



Code of Conduct for Governing Board, Directors, Committee members and Key Management Personnel

I. Governing Board

The governing board of the recognised stock exchange and recognised clearing corporation shall -

- a) evaluate profitability margins of the stock exchanges or clearing corporations.
- b) ensure adequacy of resource allocation (both financial and human) towards regulatory compliances
- c) focus on strategy, policy level issues and important matters and may review the day-to-day operational matters only in exceptional cases.
- d) oversee the critical operations including technology as well as the regulatory, risk management, compliance and investor grievance redressal functions of the stock exchange or clearing corporation.
- e) take the lead in succession planning for the managing director and other key positions.
- f) play an active role in defining, establishing and documenting risk management framework, covering risk appetite or risk tolerance policy of the stock exchange or clearing corporation and ensure that the policy contains the following:
 - i. role of risk appetite in key processes
 - ii. clear quantitative metrics and threshold to monitor performance of the stock exchange's or clearing corporation's risk appetite
 - iii. acceptability of breaches and trigger response(s), if any
 - iv. zero tolerance for areas such as cyber security, system stability, surveillance, fair access, fraud or corruption, compliance, etc
- g) make key stakeholders (executive and non-executive) aware of the use and value of risk appetite across the organization (including implications of breaches) and review and approve risk appetite metrics and thresholds periodically.
- h) ensure adequate independence of key functions such as regulatory and control functions (risk management, compliance and audit functions) such that;
 - i. regulatory and control functions have sufficient stature to perform their tasks effectively.
 - ii. regulatory and control functions operate independently and have appropriate direct access to the governing board of the stock exchange and clearing corporation and senior management.
 - iii. Control functions are proactively involved in all relevant decisions and activities.



- i) Provide for three lines of defense construct where:
- i. the first line of defense incorporates business units and support functions as it has the responsibility to own and manage risks associated with day to day operational activities
 - ii. the second line of defense consists of various oversight functions i.e., regulatory, risk management, compliance teams, and
 - iii. the third line of defense comprises the internal audit function.
- j) ensure that the roles and responsibilities of management in relation to three lines of defense are clearly specified and that all employees are responsible for the regulatory, risk management and compliance outcomes.
- k) ensure a culture of effective communication and challenge (i.e., encourage alternate views or questions from individuals and groups) and value and respect it.
- l) ensure that any new product, service, revenue stream is examined by the concerned department of the stock exchange or clearing corporation from the compliance and risk management perspectives in addition to normal viability issues before approving the same.
- m) review periodically all existing products, services and revenue streams.
- n) shall meet, without the presence of the managing director and any other executive director, the chief regulatory officer or compliance officer, the chief risk officer, the chief information security officer, the statutory auditor of the stock exchange and clearing corporation and any other person as determined by the public interest directors and non-independent directors to discuss important issues concerning the stock exchange and clearing corporation, on a periodic basis as specified by the Board.
- o) periodically review the frequency of meetings and agenda items of the governing board and statutory committees to ensure that the number of meetings is rationalized, and all-important issues are discussed.
- p) ensure that the agenda papers are approved by the Chairman of the governing board.
- q) ensure that members of the governing board can place agenda item during their meeting.
- r) be responsible for monitoring compliance with the code of conduct by the directors of the stock exchange and clearing corporation.
- s) uphold a strong culture in the stock exchange or clearing corporation and promote target culture from the top through behaviour, actions and effective communication.
- t) communicate the guiding principles for institution's target regulatory, compliance, risk and conduct culture.
- u) endeavor that the stock exchange and clearing corporation put in place key elements related to culture such as
- i. adequate training programs to help employees better understand expectations of behavior (for example, trainings on dilemmas);
 - ii. mechanisms to measure and track indicators related to culture at regular intervals;
 - iii. accountability mechanisms; and



- iv. performance management mechanisms which take into account adherence to culture, conduct and behavior related dimensions.

II. Code of Conduct for Directors, Committee Members and Key Management Personnel

A. Applicable to Directors, Committee Members and Key Management Personnel of stock exchange and clearing corporation:

1. General Responsibility

Every director, committee members and key management personnel of the recognized stock exchanges or recognized clearing corporations shall—

- a) analyse and administer the stock exchanges' and clearing corporations' issues with professional competence, fairness, impartiality, efficiency and effectiveness;
- b) submit the necessary disclosures, statement of holdings, dealings in securities as required by the stock exchanges and clearing corporations from time to time as per their rules, bye-laws or articles of association;
- c) unless otherwise required by law, maintain confidentiality and not divulge or disclose any information obtained in the discharge of their duty and no such information is used for personal gains;
- d) maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of their duties in order to inspire public confidence and not engage in acts discreditable to their responsibilities;
- e) perform their duties in an independent and objective manner and avoid activities that may impair, or may appear to impair, their independence or objectivity or official duties;
- f) perform their duties with a positive attitude and constructively support open communication, creativity, dedication, and compassion;
- g) not engage in any act involving moral turpitude, dishonesty, fraud, deceit, or misrepresentation or any other act prejudicial to the administration of the stock exchanges and clearing corporations;
- h) promote greater awareness and understanding of ethical responsibilities;
- i) in the conduct of their business, observe high standards of commercial honor and; just and equitable principles of trade;
- j) be exemplary in their conduct in business life which may set a standard for others;
- k) not use their position to give or receive favours to or from the executive or administrative staff of the stock exchange or clearing corporation, technology or service providers and vendors or suppliers of the stock exchange and clearing corporation, or any listed company at the stock exchange or any issuer company admitted by the stock exchanges and clearing corporations;
- l) not commit any act which will put the reputation of the stock exchanges or clearing corporations in jeopardy;
- m) comply with the provisions of all applicable laws pertaining to the securities market;
- n) directors and key management personnel shall at all point of time comply with all the internal policies of the stock exchange and clearing corporation including their code of conduct. If there is a conflict between the code of conduct policy of the stock



exchange or clearing corporation with those provided by the Board, then the policy issued by the Board shall prevail.

2. Regulatory Compliances:

Every director, committee member and key management personnel of the recognized stock exchange or recognized clearing corporation shall—

- a) ensure that the stock exchange or clearing corporation abides by all the applicable provisions of the Act, the Securities and Exchange Board of India Act, 1992, rules and regulations framed thereunder and the circulars, directions or any other instructions issued by the Board from time to time;
- b) ensure compliance at all levels so that the regulatory system does not suffer any breaches;
- c) ensure that the stock exchange or clearing corporation takes steps commensurate to honor the time limit stipulated by Board for corrective action.

3. Disclosures of Beneficial Interest:

All directors, committee members and key management personnel shall disclose to the governing board of recognised stock exchange or recognised clearing corporation, upon assuming office and during their tenure in office, whenever the following arises: —

- a) any fiduciary relationship of self and family members and directorship or partnership of self and family members in any trading member or clearing member or depository participant or registrar and transfer agent;
- b) shareholding, in cases where the shareholding of the director or key management personnel, directly or through his family exceeds 5 percent in any listed company or in other entities related to the securities markets;
- c) any other business interests.

4. Access to Information:

- a) There shall be prescribed channels through which information shall move and further there shall be audit trail of the same. Any retrieval of confidential documents or information shall be properly recorded.
- b) All such information, especially which is non-public and price sensitive, shall be kept confidential and not be used for any personal consideration or gain.
- c) Any information relating to the business or operations of the stock exchange or clearing corporation, which may come to the knowledge of directors or committee members or key management personnel during performance of their duties shall be held in strict confidence, shall not be divulged to any third party and shall not be used in any manner except for the performance of their duties.
- d) Directors shall call for information only as part of specific committees or as may be authorised by the governing board of stock exchange or clearing corporation.



5. Misuse of Position:

Directors or committee members or key management personnel shall not use their position to obtain business or any pecuniary benefit in the organization for themselves or family members.

B. Applicable to the Directors and Committee Members

1. Meetings and Minutes:

The directors and committee members of the recognized stock exchange or recognized clearing corporation shall—

- a) not participate in discussions on any subject matter in which any conflict of interest exists or arises, whether pecuniary or otherwise and in such cases the same shall be disclosed and recorded in the minutes of the meeting;
- b) not encourage the circulation of agenda papers during the meeting, unless circumstances so require;
- c) ensure that minutes are recorded to capture all points of opinion comprehensively.
- d) offer their comments on the draft minutes and ensure that the same are incorporated in the final minutes;
- e) insist on the minutes of the previous meeting being placed for approval in subsequent meeting;
- f) endeavor to have the date of next meeting fixed at each governing board meeting and committee meetings respectively in consultation with other respective members of the governing board and committees;
- g) ensure that all important agendas placed before the governing board of stock exchange and clearing corporation and committees are deliberated in a timely manner;
- h) not support any decision in the meeting of the governing board of stock exchange and clearing corporation and the committees respectively which may adversely affect the interest of investors and shall report forthwith any such decision to the Board.

2. Role of the Directors and Committee members in the day to day functioning of the recognised stock exchange and recognised clearing corporation:

- a) The directors and committee members shall not interfere in the day to day functioning of the stock exchange or clearing corporations and shall limit their role to decision making on policy issues and to issues as the governing board of stock exchange and clearing corporation may decide.
- b) The directors and committee members shall abstain from influencing the employees of the stock exchange and clearing corporations in conducting their day to day activities.
- c) The directors and committee members shall not be directly involved in the function of appointment and promotion of employees unless specifically so decided by the governing board of stock exchange and clearing corporation.



3. Avoidance of Conflict of Interest:

- a) No director or committee member of the stock exchange or clearing corporation shall participate in any decision making or adjudication in respect of any person or matter in which he or she is in any way, directly or indirectly, concerned or interested.
- b) Conflict of interest in a matter, if any, shall be decided by the governing board of the stock exchange and clearing corporation.

4. Strategic Planning:

Every director and committee member of the recognized stock exchange and recognized clearing corporation shall—

- a) participate in the formulation and execution of strategies in the best interest of the stock exchange and clearing corporation and contribute towards pro-active decision making at the governing board level;
- b) give benefit of their experience and expertise to the stock exchange and clearing corporation and provide assistance in strategic planning and execution of decisions;
- c) place priority for redressing investor grievances and encouraging fair trade practice so that the stock exchange and clearing corporation becomes an engine for the growth of the securities market.

5. Disclosure of dealings in securities by Directors of the recognised stock exchange and recognised clearing corporations

- a) All transactions or dealings in securities by the directors and their immediate relatives (as defined in the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015) shall be disclosed to the governing board of the stock exchange or clearing corporation.
- b) All directors shall also disclose the trading conducted by firms or corporate entities in which they hold twenty percent or more beneficial interest or hold a controlling interest, to the stock exchange or clearing corporation.
- c) The details including time period for disclosures stated above shall be provided by the stock exchange and clearing corporation, provided that the time period for disclosure shall not be later than fifteen days of the transaction/ dealing.
- d) Directors who are nominees of Government of India, its statutory bodies or Public Financial Institutions and are governed by their own codes shall be exempt from this requirement.

C. Applicable to Public Interest Directors

- a) Public Interest Directors of the stock exchange and clearing corporations shall endeavor to attend all the governing board meetings and they shall be liable to vacate office if they remain absent for three consecutive meetings of the governing board or do not attend seventy-five percent of the total meetings of the governing board in a calendar year.



- b) Public interest directors shall meet separately, at least once in six months to exchange views on critical issues. Public interest directors shall submit a report of such meeting to the Board and to the governing board of the recognised stock exchange and recognised clearing corporation within the time and manner as may be specified by the Board from time to time.
- c) Public interest directors shall identify important issues which may involve conflict of interest for the stock exchange and clearing corporation or may have significant impact on the functioning of the stock exchange and clearing corporation or may not be in the interest of securities market. The same shall be reported to the Board in a time bound manner.
- d) Public interest directors shall have regular oversight on observations of Board's inspection particularly on issues of governance standards, technology and cyber security and system audit and cyber security audit observations.
- e) Public interest directors should be proactive in identifying any issues concerning the functioning of stock exchange or clearing corporations and report the same to the Board. Public interest directors should ensure all regulatory communication/letter from the Board are placed before the governing board with comments/report of managing director.
- f) Public interest directors shall put in place an evaluation mechanism to assess the performance of managing directors on a continuing basis in line with evaluation guidelines for public interest directors.
- g) Public interest directors to ensure that appointments of managing director be held within specified timelines. Identification of key management personnel be closely scrutinized as per the laid down procedure and exceptions should be brought to the notice of the Board.
- h) Public interest directors should take proactive part in the deliberations of different committees and steer their functioning.
- i) Ensure adequacy of resource allocations (both financial & human) towards regulatory compliances to be ensured.

D. Applicable to Independent External Professionals:

- a) Independent external professionals shall not use or act on any sensitive information received in capacity as a member of the statutory committee for obtaining any undue benefit.

E. Applicable to Key Management Personnel:

- a) Managing director of the stock exchange or clearing corporation shall meet employees without the presence of other key management personnel (the heads of departments) to discuss important issues pertaining to stock exchange or clearing corporation.
- b) Key management personnel of the stock exchange and clearing corporation shall disclose on a periodic basis as determined by the stock exchange and clearing corporation (which could be monthly), all their dealings in securities, directly or indirectly, to the governing board or regulatory oversight committee or compliance officer of stock exchange and clearing corporation.



- c) All transactions must be of an investment nature and not speculative in nature. Towards this end, all securities purchased must be held for a minimum period of sixty days before they are sold. In specific or exceptional circumstances, however, sales can be effected anytime by obtaining pre-clearance from the compliance officer to waive this condition after recording inwriting his satisfaction in this regard.

Explanation. - “securities” for the purpose of this code shall not include mutual fund units.
