

CIRCULAR

SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/1

January 05, 2024

To

All Recognized Stock Exchanges

All Recognized Clearing Corporations

All Depositories

Sir/Madam,

Subject: Framework for Short Selling

1. SEBI vide Master Circular No. SEBI/HO/MRD2/PoD-2/CIR/P/2023/171 dated October 16, 2023 issued the Master Circular for Stock Exchanges and Clearing Corporations. Paragraph 10 of Chapter 1 of the Master Circular contains the framework on '*Short Selling and Securities Lending and Borrowing Scheme*'.
2. The broad framework for short selling is specified in 'Annexure 3' of Chapter 1 of the said Master Circular. In this regard, it is mentioned that the contents of 'Annexure 3' of Chapter 1 of the Master Circular dated October 16, 2023 shall be read as under (which are in line with the provisions of rescinded SEBI Circular No. MRD/DoP/SE/Dep/Cir-14/2007 dated December 20, 2007):

"Annexure 3: Broad Framework for Short Selling

1. *"Short selling" shall be defined as selling a stock which the seller does not own at the time of trade.*
2. *All classes of investors, viz., retail and institutional investors, shall be permitted to short sell.*

3. *Naked short selling shall not be permitted in the Indian securities market and accordingly, all investors would be required to mandatorily honor their obligation of delivering the securities at the time of settlement.*
4. *No institutional investor shall be allowed to do day trading i.e., square-off their transactions intra-day. In other words, all transactions would be grossed for institutional investors at the custodians' level and the institutions would be required to fulfill their obligations on a gross basis. The custodians, however, would continue to settle their deliveries on a net basis with the stock exchanges.*
5. *The stock exchanges shall frame necessary uniform deterrent provisions and take appropriate action against the brokers for failure to deliver securities at the time of settlement which shall act as a sufficient deterrent against failure to deliver.*
6. *A scheme for Securities Lending and Borrowing (SLB) shall be put in place to provide the necessary impetus to short sell. The introduction of a full-fledged securities lending and borrowing scheme shall be simultaneous with the introduction of short selling by institutional investors.*
7. *The securities traded in F&O segment shall be eligible for short selling. SEBI may review the list of stocks that are eligible for short selling transactions from time to time.*
8. *The institutional investors shall disclose upfront at the time of placement of order whether the transaction is a short sale. However, retail investors would be permitted to make a similar disclosure by the end of the trading hours on the transaction day.*
9. *The brokers shall be mandated to collect the details on scrip-wise short sell positions, collate the data and upload it to the stock exchanges before the commencement of trading on the following trading day. The stock exchanges shall then consolidate such information and disseminate the same on their websites for the information of the public on a weekly basis. The frequency of such disclosure may be reviewed from time to time with the approval of SEBI."*

3. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992 read with Regulation 51 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, Section 26(3) of the Depositories Act, 1996 and Regulation 97 of Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
4. This circular is available on SEBI website at www.sebi.gov.in at “Legal Framework - Circulars.”

Yours faithfully,

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