

**SECURITIES AND EXCHANGE BOARD OF INDIA
MARKET REGULATION DEPARTMENT**

**Framework for recognition and supervision of stock exchanges/
platforms of stock exchanges for small and medium enterprises**

**I Eligibility criteria for setting up of new stock
exchange/platform of an existing stock exchange for the SME
sector.**

Dedicated stock exchanges for the Small and Medium Enterprises (SME) sector may be set up after obtaining due recognition under the Securities Contracts (Regulation) Act – 1956 (SCRA hereinafter). The eligibility criteria for the same are as under.

- a. The proposed stock exchange should be set up as a corporatised entity since inception. It shall convert itself into a demutualised entity and comply with the Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006 within a specified period (1-2 years) from the date of commencement of trading.
- b. The exchange shall have a balance sheet network of atleast Rs. 100 crores.
- c. The exchange shall have nation wide trading terminals and an online screen-based trading system, which also has a suitable Business Continuity Plan including a disaster recovery site.
- d. The exchange shall have an online surveillance capability which

monitors positions, prices and volumes in real time so as to check market manipulation.

- e. The exchange shall have adequate arbitration and investor grievances redressal mechanism operative from all the four regions of the country.
- f. The exchange shall have adequate inspection capability.
- g. The risk management system and surveillance system shall be the same as that of the cash market.
- h. The trading members of the SME exchange shall register themselves with the exchange and SEBI.
- i. Information about trades, quantities, and quotes shall be disseminated by the exchange in real time to at least two information vending networks which are accessible to investors in the country.

The above eligibility criteria shall also be applicable, wherever appropriate, to existing exchanges desirous of setting up a platform for the SME sector.

II Trading, clearing and settlement

- a. The minimum trading lot shall be Rs. 1 lakh.
- b. Trading system may either be order driven or quote driven. The settlement may either be on rolling, trade for trade or call auction basis.

c. The clearing function of the exchange may be performed by a clearing corporation/ clearing house.

III Parties interested in setting up a dedicated stock exchange for the SME sector may apply to Market Regulation Department, SEBI, in the manner prescribed under the Securities Contracts (Regulation) Rules, 1957. Existing exchanges desirous of setting up a platform for the SME sector may submit a detailed application demonstrating their compliance with the eligibility criteria mentioned under (I) above alongwith the proposed Rules, Regulations and Byelaws for the SME platform.

November 5, 2008

D RAVIKUMAR
CHIEF GENERAL MANAGER