.

In case of receipt of specific request for physical copies of the said documents, the same shall be provided at a minimal cost, else priority may be given to sharing of such information electronically.

- 7.7. A database of visitors (including investors) for future correspondence, whenever required.
- 7.8. Dummy terminals to display the prices of the commodities listed on the exchange on real-time basis, to enable investors watch the price movements of the commodities.
- 7.9. To conduct various investor education and investor awareness programs through seminars, lectures, workshops, publications (print and electronic media), training programs etc. aimed at enhancing securities market literacy and promoting participation in the commodity derivatives market.

- 7.10. In any other manner as may be prescribed or permitted by SEBI from time to time.
8. In order to ensure efficient handling of investors complaints, stock exchanges shall ensure that officials at ISCs possess the following training, information and NISM certification, wherever available:
- 8.1. Regular training on how to counsel / guide the investors while lodging their complaints (including lodging of complaints on SCORES platforms), promotion of investor education and awareness to enhance securities market literacy etc.
- 8.2. Overview of commodity derivatives market, functions and operations of Stock Exchanges, Clearing Corporations, Stock Brokers etc.

Annexure 2

Standard Operating Procedure (SOP) for handling of Claims of Investors from IPF of stock exchanges in case of default by trading members

Table A

S No.	Action	Process to be followed	Maximum Timeline
1	Disablement of the trading member	The stock exchange shall disable the trading member on account of trigger of SOP as per Section VIII, Para 73 of SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023	T day
2	Information to Investors about disablement of the trading member	The stock exchange shall issue the public notice on its website	T day
		The stock exchange shall intimate investors through SMS and e-mail on their registered mobile no. and e-mail ID.	T+1 day
3	Pre-filled forms to be sent to clients providing information regarding balances with the trading member	<p>The stock exchange shall provide a prefilled claim form to the client containing details of their funds and securities balances with trading member as per information available with the stock exchange and trades data for 90 days prior to disablement of the trading member.</p> <p>The prefilled form would also include the details available with the exchange such as PAN, address, e-mail ID, mobile no, etc.</p> <p>The information w.r.t. funds and securities balances to be provided to the client would be provisional as it would be without verification about its correctness/ completeness.</p>	T+15 days



		<p>The exchange may mention that the claims would be processed as per the provisions of SEBI Circulars and Regulations and as per Rules, Regulations & Bye-laws of the stock exchange.</p> <p>The stock exchange can send the pre-filled claim forms to the clients on their registered e-mail IDs, if available with the exchange. The stock exchange shall provide physical copies of the claim forms on request of the investor.</p>	
4	Submission of claim forms by the client of defaulting trading member	<p>The client would be required to fill claim forms either online or offline, by making necessary changes in the pre-filled claim form and providing additional details.</p> <p>Supporting documents such as relevant bank statements, demat statements, client ledger, etc. needs to be provided along with the claim form.</p> <p>The client should provide the bank account details for disbursement of the amount at this stage itself in case the claim is admitted.</p> <p>The stock exchange may seek additional documents, if required, on case to case basis.</p>	T+75 days
5	Declaration of default of the trading member	<p>The stock exchange will declare the trading member a defaulter after completing the due process for declaring a trading member as a defaulter.</p> <p>Extension of timeline beyond T+120 days, if any, for declaration of default of the trading member would be subject to approval of SEBI.</p>	T+120 days

6	Intimation to investors about declaration of trading member as a defaulter	The stock exchange shall issue the Public Notice on default of the trading member immediately on their website.	On the day of declaration of default of the trading member
		The stock exchange shall also intimate the investors about the defaulter of the trading member through SMS or e-mail on their registered mobile no. or e-mail ID within 1 day from declaration of default.	Within 1 day from the day of declaration of default of the trading member.
		The default notice shall also be published in the newspapers i.e. in all the editions of at least one English national daily with wide circulation and in at least one regional language daily with wide circulation in regional language, based on the maximum concentration of the clients of defaulter trading member from a particular region or state. The notice should also invite claims, from those clients who have not submitted their claims earlier, along with all supporting documents.	Within 3 days from the day of declaration of default of the trading member.
7	Processing, auditing and settlement of claims	The claim forms from clients received either online or offline are to be scrutinized to ensure that the claims are supported by relevant documents such as proof of payment, demat account statement, ledger account statement, etc. In case of any additional documents are required from the client, the same is to be intimated to the client immediately. The claims which are complete in all respect are to be processed by verifying the details with the Exchange's records viz. trades executed, unique client codes, ledger	All claims received within the timeline mentioned at point-4, if approved by the IPFT, shall be settled within T+135 days. All claims received after the timeline mentioned at point-4 above but before the declaration of the trading member as defaulter, if



		<p>supported by bank and demat statements, etc. and arrive at admissibility or otherwise of the claims.</p> <p>After processing of the claims by the exchange, the claims would be routed to the auditors to assess the veracity and genuineness of the claims including admissibility of the claim.</p> <p>After processing, auditing of the claims and declaration of the trading member as defaulter, the claims shall be placed before Member and Core Settlement Guarantee Funds Committee (MCSGFC) for approval. In case the assets of the defaulter and / or expelled trading member are insufficient to meet the admitted amount, the MCSGFC would recommend payment of investor claims to the Trustees of the Investor Protection Fund Trust (IPFT) for payment out of the Investor Protection Fund (IPF).</p> <p>The IPFT to approve the payment of the eligible claim amount to the client from the IPF.</p> <p>The exchange will communicate the decision on claims to the clients post approval by the IPFT.</p>	<p>approved by the IPFT, shall be settled within 60 days from the date of such declaration.</p> <p>All claims received on or after the date of declaration of the trading member as defaulter, if approved by the IPFT, shall be settled within 60 days from the date of receipt of such claims.</p>
8	Request for review of the claim from the client (First Review)	<p>In case the client is not satisfied with the processing of his claim, the client can file a review with the Member and Core Settlement Guarantee Fund Committee (MCSGFC) (first review).</p> <p>The MCSGFC will review the claim and inform the same to the client.</p>	<p>Within 90 days of receipt of intimation of the decision of the IPFT from the stock exchange.</p> <p>Within 60 days of receipt of review application</p>



9	Request for review of the claim from the client (Second Review)	<p>In case the client is still not satisfied with the first review by the MCSGFC, the client can file the second review application with the committee of Public Interest Directors (PIDs).</p> <p>The Committee of PIDs, wherever possible, shall consist of PIDs not forming part of the MCSGFC.</p>	<p>Within 90 days of receipt of intimation of decision of the first review by MCSGFC.</p>
		<p>The committee of PIDs would review the claim and inform the same to the client.</p>	<p>Within 60 days of receipt of the review application.</p>