

Chief General Manager

Market Regulation Department-Division of Policy

E-mail: mdrao@sebi.gov.in

MRD/DoP/SE/Dep/Cir- 14 /2007

December 20, 2007

1. The Executive Directors/Managing Directors/Administrators
of all Stock Exchanges
2. The Chairman and Managing Director, NSDL
3. The Managing Director & CEO, CDSL

Dear Sir / Madam,

Sub:- Short selling and securities lending and borrowing

1. Pursuant to the recommendations of the Secondary Market Advisory Committee (SMAC) of SEBI and the decision of the SEBI Board, it has been decided to permit all classes of investors to short sell subject to the broad framework specified in Annexure-1.
2. In order to provide a mechanism for borrowing of securities to enable settlement of securities sold short, it has also been decided to put in place a full-fledged securities lending and borrowing (SLB) scheme for all market participants in the Indian securities market under the over-all framework of "Securities Lending Scheme, 1997" of SEBI specified by SEBI vide circular No. SMD/POLICY/SL/CIR-09/97 dated May 07, 1997. Such a regulatory framework shall be subject to the broad framework specified in Annexure-2.
3. The Stock Exchanges shall issue the necessary guidelines in this regard and shall put in place systems to operationalise the above mechanisms for short selling and SLB. The stock exchanges shall also ensure that all appropriate trading and settlement practices as well as surveillance and risk containment measures, etc. are made applicable and implemented in this regard.
4. The Stock Exchanges and the Depositories are advised to put necessary systems in place so as to distinguish the lending and borrowing transactions executed in the framework specified in the annexure from the normal market transactions in the demat system.
5. The date of implementation of this circular will be communicated by SEBI subsequently.
6. The Stock Exchanges and the Depositories are also advised to :

- 6.1. test the necessary software/systems and remove any glitches in its operation well before the commencement date to avoid any problems in the live environment.
 - 6.2. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.
 - 6.3. bring the provisions of this circular to the notice of the member brokers/clearing members, depository participants and also disseminate the same on their website.
 - 6.4. communicate to SEBI, the status of the implementation of the provisions of this circular in the Monthly Development Report.
7. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 and Section 19 of the Depositories Act, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

S V Murali Dhar Rao

Encl:

1. [Annexure-1 – Broad framework for short selling,](#)

[Annexure-2 – Broad framework for securities lending and borrowing](#)