Investor Protection Fund/Investor Service Fund

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I. *Investor Protection Fund (IPF)*[1]

1. Constitution and Management of the IPF

i. The IPF shall be administered by a Trust created for this purpose.

ii. The IPF Trust of the exchange shall have maximum 5 trustees. The IPF Trust shall consist of three public interest directors, one representative from investor associations recognized by SEBI and the compliance officer of the exchange. The maximum tenure of a trustee (excluding the compliance officer of the exchange, whose trusteeship would be co-terminus with the service) shall be five years or as specified by SEBI[2].

iii. [***][3]

iv. Exchange shall provide the secretariat for the IPF Trust/Committee.

v. Exchange shall ensure that the funds in the IPF are well segregated from that of the Exchange and that the IPF is immune from any liability of the exchange.

vi. [***][4]

2. Contributions to the IPF: The IPF will be funded as follows:

i. All the penalties levied and collected by the exchange, except for the settlement related penalties (including penalties from delivery default), shall be credited to the IPF.[5]

ii. 1% of the turnover fee charged by the exchange from its members/brokers or ten lakh whichever is higher in a financial year.[6]

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[1] SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2016/94 dated September 26, 2016

[2] Substituted vide SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017. Prior to substitution, the norm read as under:

"The IPF Trust shall comprise of two eminent persons and one independent Director on the Board of the Exchange (these names will be suggested by the Exchanges and approved by SEBI), and the MD/CEO of the Exchange"

[3] Omitted vide circular dated CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017. Prior to omission, the norm read as under:

"The sitting fee payable to the Trustees should be fixed only with the prior approval of SEBI."

[4] Omitted vide circular dated CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017. Prior to omission, the norm read as under:

"Exchanges shall disclose in their financial statements, the IPF trust as a related party as well as the details of transactions between the respective exchanges and IPF trust as per Accounting Standard AS-18."

[5] Substituted vide SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017. Prior to substitution, the norm read as under:

"All the penalties levied and collected by the Exchange, except for the settlement related penalties (including penalties from delivery default), shall be part of the IPF after deducting the cost of administration (such cost of administration cannot exceed 10 percent)."

[6] Substituted vide SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017. Prior to substitution, the norm read as under:

"1% of the turnover fee charged by the National Commodity Derivatives Exchange from the Member/Broker or Rs25 lakh whichever is lower in a financial year shall go to IPF."

3. **Manner of filing/inviting claims from the Investors/Clients, Eligibility of Claims and Determination of Legitimate Claims -** has been covered under master circular of Investor Services Department.[7]

4. **Threshold limit for Claims**

   i. The Exchange is free to fix suitable compensation limits, in consultation with IPF trust. However, the amount of compensation available against a single claim of an investor arising out of defaulter by a member broker shall not be less than Rs. 1 lakh.[8]

   ii. The Exchange in consultation with IPF Trust, shall review and progressively in case the amount of compensation available against a single claim from an investor at least every three year.[9]

   iii. [***][10]

   iv. Exchange shall disseminate the compensation limit fixed by it and any change thereof, to the public through a Press Release and through its Website.

5. **Disbursements of claims from the IPF**

   i. The IPF Trust shall disburse the amount of compensation from the IPF to the investors and such compensation shall not be more than the maximum amount fixed for a single claim of an investor.

   ii. The compensation shall be disbursed to the investor from the IPF in case there is a shortage of defaulter broker's assets after its realization [11]

   iii. The Exchange shall ensure that the amount realized from the assets of the defaulter member is returned to the defaulter member after satisfying the claims of the exchanges and SEBI in accordance with the bye-laws of the exchange [12]

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[7] The same has been covered under Master Circular of Investor Service Department.

[8] Substituted vide SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017. Prior to substitution, the norm read as under:
"Exchanges are free to fix suitable compensation limits in consultation with the IPF Trust. However, the maximum amount of compensation available against a single claim of an investor arising out of default of a member of a Commodity Derivatives Exchange shall be Rs2 lakh."

[9] Substituted vide SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017. Prior to substitution, the norm read as under:
"The maximum available compensation arising out of default by a member of an Exchange shall be Rs 2 crores in those commodity derivatives exchanges whose size of corpus of IPF is Rs15 crores or above and shall be Rs 25 lakh if the size of corpus is less than Rs. 15 crores."

[10] Omitted vide SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017. Prior to omission, the norm read as under:
'SEBI shall review the amount of compensation available against a single claim from an investor from time to time."

[11] The same is also covered under master circular of Investor Services Department

[12] The same is also covered under master circular of Investor Services Department

Provided that in case of a member broker having membership on multiple exchanges, amount realized from the assets of the defaulter member shall be returned to the said member only after satisfying eligible claims of the concerned exchange, SEBI, and other exchanges as the case may be.

Provided further that in cases where any litigations are pending against the defaulter member, the residual amount, if any, may be retained by the exchange until such litigations are concluded."

iv. Investment of funds of IPF will be as per the relevant provision of the Indian Trust Act 1882 and Section 11 (5) of Income Tax Act, 1961. The Exchanges are requested to ensure that the investment of trust money is done with utmost caution and prudence.

v. Appeal should be referred to the Board of the Exchange on any decision of the Managing Committee of IPF regarding any claim.

vi. In case the National Commodity Derivatives Exchange is wound up, then the balance in the IPF lying un-utilized with the IPF Trust, shall be transferred to SEBI. In such an event, the funds will be maintained in a separate account and SEBI shall act as trustee of these funds. The funds shall be utilized for purposes of investor/client education, awareness, research or other such programme as may be decided by SEBI.

vii. The IPF Trust shall disburse the compensation to the investors as and when claims have been crystallized against a defaulter member. The IPF Trust need not wait for realization of assets of the defaulter member for disbursement of the claims. Upon receipt of advice of defaulter's committee, for payment, the IPF Trust shall take necessary steps for disbursement of amount at the earliest.[13]

viii. Exchange shall periodically review the sources of fund and eligible compensation amount so as to recalibrate the fund to make suitable recommendation for enhancement.

6. Income earned on IPF and its Utilization[14]

i. The exchange may utilize income earned on the corpus of IPF towards promotion of investor education and awareness programs through seminars, lectures, workshops, publications (print and electronic media), training programs etc. to

[13] Inserted vide SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017
[14] SEBI Circular no. CIR/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017

enhance literacy and to promote participation in the commodity derivatives market or any other mandated purpose. Capital expenditure would be permissible only w.r.t. setting up of Investor Service Centre. However, no expenditure shall be incurred on product promotion in any manner. However, in case of non-utilization of the said income in the same financial year for the mandated purpose, the same shall be ploughed back to IPF. In addition to above, the income earned on the IPF corpus may be utilized in other manner as prescribed/permitted by SEBI in the interest of investors from time to time.

ii. The unutilized IPF interest income accruing during a specific financial year can be carried forward to the next financial year to enable effective utilization of such money by the Exchange during such extended period. [15]

iii. The exchange shall also utilize IPF interest income for undertaking research activities related to commodities market, provided every such research activity / project can be undertaken only after obtaining prior written approval of the trustees of the IPF Trust, who would inter alia, record the reasons, relevance and stated objectives of the research project while according approval to such activity/ project. Further, the Board of the exchange may be apprised of the research programs / activities being undertaken at least once in every quarter or half year of a given financial year.

There will be an overall cap on the total amount, not more than 10% of the interest amount of IPF which can be spent on Research activities related to commodities market. IPF shall frame a policy towards identifying / recognizing public and private academic institutions, professional bodies, trade (physical market) associations and industry bodies/ chambers through/ with whom such Research activities shall be undertaken/ organized/ sponsored.[16]

iv. In order to ensure effective utilization of income earned on IPF, supervision of utilization of interest on IPF will rest with the IPF Trust of the exchange.

II. Investor Service Fund (ISF)[17]

1. Set up Investor Service Fund (ISF)

[15] Inserted vide SEBI Circular no. CIR/HO/CDMRD/DCE/CIR/P/2018/49 dated March 14, 2018
[16] Inserted vide SEBI Circular no. CIR/HO/CDMRD/DCE/CIR/P/2018/49 dated March 14, 2018
[17] SEBI Circular no. CIR/HO/CDMRD/DEICE/CIR/P/2017/53 dated June 13, 2017

i. Provisions w.r.t Facilities at Investor Services Centre (ISC)[18]

ii. The ISC shall conduct various investor education and investor awareness programs through seminars, lectures, workshops, publications (print and electronic media), training programs etc. enhance literacy and promoting participation in the commodity derivatives market.

2. Contribution to ISF

i. At initial stage, the exchange shall contribute a minimum of Rs. Ten Lakhs towards setting up of Investor Service Fund (ISF). Subsequently, onwards, the Exchange shall transfer the 1% percent of the turnover fees charged by the exchange from its members on monthly basis towards ISF within 7 days of the end of the month, subject to minimum of Rs. Ten Lakh in a Financial Year.

ii. The Exchange shall also plough back the entire income earned on the corpus of ISF to the ISF within one month from the end of September and March of each year.

iii. The exchange shall be permitted to utilize the corpus of ISF for conducting various investor education and awareness programs, capacity building programs and maintenance of all price ticker boards installed by the respective Exchange, cost of training of arbitrators etc. In addition to above, the corpus may be utilized in other manner as prescribed / permitted by SEBI in the interest of investors from time to time.

iv. In order to efficient management of ISF, Investor Service Committee (ISC) of exchange shall oversee the contribution to ISF and its utilization.

v. Exchange shall maintain separate bank account for maintaining corpus of the IPF as well as ISF and such funds should not be co-mingled with any other fund(s) of the exchange and shall not be used for any other purpose than the mandated purposes as mentioned in this master circular

vi. SEBI has prescribed certain expenditures which are to be met utilizing the ISF and not IPF. However, since ISF is of recent origin, its corpus may be inadequate, therefore stock Exchange with commodity derivatives segment have been granted 3 years' period starting April 1st, 2018 to permit utilizing interest on IPF for activities of ISF also[19].

[18] The same is covered under master circular of Investor Services Department
[19] Inserted vide SEBI Circular no. CIR/HO/CDMRD/DCE/CIR/P/2018/49 dated March 14, 2018.

III. Price Dissemination through SMS/Electronic Communication Facility[20]

i. Exchange shall make efforts for registration of subscribers of Price Dissemination services and disseminate derivatives prices to them on a daily basis. Such direct price dissemination service would provide information to subscribers instantly in an efficient and transparent manner and thus shall be of great benefit to market participants.

ii. The Exchange may provide price dissemination through SMS or any other electronic communication facility (instant messengers, email etc.) for all commodities.

iii. The service is to be provided free of cost to the subscribers. However, the expenditure incurred for such price dissemination may be reimbursed from the interest accrued on the Investor Protection Fund (IPF).

[20] SEBI Circular no. SEBI/HO/CDMRD/DMP/CIR/P/2016/76 dated August 30, 2016.

LIST OF CIRCULARS:

Sr. No	Date	Circular No	Title
1.	August 30, 2016.	SEBI/HO/CDMRD/DMP/CIR/P/2016/76	Price Dissemination through SMS/Electronic Communication Facility
2.	September 26, 2016	SEBI/HO/CDMRD/DEICE/CIR/P/2016/94 **MCX Circular No.:** MCX/IPF/303/2016	Investor Protection Fund(IPF)and its related matters
3.	June 13, 2017	CIR/CDMRD/DEICE/CIR/P/2017/53 **MCX Circular No.:** MCX/IPF/179/2017	Comprehensive guidelines for Investor Protection Fund, Investor Service Fund and its related matters at National Commodity Derivatives Exchanges
4.	March 14, 2018	CIR/CDMRD/DCE/CIR/P/2018/49 **MCX Circular No.:** MCX/IPF/083/2018	Clarification to Circular pertaining to Investor Protection Fund(IPF)and Investor Service Fund(ISF)
5.	October 22, 2021	SEBI/HO/CDMRD/DoC/P/CIR/2021/651 **MCX Circular No.:** MCX/IPF/679/2021	Amendment to SEBI Circular pertaining to Investor Protection Fund (IPF)/ Investor Service Fund (ISF)and its related matters