

Petroleum and Natural Gas Regulatory Board Notification

New Delhi, [Date]

[Number of this regulation]. In furtherance of the Directives issued by the Central Government under sub-section (2) of Section 42, and in the exercise of the powers conferred by Section 11 (j), with Section 11 (a) read with Section 61 (za) of the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006), the Petroleum and Natural Gas Regulatory Board hereby makes the following Regulations to regulate the establishment and operation of the gas exchange and matter connected therewith or incidental thereto namely.

CHAPTER I PRELIMINARY

1. Short title and commencement

- (1) These regulations may be called the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020.
- (2) They shall come into force on the date of their publication in the Official Gazette.

2. Definitions

- (1) In these regulations, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them below, and their cognate expressions shall be construed accordingly,
 - a. "Act" means the Petroleum and Natural Gas Regulatory Board Act, 2006;
 - b. "Access Code" shall have the meaning as Petroleum and Natural Gas Regulatory Board (Access Code for Common Carrier or Contract Carrier Natural Gas Pipelines) Regulations, 2008;
 - c. "Affiliate" means an associated person in relation to the entity or the entity in relation to an associated person –
 - i. Who participates directly or indirectly or through one or more intermediaries in the management or control or capital of the entity or an associated person, as the case may be;
 - ii. Who holds, directly or indirectly, shares carrying not less than 26% of the voting power in the entity or associated person, as the case may be;

- iii. Who appoints more than half of the board of directors or members of the Company Board, or one or more executive directors or executive members of the Company Board of the entity or the associated person, as the case may be; or
 - iv. Who guarantees not less than 10% of the total borrowings of the entity or the associated person, as the case may be;
- d. "Allocated Capacity" shall have the meaning as described in the Access Code;
- e. "Annual Turnover" means such turnover in Million Metric British Thermal Unit (MMBtu) which is calculated considering the total number of units cleared in all types of transactions on a gas exchange in a financial year;
- f. "Automated audit trail" means automated creation and maintenance of time-sequenced record of transactions (creation, modification or deletion) in the electronic trading system of gas exchange for reference at later date/time;
- g. "Associate" in relation to a person shall include another person:
 - i. who, directly or indirectly, by himself, or in combination with other persons, exercises control over the first person;
 - ii. who holds control of at least twenty percent of the total voting power of the first person;
 - iii. who is a holding company or a subsidiary company of the first person;
 - iv. who is a relative (as defined in the Companies Act, 2013) of the first person;
 - v. who is a member of a Hindu Undivided Family wherein the first person is also a member;
 - vi. such other cases where the Board is of the view that a person shall be considered as an associate based on the facts and factors including the extent of control, independence, conflict of interest;
- h. "Banking Company" shall have the meaning as mentioned in in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- i. "Base Minimum Capital" shall mean exposure free deposits required from all members of the gas exchange. The Base Minimum Capital Requirement for any member shall be fifty (50) lakhs rupees;
- j. "Board" means the Petroleum and Natural Gas Regulatory Board or the Board;
- k. "Booked Capacity" means scheduled MDQ of Gas on any Gas Day to be delivered at Entry Points or off taken at an Exit Point as per GTA or access arrangement as the case may be;
- l. "Broker" means a member registered as a trading and clearing member of a gas exchange;

- m. "British Thermal Unit" or "BTU" means the quantity of heat required to raise the temperature of one (1) avoirdupois pound of pure water from fifty-nine (59) degrees Fahrenheit to sixty (60) degrees Fahrenheit at an absolute pressure of fourteen decimal six nine six (14.696) pounds per square inch.
- n. "Cartelization" means an act by market participants to form an association to control or attempt to control storage, transportation, distribution, marketing and sale or prices or transaction in gas;
- o. "Clearing" means the process of determination of obligations of Members of Exchange resulting from conclusion of a transaction at an Exchange;
- p. "Clearing corporation" means an entity that is established to undertake the activity of clearing and settlement of trades in natural gas exchange and includes a clearing house;
- q. "Clearing member" means a person having clearing rights in any authorized clearing corporation or clearing house of the natural gas derivatives exchange or derivatives segment of an exchange, who may clear and settle transactions in natural gas;
- r. "Client" means an entity that has executed an agreement with a Member of gas exchange or Member of clearing corporation or for dealing and /or clearing through such member;
- s. "Company Board" means board of directors of a gas exchange;
- t. "Company" shall mean a company as defined in section 3 of the Companies Act, 2013;
- u. "Contracted Gas Volume" means the aggregate volume of gas agreed to be delivered by a seller at an Entry Point of a natural gas pipeline on a designated gas day;
- v. "Control" includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholder's agreements or voting agreements or in any other manner:

Provided that a director or officer of a target company shall not be considered to be in control over such target company, merely by virtue of holding such position;
- w. "Capacity Tranche (CT) Agreement" shall have the meaning as described in the Access Code;
- x. "Credit risk" means risk emanating in a contract due to change in financial condition of any of the contracting parties;
- y. "Contract" shall mean any contract which is transacted at the gas exchange;
- z. "Day ahead contract" means contracts where transaction occurs on day (T) and delivery of gas is on the next day (T+1) and which are scheduled by National Gas Grid Management Services;

- aa. "Entry Point" means the point at which the gas delivered by shipper is injected into a Natural Gas Pipeline;
- bb. "Exit Point" means the point at which the gas is withdrawn from the Natural Gas Pipeline for delivery to the shipper or end consumer as agreed between Transporter and shipper;
- cc. "Gas Day" shall have the meaning as defined in the GTA;
- dd. "Gas Day Contract Value" shall mean the product of the contracted gas volume and the gas price as per the terms of the contract;
- ee. "Gas Exchange" means an Exchange authorized by the Board as per these regulations as a market where buyers, sellers (including but not limited to gas marketers, traders, CGD companies, consumers, etc.) as members or clients of the Exchange transact on standardized contracts in gas and, pipeline capacity and where the gas exchange or clearing corporation is counterparty to such contracts and further, scheduling is done by NGGMS unless actual delivery is dispensed with;
- ff. "Gas Hub" means the location for delivery of gas against the traded contracts as defined in these Regulations or as may be decided by the Board;
- gg. "Gas Trader" means an entity that on its own has any economic interest in either production or consumption of natural gas and who participates at the gas exchange either as a buyer or a seller to transact any contract;
- hh. "Gas Marketer" means an entity who, sells or offers to sell gas to a consumer; acts as the agent or broker for a seller of gas to a consumer; or acts or offers to act as the agent or broker of a consumer in the purchase of gas;
- ii. "Gas Transportation Agreement" (GTA) shall mean an agreement between shipper and gas transporter as per the Access Code;
- jj. "Intermediary" means an entity which includes a clearing member of a clearing corporation or clearing house and a trading member of a gas exchange but does not include any foreign investor mutual fund or any collective investment scheme;
- kk. "Independent Director" means an independent director referred to in sub-section (6) of section 149 of the Companies Act, 2013;
- ll. "Insurance Company" shall have the meaning as assigned in sub-section (8) of section 2 of the Insurance Act, 1938;
- mm. "Intra-day Contract" means contracts where transaction occurs on day (T) and the delivery of gas is on the same day (T) and which are scheduled by National Gas Grid Management Services;
- nn. "Key Management Personnel" includes a person serving as head of any department or in such senior executive position that stands higher in hierarchy to the head(s) of the department(s) in the gas exchange or the authorized clearing corporation, or any person

who directly reports to chief executive officer or to the director on the Company Board of the gas exchange or authorized clearing corporation, or any person up to two levels below the chief executive officer or managing director, or any other person as may be identified by its Nomination and Remuneration Committee;

- oo. "Market" means a forum / platform where buyers and sellers through, gas Exchanges (authorized by the Board) to buy or sell gas;
- pp. "Member Service Charge" has the meaning assigned to it under Regulation 6(2)(c) (vii);
- qq. "Million Metric British Thermal Units or MMBtu" means one million BTUs;
- rr. "National Gas Grid Management Services or NGGMS" shall have the meaning as defined in Access Code.
- ss. "Natural Gas or Gas" shall have the meaning as defined in Clause (2), sub-clause (za) of the Act;
- tt. "Net Worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and Amalgamation and reduced by the aggregate value of loans and advances to the associates;
- uu. "Netting" means the determination by clearing corporation of net payment or delivery obligations of the clearing members of an authorized clearing corporation by setting off or adjustment of the inter- se obligations or claims arising out of buying and selling of natural gas, including the claims and obligations arising out of the determination by the clearing corporation or gas exchange, on the insolvency, winding-up, liquidation or resolution of any clearing member or trading member or client or such other circumstances as the clearing corporation may specify in its bye-laws, of the transactions admitted for settlement at a future date, so that only a net claim be demanded, or a net obligation be owed;
- vv. "Nomination and Remuneration Committee" shall have the meaning as defined in Regulation 28 (2);
- ww. "Novation" means the act of one or more recognised clearing corporations interposing between the parties of every trade, so as to be a legal counterparty;
- xx. "Open position" means a buy or sell position when a transaction has been executed but the delivery or financial settlement has not been completed and where a person may remain exposed to price or credit or operational risk;
- yy. "Operational Risk" means any risk emanating in a contract due to systems, processes, technology error or breakdown, non-scheduling of gas due to technical reasons;

- zz. "Operator" shall mean an entity that has been authorized by the Board under these Regulations to collect, aggregate and publish data on the Gas Access Bulletin Board;
- aaa. "Other Exchanges" means an exchange facilitating transactions in derivatives and other contracts in Natural Gas which are indexed to/settled at gas exchange prices
- bbb. "Position" means the financial and physical condition arising as a result of a buy or a sell action of a participant of the Exchange;
- ccc. "Person Resident in India" shall have the same meaning as mentioned in clause (v) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999);
- ddd. "Person Resident outside India" shall have the same meaning as assigned to it in clause (w) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999);
- eee. "Proprietary Member" means a member who can transact and clear their own account only. It may also transact on behalf of their affiliate entities.
- fff. "Public Financial Institution" shall have the same meaning as assigned to it in sub-section (72) of section 2 of the Companies Act, 2013;
- ggg. "Safe Liquid Investment" means investments in liquid assets comprising of cash in hand, cash equivalents (Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value) and demand deposits with banks;
- hhh. "Settlement Guarantee Fund (SGF)" means a fund maintained by the gas exchange clearing corporation used for settlement of defaults of its members as prescribed in the default remedy mechanism of gas exchange or clearing corporation and may comprise of any sources of funds as may be determined by the gas exchange or clearing corporation with prior approval of the Board from time to time;
- iii. "Settlement" means the process of discharging the obligations of members resulting from conclusion of a transaction at an Exchange;
- jjj. "Shareholder Director" means a director who represents the interest of shareholders, and elected or nominated by such shareholders who are not trading members or clearing members, as the case may be, or their associates and agents;
- kkk. "Shipper" means entity including a consumer, who intends to utilize the capacity in the pipeline for transportation of gas;
- lll. "Spot Market" means a market where physical delivery of gas occurs either on the same day as the date of the transaction (T) or on the next day (T+ 1);
- mmm. "Term Ahead Market" Market where physical delivery of gas occurs on a date more than one day (T+2) or more ahead from the date of transaction (T) and have a defined delivery period on expiry of the contract.

- nnn. "Trading Member" means a person or entity having trading rights in any authorized gas exchange.
- ooo. "Transportation Tariff" means as defined in Section 2(zn) of the Act read with Section 22 of the Act fixed by the Board under the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Pipeline Tariff) Regulations, 2008;
- ppp. "Willful Default" would be deemed to have occurred if anyone or more of the following events is noted:
- i. A person or entity that has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.
 - ii. A person or entity that has defaulted in meeting its payment / repayment obligations to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
 - iii. A person or entity that has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
 - iv. A person or entity that has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank / lender.
- (2) Words and expressions used and not defined in these regulations, but defined in the Act or in the regulations made thereunder, shall have the same meanings respectively assigned to them in the Act or in the regulations made thereunder or any statutory modification or re-enactment thereto, as the case may be.

CHAPTER II

Market Structure

3. Scope of these regulations

- (1) These regulations shall apply to the following set of contracts –
- a. Delivery based contracts transacted on Exchange:
 - i. Day ahead contracts
 - ii. Intra-day contracts
 - iii. Term Ahead Contract
 - b. Pipeline Capacity Contracts -These are contracts where pipeline contract and common carrier capacity is booked in advance by the buyer with the right to access the pipeline

capacity as per the terms of the gas transportation agreement between a Shipper and a Transporter. However, if during the tenure of the contract, the Shipper so decides to trade whole or portion of the capacity, the same could be transacted through an exchange platform.

- c. Any new contract linked with natural gas transacted on the Exchange
- d. Any new contract in pipeline capacity trading, forwards, futures, gas price indexing, gas balancing and other areas
- e. These regulations may apply to derivate contracts for natural gas, as and when the Board is empowered either through the provisions of the Act or by any empowerment by the Central Government through relevant sections of the Act or any other means through which the Board is empowered thereof, to regulate by regulations licensing of derivative contract exchanges.

4. Applicability of these regulations

(1) These regulations shall apply to all market participants including:

- a. Any entity authorized by the Board to lay, build, operate or expand a natural gas pipeline under the Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipeline) Regulations, 2008 or authorized to do so by the Central Government before the appointed day,
- b. Gas Marketer
- c. NGGMS
- d. Gas Shipper;
- e. Intermediaries like brokers/traders
- f. gas exchange and the respective clearing corporations authorized by the Board;
- g. Members of gas exchange;
- h. Members of clearing corporation;
- i. Other Exchanges
- j. Any other party transacting at either the gas exchange or Other Exchanges

5. Approval / Suspension of the Contracts by the Board

(1) The Board may, on an application made in this behalf, permit any gas exchange to introduce such contracts as specified in Regulation 3, for transacting on the Exchange.

Provided further that a gas exchange is not required to obtain any approval under these regulations but shall submit information as specified in Access Code and comply with the trade reporting requirement as specified in Regulation 56 hereof. An Exchange seeking permission under Regulation 5 shall submit to the Board the complete and detailed contract specifications.

(2) The Board may, prior to granting such authorisation to gas exchange(s) as specified in Regulation 5, examine but not limited to the following and such other parameters of contracts as considered appropriate having particular regard to the following:-

- a. Type of contract (intra-day, day ahead, term ahead contracts, etc.);
- b. Price Discovery methodology and matching rules proposed;
- c. Transaction period – When transaction shall commence and for what tenure transaction session shall continue before commencement of delivery;
- d. Risk Management mechanism
- e. Margining mechanism
- f. Final Price Settlement mechanism
- g. Gas Delivery mechanism
- h. Delivery Duration
- i. Penalty for Contractual Deviation

Contractual Deviation is the difference between the energy equivalent (in MMBtu) corresponding to contracted gas volume and actual gas delivered by the Gas Seller at the designated Entry Point. The gas exchange while formulating any contract specification, shall consider the provisions as per the Petroleum and Natural Gas Regulatory Board (Imbalance Management Services) Regulations, 2016.

Provided that during approval of any new type of contract, the complete contract specification shall be submitted to the Board for approval.

(3) If the Board is of the opinion that it is necessary or expedient so to do, it may after granting the concerned person the opportunity of being heard, by order, suspend transactions on any contract for the period specified in the order or withdraw any contract from the market or the gas exchange or Other Exchanges, as the case may be.

6. Principles of Market and Market Design

(1) A gas exchange shall function with the following objectives:

- a. Ensure fair, neutral, efficient and robust price discovery;
- b. Provide extensive and quick price dissemination;
- c. Design contracts to increase liquidity

(2) A gas exchange shall adopt the following market design and propose contract specifications, keeping in view the following principles:

a. Price discovery mechanism-

- i. The economic principle of social welfare maximisation and to create buyer and seller surplus simultaneously during price discovery.

- ii. The bidding mechanism can be auction and/or continuous trade process based on market requirement and suitability.
- iii. In case of congestion in natural gas pipelines, curtailment sequence, as specified in the Access Code shall be adopted by NGGMS.

b. Delivery Procedure

- i. Participants at the gas exchange should have GTA(s) with Transporter(s). Termination Date for such GTA should be minimum fifteen (15) days from the date when the transaction is executed at the gas exchange. However, at the time of conducting a trade the Participant may or may not have a CT Agreement; In case, participant does not have CT agreement, participants shall check the availability of capacity on the Gas Bulletin Board as per Access Code and subject to availability of capacity, Participants can trade the requisite contracts directly on gas exchange. Post execution of trade, the capacity would be automatically booked for the shipper and the available capacity in the Gas Bulletin Board would be updated on real time basis. Further, the gas exchange will inform National Gas Grid Management System (NGGMS) for the gas nomination and its scheduling.
- ii. Transportation Tariff (if any) shall be as determined or authorized by PNGRB;
- iii. Contracts are necessarily for physical delivery;
- iv. The scheduling and delivery of contracts on gas exchange shall be in coordination with NGGMS and in accordance with Access Code.
- v. Booked Capacity s i.e. with or without CT agreement shall comply with the provisions of the GTA between Shipper and Transporter as per Access Code.
- vi. The physical market design should complement safety and reliability of natural gas pipelines and under no circumstances should short term market mechanisms compromise safety and integrity of natural gas pipelines. In all circumstances, the physical market design and pipeline operations should comply with Petroleum and Natural Gas Regulatory Board (Technical Standards and Specifications including Safety Standards for Natural Gas Pipelines) Regulations, 2009.

c. Membership in Gas Exchange

- i. Membership in gas exchange shall be of the following categories:
 - a. Trading Members
 - b. Clearing Members
 - c. Trading and Clearing Members
 - d. Proprietary Members
- ii. The gas exchange shall submit to the Board detailed list of its members along with their clients quarterly as per the format B-3 appended to these Regulations.
- iii. In case of any discrepancies found in the transactions of members in contravention of these Regulations, the Board may, after giving the member of the gas exchange an opportunity of being heard in the matter, direct the gas

exchange to revoke the membership of such member. Any such direction will be without prejudice to action against the gas exchange under these Regulations.

- iv. The Board may direct a gas exchange to introduce qualification test for personnel handling electronic trading terminals and trading in natural gas.
- v. A gas exchange may, at its discretion, stipulate any criteria for membership to the gas exchange including net worth, minimum base capital/ security deposit requirement, liquid asset requirement. However, under all circumstances, the gas exchange has to seek the approval of the Board.
- vi. The gas exchange shall maintain supporting documents provided by the member for obtaining membership including the documents evidencing compliance with any criteria specified by the gas exchange and furnish it to the Board on being required to do so. These documents shall be maintained up to a period of five years after the member has surrendered membership or ceases to be a member of the gas exchange otherwise.
- vii. Member may charge Member Service Charge for providing services to their clients. This ceiling would be an overall ceiling including the service charges of any subordinate service providers.

Provided further that the Board may, by order, review or specify the members' service charge criteria from time to time.

Provided also that member service charge shall not include any charges levied by gas exchange, Transportation Tariff, other charges payable, statutory taxes etc.

CHAPTER III

AUTHORISATION OF GAS EXCHANGE AND CLEARING CORPORATION

7. Obligation to seek Authorisation

No person shall conduct, organize or assist in organizing any gas exchange or clearing corporation unless he has obtained authorisation from the Board in accordance with these regulations.

8. Application for Authorisation

- (1) Subject to compliance with the provisions of these regulations, an application for authorisation as a gas exchange or as a clearing corporation shall be submitted to the Board in Form A of Schedule -1.
- (2) The applicant shall publish, salient details of the application, proposed transaction platform and website address where the full application is accessible in all editions of at least two national daily newspapers, including one economic daily newspaper within seven days of filing of the application inviting public comments/ suggestions/ objections, if any, up to a period of three (3) weeks. The comments / suggestions / objections shall be directly submitted to Board with a copy to the applicant.

- (3) The application as filed and the information as sought by the Board shall be posted and kept on the website of the applicant at least for a minimum period of one month from the date of publication of notice in newspapers.
- (4) The applicant shall file before the Board its reply to the comments/ suggestions/ objections received in response to the public notice within two weeks of its publication in the newspaper.
- (5) The Board after consideration of the comments/ suggestions/ objections received in response to the notice published by the applicant and his reply may propose to grant authorisation to the applicant.
- (6) When the Board proposes to grant authorisation, it shall publish a notice of its proposal in two national daily newspapers, as the Board may consider appropriate, stating the name and address of the entity to whom it proposes to grant the authorisation with such other details as the Board considers appropriate, to invite further objections or suggestions to its proposal, within two (2) weeks from the date of publication in the said newspapers.
- (7) On consideration of further objections or suggestions received and the reply of the applicant thereto, if any, the Board may grant authorisation or reject the application, for reasons to be recorded in writing if the application does not conform to the provisions of the Act or any directive that the Central Government provides to the Board or the regulations thereunder.

Provided that no application shall be rejected, unless the applicant has been given an opportunity of being heard.

9. Fee for application

An applicant seeking authorisation as a gas exchange or a clearing corporation, as the case may be, shall pay the application fee as per the Petroleum and Natural Gas Regulatory Board (Levy of Fee and Other Charges) Regulations, 2007.

10. Documents and particulars for application

- (1) Application for authorisation as a gas exchange or a clearing corporation, as the case may be, shall be accompanied by a copy of the memorandum of association, articles of association, the bye-laws specified in regulation 46 and other documents as provided in Annexure to Form A of Schedule -1.
- (2) Applicants seeking authorisation to set up and operate a gas exchange shall submit the following documents along with the application, to the Board:
 - a. Details of the existing business of the applicant company and its promoters;
 - b. Copies of the Annual Report and/or audited accounts of the applicant for the last three years, to the extent applicable. In case, the applicant is a new company, such information shall be submitted for its promoters)
 - c. A Project Report containing the following details:

- a. Constitution of the proposed gas exchange;
- b. Funding sources of the proposed gas exchange
- c. Management and Administrative structure of the proposed gas exchange;
- d. Infrastructural facilities available/proposed to be acquired by the gas exchange;
- e. The draft rules of the proposed gas exchange relating in general to the constitution of the proposed gas exchange and in particular, that relating to:
 - i. The Company Board of the gas exchange, its constitution and powers;
 - ii. Management of the gas exchange and the manner in which its business is to be transacted;
- f. The draft bye laws of the proposed gas exchange covering the aspects specified in Regulation 6(2) hereof.

11. Consideration of Grant of Authorisation

- (1) The application under regulation 8 shall be governed by the provisions of these regulations and any other regulations that have been formulated by the Board.
- (2) An applicant seeking authorisation as a gas exchange or a clearing corporation shall comply with the following conditions, namely:
 - a. the applicant is a company limited by shares;
 - b. the applicant is demutualised;
 - c. the applicant, its directors and its shareholders who hold or intend to hold shares, are fit and proper persons as specified in these regulations;
 - d. the applicant satisfies the requirements relating to the ownership and governance structure specified in these regulations;
 - e. the applicant satisfies the net worth requirements specified in these regulations;
 - f. the applicant satisfies the requisite capability, including its financial capacity, functional expertise and infrastructure;

Explanation – For the purposes of this sub-regulation, the term "demutualised" means that the ownership and management of the applicant is segregated from the trading rights or clearing rights, as the case may be, in terms of these regulations.

- (3) An applicant seeking authorisation as a gas exchange shall, in addition to the conditions as specified in sub-regulations (1) and (2), comply with the following conditions, namely:—
 - a. the applicant has the necessary infrastructure for the orderly execution of trades;
 - b. the applicant has an online screen-based trading system;
 - c. the applicant has an online surveillance capability which monitors positions, prices and volumes in real time so as to ensure market integrity;

- d. the applicant has made necessary arrangements to establish connectivity with its trading members and clearing corporation;
- e. the applicant has adequate Settlement Guarantee Fund;
- f. the applicant has adequate buyer and seller grievance redressal mechanism and arbitration mechanism to resolve disputes arising out of trades and their settlement;
- g. the applicant has the facility to disseminate information about trades, quantities and quotes in real time and shall, when the Board directs, disseminate such information to at least two information vending networks which are accessible to investors;
- h. applicant's business feasibility plan has been appraised by a reputed agency having expertise in gas market;
- i. the applicant has adequate systems' capacity supported by a business continuity plan, including a disaster recovery site;
- j. the applicant has in its employment, sufficient number of persons having adequate professional and other relevant experience to the satisfaction of the Board;

The gas exchange shall employ at least two full-time proficient professionals having, relevant qualifications and experience and expertise in the domain of oil or gas or commodities trading or exchange as key management personnel; and

- k. any other conditions as may be specified by the Board.

(4) An applicant seeking authorisation as a clearing corporation shall, in addition to the conditions as specified in sub-regulations (1) and (2), comply with the following conditions, namely:—

- a. the applicant has necessary infrastructure to ensure timely clearing and settlement of trades;
- b. the applicant has adequate risk management mechanism;
- c. the applicant has the capacity to establish a settlement procedure including netting, novation and guarantee for settlement of trades in place, in accordance with the manner specified from time to time by the Board;
- d. the applicant has the capacity to establish an applicable Settlement Guarantee Fund to guarantee settlement of trades;
- e. the applicant has necessary capability to have a wide network of clearing members and has adequate facility to admit and regulate its members;
- f. the applicant has the facility to disseminate information about trades, quantities and quotes in real time;
- g. the applicant has established connectivity with the depositories, clearing banks, gas exchange and clearing members;
- h. The applicant has adequate systems' capacity for on-line/ real time risk management of trades cleared and settled and is supported by a suitable business continuity plan including a disaster recovery site;

- i. the applicant has in its employment, sufficient number of persons having adequate professional and other relevant experience to the satisfaction of the Board;
- j. The clearing corporation shall employ at least two full-time proficient professionals having, qualifications and experience and expertise in the clearing or settlement of transactions as key management personnel;
- k. The applicant has the necessary arrangements in place for resolving disputes and redressal of grievances arising out of clearing and settlement of trades;
- l. The applicant has an agreement with an authorized gas exchange in respect of clearing and settlement of the trades; and
- m. any other conditions as may be specified by the Board.

12. Power to make inquiries and call for information

The Board may, before granting authorisation to a gas exchange or clearing corporation, as the case may be, make inquiries and require the applicant to furnish such further information or document, as it may deem necessary.

13. Grant of Authorisation

- (1) The Board may, after considering the application under regulation 8 for authorization of the gas exchange or clearing corporation, making such inquiries as may be necessary in this regard, after obtaining such further information as it may require and on being satisfied that the applicant has complied with the conditions laid down in regulation 11 and is eligible to act as such, grant authorisation subject to such conditions as deemed fit, for setting up and operate a gas exchange or a clearing corporation, as the case may be.
- (2) The authorisation granted to a gas exchange or a clearing corporation, as the case may be, shall be in Form B of Schedule-1.
- (3) The authorized gas exchange and the authorized clearing corporation shall comply with such other conditions as may be imposed by the Board from time to time.
- (4) The authorisation of a gas exchange and a clearing corporation, as the case may be, shall be for a period not exceeding twenty-five (25) years from the date of authorisation unless such authorization is revoked or cancelled earlier.

14. Renewal of Authorisation

- (1) Not more than 5 years before the expiry of the period of such authorisation, the authorised gas exchange or the clearing corporation, as the case may be, desirous of renewal of such authorisation may make an application to the Board in Form A of Schedule -1.
- (2) The application for renewal shall be accompanied by the application fee as per the Petroleum and Natural Gas Regulatory Board (Levy of Fee and Other Charges) Regulations, 2007.

- (3) The Board may, after considering the application and after making such due diligence as referred to sub-regulation (1) of regulation 13 and as may be applicable, grant renewal of authorisation subject to such conditions as deemed fit.
- (4) The renewal for authorisation shall be for a period as stated in sub-regulation (4) of regulation 13.

15. Annual Authorisation Charge and Other Charges

A gas exchange and a clearing corporation shall pay an annual authorisation charge and other charges as specified in the Petroleum and Natural Gas Regulatory Board (Levy of Fee and Other Charges) Regulations, 2007.

16. Withdrawal of Registration

- (1) If the Board is of the opinion that the authorization granted to a gas exchange or a clearing corporation under the provisions of these regulations should, in the interest of the trade or in the public interest, be withdrawn, the Board may serve on it a written notice that the Board is considering the withdrawal of the authorisation granted to it for the reasons stated in the notice and after giving to it an opportunity of being heard in the matter, the Board may withdraw, the authorisation granted to the gas exchange or the clearing corporation, as the case may be.
- (2) The notice referred to in sub-regulation (1) may be issued in particular and without affecting the generality of the foregoing provision may be issued in the following circumstances:
 - a. If the functioning of the gas exchange or a clearing corporation is in violation of the terms and conditions of these regulations or terms of authorisation if any;
 - b. If the gas exchange or a clearing corporation indulges in any malpractice;
 - c. In case the net worth of the gas exchange or a clearing corporation reduces at any time below the specified amount and is not replenished within three (3) months;
 - d. In case the gas exchange or a clearing corporation fails to comply with any direction of the Board.
- (3) Withdrawal of the authorisation shall not affect the validity of any contract entered into or made before the date of withdrawal, and the Board may, after consultation with the gas exchange or clearing corporation, as the case may be, make such provision as it deems fit in the notice of withdrawal or in any subsequent communication for the due performance of any contracts outstanding on that date.

17. Exit Scheme

The gas exchange or a clearing corporation shall have their Exit scheme approved by the Board during the authorisation process, detailing the manner in which the running contracts on the gas exchange shall be closed or the succession plan for all transacted contracts in case of closure of gas exchange, cancellation or withdrawal of authorisation under these regulations. Thereafter the Exit scheme shall be provided in the byelaws of the gas exchange or a clearing corporation.

CHAPTER IV

NET WORTH OF GAS EXCHANGE AND CLEARING CORPORATION

18. Net Worth Requirements

- (1) Every authorised gas exchange or clearing corporation shall have a minimum net worth of twenty five (25) crore rupees at all times.
- (2) Every authorized clearing corporation shall:
 - a. on commencement of operations on an ongoing basis, maintain capital including retained earnings and reserves, as may be specified by the Board from time to time, to adequately cover counterparty credit risk, business risk, legal and operational risk;
 - b. hold additional capital to cover costs required for orderly wind-down or recovery of operations;
 - c. maintain, at all times, a minimum net worth of rupees twenty five (25) crore only or capital as determined under this sub-regulation, whichever is higher.
- (3) An authorized gas exchange or an authorized clearing corporation shall not distribute profits in any manner to its shareholders if its net worth is below the minimum specified under this regulation.
- (4) Every authorised gas exchange or authorized clearing corporation shall submit an audited net worth adequacy certificate, in terms of this regulation, from its statutory auditor by the thirtieth day of September every year for the preceding financial year.

CHAPTER V

OWNERSHIP OF GAS EXCHANGE AND CLEARING CORPORATION

19. General Conditions

- (1) Save as otherwise provided in these regulations, the shareholding or voting rights of any person in an authorized gas exchange or an authorized clearing corporation shall not exceed the limits specified in this Chapter at any point of time.
- (2) The shareholding as specified in regulation 19 shall include any instrument owned or controlled, directly or indirectly, that provides for entitlement to equity or rights over equity at any future date.
- (3) In case, clearing corporation is an integral part of gas exchange, the net worth and shareholding pattern shall be as applicable for gas exchange.

20. Shareholding Pattern of Gas Exchange

- (1) The shareholding pattern for equity holders in the gas exchange shall be as follows:

- a. No member of an authorised gas exchange, shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than five (5) per cent of the paid-up equity share capital in an authorised gas exchange.
- b. At no time all the members of an authorised gas exchange shall in aggregate, directly or indirectly through associates, together with persons acting in concert for any of them, acquire or hold more than forty-nine (49) per cent of the paid-up equity share capital in an authorised gas exchange.
- c. No person, other than a member of an authorised gas exchange, shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than fifteen (15) per cent of the paid-up equity share capital in an authorised gas exchange. .

Provided that the persons, other than members of an authorised gas exchange and promoters of the gas exchange may hold more than 15 % of the paid up equity share capital of the gas exchange. However, they would be required to divest shareholding in excess of 15% within 5 years of authorization of gas exchange.

- (2) Every authorised gas exchange shall submit a certificate from its statutory auditors certifying the shareholding pattern and that it is in compliance to these regulations, by the thirtieth day of April every year for the preceding thirty-first day of March.
- (3) No authorised clearing corporation shall hold any right, stake or interest, of whatsoever nature, in any authorized gas exchange.

21. Shareholding Pattern of Clearing Corporation

- (1) The capital structure in an authorized clearing corporation shall be such that at least fifty one (51) percent of its paid up equity share capital shall always be held by one or more authorized gas exchange(s):
- (2) No person, except an authorized gas exchange as permitted in sub- regulation (1), shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than fifteen (15) per cent of the paid up equity share capital in an authorized clearing corporation.
- (3) Every authorised clearing corporation shall submit a certificate from its statutory auditors certifying the shareholding pattern and that it is in compliance to these regulations, by the thirtieth day of April every year for the preceding thirty-first day of March.

22. Requirement and Criteria of Fit and Proper Person

- (1) The authorized gas exchange/ authorized clearing corporation shall ensure that all its directors and key management personnel are fit and proper persons at all times.
- (2) For the purposes of these regulations, a person shall be deemed to be a fit and proper person if—

- a. such person has a general reputation and record of fairness and integrity, including but not limited to:–
 - i. financial integrity;
 - ii. good reputation and character; and
 - iii. honesty;
 - b. such person has not incurred any of the following disqualifications:
 - i. the person or any of its directors has been convicted by a court for any offence involving moral turpitude or any economic offence;
 - ii. an order for winding up has been passed against the person;
 - iii. the person, or any of its directors, has been declared insolvent and has not been discharged;
 - iv. an order, restraining, prohibiting or debarring the person or any of its directors has been passed by the Board or any other regulatory authority and a period of three years from the date of the expiry of the period specified in the order has not elapsed;
 - v. the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force;
 - vi. the person is financially not sound or has been categorized as a willful defaulter; and
 - vii. Any other disqualification criteria as specified by the Board.
- (3) If any question arises on the decision of an authorized gas exchange or authorized clearing corporation as to whether a person is a fit and proper person, the Board's decision on such question shall be final.

CHAPTER VI

GOVERNANCE STRUCTURE OF GAS EXCHANGE AND CLEARING CORPORATION

23. The corporate governance norms as specified in clause 49 of listing agreement for listed companies shall apply mutatis mutandis to an authorized gas exchange and an authorized clearing corporation except those specifically dealt in these regulations.

24. Composition of the board of directors:

- (1) The board of directors of every authorized gas exchange and every authorized clearing corporation shall include:
- a. shareholder directors;
 - b. independent directors; and

c. a managing director.

- (2) Subject to the prior approval of the Board, the chairperson shall be elected by the board of directors from amongst the independent directors.
- (3) The number of independent directors shall not be less than the number of shareholder directors on the board of directors of the authorized gas exchange and the authorized clearing corporation.
- (4) The managing director shall be included in the category of shareholder directors.
- (5) Any employee of an authorized gas exchange or authorized clearing corporation may be appointed on the board of directors in addition to the managing director and such director shall be deemed to be a shareholder director.
- (6) No trading member or clearing member or their associates or agents, irrespective of the gas exchange / clearing corporation of which they are members, shall be on the board of directors of any authorized gas exchange or authorized clearing corporation.
- (7) Appointment of independent directors shall be subject to the fulfillment of other requirements and to the satisfaction of the Board.
- (8) An authorized gas exchange and authorized clearing corporation, shall monitor and ensure the compliance of sub-regulation (6) on a continuous basis, to ensure that directors appointed, on their board of directors, do not get associated with any trading member or clearing member after approval of appointment.
- (9) The number of independent directors shall not be less than the number of shareholder directors to constitute the quorum for the meeting of the board of directors.
- (10) Voting on a resolution in the meeting of the board of directors shall be valid only when the number of independent directors that have cast their vote on such resolution is equal to or more than the number of shareholder directors who have cast their vote on such resolution.
- (11) Casting vote in the meetings of the board of directors of an authorized gas exchange or an authorized clearing corporation shall be with the chairperson of the board of directors.
- (12) No foreign portfolio investor shall have any representation in the board of directors of an authorized gas exchange or an authorized clearing corporation.

25. Conditions of Appointment of Directors

- (1) The independent directors on the board of directors of the authorized gas exchange(s) and the authorized clearing corporation(s) shall be approved by the Board out of a panel of three recommendations for each independent director by the gas exchange or clearing corporation.
- (2) Independent directors shall be nominated for a term of three years, extendable by another term of three years, subject to performance review in the manner as may be specified by the Board:

Provided that after the expiry of term(s) at the authorized gas exchange or the authorized clearing corporation, an independent director may be nominated for a further term of three years in another authorized gas exchange or authorized clearing corporation only after a cooling-off period of one year:

Provided further that a person may be nominated as an independent director for a maximum of three terms across authorized gas exchanges / authorized clearing corporations, subject to a maximum age limit of seventy-five (75) years.

- (3) An independent director on the board of directors of an authorized gas exchange or an authorized clearing corporation shall not act simultaneously as director in any of its affiliates nor shall hold the position of director or any equivalent position on the board of any other authorized gas exchange or authorized clearing corporation or on the board of subsidiary of such other authorized gas exchange or authorized clearing corporation.
- (4) An independent director on the board of directors of an authorized gas exchange or an authorized clearing corporation shall keep its board apprised of any conflict of interest, which may arise as a result of the independent director providing services, either directly or indirectly, to any trading member or clearing member or their affiliates.
- (5) No independent director shall become a shareholder director unless there is a cooling-off period of three years after ceasing to be the independent director.
- (6) No independent director on the board of an authorized gas exchange or an authorized clearing corporation, shall become a director on the board of subsidiary of that authorized gas exchange or authorized clearing corporation, as the case may be, unless there is a cooling-off period of three years after ceasing to be an independent director.
- (7) An independent director on the board of an authorized gas exchange or an authorized clearing corporation shall not act simultaneously as a member on more than five committees of that authorized gas exchange or that authorized clearing corporation.
- (8) Independent directors shall be remunerated only by way of sitting fees as admissible to independent directors within the meaning of the Companies Act, 2013.
- (9) If any issue arises as to whether an assignment or position of an independent director is in conflict with his role, the Board's decision shall be final.
- (10) The application for appointment of Directors shall be made in the manner as specified under Part D of Schedule 2.

26. Appointment of Managing Director

- (1) The appointment, renewal of appointment and termination of service of the managing director of an authorized gas exchange or an authorized clearing corporation shall be subject to the prior approval of the Board.
- (2) Every authorized gas exchange or authorized clearing corporation shall, subject to the guidelines issued by the Board from time to time, determine the qualification, manner of

appointment, terms and conditions of appointment and other procedural formalities associated with the selection/ appointment of the managing director.

- (3) The appointment of the managing director shall be for a term not exceeding five years:

Provided that after the completion of the first term, the authorized gas exchange or the authorized clearing corporation shall conduct the appointment process for appointment of the Managing Director afresh:

Provided further that a person may be appointed as the managing director by the authorized gas exchange or authorized clearing corporation for a maximum of two terms not exceeding five years each, subject to a maximum age limit of sixty five (65) years.

- (4) The managing director of an authorized gas exchange or an authorized clearing corporation shall not —

- a. be a shareholder or an associate of a shareholder of an authorized gas exchange or authorized clearing corporation or shareholder of an affiliate of an authorized gas exchange or authorized clearing corporation, as the case may be;
- b. be a trading member or a clearing member or his affiliate or agent or shareholder of a trading member or clearing member or shareholder of an affiliate or agent of a trading member or a clearing member; or
- c. hold any position concurrently in the subsidiary of an authorized gas exchange or an authorized clearing corporation or in any other entity associated with an authorized gas exchange or an authorized clearing corporation

Provided that the managing director of an authorized gas exchange or a clearing corporation may be appointed on its board of directors, but not as managing director of the subsidiary of the authorized gas exchange or the authorized clearing corporation.

- (5) The managing director shall be liable for removal or termination of services by the board of directors of the authorized gas exchange or authorized clearing corporation, with the prior approval of the Board for failure to give effect to the directions, guidelines and other orders issued by the Board, the articles of association, bye-laws and regulations of the authorized gas exchange or authorized clearing corporation.

- (6) The Board may suo motu remove or terminate the appointment of the managing director if deemed fit in the interest of gas market:

Provided that no managing director shall be removed unless he has been given a reasonable opportunity of being heard.

- (7) The conditions specified under this regulation for appointment of directors shall be applicable to a person holding position as managing director in a gas exchange or a clearing corporation.

- (8) The managing director, the chief executive or the director in-charge of day-to-day operations or any employee of the gas exchange shall not be directly or indirectly associated with any member

of the gas exchange or client or participant of the gas exchange or with a holding or subsidiary company thereof.

- (9) The managing director shall ensure that the individual bids of members of the gas exchange is not shared with the Company Board.

27. Code of Conduct for Directors and Key Management Personnel

- (1) Every director of an authorized gas exchange and an authorized clearing corporation shall abide by the Code of Conduct specified under Part A of Schedule 2.
- (2) Every director and key management personnel of an authorized gas exchange and an authorized clearing corporation shall abide by the Code of Ethics specified under Part B of Schedule 2.
- (3) Every director and key management personnel of an authorized gas exchange and an authorized clearing corporation shall be a fit and proper person as described in regulation 22.
- (4) The Board may, for any failure by the directors to abide by these regulations or the Code of Conduct or Code of Ethics or in case of any conflict of interest, either upon a reference from the authorized gas exchange or the authorized clearing corporation or suo motu, take appropriate action including removal or termination of the appointment of any director, after providing him a reasonable opportunity of being heard.

28. Compensation and Tenure of Key Management Personnel

- (1) An authorized gas exchange or an authorized clearing corporation shall constitute a committee to be named as "Nomination and Remuneration Committee" comprising a majority of independent directors and chaired by an independent director.
- (2) The Nomination and Remuneration Committee shall determine the compensation of key management personnel in terms of the compensation policy.
- (3) The compensation policy shall be in accordance with the norms for compensation policy specified under Part E of Schedule 2.

29. Segregation of Regulatory Departments

The authorized gas exchange and authorized clearing corporation shall segregate its regulatory departments from other departments in the manner specified in Part C of Schedule 2 of these regulations.

30. Statutory Committees

- (1) Every authorized gas exchange and authorized clearing corporation shall constitute the committees as per sub-regulations (2) and (3).
- (2) Functional committees, comprising of:

- a. Member selection committee;
 - b. Investor grievance redressal committee; and
 - c. Nomination and remuneration committee.
- (3) Oversight committees, comprising of:
- a. Standing committee on technology;
 - b. Advisory committee;
 - c. Regulatory oversight committee; and
 - d. Risk management committee.
- (4) The composition, quorum and functions of the committees under sub-regulation (2) and sub-regulation (3) shall be as specified by the Board from time to time. However, the constitution of the Risk Management Committee shall be as per the provisions of regulation 31.

31. Constitution of Risk Management Committee

- (1) The authorised gas exchange and the authorised clearing corporation shall constitute a Risk Management Committee (RMC) headed by an independent director and shall stipulate risk containment measures and monitor adherence of the same.
- (2) The authorised gas exchange shall constitute a Market Surveillance committee headed by an independent director and having members from the executive team of the gas exchange. No member of this committee shall be a member of the gas exchange.
- (3) The authorised gas exchange and the authorised clearing corporation shall constitute a SGF (Settlement Guarantee Fund) management committee headed by an independent director. This committee shall be responsible for overseeing the management of SGF.

32. Appointment of Compliance Officer

- (1) Every authorized gas exchange and authorized clearing corporation shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, regulations, or directions issued thereunder and for redressal of members' grievances.
- (2) The compliance officer shall immediately and independently, report to the Board any non-compliance of any provision stated in sub-regulation (1) observed by him.

33. Disclosure and Corporate Governance Norms

- (1) The disclosure requirements and corporate governance norms as specified for listed companies shall mutatis mutandis apply to an authorized gas exchange and an authorized clearing corporation.
- (2) The board of directors of an authorized gas exchange or an authorized clearing corporation shall confirm compliance of sub-regulation (1) in writing on half-yearly basis.

- (3) An authorized gas exchange and an authorized clearing corporation shall disclose resources committed towards strengthening regulatory functions and towards ensuring compliance with regulatory requirements applicable to the authorized gas exchange or authorized clearing corporation, as the case may be, backed by an activity based accounting in the report under section 134 of the Companies Act, 2013.
- (4) The fees and charges levied by an authorized gas exchange or an authorized clearing corporation shall be placed for review before the Oversight Committee of such authorized gas exchange or authorized clearing corporation.

34. Risk Management by Gas Exchange

- (1) The gas exchange shall adopt best practices while formulating prudent and dynamic risk management processes based on the changing risk profiles of the market.
- (2) The Risk Management Committee (RMC) shall review the risk management framework and process of the gas exchange on a six monthly basis in January and July every year. The RMC report shall be submitted to the board of directors. The decision of the board of directors on the subject along with the RMC report shall be submitted to the Board within one month of the risk management review process and not later than end of February and August respectively.
- (3) The members' risk shall be monitored constantly and margins shall be collected at appropriate time for efficacy of risk management.
- (4) Members shall be subject to margins on a net basis across clients by the gas exchange. There shall be no offsetting of positions of different clients of a member in the same market.
- (5) Members should, wherever applicable, have a prudent risk management and timely margin collection system from their clients. The quantum of margins collected by members from client shall be at the discretion of the members, but comply with the bye laws of gas exchange.
- (6) Gas exchanges may hive off the clearing and settlement function to a separate clearing corporation in case deemed fit. Provided that the Board may direct the gas exchange for setting up of a separate and independent clearing corporation as and when it deems appropriate.

35. Default Remedy Mechanism on Gas Exchange or Clearing Corporation

- (1) A member may be declared a defaulter by direction or circular of the gas exchange or clearing corporation if:
 - a. one is unable to fulfill his clearing or settlement obligations; or
 - b. one admits or discloses his inability to fulfill or discharge his duties, obligations and liabilities; or
 - c. one fails or is unable to pay within the specified time the damages and the money difference due on a closing-out effected against them under the Bye Laws of gas exchange or clearing corporation

- d. one fails to pay any sum due to the gas exchange or clearing corporation which may be prescribe by them from time to time; or
- e. one fails to pay or deliver all moneys, gas or other related assets due to a member who has been declared a defaulter within such time of declaration of default of such member in such manner and to such person as the gas exchange or clearing corporation may direct; or
- f. one fails to abide by the arbitration award as laid down under the Bye Laws and Regulations of gas exchange or clearing corporation; or
- g. under any other circumstances as may be decided by the gas exchange or clearing corporation from time to time.

Provided that gas exchange or clearing corporation may, at its discretion, stipulate any additional criteria to declare defaulter in the gas exchange or the clearing corporation, as the case may be.

(2) In the event a member is declared a defaulter and the member fails to meet the clearing and settlement obligations, the gas exchange shall give precedence to the payment of transportation tariff and transportation charges, scheduling and system operation charges from the deposits of the member or client as the case may be. Thereafter the gas exchange may utilise the Settlement Fund and other monies to the extent necessary to eliminate the obligation of the defaulting member in the following order-

- a. Liquidation of collaterals: Contributions or deposits, including margins in any form, by the defaulting member or client.
- b. Liquidation of security deposit: Membership deposit given by the defaulting member to the gas exchange.
- c. Insurance money: Insurance taken by gas exchange of an amount as considered appropriate by the gas exchange for protection against defaults.
- d. Its initial contribution as considered appropriate by the gas exchange towards Settlement Guarantee Fund.
- e. Contribution towards Settlement Guarantee Fund by all members or clients: All non-defaulting members or client's contribution in proportion of deposits towards Settlement Guarantee Fund.
- f. Current year's Profits of the gas exchange, including fines, penalty collected from members.
- g. Reserves of the gas exchange.
- h. Equity Capital of the gas exchange.
- i. Balance obligations remaining outstanding after above funds will be met by contribution from members or clients in proportion to their contribution to the SGF.

Provided that once the clearing corporation is hived off, the default remedy mechanism shall be handled by the clearing corporation and the gas exchange shall not be held liable on this account.

36. Information Technology Infrastructure and Trading System

(1) The gas exchange shall comply with the following:

- a. Gas exchange shall use electronic trading system and telecommunication network;
- b. The orders entered by a member of gas exchange shall be first checked against availability of funds/ collateral in the risk management system before being accepted in the order book of the gas exchange. This process shall be continued even after separation of clearing function to the clearing corporation;
- c. Automated audit trail of bids, offers, and the matching of orders or the execution of transactions on the facility shall be maintained for a period of at least seven (7) years;
- d. The algorithm of the software application for price discovery shall be in compliance with the methodology mentioned in Byelaws, Rules and Business Rules of gas exchange as approved by the Board;
- e. The Board may audit or appoint an agency to audit the software application used by the gas exchanges in operation for price discovery and market splitting on a random basis. The gas exchanges shall produce the test results of test cases and scenarios provided by the Board;
- f. Gas exchange shall also carry out periodic IT system audit for data security, data integrity and operational efficiency and submit its reports to the Board annually by 30th April in respect of the preceding financial year;
- g. Gas exchange shall build a Disaster recovery site and alternate trading facility in case of emergency, within three (3) months from the date of start of trading at the gas exchange.

37. Delivery Procedure

- a. The scheduling and delivery of contracts on gas exchange shall be in accordance with the Access Code;
- b. Subject to the provisions of these regulations, operationalisation of scheduling of transactions through the gas exchange shall be in accordance with the detailed procedure issued by the Board under the Access Code.
- c. In addition, the detailed procedure may cover, though not limited to, the following aspects:
 - i. Submission and processing of the application for scheduling of transactions for different contracts
 - ii. Scheduling of day-ahead transactions
 - iii. Procedure for real-time curtailments
 - iv. Coordination with NGGMS for availability of pipeline capacity and estimating flows for the traded contracts
 - v. Transportation tariff, Operating Charges, Application Fees and other Commercial Conditions

- vi. Payments and defaults in payments
 - vii. Any other issue pertaining to operationalisation of scheduling of multiple transactions through the gas exchange(s).
 - d. Any imbalances/ overruns caused by the Shipper will be settled by the Shipper as per the provisions of the PNGRB (IMS) Regulations, 2016;
 - e. Scheduling of transactions in Term Ahead Market on gas exchange shall be governed by the provisions of the Access Code.
- (2) All data transfer between NGGMS and the gas exchange(s) shall be done electronically through a secure communication channel.
 - (3) The gas exchange, shipper, NGGMS, transporter, seller, buyer etc. would have rights and obligations as defined in Access Code or Bye-laws of the gas exchange.
 - (4) The charges or penalties for defaults shall be applicable as per the Petroleum and Natural Gas Regulatory Board (Imbalance Management Services) Regulations, 2016.
 - (5) The gas exchange shall set aside sufficient funds in order to provide for settlement of any claims, pertaining to pending arbitration cases, arbitration awards, liabilities/claims of contingent nature, if any, and unresolved investors complaints/grievances lying with the gas exchange.

38. Grievance Redressal of Members and Clients

- a. Gas exchanges shall disclose on their website the details of complaints lodged by members against gas exchange and by clients against its members.
- b. Gas exchanges shall also disclose on their website the conflict resolution mechanism followed and the result of grievance resolution.

CHAPTER VII GENERAL OBLIGATIONS OF GAS EXCHANGE AND CLEARING CORPORATION

39. Clearing and Settlement of Trades

Every authorized gas exchange shall, with effect from the date specified by the Board in this behalf, use the services of authorized clearing corporation(s) for clearing and settlement of its trades.

40. Agreement between Gas Exchange and Clearing Corporation

- (1) Subject to provisions of sub-regulation (2), an authorized gas exchange shall avail the service of an authorized clearing corporation pursuant to an agreement in writing between them stipulating their rights and obligations, the conditions for admission of gas volumes for clearing

and settlement, risk management measures, charges for clearing and settlement and other incidental and consequential matters.

- (2) The authorized gas exchange shall extend its arbitration mechanism for settlement of disputes or claims arising out of clearing and settlement of trades executed on such gas exchange

41. Settlement Guarantee Fund (SGF)

- (1) Every authorized clearing corporation or gas exchange, as the case may be, shall establish and maintain SGF, for each category product authorized by the Board as per Regulation 41, to guarantee the settlement of trades executed:
- (2) Provided that in case an authorized gas exchange enters into an arrangement with more than one authorized clearing corporation, then they shall enter into a multipartite agreement in writing with such authorized clearing corporations to ensure interoperability among the clearing corporations.
- (3) In the event of a clearing member or trading and clearing member, as the case may be, failing to honor his settlement obligations, the SGF shall be utilized to complete the settlement.

42. Contribution to the Settlement Guarantee Fund

- (1) The contribution to the SGF as specified in this regulation shall be made by the authorized gas exchange, the authorized clearing corporation and the clearing members, in the manner as may be specified by the Board from time to time.
- (2) In case of shortfall in the SGF, the authorized clearing corporation and the authorized gas exchange shall replenish the Fund to the threshold level as may be specified by the Board from time to time.
- (3) Components of the SGF
 - a. The initial contribution to SGF by the gas exchange or clearing corporation, as the case may be, shall be equal to 5% of the sum total of the Gross revenues of the gas exchange for the preceding five (5) years. However, prior to the start of any gas exchange subject to a minimum of Rs.50 crore.
 - b. Base minimum capital of members
 - c. Investment returns accrued on Base Minimum Capital
 - d. All penalties charged by the authorized gas exchange or authorized clearing corporation
 - e. Investment returns and any other income accrued on the investment of funds of SGF. (The income accruing on the funds belonging to SGF shall be credited to SGF by the gas exchange).
- (4) The gas exchange or clearing corporation, as applicable, shall invest the proceeds of SGF in Safe Liquid Investments in money market instruments issued by the Reserve Bank of India with maturity of less than one (1) year. However, at least fifty percent (50%) of the proceeds of SGF

shall be invested in money market instruments issued by the Reserve Bank of India with maturity of less than three (3) months.

- (5) The SGF investment returns shall be retained by the gas exchange till the Settlement Guarantee Fund is maintained by the gas exchange. In case of hiving off of the clearing corporation, the SGF investment returns shall be retained by the clearing corporation.
- (6) The principles and methods of usage of the SGF shall be clearly communicated to the members and clients of gas exchange through the bye laws of the gas exchange.
- (7) Details of investment of SGF shall be submitted to the Board on an annual basis while submitting the gas exchange's annual report or the clearing corporations annual report as the case may be
- (8) Additional Prudential Norms, SGF requirements for gas exchanges and clearing corporations as required for financial derivative contracts on gas exchanges may be notified by the Board by order and once these are notified, the same shall be complied with in terms thereof.

43. Equal, Fair and Transparent Access

- (1) The authorized clearing corporation shall lay down a policy framework for ensuring that there is no discrimination while rendering clearing and settlement services in settlement of trades executed on shareholder gas exchange(s) and executed on non-shareholder gas exchange(s).
- (2) The framework under sub-regulation (1) shall be made available on the website of the clearing corporation and shall provide the basis on which access to clearing and settlement services of the clearing corporation has been provided to a shareholder gas exchange(s) along-with the manner in which the said requirements should be complied by a non-shareholder gas exchange(s) to obtain access to clearing and settlement services.
- (3) The authorized clearing corporation and authorized gas exchange shall ensure equal, unrestricted, transparent and fair access to all persons without any bias towards its associates and related entities.
- (4) If any issue arises in rendering non-discriminatory access to services of an authorized clearing corporation, the Board's decision shall be final.

44. Maintenance of Books of Accounts and Records

- (1) Subject to the provisions of any other law for the time being in force, every authorized gas exchange and clearing corporation shall maintain and preserve the following books of account and documents for a minimum period of seven years, namely: -
 - a. Minute books of the meetings of:
 - i. Company Board;
 - ii. any committees of the Company Board;
 - b. Record of clearing members showing their full names, addresses and details of bank and depository accounts for settlement purposes;

- c. Transaction records;
- d. Record of security deposits;
- e. Margin deposits book;
- f. Client margin collection details;
- g. Ledgers;
- h. Journals;
- i. Cash book;
- j. Bank account statement;
- k. Such other books of accounts and documents as may be specified by the Board from time to time.

45. Submission of Annual Financial Statements and Returns

An authorized gas exchange and clearing corporation shall submit its Annual report along with its audited financial statements of the immediately preceding financial year (which shall be including but not limited to, income statement, balance sheet, cash flow and notes to financial statements) by 30th September every year to the Board.

46. Bye-laws and Rules of Gas Exchanges and Clearing Corporation

- (1) An authorized gas exchange and authorized clearing corporation shall, with the prior approval of the Board, make bye-laws for the regulation of contracts and clearing and settlement, as per the scope of these regulations.
- (2) No memorandum of association, articles of association or any other constitution document, in so far as they relate to matters specified in these regulations and bye- laws of an authorized gas exchange or an authorized clearing corporation, shall be amended except with prior approval of the Board.
- (3) The gas exchange shall function according to its Byelaws and Rules formulated by the gas exchange and as approved by the Board, which amongst other requirements would cover the following:
 - a. Price Discovery and matching mechanism shall take into consideration the formats C-1, C-2 and C-3 for the various contracts mentioned as per regulation 3(1)(a);
 - b. Rights and liabilities for each category of members as mentioned in sub-regulation 6(2)(c);
 - c. Market surveillance and investigation procedures;
 - d. Clearing and settlement procedure;
 - e. The gas exchange shall formulate the Byelaws and Rules for Clearing and settlement procedure, taking into consideration the Scheduling Priorities defined as per Section 5 of the Operating Code of the GTA.

- f. Risk management;
- g. Levy of Exchange Transaction charge;
- h. Levy of Brokerage and Commission Charges by its members
- i. Maintenance of records and accounts;
- j. Preparation of annual accounts and audit thereof;
- k. Arbitration, dispute resolution and conciliation;
- l. Mechanism for redressal of grievances;
- m. Opening and closing of transaction hours, transaction and settlement calendar;
- n. Procedure from opening of the platform up to its scheduling by NGGMS;
- o. Procedure for handling a default, viz. the following considerations subject to the provisions of regulation 6(1)(c):
 - i. Buyer default remedy mechanism;
 - ii. Seller default remedy mechanism; and
 - iii. Mechanism to compensate transporter for system imbalances caused due to buyer or seller default.
- p. Procedures for identification and defining of gas hubs
- q. The details of the Exit Scheme;
- r. Qualifications for membership, exclusion, suspension and expulsion
- s. Standardized Gas Sale and Purchase Agreement
- t. Indemnification of NGGMS by the gas exchange.

Provided that Byelaws and Rules may be amended subject to obtaining prior approval of the Board. At the time of application for the grant of authorization, as per the provisions of the regulation 8, the applicant shall submit the Byelaws and Rules, as per regulation 46

47. Settlement and Netting

- (1) The payment and settlement in respect of a transaction in an authorized gas exchange and authorized clearing corporation shall be determined in accordance with the netting or gross procedure as specified in the bye-laws of such authorized gas exchange and authorized clearing corporation, with the prior approval of the Board
- (2) Payment and settlement in respect of a transaction between parties referred to in sub- regulation (1), effected under the bye-laws of an authorized gas exchange or authorized clearing corporation, shall be final, irrevocable and binding on such parties.
- (3) When a settlement has become final and irrevocable, the right of the authorized gas exchange or the authorized clearing corporation, as the case may be, to appropriate any collaterals or deposits or margins contributed by the trading member, clearing member or client towards its settlement or other obligations in accordance with the bye-laws of the authorized gas exchange

or authorized clearing corporation shall take priority over any other liability of or claim against the said trading member, clearing member or client, as the case may be.

Explanation. - For removal of doubts, it is hereby declared that the settlement, whether gross or net, referred to in this regulation is final and irrevocable as soon as the money, or other transactions payable as a result of such settlement is determined, whether or not such money or other transactions is actually paid.

48. Right of Clearing Corporation

The right of an authorized clearing corporation(s) to recover the dues from its Clearing Members or Trading and Clearing Members, arising from the discharge of their clearing and settlement functions, from the collaterals, deposits and the assets of the clearing members, shall have priority over any other liability of or claim against the clearing members or trading and clearing members, as the case may be.

CHAPTER VIII INSPECTION, ENQUIRIES AND ENFORCEMENT

49. Market Oversight

The Board may issue such directions, after considering investigation report as referred in Regulation Chapter VIII, as it considers appropriate to maintain market oversight and surveillance and to check market integrity in the following circumstances: -

- a. Manipulative or attempted manipulative activity;
- b. Transactions that are misleading or deceptive, or are likely to mislead or deceive;
- c. Unwarranted speculation leading to volatility in price;
- d. Any form of cartelisation;
- e. Any other form of market abuse;
- f. Abuse of dominant position by any market participant.

50. Other Circumstances requiring Intervention

- (1) The Board may, on being satisfied that any of the below mentioned circumstances exist or is likely to occur in the market, by an order, give such directions to whom as may be necessary:
 - a. Abnormal increase or decrease in prices of natural gas;
 - b. Sudden or unreasonable fluctuations or unwarranted changes in the prices of natural gas and high volatility;
 - c. Sudden high transaction volumes on a gas exchange.

- (2) In particular and without prejudice to the generality of the foregoing power, the Board may, by order in writing:
- a. Suspend transaction activities for a cooling off period (in case of increased volatility);
 - b. Suspend transaction of any specific contract on gas exchange;
 - c. Increase the margin for contracts transacted on gas exchange (in a case of high speculation);
 - d. Allow only trade for trade settlements;
 - e. Limit Open position of one or a section of participants on gas exchange; and
 - f. Limit market wide position on gas exchange.
 - g. Unbundling of the clearing corporation and gas exchange

51. Power to Call for Information

The Board may from time to time call for any information, documents or records from the authorized gas exchange or the authorized clearing corporation, or their board of directors or any shareholder.

52. Power of Inspection

- (1) The Board may at any time undertake inspection, conduct inquiries and audit of any authorized gas exchange or authorized clearing corporation, any associate of such exchange or clearing corporation, any shareholder of such gas exchange or clearing corporation or any associate and agent of such shareholder.
- (2) Where an inspection under sub-regulation (1) is undertaken by the Board, such authorized gas exchange or authorized clearing corporation or shareholder or affiliate and every manager, director, managing director, chairperson or officer and other employee of such authorized gas exchange, authorized clearing corporation, shareholder or associate shall cooperate with the Board.

53. Directions by the Board

Without prejudice to the exercise of its powers under the sections 24 and 25 of the Act and rules made thereunder, the Board may, either suo-motu or on receipt of any information or during pendency of any inspection, inquiry or investigation or on completion thereof, in the interest of promoting competitive natural gas markets, issue such directions as they deem fit, including but not limited to any or all of the following:-

- a. directing a person holding equity shares or rights over equity shares in an authorized gas exchange or authorized clearing corporation in contravention of these regulations to divest their holding, in such manner as may be provided in the direction;
- b. directing transfer of any proceeds to the Settlement Guarantee Fund of an authorized clearing corporation;

- c. debarring any authorized gas exchange or authorized clearing corporation, any shareholder of such authorized gas exchange or authorized clearing corporation, or any of their affiliates and agent of such shareholder, or any transferee of shares from such shareholder, directors and key management personnel of authorized Gas exchange and authorized clearing corporation from transacting on the gas exchange for such period as may be so decided by the Board.

54. Investigation of Certain Matters

- (1) The Board may, on being satisfied that, any of the circumstances specified in regulation 49 exists, at any time, by order in writing, call upon any gas trader or gas exchange or member of gas exchange to furnish in writing any information or explanation, including without limitation, relating to any of their transaction, activity, business practice, business dealing.
- (2) Notwithstanding sub-regulation (1) above, the Board may direct any person (hereafter referred to as “Investigating Authority”) specified in the order to investigate the affairs of any gas trader or gas exchange or member of gas exchange, including his books of account, and to report to the Board on any investigation made by such investigating authority:

Provided that the investigating authority may, wherever necessary, employ any auditor or any other person for the purpose of providing assistance to them in any investigation under this regulation.

Provided further that the Board may, on the request of such gas trader or gas exchange or member of gas exchange as the case may be, provide a copy of the report of the investigating authority.

- (3) It shall be the duty of every manager, managing director or other officer of the gas trader or gas exchange or member of gas exchange, as the case may be, to produce before the investigating authority directed to make the investigation under sub-regulation (2), all such books of account, authorisation and other documents in his custody or power and to furnish them with any statement and information relating to the affairs of the gas trader or gas exchange or member of gas exchange, as the case may be, as the said investigating authority may require of them within such time as the investigating authority may direct.
- (4) On receipt of any information or report under sub-regulation (1) or sub-regulation (2), the Board may, after giving such opportunity to the gas trader or gas exchange or member of gas exchange, as the case may be, to make a representation in connection with the report as in the opinion of the Board, seems reasonable, and after considering representation if any by order in writing –
 - a. require the gas trader or gas exchange or member of gas exchange to take such action in respect of any matter arising out of the report as the Board may think fit; or
 - b. cancel the authorisation of the gas exchange under these regulations;
 - c. direct gas exchange to cancel membership of a member; or
 - d. direct the gas exchange to cease to carry on the business of gas exchange.

Provided that no action specified above shall be taken unless an opportunity of being heard is given to the person likely to be affected thereby.

55. Power to issue Interim Orders

Where during an investigation or intervention, the Board is satisfied that an act in contravention of these regulations has been committed and/ or continues to be committed or that such act is about to be committed, the Board may, by order, temporarily restrain any person from carrying on such act until the conclusion of such investigation or intervention or until further orders, after giving notice to such person.

CHAPTER IX MISCELLANEOUS

56. Information Dissemination

- (1) The gas exchange shall display on its website compilation of links to all relevant price sensitive information, including but not limited to:
 - a. Gas price information;
 - b. Any urgent market information issued by NGGMS on its website;
 - c. Planned maintenance schedule as per the provisions of Access Code;
 - d. Any incident related to a natural gas pipeline which could potentially result in outage or interruptions in gas supply.
- (2) Historical and current prices (open, close, maximum, minimum, weighted average, cleared) volumes, bids and offers, shall be made available market segment-wise on the website of the exchange and should be downloadable in various formats.
- (3) Traded Prices i.e., open, close, maximum, minimum, average of the month and average volume cleared shall be published in two leading newspapers once a month.
- (4) The gas exchange shall organise on a regular basis Member/ Client awareness programs.

57. Market Surveillance

- (1) Gas exchange shall set up a surveillance department which shall carry out day-to-day monitoring of transactions and surveillance. It shall also undertake other analysis as mentioned in sub-regulation (5).
- (2) The gas exchange shall also constitute a Market Surveillance Committee headed by an independent director and having members from the executive team of the gas exchange. No member of this committee shall be a member of the gas exchange.

- (3) The gas exchange surveillance department shall submit its analysis report to the Market Surveillance Committee. The Market Surveillance Committee shall submit a quarterly surveillance report to the Board.
- (4) Market surveillance shall be executed from a physically secure and restricted area by authorised personnel only and the personnel shall maintain information and data security at all times and especially when the auction window is open, during timelines as per the recommendation of the exchange and subsequent approval of the Board. All conversations of such personnel shall be recorded and it shall be made known to them that these are recorded telephone lines. Audio tapes shall be made available to the Board on demand.
- (5) The surveillance department shall analyse bidding patterns and transactions of participants. The analysis report to be submitted to the Board on quarterly basis shall be in the following particular areas but not limited to:
 - a. Open position by clients, by contracts;
 - b. Members of gas exchange pattern of transaction over a specific time period;
 - c. Daily, weekly, monthly Volatility analysis of prices (day ahead and term ahead contract prices);
 - d. Price setter analysis of buyer and seller;
 - e. Circular trading monitoring i.e., fraudulent transactions to buy and sell the same quantity of a contract, at the same price and at the same time, without actual change of ownership.
 - f. Dominant participants and market concentration;
 - g. Analysis of sudden increase in transaction volumes or sudden increase in open position of member of gas exchange;
 - h. Analysis and reason of persistent default by any member on the gas exchange or clearing corporation;
 - i. Analysis of transactions to check that the market splitting methodology as approved by the Board is being followed in operation in case of congestion in pipelines.

58. Transaction Reporting

Transaction Reporting requirement for gas exchange, Gas Trader, Shippers and Transporters market participants: -

- (1) All reporting shall be in electronic format.
- (2) For Gas Trader trade reports shall be in the format prescribed in the Access Code
- (3) In addition to the prescribed reports mentioned in sub-regulation (2), Gas Trader shall provide open position report and tenure of all trades and risk summary report on a quarterly basis for risk monitoring purpose. Provided that the Board may, by order, lay down and review the formats from time to time for the purpose of reporting.

- (4) Gas exchange shall report price, transaction volume, buyers and sellers on its platform on each day by 0900 hours for the immediately preceding day and consolidated of these parameters on a monthly basis. Provided that the Board may by order, review the other reporting details and reporting frequency depending on technology, type of market liquidity, volatility and other criteria in the market.
- (5) For day ahead market, gas exchange shall provide monthly details of all transactions on its platform in the formats B-1 and B-2.
- (6) All gas exchange(s) shall submit analysis report mentioned in Regulation (5) to the Board on a quarterly basis.
- (7) The gas exchange shall submit to the Board bids of all participants along with its analysis as prescribed and as and when directed by the Board.

59. Whistle Blowers' Policy

- (1) Market participants shall be entitled to report to the Board either by letter or email, of any unscrupulous activity, wrongdoing or violation of law, as may come to their knowledge.
- (2) The provider of the above information shall be entitled to request that its identity be kept confidential and be not disclosed. The Board shall, if so requested by the provider of such information, keep its identity confidential and not to be disclosed.
- (3) The Board shall take strict action in case of any kind of retaliation to such an informant by any affected party.

60. Insider Trading Policy

A person having non-public price sensitive information relating to outage of liquefied natural gas terminal or outage of compressors anywhere along the natural gas pipelines, outage at the plant of a major customer shall not transact on the gas exchange unless such information has been submitted to NGGMS.

- (1) The Board may, on being satisfied that a person has failed to comply with any of the provisions above, at any time, by order in writing, direct any person specified in the order to investigate the affairs of such person and to report to the Board on any investigation made by such investigating authority. The provisions of Chapter VIII shall apply mutatis mutandis to the investigation specified in this regulation.
- (2) In order to remove any difficulties in the interpretation or application of the provisions of these regulations, the Board shall have the power to issue directions through guidance notes.
- (3) For the purposes of implementation of these regulations and matters incidental thereto, the Board may specify norms, procedures, processes, manners or guidelines as specified in these regulations, by way of circulars to authorized gas exchange and authorized clearing corporation.

Format B-3**List of Members**

Serial No	Member Name and Clients	Contact Person	Address	Telephone	E-Mail ID

Note: the data is required to be submitted by gas exchange on 1st April, 1st July, 1st October and 1st January of every Calendar year. In case, the aforementioned dates are Saturdays, Sundays or public holidays, the gas exchange shall submit on the first business day after the aforementioned dates.

Format B-4

Format for submission of information regarding congestion to the Board

Name of gas exchange:

Date of filing of information: dd-mm-yyyy

Period for which details are being submitted:

From Date: dd-mm-yyyy

To Date: dd-mm-yyyy

Serial No.	Date	Hour	Congested Pipeline	Gas Flow in congested pipelines	Prices			Congestion Revenue in Rupees
				(in MMBtu) (A)	Upstream (Rs / MMBtu) (B)	Downstream (Rs /MMBtu) (C)	Difference (Rs/MMBtu) (D) =(B) – (C)	(E) = (A) X (D)
Total Congestion Revenue Collected								

Note: the data is required to be submitted each day for every month by gas exchange

SCHEDULE – I

FORM A

[See regulations 8 and 14]

Application for authorisation/ renewal of authorisation of Gas Exchange/ Clearing Corporation under regulation 8/ 14 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020

To
**Secretary,
Petroleum and Natural Gas Regulatory Board**

Subject: Application for authorisation/ renewal of authorisation of gas exchange/ clearing corporation under regulation 8/ 14 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020

Sir/ Madam,

1. We/ I on behalf of (Name and address of the applicant gas exchange/ clearing corporation) being an applicant gas exchange/ clearing corporation hereby apply for authorisation/ renewal of authorisation for the purposes of the said regulations in respect of gas exchange/ clearing corporation.
2. Two copies of the Bye-Laws, memorandum and articles of association relating in general to the constitution and management of the gas exchange/ clearing corporation and two copies of the bye-laws for the gas exchange or clearing corporation and settlement of contracts in securities are enclosed.
3. All the necessary information required in the Annexure to this Form is enclosed. Any additional information will be furnished as and when called for by the Board.
4. We/ I, on behalf of the said gas exchange/ clearing corporation, hereby undertake to comply with the requirements of all the Regulations made by the Board and such other conditions and terms as may be contained in the certificate of authorisation or be provided or imposed subsequently.

Proof of payment by way of direct credit in the bank account through NEFT/ RTGS/ IMPS or any other electronic mode permitted by RBI or the Demand Draft No dated drawn in favour of Petroleum and Natural Gas Regulatory Board, towards payment of fees as required in regulation 9 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020 and as specified in the Petroleum and Natural Gas Regulatory Board (Levy of Fee and Other Charges) Regulations, 2007, is attached.

Yours faithfully,
Authorised signatory

ANNEXURE TO FORM 'A'
Part I – General

1. Name of the applicant Gas Exchange/ Clearing Corporation.
2. Address.
3. Date of establishment or incorporation of Gas Exchange/ clearing corporation.
4. Is your Gas Exchange/ Clearing Corporation a joint stock company (state whether public or private) registered under the Companies Act, 2013 or any other equivalent Act?
5. Details of the existing business of the company and its promoters.
6. Give details of your capital structure and attach three copies of the annual reports, audited balance sheets and profit and loss account of the clearing corporation for the preceding three years to the extent applicable. In case, the applicant is a new company, such information shall be submitted for its promoters)
- 7.
8. Give details of shareholding pattern of the gas exchange or clearing corporation.
9. Has your business viability plan been appraised by a reputed agency having expertise in assessment of gas markets for its viability? Give a copy of the project report and its appraisal report.
10. Have you entered into an agreement with any authorized clearing corporation/ gas exchange(s) for clearing and settling its trades? Give the name of such clearing corporation/ gas exchange(s) and details of its organization and management.

Part II – Clearing membership of clearing corporation

11. State the number of clearing members at the time of application. Also specify how many are inactive.
12. State whether there is any provision, resolution or convention for limiting the number of clearing members and whether in pursuance thereof you have fixed a ceiling on the number of clearing members that you would admit.
13. Do you insist on any minimum qualifications and experience before enrolling new clearing members? If so, give details.
14. State the different classes of clearing members, if any, the number thereof and the privileges enjoyed by each class. What is the procedure followed by your clearing corporation for the admission of different classes of new clearing members?
15. What are the rates of your annual subscription in respect of the different classes of clearing members?
16. Do you collect any security deposit from your clearing members? If so, give details and also state the manner in which such deposits are utilised and the rate of interest allowed, if any.
17. Do you collect any admission or entrance fees from your clearing members? If so, how much?
18. Do you insist on your clearing members divesting themselves of other activities either as principal or as employee?
19. Give details of the scale of brokerage and other charges, if any, specified by your clearing

corporation.

20. Do you prescribe standard form of agreement to be entered with the trading member for engaging the services of your clearing member? Attach two copies of such agreement.
21. What are the measures adopted by you to regulate or prohibit advertising or issuing circulars by your clearing members?
22. Do you require clearing members to supply such information or explanation and to produce such books relating to their business as your Company Board may require?
23. Do you undertake periodic inspection of your clearing members? Give details including the number of annual inspections and manpower available for conducting inspection.

Part III – Company Board

24. What is the present strength of your Company board? Give details of the constitution, powers of management, election and tenure of office of members of the Company Board, and the manner in which its business is transacted.
25. Are any trade or commercial interest represented on your Company Board? If so, give details of interests represented.
26. Do you associate members of investors associations with the management of your clearing corporation? If so, state the manner in which it is done.
27. Are there any Government or the Board representatives on your Company Board? If so, furnish their names.
28. How many independent directors are there on the Company Board? Furnish their names, qualifications and experience.
29. Do your rules provide for the direct election by clearing members on the Advisory Committee of the Company Board? If so, give details of its constitution, tenure, powers and functions.
30. Do you have any provision for the appointment of standing or ad hoc subcommittees of the Company Board? If so, furnish details of their composition, appointment, term of office, powers and functions.
31. Give the designations, powers and duties of key management personnel of your clearing corporation. Give details as to the mode of their appointment, tenure of office and remuneration.
32. What are the disciplinary powers with the Company Board to enforce due compliance by clearing members of the bye-laws of the clearing corporation and generally to ensure proper standard of business conduct?
33. What provisions have you made for the levy and recovery of fees, fines and penalties?

Part IV – Clearing and Settlement

34. Describe the clearing and settlement system of the clearing corporation.
35. State the different kinds of products being cleared and settled or proposed to be cleared and settled in your clearing corporation (e.g., day ahead, term ahead, etc.). State the period of delivery, payment and the settlement mechanism in each case.
36. What conditions subject to which trades are settled and cleared on your clearing

corporation?

37. Do you have the right to prohibit, withdraw or suspend clearing and settlement of dealings admitted for clearing and settlement? If so, under then under what circumstances?
38. Give details of the clearing and settlement charges and other charges, if any, levied by your clearing corporation.
39. What provisions have been made for periodic settlement of contracts and differences and the delivery of, and payment for natural gas and the passing of delivery orders?
40. Do you publish any statistics in regard to business done on the clearing corporation including the value of Settlement Guarantee Fund and transactions settled through the clearing corporation, if maintained? In particular, have you evolved any machinery for computing the gross and net exposure of the clearing corporation and the value of clearing and settling of different kinds of contracts permitted on your clearing corporation? Give details.
41. Do you have any bye-laws, contravention of which makes a contract void?
42. Do you have necessary infrastructure, margin mechanism and adequate risk management mechanism to ensure market safety and integrity? Give Details.
43. Do you undertake any other activity other than clearing and settling? Give Details.
44. What is your net worth? Give Details.
45. Give details of business hours?
46. What are the conditions subject to which dealings are admitted for clearing and settlement?
47. Do you maintain Settlement Guarantee Fund? Give details of the corpus of the Settlement Guarantee Fund, its contribution, circumstances for utilization, priority of utilization, etc.
48. How do you ensure the adequacy of the Settlement Guarantee Fund? Do you perform stress tests on a periodic basis. Give details and results of the latest stress test.
49. What is the netting procedure adopted by the clearing corporation for determining the obligations of the clearing member?
50. What is your policy in respect of settling trades of shareholder gas exchange and non-shareholder gas exchange?
51. Do you have any provisions for regulating the volume of business and exposure taken by any individual clearing member other than through a system of margins? If so, give details.
52. What provisions have you made for regulating— (a) the entering into contracts, their performance and rescission (b) the consequences of breach, default or insolvency on the part of trading or clearing members whether acting as buyers, sellers or intermediaries?

Part V – Infrastructure

53. Do you have any machinery for arbitration of disputes between clearing members and/or between clearing members and their constituents and trading member and clearing member? Give details.
54. Have you established connectivity with the depositories, clearing banks, gas exchange and clearing members? Give details.
55. What is the average load that is being handled by your systems? What is the peak load that can be handled and the extent of scalability of the systems in times of stress?

56. What is your business continuity plan? Give details including details of the disaster recovery site.
57. What are the names, qualifications and expertise of your key management personnel?

Part VI – Membership

58. State the number of members at the time of application. Also specify how many are inactive. In case of a new set up, state the number of members you would have, as per your business plan within one year of commencement of operations.
59. State whether there is any provision, resolution or convention for limiting the number of members and whether in pursuance thereof or as per your business plan or otherwise, you have fixed a ceiling on the number of members that you would take.
60. Do you insist or plan to insist on any minimum qualifications and experience before enrolling new members? If so give details.
61. State the different types of members, if any, the number thereof and the privileges enjoyed by each type. What is the procedure followed/ planned to be followed by your exchange for the admission of different types of new members?
62. What are the rates of your annual subscription in respect of the different types of members?
63. Do you collect, or plan to collect, any security deposit from your members? If so, give details and also state the manner in which such deposits are utilized/ planned to be utilised and the rate of interest allowed, if any.
64. Do you collect, or plan to collect, any admission or entrance fees from your members or from partners of firms who are members? If so, how much?
65. Do your rules permit firms to become members? If so, is it incumbent on members to seek the approval of your board of directors before admitting new partners? State the conditions, if any, laid down in your rules for the admission of such partners.
66. If your rules do not permit of firms being enrolled as members, do you permit individual members to form a partnership? State the procedure followed for the recognition of such partnership.
67. Do you permit members to work in partnership with non-members? If so, how far such non-members subject to the control of the gas exchange?

Part VII – Company Board

68. What is the present strength of your board of directors? Give details of the constitution, powers of management, election and tenure of office of members of your board of directors, and the manner in which its business is transacted.
69. Are any trade or commercial interests represented on your board of directors? If so, give details of interests represented.
70. Do you associate shareholders of investors associations with the management of your exchange? If so, state the manner in which it is done.
71. Are there any Government representatives on your board of directors? If so, furnish their names.

72. Do your rules provide for the direct election by members of any other bodies or committees, apart from the board of directors? If so, give details of their constitution, tenure, powers and functions.
73. Do you have any provision for the appointment of standing or ad hoc sub-committees of your board of directors? If so, furnish details of the method of their appointment, terms of office, powers and functions.
74. Give the designations, powers and duties of principal office-bearers of your exchange. Are any of these office-bearers in the pay of the gas exchange? If so, give details as to the mode of their appointment, tenure of office and remuneration.

Part VIII – Trading

75. State the different kinds of contracts in use on your exchange e.g., Intraday, Day ahead, Monthly. State the period of delivery and payment in each case.
76. Give details of business hours for each type of contract.
77. Give details of the scale of brokerage and other charges, if any, prescribed by your exchange.
78. Do you prescribe standard forms of contract for the use of your members? Attach copies of each such contract form.
79. Do you have any provisions for regulating the volume of business done by any individual member other than through a system of margins? If so, give details.
80. What provisions have you made for periodical settlement of contracts and differences thereunder, the delivery of, and payment for securities and the passing of delivery orders?
81. Do you have a clearing house for the settlement of contracts? If so, give details of its organisation and management.
82. If you have clearing house, what returns do the members of your exchange submit regarding the transactions cleared through such clearing house
83. How do you fix, alter or postpone the dates of settlement?
84. How do you determine and declare making-up prices?
85. Have you any arrangements for recording and publishing market rates including opening, closing, highest and lowest rates?
86. What provisions have you made for regulating— (a) the entering into contracts, their performance and rescission, including contracts: (i) between members, (ii) between a member and his constituent, and (iii) between a member and a nonmember; (b) the consequences of breach, default or insolvency on the part of members whether acting as buyers, sellers or intermediaries;
87. Do you prescribe margin requirements? If yes, give details.
88. What are the measures adopted by you to regulate or prohibit advertising or issue of circulars by your members?
89. What are the disciplinary power with the Company Board to enforce due compliance by members of the rules and bye-laws of the exchange and generally to ensure proper standard of business conduct?
90. Do you require members to supply such information or explanation and to produce such books relating to their business as your Company Board may require?
91. Do you publish any statistics in regard to business done on the exchange including the

transactions settled through the clearing house, if maintained? In particular, have you evolved any machinery for computing the volume of transactions in the different kinds of contracts permitted on your exchange? Give details.

92. Do you have any bye-laws contravention of which makes a contract void?

Part IX – Miscellaneous

93. Do you have any machinery for arbitration of disputes between members and/ or between members their clients, clearing corporation, clearing members? Give details.

94. What provisions have you made for the levy and recovery of fees, fines and penalties?

95. Give a separate write-up, with additional documents, on each of the requirements on authorisation of a gas exchange as per these regulations to enable the Board to assess the eligibility and suitability of your company for authorisation as a gas exchange.

96. Any other information which the applicant company would like to submit to the Board.

FORM B

[See regulations 13 and 14]

The Petroleum and Natural Gas Regulatory Board

No

Date:

Petroleum and Natural Gas Regulatory Board, having considered the application by (name and address) under regulation 13/ 14 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020 for grant of authorisation/ renewal of authorisation as a gas exchange/ Clearing Corporation and being satisfied that it would be in the interest of development of the gas market to grant such authorisation/ renewal, hereby grants to the above-named company authorisation/ renewal of authorisation as gas exchange/ clearing corporation in terms of regulation 13/ 14 of the Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020, for year/ years from the above-mentioned date, subject to the conditions stated herein below or as may be prescribed or imposed hereafter.

Authorised signatory

SCHEDULE 2

PART A

Code of Conduct for the directors on the board of directors of Gas Exchanges or Clearing Corporations

[See regulation 27]

1. Meetings and minutes.

Every director of the authorized gas exchange and authorized 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) offer their comments on the draft minutes and ensure that the same are incorporated in the final minutes;
- (d) insist on the minutes of the previous meeting being placed for approval in subsequent meeting;
- (e) endeavor to have the date of next meeting fixed at each board meeting in consultation with other members of the board;
- (f) endeavor to ensure that in case all the items of the agenda of a meeting were not covered for want of time, the next meeting is held within fifteen days for considering the remaining items.

2. Code of Conduct for the independent directors.

- (a) In addition to the conditions stated in paragraph 1 above, independent directors of the authorized gas exchange or authorized clearing corporation shall, endeavor to attend all the board meetings and they shall be liable to vacate office if they remain absent for three consecutive meetings of board or do not attend seventy five percent of the total meetings of the board in a calendar year.
- (b) Independent directors shall meet separately, at least once in six months to exchange views on critical issues.
- (c) The independent directors shall identify important issues which may involve conflict of interest for the gas exchange/ clearing corporation, or may have significant impact on the functioning of authorized gas exchange or authorized clearing corporation, or may not be in the interest of its orderly functioning. These issues shall be reported to the board of directors.

3. Strategic planning

Every director of the authorized gas exchange and authorized clearing corporation shall—

- (a) participate in the formulation and execution of strategies in the best interest of the authorized gas exchange or authorized clearing corporation and contribute towards pro-

active decision making at the level of board of directors;

- (b) give benefit of their experience and expertise to the authorized gas exchange or authorized clearing corporation and provide assistance in strategic planning and execution of decisions.

4. Regulatory compliances

Every director of the authorized gas exchange and authorized clearing corporation shall—

- (a) ensure that the authorized gas exchange or authorized clearing corporation abides by all the applicable provisions of the Act, these regulations and any other regulation so specified as part of these regulations;
- (b) ensure compliance at all levels so that the regulatory system does not suffer any breaches;
- (c) ensure that the authorized gas exchange or authorized clearing corporation takes steps commensurate to honor the time limit stipulated by Board for corrective action;
- (d) not support any decision in the meeting of the Company Board which might adversely affect the interest of Buyers and Sellers participating in the gas exchange and shall report any such decision to the Board.

5. General responsibility

Every director of the authorized gas exchange and authorized clearing corporation shall—

- (e) place priority for redressing investor grievances and encouraging fair trade practice so that the authorized gas exchange or authorized clearing corporation becomes an engine for the growth of the transactions undertaken in the gas exchange;
- (f) endeavor to analyze and administer the authorized gas exchange or authorized clearing corporation issues with professional competence, fairness, impartiality, efficiency and effectiveness;
- (g) submit the necessary disclosures/statement of holdings/dealings in securities as required by the authorized gas exchange or authorized clearing corporation from time to time as per their Rules or Articles of Association;
- (h) unless otherwise required by law, maintain confidentiality and shall not divulge/disclose any information obtained in the discharge of their duty and no such information shall be used for personal gains;
- (i) maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of their duties in order to inspire public confidence and shall not engage in acts discreditable to their responsibilities;
- (j) 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;
- (k) perform their duties with a positive attitude and constructively support open communication, creativity, dedication, and compassion;
- (l) not engage in any act involving moral turpitude, dishonesty, fraud, deceit, or misrepresentation or any other act prejudicial to the administration of the authorized gas exchange or authorized clearing corporation.

PART B

Code of Ethics for directors and key management personnel of Gas Exchanges or Clearing Corporations

[See regulation 27]

The 'Code of Ethics' for directors and key management personnel of the authorized gas exchanges or authorized clearing corporations, is aimed at improving the professional and ethical standards in the functioning of authorized gas exchanges or authorized clearing corporations thereby creating better investor confidence in the integrity of the securities market.

1. Objectives and underlying principles.

The Code of Ethics for directors and key management personnel of the authorized gas exchange or authorized clearing corporation seeks to establish a minimum level of business/ professional ethics to be followed by these directors and key management personnel, towards establishing a fair and transparent marketplace. The Code of Ethics is based on the following fundamental principles:

- (a) Fairness and transparency in dealing with matters relating to the gas exchange or clearing corporation and the buyers and sellers on the gas exchange;
- (b) Compliance with all laws/ rules/ regulations laid down by regulatory agencies/ authorized gas exchange/ authorized clearing corporation;
- (c) Exercising due diligence in the performance of duties;
- (d) Avoidance of conflict of interest between self-interest of directors/ key management personnel and interests of authorized gas exchange or authorized clearing corporation.

2. Regulatory oversight committee.

For overseeing implementation of this Code, a regulatory oversight committee shall be constituted by every authorized gas exchange and authorized clearing corporation under the respective board of directors.

3. General standards.

- (a) Directors and key management personnel shall endeavor to promote greater awareness and understanding of ethical responsibilities.
- (b) Directors and key management personnel, in the conduct of their business shall observe high standards of commercial honor and equitable principles of trade.
- (c) The conduct of directors and key management personnel in business life should be exemplary which will set a standard for other members of the authorized gas exchange or authorized clearing corporation.
- (d) Directors and key management personnel shall not use their position to give/ get favors to/ from the executive or administrative staff of the gas exchange or clearing corporation, technology or service providers and vendors of the authorized gas exchange or authorized

clearing corporation, or any other person dealing with the authorized gas exchange.

- (e) Directors and key management personnel shall not commit any act which will put the reputation of the authorized gas exchange or authorized clearing corporation in jeopardy.
- (f) Directors, committee members and key management personnel of the authorized gas exchange or authorized clearing corporation should comply with the provisions of the Act and all applicable regulations notified by the Board from time to time.

4. Avoidance of conflict of interest.

- (a) No director on the board or member of any committee of the authorized gas exchange or authorized clearing corporation shall participate in any decision making/ adjudication in respect of any person/ matter in which he is in any way, directly or indirectly, concerned or interested.
- (b) Whether there is any conflict of interest or not in a matter, shall be decided by the board of directors.

5. Disclosures of beneficial interest

All directors and key management personnel shall disclose to the board of directors, upon assuming office and during their tenure in office, whenever the following arises:

- (a) any fiduciary relationship of self and family members and directorship/ partnership of self and family members in any trading member or clearing member;
- (b) any other business interests.

6. Role of the Chairperson and directors in the day-to-day functioning of the Gas Exchange or Clearing Corporation.

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

7. Access to information.

- (a) Directors shall call for information only as part of specific committees or as may be authorized by the board of directors.
- (b) 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/ information shall be properly recorded and retained for a minimum period of seven (7) years.

- (c) All such information, especially which is non-public and price sensitive, shall be kept confidential and shall not be used for any personal consideration/ gain.
- (d) Any information relating to the business/ operations of the authorized gas exchange or authorized clearing corporation, which may come to the knowledge of directors/ key management personnel during performance of their duties shall be held in strict confidence and shall not be divulged to any third party and not used in any manner except for the performance of their duties.

8. Misuse of position

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

9. Regulatory Oversight Committee to lay down procedures

- (a) The regulatory oversight committee shall lay down procedures for the implementation of these regulations and prescribe reporting formats for the disclosures required under the code.
- (b) The Compliance Officer shall execute the requirements laid down by the regulatory oversight committee.

While the objective of these regulations is to enhance the level of market integrity and investor confidence, it is emphasized that a written code of ethics may not completely guarantee adherence to high ethical standards. This can be accomplished only if directors and key management personnel of the authorized gas exchange or authorized clearing corporation commit themselves to the task of enhancing the fairness and integrity of the system in letter and spirit.

PART C

Measures to ensure segregation of regulatory departments

[See regulation 29]

1. In order to ensure the segregation of regulatory departments, every authorized gas exchange and authorized clearing corporation shall adopt a "Chinese Wall" policy which separates the regulatory departments of the authorized gas exchange or authorized clearing corporation from the other departments. The employees in the regulatory departments shall not communicate any information concerning regulatory activity to any one in other departments. The employees in regulatory areas may be physically segregated from employees in other departments including with respect to access controls. In exceptional circumstances employees from other departments may be given confidential information on "need to know" basis, under intimation to the Compliance Officer.

2. Regulation 29 mandates segregation of regulatory departments from other departments. For this purpose, an indicative list of regulatory departments has been provided below. The Company Board of the gas exchange or clearing corporation may specify any other department having a regulatory function in addition to the list given below as a regulatory department.
3. Departments handling the following functions shall be considered as regulatory departments in a gas exchange: -
 - a. Surveillance,
 - b. Member registration,
 - c. Compliance,
 - d. Inspection,
 - e. Enforcement,
 - f. Arbitration,
 - g. Default.
4. Departments handling the following functions shall be considered as regulatory departments in a clearing corporation: -
 - a. Risk management,
 - b. Member registration,
 - c. Compliance,
 - d. Inspection,
 - e. Enforcement,
 - f. Default.
5. An authorized gas exchange/ authorized clearing corporation shall ensure that the regulatory departments viz., surveillance, inspection, risk management, default, etc., are having at least two (2) personnel deployed for full-time with at least one (1) having a Master Degree in Finance, Accounting or any other related fields and are at least having 5 years' work experience in compliance departments of banks or other related financial institutions, exchange operations or other related fields.

PART D

Appointment of Directors

[See regulation 25 and 26]

1. Procedure for appointment: -

- a. All directors while seeking approval shall submit to the gas exchange/clearing corporation the following details: -
 - i. Name
 - ii. Address
 - iii. Educational qualification
 - iv. Details of employment/ Occupation, past and present
 - v. Details of other directorships
 - vi. DIN No.
 - vii. Declaration regarding the fulfillment of requirements specified under regulation 23.
 - viii. Declaration confirming compliance of Regulation 24 (6) read with Regulation 2 (1) (g) of these regulations, in respect of non-association with trading member or clearing member.
 - ix. Details of regulatory action taken against by any statutory authority.
 - x. Details of activities that may in the opinion of the director, lead to his disqualification.
 - xi. Association with trading members/ clearing members of gas exchanges/ clearing corporations.
 - xii. An undertaking that he shall abide by the code of conduct and code of ethics prescribed in Part A and Part B of Schedule 2.
 - xiii. In the case of independent directors, consent letters for acting as an independent director.
 - xiv. Criminal cases, if any – completed or pending before any authority in India or abroad.
- b. The gas exchange/ clearing corporation shall forward the above details to the Board while recommending their names along with the minutes of the meeting of the board of directors in which their name/s were approved, copy of the shareholders' resolution (wherever applicable), a confirmation by the gas exchange/ clearing corporation that they are fit and proper persons in terms of their fit and proper criteria and are not associated with any trading member or clearing member in terms of regulation 24 (6) read with Regulation 2 (1) (g) of these regulations.

2. Managing Director/ Executive Director: -

- a. The Nomination and Remuneration Committee of the authorized gas exchange/ authorized clearing corporation shall be responsible for selection of CEO/ managing director / executive director, as the case may be. The managing director shall be selected through open advertisement in all editions of at least one national daily, having suitable qualification as specified in regulation 26. In case of re-appointment, or extension of appointment, the gas exchange/ clearing corporation shall apply to the Board at least two months before the last working day of such managing director.

- b. In case a vacancy of managing director arises due to unforeseen reasons, the gas exchange/ clearing corporation shall forward the new names to the Board within 60 days from the date of submission of resignation or such vacation of office.

3. Independent directors: -

- a. The names of independent directors shall be forwarded to the Board after the approval of the board of directors of the gas exchange/ clearing corporation. The shareholders' approval shall not be necessary. A minimum of three (3) names shall be submitted to the Board for each vacancy of independent directors.
- b. The gas exchange/ clearing corporation shall ensure that independent directors are selected from diverse field of work. While deciding to propose a particular person as an independent director, the gas exchange/ clearing corporation shall also take into account the following factors:
 - i. Qualification in the area of law, finance, accounting, economics, management, administration or any other area relevant to the gas markets.
 - ii. At least one person shall be inducted having experience and background in finance/ accounts who may preferably be inducted in the audit committee.
 - iii. Persons currently holding positions of trust and responsibility in reputed organisations or person who have retired from such positions.
 - iv. Persons who are likely to have interested positions in commercial contracts and financial affairs of commodity exchanges, may preferably be excluded. Persons who are regular traders/ speculators in the market or are director in the board of the promoter entity of the gas exchange or clearing corporation, shall be excluded.
- c. Independent directors shall peruse the relevant laws, code of conduct, code of ethics, etc. and submit an undertaking to the gas exchange/ clearing corporation that they are aware of their role, responsibilities and obligations. The gas exchange/ clearing corporation shall provide at least seven days of training to every independent director each year.
- d. In case of extension of the term of the independent director or appointment of a new independent director, the gas exchange/ clearing corporation shall apply to the Board two months before the expiry of the term. In addition to the other requirements prescribed herein, the application for extension of term of the independent director shall be accompanied with, his attendance details on meetings of various mandatory committees and on the board of directors of the gas exchange/ clearing corporation, performance review and the reasons for extension of term.
- e. The existing independent director shall continue holding the post, till a new independent director is appointed in his place.

4. Shareholder Directors

- a. The names of persons to be appointed as shareholder directors shall first be approved by the Company Board of the gas exchange/ clearing corporation, followed by shareholders' approval before submitting the same to the Board for approval.

- b. The manner of election, appointment, tenure, resignation, vacation, etc. of shareholder directors shall be governed by the Companies Act, 2013 save as otherwise specifically provided under these Regulations or vide any notification as specified by the Board from time to time.

5. Selection of trading members/ clearing members on the Advisory Committee to the Board of Directors: -

Prior to the appointment as a member of the advisory committee to the board of directors gas exchange/ clearing corporation shall satisfy itself that the trading members/ clearing members are fit and proper persons in terms of regulation 22. The board of directors shall frame the eligibility norms, term of office, cooling off period, etc., of members of the advisory committee in consultation with the trading members/ clearing members of the gas exchange/ clearing corporation.

6. General conditions on appointment of directors: -

- a. The gas exchange/ clearing corporation shall complete the appointment process within 30 days from nomination/ approval for directors by the Board and submit a compliance report within one week from the date of appointment.
- b. In case any other official of the gas exchange/ clearing corporation is appointed on its board of directors in addition to the Managing Director, the same shall be subject to the approval of shareholders and the Board, in that order.

PART E

Norms for compensation policy

[See regulation 28]

1. Regulation 28 mandates that the compensation policy for key management personnel of gas exchange/ clearing corporation shall be in accordance with the norms specified by the Board. The compensation norms, in this regard, shall be as follows: -
 - a. The variable pay component shall not exceed one-third of total pay.
 - b. 50% of the variable pay shall be paid on a deferred basis after three years on rolling basis.
 - c. ESOPs and other equity linked instruments in the gas exchange/ clearing corporation shall not be offered or provided as part of the compensation for the key management personnel.
 - d. The compensation policy shall have malus and claw back arrangements.
2. Apart from the above, the compensation policy of the gas exchange/ clearing corporation shall take into consideration the following:
 - a. financial condition/ health of the gas exchange/ clearing corporation,
 - b. average levels of compensation payable to employees in similar ranks,
 - c. shall not contain any provisions regarding incentives to take excessive risks over the

- short term,
- d. revenues, net profit of the gas exchange/ clearing corporation,
 - e. comparable to the industry standards,
 - f. role and responsibilities of the key management personnel,
 - g. periodic review
3. At the time of seeking approval of the Board for the appointment of the managing director, the gas exchange/ clearing corporation shall seek approval for the compensation of the Managing Director from the Board. The compensation of the Managing Director of a gas exchange/clearing corporation already appointed with the approval of the Board shall be in accordance with the compensation policy as mentioned above.

PART F

MISCELLANEOUS

1. **Internal manual for conflict resolution:** The gas exchange/ clearing Corporation shall have an internal manual covering the management of conflicts between commercial and regulatory functions of the gas exchange/ clearing corporation. The gas exchange/ clearing corporation shall put in place a policy for comprehensive training and awareness of its employees on the various conflicts of interests involved in the functioning of its regulatory departments. Further, the entire conflict management framework shall periodically be reviewed and be strengthened based on the observations of such review.

Sd/-
Vandana Sharma
Secretary
Petroleum and Natural Gas Regulatory Board