

## **[MODULE 3] Securities and Exchange Board of India (SEBI)**

### **What is Securities and Exchange Board of India (SEBI)?**

Securities and Exchange Board of India (SEBI) is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets. It monitors and regulates the securities market and protects the interests of the investors by enforcing certain rules and regulations. During the decade of 1980s, the Indian stock market grew by leaps and bounds. The growth of the stock market necessitated the existence of a controlling agency. The Securities Exchange Commission in America serves as a watch dog over the function of the stock market in USA. Considering the stock market development in India, the Government decided to set up a controlling authority and thus, SEBI or Securities Exchange Board of India was established on 12th April 1988 and given Statutory Powers on 30 January 1992 through the SEBI Act, 1992.

### **What are the Reason for “Establishment and Management of SEBI”?**

#### **Establishment and Management of SEBI**

A fair and efficient securities market plays an important role in a country's efforts towards industrialisation. It directly affects mobilisation and efficient channelising of savings of the household sector into productive enterprise. The securities market encourages thrift and risk taking. It helps enterprises to raise money in a cost effective manner. There was a spectacular growth in the securities market. In the same way there was also a growth in the awareness of and interest in investment opportunities available in the securities market among lay savers. There was a need to sustain this growth and crystallise the awareness and interest the rights must be fully protected, trading malpractices must be prevented. Therefore, the government felt the need of setting up, a statutory apex board to promote orderly and healthy growth of the securities market for investor protection.

#### **• Establishment**

The establishment of the Securities and Exchange Board of India (SEBI) was a land mark government measure to monitor and regulate capital market activities and to promote healthy development of the market. On the suggestions of the high powered committee on stock exchange reforms, namely the G.S. Patel Committee, the Government of India step up the Securities and Exchange Board of India (SEBI) on April 12, 1988. The chairmanship of the board was entrusted to Dr. S.A.Dave, the executive Director of IDBI. The other members of the Board were nominated by the Government. They were drawn from professional brokers, financial consultants, merchant bankers, investors, stock exchange authorities, Finance Ministry, etc. It was made a statutory body by the Securities and Exchange Board of India Act, 1992.

- **Management**

Section 4 of the above Act lays down the constitution of the management of SEBI. The Board of members of SEBI shall consist of a chairman, two members from amongst the officials of the Ministries of the Central Government dealing with finance and law, one member from amongst the officials of the RBI, two members to be appointed by the central Government, who shall be professionals and inter alia have experience or special knowledge relating to securities market. The general superintendence, direction and management of the affairs of the Board shall vest in a Board of Members, which may exercise all powers and do all acts which may be exercised or done by that Board.

## **Need of Securities and Exchange Board of India (SEBI)**

There was an urgent need to have a regulating authority in order to check the malpractices on the part of issuers of securities, merchant banker, brokers and dealers, etc.

The need to have the Securities Exchange Board of India was felt because of following reasons:

- **To Provide a Degree of Protection to Investors**

It is a healthy sign if there is a steady flow of savings of investors into the securities market. At the same time, the investors rights and interests must be safeguarded. Investors are always interested in receiving returns on their investments by assuring safety and liquidity to their investments. SEBI sees to it that there are no malpractices on the part of any concerned agency so that the investor is not short circulated. SEBI has recently uncovered many seams whereby ordinary investors are taken for a ride. For example, the existence of multiple D-MAT accounts in Ahmedabad, insider trading of many securities in BSE and NSE, etc.

- **To Ensure Fair Dealings by Issues of Securities**

It was found essential that issuers of various securities were cheating the investing public. It was recently found that many fictitious companies were being formed to dupe thousands of innocent investors. The need for SEBI therefore was acutely felt by honest companies who wanted to raise finance in the right way.

- **To Ensure Proper Returns from Stock Exchange**

There was a necessity to have an agency to whom stock exchanges should report their activities regularly. SEBI fulfilled this need.

- **To Make Enquiries into the Affairs of the Stock Exchange and Ask for any Relevant Information**

It was felt that the Government must intervene into the affairs of the stock exchanges in case of doubtful dealings and ask for relevant information to make enquiries. The Government could do this now with the setting up of SEBI.

- **To Regulate Mutual Funds**

With the proliferation of a large number of mutual funds in India, the Government thought it necessary to have an authority which would regulate mutual funds and ensure proper control on liquidity in the economy. SEBI is meant to cover the working of mutual funds.

- **To Frame Norms and Rules for Market Participants**

An authority was required to be set up to frame norms and rules for various market participants such as corporate bodies, brokers, agents, banks, mutual funds etc. SEBI was thus to according entrusted the job of forming various norms and rules not only for local participants but also foreign investors.

- **To Issue Guidelines for Raising Capital in India and Abroad**

A separate agency was required to issue guidelines for new companies wanting to raise funds, pricing various issues, underwriting, making adequate disclosures, etc.

- **Determination of Fee Structure for Intermediaries**

There was no proper regulation of fees charged by various brokers, middlemen and banks who acted as intermediaries for trading in securities. An agency was therefore required so that a proper fee structure could be set up for different services offered by different market participants.

- **To Take Punitive Action Against Malpractices**

Many financial scams went into litigation earlier and no action was taken for years together. However, an agency which could dispense fast justice in such cases was a necessity of the times. SEBI is authorised to take certain punitive actions to curb such activities.

Above explains the need for SEBI in India.

## **What are the Functions of SEBI?**

SEBI seeks to create an environment which would facilitate mobilisation of adequate resources through the securities market and its efficient allocation. SEBI plays an important role as a controlling authority and a development institution.

SEBI performs various functions to achieve its objectives. These functions are given below:

- **Creation of Proper and Conductive Atmosphere**

It is the function of the SEBI to create a proper and conducive atmosphere required for raising money from the capital market. The atmosphere includes the rules, regulations, trade practices, customs and relations among institutions, brokers, investors and companies. It has to endeavour to restore the trust of investors and particularly safeguard the interest of the small investors. This can be achieved by meeting the needs of the persons connected with the securities market and establishing proper co-ordination among the three main groups directly connected with its operations. They are investors, corporate sector and intermediaries.

- **Investors Education**

It is the function of SEBI to educate investors and make them aware of their rights in clear and specific terms. It shall provide investors with formation and see that the market maintains liquidity, safety and profitability of the securities which are crucial for any investment.

- **Creation of Proper Investment Climate**

SEBI has to create proper investment climate to enable corporate sector to raise industrial securities easily, efficiently and at affordable minimum cost.

- **Making of Effective Laws**

It is the main function of the SEBI to devise laws with unified set of objectives, single administrative authority and an integrated framework to deal with all the aspects of the securities market. It has to make law-making and observance flexible enough to suit the prevailing market conditions and circumstances. It will ensure that the rules are versatile and non-rigid to provide automatic and self regulatory growth.

- **Development of Proper Infrastructure**

SEBI has to develop a proper infrastructure so that market automatically facilitates expansion and growth of business of middlemen like brokers, jobbers, commercial banks, merchant bankers, mutual funds, etc. Thus, it will ensure that they provide efficient service to their constituents, namely, investors and corporate sector at competitive price.

- **Creation of Framework**

SEBI has to create the framework for more open, orderly and unprejudiced conduct in relation to takeover and mergers in the corporate sector. It is to be done to ensure fair and equal treatment to all security holders and to facilitate such takeovers and mergers in the interest of efficiency by prescribing a mechanism for more orderly conduct.

- **Authoritative Institution**

It has to work as an authoritative institution to see that the intermediaries are financially sound and equipped with professional and competent manpower.

- **Establishment of Effective Inspection Machinery**

SEBI has to establish an effective inspection machinery which is expected to act like an umpire. It will provide to its players timely guidance, encouragement and incentives as well as impose upon them a self discipline to observe the rules of the game.

## • **Prohibition of Malpractices**

It is the function of the SEBI to prohibit the malpractices prevailing in market such as insider trading, kerb trading, shares cornering, unreasonable delay in effecting share transfer by companies. The Board works as an authority to execute such provision and it will be responsible to ensure that they really work effectively.

## **Powers of SEBI**

### **Power to Make Regulations**

The Board has the power to make regulations in respect of -

- The business in stock exchanges and any other securities market
- The working of stock-brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust
- deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisors and such other intermediaries who may be associated with securities market in any manner.
- The working of collective investment schemes, including mutual funds
- Substantial acquisition of shares and take-over of companies

### **Government Powers to SEBI**

The Government has concurrently delegated to SEBI most of its powers under the securities contracts (Regulation) Act, 1956, for ensuring more effective protection of the interest of the investors and creating an efficient and well regulated stock market. Finance ministry and SEBI will continue to exercise dual jurisdiction.

### **Power of Recognition of Stock Exchanges**

The SEBI has following powers in respect of recognition of stock exchanges :

- It has the power relating to the submission of applications for the recognition of stock exchanges
- It has the power relating to grant of recognition of stock exchanges
- It has the power to withdraw the recognition of a stock exchange

### **Power to make or Amend Rules**

The SEBI has the power to make or amend rules of articles of association of a stock exchange regarding voting rights to members of a stock exchange at any meeting.

### **Power to Call for Information**

It has the power to call for information from undertaking inspection, conducting enquiries and audits of the stock exchanges and intermediaries and self-regulatory organisations in the securities market.

## **Accounts and Audit**

- The Board shall maintain proper accounts and other relevant records and prepare an annual statement of accounts prescribed by the Central Government in consultation with the Comptroller and Auditor-General of India.
- The accounts of the Board shall be audited by the Comptroller and Auditor-General of India at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the Board to the Comptroller and Auditor-General of India.
- The Comptroller and Auditor-General of India with the audit of the accounts of the Board shall have the same rights and privileges and authority in connection with such audit as the Comptroller and Auditor-General generally has in connection with the audit of the Government accounts.
- The accounts of the Board as certified by the Comptroller and Auditor-General of India with the audit report thereon shall be forwarded annually to the Central Government and that Government shall cause the same to be laid before each House of Parliament.

### **Section 15A : Penalty for failure to furnish information, return, etc.**

If any person, who is required under this Act or any rules or regulations made thereunder:

- to furnish any document, return or report to the Board,
- to file any return or furnish any information, books or other documents within the time specified therefor in the regulations,
- to maintain books of accounts or records.

### **Section 15B : Penalty for failure by any person to enter into agreement with clients**

If any person, who is registered as an intermediary and is required under this Act thereunder to enter into an agreement with his client fails to enter into such agreement, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

### **Section 15C: Penalty for failure to redress investors' grievances**

If any listed company or any person who is registered as an intermediary, after having been called upon by the Board in writing, to redress the grievances of investors, fails to redress such grievances, such company or intermediary shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

## **Section 15D: Penalty for certain defaults in case of mutual funds**

If any person, who is -

- required under this Act or any rules or regulations made thereunder to obtain a certificate of registration from the Board for sponsoring or carrying on any collective investment scheme including mutual funds, without obtaining such certificate of registration he shall be liable to a penalty of one lakh rupees for each day during which he sponsors or carries on any such collective investment, or one crore rupees, whichever is less.
- registered with the Board as a collective investment scheme, including mutual funds, fails to make an application for listing of its schemes, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.
- registered as a collective investment scheme, including mutual funds, fails to refund the application monies paid by the investors within the period specified in the regulations, he shall be liable to pay a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

## **Section 15E : Penalty for failure to observe rules and regulations by an asset management company**

Where any asset management company of a mutual fund registered under this Act, fails to comply, with any of the regulations providing for restrictions on the activities of the asset management companies, such asset management company shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

## **Section 15F: Penalty for failure in case of stock brokers**

If any person, who is registered as a stock broker under this Act,-

- fails to issue contract notes, he shall be liable to a penalty not exceeding five times the amount for which the contract note was required to be issued by that broker;
- fails to deliver any security or fails to make payment of the amount due to the investor within the period specified, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.
- charges an amount of brokerage which is in excess of the brokerage specified in the regulations, he shall be liable to a penalty of one lakh rupees or five times the amount of brokerage charged in excess of the specified brokerage, whichever is higher.

## **Section 15G: Penalty for insider trading**

If any insider who,

- either on his own behalf or on behalf of any other person, deals in securities of a body corporate listed on any stock exchange on the basis of any unpublished price sensitive information; or
- communicates any unpublished price-sensitive information to any person, with or without his request for such information except as required in the ordinary course of business or under any law; or
- counsels, or procures for any other person to deal in any securities of any body corporate on the basis of unpublished price-sensitive information;

shall be liable to a penalty of twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is higher.

### **Section 15HA: Penalty for fraudulent and unfair trade practices**

If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty to twenty five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

### **Section 15J: Factors to be taken into account by the adjudicating officer**

While adjudging quantum of penalty under section 151, the adjudicating officer shall have due regard to the following factors, namely:

- the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
- the amount of loss caused to an investor or group of investors as a result of the default;
- the repetitive nature of the default.

### **Section 12: Registration of Stock Brokers, Sub-brokers, Share Transfer Agents, etc.**

- No stock-broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market shall buy, sell or deal in securities except under, and in accordance with, the conditions of a certificate of registration obtained from the Board in accordance with the regulations made under this Act.
- No depository, participant, custodian of securities, foreign institutional investor, credit rating agency or any other intermediary associated with the securities market as the Board, may by notification in this behalf specify, shall buy or sell or deal in securities.

### **Registration Certificate (SEBI Act, 1992)**

- No stock-broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market shall buy, sell or deal in securities except under, and in accordance with, the conditions of a certificate of registration from the Board.
- Provided that a person buying or selling securities or otherwise dealing with the securities market as a stock broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market immediately before the establishment of the Board for which no registration certificate was necessary prior to such establishment, may continue to do so for a period of three months from such establishment or, if he had made an application for such registration within the said period of three months, till the disposal of such application.

- No depository, participant, custodian of securities, foreign institutional investor, credit rating agency or any other intermediary associated with the securities market as the Board may by notification in this behalf specify, shall buy or sell or deal in securities except under and in accordance with the conditions of a certificate of registration obtained from the Board in accordance with the regulations made under this Act.
- Provided that a person buying or selling securities or otherwise dealing with the securities market as a depository, participant, custodian of securities, foreign institutional investor or credit rating agency immediately before the commencement of the Securities Laws (Amendment) Act, 1995, for which no certificate of registration was required prior to such commencement, may continue to buy or sell securities or otherwise deal with the securities market until such time regulations are made under clause (d) of sub-section (2) of section 30.
- No person shall sponsor or cause to be sponsored or carry on or cause to be carried on any venture capital funds or collective investment schemes including mutual funds, unless he obtains a certificate of registration from the Board in accordance with the regulations.

## **Investor Protection Guidelines**

Investors are the pillar of the financial and securities market. They determine the level of activity in the market. They put the money in funds, stocks, etc. to help grow the market and thus, the economy. It thus very important to protect the interests of the investors. Investor protection involves various measures established to protect the interests of investors from malpractices. Securities and Exchange Board of India (SEBI) is responsible for regulations of the Mutual Funds and safeguard the interests of the investors. It has published various directives, driven many investor awareness programmes, set up. Investor Protection Fund (IPF) to compensate the investors.

## **Section 11(2) of the SEBI Act: Investor Protection Legislation**

- Stock exchange and other securities market business regulation. Registering and regulating the intermediaries of the business like brokers, transfer agents, bankers, trustees, registrars, portfolio managers, investment consultants, merchant bankers, etc. Recording and monitoring the work of custodians, depositors, participants, foreign investors, credit rating agencies, etc.
- Registering investment schemes like mutual fund and venture capital funds, and regulating their functioning.
- Promotion and controlling of self-regulatory companies.
- Keeping a check on frauds and unfair trading methods related to the securities market.
- Observing the regulating major transactions and take-over of the companies. Carry out investor awareness and education programme.
- Train the intermediaries of the business. Inspecting and auditing the security exchanges (SEs) and intermediaries.
- Assessment of fees and other charges.

## **“Informed Investor is a Safe Investor”- Investor Awareness Programme**

- SEBI has launched the Securities Market Awareness Campaign in January 2003. Such programmes are now regularly organised by SEBI to educate and create awareness among the investors. The programme covers major subjects like portfolio management, Mutual Funds, tax provisions, Investor Protection Fund, Investors’ Grievance Redressal System of SEBI.
- It also conducted workshop on derivatives, stock exchange trade, Sensex etc. SEBI has marketed the investor awareness programme across all formats like print media, radio, television, internet.
- Association of Mutual Funds in India (AMFI) set up in 1995. It was set up to regulate all those who sell Mutual Fund in India. It protects the investor from unfair investment practices.
- SEBI has put out some hard measures to ensure investor protection. Every aspect of investors interest is secured. Safeguarding investors interest is one of the top priorities in the securities market.

## **Guidelines on Pre-Issue Obligations**

### **Due Diligence**

- The lead merchant banker shall exercise due diligence. The standard of due diligence shall be such that the merchant banker is able to satisfy himself about all aspects of the offering, veracity and adequacy of disclosure in the offer documents.

### **Documents to be Submitted along with the Offer Document by the Lead Manager Memorandum of Understanding (MOU)**

- No company shall make an issue of security through a public rights issue unless a Memorandum of Understanding has been entered into between a Lead Merchant Banker and the issuer company. MOU should specify their mutual rights, liabilities and obligations relating to the issue.
- The MOU shall contain such clauses as are specified in Schedule I and such other clauses as considered necessary by the Lead Merchant Banker and issuer company under the Companies Act, 1956 and Securities and Exchange Board of India (Merchant Bankers) Rules and Regulations, 1992 are diminished in any way.

### **Certificates signed by the Company Secretary or Chartered Accountant, in case of listed companies making further issue of capital**

- The lead merchant banker shall furnish the following certificates, duly signed by the Company Secretary or Chartered Accountants, along with the draft offer documents certifying that:
  - All refund orders of the previous issues were dispatched within the prescribed time and in the prescribed manner.
  - All security certificates were dispatched to the allottees within prescribed time and in the prescribed manner.

## **Appointment of Merchant Bankers**

- A merchant banker shall not lead manage the issue if he is a promoter or a director or an associate of the issuer company.
- Provided that a merchant banker holding the securities of the issuer company may lead manage the issue if:
  - The securities of the issuer company are listed or proposed to be appointed or are proposed to be appointed as per the offer document.
  - The Market Makers have either been appointed or are proposed to be appointed as per the offer document.

## **Underwriting**

- The lead merchant bankers shall satisfy themselves about the ability of the underwriters to discharge their underwriting obligations.
- The lead merchant banker shall:
  - Incorporate a statement in the offer document to the effect that in the opinion of the lead merchant banker, the underwriters' assets are adequate to meet their underwriting obligations.

## **Offer Document to be made Public**

- The draft offer document filed with the Securities Exchange Board of India shall be made public for a period of 21 days from the date of filing the offer document with the Board.
- While filing the draft offer document with the Board, the lead merchant banker shall also file the draft offer document with the stock exchanges where the securities are proposed to be listed.

## **Guidelines on Post-Issue Obligations**

### **Post-Issue Monitoring Reports**

Irrespective of the level of subscription, the post-issue lead merchant banker shall ensure the submission of the post-issue monitoring reports as per formats specified.

### **Redressal of Investor Grievances**

The post-issue lead merchant banker shall actively associate himself with post-issue activities, namely allotment, refund and dispatch, and shall regularly monitor the redressal of investor grievances arising therefrom.

### **Coordination with Intermediaries**

The post-issue lead merchant banker shall maintain close coordination with the registrars to the issue and arrange to depute its officers to the offices of various intermediaries at regular intervals after the closure of the issue. This is to monitor the flow of applications from collecting bank branches, processing of the applications.

## **Basis of Allotment**

In a public issue of Securities, the Executive Director, Managing Director of the designated stock exchange along with the post-issue lead merchant baker and the registrars to the issue shall be responsible for ensuring that the basis of allotment is finalised in a fair and proper manner.

## **Guidelines for Issue Debt Instruments**

### **Requirement of Credit Rating**

No company shall make a public issue or rights issue of debt instruments (whether convertible or not), unless credit rating of not less than investment grade is obtained from not less than two registered credit rating agencies and disclosed in the offer document.

### **Requirement in respect of Debenture Trustee**

No company shall issue a prospectus or a letter of offer to the public for subscription of its debentures unless the company has appointed one or more debenture trustees for such debentures in accordance with the provisions of the Companies Act, 1956.

### **Creation of Debenture Redemption Reserve (DRR)**

For the redemption of the debentures issued, the company shall create a debenture redemption reserve in accordance with the provisions of the Companies Act, 1956.

### **Redemption**

The issuer company shall redeem the debentures as per the offer document.

### **Disclosure and Creation of Charge**

The offer document shall specifically state the assets on which security shall be created and shall also state the ranking of the charge(s). In case of second or residual charge, or subordinated obligation, the offer document shall clearly state the risks associated with such subsequent charge.

## **Guidelines with respect to E-IPOs**

Guidelines on Initial Public Offers through the Stock Exchange On-Line System (E-IPO) [w.e.f. 30-11-2000 as amended by Notification dated 14-8-2003 & 2009]

A company proposing to issue capital to public through the on-line system of the stock exchange for offer of securities shall comply with the requirements as given here under in addition to other requirements for public issues as per SEBI Guidelines wherever applicable.

## **Agreement with the Stock Exchange(s)**

The company shall enter into an agreement with the stock exchange(s) which have the requisite system of on-line offer of securities, The agreement, as aforesaid, shall specify inter alia, the rights, duties, responsibilities and obligations of the company and stock exchange(s) inter se. The agreement may also provide for a dispute resolution mechanism between the company and the stock exchange.

## **Appointment of Brokers**

- The stock exchange shall appoint brokers of the exchange, who registered with SEBI, for the purpose of accepting applications and placing orders with the company.
- The brokers so appointed for accepting applications and application monies, shall be considered as "collection centre's".
- The broker(s) so appointed, shall collect the money from his/their client for every order placed by him/them and in case the client fails to pay for shares allocated as per the Guidelines, the broker shall pay such amount.

## **Appointment of Registrar to the Issue**

The company shall appoint a Registrar to the Issue having electronic connectivity with the Stock Exchange(s) through which the securities are offered under the system.

## **Responsibility of the Lead Manager**

The lead manager shall be responsible for coordination of all the activities amongst various intermediaries connected in the issue or system. The names of brokers appointed for the issue along with the names of the other intermediaries namely lead managers to the issue and registrar to the issue shall be disclosed in the prospectus and application form.

## **Mode of Operations**

- The company shall, after filing the offer document with ROC and before opening of the issue makes an issue advertisement in one English and one Hindi daily with nationwide circulation, and one regional daily with wide circulation at the place where the registered office of the issuer company is situated.
- In case of issue of capital of 10 crores or above, the Registrar to the issue shall open centres for collection of direct applications at the four metropolitan centres situated at Delhi, Chennai, Kolkata and Mumbai.
- The broker shall collect the client registration form duly filled up and signed from the applicants before placing the order in the system as per "know your client rule" as specified by SEBI and as may be modified from time to time.
- The broker shall, thereafter, enter the buy order in the system, on behalf of the client and enter details including the name, address, telephone number and category of the applicant, the number of shares applied for, beneficiary ID, DP code, etc. and give an order number or order confirmation slip to the applicant.

- The broker shall open a separate bank account (Escrow Account) with the clearing house bank for primary market issues and the amount collected by the broker from his clients as margin money shall be deposited in this account.

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