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INTRODUCTION

Risk Management Function in stock exchanges has assumed a great importance in the recent past. The Stock Exchange, Mumbai (BSE) has strengthened its risk management system by taking various measures in order to maintain the integrity of each trade done on the Exchange.

SURVEILLANCE SYSTEM

The system of Price Monitoring and Positioning Monitoring at the Exchange has been considerably strengthened. The Exchange has set up a separate Surveillance Department to keep a close watch on price movement of scrips, detect market manipulation like price rigging etc., monitor abnormal prices and volumes which are not consistent with normal trading pattern and monitor the members’ positions to ensure that defaults do not occur. The Department, which has been set up with staff exclusively assigned to this area of work, reports directly to the Executive Director of the Exchange. The objectives of the surveillance system are:

- To provide a free and fair market.
- To arrest unsystemic risk from entering into the system.
- To manage risks.
PRICE MONITORING

The system prevailing at the Exchange with regard to monitoring the prices of scrips and margins is described below.

Circuit Filters
An abnormal variation in traded prices of scrips is controlled at grass root level with the help of a system of circuit filters incorporated in the trading software. The circuit filter system provides for determination of a range within which the traded prices of a scrip on a day can vary compared to the previous day's closing price. This system is made operational by specifying circuit filter percentages in the system which apply to the prefixed prices, viz., the previous day's closing price and a price band is determined within which the transactions are accepted by the system. The quotes/orders outside the prescribed band can not enter the system.

Further, the circuit filter warning limits, which are marginally below the circuit filter percentages, are incorporated in the system. As a result of this, a warning message is displayed to the users when the quotes/orders reach near the specified circuit filter limits.

Different circuit filters were prescribed for individual or group of scrips from time to time, depending on the volatility and market conditions. However, the Securities and Exchange Board of India (SEBI) has recently rationalised the system of circuit filters across the exchanges as per the decision taken in this regard by the Inter-Exchange Market Surveillance Group. As per the SEBI prescription, a daily circuit filter of 10% is applied on all scrips, where previous day's closing price exceeds Rs.20/-. There is also a weekly or
settlement circuit filter of 25% i.e. the price of scrips above Rs.20/-
can not increase or decline more than 25% in a settlement.

SEBI has allowed the stock exchanges to prescribe suitable circuit
filters for scrips quoting upto Rs.20. Accordingly the Exchange has
prescribed that the prices of scrips quoting below Rs.10 can go upto
Rs. 10 in a settlement and for scrips quoting above Rs. 10 but below
Rs. 20, the daily and weekly circuit filters of 25% and 50% respectively
are applicable.

The circuit filter for various scrips is generally changed at the end of
the day. However, the filters can be changed even during the day
when the trading is going on if the circumstances so warrant. The
circuit filters are lowered in appropriate cases to prevent undue rise
or fall in the prices of scrips.

Reduction in Circuit Filter from the normal levels
When undue rise or fall in prices is observed particularly in the cases
of low capital/low floating stock companies, belonging to the Non-
Specified group, the circuit filters are gradually reduced from the
normally prescribed levels to keep the prices under check. This
measure was introduced successfully for the first time in the last week
of June, 1996.

At present all scrips, where variation in high and low prices on two
consecutive days exceeds 10%, are listed out and a printout of price,
volume and turnover data of these scrips is taken out for last 7 days
alongwith the price and volume prevailing a month or two months
ago for further analysis and surveillance actions. While taking
surveillance actions, the fundamentals of the companies are taken
into account. A similar exercise, in addition, is done on the basis of
15% fortnightly/monthly price variations which enables the
Surveillance Department to trace out the scrips which may have
escaped in the normal process of daily comparison of prices. If an aberration comes to the notice of the Surveillance Department from above exercise, in respect of the price movement in a scrip, suitable action like reduction in circuit filter etc. is taken.

Suspension of trading in a scrip for a day
If price manipulation in a scrip is carried on with impunity despite reduction in circuit filters the Exchange may suspend trading in the scrip for a day to give a message to the market to keep away from the scrip.

Suspension of trading in scrips for more than one day
If the rise or fall in price of a scrip is not controlled even after a few one day suspensions of trading or if a serious irregularity in trading is noticed, the Exchange suspends trading in the scrip for 2 to 3 days. In very special cases, the Exchange suspends the trading in the scrip for an indefinite period, subject to necessary permission from SEBI. Usually indefinite suspension is resorted to only in cases where price rigging is not controlled even after applying the existing surveillance measures or if a serious irregularity such as declaration of large quantity of bad deliveries, circulation of fake share certificates in the market, etc. is noticed. The Exchange also conducts an investigation into dealings of members in all such cases and investigation reports are forwarded to SEBI for further investigation, if necessary.

Further, members involved in irregular trading practices including price rigging, etc. are issued show cause notice and suitable disciplinary action is initiated against them.
Lifting of Suspension due to Surveillance Actions
The suspension from trading in scrips up to three days is automatically revoked after the expiry of the period. However, in case of indefinite suspension, the same is lifted only after a confirmation to this effect is received from SEBI.

Special Margins
Since February, 1996, the Exchange has introduced a measure to curtail unwarranted rise in the prices of scrips and volumes by imposing special margins. The special margins range from 25% to 100%. The imposition of special margin on purchases also provides for collection of margins on sales, if the same do not result into deliveries. The undelivered quantities are purchased in an auction immediately as per the normal procedure of the Exchange and margins are also collected from the sellers in such cases which are retained by the Exchange for a period of 90 days. The imposition of special margin has been found to be quite effective in controlling the prices of scrips which are prone to market manipulations, price rigging etc. as it discourages the buyers who may want to manipulate price and penalises short selling. The following table gives statistics of surveillance action taken against listed scrips.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>1996</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Number of companies suspended</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• For one day</td>
<td>555</td>
<td>2</td>
</tr>
<tr>
<td>• For 2/3 days</td>
<td>26</td>
<td>1</td>
</tr>
<tr>
<td>• Until further notice</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>2) Number of scrips in which special margins were imposed.</td>
<td>248</td>
<td>46</td>
</tr>
<tr>
<td>3) Number of scrips in which Circuit filters were changed from their normal levels.</td>
<td>577</td>
<td>458</td>
</tr>
<tr>
<td>4) Number of companies in which investigations were conducted and reports sent to SEBI.</td>
<td>17</td>
<td>2</td>
</tr>
</tbody>
</table>
Spot Dealings
If the prices of scrip show an abnormal rise in a short period of time, accompanied by high volumes, the Exchange puts dealings in such scrips on 'Spot' delivery basis. The Settlement period in such scrips is reduced to 3 days against a weekly settlement for other scrips. The purchases and sales are not allowed to be squared off even intraday and must compulsorily result in delivery. However, this measure has not been resorted to by the Exchange during the last two years.

New Highs
Since the last quarter of 1996, the scrips which record a new high are watched carefully and necessary action like reduction in filter size, special margins etc. are taken to prevent possible price manipulation/rigging. The trade runs are also called for to detect cases of trades of circular nature between the members.

Companies with High Turnover
The Surveillance Department of the Exchange on a day-to-day basis carries out a thorough study of the trading patterns of the top 50 scrips by turnover belonging to B1 and B2 groups. Such analysis covers the price, volume and turnover pattern for the past fortnight, the activity by various members in each of the scrips as also the fundamental of the companies. Actions are taken in suitable cases depending upon the observations.

Investigation into Specific Deals of Brokers
On the basis of analysis of factors mentioned above, letters are issued to such members, who have entered into large negotiated bulk or
cross deals or have indulged into concentrated buying or selling, particularly in relatively unknown scrips with weak fundamentals, requiring them to furnish client details, etc. Summary of such reports is put to the Executive Director for his information and further action.

Monitoring of Newly Listed Stocks
As per the instructions issued by SEBI, circuit filters are not applied in newly listed scrip for the first day of its trading, or until such time a transaction is recorded in the scrip. This is done for the purpose of price formation. The normal circuit filters are applied from the next day onwards after the transaction is recorded in the scrip. However, the trading pattern of the first day is analysed to detect whether the members have entered into any manipulation or circular trades to artificially prop-up the price or hamper price formation process. If certain irregularities are observed, action is taken against such members.

Further, in case any communication from a regional exchange relating to the surveillance action in a scrip is received, a similar action is taken by the Exchange so as to harmonize actions by the various stock exchanges.

Warning to Members
If any irregularity which is not of a very serious nature is noticed in the dealings of a member in the course of investigation, conducted by the Surveillance Department, the member concerned is warned orally/in writing.
Disciplinary Actions against Members
All cases involving unfair trade practices, price rigging etc. are investigated in detail and reports are prepared. The members concerned are issued show cause notices for initiating necessary action against them and called to appear before the Disciplinary Action Committee (DAC) of the Exchange. The DAC, after taking into account the submissions made by the members, takes action such as issue of warning, suspension of trading rights of a member, imposition of fine/penalty, etc.
BASE MINIMUM CAPITAL

All active members of the Exchange are required to maintain a Base Minimum Capital of Rs.1 million with the Exchange. This amount is to be kept in the form of cash (Rs.125,000), Fixed Deposit Receipt(s) with bank(s) (Rs.125,000) and in approved shares and securities (Rs.750,000). In case of approved shares and securities, a hair-cut of 30% is applied, i.e., only 70% of the value of securities tendered is considered. The members are permitted to do daily business (i.e., gross purchases + gross sales) upto a maximum of 33.33 times of the base minimum capital plus additional capital deposited by them with the Exchange. The members may also deposit additional capital over and above their base minimum capital with the Exchange for availing of the higher intra-day trading limit. The additional capital can be kept with the Exchange in any of the above modes as also in the form of bank guarantees from any scheduled commercial bank and remains locked in for a minimum period of one month. The valuation of the securities deposited by the members towards the base minimum and additional capital is done by the Exchange monthly, since December 1996, as against quarterly intervals earlier. This exercise is carried out to ensure that depreciation in the value of securities due to fall in prices can be collected from the members within the shortest possible time and the base minimum capital is kept intact. The base minimum capital plus additional capital deposited by the members with the Exchange as on April 30, 1998 aggregated to Rs.2.15 billion.
INTRA-DAY TRADING LIMITS

The Exchange has prescribed an intra-day trading limit of 33.33 times of the base minimum and additional capital deposited by the members with the Exchange on their gross turnover (i.e., gross purchases + gross sales). The institutional business, i.e., transactions done on behalf of scheduled commercial banks, Indian Financial Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI is not included for purposes of watching the compliance of the members with the intra-day trading limit.

The Exchange has made modifications in the BOLT software to flash on-line warning messages to the members once they reach 70%, 80% and 90% of their respective intra-day trading limits. However, when a member crosses 100% of the intra-day trading limit a message is flashed on the BOLT TWSs which says "CAPITAL ADEQUACY LIMIT VIOLATED" and immediately all the BOLT TWSs of the member get de-activated. Although the system gets de-activated, the value of last order executed may still exceed the 100% limit of capital adequacy. Therefore, the Exchange calls for additional capital from the members who exceed the intra-day trading limit. A fine of Rs.5,000/- is also recovered for violation of intra-day trading limit if a member does not deposit the additional capital to cover his trading in excess of his trading limit on the day of the violation.
MARGINS

The following types of margins are collected from the members on the trading positions as a part of the risk management system.

Daily Margins
For the purpose of imposition of the daily margins, the members of the Exchange are categorised into two categories, i.e., Type-I members who are allowed to carry-forward their trades in ‘A’ group scrips from one settlement to another and Type-II members who have not opted to carry-forward their trades.

The Type-I members are required to pay daily margin on their trades in ‘A’ group scrips both for delivery as well as carry-forward at the rate of 10%. The members also have to pay mark-to-market margin on their positions in these scrips provided the mark-to-market margin amount exceeds the amount already paid on daily margin as specified above, and in such cases the difference between the two margins is required to be paid. The Exchange collects daily margins from Type-I members for their transactions in ‘B1’ and ‘B2’ group scrips and from Type-II members for their transactions in ‘A’, ‘B1’ and ‘B2’ group scrips based on the outstanding positions in the market. Type II members have to pay the highest of the Gross Exposure, Net Exposure and mark-to-market margin for their transactions in A, B1 and B2 group scrips.
Mark-to-Market Margin
The Exchange collects mark-to-market margin (MTM) in addition to the above margin. While calculating MTM all notional profits made by the members are ignored and all notional losses are collected on a daily basis. The members are required to pay the highest of three margins on a daily basis, i.e., Gross Exposure, Net Exposure and MTM. By introducing MTM margin, the management of risk on the outstanding position of the members has considerably improved.

The margins are debited to the members bank accounts on the next day of the trade. In case of delay in payment of daily margin, a late fee @ 2% of the amount involved is imposed. Further, the margin which is paid late is retained for a period of 15 days instead of releasing the same in the pay-in / pay-out of the relevant settlement.

Further, if there are frequent delays or non-payment of margins by the members, their BOLT Trading Work Stations (TWS's) are deactivated. Such cases are also referred to the Scrutiny Committee for reassessing their financial position.

Earlier, the daily margins were computed manually by the members and paid to the Exchange on the following day. Hence, there was a scope for evasion of margins by the members. Such evasions could come to the notice of the Exchange only at the time of inspection of the books of the members. In order to ensure strict compliance of the margin requirements, the Exchange has developed a software for calculation of daily margins. Since November 1996, the daily margins are computed by the Exchange and the same is downloaded by the members in their back-office system. This has almost entirely eliminated the possibility of margin evasion by any member and has resulted in better risk management.
The Exchange has also started accepting Fixed Deposit Receipts (FDRs) from banks as also Bank Guarantees from the members towards their margin payments.

**Carry over Margin**
Carry over margin is payable by Type I members in respect of their transactions carried forward in ‘A’ or specified group scrips from one settlement to another settlement as per the BRS on Carry Forward System. This margin is at present 10% of the value of transactions carried forward.

**Special Margins**
Since February, 1996, with a view to curtail unwarranted rise in the prices and volumes, special margins have been introduced. The special margins, which may range from 25% to 100% are imposed on net cumulative purchases in scrips in which rise in price is abnormal or high volumes are noticed. Also the special margin is collected from sellers if the sales do not result in deliveries.

**Ad-hoc Margins**
As a risk management measure, Ad-hoc margins are imposed on members over and above the daily margins in case members have excessive purchase positions, concentrated purchase positions in some scrips or their financial position does not appear to be sound vis-a-vis their exposure in the market.

The purpose of the margin, as in case of other margins, is to ensure safety of the market. The statistics of 1996 and 1997 of surveillance action initiated against members show that compliance level in payment of margins has improved substantially.
Surveillance Actions initiated against Members

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<thead>
<tr>
<th>Particulars</th>
<th>1996</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. BOLT TWS deactivated</td>
<td>29</td>
<td>25</td>
</tr>
<tr>
<td>2. Trade restrictions imposed</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>3. Disciplinary action by DAC</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>4. Ad-hoc margin called</td>
<td>129</td>
<td>68</td>
</tr>
<tr>
<td>5. Late payments of margins inviting fines</td>
<td>888</td>
<td>64</td>
</tr>
</tbody>
</table>

De-Activation of BOLT Terminals

The BOLT TWS of the members are deactivated for nonpayment/late payment of margins or on apprehension of financial difficulties or for violating trading restrictions placed on them. These decisions are taken on a case-to-case basis. In 1997, compared to 1996, the figures show high level of compliance in terms of payment of margin, etc.

As is well known, the markets have been very volatile on a few occasions in 1997. On some days the index fluctuated by as much as ten per cent. Inspite of this, the Exchange did not have to deactivate even one Trader Work Station of a member for non-payment of margin or delayed payment of settlement dues.
POSITION MONITORING

The Exchange closely monitors outstanding exposure of members on a daily basis. For this purpose, it has developed various monitoring reports based on certain preset parameters. The reports are scrutinised by the officials to ascertain whether there is excessive purchase or sale positions compared to the normal business of the member, whether there are concentrated purchases or sales, whether the purchases have been made by inactive or financially weak members and even the quality of scrips is ascertained to assess the quality of exposure. Based on analysis of the above factors and the margins already paid and the capital deposited by the member, ad-hoc margins are levied if required. Some members are even persuaded to reduce their outstanding exposure in the market. Trading restrictions are placed on their business as and when deemed fit.

The monitoring of the outstanding market position of the members is carried out to ensure that the pay-in and pay-out of the Settlement is smoothly completed. In order to achieve this objective, it has designed various Market Monitoring Reports (MMR) which are generated from the trading data available with the Information Systems Department (ISD) of the Exchange. The following are the key areas to assess the market risk involved.

Outstanding Market Position
Members having outstanding market position of Rs.10 million and above in A+B1 group scrips and Rs.5 million and above in the case of B2 group scrips are monitored. Their outstanding position in individual scrips of Rs.1 million and above are analysed with the
fundamentals and turnover of the companies, their mark to market losses and margin paid/payable. The outstanding position of members are also compared with their normal volume of business and also financial soundness. In case it is felt that the margin cover available against the outstanding position is not adequate or there is a market risk involved in the outstanding position of the members, ad-hoc margins are levied on the member and/or details of his dealings are obtained and/or he is advised to square-up his outstanding position etc.

Concentrated Purchases/Sales
The concentration in purchases/sales of a member in a few scrips is also considered risky. In case such a situation is noticed, fundamentals of the scrips, their daily turnover, their nature of transactions, viz., market transactions, cross deals, negotiated deals for the settlement or for hand delivery, transactions for Foreign Institutional Investors (FIIs), Indian Financial Institutions (IFIs), Mutual Funds (MFs), corporate clients etc. is ascertained. Thereafter, judgement of market risk is made and then appropriate surveillance actions are decided.

Purchases/Sales of Scrips having Thin Trading
Purchases/sales of scrips having thin trading is closely scrutinised as comparatively high market risk is involved in trading in such scrips. Details of trades in such scrips are called to assess the market risk involved and decide on the surveillance action.
Trading in B2 Group Scrips
The Exchange, in the past, had witnessed price manipulation and also certain irregularities in low cap scrips. For the purpose of effective monitoring and settlement of the scrips, they have been classified into B2 group scrips. Since the software to place limits on individual scrips at the systems level is not available, it was decided to place restriction on trading in the B2 group of scrips and monitor the same manually. Accordingly, the limits of Rs.500,000 in individual scrips and Rs.4 million in all scrips was placed on trading in these scrips. Any member intending to make purchases/sales beyond the limits specified was required to take prior permission of the Executive Director. The Surveillance Department processes such requests for permission after verifying the nature of transactions, value of transactions, fundamentals of such scrips etc., and imposes Special Ad-hoc Margin (SAM) ranging from 25% to 100%, wherever necessary. These limits have been increased recently to Rs.3 million and Rs. 15 million in case of individual scrips and all scrips respectively. These regulatory measures have yielded good results.

On assessment of the market risk based on aforesaid key areas, decisions to levy ad-hoc margins, advising the member to limit his business, summoning him for explanation, placing trading restriction, deactivation of BOLT TWS, etc. are taken.

Carry Forward System
The Modified Carry Forward System has placed limit of Rs. 200 million on carry forward business of the members at the end of the settlement and Rs. 300 million at the end of any day within a settlement. The adherence to these limits is also monitored on day-to-day basis by the Surveillance Department.

Risk Management
The Department also carries out, wherever considered necessary, preliminary inspection of certain dealings or books of accounts of members to verify irregularities. Further actions viz., referring the case for detailed investigations, carrying out detailed investigation, referring the cases to the Disciplinary Action Committee (DAC) of the Exchange, referring cases to the Scrutiny Committee of the Exchange to re-assess the financial soundness of the members etc., are taken depending on the findings of preliminary inspection.

**Statement of Top 100 Purchasers/Sellers**
Statements of top 100 net purchasers and top 100 net sellers in case of A+B1 and B2 group of scrips are put up to the Executive Director and the General Manager (Inspection & Surveillance) on a daily basis. These statements give various details such as base minimum capital + additional capital of members, daily and carry over margin paid and payable, mark-to-market losses, details of concentrated purchase/sale in scrips, etc. This enables the Department to keep a watch on the exposure of the members, ascertain the quality of exposures, measure the risk vis-a-vis cover available by way of margins, capital etc. and initiate action such as imposition of ad-hoc margins, trading restriction etc. on the members.

**Market Intelligence**
The Surveillance function cannot be effective and successful unless it is coupled with strong market intelligence. Signals of weakness or suspected irregularities come to the knowledge of the market players much before it gets detected or noticed by the Exchange Officials. It is, therefore, necessary to have efficient market intelligence through wide information source. The information gathered from the market
sources or the rumours floating in the market, are verified with the data available with it or from the data available with the concerned member. This enables the Exchange to avert market problems before it causes a serious damage.
TRADE GUARANTEE FUND

In 1997, the BSE established Trade Guarantee Fund (TGF). The Exchange has formulated a scheme to guarantee settlement of bonafide transactions of members which form part of settlement system. All trades reported to the Exchange and settled through the Clearing House of the Exchange are covered by TGF. The establishment of TGF has eliminated the counter-party risk so that if a member is declared defaulter other members do not suffer as was the case in the past. The TGF became operative from 12th May, 1997. It is the first and only scheme of this kind approved by the Securities and Exchange Board of India (SEBI). The introduction of TGF affirms commitment of the Exchange to be the most transparent stock exchange in India. The salient features of this scheme are given below.

Objectives
The main objectives for setting up of TGF are:

- To guarantee settlement of bonafide transactions of members of the Exchange inter-se which form part of the stock exchange settlement system so as to ensure timely completion of settlements of contracts and thereby protect the interest of investors and the members of the Exchange.

- To inculcate confidence in the minds of secondary market operators in general and global/foreign institutional investors in particular to attract large number of domestic and international players in the capital market.

- To protect the interest of investors and to promote the development and to regulate the secondary market.
Composition
The corpus of the fund as on 30 March, 1998 was:

<table>
<thead>
<tr>
<th></th>
<th>Rs. in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial contribution from members of the Exchange</td>
<td>5.5</td>
</tr>
<tr>
<td>Exchange's contribution</td>
<td>600.0</td>
</tr>
<tr>
<td>Interest accretion</td>
<td>36.9</td>
</tr>
<tr>
<td>Continuous contribution by members</td>
<td>25.2</td>
</tr>
<tr>
<td>Members' base minimum capital contribution</td>
<td>550.0</td>
</tr>
<tr>
<td>Bank guarantee provided by members</td>
<td>550.0</td>
</tr>
<tr>
<td>Additional Capital</td>
<td>1296.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3063.6</strong></td>
</tr>
</tbody>
</table>

In addition, income accruing on the contribution from the Exchange is also added to the Fund. Moreover, each member contributes to the extent of 0.00075% of his turnover on a weekly basis to the Fund. On this count, at the present level of interest rates, and volumes of business at the Exchange, accretion to the TGF is, to the tune of about Rs. 150 millions annually.

Minimum Value of Fund
The Exchange will ensure that the Fund size does not fall below Rs. 600 million. If the corpus of Fund falls below Rs. 600 million, the Exchange is obligations to inform the Securities and Exchange Board of India (SEBI) and also notify its members by issuing suitable notice.

The Exchange has the right to call within two weeks for further contribution from the members in case the fund size falls below Rs. 600 million.
Management of TGF
The Fund is managed by Defaulters’ Committee having 60% public representatives, and constituted as a statutory Committee under the Bye-laws of the Stock Exchange.

Declaration of Default
If a member fails to meet his obligations on pay-in day to the Clearing House, the Clearing House forthwith informs the Executive Director or the President of the Exchange of such failure. The President, Governing Board or any two elected directors can, after giving two hours’ notice to the defaulting member, declare him defaulter for his failure to meet his pay-in obligations.

Payment Under TGF
On a member being declared a defaulter, the Defaulters’ Committee has to pay the unpaid settlement dues of the defaulter to the Clearing House before the pay-out. There can, thus, be no fear of postponement of the pay-outs as Exchange is under obligation to complete all pay-outs on scheduled dates and the Defaulters’ Committee is required to make timely payments to the Clearing House to enable the Exchange to strictly adhere to these schedules.

Outstanding Contracts in Open Settlements
All transactions of counter parties of a defaulter member pertaining to the settlements which are incomplete are also covered by TGF. The Stock Exchange, Mumbai, has thus, through the introduction of the TGF displayed its commitment towards investors by making itself one of the safest stock exchanges in India.
BROKERS' CONTINGENCY FUND

The Stock Exchange, Mumbai has established a separate Fund called “THE STOCK EXCHANGE BROKERS' CONTINGENCY FUND” for the purpose of granting refundable advances to members who may be facing temporary mismatch of funds. The fund became operational from 21st July, 1997.

Objective of the Fund
The objectives of the Fund are:

- To make temporary refundable advance(s) to the members of the Stock Exchange facing temporary financial mismatch as a result of which they may not be in a position to meet their financial obligations to the Exchange in time.

- To protect the interest of the investors dealing through members of the Stock Exchange by ensuring timely completion of settlement and also inculcate confidence in the minds of investors regarding safety of bonafide transactions entered into on the Stock Exchange, Mumbai.

Constitution of the Fund
The fund is managed by a Committee appointed by the Governing Board comprising of the President, Executive Director, Vice-President, Honorary Treasurer and three non-elected directors. The Committee has complete control over the management of the Fund and is vested with all powers, authorities and discretions necessary.
Membership
Every Member of the Stock Exchange is eligible to become a member of the Fund. Every active member has to become a member and shall not be permitted to retract from his membership of the Fund while he is a Member of the Stock Exchange. He shall cease to be a member of the Fund on his ceasing to be a member of the Stock Exchange for any reason whatsoever.

Contribution: Stock Exchange
The Stock Exchange may, from time to time, contribute such amounts to the fund as the Governing Board of the Stock Exchange may in its absolute discretion determine. The Initial Contribution was approximately Rs. 95 million.

Contribution: Members
Every existing active member has contributed to the Fund an initial non-refundable contribution of Rs.1,000/- (Rupees one thousand).

Continuous Contribution
At the end of every settlement, every active member contributes to the Fund 0.00025% of gross turnover by way of continuous contribution.
The minimum size of the fund shall be Rs.50 million at any point of time. Shortfall, if any, will be met by -

- contributions from all the members equitably or otherwise;
- contributions from the Exchange; or
- such other contribution in the form of Bank Guarantee, Bank Fixed Deposit Receipt (FDR) or in any other manner as may be decided by the Governing Board from time to time.
INTEGRATED COMPREHENSIVE INSURANCE POLICY

The Exchange has taken an integrated comprehensive insurance policy to insure the Exchange, its members and the Clearing House against all insurable perils. This cover is compulsory as per SEBI directives. All members whether active or inactive are covered for the mandatory limit of Rs 10 million for any one / all losses in aggregate. The policy is subject to an overall limit of Rs. 2 billion for any one or all losses together and each member is covered for an amount of Rs. 10 million.

Salient Features of the Insurance Policy

The comprehensive policy is broadly divided into three areas:

- The Financial Institutions Bond Cover (In and Out indemnity)
- Error & Omission Cover — Professional indemnity

Each member broker is covered for an indemnity of Rs 10 million or Rs 50 million as chosen by the member. If the loss is less than Rs 25,000 the claim is not payable by the insurance company. Further, if the losses exceed Rs 25,000 the loss in excess of Rs 25,000 will only be admissible. The policy provides for automatic reinstatement. Members who desire additional cover are provided the same on payment of additional premium.
Scope of Cover
Financial Institutions Bond Cover (in and out indemnity) includes
- Infidelity of Employees
- Loss of Securities/cash either from premises as a result of physical loss, burglary, theft and fire and allied perils. Loss of securities while they are in transit by registered post/courier both inward and outwards. Loss by risk of acting upon counterfeit, fraudulent, forged and stolen securities.
- Loss arising from failure or inability to complete transactions due to physical loss of securities, forged/stolen securities.
- Loss due to forgery/fraudulent alterations to securities/written instructions.

Electronic and Computer Crime Cover
As members are increasingly using computer systems and now trading is operating electronically, they are exposed to various electronic and computer crime risks which can be costly and difficult to eliminate. This cover is designed to protect against the following exposures.
- Fraudulent input, modification or destruction of data in insurer's own computer system.
- Loss due to fraudulent computer instructions.
- Malicious destruction of data whilst it is stored in the insurer’s computer or any other data media.
- Loss due to fraudulent electronic and computer communications.
- Fraudulent input, alterations, destruction of data in any of the insures service centers/dealer network.
- Any fraudulent electronic instructions transmitted into the insurer’s computer system from a clearing house as well as any legal liability created by a forged electronic transmission made from the insurers computer system.
- Or any other fraudulent electronic communication as well as faxes, etc.
- Any losses caused by computer viruses.
- Legal fees and cost paid in defence of any claims, suits or legal proceedings.

**Errors and Omissions Cover - Professional Indemnity**

As a result of liberalization and growth, the professional liability exposure of the stock brokers has increased dramatically over the last ten years. Errors and Omissions cover for losses arising from third party claims due to errors, omissions, mis-statement, breach of duty, negligence while rendering professional services to clients.

Apart from the above, the insurance policy includes the additional covers in respect of transit loss of securities dispatched to the members by their clients, sub-brokers and franchisee, provided the member is legally liable.

The clearing house is covered to the extent of Rs 16 billion over and above the limit of Rs 2 billion included under the policy.