

SCHEDULE II
SECURITIES AND EXCHANGE BOARD OF INDIA
(STOCK BROKERS AND SUB-BROKERS) REGULATIONS, 1992
CODE OF CONDUCT FOR STOCK BROKERS
(Regulation 7)

A. GENERAL

(1) INTEGRITY: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(2) EXERCISE OF DUE SKILL AND CARE: A stock-broker, shall act with due skill, care and diligence in the conduct of all his business.

(3) MANIPULATION: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) MALPRACTICES: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

(5) COMPLIANCE WITH STATUTORY REQUIREMENTS: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the stock exchange from time to time as may be applicable to him.

B. DUTY TO THE INVESTOR

(1) EXECUTION OF ORDERS: A stock-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price and not refuse to deal with a Small Investor merely on the ground of the volume of business involved. A stock-broker shall promptly inform his client about the execution or non-execution of an order, and make prompt payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients.

(2) ISSUE OF CONTRACT NOTE: A stock-broker shall issue without delay to his client⁵⁸[or client of the sub-broker, as the case may be] a contract note for all transactions in the form specified by the stock exchange.

(3) BREACH OF TRUST: A stock-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.

(4) BUSINESS AND COMMISSION:

(a) A stock-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

(b) A stock-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

(5) BUSINESS OF DEFAULTING CLIENTS: A stock-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities with another stock-broker.

(6) FAIRNESS TO CLIENTS: A stock-broker, when dealing with a client, shall disclose whether he is acting as a principal or as an agent and shall ensure at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.

(7) INVESTMENT ADVICE: A stock-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The stock-broker should seek such information from clients, wherever he feels it is appropriate to do so.

⁵⁹[(7A) Investment Advice in publicly accessible media –

(a) A stock broker or any of his employees shall not render, directly or indirectly, any investment advice about any security in the publicly accessible media, whether real - time or non real-time, unless a disclosure of his interest including the interest of his dependent family members and the employer including their long or short position in the said security has been made, while rendering such advice.

⁵⁸ Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 13-9-2003.

⁵⁹ Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 29-5-2001.

(b) In case, an employee of the stock broker is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.]

(8) COMPETENCE OF STOCK BROKER: A stock-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients.

C. STOCK-BROKERS VIS-A-VIS OTHER STOCK-BROKERS

(1) CONDUCT OF DEALINGS: A stock-broker shall co-operate with the other contracting party in comparing unmatched transactions. A stock-broker shall not knowingly and willfully deliver documents which constitute bad delivery and shall co-operate with other contracting party for prompt replacement of documents which are declared as bad delivery.

(2) PROTECTION OF CLIENTS INTERESTS: A stock-broker shall extend fullest co-operation to other stock-brokers in protecting the interests of his clients regarding their rights to dividends, bonus shares, right shares and any other right related to such securities.

(3) TRANSACTIONS WITH STOCK-BROKERS: A stock-broker shall carry out his transactions with other stock-brokers and shall comply with his obligations in completing the settlement of transactions with them.

(4) ADVERTISEMENT AND PUBLICITY: A stock-broker shall not advertise his business publicly unless permitted by the stock exchange.

(5) INDUCEMENT OF CLIENTS: A stock-broker shall not resort to unfair means of inducing clients from other stock- brokers.

(6) FALSE OR MISLEADING RETURNS: A stock-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board and the stock exchange.

⁶⁰[D (1) A stock broker shall enter into an agreement as specified by the Board with his client.

(2) A stock broker shall also enter into an agreement as specified by the Board with the client of the sub-broker.]

⁶⁰ Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

SECURITIES AND EXCHANGE BOARD OF INDIA
(STOCK BROKERS & SUB-BROKERS) Regulations, 1992
CODE OF CONDUCT FOR SUB-BROKERS
(Regulation 15)

A. GENERAL

(1) INTEGRITY: A sub-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all investment business.

(2) EXERCISE OF DUE SKILL AND CARE: A sub-broker, shall act with due skill, care and diligence in the conduct of all investment business.

B. DUTY TO THE INVESTOR

(1) EXECUTION OF ORDERS: A sub-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price. A sub-broker shall promptly inform his client about the execution or non-execution of an order⁶¹[*****]

⁶² [(2) A sub-broker shall render necessary assistance to his client in obtaining the contract note from the stock broker]

(3) BREACH OF TRUST: A sub-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.

(4) BUSINESS AND COMMISSION:

(a) A sub-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

(b) A sub-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do

⁶¹ Words ‘and make payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients’ inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

⁶² Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003 for the words, “

(2) A. Issue of purchase or sale notes:

(a) A sub-broker shall issue promptly to his clients purchase or sale notes for all the transactions entered into by him with his clients.

(b) A sub-broker shall issue promptly to his clients scrip wise split purchase or sale notes and similarly bills and receipts showing the brokerage separately in respect of all transactions in the specified form.

(c) A sub-broker shall only split the contract notes client-wise and scrip wise originally issued to him by the affiliated broker into different denominations.

(d) A sub-broker shall not match the purchase and sale orders of his clients and each such order must invariably be routed through a member-broker of the stock exchange with whom he is affiliated.”

business in particular securities and enabling himself to earn brokerage or commission thereby.

(c) A sub-broker shall not charge from his clients a commission exceeding one and one-half of one percent of the value mentioned in the respective sale or purchase notes.

(5) BUSINESS OF DEFAULTING CLIENTS: A sub-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities and is in default with another broker or sub-broker.

(6) FAIRNESS TO CLIENTS: A sub-broker, when dealing with a client, shall disclose that he is acting as an agent ⁶³[*****] ensuring at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.

(7) INVESTMENT ADVICE: A sub-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The sub-broker should seek such information from clients, wherever they feel it is appropriate to do so.

⁶⁴[7A – Investment Advice in publicly accessible media –

(a) A sub-broker or any of his employees shall not render, directly and indirectly any investment advice about any security in the publicly accessible media, whether real – time or non real-time, unless a disclosure of his interest including his long or short position in the said security has been made, while rendering such advice.

(b) In case, an employee of the sub-broker is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.]

(8) COMPETENCE OF SUB-BROKER: A sub-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients and continuous compliance with the regulatory system.

⁶³ Words, ‘and shall issue appropriate purchase / sale note’ omitted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

⁶⁴ Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 29-5-2001.

C. SUB-BROKERS VIS-A-VIS STOCK BROKERS

(1) CONDUCT OF DEALINGS: A sub-broker shall co-operate with his broker in comparing unmatched transactions. Sub-broker shall not knowingly and willfully deliver documents which constitute bad delivery. A sub-broker shall co-operate with other contracting party for prompt replacement of documents which are declared as bad delivery.

(2) PROTECTION OF CLIENTS INTERESTS: A sub-broker shall extend fullest co-operation to his stock-broker in protecting the interests of their clients regarding their rights to dividends, right or bonus shares or any other rights relating to such securities.

(3) TRANSACTIONS WITH BROKERS: A sub-broker shall not fail to carry out his stock broking transactions with his broker nor shall he fail to meet his business liabilities or show negligence in completing the settlement of transactions with them.

⁶⁵[(4) Agreement between sub-broker, client of the sub-broker and main broker: A sub-broker shall enter into a tripartite agreement with his client and with the main stock broker specifying the scope of rights and obligations of the stock broker, sub-broker and such client of the sub-broker]

(5) ADVERTISEMENT AND PUBLICITY: A sub-broker shall not advertise his business publicly unless permitted by the stock exchange.

(6) INDUCEMENT OF CLIENTS: A sub-broker shall not resort to unfair means of inducing clients from other brokers.

D. SUB-BROKERS VIS-A-VIS REGULATORY AUTHORITIES.

(1) GENERAL CONDUCT: A sub-broker shall not indulge in dishonourable, disgraceful or disorderly or improper conduct on the stock exchange nor shall he wilfully obstruct the business of the stock exchange. He shall comply with the rules, bye-laws and regulations of the stock exchange.

(2) FAILURE TO GIVE INFORMATION: A sub-broker shall not neglect or fail or refuse to submit to the Board or the stock exchange with which he is registered, such books, special returns, correspondence, documents, and papers or any part thereof as may be required.

(3) FALSE OR MISLEADING RETURNS: A sub-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board or the stock exchanges.

⁶⁵ Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

(4) MANIPULATION: A sub-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(5) MALPRACTICES : A sub-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the public interest or which leads to interference with the fair and smooth functions of the market mechanism of the stock exchanges. A sub-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.
