

2024



**Master Circular (Updated as on March 31, 2024)**

This is further to our master circular no. 20230626-1 dated June 26, 2023.

**Please note that all the content in this master circular are indicative in nature and updated till March 31, 2024 and the Notices/ Circular issued from time to time by the Exchange and by SEBI including SEBI/Exchange Rule Regulations and Bye Laws issued from time to time shall be applicable and supersede the contents of the Master Circular.**

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## **ITEM 1 - CLIENT REGISTRATION**

### **1.1 Account Opening Process**

The stock broker shall make available a folder /book containing all the documents required for the registration of a client. The folder/book shall have an index page listing all the documents contained in it and indicating briefly significance of each document.

SEBI vide its circular CIR/MIRSD/16/2011 dated August 22, 2011, has advised the uniform documentation to be followed by all the stock brokers / trading members. Details of such documentation is as under:

- Index of documents giving details of various documents for client account opening.
- Know Your Client (KYC) form capturing the basic information about the client and instruction/checklist to fill up the form.
- Document stating the Rights & Obligations of stock broker, and client for trading on exchanges including additional rights & obligations in case of internet / wireless technology-based trading.
- Uniform Risk Disclosure Documents for all segments / exchanges.
- Guidance Note detailing Do's and Don'ts for trading on exchanges.
- Tariff Sheet – Document detailing the rate/amount of brokerage and other charges levied.
- Information on contact details of senior officials within the stock broking firm and investor grievance cell in the stock exchange, so that the client can approach them in case of any grievance.

The client account opening form shall have two parts:

- a) Mandatory
- b) Non-Mandatory

#### **a) Mandatory Documents:**

##### **1. Client Account Opening Form in two parts:**

- i) Know Your Client (KYC) form capturing the basic information about the client and instruction/check list to fill up the form.
- ii) Document capturing additional information about the client related to trading account.

The client will now be required to sign only one document i.e., Account Opening Form. Further, in the same form, the client shall continue to put his signatures instead of saying “yes” or “tick mark” while indicating preferences for trading in different exchanges / segments, in accordance with existing requirements. However, in case the investor wants to avail Running Account facility, execute Demat Debit and Pledge Instruction’ (DDPI) or Power of Attorney, etc., he would have to give specific authorization to the stock broker in order to avoid any dispute in the future.



The Stock Broker may verify the PAN of their clients online at the Income Tax website without insisting on the original PAN card, provided that the client has presented a document for Proof of Identity other than the PAN card.

Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to its presently being recognized as Proof of Identity.

The Stock Broker shall ensure verification of PAN linking with Aadhaar at the time of account opening and if not linked, request such clients to ensure compliance with the same and further ensure that all its clients (both new and existing clients) are in compliance with the requirement of PAN-Aadhaar linkage as per the timelines prescribed in Exchange Notice No. 20230328-77 dated 28 Mar 2023 and by Government of India from time to time.

SEBI, in consultation with various market participants, decided to shift certain information contained in Section C of Part I to Part II of the Account Opening Form (AOF) (for both individuals and non-individuals). Revised Part I of AOF was published with directions to intermediaries to modify Part II accordingly.

Information as contained in revised Part I of AOF shall only be required to be captured in the systems of KRAs. Refer to SEBI circular No. CIR/MIRSD/ 13 /2013 dated December 26, 2013.

The above modifications would assist in avoiding repeated modifications in the KRA system as information provided by the clients in Section C changes over a period of time and will facilitate making the KYC uniform for the entire financial sector.

### **SARAL Account Opening Form for resident individuals:**

- a) Majority of new investors in the securities market begin with participation in the cash segment without obtaining various other facilities such as internet trading, margin trading, derivative trading and use of power of attorney. The account opening process has been simplified for such individual investors. With a view to encouraging their participation, it is, therefore, decided that such individual investors can open a trading account and demat account by filling up a simplified Account Opening Form ('AOF') termed as 'SARAL AOF'. Refer Exchange Notice No. 20150305-3 dated March 05, 2015. This form will be separately available with the intermediaries and can also be downloaded from the Exchanges' and Page 7 of 137 Depositories' website.
- b) The investors who open accounts through SARAL AOF will also have the option to obtain other facilities, whenever they require, on furnishing of additional information as per prescribed regulations/circulars.
- c) The standard set of documents viz. Rights and Obligations document, Uniform Risk Disclosure Document and Guidance Note and documentary proof related to identity and address as specified in SEBI Circulars dated August 22, 2011, and October 5, 2011, shall continue to remain applicable. It is further clarified that the provisions laid down under the PML Act, PML Rules, SEBI Master Circular on AML dated February 03, 2023, shall also continue to remain applicable for set of individual investors mentioned in point no. (a) as above.

- d) For this set of individual investors, it has been decided to simplify the requirement of submission of 'proof of address'. The matter has been examined in light of amendment to the PML Rules, 2005 and accordingly, the requirement of submission of 'proof of address' is as follows:
- i) Henceforth, individual investors may submit only one documentary proof of address either residence/correspondence or permanent while opening a trading account or while undergoing Updation.
  - ii) In case the proof of address furnished by the said investor is not the address where the investor is currently residing, the stock broker may take a declaration of the residence/correspondence address on which all correspondence will be made by the stock broker with the investor. No proof is required to be submitted for such correspondence/residence address. In the event of change in this address due to relocation or any other reason, investor may intimate the new address for correspondence to the stock broker within two weeks of such a change. The residence/correspondence address and any such change thereof may be verified by the stock broker through 'positive confirmation' such as:
    - i. Acknowledgment of receipt Welcome Kit/ dispatch of contract notes / any periodical statement, etc.
    - ii. Telephonic conversation;
    - iii. visits, etc.
2. Document stating the Rights & Obligations of stock broker, sub-broker and client for trading on exchanges (including additional rights & obligations in case of internet / wireless technology-based trading)

SEBI, with a view to simplify and rationalize the account opening process, had reviewed, consolidated, and updated all the documents/requirements prescribed in respect of account opening process over the years. The simplification includes replacement of all client-broker agreements with the "Rights and Obligations" document, which shall be mandatory and binding on the existing and new stock brokers (including trading members) and clients.

3. Uniform Risk Disclosure Documents (for all segments / exchanges).
4. Guidance Note detailing Do's and Don'ts for trading on exchanges.
5. Policies and Procedures Document describing significant policies and procedures of the stock broker.

There shall be a mandatory document dealing with policies and procedures for the following:

- a) Refusal of orders for penny stocks. (Illiquid securities may be considered while defining penny stocks by TM)
- b) Setting up client's exposure limits
- c) Applicable brokerage rate
- d) Imposition of penalty / delayed payment charges by either party specifying the rate & the period. The same should not result in funding.

- e) The right to sell client's securities or close client's position without giving notice to the clients on account of non-payment of client's dues limited to the extent of settlement / margin obligation.
  - f) Internal Shortage
  - g) Conditions under which a client may not be allowed to take further position, or the broker may close the existing position.
  - h) Temporarily suspending or closing a client's account at the client's request and Deregistering a client.
6. Tariff Sheet – A tariff sheet specifying various charges, rate/amount of brokerage and other charges payable by the client to avoid any disputes at a later date.

Members are required to update demographic details of a client including their addresses. The framework applicable to the trading members is given in the Exchange Notice no. 20220830-56 dated 30 Aug 2022.)

**b) Non-mandatory Documents**

It may be noted that any voluntary clause / document added by the stock brokers shall form part of the non-mandatory documents. The stock broker shall ensure that any voluntary clause/document shall neither dilute the responsibility of the stock broker nor it shall be in conflict with any of the clauses in the mandatory documents, Rules, Bye-laws, Regulations, Notices, Guidelines and Circulars issued by SEBI and the stock exchanges from time to time. Any such clause introduced in the existing as well as new documents shall stand null and void.

- Any term or condition other than those stated in the mandatory part shall form part of non-mandatory documents.
- The clauses in the non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents, as also the Rules, Regulations, Articles, Byelaws, circulars, directives and guidelines of SEBI and Exchanges. Any such contravening clause shall be null and void.
- Any authorization sought in non-mandatory part shall be a separate document and shall have specific consent of the client. Moreover, the trading member may also seek additional information to satisfy himself about the antecedents of the client.

Trading members are further advised to ensure the following:

- a) It may be noted that proper segregation of the mandatory and non-mandatory documents shall be made.
- b) All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.
- c) Additional documents shall state at the beginning in bold that the document is voluntary.
- d) However, if such documents are required in order to ensure smooth functioning of special facility such as internet trading offered by the trading member, the client shall be informed in writing clearly that such documents are voluntary, and the client need not execute such

documents if he / she does not wish to use that facility.

- e) Such documents, if any, shall also recognize specifically the right of the client to terminate the document. In such an eventuality, the trading member may terminate the special facility.
- f) The docket or folder containing draft mandatory documents for signing and the checklist containing mandatory documents shall not include draft voluntary documents, if any.
- g) No term in the client registration documents, other than those prescribed by SEBI, shall be changed without the consent of the client. Such change needs to be preceded by a notice of 15 days.
- h) The Client shall indicate the stock exchange as well as the market segment where he intends his trades to be executed. He shall do so in the KYC form in his own hand and sign against these.
- i) The stock broker shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment. In respect of other clients, the stock broker shall obtain the documents in accordance with its risk management system.

#### **List of Illustrative documents**

- Copy of ITR Acknowledgement
  - Copy of Annual Accounts
  - In case of salary income - Salary Slip, Copy of Form 16
  - Net-worth certificate
  - Bank account statement for last 6 months
  - Copy of Holding statement of de-mat account
  - Any other relevant documents substantiating ownership of assets
  - Self-declaration along with relevant supporting
- j) Details of any action/proceedings initiated/pending/ taken by SEBI/ Stock exchange/any other authority against the applicant/client or its partners/promoters/whole time directors/authorized persons in charge of dealing in securities during the last 3 years.
  - k) No documentation shall give any exclusive right or control to the trading member or third party over the DP account or ledger account or bank account of the client except to the extent of and restricted to the client's obligation to the trading member in respect of the transactions done or to be done (like up-front margin) by the trading member on behalf of the client on the Exchange.
  - l) The stock broker shall frame the policy regarding treatment of inactive accounts which should, inter-alia, cover aspects of time period, return of client assets and procedure for reactivation of the same. It shall display the same on its web site, if any.
  - m) In the case of existing clients, if the policies & procedures are not explicitly elaborated, TM should intimate the same to all clients & maintain the proof of dispatch or delivery. In case of internet clients, TM may provide the same electronically in a secure manner.
  - n) It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently: (a) its name as registered with SEBI, its own

logo, if any, its registration number, and its complete address with telephone numbers on account opening documents.

- o) SEBI has clarified that the KYC (Account Opening Process) are applicable for all the clients of stock brokers/depository participants, without any exemption to any category of clients like institutions or FPIs/EFEs.

### **Accessing Securities Market by Visually Challenged Investors:**

Trading members are advised that there shall not be any restrictions for visually challenged person in getting registered as a client for trading/investing in the securities market including online facilities to the visually challenged persons without any discrimination. Trading members are requested to render all possible assistance to the visually challenged persons without any discrimination and render all possible assistance to such persons for registering them as clients. Refer to Exchange Notice No. 20150512-9 dated May 12, 2015.

### **1.2 e-KYC Authentication facility under section 11A of the Prevention of Money Laundering Act, 2002 by Entities in the securities market for Resident Investors.**

SEBI vide Circular No. CIR/MIRSD/09/2012 dated August 13, 2012, clarified that after consultation with Unique Identification Authority of India (UIDAI), Government of India, it was decided that the Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to its being recognized as Proof of Identity. Subsequently, vide circular No. CIR/MIRSD/09/2013 dated October 08, 2013, SEBI clarified that in consultation with Unique Identification Authority of India (UIDAI) and the market participants, e-KYC service launched by UIDAI can also be accepted as a valid process for KYC verification. The information containing relevant client details and photograph made available from UIDAI as a result of e-KYC process shall be treated as sufficient proof of Identity and Address of the client. However, the client shall have to authorize the intermediary to access his data through the UIDAI system.

### **Entities permitted to undertake e-KYC Aadhaar Authentication service of UIDAI in Securities Market:**

As per the recommendation by UIDAI and SEBI to undertake Aadhaar authentication service of the UIDAI under section 11A of the Prevention of Money-laundering Act, 2002. In view of the same, the following entities shall undertake Aadhaar Authentication service of UIDAI subject to compliance of the conditions as laid down in this regard: The same has been communicated vide SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/80 dated May 12, 2020, and SEBI/HO/MIRSD/DOP/CIR/P/2020 dated September 08, 2020.

- i. Bombay Stock Exchange Limited
- ii. National Stock Exchange of India Limited” (NSE)
- iii. Central Depository Services (India) Limited
- iv. CDSL Ventures Limited

- v. NSDL Database Management Limited
- vi. NSE Data and Analytics Limited.
- vii. CAMS Investor Services Private Limited
- viii. Computer Age Management Services Private Limited

### **Entities allowed to use e-KYC Aadhaar Authentication services of UIDAI in Securities Market as sub-KUA.**

Further, Department of Revenue-Ministry of Finance, Government of India, vide Gazette Notification No. S.O. 3187(E) dated July 13, 2022, and S.O. 446 (E) dated January 30, 2023 has notified 155 reporting entities and 39 reporting entities respectively as sub-KUA to use Aadhaar authentication services of UIDAI under section 11A of the Prevention of Money-laundering Act, 2002. The list of said entities is enclosed as Annexure A to the SEBI Circular SEBI/HO/MIRSD/SEC-5/P/CIR/2022/99 dated July 20, 2022, and SEBI/HO/MIRSD/SEC-5/P/CIR/2023/0026 dated February 08, 2023 respectively.

### **1.3 Clarification on voluntary adaptation of Aadhaar based e-KYC process:**

SEBI vide circular dated October 8, 2013, and Exchange Notice No. 20160125-19 dated January 25, 2016, enabled Aadhaar based e-KYC service offered by UIDAI for KYC verification. Intermediaries have sought clarifications from SEBI on certain operational aspects of the same. It is clarified that for accessing the details enabling client identification and authentication from UIDAI based on client authorization, on voluntary basis, intermediaries who utilize the services of KYC Service Agencies (KSAs) would be registered as KYC User Agencies (KUA) with UIDAI.

- a) For entering into account-based relationship, the client may provide the following information to the intermediary:
  - Name
  - Aadhaar number
  - Permanent Account Number (PAN)
- b) The above information can be provided by the client electronically including through any web enabled device.
- c) The intermediary shall perform verification of the client with UIDAI through biometric authentication (fingerprint or iris scanning). Mutual Funds can also perform verification of the client with UIDAI through One Time password (OTP) received on client's mobile number or on e-mail address registered with UIDAI provided, the amount invested by the client does not exceed Rs. 50,000 per financial year per Mutual Fund and payment for the same is made through electronic transfer from the client's bank account registered with that Mutual Fund.
- d) PAN of such client is to be verified from the income tax website.
- e) After due validation of Aadhaar number provided by the client, the intermediary (acting as KUA) shall receive the KYC information about the client from UIDAI through KSA.



- f) The information downloaded from UIDAI shall be considered as sufficient information for the purpose of KYC verification. The intermediary shall upload this KYC information on the KRA system in terms of KRARegulations.
- g) In case material difference is observed either in the name (as observed in the PAN vis-a-vis Aadhaar) or photograph in Aadhaar is not clear, the intermediary shall carry out additional due diligence and maintain a record of the additional documents sought pursuant to such due diligence.
- h) The records of KYC information so received shall be maintained by the intermediary as per the SEBI Act, Regulations and various circulars issued thereunder.

### **Acceptance of e-PAN card for KYC purpose**

Central Board of Direct Taxes (CBDT) has recently introduced a facility of E-PAN (electronic PAN card) vide press release dated April 11, 2017. Accordingly, it is clarified that E-PAN issued by CBDT can also be produced by FPI for KYC compliance. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market. Refer SEBI has issued circular- SEBI/HO/FIIC/CIR/P/2017/068 dated June 30, 2017, and Exchange Notice No. 20170703-8 dated July 03, 2017.

### **1.4 Use of Technology for Client Registration**

SEBI has decided to permit make use of following technological innovations which can facilitate online KYC:

- a) e-Sign service is an online electronic signature service that can facilitate an Aadhaar holder to forward the document after digitally signing the same provided the e-Sign signature framework is operated under the provisions of Second schedule of the Information Technology Act and guidelines issued by the controller.
- b) In terms of PML Rule 2 (1) (cb) “equivalent e-document” means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature, including documents issued to the Digital Locker account of the investor as per Rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.
- c) Section 5 of the Information Technology Act, 2000 recognizes electronic signatures (which includes digital signature) and states that where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person then such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of a digital signature affixed in such manner as prescribed by the Central Government. Therefore, the e-Sign mechanism of Aadhaar shall be accepted in lieu of wet signature on the documents provided by the investor. Even the cropped signature affixed on the online KYC form under e-Sign shall also be accepted as valid signature.

In order to enable the Online KYC process for establishing account-based relationship with the RI, Investor's KYC can be completed through online / App based KYC, in-person verification through video, online submission of Officially Valid Document (OVD) / other documents under e-Sign, in the following manner:

- 1) The investor visits the website/App/digital platform of the RI and fills up the online KYC form and submits requisite documents online.
- 2) The name, photograph, address, mobile number, email ID, Bank details of the investor shall be captured online and OVD / PAN / signed cancelled cheque shall be provided as a photo / scan of the original under e-Sign and the same shall be verified as under:
  - a) Mobile and email is verified through One Time Password (OTP) or other verifiable mechanism. The mobile number/s of investor accepted as part of KYC should preferably be the one seeded with Aadhaar. (The RI shall ensure to meet the requirements of the mobile number and email as detailed under SEBI circular no. CIR/MIRSD/15/2011 dated August 02, 2011)
  - b) Aadhaar is verified through UIDAI's authentication / verification mechanism. Further, in terms of PML Rule 9 (16), every RI shall, where the investor submits his Aadhaar number, ensure that such investor to redact or blackout his Aadhaar number through appropriate means where the authentication of Aadhaar number is not required under sub-rule (15). RI shall not store/ save the Aadhaar number of investors in their system. e-KYC through Aadhaar Authentication service of UIDAI or offline verification through Aadhaar QR Code/ XML file can be undertaken, provided the XML file or Aadhaar Secure QR Code generation date is not older than 3 days from the date of carrying out KYC. In terms of SEBI circular No. CIR/MIRSD/29/2016 dated January 22, 2016 the usage of Aadhaar is optional and purely on a voluntary basis by the investor.
  - c) PAN is verified online using the Income Tax Database.
  - d) Bank account details are verified by Penny Drop mechanism or any other mechanism using API of the Bank. (Explanation: based on bank details in the copy of the cancelled cheque provided by the investor, the money is deposited into the bank account of the investors to fetch the bank account details and name.) The name and bank details obtained shall be verified with the information provided by investor.
  - e) Any OVD other than Aadhaar shall be submitted through Digi-locker / under e-Sign mechanism.
- 3) In terms of Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules) "Officially Valid Documents" means the following:
  - a) The passport,
  - b) The driving license,
  - c) Proof of possession of Aadhaar number,
  - d) The Voter's Identity Card issued by Election Commission of India,
  - e) Job card issued by NREGA duly signed by an officer of the State.

Government and the letter issued by the National Population Register containing details of name, address, or any other document as notified by the Central Government in consultation with the Regulator.



- 4) Further, Rule 9(18) of PML Rules states that in case OVD furnished by the investor does not contain updated address, the document as prescribed therein in the above stated Rule shall be deemed to be the OVD for the limited purpose of proof of address.
- 5) PML Rules allows an investor to submit other OVD instead of PAN, however, in terms of SEBI circular No. MRD/DoP/Cir- 05/2007 dated April 27, 2007, the requirement of mandatory submission of PAN by the investors for transaction in the securities market shall continue to apply.
- 6) Once all the information as required as per the online KYC form is filled up by the investor, KYC process could be completed as under:
  - a) The investor would take a printout of the completed KYC form and after affixing their wet signature, send the scanned copy / photograph of the same to the RI under e-Sign, or
  - b) Affix online the cropped signature on the filled KYC form and submit the same to the RI under e-Sign.
- 7) The RI shall forward the KYC completion intimation letter through registered post/ speed post or courier, to the address of the investor in cases where the investor has given address other than as given in the OVD. In such cases of return of the intimation letter for wrong / incorrect address, addressee not available etc, no transactions shall be allowed in such account and intimation shall also sent to the Stock Exchange and Depository.
- 8) The original seen and verified requirement under SEBI circular no. MIRSD/SE/Cir-21/2011 dated October 5 2011 for OVD would be met where the investor provides the OVD in the following manner:
  - a) As a clear photograph or scanned copy of the original OVD, through the e-Sign mechanism, or
  - b) As digitally signed document of the OVD, issued to the Digi-Locker by the issuing authority.
- 9) SEBI vide circular no. MIRSD/Cir- 26 /2011 dated December 23, 2011, had harmonized the IPV requirements for the intermediaries. In order to ease the IPV process for KYC, the said SEBI circular pertaining to IPV stands modified as under:
  - a) IPV/ VIPV would not be required when the KYC of the investor is completed using the Aadhaar authentication / verification of UIDAI.
  - b) IPV/ VIPV shall not be required by the RI when the KYC form has been submitted online, documents have been provided through digi-locker or any other source which could be verified online.

For details, please go through the Exchange notice (SEBI Circular:- SEBI/HO/MIRSD/DOP/CIR/P/ 2020/73 dated April 24, 2020).

## **1.5 Guidelines for online closure of trading accounts**

SEBI vide its email has advised Exchanges to issue guidelines to the trading members to make available the facility for online closure of trading accounts. The guidelines for online closure of trading accounts is specified below. Further Trading members are also advised to inform their clients regarding the availability of facility for online closure of trading accounts and its guidelines through emails, SMS, weekly / fortnightly / monthly newsletters etc.

- i. Client shall be entitled to close the trading account through online mode without giving any reasons to the trading member. Clients shall not be restricted from requesting, through online mode or offline mode, for the closure of trading account maintained with a member, subject to the compliance requirements as stipulated by SEBI / Stock Exchange from time to time.
- ii. Online request for closing of trading accounts shall be made available for the clients who have opened their accounts offline or online, by those trading members which provide facility of opening account online and provide various services to their clients in online mode. Those trading members that do not provide any services online and do not open accounts online may not be required to offer online closure of trading accounts.
- iii. The request for account closure shall be done only through web portal / app of the trading member through secured access by way of client specific user ID and password (in case of internet clients) and the request send through emails, SMS, other messaging apps, etc. shall not be entertained by the trading member. As the KYC process requires e-sign post which trading accounts can be opened by the trading member, for online closure of trading account, client shall be required to e-sign the form (using Aadhaar based online electronic signature service) to be verified by the trading member in accordance with guidelines as stipulated by SEBI / Stock Exchanges from time to time.
- iv. Once the application for closure of trading account is received, the member shall intimate to the client on registered email id and / or mobile number (on both, if available) about the receipt of closure request and shall not permit any further requests for execution of trades by the client. Confirmation regarding the application submitted, shall be sought from the client by way of OTP sent on the email id and / or mobile number updated in its source account (to be closed account) at the time of closure of trading account.
- v. Trading account can be closed only if the client doesn't have a negative account balance and / or client do not have any open position and there are no pending arbitration matters / orders prohibiting the release of the client funds & securities at the time of account closure request. In case the client has debit balance (after considering balance across Stock Exchanges) or open positions and applies for closure of trading account, the member shall send a written response to client asking him to clear the debit balance / open positions prior to initiating the process for closure of broking account.
- vi. On closure request, the member shall return funds and release all collateral and pledged securities back to the clients and close the trading account within 3 working days, subject to conditions mentioned in paragraph v above. Client needs to ensure that there are no securities / commodities available in the trading member's demat account at the time of account closure request.

- vii. If the member authorises the request received, the trading account will close. Once the trading account is closed, thereafter trading member shall inform the same to the client and update the client status in the UCC database of the Stock Exchange as inactive / deleted, as applicable and thereafter the member is not required to report details of such client in "cash and cash equivalent" reporting.
- viii. If the member rejects the client request for online closure of trading account received, the member shall mention the reason for such rejection and communicate the same to the client.
- ix. Members shall ensure that the applications are processed as per the timelines mentioned above. Trading members shall maintain, and store system logs of the closure instructions and e-signed electronic requests (un-editable) received in electronic form in a secured manner and the same shall be subject to 100% internal audit.
- x. Notwithstanding any such closure of trading account, all rights, liabilities and obligations of the parties arising out of or in respect of transactions entered into prior to the closure of trading account shall continue to subsist and vest in / be binding on the respective parties or his / its respective heirs, executors, administrators, legal representatives or successors, as the case may be.

## **1.6 In-person verification (IPV)**

SEBI vide letter no. MIRSD/DPS-III/130466/2008 dated 2nd July 2008 has emphasized that it shall be the responsibility of the stock broker to satisfactorily identify his clients and to ensure in-person verification by his own staff while registering clients and keep complete audit trail for the same. SEBI has also mentioned that it would be stock brokers' responsibility to provide client details as and when required.

Accordingly, members are required to ensure "in-person" verification by their own staff only while registering the clients. Name and signature of the official who has done in-person verification and the stamp of the member should be incorporated in the client registration form.

With regard to the requirement of "in-person" verification (IPV), SEBI has issued guidelines to the stock brokers and depository participants (DPs). However, in line with the uniformity brought out in the KYC procedure across intermediaries, the IPV requirements for all the intermediaries have now been streamlined and harmonized, as follows:

- i. It shall be mandatory for all the intermediaries addressed in the SEBI Circular No MIRSD/Cir-26/2011 dated December 23, 2011, to carry out IPV of their clients.
- ii. The intermediary shall ensure that the details like name of the person doing IPV, his designation, organization with his signatures and date are recorded on the KYC form at the time of IPV.
- iii. The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.
- iv. In case of Stock brokers, their Authorized Persons (appointed by the stock brokers after getting approval from the concerned Stock Exchanges in terms of SEBI Circular No. MIRSD/DR-1/Cir-16/09

dated November 06, 2009) can perform the IPV.

- v. In case of Mutual Funds, their Asset Management Companies (AMCs) and the distributors who comply with the certification process of National Institute of Securities Market (NISM) or Association of Mutual Funds (AMFI) and have undergone the process of “Know Your Distributor (KYD)”, can perform the IPV. However, in case of applications received by the mutual funds directly from the clients (i.e., not through any distributor), they may also rely upon the IPV performed by the scheduled commercial banks.

**Clarification in respect of In-person Verification: -**

1) In case of individuals:

- a) Stock broker has an option of doing “in-person” verification through web camera at the branch office of the stock broker/sub-broker’s office.
- b) In case of non-resident clients, employees at the stock broker’s local office, overseas can do “in-person” verification. Further, considering the infeasibility of carrying out “In-person” verification of the non-resident clients by the stock broker’s staff, attestation of KYC documents by Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy / Consulate General in the country where the client resides may be permitted.

2) In case of stock exchange subsidiaries:

SEBI pursuant to its circular clarified that the subsidiaries of stock exchanges, acting as stock brokers, may rely upon the “in-person” verification done by their Authorized Persons (who are also registered with SEBI as stock brokers of the parent stock exchange) for their respective clients. However, the ultimate responsibility for “in-person” verification would remain with the subsidiaries and they shall obtain the necessary IPV documents for their records.

SEBI vide circular no. MIRSD/Cir- 26 /2011 dated December 23, 2011, had harmonized the IPV requirements for the intermediaries. In order to ease the IPV process for KYC, the said SEBI circular pertaining to IPV stands modified as below.

- a) IPV/ VIPV would not be required when the KYC of the investor is completed using the Aadhaar authentication / verification of UIDAI.
- b) IPV / VIPV shall not be required by the RI when the KYC form has been submitted online, documents have been provided through digi-locker or any other source which could be verified online.

**1.7 Uploading KYC information with KYC Registration Agency (KRA)**

SEBI simplified the account opening process for investors vide Circular No. CIR/MIRAD/16/2011 dated August 22, 2011. Further, SEBI vide circular MIRSD/SE/Cir-21/2011 dated October 05, 2011, issued guidelines for uniform KYC requirements for investors while opening accounts with any

intermediary in the securities market.

Earlier, if a client intends to open accounts with different intermediaries for the purpose of trading / investment in the securities market, he must undergo the process of Know Your Client (KYC) again and again. Therefore, to avoid duplication of KYC process with every intermediary, a mechanism for centralization of the KYC records in the securities market has been developed.

An intermediary shall perform the initial KYC of its clients and upload the details on the system of the KRA. When the client approaches another intermediary, the Intermediary can verify and download the client's details from the system of the KRA. As a result, once the client has done KYC with a SEBI registered intermediary, he need not undergo the same process again with another intermediary. Accordingly, SEBI has formulated the KYC Registration Agency (KRA) Regulations 2011.

SEBI has notified M/s. CDSL Ventures Ltd. (CVL), M/s. NSDL Database Management Limited (NDML) and M/s. Dotex International Limited (a wholly owned subsidiary of National Stock Exchange of India Limited), CAMS Investor Services Private Limited and Karvy Data Management Services Limited to act as the KYC Registration Agency (KRA).

**A. Guidelines for Intermediaries in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011.**

- 1) After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents i.e. KYC application form and supporting documents of the clients to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch.
- 2) In case a client's KYC documents sent by the intermediary to KRA are not complete, the KRA shall inform the same to the intermediary who shall forward the required information / documents promptly to KRA.
- 3) For existing clients, the KYC data may be uploaded by the intermediary provided they are in conformity with details sought in the uniform KYC form prescribed vide SEBI circular no. MIRSD/SE/Cir- 21/2011 dated October 05, 2011. While uploading these clients' data the intermediary shall ensure that there is no duplication of data in the KRA system.
- 4) The intermediary shall carry out KYC when the client chooses to trade/ invest / deal through it.
- 5) The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.
- 6) The intermediary shall promptly provide KYC related information to KRA, as and when required.
- 7) The intermediary shall have adequate internal controls to ensure the security / authenticity of

data uploaded by it.

Further, SEBI has issued Circular No. MIRSD/Cir-5/2012 dated April 13, 2012, regarding "Uploading of the existing clients KYC details in the KYC Registration Agency (KRA) system by the intermediaries". In order to make it convenient for the clients registered prior to January 1, 2012 (hereinafter referred to as „Existing clients“) and to expand the centralized database of the KYC records of the entire securities market, it is decided to upload the KYC details of the existing clients of the intermediaries in the current KRA system, in a phased manner.

**B. Guidelines for uploading the KYC data of the existing clients in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011:**

- 1) *For existing clients who trade / invest / deal with the intermediary anytime during the time period specified in the table given below starting from April 16, 2012, the intermediaries shall forthwith upload their KYC details in the KRA system. They shall also send KYC documents to the KRA on continuous basis and complete the process within the prescribed time limits.*
- 2) *KRAs shall send letters to the clients for the receipt of the initial / updated KYC documents from intermediary in accordance with the time schedule.*
- 3) *The KYC data of the existing clients, who trade / invest or deal after the above-mentioned schedule, shall be uploaded on a continuous basis.*
- 4) *While uploading the existing clients' KYC details in the KRA system, the intermediary shall indicate the date of account opening / activation / up-dation of information. In case the KRA system indicates that the client's KYC data already exists, the other intermediary shall upload the modifications, if any, after the aforesaid date so that the latest information about the client is available on the KRA system.*
- 5) *The intermediary shall highlight the KYC details about the existing client which is missing / not available, as per the KYC requirements specified vide circular dated October 5, 2011, only if it was not mandated earlier when the client's account was opened. KRAs shall make necessary provisions in their systems to categorize the KYC of such clients under the category of existing clients and highlight the information which is missing / not available.*
- 6) *When the existing client approaches another intermediary, it shall be the responsibility of that intermediary which downloads the data of that client from the KRA system, to update the missing information, do IPV as per requirements (if not done already) and send the relevant supporting documents, if any, to the KRA. Thereafter, the KRA system shall indicate the records as updated.*

Further, SEBI vide notification no. LAD-NRO/GN/2012-13/35/6998 dated March 22, 2013, has



removed the requirement for sending original physical KYC documents of the clients to the KRA unless specifically desired by KRA. Instead, intermediaries shall furnish the scanned images of the KYC documents to the KRA and retain the physical KYC documents.

**Amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011 and Simplification of KYC process and rationalisation of Risk Management Framework at KYC (Know Your Client) Registration Agencies (KRAs)**

SEBI vide circular SEBI/HO/MIRSD/DoP/P/CIR/2022/46 dated April 06, 2022 has specified the framework for validation of records by KRAs in securities market. Based on the feedback received from the stakeholders in securities market and for ease of onboarding of clients for dealing in securities market, the provisions of the circular have been reviewed and it has been decided to simplify the KYC process and rationalise the risk management framework vide SEBI Circular no. SEBI/HO/MIRSD/FATF/P/CIR/2023/0144 dated August 11, 2023 as follows.

- a) The KYC process shall mean obtaining the proof of identity (PoI) and proof of address (PoA) of the client.
- b) Further, PAN is the unique identification number of all participants transacting in the securities market.
- c) In the interest of investors and for ease of transacting in securities market, the client shall be allowed to open an account with intermediaries and transact in securities market as soon as the KYC process is completed.
- d) Thereafter, as a part of risk management framework, the KRAs shall verify the following attributes of records of all clients within 2 days of receipt of KYC records:
  - i. PAN (including PAN Aadhaar linkage, as referred to in rule 114 AAA of the Income-tax Rules, 1962)
  - ii. Name
  - iii. Address
- e) Additionally, the KRAs shall verify the client's mobile number and email id. In case of PAN exempt records, the other attributes i.e. name, address, mobile number and email id shall be verified by the KRAs.
- f) Clients in whose case, attributes of records as mentioned in para 5/6 of SEBI Circular No. SEBI/HO/MIRSD/FATF/P/CIR/2023/0144 cannot be verified, shall not be allowed to transact further in securities market until the attributes are verified.
- g) The records of those clients in respect of which all attributes mentioned in para 5/6 of SEBI Circular No. SEBI/HO/MIRSD/FATF/P/CIR/2023/0144 the aforesaid SEBI circular are verified by KRAs with

official databases (such as Income Tax Department database on PAN, Aadhaar XML/Digilocker/M-Aadhaar) shall be considered as Validated Records.

- h) The validated records shall be allowed portability i.e. the client need not undergo the KYC process again when he approaches a different intermediary in securities market and the intermediary shall fetch the validated records from the KRA database.
- i) The KRAs shall develop systems/mechanism, in co-ordination with each other, and shall follow uniform internal guidelines/standards detailing aspects of identification of attributes and procedures for verification/ validation, in consultation with SEBI.
- j) Further, the systems of intermediaries and the KRAs shall be integrated to facilitate seamless movement of documents/information to and from the intermediary to the KRAs for verification/validation of attributes under risk management framework.
- k) The SEBI circular SEBI/HO/MIRSD/DoP/P/CIR/ 2022/46 dated April 06, 2022 shall be rescinded from the effective date of this circular i.e. September 01, 2023.
- l) The records of all existing clients whose KYC has been completed based on OVDs other than Aadhaar, shall be verified within a period of 90 days from September 01, 2023.

### **Centralized mechanism for reporting the demise of an investor through KRAs**

SEBI vide circular no. SEBI/HO/OIAE/OIAE\_IAD-1/P/CIR/2023/0000000163 dated October 03, 2023, introduced a centralized mechanism for reporting and verification in case of the demise of an investor and thereby smoothen the process of transmission in securities market. The aforesaid SEBI circular spells out the operational norms including the obligations of regulated entities, including registered intermediaries that have interface with 'investors' / 'account holders' (used interchangeably) who are natural persons.

Exchange vide notice 20240103-28 dated January 3, 2024 issued a Standard Operating Procedure (SOP) in consultation with Stock Exchanges, Depositories, industry associations like Association of Mutual Funds in India (AMFI), Registrars Association of India (RAIN), MF registrars, KRAs, Association of Registered Investment Advisers [ARIA], Broker's association, etc.

Based on the above SOP, the KRA shall provide the list of PANs which fall under the above category to Exchange on daily basis. The Exchange shall de-activate the UCCs of such PANs with immediate effect. (Refer Exchange Notice No. 20231004-10)

### **1.8 Delivery of copy of duly completed Client registration forms:**

The Exchange is in receipt of complaints from investors regarding non-availability of copies of the



documents executed by them for registration and it is observed that many disputes are related to the contents thereof. To facilitate investors to have access to the details provided by them to trading members at the time of registration of their accounts, the trading members are required to comply with the following:

- 1 A copy of all the documents executed by client shall be given to him, free of charge, within 7 days from the date of execution of documents by the client. The stock broker shall take client's acknowledgement for receipt of the same.
- 2 The timeline of 7 days should start from the day of upload of UCC to the Exchange by the trading member
- 3 The trading code and the unique client code allotted to a client and the email id furnished by the client for the purpose of receiving electronic contract notes and other details, shall be communicated by the trading member through the KYC form or otherwise in writing to the clients.
- 4 Proof of such delivery/communication is to be maintained along with the registration documents pertaining to the clients. In respect of existing clients, the above-mentioned documents and details may be provided upon request from such clients.
- 5 The stock brokers having own websites shall display all the documents executed by a client, client's position, margin and other related information, statement of accounts, etc. in the web- site and allow secured access by way of client-specific user id and password.
- 6 It is clarified that the Trading members having their own website shall display the set of standard documents on the website for information.

### **1.9 Allotment, Updation of Unique Client code (UCC) And of Client Code and Adherence of KYC requirement Sikkim based clients:**

Trading members are requested to refer Exchange notice no. 20231018-39 dated October 18, 2023, and 20240223-42 dated February 23, 2024 , regarding file formats/ batch upload facility.

All trading members are strictly required to ensure that new client details with all mandatory fields are updated and approved in the Unique Client Code system of the Exchange. Further trading members are required to ensure that client details in UCC system of the Exchange for new and existing clients should be complete and correct.

"Members are required to send the identity and address proof of all the newly onboarded clients (irrespective of whether PAN has been submitted by account holder or not) to the Exchange, where the correspondence or permanent address of the client is 'Sikkim'. The aforesaid documents should be sent vide email on bse.reports@bseindia.com. In case of any deviations observed by the Exchange during the scrutiny of records, the same shall be informed to the trading member for necessary corrective actions. However, in absence of corrective action by the trading member within 10 days from the date of intimation of the discrepancy, then trading member shall mark such account as closed with immediate effect and discrepant UCCs shall be considered as non-compliant and not permitted to trade. (Reference no. 20220808-12 dated 08 Aug 2022.)

**Corporate Identity Number (CIN) for Bodies Corporate:**

Members are mandatorily required to upload Corporate Identity Number (CIN) of bodies corporate acting as clients in the UCC database of the Exchange. Refer to SEBI letter no. ISD/SP/11595/2012 dated May 23, 2012 and Exchange notice no. 20120529-16 dated May 29, 2012 and 20120601-15 dated June 1, 2012.

**CP Code Details:**

To facilitate the online give-up/ take-up process of institutional trades by trading members to clearing members, in the F&O segment, the Exchange is introducing 4 new fields in the Webex UCC system (both manual registration as well as batch upload) -

Trading members are requested to provide these details for their institutional clients, whom they have registered in the Webex UCC system, however the same is optional for non-institutional clients. Although these fields are non-mandatory, members are requested to provide these details to facilitate the auto give-up/ take-up process of institutional trades in the RTRMS system. Details of the auto give-up/take-up process of institutional trades shall be provided via a separate circular in due course of time. (Refer to Exchange Notice No. 20120601-15 dated June 1, 2012)

With reference to SEBI circular dated CIR/DNPD/6/2011 dated July 5, 2011 and CIR/MRD/DP/29/2014 dated October 21, 2014 and further to Exchange notice nos. 20110706-1 dated July 6, 2011, 20110729-24 dated July 29, 2011, 20110826-4 dated August 26, 2011, 20111214-4 dated December 14, 2011, 20111104-16 dated November 4, 2011, 20140625-15 dated June 25, 2014, 20141021-15 dated October 21, 2014, 20160210-23 dated February 10, 2016, 20161102-18 dated November 2, 2016, 20190911-56 dated September 11, 2019, and 20190913-56 dated September 13, 2019 and 20231129-47 dated November 29, 2023 regarding modification of Client Codes.

With an objective to reduce order entry mistakes and to discourage client code modifications, levy of penalty in all cases of client code modification was considered and accordingly a revised penalty structure has been implemented.

**The framework for Client Code Modification monitoring and penalty is as under:**

- A.** Penalty on Client Code Modification where either original code or modified client code is non-institutional client category:
- i. As per Exchange notice nos. 20110729-24 dated July 29, 2011 and 20110826-4 dated August 26, 2011, any client code modification from a non-institutional client category to non-institutional / institutional client category is subject to penalty. Further, client code modification from an institutional client category to non-institutional client category is subject to penalty:
  - ii. The following penalty structure is applicable:

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1

**B. Designated ERROR account and Client Code Modification:**

- i. As per Exchange notice no. 20110826-4 dated August 26, 2011 and 20111214-4 dated December 14, 2011, Trading members are required to disclose the client codes which are classified as 'Error Accounts' to the Exchange at the time of UCC upload.
- ii. It is proposed to standardize the naming convention of the designated error account. The naming convention w.r.t classification of Error Accounts by the Trading Member will be as under:
  - 1) The client code of the designated error account should have the nomenclature as "ERROR" or "ERROR%" where % is a number.
  - 2) The name of the designated error account should have the nomenclature as "TM Name - Error Account".
- iii. In cases where the trading member fails to maintain a single active designated "ERROR" account, a penalty of Rs. 10,000 per month of violation is applicable. Further, after 3 months disciplinary action shall be initiated.
- iv. Modification to ERROR client code category and Liquidation of trades transferred to ERROR account.
- v. As per Exchange notice no. 20110826-4 dated August 26, 2011, shifting of any trade (institutional or non-institutional) to the error account of the trading member shall not be treated as modification of client code provided the positions arising out of trades in error account are subsequently liquidated / closed out in the market and not shifted to some other client code.
- vi. Trading Members will be provided with a timeline of 3 working days (including the day of trade) to square off / liquidate their trades flowing into error account. In case trades / open positions are not liquidated or squared off within the prescribed time limit, a penalty as prescribed in para 1.2 of Exchange Notice No. 20231129-47 would be applicable. This timeline is subject to availability of liquidity in the scrip/contract. In case the liquidity is not sufficient, the Trading Member should approach the Exchange within one trading day if sufficient liquidity is not available at the Exchange. The square off / liquidation must be done at the earliest. The decision of the Exchange on the question of "Availability of liquidity" will be final and binding.
- vii. In case of modification from original client code to ERROR account and then from ERROR account to some other client code, a penalty at the rate of 2% of traded value will be levied. In case of such repeated instances, in addition to the penalty levied further disciplinary action as deemed fit would be initiated.
- viii. Exchange will periodically review the trades flowing to "error accounts" of the brokers. For suspicious or unusual modifications observed, suitable disciplinary action would be initiated.
- ix. Trading Members are required to implement internal controls to minimize the instance of modifications into Error account to avoid disciplinary action proceedings from the Exchange. Internal controls implemented by brokers will be checked as a part of Inspection.
- x. Framework for monitoring and penalty for modification between client codes of two entities classified under the Institutional category will be as under:
  - a) Modification between client codes of two entities which are of the institutional category will be allowed only if the modification from both client codes is from different schemes / sub-accounts of /managed by the same Institution. Such modifications shall not be subject to penalty. For FPIs, the group will be considered as uploaded by Members under "File upload facility on Extranet system for uploading Foreign Portfolio Investors (FPI) allocation details"

as provided in ICCL notice no. 20140531-4 dated May 31, 2014, and 20160118-28 and January 18, 2016.

- b) With respect to trades settled through DVP mechanism, Trading Members would need to report the name of entities to whom the trades were settled. The original client would be the client in whose client code the trades were executed, and the modified client code will be the PAN in whose name trades were settled through DVP mechanism. In the event that, the Exchange finds that modified client code is not of / managed by the same institution, penalty shall be levied.
- c) Any modification between two client codes which are of institutional category and do not satisfy the criteria mentioned in para 4.1 of Exchange Notice No. 20231129-47 above i.e., modification between two unrelated institutional clients will be subject to penalty.

For (b) and (c) the applicable penalty on such modifications will be computed as below:

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2

xi. Reasons for client code modification and error trades.

- a) 5.1. As per Exchange notice nos. 20110826-4 dated August 26, 2011, 20190911-56 dated September 11, 2019, and 20190913-56 dated September 13, 2019, Trading members are required to provide the reasons for client code modification. Further, Trading members would also be required to provide the reasons for any transfer of trade (institutional or non-institutional) to ERROR account.
- b) 5.2. The facility of providing the reasons based on objective criteria has been provided in BEFS on the Client Code Modification module.
- c) 5.3. Trading Members are permitted to modify client codes for the following objective criteria only:

d) <b>Description</b>
e) Modified to Error
f) Error due to communication or Punching / Typing Error such that the original client code / name and the modified client code / name are similar to each other
g) Modification with Relatives (as per Companies Act, 2013)
h) Allocation to related schemes / sub-accounts

xii. Frequent Client Code Modifications:

- a. In addition to the penalty levied as stated above, Exchange shall undertake disciplinary actions as deemed fit in terms of Rules, Byelaws and Regulations of the Exchange against Trading Members who undertake frequent client code modifications.
- b. Such instances of client code modification mentioned below shall not be considered while computing the frequency of client code modifications.

- Modification to ERROR account which is liquidated within 3 working days.
- Modification between two client codes which are of institutional client category and belong to same group as specified in para 4.1 of Exchange Notice No.20231129-47.

xiii. Client Code modification penalty waiver:

With reference to Exchange notice nos.20110729-24 dated July 29, 2011 and 20110826-4 dated August 26, 2011, the following will be classified as genuine errors for the purpose of client code modification:

- Error due to communication and / or punching or typing such that the original client code / name and the modified client code / name are similar to each other.
- Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013).

Trading Members may kindly note that the request for waiver of penalty along with reason and relevant supporting documents should be submitted to the Exchange within a period of 3 calendar months from the date of levy of penalty failing which request for waiver shall not be accepted.

It may be noted that, SEBI had issued circular no. CIR/MRD/DP/29/2014 dated October 21, 2014 regarding modification of client codes of non- institutional trades executed on stock exchanges (All Segments) wherein it is mentioned that stock exchanges may waive penalty for a client code modification where stock broker is able to produce evidence to the satisfaction of the stock exchange to establish that the modification was on account of a genuine error. Not more than one such waiver per quarter may be given to a stock broker for modification in a client code. Explanation: If penalty waiver has been given with regard to a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the stock broker in the quarter for modifications related to client codes AB and BA.

Proprietary trades shall not be allowed to be modified as client trade and vice versa and Stock exchanges shall submit a report to SEBI every quarter regarding all such client code modifications where penalties have been waived. Additionally, stock exchanges shall undertake stringent disciplinary actions against stock brokers who undertake frequent client code modifications. Refer to SEBI circular no. CIR/MRD/DP/29/2014 dated October 21, 2014 and Exchange Notice No. 20141021-15 dated October 21, 2014.

**C. Mandatory fields in Unique Client Code (UCC) information provided to Exchange:**

As per Exchange notice no. 20210503-41 dated 3<sup>rd</sup> May 2021 **only Compliant UCCs shall be allowed to place orders / bids w.e.f. July 01, 2022 as mentioned in 20220623-58** dated June 23, 2022 Members are required to ensure, that the UCCs for OWN (proprietary orders) and Clients are compliant with the below guidelines under all the segments (Equity, Equity Derivatives, Currency Derivatives, Commodity Derivatives, Securities' Lending and Borrowing and Debt):

- 1) Compliant with 6 KYC attributes viz Name, Complete address (including PIN code No. in case of address of India), PAN, valid Mobile number, Valid email-id, Income details/range.
- 2) Custodian details updated for clients availing custodian services.
- 3) PAN verification status of the client is Valid.

#### **1.10 Execution of 'Demat Debit and Pledge Instruction' (DDPI) / Power of Attorney (POA) by clients:**

SEBI vide circular no. CIR/MRD/DMS/13/2010 dated April 23, 2010 issued guidelines regarding execution of Power of Attorney (PoA) by the client in favor of Stock Broker / Stock Broker and Depository Participant ("POA Guidelines, 2010"). Certain clarifications were issued vide circular no. CIR/MRD/DMS/28/2010 dated August 31, 2010 and SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/158 dated August 27, 2020 ("PoA Guidelines, 2020").

SEBI vide circular no. SEBI/HO/MIRSD/DoP/P/CIR/2022/4 dated April 04, 2022 and SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/137 dated October 06, 2022, in order to make the process more transparent and simpler, the conditions as specified below are made part of a separate document viz. 'Demat Debit and Pledge Instruction'(DDPI), under which the clients shall explicitly agree to authorize the stock broker/stock broker and depository participant to access their BO account for the limited purpose specified as under. The DDPI shall serve the same purpose of PoA. The use of DDPI shall be limited only for the following purposes.

- 1) For transfer of securities held in the beneficial owner account of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by such a client on the Stock Exchange through the same stockbroker.
- 2) For pledging / re-pledging of securities in favour of the trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the client in connection with the trades executed by such a client on the Stock Exchange.
- 3) Mutual Fund transactions being executed on Stock Exchange order entry platforms.
- 4) Tendering shares in open offers through Stock Exchange platform.

The client may use the DDPI or opt to complete the settlement by issuing physical Delivery Instruction Slip (DIS) or electronic Delivery Instruction Slip (eDIS) themselves. Hence, with the implementation of this circular, PoA shall no longer be executed for the conditions specified above.

The DDPI shall be indexed as part of the Voluntary Documents in Annexure-1 of SEBI circular no. CIR/MIRSD/16/2011 dated August 22, 2011 and shall be executed only if the client provides his/her explicit consent for the same, including internet based trading. The DDPI shall also be adequately stamped. The DDPI can be digitally signed by the clients.



The existing PoAs (executed prior to September 01, 2022) shall continue to remain valid till the time client revokes the same. Thus, the stockbroker/stockbroker and depository participant shall not directly / indirectly compel the clients to execute the DDPI or deny services to the client if the client refuses to execute the DDPI. Also, as mentioned above, PoA is optional and should not be insisted upon by the stockbroker / stockbroker depository participant for opening of the client account. A clause in this regard shall be incorporated under the sub-heading 'Additional Rights and Obligations' of the Rights and Obligations Document (Annexure-4 of SEBI circular no. CIR/MIRSD/16/2011 dated August 22, 2011) and shall read as under:

***“The stockbroker / stockbroker and depository participant shall not directly / indirectly compel the clients to execute Power of Attorney (PoA) or Demat Debit and Pledge Instruction (DDPI) or deny services to the client if the client refuses to execute PoA or DDPI.”***

Accordingly, SEBI circular no. CIR/MIRSD/16/2011 dated August 22, 2011, stands amended to this extent. All other provisions specified in SEBI circular no. CIR/MRD/DMS/13/2010 dated April 23, 2010, read with SEBI circular no. CIR/MRD/DMS/28/2010 dated August 31, 2010, and SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/158 dated August 27, 2020, shall continue to remain applicable.

#### **1.11 Nomination for Eligible Trading and Demat Account**

- a) SEBI, vide circular no. SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021 had mandated providing choice of nomination details, i.e., either furnishing of nomination or declaration for opting out of nomination for investors opening new trading and or demat account(s) on or after October 01, 2021 and for all existing eligible trading and demat account holders latest by March 31, 2022 failing which the trading accounts shall be frozen for trading and demat account shall be frozen for debits. Refer SEBI Circular No SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021, for the format of nomination form or Declaration Form for opting out of nomination.
- b) Thereafter, on the basis of representations received from various stakeholders, vide SEBI circular SEBI/HO/MIRSD/MIRSD\_RTAMB/P /CIR/2022/23 dated February 24, 2022, the timeline for mandatory submission of 'choice of nomination' for existing trading and demat accounts was extended to March 31, 2023.
- c) Based on the assessment of the trading as well as demat accounts in which choice of nomination details (i.e. furnishing of nomination or declaration for opting out of nomination) has not been updated and on the basis of representations received from the stakeholders, SEBI vide its circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/42 dated March 27, 2023, has stated that the provisions mentioned at para 7 of SEBI circular No. SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021 read with para 3 (a) of SEBI circular SEBI/HO/MIRSD/MIRSD\_RTAMB/P/CIR/2022/23 dated February 24, 2022 with regard to freezing of accounts shall come into force with effect from **September 30, 2023** instead of March 31, 2023.

- d) Exchange vide its notice no. 20230328-8 dated March 28, 2023 requires all trading members to encourage their clients to update 'choice of nomination' by sending a communication on fortnightly basis by way of emails and SMS to all such UCCs / demat accounts wherein the 'choice of nomination' is not captured. The communication shall provide guidance through which the client can provide his/her 'choice of nomination'.
- e) As per SEBI circular no. SEBI/HO/MIRSD/POD-1/P/CIR/2023/158 dated September 26, 2023 and Exchange notice no. 20230926-64 dated September 26, 2023 "Submission of 'choice of nomination' for trading accounts has been made voluntary as a step towards ease of doing business".

*\* Signature of witness, along with name and address are required, if the account holder affixes thumb impression, instead of signature*

**Note:**

*This nomination shall supersede any prior nomination made by the account holder(s), if any. The Trading Member / Depository Participant shall provide acknowledgement of the nomination form to the account holder(s)*

**1.12 Framework for automated deactivation of trading and demat accounts in cases of inadequate KYCs:**

This is with reference to the Exchange notice no. 20220830-56 dated August 30, 2022, 2 and 20221128-41 dated November 28, 2022 on "Framework for automated deactivation of trading and demat accounts in cases of inadequate KYCs", wherein SEBI instructs MIIs to serve any Show Cause Notice ("SCN") or order issued by SEBI, the MIIs shall arrange to physically deliver the same to the entity. The MIIs shall forward the signed acknowledgement of its receipt by the concerned addressee or its authorized representative to SEBI within a period of 30 working days from the date of receipt of such instructions from SEBI.

Further to SEBI communication, the period of 30 working days is now being revised to 15 working days from the date of instructions from SEBI. In case, the show cause notice / order is not delivered within 15 days, the client will be deactivated from trading, based on the Permanent Account Number (PAN) within 5 working days from the last unsuccessful delivery report submitted by the Trading Member/s.



### **1.13 Guidelines on Identification of Beneficial Ownership:**

SEBI Master Circular No. CIR/ISD/AML/3/2010 dated December 31, 2010 has mandated all registered intermediaries to obtain, as part of their Client Due Diligence policy, sufficient information from their clients in order to identify and verify the identity of persons who beneficially own or control the securities account. The beneficial owner has been defined in the circular as the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted and includes a person who exercises ultimate effective control over a legal person or arrangement.

SEBI has also prescribed uniform Know Your Client (KYC) requirements for the securities markets vide circular nos. CIR/MIRSD/16/2011 dated August 22, 2011 and MIRSD/SE/Cir-21/2011 dated October 5, 2011. The SEBI KYC Registration Agency (KRA) Regulations, 2011 have been notified and guidelines have been issued under these regulations from time to time. Further, the Prevention of Money Laundering Rules, 2005 also require that every banking company, financial institution and intermediary, as the case may be, shall identify the beneficial owner and take all reasonable steps to verify his identity.

The Government of India has specified a uniform approach to be followed towards determination of beneficial ownership. Accordingly, the stock brokers shall comply with the following guidelines.

#### **A. For clients other than individuals or trusts:**

The stock brokers shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

- a) The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

#### **Explanation: Controlling ownership interest means ownership of/entitlement to:**

- i. More than 25% of shares or capital or profits of the juridical person, where the juridical person is a company.
  - ii. More than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
  - iii. More than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.
- b) In cases where there exists doubt under clause (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement,

arrangements or in any other manner.

- c) Where no natural person is identified under clauses (a) or (b) above, the identity of the relevant natural person holds the position of senior managing official.

**B. For client which is a trust:**

The intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

**C. Exemption in case of listed companies:**

Where the client or the owner of the controlling interest is a company listed on a stock exchange or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

**D. Applicability for foreign investors:**

Intermediaries dealing with foreign investors" viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, may be guided by the clarifications issued vide SEBI circular CIR/MIRSD/11/2012 dated September 5, 2012, for the purpose of identification of beneficial ownership of the client. with UIDAI provided, the amount invested by the client does not exceed Rs. 50,000 per financial year per Mutual Fund and payment for the same is made through electronic transfer from the client's bank account registered with that Mutual Fund. Refer Exchange Notice No. 20160125-19 dated January 25, 2016, 20160311-27 dated March 11, 2016 and 20160405-14 April 05, 2016 on the same.

**1.14 Client Registration Documents in Vernacular Languages**

Exchange vide Notice no 20160711-11 dated July 11, 2016. This has reference to the SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011, on client registration documents. To facilitate better understanding of the registration documents by the investors, Exchange is pleased to provide the following documents in 15 regional vernacular languages:

- a) Document stating the Rights & Obligations of stock broker, Authorized Person and client for trading on exchanges (including additional rights & obligations in case of internet / wireless technology-based trading)
- b) Uniform Risk Disclosure Documents (for all segments / exchanges)
- c) Guidance Note detailing Do's and Don'ts for trading on exchanges.

The above-mentioned documents in the vernacular languages are available on BSE website at [https://www.bseindia.com/static/investors/client\\_regislanguages.aspx](https://www.bseindia.com/static/investors/client_regislanguages.aspx) and can be downloaded. Trading Members are advised to make available the documents to their clients on demand and display the same on their own website. It may be noted that the documents are a translated version of the documents in English and for reference purpose only. In case of any ambiguity the contents of the English version would prevail.

### **1.15 Simplification of Account Opening Kit**

In order to keep the smooth process of client registration, SEBI has issued a circular no. CIR/MIRSD/64/2016 dated July 12, 2016, it has been decided that, stock broker/ depository participant shall make available these standard documents to the clients, either in electronic or physical form, depending upon the preference of the client as part of account opening kit. The preference of the client shall be sought as part of the account opening form. In case the documents are made available in electronic form, stockbroker/ depository participant shall maintain logs of the same.

### **1.16 Operationalization of Central KYC Records Registry (CKYCR) and uploading of clients' KYC details**

Central KYC Registry is a centralized repository of KYC records of customers in the financial sector with uniform KYC norms and inter-usability of the KYC records across the sector with an objective to reduce the burden of producing KYC documents and getting those verified every time when the customer creates a new relationship with a financial entity. Registered intermediaries were directed to upload the KYC data with CKYCR as under:

- a) The KYC details of existing and new individual clients shall be uploaded as under: A) Registered intermediaries shall upload the KYC data with CKYCR in respect of all individual accounts opened on or after August 1, 2016, wherever KYC is required to be carried out as per the circulars issued by SEBI from time to time.
- b) With respect to uploading of KYC data of the existing individual clients with CKYCR, Stock Brokers to ensure 50% completion of uploading of existing KYC data by November 30, 2016 and the remaining 50% of KYC data by December 31, 2016.

In respect of all individual accounts opened on or after August 01, 2016. In this regard, SEBI has issued circular on Operationalization of Central KYC Records Registry (CKYCR) vide circular no. CIR/MIRSD/66/2016 dated July 21, 2016, Exchange notice No. dated 20160722-8 July 22, 2016. "Uploading of the existing clients' KYC details with Central KYC Records Registry (CKYCR) System by the Registered Intermediaries" vide circular no. CIR/MIRSD/120/2016 dated November 10, 2016, and Exchange e notice no. 20161111-24 dated November 11, 2016.

## Rollout of Legal Entity Template

CKYCR, in its communication no. CKYC/2020/11 dated January 04, 2021 has specified that since CKYCR is fully operational for individual clients, it has been decided to extend CKYCR to Legal Entities (LE) as well. Accordingly, Registered Intermediaries (RIs) shall upload the KYC records of LE accounts opened on or after April 01, 2021 on to CKYCR in terms of Rule 9 (1A) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

RIs shall ensure that in case of LE accounts opened prior to April 1, 2021, the KYC records are uploaded on to CKYCR when the updated KYC information is obtained/received from the client. RIs shall ensure that during such receipt of updated information, the clients' KYC details are migrated to current Client Due Diligence (CDD) standards.

Further, to ensure that all existing KYC records of individual clients are incrementally uploaded on to CKYCR, RIs shall upload the KYC records pertaining to accounts of individuals opened prior to August 01, 2016, as and when updated KYC information is obtained/received from the client.

Where a client, for the purpose of establishing an account based relationship, submits a KYC Identifier to a RI, with an explicit consent to download records from CKYCR, then such RI shall retrieve the KYC records online from CKYCR using the KYC Identifier and the client shall not be required to submit the same KYC records or information or any other additional identification documents or details, unless there is a change in the information of the client as existing in the records of CKYCR.

Once KYC Identifier is generated by CKYCR, the RIs shall ensure that the same is communicated to the individual/legal entity. The provisions of this circular are not applicable to Foreign Portfolio Investors (FPIs).

### **1.17 Know Your Client requirements for Foreign Portfolio Investors (FPIs):**

SEBI (Foreign Portfolio Investors) Regulations, 2019 (“the Regulations”) <https://www.sebi.gov.in/legal/regulations/jan-2022/securities-and-exchange-board-of-india-foreign-portfolio-investors-regulations-2019-last-amended-on-january-14-2022-55375.html> have been notified and have come into force with effect from September 23, 2019.

The SEBI (Foreign Portfolio Investors) (Amendment) Regulations, 2022 <https://www.sebi.gov.in/legal/regulations/jan-2022/securities-and-exchange-board-of-india-foreign-portfolio-investors-amendment-regulations-2022-55352.html> was notified on January 14, 2022 for generation of Foreign Portfolio Investor (FPI) registration number by SEBI.

FPIs are required to provide KYC related documents based on the category under which it is registered. Once the KYC is completed, the intermediary will upload the Form and supporting documents on the KRA portal for other market intermediaries to access and complete their KYC

requirements. Apart from the KYC requirement stated below, each intermediary may have additional documentation requirement for conducting enhanced due diligence as per their internal policies.

Intermediary can verify the PAN of FPIs online from website authorized by the Income-Tax department. To clarify no certification of PAN document required from FPI. Alternatively, e-PAN issued by CBDT can also be produced by FPI for KYC compliance without requiring any certifications. In such situations where the broker is relying on KRA, it shall verify the PAN and download the available documents from KRA. PAN is not mandatory for UBO, senior management and authorized signatories of FPI.

Sharing of KYC documents with banks towards opening of bank accounts of FPIs

- a) Intermediaries are advised to share the relevant KYC documents with the banks concerned based on appropriate authorization.
- b) Accordingly, a set of hard copies of the relevant KYC documents furnished by the FPIs to intermediaries may be transferred to the concerned bank through their authorised representative.
- c) While transferring such documents, intermediaries shall certify that the documents have been duly verified with the original or notarised documents that have been obtained, where applicable. In this regard, a proper record of transfer of documents, both at the level of the Intermediaries as well as at the bank, under signatures of the officials of the transferor and transferee entities, may be kept.

SEBI vide circular no: IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019, has issued [https://www.sebi.gov.in/legal/circulars/nov-2019/operational-guidelines-for-fpis-and-ddps-under-sebi-foreign-portfolio-investors-regulations-2019-and-for-eligible-foreign-investors\\_44870.html](https://www.sebi.gov.in/legal/circulars/nov-2019/operational-guidelines-for-fpis-and-ddps-under-sebi-foreign-portfolio-investors-regulations-2019-and-for-eligible-foreign-investors_44870.html).

Members are advised to take note of aforementioned guidelines and the modification in operational guidelines from time to time.

### **1.18 Trading supported by Blocked Amount in Secondary Market**

With reference to SEBI circular ref. no. SEBI /HO/MRD/MRD-PoD-2/P/CIR/2023/99 dated June 23, 2023, regarding Trading supported by Blocked Amount in Secondary Market, Exchange has made specific enhancements to the Unique Client Code (UCC) file structure:

- 1) For clients interested in utilizing the '**Unified Payments Interface (UPI)**' for this facility, we have included an "**Opt for UPI**" field in the UCC file structure.
- 2) Trading Members can provide up to 5 Bank and Demat account details for their clients (atleast one Bank and Demat account is mandatory). Trading Members shall ensure that NRE bank account details are not provided.
- 3) Under the UPI mechanism, the primary holder's name and PAN will undergo verification against the provided Bank and Demat account details provided by the client. If disparities or mismatches

are detected, the record will **not** be validated by the NPCI/Depositories and client will not be eligible for utilizing the '**Unified Payments Interface (UPI)**'

- 4) To use the UPI facility, clients must designate at least one Bank and Demat account as their primary account, out of the multiple accounts they have updated. Other Bank and Demat accounts to be marked as "Secondary". Although clients can update multiple Bank and Demat accounts, payouts will only be processed in the primary account opted by them. Subsequent, to the successful payout, the clients can change their primary account/s subject to validation done by NPCI/Depositories.
- 5) Bank account details include Bank Account Name, IFSC Code, and Bank Account Number.
- 6) Demat account details includes Depository Name, Depository Participant ID, and Beneficial Owner Account Number.

### **1.19 Most Important Terms and Conditions (MITC):**

This is with reference to SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023 (Exchange Notice No. 20231115-1 dated November 15, 2023) on "Most Important Terms & Conditions (MITC)".

The standard Most Important Terms and Conditions as finalized in accordance with point no. 4 of the aforesaid SEBI Circular is enclosed in BSE Notice No. 20240105-38 dated 05 January 2024. With respect to new clients onboarded from April 01, 2024, onwards, the MITC shall be required to be acknowledged i.e. duly signed by the client.

Further, in accordance with aforesaid SEBI circular dated November 13, 2023, members are also requested to note that the MITC shall be informed by members to their existing clients by June 01, 2024, via email or any other suitable mechanism which can be preserved. In case if communication gets bounced/undelivered, the same shall be communicated through alternate channels to such clients. Other suitable mechanism may include physical delivery/SMS/electronic instant messaging services after adhering with the safeguards prescribed under Exchange Notice No. 20220607-11 dated June 07, 2022, on Issuance of Electronic Contract Notes (ECN) through SMS/electronic instant messaging services.



**REGULATORY REQUIREMENTS/REFERENCES:**

1	Account Opening Process	SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011 along with Annexures 1 to 6; Exchange Notice no. 20110823-4 dated August 23, 2011; SEBI circular CIR/MIRSD/09/2012 dated August 13, 2012; Exchange Notice no. 20120814-2 dated August 14, 2012; SEBI circular CIR/MIRSD/11/2012 dated September 05, 2012; Exchange Notice no. 20120905-20 dated September 5, 2012; SEBI circular CIR/MIRSD/01/2013 dated January 04, 2013; Exchange Notice no. 20130108-3 dated January 08, 2013; SEBI circular CIR/MIRSD/07/2013 dated September 12, 2013; Exchange Notice no. 20130913-20 dated September 13, 2013; SEBI circular CIR/MIRSD/ 09/ 2013 dated October 8, 2013; Exchange Notice no. 20131009-4 dated October 9, 2013; SEBI circular CIR/MIRSD/13/2013 dated December 26, 2013; Exchange Noticeno. 20131227-3 dated December 27, 2013; Exchange Notice no. 20151005-9 dated October 5, 2015; SEBI/HO/FIIC/CIR/P/2017/068 dated June 30, 2017 and Exchange Notice No. 20170703-8 dated July 03,2017.
2	In-person verification (IPV)	Exchange Notice Nos. 20080707-3 dated July 07, 2008, SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011 along with Annexures 1 to 6; Exchange Notice Nos. 20110823-4 dated August 23, 2011, SEBI Circular No MIRSD/Cir- 26 /2011dated December 23, 2011, Exchange Notice Nos. 20111226-17 dated December 26, 2011,
3	Uploading KYC information with KYC Registration Agency (KRA)	(SEBI Circular No. MIRSD/Cir-23/2011 dated December 5, 2011, Exchange Notice No 20111208-1 dated December 08, 2011, SEBI Circular No MIRSD/Cir- 26 /2011dated December 23, 2011 Exchange Notice No. 20111226-17 dated December 26, 2011, SEBI circular MIRSD/ Cir-5/2012 dated April 13, 2012; Exchange Notice No. Notice no. 20120416-3dated April 16, 2012, SEBI notification no LAD-NRO/GN/2012- 13/35/6998 dated March 22, 2013; SEBI circular CIR/MIRSD/4/2013dated March 28, 2013 Exchange Notice No. 20130401-20 dated April 01, 2013) SEBI CIRCULAR no. SEBI/HO/MIRSD/DoP/P/CIR/2022/46 dated April 6, 2022 SEBI circular no. SEBI/HO/MIRSD/FATF/P/CIR/2023/0144 dated August 11, 2023, SEBI CIRCULAR no. SEBI/HO/MIRSD/SEC/FATF/P/CIR/2024/12 Dated February 20, 2024, SEBI/HO/MIRSD/DOP/CIR/P/2020/73 April 24, 2020 Dated April 2020. SEBI/HO/MIRSD/FATF/P/CIR/2023/0144 August 11, 2023.
4	Delivery of copy of duly completed Client registration forms	SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December 2009,Exchange Notice No. 20091204-7 dated December 04, 2009 Exchange Notice No. 20080624-8 dated June 24, 2008.
5	Allotment of Unique Client code (UCC) And Modification of Client Code	(SEBI circular no. SMDRP/Policy/CIR-39/2001 dated July 18, 2001, SEBI vide Regulation no. LAD-NRO/GN/2013-14/12 notified on January 7, 2014, SEBI circular no. CIR/IMD/FIIC/6/2014 dated March 28, 2014, SEBI letter no. ISD/SP/11595/2012 dated May 23, 2012, SEBI Circular CIR/DNPD/6/2011 dated July 5, 2011, SEBI circular no. CIR/MRD/DP/29/2014 dated October 21, 2014) (Exchange Notice No.93424/2001 dated July 23, 2001, No. 20040128-3 dated January 28, 2004, No.20060927-21 dated September 27, 2006 and

		No.20060928-17 dated September 28, 2006, 20121026-7 dated October 26, 2012, 20131127-12 dated Nov 27, 2013, 20130322-24 March 22,2013, 20130719-3 July 19, 2013, 20130913-19 dated September 13, 2013, 20131203-20 dated December 3, 2013, 20131001-31 dated October 1, 2013, 20140403-8 dated April 3, 2014, 20140516-17 dated May 16, 2014, . 20140529-12 dated May 29, 2014, 20120529-16 dated May 29, 2012, 20120601-15 dated June 1, 2012, 20111214-4 dated December 14, 2011, 20120601-15 dated June 1, 2012, 20110706-1 July 6, 2011, 20110826-4 dated August 26, 2011,20111214-4 dated December 14, 2011, 20141021-15 dated October 21, 2014, 20131127-12 dated November 27, 2013, 20161102-18 dated November 2, 2016, 20190911-56 dated September 11, 2019, 20190913-56 dated September 13, 2019, 20231129-47 dated November 29, 2023 and 20240125-42 dated January 25, 2024)
6	Execution of Power of Attorney (POA) by clients in favor of stock broker / stock brokers	Exchange Notice 20200828-3 regarding Execution of Power of Attorney (PoA) by the Client in favor of the Stock Broker / Stock Broker and Depository Participant
7	Guidelines on Identification of Beneficial Ownership	SEBI circular No. CIR/MIRSD/2/2013 dated January 24, 2013; Exchange Notice No. 20130125-10 dated January 25, 2013

**List of important Notices issued with regards to KYC and UCC:**

Notice No	Subject
20210529-3	Updating of new UCC with all mandatory fields in UCC system of Exchange
20210524-13	Extension for Mandatory fields in Unique Client Code (UCC) information provided to Exchange
20210517-38	Mandatory fields in Unique Client Code (UCC) information provided to Exchange
20210310-44	Amendments to provisions in SEBI Circular dated September 16, 2016 on Unique Client Code (UCC) and mandatory requirement of Permanent Account Number (PAN)
20210412-37	Charges for trading with unregistered UCC/UCC without PAN for the month of March, 2021
20240319-50	Centralization of certifications under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) at KYC Registration Agencies (KRAs)
20240319-20	Entities allowed to use e-KYC Aadhaar Authentication services of UIDAI in Securities Market as sub-KUA
20240215-55	Aadhaar seeding with PAN of Non-Resident Indian (NRI) Clients
20240104-26	Multiple UCC with same Email address and mobile number
20231016-11	Master Circular on Know Your Client (KYC) norms for the securities market
20230926-64	Extension of timelines (i) for nomination in eligible demat accounts and (ii) for submission of PAN, Nomination and KYC details by physical security holders; and voluntary nomination for trading accounts



20230626-2	Aadhaar seeding with PAN
20220715-39	Multiple UCCs allotted to clients
20220623-58	Compliant UCCs ONLY will be allowed to place orders / bids w.e.f. July 4, 2022
20210928-53	Treatment of Inactive Trading account
20210529-3	Updating of new UCC with all mandatory fields in UCC system of Exchange
20210524-13	Extension for Mandatory fields in Unique Client Code (UCC) information provided to Exchange
20210517-38	Mandatory fields in Unique Client Code (UCC) information provided to Exchange
20210310-44	Amendments to provisions in SEBI Circular dated September 16, 2016 on Unique Client Code (UCC) and mandatory requirement of Permanent Account Number (PAN)
20210331-51	Rollout of Legal Entity Template
20161130-13	Uploading of the existing clients' KYC details with Central KYC Records Registry (CKYCR) System by the registered intermediaries
20161111-24	Uploading of the existing clients' KYC details with Central KYC Records Registry (CKYCR) System by the Registered Intermediaries
20160722-8	Operationalization of Central KYC Records Registry (CKYCR)
20200425-2	Clarification on Know Your Client (KYC) Process and Use of Technology for KYC
20231230-2	Clarification on Know Your Client (KYC) Process and Use of Technology for KYC. (members shall obtain express consent and/or explicit confirmation from the clients for the trading preferences in the Derivatives Segments by providing an option to the clients to only select/opt in at the time of onboarding of the client)
20221007-63	Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / re-pledging of securities - Clarification
20220630-39	Implementation of Circular on 'Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / re-pledging of securities' - Extension
20220406-19	Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / re-pledging of securities
20230626-68	Trading supported by Blocked Amount in Secondary Market
20231018-39	Trading Supported by Blocked Amount in Secondary Market - Revised batch upload file format UCC
20231211-51	Trading Supported by Block Trading supported by Blocked Amount in Secondary Market- Revised file format UCC
20240117-40	Reminder - Revised format for Unique Client Code (UCC)

## **ITEM 2 - CONTRACT NOTES**

### **2.1 Issue of contract notes:**

The Contract note is a document through which a contractual obligation is established between a member-broker and his client. This is the prime document on the basis of which all the disputes between the member-broker and his clients are settled.

- Every member-broker is required to issue contract notes to all his clients for the securities sold and purchased by him on their behalf within one working day of execution of trade and obtain acknowledgement of the clients along with the date of receipt on the duplicates/counterfoils of the contract notes and preserve the same for future reference. The member-brokers shall maintain a proper record for dispatch of contract notes to the clients if the same are dispatched through post, courier etc.
- When a member-broker is acting as an agent for his client, they are advised to ensure that the contract notes are issued strictly in accordance with the format prescribed by the BSE. Further, members may mention the details including the brokerage amount/rate in the contract notes in four decimal places. (Refer Exchange Notice No. 20130221-4 dated February 21, 2013 and 20140717-12 July 17, 2014 and Exchange notice 20220325-59 dated 25 March 2022).
- The member-brokers are required to issue contract notes to clients, which are serially numbered with unique running serial numbers commencing from one which shall be reset only at the beginning of every financial year. It is hereby clarified that financial year for the purpose of resetting the serial number of contract note is April to March.
- It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in contract notes issued to the clients

### **2.2 Signature on Contract Note:**

The contract notes are required to be signed either by the member-broker himself or his constituted attorney. Further, a copy of Board resolution / Power of Attorney, authorizing the person to sign the contract notes on behalf of the member, is required to be filed with the BSE and maintain BSE acknowledged copy for the same. In case a sole proprietor/partnership firm wishes to authorize another person to sign the contract notes, then the member-broker is required to execute a power of attorney authorizing another person(s) to sign the contract notes. In case of corporate member, a board resolution is required to be passed to authorize a person(s) including Directors to sign the contract notes. The power of attorney / board resolution(s) together with specimen signatures of authorized signatories are required to be filed with the Membership Department of the BSE.

Stock Brokers may affix facsimile signatures (scanned signature) on the physical contract notes issued to their clients after ensuring that adequate controls and procedures are put in place regarding the use of facsimile/scanned signature.

Stock Broker opting to use this facility should have a well-documented policy regarding its use which shall be implemented after appropriate board approval (in case of corporates), partners (in case of partnership firms) or proprietor (in case of sole proprietorship firm) as the case may be. Further, the authorized signatories should necessarily be approved by the Board/Partners/Proprietor for use on the contract notes.

The policy should clearly specify the procedure to be adopted for its use, the controls in place and procedure to be followed in case of any change of authorized signatories.

In case, an authorized signatory whose signature was used for the above purpose, no longer holds the position, then the use of his signature should not be continued afterwards under any circumstances.

Any contract note issued with facsimile/scanned signature shall be deemed to have been signed by the authorized signatory notwithstanding any misuse of facsimile/scanned signature and the ultimate responsibility to prove its genuineness shall rest with the Stock Broker. Refer Exchange Notice No. 20160607-4 dated June 07, 2016.

### **2.3 Electronic issuance of contract notes**

The stock broker may issue electronic contract notes (ECN) only if specifically authorized by the client subject to the following conditions.

- a) The authorization shall be in writing and be signed by the client only and not by any authorized person on his behalf or holder of the Power of Attorney.
- b) The email id shall not be created by the broker. The client desirous of receiving ECN shall create/provide his own email id to the stock broker. Thus, e-mail id should be created / provided by the investor only.
- c) The authorization shall have a clause to the effect that any change in the email-id shall be communicated by the client through a physical letter to the broker. In respect of internet clients, the request for change of email id may be made through the secured access by way of client specific user id and password (Refer to Exchange Notice No.20091204-7 dated December 04, 2009).

All ECNs sent by e-mail are to be digitally signed, encrypted, non-tamper able and complying with the provisions of the IT Act, 2000. Whenever ECN is sent, proof of delivery i.e., sent log report generated by the system at the time of sending the contract notes is to be maintained by the member

broker for the specified period, in a soft and non-tamper able form. Further, a log report to provide the details of contract notes that are not delivered to the client / rejected or bounced e-mails is also to be maintained.

### **2.3.1 Specifically consent for Issuing ECN:**

The digitally signed ECNs may be sent only to those clients who have opted to receive the contract notes in an electronic form, either in the Client Registration Document or by a separate letter. The mode of confirmation shall be as per the agreement entered into with the clients and proper communication is to be made in the agreement executed with the client for issuing Electronic Contract Notes that non-receipt of bounced mail notification shall amount to delivery of the contract note at the e-mail ID of the client.

Physical contract note is to be sent to the clients, wherever an Electronic Contract Note has bounced back from the e-mail ID of the client. Further, proof of delivery of such physical contract notes is to be maintained by the member.

### **2.3.2 Email for sending ECN:**

The usual mode of delivery of ECNs to the clients shall be through e-mail. For this purpose, the client shall provide an appropriate e-mail account to the member which shall be made available at all times for such receipts of ECNs.

In addition to usual mode of delivery of ECNs to the clients through email, members may additionally send ECN through SMS / electronic instant messaging services. shall provide an option to clients for receiving ECNs through such additional modes of communication. (Refer Exchange Notice 20220607-11 dated 07 June 2022)

- Members shall send ECN through SMS / electronic instant messaging services only to the applications linked to the registered mobile number/ email id of clients as uploaded by members on the Exchange portal/database.
- The client shall communicate any change in the email-id / mobile number through a physical letter to the member. If the client has opted for internet-based trading (IBT), the request for change of email id / mobile number may be made through the secured access by way of client specific user id and password.
- The messages sent through SMS / electronic instant messaging services are not covered under the auto delete facility at the option of the members.
- The existing guidelines for ECN like access to ECN through website login, delivery proof (ECN log), sending physical in case of non-delivery, etc. are mentioned in SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011.

### **2.3.3 Acknowledgement, proof of delivery, log report etc. of ECN:**

The acknowledgement of the e-mail shall be retained by the member in a soft and non-tamperable form.

#### **Proof of delivery:**

- a) The proof of delivery i.e., log report generated by the system at the time of sending the contract notes shall be maintained by the member for the specified period under the extant regulations of SEBI/stock exchanges and shall be made available during inspection, audit, etc.
- b) The member shall clearly communicate to the client in the agreement / client registration documents executed with the client for this purpose that non-receipt of bounced mail notification by the member shall amount to delivery of the contract note at the e-mail ID of the client.

#### **Log Report for rejected or bounced mails:**

- a) The log report shall also provide the details of the contract notes that are not delivered to the client/ e-mails rejected or bounced back.
- b) Also, the member shall take all possible steps including settings of mail servers, etc. to ensure receipt of notification of bounced mails by the member at all times within the stipulated time period under the extant regulations of SEBI/stock exchanges.

#### **Requirement of sending contract notes in Physical mode:**

- a) In the case of those clients who do not opt to receive the contract notes in the electronic form, the member shall continue to send contract notes in physical mode to such clients.
- b) Wherever the ECNs have not been delivered to the client or has been rejected bouncing of mails by the e-mail ID of the client, the member shall send a physical contract note to the client within the stipulated time under the extant regulations of SEBI/stock exchanges and maintain the proof of delivery of such physical contract notes.

#### **ECNs on website:**

- a) In addition to the e-mail communication of the ECN to the client, it must be simultaneously published on the website of the member in a secure way and enable easy access to the clients through client specific user ID & password.
- b) In order to enable clients to access the ECNs posted in the designated website in a secured way, the member shall allot a unique user name and password for the purpose, with an option to the client to access the same and save the contract note electronically or take a print out of the same.

The member shall retain/archive such electronic documents as per the extant rules/regulations/circulars/guidelines issued by SEBI/Stock Exchanges from time to time.

## **2.4 Format of Common Contract Note:**

The Member's attention is drawn to Exchange notice 20220325-59 dated 25 March 2022 wherein the format of Contract Note has been revised, accordingly, Members opting to send "Contract Note Cum Tax Invoice" shall send the contract note in the format enclosed as Annexure – A and Members opting to send the Contract Note and the tax invoice separately shall send the contract note in the format enclosed as Annexure-B of said circular.

In case of Institutional clients, the current practice may be continued.

Members who do not opt for the issuance of consolidated common contract notes, may issue different contract notes for different segments/Exchanges.

- a) **The following clarifications may be noted for issuance of revised format of common contract notes cum bill:** -Exchange-wise rows for Brought Forward Position in case of Derivatives segment shall be optional and in such case the document shall be called Contract note and not Contract Note cum Bill.
- b) Serial Number of the contract notes issued in the prescribed format shall commence from the Page 40 of 137 first trade executed on the date of initial issue in the new format. In case the Member does not opt for consolidated contract note, they may continue with the current serial numbers.
- c) Where column for Brought Forward Position is not shown, column for "closing rate per unit (only for derivatives)" may be removed from the common contract note format.
- d) The contract note shall be printed and issued in a readable font.
- e) For mentioning settlement number and date, additional columns can be incorporated in case the client has dealt with multiple Exchanges and segments.
- f) Securities Transaction Tax (STT) and Service tax amounts shall be mentioned as a consolidated figure on the Contract note. Members may also provide details of STT trade wise in the contract notes. However, details of trade-wise STT shall be provided by the Members on an annual basis to clients if the same is not provided in the contract note or along with the contract note.  
*\*In case of GST, the tax shall appropriately be displayed as CGST, SGST, IGST as the case may be.*
- g) In case of any square off trade/s executed by the Trading Member, pursuant to margin calls being made to the client and the client failing to comply with them, the remark column in the contract note shall indicate the same against such trades.
- h) Where Back-office trading code of a client is different from the UCC of such client that is uploaded to the Exchange, such Exchange and Segment wise back-office code shall be separately mentioned in the table provided.
- i) In case a client has different UCC, Exchange wise and segment wise, the same can be mentioned by inserting an additional row in the table for capturing the trading and back-office code.
- j) In case of multiple Exchanges, all SEBI registration numbers are required to be mentioned.



- k) Serial Number for each series of contract notes issued from August 01<sup>st</sup> 2014 onwards shall commence from the first trade executed on that date and need not be on a pre-printed stationary. In case the member does not opt for consolidated contract note, he may continue with the current serial numbers.
- l) Additional details in the contract notes may be provided, however the same should not be in contravention to Rules, Regulations and Circulars issued by the Exchange from time to time.
- m) In case of contract notes issued at the weighted average price (WAP), the same can be done up to four decimal places.
- n) Where the Member is registered under a different name with another Exchange, separate Exchange wise contract notes shall be issued to the clients.
- o) Inclusion of ISIN details in Bills/Contract Notes/Statements issued by the Stock Brokers to their clients as SEBI, vide its letter no. MIRSD-4/AS/NS/6127/2015 dated February 26, 2015, and Exchange Notice No. 20150303-26 dated March 3, 2015, has directed that “ISIN” details of securities traded in the Cash Segment shall be included in Bills/Contract Notes/Statements issued by the Stock Brokers to their clients for the Cash Segment w.e.f. June 30, 2015

## **2.5 Issuance of Contract Notes through STP in the Equity Segment:**

SEBI Circular no. DNPD/Cir-9/04 dated February 3, 2004, has facility of issuance of ECNs as a legal document using STP to the equity segment and has provided a model contract note in electronic form (IFN 515 messaging format) and confirmation of electronic contract note (IFN 598 messaging format). In consultation with SEBI, it has been decided that stamp duty would be incorporated as a separate field in the Straight Through Processing (STP) system with effect from January 1, 2021. (Refer Exchange Notice 20200930-68 dated 30 September 2020).

## **2.6 Issuance of Contract Notes through STP in the Equity Derivatives Segment:**

SEBI vide circular no. SEBI/DNPD/143542 /Cir-43/08 dated 6th November 2008, has extended the facility of issuance of ECNs as a legal document using STP to the equity derivatives segment and has provided a model contract note in electronic form IFN 515 messaging format and confirmation of electronic contract note IFN 598 messaging format. In consultation with SEBI, it has been decided that stamp duty would be incorporated as a separate field in the Straight Through Processing (STP) system with effect from January 01, 2021. Accordingly, appropriate changes to the messaging standards have been prescribed vide Exchange Notice No. 20200930-68 dated September 30, 2020.

## **2.7 Brokerage, Statutory Levies and Regulatory Levies & Charges (Refer Exchange Notice Nos. 20140717-12 dated July 17, 2014 and 20150515-27 dated May 15, 2015):**

Members have been advised to prominently display the details of brokerage/charges to be levied for each order on the “Order placement window/screen” to the investor on their Internet Based Trading (IBT) / Wireless Trading (WT) applications prior to placement of order. (Reference Notice No. 20221003-60 dated October 03, 2022, and 20221208-1 dated December 08, 2022)



**1) Following levies/ brokerage can only be charged to client in the contract note:**

**Brokerage:**

can be charged as may be mutually agreed between member & client subject to maximum permissible by the Exchange and brokerage rates should be mentioned in a tariff sheet.

**Statutory levies:**

These are charges levied by Central/ State governments e.g., Service Tax, Security Transaction Tax (STT), Stamp Duty, etc. and may be recovered from client only at actuals paid/ payable.

**Regulatory levies/charges:**

These are charges levied by SEBI / Exchanges / Clearing Corporations eg. SEBI turnover fees, Exchange transaction charges, etc. If such charges are separately recovered from client, they may be specified in contract notes or may be given under the head "Other levies, if any". The above charges may be recovered from client only at actuals paid/ payable.

**2) Brokerage can be charged as under:**

**Capital Market Segment :** The maximum rate of brokerage that can be charged by a member-broker shall not exceed 2.5% of the contract price per share/debenture or 0.25 paise per share may be collected, whichever is higher.

Member-broker shall levy brokerage on all the trades executed on behalf of its constituents except those which are in the nature of charity. (Bye-law 205 and 215 of the Rules, Byelaws and Regulations of the Exchange).

**Futures and Option contracts:** With reference to reference to Exchange notice nos. 20130819-2 dated August 19, 2013, 20140717-12 dated July 17, 2014, and 20150515-27 dated May 15, 2015, wherein Exchange has provided a clarification on the Brokerage, Statutory & Regulatory Levies to be charged by the Members. Exchange vide Notice 20140717-12 dated July 17, 2014, has mentioned following provision with respect to brokerage applicable in options contracts across segments in point b of Annexure B of said circular which is as under:

**Future Contracts:** The maximum brokerage chargeable by a trading member in relation to trades executed on the Exchange shall be 2.5% of the contract value exclusive of statutory levies.

**Option contracts:**

As per Exchange Notice No. 20120913-8 dated September 13, 2012, maximum brokerage on options contracts shall not exceed 2.5% of the premium amount or Rs 100/- (per lot) whichever is higher. Further, the trading members can charge brokerage for option contracts only on the premium amount at which the option contract was bought or sold and not on the strike price of the option contract."

Further, clarification was issued w.r.t. brokerage applicable on Option contracts is being interpreted to be applicable only for Futures & Options segment and not for Currency Derivatives segment. In view of the same, it is reiterated that aforesaid brokerage rates are applicable on Option contracts in Futures & Options segment as well as Currency Derivatives Segment and accordingly, the brokerage on options contracts in the Futures & Options segment or Currency Derivatives segment shall not exceed 2.5% of the premium amount or Rs.100/- (per lot) whichever is higher.

Further, the trading members can charge brokerage for option contracts only on the premium amount at which the option contract was bought or sold and not on the strike price of the option contract.

As per Notice No. 20130221-4 dated February 21, 2013, and 20170704-23 dated April 4, 2017 members may mention the details including the brokerage amount/rate in the contract notes in four decimal places.

### 3) **Issue of Contract notes in case of multiple trades (at weighted average price) for a single order:**

In case of multiple trades resulting from single order, at the request of the clients, the member brokers may issue contract notes with weighted average price (WAP), as per the following formula:

$$\text{WAP (Value up to four decimal places)} = \frac{\text{Total value of the shares traded for an order}}{\text{Total number of shares traded for an order}}$$

The member shall ensure that details of trades such as Contract number, Order No., Order time, Trade No., Trade Time, traded quantity etc. is attached to the contract note as an Annexure when a consolidated trade is shown in the contract note. The member-broker shall mention the words “as per annexure” in the place provided for trade no. and trade time in the format of the contract note prescribed by the Exchange. (Exchange notice no. 4646/97 dated November 29, 1997).

### 4) **Pre-paid brokerage schemes:**

It is hereby clarified that.

- The terms & conditions of schemes relating to advance collection of funds towards brokerage and other allied services must be properly documented and positive confirmation of the clients for availing such services/schemes be obtained.
- Where the funds are collected in advance under the pre-paid schemes, the broker must ensure that the brokerage charged should not exceed the amount specified under the exchange by-laws.
- Complaints received in this respect will be viewed very seriously and the broker will be liable for disciplinary action.
- (Refer to Exchange Notice No. 20140324-15 dated March 24, 2014)

## **2.8 Compliance with fit & proper requirement by Members in case of trading in securities of Stock Exchanges:**

As per Regulation 19(1) of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 SECC Regulations, no person shall, directly or indirectly, acquire or hold equity shares of a recognized Stock Exchange or recognized Clearing Corporation unless he is a fit and proper person in terms of Regulation 19 and 20 of the said SECC Regulations.

SEBI circular CIR/MRD/DSA/01/2016 dated January 01, 2016, stipulates procedures for ensuring compliance with Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 SECC Regulations. The said SEBI circular also stipulates that post listing of Stock Exchanges, the text of Regulation 19 & 20 of SECC Regulations with regard to fit and proper shall be made part of the contract note.

In view of the same, Members are required to ensure that their clients who are executing transactions in securities of the listed Exchanges through them are fit & proper as stipulated by the above applicable regulations and attach the text of the said regulations as annexure with the contract notes issued to such clients.

## **2.9 Compliance with fit & proper requirement by Members in case of trading in securities of Depositories:**

As specified under Regulation 23 of SEBI (Depositories and Participants) Regulations, 2018, Members are required to ensure that their clients who are executing transactions in the securities issued by depositories through them are fit & proper. Accordingly, Members shall also attach the text of the criteria for fit & proper person as specified in Regulation 20 of Securities Contracts (Regulation) (Stock exchanges and Clearing Corporations) Regulations, 2018 as annexure to the contract notes issued to such clients.

**REGULATORY REQUIREMENTS/REFERENCES:**

1	Issuance of contract notes	SEBI circular no Cir/MIRSD/9/2010 Dated November 4, 2010; SEBI circular No. CIR/MRD/DSA/24/2010 Dated August 11, 2010; Exchange circular No. 20101109-1 Dated November 09, 2010; Exchange circular No. 20130221-4, Dated February 21, 2013; Exchange circular No. 20140717-12, Dated July 17, 2014; Exchange circular No. 20220325-59, Dated March 25, 2022.
2	Electronic issuance of contract notes	SEBI circular MIRSD/ SE /Cir-19/2009 Dated December 03 , 2009, Exchange circular No. 20050909-13 Dated September 09, 2005; Exchange circular No. 20091204-7, Dated December 04, 2009; and Exchange circular No. 20220607-11 Dated June 07, 2022.
3	Format of Contract Notes	Exchange circular No. 20140324-15, Dated March 24, 2014; Exchange circular No. 20150303-26, Dated March 03, 2015; and Exchange circular No. 20220325-59, Dated March 25, 2022.
4	Issuance of Contract Notes through STP in the Equity Segment	SEBI Circular no. DNP/DCir-9/04 Dated February 3, 2004; Exchange circular No. 20081110-6, Dated November 10, 2008; Exchange circular No. 20181016-12, Dated October 16, 2018; and Exchange circular No. 20200930-68, Dated September 30, 2020.
5	Issuance of Contract Notes through STP in the Equity Derivatives Segment	SEBI circular no. SEBI/DNP/143542 /Cir-43/08 Dated 6th November 2008; Exchange circular No. 20081110-6, Dated November 10, 2008; Exchange circular No. 20181016-12, Dated October 16, 2018; and Exchange circular No. 20200930-68, Dated September 30, 2020.
6	Clarification on Brokerage, Statutory Levies and Regulatory Levies & Charges	Exchange circular No. 20120913-8, Dated September 13, 2012; Exchange circular No. 20130221-4, Dated February 21, 2013; Exchange circular No. 20140324-15, Dated March 24, 2014; Exchange circular No. 20140717-12, Dated July 17, 2014; Exchange circular No. 20150515-27, Dated May 15, 2015; Exchange circular No. 20170704-23, Dated July 04, 2017; Exchange circular No. 20220817-44, Dated August 17, 2022; Exchange circular No. 20221003-60, Dated October 03, 2022; and Exchange circular No. 20221208-1, Dated December 08, 2022.
7	Compliance with fit & proper requirement by Members in case of	SEBI circular CIR/MRD/DSA/01/2016 Dated January 01, 2016.

	trading in securities of Stock Exchanges	
8	Compliance with fit & proper requirement by Members in case of trading in securities of Depositories	SEBI (Depositories and Participants) Regulations, 2018; Regulation 23 of SEBI (Depositories and Participants) Regulations, 2018.

### **ITEM 3 - MARGIN COLLECTION FROM CLIENTS**

#### **3.1 Clarification regarding margin collection and reporting by members:**

With effect from April 1, 2020, margin of clients will not include related person/entities and all margins should be of respective clients in any of the following forms only provided they are free & unencumbered, after considering their risk management policy and liquidity aspects:

- a) Consolidated funds balance across all segments and Exchanges (including Commodities).
- b) Securities (including mutual fund, Government securities and Treasury bills) in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges, with appropriate haircut. (List of illiquid securities are declared on a regular basis by the Exchanges). Further, TM shall, inter alia, accept collateral from clients in the form of securities, only by way of 'margin pledge', created in the Depository system (in accordance with the SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020).
- c) Securities received in pay out and available in CUSA account (reduced by the appropriate haircut subject to minimum 20%) after adjusting any debit balances in client ledger shall be considered for collection and reporting of margin.
- d) In respect of sale of shares by a client for which early pay-in (EPI) has been accepted by CC and credit entry is posted of the sale value of the shares in the ledger account of the client, EPI value may be considered as margin collected towards subsequent margin requirement of the client. However, the sale value of such securities (EPI value), as reduced by value of the 20% upfront Margin, shall be available as Margin for other positions across all the segments.
- e) Cheques received / recorded in the books of Member on or before T Day and deposited by Member by T+1 day (excluding bank holiday, if any), can be considered towards collection/reporting of upfront margins, provided the same is cleared within T+5 working days. Cheques received / recorded in the books of Member on or before T+1 day and deposited by member by T+2 day (excluding bank holiday, if any), can be considered towards collection/reporting of margin on consolidated crystallized obligation (in Derivatives Segment), provided the same is cleared within T+5 working days. Cheques received / recorded in the books of Member on or before T+2 day and deposited by member by T+3 day (excluding bank holiday, if any), can be considered Towards collection/reporting of MTM losses (in Cash and Commodity Segment), provided the same is cleared within T+5 working days.
- f) For purpose of reporting margin collected by the trading members, it is further clarified that:
- g) Members should ensure that only cheques which are cleared should be considered and cheques dishonored or not cleared up to T+5 working days should not be reported as margin / margin on



consolidated crystallized obligation/ MTM collected. If subsequent to the margin reporting by the Member, the cheque deposited by the Member is dishonored or not cleared within T+5 working days, then revised margin file shall be uploaded after factoring into the effect of such dishonored or non-cleared cheques, with incremental batch number within the above mentioned five days.

- h) Free and Unencumbered funds where funds are available in the bank account of client and specifically blocked by member on T day and actually moved to client bank account maintained by the member by T/T+1 day.
- i) In consultation with SEBI and vide Exchange Notice No. 20200211-29 dated February 11, 2020 it has been clarified that with effect from April 01, 2020 margin available with related entities of the client cannot be considered as margin of the respective client. All margins should necessarily be collected from the respective client only.
- j) The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:
  - i. EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.  
and
  - ii. Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.

Higher of the shortfall in collection of the margin obligations at (i) and (ii) above, shall be considered for levying of penalty as per the extant framework. Refer SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020:

### **3.2 Clarification issued on January 19,2024 towards ineligibility of BG and FDR by clients as collateral:**

As per Exchange Notice No. 20240119-30 Dated January 19, 2024, the bank instruments provided by the clients as collateral (i.e. client FDRs and client BGs) can't be up-streamed to the CCs, and they shall be ineligible to be accepted as collateral in any segment of securities market. Hence it is clarified that all such bank instruments provided by the clients shall not be considered for the purpose of margin collection from the clients by the TMs/CMs/Bank CMs/Custodians.

Further, only non-individual clients are allowed to give BGs as margins, for commodities derivatives segment subject to compliance of point number 8 and other terms and conditions mentioned in the Annexure A of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023.

### **3.3 Acceptance of Collateral from clients only by way of "Margin Pledge:**

TM / CM shall, inter alia, accept collateral from clients in the form of securities, only by way of 'margin

pledge', created in the Depository system in accordance with Section 12 of the Depositories Act, 1996 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories. Section 12 of the Depositories Act, 1996 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories clearly enumerate the manner of creating pledge of the dematerialised securities. Any procedure followed other than as specified under the aforesaid provisions of law for creating pledge of the dematerialised securities is prohibited. It is clarified that an off-market transfer of securities leads to change in ownership and shall not be treated as pledge. Transfer of securities to the demat account of the TM / CM for margin purposes (i.e. title transfer collateral arrangements) has been prohibited. In case, a client has given a power of attorney in favour of a TM / CM, such holding of power of attorney shall not be considered as equivalent to the collection of margins by the TM / CM in respect of securities held in the demat account of the client. Depositories have provided a separate pledge type viz. 'margin pledge', for pledging client's securities as margin to the TM / CM. The TM / CM shall have a separate demat account for accepting such margin pledge, which is tagged as 'Client Securities Margin Pledge Account'.

For the purpose of providing collateral in form of securities as margin, a client shall pledge securities with TM, and TM shall re-pledge the same with CM, and CM in turn shall re-pledge the same to Clearing Corporation (CC). The complete trail of such re-pledge shall be reflected in the de-mat account of the pledgor. The TM shall re-pledge securities to the CM's 'Client Securities Margin Pledge Account' only from the TM's 'Client Securities Margin Pledge Account'. The CM shall create a repledge of securities on the approved list to CC only out of 'Client Securities Margin Pledge Account'. In this context, re-pledge would mean endorsement of pledge by TM / CM in favour of CM/CC, as per procedure laid down by the Depositories. The TM and CM shall ensure that the client's securities repledged to the CC shall be available to give exposure limit to that client only. Dispute, if any, between the client, TM / CM with respect to pledge, re-pledge, invocation and release of pledge shall be settled inter-se amongst client and TM / CM through arbitration as per the bye-laws of the Depository. CC and Depositories shall not be held liable for the same. Securities that are not on the approved list of a CC may be pledged in favour of the TM / CM. Each TM / CM may have their own list of acceptable securities that may be accepted as collateral from client.

Funded stocks held by the TM / CM under the margin trading facility shall be held by the TM / CM only by way of pledge. For this purpose, the TM / CM shall have a separate demat account tagged 'Client Securities under Margin Funding Account' in which only funded stocks in respect of margin funding shall be kept/ transferred, and no other transactions shall be permitted. The securities lying in 'Client Securities under Margin Funding Account' shall not be available for pledge with any other Bank/ NBFC. The TM / CM shall be required to close all existing demat accounts tagged as 'Client Margin/ Collateral', and transfer all client's securities lying in such accounts to the respective clients' demat accounts. Thereafter, TM / CM as indicated above, and in pool account(s), unpaid securities account, as provided in SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019. are prohibited from holding any client securities in any beneficial owner accounts of TM/CM, other than specifically tagged accounts.

## **How margin pledge mechanism works:**

### **Margin Pledge Initiation:**

- i. For the purpose of providing collateral in form of dematerialised securities as margin, a client shall initiate the margin pledge only in favour of the TM / CM's separate client securities margin account tagged as 'Client Securities Margin Pledge Account' through physical instruction or electronic instruction mechanism provided by the Depositories. Such instructions shall have details of client UCC, TM, CM and Default Segment.
- ii. In cases where a client has given a 'Demat Debit and Pledge Instruction' ("DDPI")/ Power of Attorney (the "POA") to the TM / CM, the TM / CM may be allowed to execute the margin pledge on behalf of such client to the demat account of the TM / CM tagged as 'Client Securities Margin Pledge Account'.
- iii. The 'pledge request form' shall have a clause regarding express consent by the client for re-pledge of the securities by the TM to CM and further by the CM to CC.
- iv. On receipt of the margin pledge instruction either from the client or by TM / CM as per the DDPI/ POA, DP of a client shall initiate a margin pledge in the client's account and the status of instruction will remain pending till confirmation is received from client / pledgor. The client will submit acceptance by way of One Time Password (the "OTP") confirmation on mobile number / registered e-mail id of the client or other verifiable mechanism. The Depositories shall develop a verifiable mechanism for confirmation of the pledge by the client.
- v. In client account, margin pledge or re-pledge shall be reflected against each security, if it is pledged / re-pledged and in whose favour i.e. TM / CM / CC.
- vi. The TM can re-pledge only in favour of CM's demat account tagged as 'Client Securities Margin Pledge Account'. The CM shall create a re-pledge of securities on the approved list only to the CC out of 'Client Securities Margin Pledge Account'. While re-pledging the securities to the CC, CM/TM shall fully disclose the details of the client wise pledge to the CC/CM. CM would need to have visibility of client level position and client collateral so that CM shall allow exposure and / or margin credit in respect of such securities to that client to whom such securities belong.

### **Release of Margin Pledge:**

In case of a client creating pledge of the securities in favour of the TM / CM against margin, the TM / CM may release the 'margin pledge' after their internal exposure and risk management checks. The request for release of pledge can be made by the client to its DP or to the TM / CM, who shall release the pledge in the Depository system.

For release of client securities given to TM/CM as margin pledge and which are re-pledged in favour of the CC, the CM shall make a request to the CC. The client through TM, or the TM on his own, may request the CM to make an application to the CC for the release of margin pledge. CC shall do margin utilisation check at Page 51 of 137 the CM level before releasing the re-pledge of securities to the CM. The CC will release the re-pledged client securities to CM after blocking other available free collateral of CM. The CM /TM in turn after doing their risk management shall release the securities to TM / client, as the case may be.

### **Invocation of Margin Pledge**

- a) In case of default by a client of TM where the clients securities are re- pledged with the CM/ CC, the invocation request shall be made by the TM to CM and CM in turn will make request to CC as per the procedure laid down by the Depositories under their bye-laws.
- b) In case of default by a client of TM who has pledged securities with TM, The TM shall invoke the pledge.
- c) In case of default by a client of TM whose securities are re-pledged by TM with CM, the invocation request shall be made by TM to the CM. The CM, after doing its internal exposure and risk management, shall release the re-pledged securities to the 'Client Securities Margin Pledge Account' of TM. The TM in turn will invoke the pledge of client's securities.
- d) In the event of default by a client of a TM, whose securities are re-pledged by TM with CM and CM in turn has re-pledged with CC, the TM shall make a request for invocation of pledge with CM and CM in turn shall file a request with CC to release the re-pledged securities for invocation. The CC shall block equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client of TM to CM in "Client Securities Margin Pledge Account" of CM. The CM shall do his own risk assessment of TM and would release re-pledged securities of the defaulting client of TM in "Client Securities Margin Pledge Account" of TM and TM shall invoke the pledge in Demat account of the client. In case of default by a client/ TM of CM whose securities are re-pledged with CC, CM shall file a request with CC for invocation of the pledged/ re-pledged securities of that client/TM. CC shall block the equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client/TM in "Client Securities Margin Pledge Account" of CM and the CM shall invoke the pledge in Demat account of the client/ TM. In case of default by TM or client of TM, CM shall be entitled to invoke pledged/ re-pledged securities of the TM. CM shall also be entitled to invoke directly the repledged securities of client of TM having open position with CM to close out such positions. In case of default by the CM, CC shall invoke securities pledged by the CM. After exhausting the CM own collateral, CC may also invoke re-pledge securities of that client who has open position, and their re-pledged securities are blocked by CC to close out their open positions. The re-pledge securities of other clients who did not have any open position with CC, their securities shall not be available to CC for invocation to meet settlement default of the CM.

### **Framework for utilisation of client's pledged securities for exposure and margin**

- a) At present, the margin requirement is computed in real time at client level by the CC and is aggregated at the level of CMs to arrive at the total margin requirement. The CC maintains and monitor the collateral at the level of CM. The CM is required to provide the collateral in various acceptable forms such as Cash, Bank Guarantee, Govt. Securities, pledge of acceptable shares, etc.
- b) The day-to-day real time risk management with respect to client / TM exposure, and the margin requirement shall continue to be the responsibility of the CM, and CC shall not monitor the client level exposure against the available client level collateral in real time.
- c) In order to provide exposure to CM and/or to the clients / TM of a CM, CC shall aggregate margin requirement at CM level that shall be compared against the available collateral in real

time as aggregate of;

- i. cash and cash equivalent deposited by CM,
  - ii. own securities pledged by CM with CC,
  - iii. CC requires minimum 50% of the collateral to be deposited in cash and cash equivalent, if the total securities pledged by CM with CC exceed the total cash and cash equivalent, the value of securities will be restricted to amount of cash and cash equivalent.
  - iv. The TM's proprietary margin requirement will be treated as a client of CM and aggregated along with other clients.
- d) CM shall be allowed to re-pledge acceptable/approved client securities with the CC by furnishing the UCC wise client details. CC shall not allow any exposure to the CM on re-pledged securities of the client / TM. In case of a trade by a client / TM whose securities are re-pledged with CC, the CC shall first block the available collateral provided by CM as mentioned in point (c) above. However, at periodical interval (latest by end of day), CC shall release the blocked securities collateral of CM to the extent of re-pledged securities collateral of that client / TM available with the CC.
- e) In the event of default by a client of TM, the TM shall make good the default to CM. In the event of default by a client or TM on its proprietary position, the CM shall make good the default to CC. However in the event of default by client/s leading to default of TM and also the CM, the following process shall be applied by TM/CM/CC for invocation of pledged and re-pledged securities of client/TM/CM:
- 1) In case of default by a client of TM/CM or default of TM leading to the default of CM, CC shall:
    - a) encash the available collateral including cash, cash equivalent collateral, CM's own pledged securities.
    - b) After encashing the available collateral of CM, also be entitled to directly invoke the re-pledged securities of client / TM who has any open position so as to close out the open positions of that client.
    - c) not be entitled to invoke re-pledged securities of those clients who did not have any open position to meet settlement obligation of the defaulting CM.
  - 2) In case of default by a client of TM or default of TM, CM Shall:
    - a) be entitled to liquidate available cash, cash equivalent collateral and TM's own pledged /or re-pledged securities with CM/ CC to meet settlement/margin obligations of defaulting TM or client(s) of that TM.
    - b) After encashing the available collateral of TM, be entitled to directly invoke repledged securities of the client of defaulting TM who has open position through CM so as to close out his position.
    - c) not be entitled to invoke re-pledged securities of those clients of defaulting TM who did not have any open position,
    - d) ensure that the client securities of TM/ CM re-pledged with the CC are not utilized for meeting the margin requirement/ settlement obligation of a TM's/CM's own proprietary position or margin requirement/ settlement obligation of any other client of TM / CM.

### **3.4 False reporting of Margins Non-compliance.**

Margin amount reported to the ICCL/Exchange as collected, however margins not collected in any method prescribed above, if considered by the member as margins collected would be construed as false reporting to the Exchange/ICCL.

#### **Penalty structure in case of false margin reporting:**

Members shall not pass on the penalty w.r.t short collection of upfront margins to clients under any circumstances. In case of failure (requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of margins other than “upfront margins” such as consolidated crystallized obligation, Delivery margins, other margins (Mark-to-market & additional margins), member may pass on the actual penalty to the client, provided he has evidence to demonstrate the failure on part of the client. Wherever penalty for short reporting of margins other than “upfront margins” is being passed on to the client relevant supporting documents for the same should be provided to the client.

Further, Exchange vide Notice No. 20220902-47 dated September 02, 2022, has advised the members to refund the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to the clients on an immediate basis if same has been passed on to the clients after October 11, 2021.

### **3.5 Daily Margin Statement:**

In terms of SEBI circular MRD/DOP/SE/CIR-11/2008 dated April 17, 2008, the margin statement is required to be issued by the brokers to the clients on a daily basis at the end of the trade day (T day) itself.

A format of daily margin statement across all the segments which stipulates minimum information to be provided to clients is mentioned below:

Format - Daily Margin Statement to be issued to clients

CLIENT CODE
CLIENT NAME
EXCHANGE

Segment	Trade day	Margins available till T day	Margin required by Exchange / Clearing House/Clearing Corporation end of T Day	Excess / Shortfall w.r.t. Requirement by	Additional Margin requirement	Margin Status (Balance)
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		Funds	Value of Securities (after haircut)	# Bank Guarantees / FDR	Any other approved form of Margins*	Total Margins Available	Initial Margin	Exposure Margin	Total Margin	Exchange / Clearing House/Clearing Corporation	Required by member as per RMS	Balance with Member / Due from client
		A	B	C	D	E=(A+B+C+D)	F	G	H=(F+G)	I=E-H	J	K=(I-J)

**\*approved form as may be specified by the Exchange /Clearing House/Clearing Corporation from time to time**

**# Bank instruments provided by the clients as collateral (i.e. client FDRs and client BGs) cannot be up-streamed to the CCs, and they shall be ineligible to be accepted as collateral in any segment of securities market.**

**Note:**

1. Daily Margin Statement to be issued on a Daily basis at the end of the Trade Day (T Day) itself.
2. Daily Margin statement to mention the name, email id, telephone number and address of compliance officer
3. Detailed exhibits for the margin collected may be provided to the clients. In case of securities (scrip name, qty, value) Bank Guarantee (BG no, amount, expiry date) and FDR's (FDR No., Amount and Maturity date)

### **3.6 Collateral deposited by clients with members:**

In continuation of earlier circulars and in order to reiterate the need for brokers to maintain proper records of client collateral and to prevent misuse of client collateral, SEBI vide circular MRD/DoP/SE/Cir- 11/2008 dated 17th April 2008 has advised that:

- a) Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral.
- b) Brokers should further be able to produce the aforesaid records during inspection. The records should include details of
  - Receipt of collateral from client and acknowledgement issued to client on receipt of collateral.
  - Client authorization for deposit of collateral with the exchange / clearing corporation/clearing house towards margin
  - Record of deposit of collateral with exchange / clearing corporation / clearing house
  - Record of return of collateral to client
  - Credit of corporate action benefits to clients

- c) The records should be periodically reconciled with the actual collateral deposited with the broker.
- d) Brokers should issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilized and collateral status (available balance / due from client) with break up in terms of cash and securities (pledged/repledged) in depository system.
- e) In case of complaints against brokers related to misuse of collateral deposited by clients, exchanges should look into the allegations, conduct inspection of broker if required and, based on its findings, take necessary action.
- f) In case client collateral is found to be mis-utilized, the broker would attract appropriate deterrent penalty for violation of norms provided under Securities Contract Regulation Act, SEBI Act, SEBI Regulations and circulars, Exchange Byelaws, Rules, Regulations and circulars.

### **3.7 Use of Client collateral by Broker:**

SEBI circular no. MRD/DOP/SE/Cir-11/2018 dated April 17, 2008 and the exchange notice no. 20080421-32 dated April 21, 2008 and circular no. CIR/MRD/DP/54/2017 dated June 13, 2017 and the exchange notice no. 20170615-23 dated June 15, 2017, which inter-alia, provide that client collateral/securities shall not be used for purposes other than meeting clients margin requirements/pay-in or as may be stipulated in “Rights & Obligation Document”.

Further, the aforesaid SEBI circular dated June 13, 2017, and Circular no. CIR/MRD/DP/86/2017 dated August 01, 2017 and the exchange notice no. 20170803-5 dated August 02, 2017, contain provision regarding source of funds for the purpose of margin trading facility by the stock broker.

In view of the above, it reiterated that strict compliance with the provisions relating to use of client collateral is ensured by the stock broker.

### **3.8 Guidelines/clarifications on Margin collection & reporting:**

This has reference to Exchange Notice 20200731-7 dated July 31, 2020, with respect to “Guidelines/clarifications on Margin collection & reporting” wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margins to client. However, Exchange has observed that certain members are passing on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins from clients” to respective clients.

In view of the above, it is reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to clients under any circumstances. Further, Exchange Notice 20200731-7 dated July 31, 2020, has been partially modified as below:

*In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?*

Member shall not pass on the penalty w.r.t short collection of upfront margins to clients under any circumstances. In case of failure (requirement not met by the client) on part of the client resulting in penalty levied by the Clearing Corporation on the member for short reporting of margins other than “upfront margins” such as consolidated crystallized obligation, Delivery margins, other margins (Mark-to-market & additional margins), member may pass on the actual penalty to the client, provided he has evidence to demonstrate the failure on part of the client. Wherever penalty for short reporting of margins other than “upfront margins” is being passed on to the client relevant supporting documents for the same should be provided to the client.

### **3.9 Margin Trading Facility:**

A Comprehensive circular on Margin Trading Facility is issued vide Exchange notice 20170615-23 dated June 15, 2017, Securities Eligible for Margin Trading Equity Shares that are classified as ‘Group I security’ as per SEBI Master circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016, shall be eligible for margin trading facility.

Margin Requirement: -

In order to avail margin trading facility, initial margin required shall be as under.

<b>Category of Stock</b>	<b>Applicable margin</b>
Group I stock available for trading in the F & O Segment	VaR + 3 times of applicable ELM*
Group I stock other than F&O stocks	VaR + 5 times of applicable ELM

For aforesaid purposes the applicable VaR and ELM shall be as in the cash segment for a particular stock.

The initial margin payable by the client to the Stock Broker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEBI Master circular no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016.

The Stock brokers shall be required to comply with the following conditions:

- I. The stocks deposited as collateral with the stock broker for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) shall be identifiable separately and no comingling shall be permitted for the purpose of computing funding amount;
- II. Collateral and Funded stocks shall be marked to market on a daily basis;
- III. In case of increase in the value of Collaterals, stock brokers may have the option of granting further exposure to their clients subject to applicable haircuts.
- IV. However, no such exposure shall be permitted on the increased value of Funded stocks.

Stock brokers shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls.

The exchange/stock broker, based on the risk assessment, shall have the discretion to impose/collect higher margin than the margin specified in para-4 of SEBI Circular No. CIR/MRD/DP/54/2017 dated

June 13, 2017.

### **Liquidation of Securities by the Stock Broker in Case of Default by the Client**

The stock broker shall list out situations/conditions in which the securities may be liquidated, and such situations/conditions shall be included in the “Rights and Obligations Document”. The broker shall liquidate the securities, if the client fails to meet the margin call to comply with the conditions as mentioned in this circular or specified in the “Rights and Obligations Document” specified by exchange.

However, the broker shall not liquidate or use in any manner the securities of the client in any situation other than the conditions stipulated at para-9 SEBI Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017.

### **Eligibility Requirements for Stock Brokers to Provide Margin Trading Facility to Clients**

Only corporate stock brokers with a net worth of at least Rs.3.00 crore shall be eligible to offer margin trading facilities to their clients.

The “net worth” for the purpose of margin trading facility shall be as specified in SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

The stock brokers shall submit to the stock exchange a half-yearly certificate, as on 31<sup>st</sup> March and 30<sup>th</sup> September of each year, from an auditor confirming the net worth. Such a certificate shall be submitted not later than 30<sup>th</sup> April and 31<sup>st</sup> October of every year.

### **Source of Funds**

For the purpose of providing the margin trading facility, a stock broker may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI. A stock broker shall not be permitted to borrow funds from any other source.

The stock broker shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.

Further SEBI vide circular no. CIR/MRD/DP/86/2017 dated August 2, 2017, had issued clarification as follows:

It was clarified that Stock brokers may borrow funds by way of issuance of CP and by way of unsecured long-term loans from their promoters and directors. The borrowing by way of issuance of CPs shall be subject to compliance with appropriate RBI Guidelines. The borrowing by way of unsecured long-term loans from the promoters and directors shall be subject to the appropriate provisions of Companies Act

### **Leverage and Exposure Limits**

At any point of time, the total indebtedness of a stock broker for the purpose of margin trading shall not exceed 5 times of its net worth, calculated as per para 12 of SEBI Circular No.

CIR/MRD/DP/54/2017 dated June 13, 2017.

The maximum allowable exposure of the broker towards the margin trading facility shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his “net worth”.

While providing the margin trading facility, the broker shall ensure that:

- Exposure to any single client at any point of time shall not exceed 10% of the broker’s maximum allowable exposure, as specified in para 17 of SEBI Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017.above.
- Exposure towards stocks purchased under margin trading facility and collateral kept in the form of stocks are well diversified. Stock brokers shall have appropriate Board approved policy in this regard.

### **Disclosure Requirement**

The stock broker shall disclose to the stock exchanges details on gross exposure towards margin trading facility including name of the client, Category of holding (Promoter/promoter group or Non-promoter), clients’ Permanent Account Number (“PAN”), name of the scrips (Collateral stocks and Funded stocks) and if the stock broker has borrowed funds for the purpose of providing margin trading facility, name of the lender and amount borrowed, on or before 12 noon on the following trading day.

The stock exchanges shall disclose on their websites the scrip wise gross outstanding in margin accounts with all brokers to the market. Such disclosure regarding margin trading done on any day shall be made available after the trading hours, on the following day, through its website.

The stock exchanges shall put in place a suitable mechanism to capture and maintain all relevant details including member-wise, client-wise, scrip-wise information regarding outstanding positions in margin trading facility and also source of funds of the stock brokers, on the exchange both on daily as well as on cumulative basis.

### **Rights and Obligations for Margin Trading**

The stock exchanges shall frame a Rights and Obligations document laying down the rights and obligations of stock brokers and clients for the purpose of margin trading facility. The Rights and Obligations document shall be mandatory and binding on the Broker/Trading Member and the clients forexecuting trade in the Margin Trading framework.

The broker/exchange may modify the Rights and Obligations document only for stipulating any additional or more stringent conditions, provided that no such modification shall have the effect of diluting any of the conditions laid down in the circular or in the Rights and Obligations document.

## **Maintenance of Records**

The stock broker shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility.

The stock broker shall maintain a separate record of details of the funds used and sources of funds for the purpose of margin trading.

The books of accounts maintained by the broker, with respect to the margin trading facility offered by it, shall be audited on a half-yearly basis. The stock broker shall submit an auditor's certificate to the exchange within one month from the date of the half year ending 31<sup>st</sup> March and 30<sup>th</sup> September of a year certifying, inter alia, the extent of compliance with the conditions of margin trading facility. This certificate is in addition to the certificate on net worth specified in para 12 of SEBI Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017.

## **Other Conditions**

A broker shall take adequate care and exercise due diligence before providing margin trading facility to any client.

Any disputes arising between the client and the stock broker in connection with the margin trading facility shall have the same treatment as normal trades and should be covered under the investor grievance redressal mechanism, arbitration mechanism of the stock exchange.

SGF and IPF shall be available for transactions done on the exchange, whether through normal or margin trading facility. However, any losses suffered in connection with the margin trading facility availed by the client from the stock broker shall not be covered under IPF.

The stock brokers wishing to extend margin trading facility to their clients shall be required to obtain prior permission from the exchange where the margin trading facility is proposed to be offered. The exchange shall have right to withdraw this permission at a later date, after giving reasons for the same.

This circular shall supersede earlier circulars no SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004, SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004 and MRD/DoP/SE/Cir-08/2005 dated March 04, 2005 on Margin Trading Facility.

Refer SEBI circular nos. SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004, MRD/DoP/SE/Cir-08/2005 dated March 04, 2005, CIR/MRD/DP/54/2017 dated June 13, 2017 and Exchange notice nos. 20040402-31 dated April 2, 2004, 20050314-14 dated March 14, 2005, 20170615-23 dated June 15, 2017 and 20170619-26 dated June 19, 2017.



### Annexure – 1

#### Format of the Daily Reporting by the members to the Exchange on the amount financed by them under the Margin Trading Facility

**Name of the member** **Clearing No.**

Name of the Client	Category of Holding (Promoter/Promoter Group or Non-Promoter)	PAN	Name of Stock (Collateral or Funded Stock)	Stock Exchange	Qty Financed (Number of Shares)	Amount of Financed (In Lakhs)

Sl.	Particulars	(Rs. In lakhs)
1	Total outstanding on the beginning of the day	
2	Add: Fresh exposure taken during the day	
3	Less: Exposure liquidated during the day	
4	Net outstanding at the end of the day	

#### Source of funds

1	Out of net worth	
2	Out of borrowed funds	
3	If borrowed, name of lenders and amount borrowed to be specified separately	

**\*Note: Disclosure is required to be made on or before 12 noon on the following trading day.**

### Annexure – 2

#### Format for the dissemination of information by the stock exchange

Name of the Stock	Qty. financed by all the members (Number of shares)	Amount financed by all the members (Rs. In lakhs)

Sl. No.	Particulars	(Rs. In lakhs)
1	Scrip-wise total outstanding on the beginning of the day	
2	Add: Fresh exposure taken during the day	

3	Less: Exposure liquidated during the day	
4	Net scrip-wise outstanding at the end of the day	

**Note: Disclosure is required to be made immediately before end of the following trading day ( in respect of previous day’s margin trading facility) .**

The stock brokers are required to upload the MG, MGA and MGB files daily to the Exchange through BEFS in format as per Exchange notice no. 20170803-1 dated August 3, 2017. Link of the notice is as below:

<http://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20170803-1>

SEBI vide circular no. CIR/MRD/DP/86/2017 dated August 2, 2017, and Exchange notice no. 20170803-5 dated August 3, 2017, has issued clarification that:

“Stock brokers may borrow funds by way of issuance of CP and by way of unsecured long-term loans from their promoters and directors. The borrowing by way of issuance of CPs shall be subject to compliance with appropriate RBI Guidelines. The borrowing by way of unsecured long-term loans from the promoters and directors shall be subject to the appropriate provisions of Companies Act. “Link of notice in this regard is as below:

<http://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20170803-5>

Further FAQs on the same has been published on the Exchange website link of which is as below:

[http://www.bseindia.com/markets/equity/EQReports/margin\\_trad.aspx?expandable=3](http://www.bseindia.com/markets/equity/EQReports/margin_trad.aspx?expandable=3)

## REGULATORY REQUIREMENTS.

1	Collateral deposited by clients with members	SEBI vide circular MRD/DoP/SE/Cir-11/2008 dated 17 <sup>th</sup> April 2008
2	Margin trading Facility	SEBI circular nos. CIR/MRD/DP/54/2017 dated June 13, 2017, and CIR/MRD/DP/86/2017 dated August 2, 2017 and Exchange notice nos. 20170615-23 dated June 15, 2017 and 20170619-26 dated June 19, 2017, 20170803-1 dated August 3, 2017 and 20170803-5 dated August 3, 2017 and 20170619-26* (Rights and Obligations).

Please refer to the applicable guidelines and requirements for Margin Collection and reporting issued from time to time and ensure compliance.

Notice No	Subject
20240406-3	Handling of Clients' Securities by Trading Members (TM) / Clearing Members (CM)
20230614-75	Guidelines/clarifications on Margin collection & reporting
20230426-68	Guidelines/clarifications on Margin collection & reporting
20201127-12	Guidelines/clarifications on Peak Margin collection and reporting
20200928-45	Guidelines/clarifications on Margin collection & reporting
20200903-1	Investor Awareness regarding the revised guidelines on margin collection
20200831-45	Guidelines/clarifications on Margin Collection & Reporting
20200731-7	Guidelines / clarifications on Margin collection & reporting
20200729-38	Margin obligations to be given by way of Pledge/Re-pledge in the Depository System
20200528-6	Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System
20200831-44	Imposition of fines for false reporting of margins by Trading Member in Cash Segment
20191218-23	Rationalization of imposition of fines for false reporting of margins by Clearing Members in all segments.
20190416-10	Use of Client collateral by Broker
20211012-54	Guidelines/Clarification on Margin collection & reporting.

## **ITEM 4 - DEALINGS WITH CLIENTS**

### **4.1 Mode of payment and delivery:**

All transactions relating to clients are to be routed through the client bank account. A member-broker may open a single client bank account or multiple client bank accounts. Whenever a member-broker trades as a principal, he cannot use the client's account for payment.

No money shall be withdrawn from clients account other than money in respect of which there is a liability of clients to the member-broker, provided that the money so drawn should not exceed the total of the money so held for the time being for each such client. Member-brokers should not use clients' account for making payment for, office expenses such as, salary, telephone bills, TDS payments, purchase of office equipment, etc.

The member-brokers may be allowed to maintain running account of the clients, if in respect of such accounts, the member-broker is having specific authority from clients to maintain running account without any obligation to receive payment/ delivery of securities strictly within one working day of declaration of pay-out by the BSE in respect of the concerned settlement. Also, the corporate benefits such as interest, dividend, Bonus / Right shares received on behalf of the clients should be passed on to the clients immediately.

Pursuant to provisions contained in SEBI circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 it is to be noted that member-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash to the clients against sale of securities. All payments should be strictly received / made by the member-brokers from / to the clients strictly by account payee crossed cheque / demand drafts or by way of direct credit into the bank accounts of the clients concerned through EFT, or any other mode allowed by RBI.

Similarly in the case of securities also giving / taking delivery of securities in "demat mode" should be directly to / from the "beneficiary accounts" of the clients except delivery of securities to a recognized entity under the approved scheme of the stock exchange and / or SEBI.

### **Validation of Instructions for Pay-In of Securities from Client demat account to Trading Member (TM) Pool Account against obligations received from the Clearing Corporations.**

SEBI vide circular ref no: SEBI/HO/MIRSD/DoP/P/CIR/2022/119 dated September 19, 2022 has inter alia prescribes that "Depositories, prior to executing actual transfer of the securities for Pay-In from client demat account to TM Pool account, shall validate the transfer instruction for the purpose of Pay-in. The Depositories shall validate the depository transfer instruction details with CC obligation details based on UCC, TM ID, CM ID, Exchange ID, ISIN, quantity, settlement details etc. In case of matching of all details like UCC, TM ID, CM ID, ISIN, quantity, settlement details etc. of the transfer instruction with the obligation data, the instruction shall be carried out by the Depositories and such securities will be debited from client's demat account and credited to linked TM Pool account on or before the settlement day."

In case of discrepancies in details like UCC, TM ID, CM ID, ISIN etc., between instruction and obligation, such transfer instructions will be rejected by the depositories.” Further, the rejection of such instructions might result in default of Pay-In obligation.

In view of the above, members shall adhere to operating guidelines issued in respect of Pay-in Page 55 of 137 validations by the Depositories (NSDL/CDSL) and are advised to ensure that correct UCC details are provided along with the instruction, to avoid rejection of such instructions. Further, the members are advised to create awareness amongst their clients/investors on the implementation of Pay-in validations and the relevant operating guidelines issued by the Depositories.

The provisions of the SEBI circular no. SEBI/HO/MIRSD/DoP/P/CIR/2022/119 dated September 19, 2022 regarding “Validation of Instructions for Pay-In of Securities from Client demat account to Trading Member (TM) Pool Account against obligations received from the Clearing Corporations” have come into effect from January 27, 2023.

#### **4.2 Receipt of funds in the form of pre-funded instruments/Electronic fund transfers:**

SEBI vide Circular No. SEBI / MRD / SE / Cir-33 / 2003 / 27 / 08 dated August 27, 2003, while specifying the mode of receipt and payment of funds, has permitted the stockbrokers to accept Demand Drafts from their clients.

While receiving funds from the clients through pre-funded instruments, such as, Pay Order, Demand Draft, Banker’s cheque, etc., if the aggregate value of pre-funded instruments is ₹ 50,000/- or more, per day per client, the stock brokers may accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:

- a) Certificate from the issuing bank on its letterhead or on plain paper with the seal of the issuing bank.
- b) Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.
- c) Certified copy of the passbook/bank statement for the account debited to issue the instrument.
- d) Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.

Further, maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only. Refer to SEBI Circular No. CIR/MIRSD/03/2011 dated June 9, 2011, and Exchange Notice No. 20110610-6 dated June 10, 2011.

The member-brokers should accept cheques drawn only by the clients and issue cheques in favor of the clients only, for their transactions.

Similarly, receipt/delivery of securities in “demat mode” should also be directly to / from the “demat account” of the respective client except delivery of securities to a recognized entity such as approved

intermediaries under the approved scheme of the stock exchange and / or SEBI.

#### **4.3 Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)**

With a view to safeguard clients' funds placed with SBs/CMs, it has been decided to require the upstreaming of all client funds received by SBs/CMs to the Clearing Corporations (CCs).

As per the framework, no clients' funds shall be retained by SBs/ CMs on End of Day (EoD) basis. The clients' funds shall all be up-streamed by SB/ CMs to CCs only in the form of either cash, lien on FDR or pledge of units of Mutual Fund Overnight Schemes (MFOS).

Clause 15.3.2.1 of SEBI's "Master Circular on Stock Brokers" dated May 17, 2023, mandates the stock brokers (SBs) to maintain designated client bank account(s) ("Name of SB/CM - Client Account") to receive/pay funds from/to their constituents. The nomenclature of all such accounts changed to either of the following two categories of the bank accounts:

- Up Streaming Client Nodal Bank Account (USCNBA): The SB/CM shall receive the clients' funds related to stock broking transactions in USCNBA. The nomenclature for such accounts shall be "Name of the SB/CM – USCNB account".
- Down Streaming Client Nodal Bank Account (DSCNBA): Payment to the clients related to stock broking transactions shall be done only from DSCNBA account. The nomenclature for such accounts shall be "Name of the SB/CM – DSCNB account".
- CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature "Name of the CM –TM prop account" to receive/pay proprietary funds from/to the stock brokers.

The SBs/CMs may maintain multiple Own, USCNBA, DSCNBA, Settlement and CM –TM prop bank accounts however total number of USCNBA and DSCNBA accounts shall not exceed 30. Further, one common USCNBA account and one common DSCNBA account can be maintained across segments/across Exchanges.

The SBs/CMs shall ensure that clear credit balances of all the clients in the book of account of the SBs/CMs at the end of a given day are placed with the CC in form of either cash, lien on Fixed Deposit Receipts (FDRs) created out of the clients' funds, or pledge of units of Mutual Fund Overnight Schemes (MFOS) created out of the clients' funds. Further, FDRs created by the SBs/ CMs out of the clients' funds shall be allowed only under the following conditions:

- The SBs/ CMs may create FDRs out of the clients' funds only with those banks which satisfy the CC's exposure norms as specified by the CCs or SEBI from time to time.
- Such FDRs shall be created only from USCNBA.
- Every FDR created out of the clients' funds shall always be lien-marked to one of the CCs at all



times. Therefore, FDR out of the clients' funds cannot be created by the SB in favour of CM including bank CM.

- Through this lien, the CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
- The tenor of such FDRs shall not be more than one year and one day.
- Such FDRs should be pre-terminable on demand.
- The SBs/CMs shall not have avail of any funded or non-funded banking facilities based on the FDRs created out of the clients' funds.
- The principal amount of FDR shall remain protected throughout the tenure, even after accounting for all possible pretermination costs. Existing FDR not meeting this requirement (with monthly / quarterly / any periodicity interest payout) shall be permissible to continue till June 30, 2024 only. Such FDRs at the time of renewal shall meet the conditions specified hereinabove.
- Existing FDRs (created out of clients' funds and having tenor of more than one-year) created prior to June 30, 2023, shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions specified hereinabove.

The bank instruments provided by the clients as collateral (i.e. client FDRs and client BGs) cannot be up-streamed to the CCs, and they shall be ineligible to be accepted as collateral in any segment of securities market. Hence it is clarified that all such bank instruments provided by the clients shall not be considered for the purpose of margin collection from the clients by the TMs/CMs/Bank CMs/Custodians. Further, only non-individual clients are allowed to give BGs as margins, for commodities derivatives segment subject to compliance of point number 8 and other terms and conditions mentioned in the Annexure A of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023.

The SBs/CMs shall maintain a dedicated demat account "Client Nodal MFOS Account" for subscription/ redemption of MFOS units. The SBs/CMs shall ensure that the client funds are invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri-party Repo Dealing and Settlement (TREPS). Such MFOS units should be in dematerialized (demat) form and must necessarily be pledged in favour of a CC at all times. List of such MFOS shall be notified by SEBI/AMFI from time to time. From "Client Nodal MFOS Account", the SBs/CMs shall provide MFOS units as collateral to the CC. While providing the units as collateral, the SBs/CMs shall identify the end clients. The CCs will make necessary changes in segregation reporting file to report MFOS at the client level in due course.

To implement the same, a pledge shall be created from the Client Nodal MFOS account to the SB/CM margin pledge account of the SB/CM. The SB/CM shall further repledge the same to the CC using the existing pledge re-pledge mechanism.

It may be noted that funds received from the clients cannot be used for the creation of Bank Guarantees (BG).

In case any clients' clear credit balances which are not placed by the SBs/CMs with the CC on account of justifiable reasons as enumerated below and the said clear credit balances are reported in the segregation file as "Retained with TM" or "Retained with CM" as per the requirement of SEBI circular no. SEBI/HO/MRD2\_DCAP/CIR/2021/0598 dated July 20, 2021, the SBs/ CMs shall report such justifiable reasons to the CC by next settlement day. However, such clients' balances reported as retained with the SBs/CMs should be either available in USCNBA/DSCNBA/Settlement account of the SBs/CMs and/or in transit to the CC.

**List of permissible justifications for the clients' clear credit balances retained by the SBs/CMs is as under:**

- i. Receipt of funds from the clients post stipulated cut off time in the USCNBA(s).
- ii. The FDRs already liened to the CC but not deposited with the CC being in transit (including renewal cases) and subsequently deposited with the CC within next 5 settlement days.
- iii. MFOS in transit and subsequently pledged to the CC on or before next settlement day.
- iv. Funds retained in the DSCNBA on account of payout instructions submitted to the bank but processed on or before next settlement day/funds payout instructions failed in the banking system subject to adequate documentary evidence from Bank.
- v. Funds retained in the DSCNBA on account of cheques issued to client but not cleared. [Note: The SB/CMs should ensure that if the cheque is not cleared in next 5 settlement days from the date of issuance, then the funds representing such uncleared cheques are mandatorily needs to be up-streamed to the CC on 6th Settlement day].
- vi. Funds credited back by the CC in the settlement account on account of OFS.
- vii. Funds retained in the USCNBA account before cut off time but not processed due to failure in the banking system subject to adequate documentary evidence from Bank.
- viii. Funds retained overnight in DSCNBA account on running account settlement days.

**Permissible transfer of funds:**

- Funds shall be received from the clients by SBs/CMs only into the USCNBA(s).
- Funds to be transferred to the clients shall be only from the DSCNBA(s).
- Funds from USCNBA(s) can be transferred into the Settlement/ Clearing Member USCNBA account(s) and for investing in FDR and MFOS only.
- Funds can be transferred into the DSCNBA(s) only from the Settlement/ Clearing Member account DSCNBA account(s).
- Funds from DSCNBA(s) can be transferred only to the clients or to the USCNBA account(s).
- All own/ proprietary funds of the SB/ CM can be transferred from/to its settlement account(s) to/from Own/Prop account only.
- "Name of the CM –TM prop account" Bank account of CM shall be used for receiving/paying proprietary funds from/to the SBs.

- Between accounts of same category (i.e. from one USCNBA to another USCNBA, from one DSCNBA to another DSCNBA, from one own bank account to another own bank account, from one CM –TM prop account to another CM – TM prop account)

**The provisions of upstreaming framework shall not be applicable to:**

- Bank-CMs (including Custodians that are banks)
- Proprietary funds of SBs/CMs in any segment
- The SB's proprietary funds deposited with CM in the capacity of a client

**4.4 Settlement of Running Account of Clients Fund and Running Account Authorization:**

**A. Actual Settlement of Clients Fund:**

The settlement of funds / securities shall be done within 1 working day of the payout, unless specifically authorized by client to maintain running account subject to the following conditions:

- a) The authorization shall be dated and shall contain a clause that the clients may revoke the authorization at any time. The stock brokers, while sending periodic statement of accounts to the clients, shall mention therein that their running account authorization will continue until it is revoked by the clients.
- b) Authorization shall be signed by the client only & not by any POA holder.
- c) Actual settlement of funds shall be done by the TM, at least once on first Friday of the Month or Quarter as per the preference of the client.

As per SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 & Exchange Notice No. 20220727-48 dated July 27, 2022, regarding “Settlement of Running Account of Clients’ Funds lying with Trading Member (TM)” and subsequent FAQs notified vide Exchange Notice no. 20220923-62 dated September 23, 2022. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan–Mar) for all the clients i.e., the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

For clients, who have opted for Monthly settlement, running account shall be settled on first Friday of every month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day”.

Please refer Exchange notice 20231228-63 dated December 28, 2023, and Exchange notice no. 20240315-48 dated 15 March 2024 with reference to SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated December 28, 2023, for operation guidelines and calendar on Settlement of Running account of clients’ funds lying with the Trading Members”.

Quarterly and Monthly Settlement Calendar for Financial Year 2024-25 are below:

**Annual calendar for the settlement of running account (Quarterly and Monthly)**

**Dates for Quarterly Settlement (FY2024-25):**

Quarter	Period	Date's	Day
Q1	April-June	5 <sup>th</sup> &/or 6 <sup>th</sup> April 2024	Friday &/or Saturday
Q2	July-September	5 <sup>th</sup> &/or 6 <sup>th</sup> July 2024	Friday &/or Saturday
Q3	October-December	4 <sup>th</sup> &/or 5 <sup>th</sup> October 2024	Friday &/or Saturday
Q4	January-March	3 <sup>rd</sup> &/or 4 <sup>th</sup> January 2025	Friday &/or Saturday

**Dates for Monthly Settlement (FY2024-25):**

Quarter	Month	Date's	Day
Q1	April	5 <sup>th</sup> &/or 6 <sup>th</sup> April 2024	Friday &/or Saturday
Q1	May	3 <sup>rd</sup> &/or 4 <sup>th</sup> May 2024	Friday &/or Saturday
Q1	June	7 <sup>th</sup> &/or 8 <sup>th</sup> June 2024	Friday &/or Saturday
Q2	July	5 <sup>th</sup> &/or 6 <sup>th</sup> July 2024	Friday &/or Saturday
Q2	August	2 <sup>nd</sup> &/or 3 <sup>rd</sup> August 2024	Friday &/or Saturday
Q2	September	6 <sup>th</sup> &/or 7 <sup>th</sup> September 2024	Friday &/or Saturday
Q3	October	4 <sup>th</sup> &/or 5 <sup>th</sup> October 2024	Friday &/or Saturday
Q3	November	8 <sup>th</sup> &/or 9 <sup>th</sup> November 2024	Friday &/or Saturday
Q3	December	6 <sup>th</sup> &/or 7 <sup>th</sup> December 2024	Friday &/or Saturday
Q4	January	3 <sup>rd</sup> &/or 4 <sup>th</sup> January 2025	Friday &/or Saturday
Q4	February	7 <sup>th</sup> &/or 8 <sup>th</sup> February 2025	Friday &/or Saturday
Q4	March	7 <sup>th</sup> &/or 8 <sup>th</sup> March 2025	Friday &/or Saturday

In order to monitor the compliance of timely settlement of running account of clients' funds and to verify that excess clients' funds are not retained by the TM as on the date of settlement of running account, it has been decided in joint consultation with other Exchanges and SEBI that members shall report the summary of settlement of clients' funds and UCC wise settlement details to the Exchange within the prescribed timelines as specified below:

**Reporting formats are given in the BSE notice no. 20221228-55 dated 28 Dec 2022.**

Sr. No.	Reporting Requirement	Reporting Formats	Timelines
1.	Submission of summary of settlement of clients' funds	Annexure - I	Within 2 Trading Day post settlement date
2.	Submission of UCC wise settlement details	Annexure - II	Within 10 trading days post settlement date

In case of client having any outstanding trade position on first Friday of the Month / Quarter on which

settlement of running account of funds is scheduled, a Trading member may retain funds calculated in the manner specified below:

- a) Entire pay-in obligation of funds outstanding at the end of day on date of settlement, across all segments.
- b) Members may retain 50% of end of the day (EOD) margin requirement as cash margin, excluding the margin on consolidated crystallized obligation/ MTM.
- c) Apart from 50% cash margin mentioned in point ii above, member may also retain 225% of EOD margin (which includes additional 125% margin) reduced by 50% cash margin and the value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge' created in the Depository system for the purpose of margin and value of commodities (after applying appropriate haircut). The margin liability shall include the end of the day margin requirement in all the segments across exchanges excluding the margin on consolidated crystallized obligation/ MTM. The margin liability may also include the margin collected by the Member from their clients as per the risk management policy and informed to the clients.

*“For Computation to arriving at retention of excess client funds based on above points, Members may refer Exchange Notice no. 20220923-62 dated 23 Sep 2022,FAQ on Settlement of Running Account of Client’s Funds lying with Trading Member (TM)”*

**The trading member shall note the following points for the purpose of actual settlement of funds:**

- While settling the account, the broker shall send to the client a 'statement of accounts' containing an extract from the client ledger for funds displaying all receipts/payments of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.
- The client shall bring to notice any dispute within 7 working days from the date of receipt of funds / securities or statement.
- No inter-client adjustment for the purpose of settlement of the “running account”.
- Transfer funds within 1 working day from the request if the same are lying with TM.
- Such periodic settlement may not be necessary:
  - a) In case of institutional clients settling trades through “custodians”
  - b) For clients availing margin trading facility to the extent of funds relating to MTF used by client.
  - c) In the case of new clients, no settlement would be required in the month/quarter in which funds are received by the Member for the first time. However, members shall ensure that, if the client is having credit balance, and has not made any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days.
  - d) Clearing members who are clearing trades of custodial participants/ trading member.



This has reference to Exchange Notice 20221228-55 dated December 28, 2022, and 20230105-59 dated January 05, 2023 on “Reporting requirement on Settlement of Running Account of Clients’ Funds lying with Trading Member (TM)”, wherein members have been advised to submit the summary of settlement of clients’ funds and UCC wise settlement details to the Exchange within the prescribed timelines through the online facility as made available by the Exchange. In order to comprehensively monitor the compliance with regard to settlement of running account of clients’ funds by trading members, it has been decided in joint consultation with other Exchanges to revise the format of ‘Submission of UCC wise settlement details’ to include additional fields (S.No: 11 to 17) pertaining to settlement of running account of clients’ accounts. The format for “Submission of summary of settlement of clients’ funds” remains same. (Refer Exchange Notice No. 20230929-39 dated 29 September 2023)

**Further, members are advised to note that the submission of details as per revised format shall be applicable from first Friday of the quarter October – December 2023 (i.e., October 6, 2023) and the prescribed timeline for submission is as specified below:**

Sr. No.	Reporting Requirement	Due Date
1.	Submission of summary of settlement of clients’ funds	Within 2 Trading Days post settlement date i.e., October 10, 2023
2.	Submission of UCC wise settlement details	Within 10 Trading Days post settlement date i.e., October 20, 2023

**If the Running Account Settlement is not applicable to them due to any of following reasons, Members are advised to submit their “Declaration” online via BEFS portal:**

- (i) Trading for custodian settled clients only,
- (ii) Proprietary trading only,
- (iii) No client is due for settlement.

Please refer Exchange Notice no. 20230327-67 dated 27 March 2023 for User manual for submission of aforesaid “Declaration” also note that the said “Declaration” is required to be submitted via BEFS portal only and no such “Declaration” shall be accepted on email.

**B. Settlement of Inactive Clients Fund:**

Further, as per SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, for the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by trading member, within next three working days irrespective of the date when the running account was previously settled. Further, after settlement, if such client returns to the member with fresh funds and no trades are executed during this period, then members may compute the 30 calendar days for the purpose of subsequent settlement from the day the member receives funds instead of the last transaction date. However, members shall settle running account of client on first Friday of the quarter or month as per as per the preference of the client irrespective of date of his/her last transaction or receipt of funds.



**C. Other Points to Considered for settlement of client's fund:**

- I. Client's running account shall be considered settled if member has given instructions to bank for credit to client's bank account, provided that the member has sufficient balance in its account.
- II. While computing the value of securities, the closing rate for the trade date prior to the settlement date (T-1 day) should be considered after appropriate hair-cut viz. VaR margin rate applicable for the security in the Capital Market segment.
- III. In case the member applies haircut more than VaR rate on a regular basis and the actual margin is collected and exposure is provided accordingly, then such higher rate may be considered for determining the amount to be retained, provided the member has intimated the requirement of additional margins to the clients through the policy and procedures document and consistently through the daily margin statements issued to clients.
- IV. No inter client adjustment/ passing of Journal Entries can be done/ considered for the purpose of settling client accounts.
- V. Obtaining authorization from the clients to the effect that no settlement need be done for running accounts is contradictory to the SEBI requirement and hence not permissible.
- VI. Client's running account shall be considered settled only by making actual payment into client's bank account and not by making any journal entries. Journal entries in client account shall be permitted only for levy / reversal of charges in client's account.
- VII. For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days irrespective of the date when the running account was previously settled.
- VIII. Members may issue a physical payment instrument (cheque or demand draft), only in cases where electronic payment instructions have failed or have been rejected by the bank and after keeping adequate record of the same. In such cases, the date of debit of funds in members bank account towards clearance of said physical instrument shall be considered as settlement date and not the date of issue of physical instrument.
- IX. Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), is not allowed.
- X. The Authorized person is not permitted to accept client's funds and securities. The TM should keep a proper check. Proprietary trading by Authorized person should be permitted only on his own funds and securities and not using any of the client's fund.
- XI. Once TM settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date). TM shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions within 5 working days.
- XII. Client shall bring any dispute on the statement of running account, to the notice of TM within 7

working days from the date of the statement.

- XIII. For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer NEFT, Real Time Gross Settlement RTGS, etc.
- XIV. The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.
- XV. Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five working days from the date when the account is considered to be settled.

#### **D. Return of Inactive/ untraceable Client's assets:**

Stock Brokers are required to ensure that all client accounts are settled on monthly or quarterly basis (as per the client preferences) in the manner prescribed from time to time.

In case a stock broker is unable to settle the client accounts due to non-availability of client's bank account and demat account details and non-traceability of client, Stock Brokers are advised to make all efforts to trace the clients to settle their funds and securities lying with them and maintain an audit trail for such efforts made for tracing such clients and settling funds and securities of such clients.

Further in cases where the stock brokers are unable to trace such clients in spite of all efforts taken, Stock Brokers are directed to take the following steps:

- a) Open one separate Client Bank/Client Collateral Demat account and immediately set aside the funds and securities of these clients in such account.
- b) Maintain audit trail of UCC wise client funds transferred to/from such bank account and UCC wise / BO ID wise securities transferred to/from such demat account (as the case may be).
- c) Submit UCC wise/BO ID wise and fund/securities information of such account to the Exchange on quarterly basis. The mechanism and the format of the same will be shared in due course.
- d) In case of receipt of any claims from such clients, stock brokers are advised to settle the accounts immediately and ensure that the payment/delivery is made to the respective clients only.

Please refer Exchange Notice No. 20230630-44, 20231212-43 and 20240119-30 for the inactive/untraceable clients fund upstreaming with clearing corporation and the same should be reported to Clearing Corporation in Daily Segregation and Monitoring of collateral at client level by Trading Member.

#### **E. FAQs on Settlement of Running Account of Client's Funds"**

Based on representations and queries received from members, Exchange has issued clarification to the frequently asked questions (FAQs) on Settlement of Running Account of Client's Funds vide Exchange Notice No: 20220923-62 dated September 23, 2022.

#### **4.5 Statement of Accounts:**

Every member shall send a complete 'Statement of Accounts' for funds, securities and commodities in respect of each of its clients on weekly basis. Members have to send the 'Statement of Accounts' on or before the next four trading days of subsequent week.

#### **Clarifications on Statement of Accounts**

- a) Members shall send a complete 'Statement of Accounts' for both funds and securities/commodities in respect of each of its clients on weekly basis from Monday to Saturday for each week.
- b) The client shall bring any dispute arising from the statement of account to the notice of the member preferably within 7 working days from the date of receipt of statement.
- c) The members shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and also has been flagged as 'Inactive' (i.e., if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange.
- d) In respect of custodian participants clients, the requirement of the aforementioned Circulars/Regulations are applicable if the members receive funds / securities / commodities from their custodian participants clients and / or pay funds / deliver securities/ commodities to such custodian participants clients directly and not through the custodians/clearing members.
- e) The Members, while sending periodical statement of accounts to the clients, shall mention therein that their running account authorization will continue until it is revoked by the clients.
- f) In view of the recent changes in the guidelines on margin collection from clients by way of pledge-repledge mechanism of client securities and revised POA guidelines, the format of register of securities (ROS) prescribed in the exchange circular 20180830-31 dated August 30, 2018 has been revised. Accordingly, ROS format prescribed in the exchange circular 20180830- 31 dated August 30, 2018 shall be superseded by format in 20210205-30 notice of the Exchange. Further, Members shall send the statement of accounts for funds/securities /commodities reflecting the balances of funds/securities/commodities after adjusting/reversal for open bills of the client, un-cleared cheques deposited or issued by/to clients and the margin obligations posted in the client ledger, if any as on the last date of the statement i.e. Saturday of every week.
- g) Further, member shall also disclose the details of pending settlement pay in/pay out obligations of all segments and uncleared cheques in respect to the funds/securities/commodities of the client as on last date of the statement i.e. Saturday of every week to the client in the weekly statement of accounts separately.
- h) The weekly statement of accounts sent to the clients, shall necessarily contain a clause

intimating the client that the client needs to refer to the daily margin statement for any pending/outstanding margin obligation of the trades executed by the client in case the margin obligations are posted in the client ledger.

- i) Member shall ensure that the statement of account of fund/securities/commodities reflecting the balance as on the last date of the statement matches with the financial ledger balance (Clear) in Cash & Cash Equivalent submissions and securities/commodities holding in Holding Statement uploaded to the Exchange of the same date.
- j) Notwithstanding anything contained above, Member shall issue the statement of accounts for funds, securities and commodities for such period as may be requested by the client from time to time.
- k) Members are requested to note that, the aforementioned requirement shall be applicable from the week ending on March 06, 2021 due date of which will be March 12, 2021 and for each week thereafter.
- l) Statement of Accounts at the time of Settlement:-

Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.

The statement sent at the time of settlement shall be adequate compliance for the purpose of sending quarterly statement of accounts for funds/securities.

Additionally, as on March 31 every year, the statement of balance of funds and securities in hard form and signed by the broker shall be sent to the clients only upon request.

- m) The Members, while sending periodical statement of accounts to the clients, shall mention therein that their running account authorization would continue until it is revoked by the clients.
- n) It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in statement of funds and securities issued to the clients.

#### **4.6 Maintaining and Reporting of Bank and Demat accounts by Trading /Clearing members:**

One of the requirements of the Enhanced Supervision of Stock Brokers circular is the reporting by all the Members of their existing as well as their new bank & demat accounts to the Exchange, and Trading members shall submit updated/ fresh undertaking/authorisation to the Exchange within seven working days of opening of any new bank account or closing of any existing account.

Exchange has decided to seek information/ statements pertaining to all Bank accounts maintained by members directly from Bank or through a financial technology solution provider authorised by the

Exchange. Hence, all members are advised to provide an undertaking authorising the Exchange to instruct the bank(s) of the members to seek any information/statements pertaining to all bank accounts (maintained by members) directly from the Bank or through a financial technology solution provider authorised by the Exchange.

This has reference to Exchange Notice No. 20201218-63 December 18, 2020 for the Guidelines on maintaining client bank accounts by the Trading Members wherein trading members can maintain maximum of 30 bank accounts named as "Name of Stock Broker - Client Account" across all segments and Exchanges at a time and advised to close the client bank account which are in excess client bank account by December 31, 2020.

Refer SEBI Circular for Tagging of Demat and Bank Account SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 & SEBI/HO/MIRSD/MIRSD\_DPIEA/P/CIR/2022/83 dated June 20, 2022 for uniform nomenclature to be followed by stock brokers for Naming/Tagging of Bank and Demat Accounts to reflect the purpose for which those bank/demat accounts are being maintained and the reporting of such accounts to the Stock Exchanges/Depositories. Vide SEBI circular no. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, it was also decided that naming proprietary demat accounts of the stock broker as 'Stock Broker – Proprietary Account' is voluntary and accounts which are not tagged would be deemed to be proprietary:

- Demat account(s), which hold own securities of the stock broker, shall be named as "Name of Stock Broker-Proprietary Account".
- Demat account(s) held for the purpose of settlement would be named as " Name of Stock Broker - Pool account".
- Demat account for auto pledge of unpaid securities shall be named as "Name of Stock Broker – CUSPA A/c".
- Demat account for the purpose of pledge/repledged client securities in favour of CM/CC shall be named as "Name of the Stock Broker – Client Securities Margin Pledge A/c"
- Demat account for the purpose of MTF shall be named as "Name of the Stock Broker – Client securities under margin trading funding Account".
- Demat account for the purpose of investment of client fund in MFOS (Mutual Fund Overnight Scheme) shall be named as "Name of the Stock Broker – Client Nodal MOFS Account".
- Bank account of the SB/CM to receive clients' funds for further upstreaming it to the CCs named as "Name of the SB/CM – USCNB account".
- Bank account of the SB/CM to make payment to the clients post receiving of funds from CC/CM same day and any balance left in the account post cutoff time should be transferred to USCNB for further upstreaming it to the CCs. The nomenclature for such accounts shall be "Name of the SB/CM – DSCNB account".
- In addition, CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature "Name of the CM –TM prop account" to receive/pay proprietary funds from/to stock brokers.
- Bank account(s) which hold own funds of the stock broker shall be named as "Name of Stock

Broker Proprietary Account".

- Bank account(s) held for the purpose of settlement would be named as " Name of Stock Broker -Settlement Account".

Refer the requirement to open separate pledge account as under as per SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 as per which:

- Depositories have provided a separate pledge type viz. 'margin pledge', for pledging client's securities as margin to the TM / CM. The TM / CM shall open a separate demat account for accepting such margin pledge, which shall be tagged as 'Client Securities Margin Pledge Account'.
- For the purpose of providing collateral in form of securities as margin, a client shall pledge securities with TM, and TM shall re-pledge the same with CM, and CM in turn shall re-pledge the same to Clearing Corporation (CC).
- The complete trail of such re-pledge shall be reflected in the de-mat account of the pledgor. The TM shall re-pledge securities to the CM's 'Client Securities Margin Pledge Account' only from the TM's 'Client Securities Margin Pledge Account'.
- The CM shall create a re-pledge of securities on the approved list to CC only out of 'Client Securities Margin Pledge Account'.

In consultation with Stock Exchanges and Depositories, SEBI vide circular SEBI/HO/MIRSD/MIRSD\_DPIEA/P/CIR/2022/83 dated June 20, 2022, has decided that all demat accounts maintained by stock brokers should be appropriately tagged. Further, it is prescribed that:

- All demat accounts of stock brokers which are untagged need to be appropriately tagged by June 30, 2022. Credit of securities shall not be allowed in any demat account left untagged from July 01, 2022 onwards. Credits on account of corporate actions shall be permitted.
- Debit of securities shall also not be allowed in any demat account left untagged from August 01, 2022.
- Stock Broker shall obtain permission from Stock Exchanges to allow tagging of such demat accounts from August 01, 2022 onwards. Stock Exchange shall grant such approval within two working days after imposing penalty as per their internal policy.

#### **4.7 Financing of securities transactions and transfer of securities & funds:**

This has reference to the SEBI circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 and Exchange notice no 20200721-43 dated July 21, 2020, 20210209-41 dated February 09, 2021 and 20220705-40 dated July 05, 2022 Trading members are advised to desist from acting as a conduit or front for financing any secondary market transactions entered by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing. Further, attention is also drawn to SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 which states that clients' securities lying



with the TM/CM cannot be pledged to the Banks/NBFCs for raising funds, even with authorization by client as the same would amount to fund based activity by TM/CM which is in contravention of Rule 8(1)(f) & 8(3)(f) of Securities Contracts (Regulation) Rules, 1957

And required to refrain from arrangements by which, the securities and funds of a client are received / transferred by trading members routinely from/ to the accounts of different entities or the joint accounts of the client with the financier or its agents, or the trading member operates the client's bank account and / or depository account, under a financing arrangement with a general authorization by the clients.

Such arrangements are in violation of circulars issued earlier regarding mode of payment & delivery, margin trading and securities lending & borrowing. In view of the same, trading members are advised to ensure the following:

- a) Trading members shall not be a party to any agreement or arrangement, directly or indirectly, entered between their clients and any person including their subsidiary / holding company or group company, to fund the transactions executed by the trading members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered by the clients with any person.
- b) Trading members shall not entertain any instructions to trade in securities or transfer funds or securities, from any entity other than the clients, by prior arrangement or otherwise to facilitate financing clients' transactions.
- c) Trading members shall not obtain any authorization or power of attorney, for operating the depository and / or bank accounts of clients who avail financing facility for securities trading, conferring rights for operation of such accounts exclusively by the trading member.
- d) Trading members shall not also otherwise finance or act as a conduit or front for financing any secondary market transactions entered by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.

#### **4.8 Clarifications on funding in connection with / incidental to /consequential upon the securities business:**

##### **Debit Balances in Clients' Account**

As per point 2.6 of SEBI Circular having number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

“Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in”.

**Clarifications are issued on debit balances in Client's account:**

- I. If debit balance arises out of client's failure to pay such amount for less than fifth trading day reckoned from date of pay-in, such debit balances would not be construed as violation relating to funding.
- II. If debit balance arises out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and no further exposure is granted to client from the sixth trading day reckoned from the date of pay-in, such debit balance would not be construed as violation relating to funding.
- III. If debit balances arise out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client it would be construed as violation relating to funding.
- IV. Delayed Payment Charges or interest charge for the funds deployed by the member may be charged at the rate/s consented by the client. For the purpose of reckoning debit balance stated above, the debit balance in the client ledger consolidated across segments & Exchanges after giving effect to the release of margin to be considered.

Based on communication from SEBI, it has come to the attention of the Exchange that Members are levying delayed payment charges on client's debit balances even though such client has credit balance with the broker in other segment/Exchange. It is hereby clarified that, credit balances & debit balances of a client across different segments/Exchanges should be netted off to arrive at the net debit balance, and any delayed payment charges, as mutually agreed, should be applicable on such netted off debit balance, if any.

**4.9 Handling of Client's Fund and Securities by Trading Members/Clearing Members:**

This is with reference to handling of client's fund and securities members are advised as follows:

- I. Members shall not use client funds and securities for proprietary purposes including settlement of proprietary obligations.
- II. The securities received in pay-out against which payment has been made by clients, shall be transferred to the demat account of the respective clients within one working day of the payout. Such securities shall be transferred directly from the pool account of the TM/CM to the demat account of the respective client.
- III. With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – "client unpaid securities account" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account" from the pool account of the concerned TM/CM.
- IV. The securities kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed off in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss

on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.

Member may transfer the unpaid client securities from pool/unpaid securities demat account to client's demat account in accordance with its Risk Management (RMS) Policy. Such policy shall be duly approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be and informed to the clients. In case the RMS policy does not permit transfer of securities to clients in the event of non-payment, then such securities shall be disposed-off within 5 trading days from the date of pay-out., in proportion to the amount not received and after taking into account any amount lying to the credit of the client. The balance securities shall be transferred to the respective client's demat account. As a best practice, Members are advised to issue margin calls and reminders to clients for making payments within 5 days. Such margin calls / reminders should also inform the clients about the disposal of the securities in case of non-payment.

- V. In case the clients' securities are kept in the 'client unpaid securities account' beyond seven trading days after the pay-out, the depositories shall under their bye-laws levy appropriate penalties upon such TM/CM which shall not be permitted to be recovered from the client.
- VI. Clearing Corporation has provided a facility for reversal of excess securities provided as early pay-in (EPI) on Trade day (T day). Accordingly, Clearing corporations shall release excess EPI if any, after the cut-off time for EPI of securities on T day and reverse the same to clearing members who have opted for such facility in the respective depositories. Members are also advised to ensure that excess securities provided as early pay-in (EPI) and released by the clearing corporation/clearing member on T Day are also transferred to the respective beneficiary account of their clients on the Trade day (T Day) itself.

SEBI vide circular SEBI/HO/MIRSD/DOP/P/CIR/2021/595 dated July 16, 2021, has introduced the process of Block Mechanism in demat account of clients undertaking sale transactions on optional basis. When the client intends to make a sale transaction, shares will be blocked in the demat account of the client in favour of Clearing Corporation. If sale transaction is not executed, shares shall continue to remain in the client's demat account and will be unblocked at the end of the T Day. Thus, this mechanism will do away with the movement of shares from client's demat account for early pay-in and back to client's demat account if trade is not executed.

SEBI vide circular SEBI/HO/MIRSD/DoP/P/CIR/2022/109 dated August 18, 2022, has made the facility of block mechanism mandatory for all Early Pay-In transactions. The same is applicable with effect from November 14, 2022. It is clarified that the block mechanism shall not be applicable to clients having arrangements with custodians registered with SEBI for clearing and settlement of trades.

- VII. Stock-Broker's need to segregate securities of clients and maintain below mentioned demat account:

1. Pool account (TM/CM - Pool account/ Early Payin Account)
2. Own Beneficiary Account (Stock-Broker-Proprietary Account)
3. Client Unpaid Securities Pledgee Account (CUSPA)
4. Client securities Margin Pledge Account
5. Client Securities under Margin Funding Account
6. Client Nodal MFOS Account

In order to further streamline the process of handling of unpaid securities by TM/CM, SEBI vide circular ref no: SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022, has decided that:

- I. All the securities received in pay-out, shall be transferred to the demat account of the respective clients directly from the pool account of the TM/CM within one working day of the pay-out.
- II. With regard to the unpaid securities (i.e., the securities that have not been paid for in full by the clients), such securities shall be transferred to respective client's demat account followed by creation of an auto-pledge (i.e., without any specific instruction from the client) with the reason "unpaid", in favor of a separate account titled – "client unpaid securities pledgee account", which shall be opened by TM/CM.
- III. After the creation of pledge, a communication (email / SMS) shall be sent by TM/CM informing the client about their funds obligation and also about the right of TM/CM to sell such securities in event of failure by client to fulfill their obligation.
- IV. Broker should have adequate systems and procedures in place with proper audit trail to ensure that client collateral is not used for any purpose other than meeting the respective client's margin requirements/pay-ins.
- V. With regard to the unpaid securities (i.e., the securities that have not been paid for in full by the clients), such securities shall be transferred to respective client's demat account followed by creation of an auto-pledge (i.e., without any specific instruction from the client) with the reason "unpaid", in favor of a separate account titled – "client unpaid securities pledgee account", which shall be opened by TM/CM.
- VI. After the creation of pledge, a communication (email / SMS) shall be sent by TM/CM informing the client about their fund's obligation and also about the right of TM/CM to sell such securities in event of failure by client to fulfill their obligation. If the client fulfills its funds obligation within five trading days after the payout, TM/CM shall release the pledge so that the securities are available to the client as free balance.
- VII. If the client does not fulfill its funds obligation, TM / CM shall dispose off such unpaid securities in the market within five trading days after the pay-out. TM/CM, before disposing the securities, shall give an intimation (email / SMS) to the client, one trading day before such sale.
- VIII. The unpaid securities shall be sold in the market with the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.
- IX. TM / CM shall invoke the pledge only against the delivery obligation of the client. On

invocation, the securities shall be blocked for early pay-in in the client's demat account with a trail being maintained in the TM/CM's client unpaid securities pledgee account.

- X. Once such securities are blocked for early pay-in in client's demat account, the depositories shall verify the block details against the client level obligation in accordance with the SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/595 dated July 16, 2021 and SEBI/HO/MIRSD/DoP/P/CIR/2022/109 dated August 18, 2022.
- XI. In case such pledge is neither invoked nor released within seven trading days after the pay-out, the pledge on securities shall be auto released and the securities shall be available to the client as free balance without encumbrance.
- XII. Broker should not grant new exposure to client debit balance arising due to failure to pay the required amount carried on till fifth trading day. (Except margin trading facility provided as per SEBI regulations)

If "CUSA" has securities beyond seven trading days after pay-outs penalty shall be levied upon TM/CM as per depositories bye-laws.

W.e.f. September 1, 2019 clients securities cannot be pledged to the Banks/NBFCs for raising funds even with client authorization. Stock broker cannot use funds of one client for providing margin facility of other client (even if client's approval is taken).

The provisions of aforesaid circular have come into effect from March 31, 2023.

#### **4.10 Pledging of Client securities:**

With effect from September 01, 2019, clients' securities lying with the TM/CM cannot be pledged to the Banks/NBFCs for raising funds, even with authorization by client as the same would amount to fund based activity by TM/CM which is in contravention of Rule 8(1)(f) & 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.

#### **4.11 E-mail and SMS alerts to Investors:**

The Securities and Exchange Board of India SEBI vide circular ref no. CIR/MIRSD/15/2011 dated August 02, 2011 had advised the Stock Exchange to provide the facility of SMS and email alerts to investors. Pursuant to the said SEBI circular, the Exchange had provided a facility for the trading members to upload the details of their clients such as name, mobile number, correspondence address and E-mail address on UCI Online.

In view of the same, members are required to obtain the email id and mobile number of their clients and upload them to the UCI online. Members are required to take utmost care while uploading the said client details.

In this regard following circulars have been issued by the Exchange: - SEBI circular CIR/MIRSD/15/2011 dated August 02, 2011, Exchange Notice No. 20140825-23 dated August 25,

2014, and 20140819-17 dated August 19, 2014.

In order to strengthen the regulatory provisions and compliance to send the alerts to clients, exchanges have mandated the 6 attributes to KYC w.e.f. June 01, 2021.

**Mandatory fields in Unique Client Code (UCC) information provided to Exchange:**

As per Exchange notice no. 20210503-41 dated 3rd May 2021 only Compliant UCCs shall be allowed to place orders / bids w.e.f. July 01, 2022 as mentioned in 20220623-58 dated June 23, 2022 Members are required to ensure, that the UCCs for OWN (proprietary orders) and Clients are compliant with the below guidelines under all the segments (Equity, Equity Derivatives, Currency Derivatives, Commodity Derivatives, Securities' Lending and Borrowing and Debt):

- 1) Compliant with 6 KYC attributes viz Name, Complete address (including PIN code No. in case of address of India), PAN, valid Mobile number, Valid email-id, Income details/range.
- 2) Custodian details updated for clients availing custodian services.
- 3) PAN verification status of the client is Valid.

Further to this, the following points should be ensured by the members while implementing the above circulars:

1. Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stockbroker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children, and dependent parents. Please note that multiple UCC mapped with same mobile number or E-mail address should strictly be as per the definition of "Family" as mentioned above and at the written request of a client in whose account same mobile number/E-mail address being updated to avoid any penalty / disciplinary action as per Exchange notice no. 20180214-31 dated February 14, 2018 or any notice issued thereafter. (Refer Exchange notice No. 20240104-26 dated 04 January 2024)
2. Mobile numbers/e-mail addresses of member's employees/ authorized persons should not be uploaded as mobile number or E mail ID of the client.
3. For all existing clients, member should collect their e mail IDs & mobile numbers and upload the same to Exchange before executing any fresh transaction for that client.
4. Where members are unable to get the details from their existing clients, Members are advised to retain verifiable records of seeking details of email Id and mobile number for such clients. However, no fresh trade can be done for such client unless the E mail ID & mobile number is collected and uploaded in UCI.
5. The E mail and mobile number details of the clients should not be kept blank in the UCI online database. All members are requested to strictly adhere to the aforementioned requirements and



exercise due diligence while uploading the E mail ID and mobile numbers declared by their clients to the UCI online of the Exchange.

With a view to bring the initiative to the notice of the investors, SEBI has advised Members to display the following message on their respective websites:

***Attention Investors "Prevent unauthorised transactions in your account --> Update your mobile numbers/email IDs with your stock brokers. Receive information of your transactions directly from Exchange on your mobile/email at the end of the day .....Issued in the interest of Investors"***

All members having websites are hereby required to display the above message on the homepage of their respective websites at a prominent place.

#### **4.12 Timelines for Closure of financial accounts under Rule 114H 8 of the income Tax rules, 1962 under alternative procedure of FATCA**

The financial institutions need to obtain self-certification and carry out due diligence in respect of all individual and entity accounts opened from 1st July 2014 to 31st August 2015. Such self-certification and documentation was required to be obtained by the financial institutions by 31st August, 2016, otherwise they were required to close the accounts and report the same if found to be a "reportable account" as per the prescribed due diligence procedure for pre-existing account.

The financial institutions are advised to make all efforts to obtain self-certification from the account holders under FATCA and inform the account holders regarding blocking of their accounts in case self-certifications are not provided till April 30, 2017.

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20170418-4>

#### **4.13 Prevention of Unauthorized Trading by Stock Brokers:**

SEBI vide its circular No. CIR/HO/MIRSD2/CIR/P/2017/108 dated September 26, 2017 and SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018 has directed all members to execute trades of clients only after keeping evidence of the client placing the order which could be, inter alia, in the form of:

- a) Physical record written & signed by client.
- b) Telephone recording
- c) Email from authorized email id
- d) Log for internet transactions
- e) Record of SMS messages
- f) Any other legally verifiable record.

Further, in case the order instructions are received from clients through telephone, the member shall

mandatorily use telephone recording system to record the instructions and maintain such recordings as part of its records.

Brokers are required to maintain the records specified in point (a) to point (f) stated above for a minimum period for which the arbitration accepts investor complaints as notified from time to time, currently three years. However, in cases where dispute has been raised, such records shall be kept till final resolution of the dispute.

It may be noted that in case of any dispute, the burden of proof will be on the member to produce the above records. However, for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/ securities by client in respect of disputed trade, etc. shall also be considered.

#### **4.14 Issuance of Annual Global Statement:**

As per SEBI, letter dated November 27, 2017, all the stock brokers are required to issue an Annual Global Statement to their clients. Further, the statement is required to be issued within 30 days from the end of financial year and should cover all transactions executed by the client during the financial year. An indicative format of the Annual Global Statement issued by the exchange vide circular no. 20180111-36 dated January 11, 2018.

The minimum information and model format given in above mentioned circular and The Stock Broker may provide any additional data like ISIN, average rate, net position, etc.

1. Consolidated report to be given for entire financial year
2. Each distinct security/ commodity should be mentioned as a separate line item
3. The AGTS may be given on trade day basis or settlement day basis
4. AGTS should be generated PAN Wise. However, a single PAN has been issued multipl( UCCs (eg. NRI clients, different UCCs allotted across different segments/ exchanges), then UCC wise AGTS may be provided
5. Effect of close out/ settlement / auction transactions should be mentioned in the purchase/ sale column, as appropriate
6. AGTS has to be provided to all the clients within 30 days from the end of the financial year
7. Regulatory directives as applicable from time to time regarding communication to clients should be adhered to
8. All charges mentioned in the contract notes like Securities/ Commodities Transaction Tax, Stamp Duty, Exchange Transaction Charges, SEBI turnover fees, etc. should be provided in the report appropriately
9. If the client desires any further information/ details regarding the AGTS, the same should be provided by the Stock Broker.

#### **4.15 Discontinuation of acceptance of cash by Stock Brokers:**

SEBI vide its circular Ref no. SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 13, 2018 has modified paragraph 3 of the SEBI circular Ref no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 and clarified that Stock brokers shall not accept cash from their clients either directly or by way of cash deposit to their bank account.

#### **4.16 Treatment of Inactive Trading Account**

The requirement for flagging the client as inactive in the UCC database of the Exchanges and the exemption for reporting (weekly submission of securities holding and monthly upload of client funds and securities balances) shall continue to be applicable if no trades are carried out by the client in the last 12 (Twelve) months across all Exchanges.

Members shall be required to undertake the fresh documentation, due diligence and IPV where a client is coming for reactivation after a period of 1 year of being flagged as inactive. However, in case a client has undertaken transaction through the Member, with respect to IPO/Mutual Fund subscription and DP operations (if the Member is a DP) during this period, the same can be considered and the requirement for fresh documentation, due diligence, and IPV may not be required.

Further, in the below mentioned conditions, as stipulated in SEBI circular dated April 24, 2020, bearing reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/73, the requirement for undertaking an IPV shall not be required: -

- Where the KYC of the investor is completed using the Aadhaar authentication / verification of UIDAI.
- When the KYC form has been submitted online, documents have been provided through Digi locker or any other source which could be verified online.

Notwithstanding anything contained above, in case a client seeks re-activation before a period of 1 year of being flagged as inactive, Member shall, while reactivating the client, ensure that the basic details of such client like Address, Mobile number, Email ID, Bank/DP account are updated in its records as well in the UCC records of the Exchange. In case of any changes, necessary documents shall be collected.

Members shall also ensure that appropriate due diligence of the client is conducted on an ongoing basis in compliance with the provisions of the PMLA guidelines issued from time to time and in accordance with their respective KYC policies.

#### **4.17 Clarification on incentives/referral schemes**

Below are guidelines for incentives/ referral schemes:

1. Incentive rate should only be a flat rate and single rate applicable for all referring person.
2. Referring person should not undertake any selling/advisory activities nor should manage portfolio of person being referred and limit role to referral only.
3. The referred client should not be subjected to any kind of inducement by the referring person and it shall be ensured that all instructions for placement of orders are obtained from the respective clients only.
4. All client details will be kept confidential and disclosed only if required by law/regulation or with client's permission.
5. None of client transaction details/documents should be sent to referring person.
6. Referring person cannot conduct IPV/OSV
7. Incentive amount should not be recovered from respective client.
8. Above incentive is between referring person and broker and will not be covered in investor protection or grievance redressal measures of the exchange.

Members should comply with code of conduct prescribed for Stock Brokers under Regulation 9 of SEBI (Stock Brokers) Regulations, 1992 and all relevant Byelaws, rules & regulations and of SEBI/Exchange w.r.t. sharing of Brokerage, account opening, inducement to trade, sales practices, orders placement etc. issued from time to time.

Members shall frame an internal policy w.r.t. quantum/maximum limit on the incentive to be provided to the referring person in line with the aforementioned guidelines. Such policy shall be duly approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be. Members shall take adequate steps to review and monitor the adherence to the said policy on a regular basis, at such intervals not later than one year.

Authorised Persons (A.P), SEBI Registered Portfolio Managers and Investment advisors shall continue to be governed by the existing regulatory provisions including any changes issued from time to time.

Members are advised to adhere to the above guidelines while offering such incentives/referral schemes. Any existing schemes which are not in compliance with the aforesaid guidelines, should be withdrawn immediately or suitably modified immediately to comply with the aforesaid guidelines.

#### **4.18 Increasing awareness on Rights Entitlement (RE):**

Trading members are advised to inform all their clients about the commencement of trading in REs mentioning the ISIN of the RE and that the same shall not be mistaken for ordinary shares of the concerned company. Additionally Trading members shall also include a disclaimer text prominently in

the contract notes containing purchase of REs informing the Clients that the purchase of REs only gives them the right to participate in the ongoing Rights Issue of the concerned company by making an application with requisite application money or renounce the REs before the issue closes. REs which are neither subscribed by making an application with requisite application money nor renounced, on or before the Issue closing date shall lapse and shall be extinguished after the Issue closing date.

#### **4.19 Creating investor awareness and safeguarding clients' assets:**

This has reference to Exchange notice 20200116-44 dated January 16, 2020 with respect to actual settlement of client accounts. As per the existing requirements, members are required to mandatorily settle the client accounts at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client. Further, SEBI has issued circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 revising the guidelines on settlement of running account of client's funds lying with the trading members and also mandated to return the credit balances of clients within three working days in case client has not done any transaction within 30 calendar days w.e.f. August 1, 2021.

All members are advised to strictly adhere to the aforementioned requirements and put in place systems and procedures to ensure strict adherence to the timelines prescribed for settlement of running account of clients' funds. Further, members should ensure to credit the settlement amount to the client bank account directly and not run any schemes to invest the actual settlement amount with the consent/without consent of the client.

Further, in the recent past, it has come to the notice of the Exchange that certain members were engaging into activities/schemes of fixed / periodic payments, which are not permitted under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges.

It is reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/guaranteed/fixed returns/payments etc.

Members are advised to regularly caution and create awareness amongst their clients/investors to abstain them from dealing in any schemes of unauthorised collective investments/portfolio management, indicative/ guaranteed/fixed returns / payments etc. Members are also advised to display the following messages on their respective websites under a separate banner "Advisory for investors".

#### **4.20 Submission of undertaking pursuant to Standard Operating Procedure in the cases of Trading Member leading to default:**

Exchange vide Notice no. 20200702-43 dated July 02, 2020. Member's attention is drawn to SEBI circular SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 1, 2020, on the subject "Standard Operating Procedure in the cases of Trading Member / Clearing Member leading to default". Members are requested to take note of the contents of the circular.

In accordance with the point no.9 of the above-mentioned circulars, all members are advised to provide:

- 1) A list of all its bank accounts.
- 2) An undertaking enabling the Exchange/CC to instruct the bank(s) of the members to freeze the bank account(s) for debits in the cases of Trading Member/Clearing Member leading to default.

Further, members are requested to note that for all new bank accounts, members are required to submit the additional undertaking within seven days of the opening of the account through the inspection module.

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20200702-43>

#### **4.21 Unauthorised Market Practices by Trading Members:**

Exchange vide Notice no. 20220325-58 dated March 25, 2022. Members' attention is drawn to Exchange notice no. 20210827-44 dated August 27, 2021, wherein it was reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges.

However, despite various guidelines/ clarifications issued by the Exchange from time to time, certain practices followed by members are not in compliance with the relevant guidelines issued by the Exchange. Below are some of the market practices, that have come to the notice of the Exchange and members are advised to refrain from engaging in such practices.

##### **a) Incentives/referral schemes:**

It has come to the notice of the Exchange that members are running schemes such as sponsoring/funding ETF units for the opening of trading accounts. Members are also offering cashback to clients acquired through referral by partnering with the third-party digital payment applications as an incentive for opening a trading account with them. Acquisition of clients by offering such incentives/ schemes is against the spirit of guidelines issued by Exchange, and any pattern observed in this regard will be liable for disciplinary action. Members are hereby advised to refrain from such practices, and trading accounts opened through client referral strictly complied with Exchange notice no. 20200311-57 dated March 11, 2020.



Client shall not be subjected to any kind of trade inducement (including generating trade calls through the Interactive Voice Response (IVR) system) and shall ensure that all instructions for placement of orders are obtained from the respective client only.

**b) Issue of advertisements:**

It is noted that Members are increasingly using influencers to promote their business, products/services/brokerage plans etc., including undertaking brand promotion. Members are hereby advised to undertake adequate due diligence to ensure that the content used by the influencer strictly adheres to the code of advertisement prescribed by the Exchange. Further, advertisements/promotional campaigns issued by the members should not promote or incentivise trading in specific securities/contracts which will have the effect of inducement to the clients.

**c) Inactive accounts:**

As per Exchange notice no. 20210928-53 dated September 28, 2021, Members are required to flag the client account as “inactive” if there are no transaction in the client account for a period of one year. It has come to the notice of the Exchange that members are urging clients to execute trades in their account to prevent accounts from being flagged as inactive. Hence, Members should refrain from undertaking any activity including sending oral or written business communications to clients, inducing the clients to execute trades in their account for the sole purpose of keeping the account active.

**d) Client registration documents:**

The current regulatory requirements stipulate mandatory collection of additional documents related to financial details of the clients in case of trading in derivative segments, which includes a copy of the demat account holding statement of the client. In this regard, members are required to ensure adequate due diligence to ensure that the demat account holding statement reflects satisfactory financial position of the client before allowing them to trade in derivatives segment.

**e) Assured Return Schemes/ Unauthorised Portfolio Management Service:**

It has also come to the notice of the Exchange that certain members were engaging in activities/schemes of fixed / periodic payments, which are not permitted under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges. It is reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/ guaranteed/fixed returns/payments etc.

**f) Sharing of trading credentials (login id & password):**

It has been observed that clients trading in derivatives were lured to share trading credentials – (login id & passwords) with the individuals/persons who had promised assured returns and traded on behalf of these clients. In view of the same, members are hereby advised to carry out surveillance of trading activities of clients, particularly in derivatives. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment is in proportion to their income / networth. Refer to Exchange notice no. 20210701-30 dated July 1, 2021 on ‘Surveillance Obligations for Trading Members’, for indicative themes on which trading members may formulate their alerts.

In view of the above, members are also advised to regularly caution and create awareness amongst their clients/investors to abstain them from dealing in any schemes of unauthorised collective

investments/portfolio management, indicative/ guaranteed/fixed returns / payments etc. and sensitise their clients to avoid practices like:

- 1) Sharing of
  - a) Trading credentials – login id & passwords,
  - b) Trading strategies
  - c) Position details
- 2) Trading in leveraged products /derivatives without proper understanding, which could lead to losses.
- 3) Writing/ selling options or trading in option strategies based on tips, without basic knowledge & understanding of the product and its risks.
- 4) Dealing in unsolicited tips through WhatsApp, Telegram, YouTube, Facebook, SMS, calls, etc.
- 5) Trading based on recommendations from unauthorised / unregistered investment advisors.

Members are advised to look out for various unsolicited messages being circulated in the market and take appropriate action against the individual/person/entity in case the details such as names, phone numbers, email ids appearing in the said messages are matching with the records of their employees, authorised persons and clients.

Members are advised to refrain from engaging in any practice that is against the spirit of the guidelines issued by SEBI/Exchange. Further, Members are advised to put in place adequate mechanisms to have oversight on the activities of their associates, authorised persons and take necessary action if any irregularity is observed. Non-adherence to the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges will be viewed very seriously. The member will be liable for strict disciplinary action, if the member is observed to be engaging in unauthorised market practices either directly or through its Authorised person(s) and/or their Directors/Partners, employees etc.

#### **4.22 Precautions for clients dealing in Options:**

This is in reference to Exchange notice no. 20220325-58 dated March 25, 2022, wherein it was highlighted that certain practices followed by members are not in compliance with the relevant guidelines issued by the Exchange.

Further, members' attention is drawn to Exchange notice no. 20091204-7 dated December 4, 2009, and 20100203-30 dated February 03, 2010, wherein the guidelines for "Dealings between a client and a stockbroker" have been prescribed. Subsequently, SEBI vide circular no: CIR/MIRSD/16/2011 dated August 22, 2011, has simplified and rationalized the trading account opening process. In accordance with the aforesaid circulars, clients who wish to trade in derivatives segments shall mandatorily sign the "trading preference" in the client registration form. Trading members shall also collect documentary evidence of financial details provided by the clients who opt to deal in the derivatives segment.

However, it has been observed that trading members are not performing adequate due diligence to ensure that documentary evidence for income submitted by the client reflects the satisfactory financial position of the client before allowing them to trade in derivatives. It has also been observed that certain members are availing the services of influencers to promote "Options" trading, thereby inducing the clients to trade in "Options" without considering the product suitability/knowledge and trading experience of the clients.

In view of the same, members are hereby advised to carry out due diligence to ensure that evidence of financial information / income details reflecting the satisfactory financial position of the client are

collected before onboarding the clients for trading in derivatives. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment, particularly in Options, is in proportion to their income / networth.

Further, Trading members are also advised to regularly caution and create awareness amongst their clients/investors at least once in a fortnight through email and also display the same on their websites to sensitize them to avoid practices like:

- a) Sharing of trading credentials – login id & passwords including OTP's
- b) Trading in leveraged products like options without proper understanding could lead to losses.
- c) Writing/ selling options or trading in option strategies based on tips, without basic knowledge & understanding of the product and its risks.
- d) Dealing in unsolicited tips through WhatsApp, Telegram, YouTube, Facebook, SMS, calls, etc.
- e) Trading in "Options" based on recommendations from unauthorized / unregistered investment advisors and influencers.

Members are advised to regularly look for various unsolicited messages/unauthorized practices being circulated in the market and take appropriate action against the individual/person/entity in case the details such as names, phone numbers, email ids appearing in the said messages are matching with the records of their employees, authorized persons, and clients. Members are also advised to take appropriate actions on the individuals/entities using their name/brand/logo and engaging in unauthorized market practices.

#### **4.23 Introduction of Beta version of T+0 rolling settlement cycle on optional basis in addition to the existing T+1 settlement cycle in Equity Cash Markets:**

SEBI vide Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/20 dated March 21, 2024 regarding introduction of Beta version of T+0 rolling settlement cycle on optional basis in addition to the existing T+1 settlement cycle in Equity Cash Markets in a phased manner w.e.f. March 28, 2024.

The significant evolution of technology, architecture and capacity of MIs, presents opportunities for further advancing clearing and settlement timelines. Further, India's depository ecosystem has visibility of individual client level holdings in digital form, and so has the ability to effect immediate transfer of securities and also India's payments and settlements ecosystem has long allowed for real time transfer of funds.

A shortened settlement cycle will bring cost and time efficiency, transparency in charges to investors and strengthen risk management at clearing corporations and the overall securities market ecosystem.

Pursuant to deliberations and approval of the Board, it has been decided to put in place a framework for introduction of the Beta version of T+0 settlement cycle on optional basis in addition to the existing T+1 settlement cycle in equity cash market, for a limited set of 25 scrips and with a limited number of brokers. (Refer Exchange Notice No. 20240321-56 dated 21 March 2024).

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20240321-56>

#### **4.24 Client Unpaid Securities Pledgee Account (CUSPA):**

Exchange Vide Notice no. 20221111- 62 dated November 11, 2022. We draw your attention to SEBI circular ref. no: SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022, regarding Handling of Clients' Securities by Trading Members (TM) / Clearing Members (CM).

1. In order to protect clients' funds and securities and to ensure that the Stock Broker segregates securities or moneys of the client or clients and does not use the securities or moneys of a client or clients for self or for any other client, SEBI has issued various circulars from time to time.
2. SEBI, vide circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, introduced the "client unpaid securities account" and inter-alia specified the following:
  - a. With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – "client unpaid securities account" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account" from the pool account of the concerned TM/CM.
  - b. The securities kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed of in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.
  - c. In case the clients' securities are kept in the 'client unpaid securities account' beyond seven trading days after the pay-out, the depositories shall under their byelaws levy appropriate penalties upon such TM/CM which shall not be permitted to be recovered from the client.
3. In order to further streamline the process of handling of unpaid securities by TM/CM and also to prevent any kind of misuse of such unpaid securities, after extensive consultations with Exchanges.

#### **4.25 Bank Guarantees (BGs) created out of clients' funds:**

Currently Stock Brokers (SBs)/ Clearing Members (CMs) pledge client's funds with Banks which in turn issue Bank Guarantees (BGs) to clearing corporations for higher amounts. This implicit leverage exposes the market and especially the client's funds to risks. Pursuant to discussions with various stakeholders, it has been decided to implement the following measures in order to safeguard the interests of the investors: - Beginning May 01, 2023, no new BGs shall be created out of clients' funds by SBs/CMs. Existing BGs created out of clients' funds shall be wound down by September 30, 2023. The provisions of this framework shall not be applicable for proprietary funds of SBs/CMs in any segment and SB's proprietary funds deposited with CM in the capacity of a client. (Refer Exchange notice No. 20230425-35 dated 25 April 2023, SEBI circular ref. no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023).

#### **4.26 Early Pay-in of funds:**

This has reference to the Early Pay-In (EPI) of funds by the client to the member for the purchase transactions executed by them.

Currently, clearing corporations have provided a facility for early pay-in of funds to avail margin benefit and laid down the procedure for making EPI of funds and allocation of early pay-in of funds at client level or client-security level. In this regard, members are advised that, in cases where clients have made an early pay-in of funds, the member shall also mandatorily make an early pay-in of funds to the clearing corporation. Further, an intimation shall be sent to the client by SMS and Email on the registered mobile number and email id, upon successful early pay-in of funds.

#### **Regulatory Requirements/Reference:**

<b>Notice No</b>	<b>Subject (upstreaming)</b>
20230608-41	Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
20230623-1	FAQ on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
20230630-44	Implementation of circular on upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
20230812-1	FAQ on Upstreaming of clients' funds by Stockbrokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
20230829-72	FAQ on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
20230831-13	Penalty Structure related to provisions of Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Bank Guarantees (BGs) created out of clients' funds
20231212-43	Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
20240119-30	Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
Notice No	Subject
20210205-30	Guidelines for 'Statement of Accounts' for Funds, Securities and Commodities
20201201-27	Treatment of Inactive Trading account

## **Item 5 - DEALINGS WITH INTERMEDIARIES**

### **5.1 Dealings by branches, intermediaries, authorized persons etc.:**

Over the last few years, Trading Members have been significantly expanding their trading network. Many of these extended trading centers are being manned by the Trading Members' branch officials, registered sub-brokers, authorized persons etc., Trading Members are aware that in respect of all such places, they continue to remain responsible for ensuring full compliance of the Rules, Byelaws, Regulations etc., (Regulations) of the Exchange. Especially, Trading Members are also aware that they are required to ensure that the activities of the persons manning these places and terminals are fully in compliance of the Regulations and that they do not indulge in any activity which is in violation of the Regulations, including activities like unregistered sub-broking, off-market deals, lending/borrowing transactions, handling funds and securities otherwise than directly to / from the Trading Members' accounts, etc., In order to ensure the same, the Trading Members need to undertake appropriate due diligence.

The due diligence to be undertaken by the Trading Members may include:

- a) ensuring that receipt or payment of funds and securities are only from or to the respective clients and not from other person (including sub-broker, branch official, authorized person, dealer, etc.,)
- b) ensuring that the persons operating the terminals, while placing orders on behalf of a registered client, do not use the "remarks column" without proper explanation or to put codes which could later suggest the existence of one or more ultimate clients.
- c) ensuring that the persons operating the terminals use proper client code in respect of the orders received from such clients and do not combine orders of different persons.
- d) ensuring that the no margin/pay-in obligation/pay-out adjustment is done among clients or between clients and sub-brokers, authorized persons, branch officials, dealers, etc.,
- e) ensuring making and receipt of payments only by "Account Payee" cheque or by direct bank debit/credit and not dealing in cash.
- f) ensuring that the sub-broker, branch official, authorized persons, dealers, etc., do not issue any contract note, bill, confirmation memo, debit/credit note etc., to the clients, unless it is issued in the name of the Trading Member under written authorization from it;
- g) if the Trading Member is also a Depository Participant for the client, sub-broker, authorized person, branch official, dealer etc., then watch for unexplained, frequent, or large off-market transfers.
- h) ensuring that the clients using or frequenting such premises do not indulge in such activities using the premises, name or accounts of the Trading Member or their sub-brokers etc.,
- i) undertaking surprise inspections of such places to ensure prevention of any activity in violation of the Regulations.

The due diligence will also equally apply to the offices under the direct control of the Trading Members.

The Trading Members are further advised to bring the contents of this circular to the notice of all their employees, branches, authorized persons, dealers, clients etc., and educate them not to allow or



indulge in such activities. If any Trading Member of the Exchange is found to be allowing such activities in violation of the Rules, Bye-laws and Regulations of the Exchange, the same will be viewed seriously by the Exchange and strict disciplinary action will be taken against the Trading Member concerned. Besides the same, the Trading Member may also be saddled with redressing investor grievances and claims arising out of such dealings.

## **5.2 Guidelines for location of terminals and usage thereof:**

As per SEBI Circular No. SMDRP/Policy/CIR-49/2001 dated October 22, 2001, the member-brokers should install trading terminals only at their registered offices, branch offices and their registered Authorised Person's offices. Remisier is authorized to operate the trading terminal at member-broker's office only. (Exchange Notice No.104616/2001 dated November 12, 2001 & Notice No. 20040205-13 dated February 05, 2004). An office is considered as member -brokers' office only if it is /owned or taken on rent or lease, by a member-broker of the Exchange. In fact, member-brokers should have effective control over the functioning of those offices.

Members will be held responsible and accountable for all acts of omission and commission of his Authorised persons and/or their employees at their branches including conducting "informal" Dabba trades.

Many trading terminals are noticed to be kept active though insignificant or nil amounts of trades were being executed for long time, even though there is no commercial justification for such continuance. While commercial justification was not of immediate concern to the Exchange, Members are required to examine whether such terminals/locations are being commercially sustained by using them for purposes other than trading on the Exchange platform such as for conducting "informal" Dabba trades.

All Members are hereby advised to regularly monitor and review the trading activities/turnover from all the terminals located at all their Branch/AP locations and undertake necessary actions/investigations including conduct of surprise & periodic inspections in this regard. Members are also advised to conduct an analysis of trends in trading volumes at different terminals and conduct close review of activities being conducted at the addresses at which trading terminals with low volume or declining trend of volumes are observed.

The Exchange may seek report from Members in this regard as and when found necessary. Accordingly, Members are advised to install appropriate internal systems & procedure for such inspections /monitoring and report generation.

This has reference to Regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 and various notifications/ circulars issued by SEBI/Exchange, which stipulates passing of certification program by the associated persons who are approver users or sales personnel of the member.

In view of the same, Members are advised to ensure that all their approved users/person have valid certification as specified by SEBI/ Exchange from time to time and no trades are executed without a

valid certification.

In case of Authorized Person (AP), if any trading terminal is provided by the stock broker to AP, the place where such trading terminal is located shall be treated as branch office of the stock broker (BSE notice no.20100224-18 dated February 24, 2010).

In case of Direct Market Access (DMA) facility, member brokers are allowed to offer their clients, direct access to the BSE trading system through their infrastructure without manual intervention by the brokers (BSE notice no. 20080417-24 dated April 17, 2008).

### **5.3 Placing of notice boards:**

Trading Members shall display, in all their offices / offices of their registered authorised persons where trading terminals are located, notice boards/plates at prominently visible locations, painted / printed in a permanent manner, in a font and colour which enables easy reading of the subject matter and containing details as prescribed in relevant circulars. which should prominently display the following information: -

- 1) Name of the Trading Member
- 2) Address & Tel. No. of the main office of the trading member (also Name & Tel. No of the contact person in the main office)
- 3) SEBI Registration No. of the trading member
- 4) BSE Investor Service Tel. No.

Apart from the notice board, a list of general Do's and Don'ts, as per the prescribed format to be observed by the investors while investing/trading in the stock markets should be prominently displayed.

Trading members are also required to display investor charter on all offices of Stock Brokers (its Branch Offices and Authorized Person(s)) and the website of the stock broker.

Trading Members are also required to ensure that a copy of their SEBI Registration Certificate is prominently displayed in all their offices.

Trading Members should also ensure that the Authorised Person Registration Certificate issued to the Authorised Person is prominently displayed at all their AP's offices. (Exchange Notice No.20050902-21 dated September 02, 2005).

Members must display prominently its name as registered with SEBI, its own logo, if any, its registration number, its complete address with telephone numbers and Escalation matrix on its portal /web site, if any, notice / displayboards. (Refer SEBI circular Cir/MIRSD/ 9 /2010 dated November 4, 2010 and Exchange Notice No: 20101109-1 dated November 9, 2010)

SEBI has been taking various measures to create awareness among investors about grievance mechanisms available to them through workshops as well as through print and electronic media. As an additional measure and for information of all investors who deal/ invest/ transact in the market, it has now been decided that offices of all Stock Brokers (its Branch Offices and Authorized Person(s)) shall prominently display basic information, as provided as mentioned below (in Annexure-A), about

the grievance redressal mechanism available to investors:

**Annexure-A - FOR STOCK BROKERS**

Dear Investor, *In case of any grievance / complaint against the Stock Broker*

Please contact Compliance Officer of the Stock Broker (Name) / email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.

You may also approach CEO/ Partner/Proprietor (Name) / email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.

**If not satisfied with the response of the Stock Broker, you may contact the concerned Stock Exchange.**

Refer to SEBI circular No. CIR/MIRSD/3/2014, dated 28<sup>th</sup> August 2014 and Exchange Notice No. 20140828-39 dated August 28, 2014. and 20140902-12 dated September 2, 2014 regarding display of information regarding Grievance Redressal Mechanism.

**5.4 Framework for Supervision of Authorised Persons (APs) & branches by Members:**

It shall be the primary responsibility of the affiliated stock broker to inspect the registered APs and Branches.

Member's attention is drawn to SEBI circular MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009, and Exchange Notice no. 20100224-18, dated February 24, 2010 and 20191018-43 dated 18 October 2019, on the supervisory framework with respect to Member's branches and Authorized Persons (AP) network.

To enhance the effectiveness of the supervision and ensure uniformity & standardization across all Members, following guidelines, framed in joint consultation with SEBI & other Exchanges, are being issued:

- a) Every Trading Member shall be required to inspect every year at least 30% of its active Authorized Persons/ Branches and ensure that, each active AP/ Branch is inspected at least once in every three years. For this purpose, an active AP/ Branch would mean one who have executed even a single transaction during financial year and is engaged in servicing the clients.
- b) APs/Branches meeting any of the below criteria shall be inspected annually, irrespective of when the last inspection was carried out:
  - i) APs/Branches with more than 500 registered clients across Exchanges.

- ii) APs with more than 20 trading terminals and Branches with more than 50 trading terminals, across all segments/Exchanges.
  - iii) APs/Branches against which more than 3 complaints have been received during the previous year.
  - iv) In case of any inputs/ alerts about any suspicious transactions/dealing/assured returns etc. by an AP or a branch, Member shall carry out an immediate inspection, irrespective of when the last inspection was carried out to initiate appropriate action.
- c) The indicative scope of the Inspection to be carried out is outlined in the Notice dated 18 Oct 2019.

Members are advised to put in place adequate mechanisms to review the inspection reports and take suitable actions to ensure non-recurrence of any irregularities observed. Members shall on an annual basis place an MIS before their Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of inspections undertaken, irregularities observed, and action taken.

Exchange has provided an online system in BEFS for reporting of the inspections/supervision undertaken by the Members. The same can be accessed at <https://bef.s.bseindia.com/login.aspx> at the following path :

**AP Registration -> Inspection of Authorised Person**

Inspections undertaken during a particular quarter shall be reported within one month from the end of the said quarter. (Refer Exchange Notice 20211124-3 dated 24 November 2021 and 20211021-38 dated 21 October 2021).

**5.5 Notification under regulation 3 of the Securities and Exchange board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007:**

**A. NISM Series VII – Associated persons:**

SEBI vide Regulation 3 of the Securities and Exchange Board of India (certification of Associated Persons in the Securities Market) Regulations, 2007, has notified in the Gazette of India that, Associated Persons i.e. persons associated with a registered stock broker/trading member/clearing member in recognized stock exchanges, who are involved in, or deal with any of the following, namely;

- 1) Assets or funds of investors or clients
- 2) Redressal of investor grievances
- 3) Internal control or risk management
- 4) Activities having a bearing on operational risk

shall be required to have a valid certification from the National Institute of Securities Market(NISM).

Accordingly, the Associated Persons, associated with a registered stock broker/ trading member/ clearing member shall have to pass the NISM-Series-VII : Securities Operations and Risk Management Certification Examination within two years from the date of notification i.e. December 10, 2010. Further if a stock broker/trading member/ clearing member who employs any associated persons after the date of notification shall ensure that the said associated persons shall obtain valid certification within one year from the date of their employment (Refer to Exchange Notice No. 20101215-19 dated December 15, 2010).

Further, in consultation with SEBI and other Exchanges it has been decided that requirement of passing of NISM Series VII - Securities Operations and Risk Management Certification exam would be optional for associated persons handling the basic clerical/elementary functions in the above stated areas provided their work is supervised by NISM Series VII - Securities Operations and Risk Management Certification certified personnel. The broad indicative activities that can be classified as basic elementary level/clerical level are enclosed as Annexure-A of Exchange Notice No. 20140902-8 dated September 2, 2014. Trading members are advised to take note of the same and ensure compliance by December 31, 2014.

#### **B. NISM Series-I-Currency Derivatives certification:**

Under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007, SEBI has notified on May 13, 2009 that trading member of the Currency Derivatives Segment of a recognised stock exchange shall ensure that all its approved users and sales personnel obtain Series-I: CD certification. (Refer Exchange Notice No. 20090520-18 dated May 20, 2009).

From the date of the notification, a trading member of the Currency Derivatives Segment of a recognized stock exchange shall not engage or employ any approved user or sales personnel who does not have valid Series-I: CD certification.

#### **C. NISM Series IIIA – Compliance officers:**

Under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007, SEBI has notified vide notice dated March 11, 2013 that the associated persons functioning as compliance officers of intermediaries registered with the Board as stockbrokers, or depository participants, or merchant bankers, or underwriters, or bankers to the Issue, or debenture trustees or credit rating agencies, shall obtain certification from the National Institute of Securities Markets (“NISM”) by passing the NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination (“SICCE”). (Refer Exchange Notice No. 20130312-5 dated March 12, 2013).

All such intermediaries shall ensure that associated persons functioning as compliance officers as on

the date of this notification obtain certification by passing SICCE within two years from the date of this notification i.e. March 11, 2013.

An intermediary, who engages or employs any such associated persons functioning as compliance officer after the date of this notification, shall ensure that such person obtains certification by passing SICCE within one year from the date of his employment.

**D. NISM Series VIII - Equity Derivatives Segment:**

Under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007, SEBI has notified vide notification dated January 11, 2013 that the associated persons functioning as approved users and sales personnel of the trading members of an equity derivative exchange or equity derivative segment of a recognized stock exchange shall obtain certification for the purpose of sub-regulation (2) of regulation 16C of the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 from the National Institute of Securities Market ("NISM") by passing the NISM- Series- VIII: Equity Derivative Certification Examination ("EDCE"). (Refer to Exchange Notice No. 20130122-24 dated January 22, 2013).

The trading members shall ensure that all such associated persons who are approved users or sales personnel as on the date of this notification obtain certification by passing EDCE within two years from the date of this notification i.e. January 11, 2013.

A trading member, who engages or employs any such associated person who is approved user or sales personnel, after the date of this notification, shall ensure that such person obtains certification by passing EDCE within one year from the date of his employment:

Further an associated person, who is approved user or sales personnel, has obtained any of the following certifications as on the date of this notification –

- a) BSE's Certificate on Derivatives Exchange of Bombay Stock Exchange Limited.
- b) NCFM- Derivative Market (Dealers) Module of National Stock Exchange of India Limited

shall be exempted from the requirement of obtaining certification by passing EDCE till the validity of the said certification.

**E. NISM Series-IV: IRD certification Examination:**

The Securities and Exchange Board of India had specified that approved users and sales personnel of the trading members who are registered as such in the currency derivatives segment of a recognized stock exchange and trading in interest rate derivatives, as on June 29, 2010, shall obtain Series-IV: IRD certification, as required in the notification, within two years from the date of the said notification.

WHEREAS in view of the fresh launch of interest rate futures and difficulties expressed by the industry,



it has been decided to extend the period for obtaining certification by such approved users and sales personnel for a period of two years from the date of the notification, as per SEBI Notification No. LAD-NRO/GN/2013-14/41/118 dated January 20, 2014.

Accordingly, a trading member who is registered as such in the currency derivatives segment of a recognized stock exchange and trading in interest rate derivatives shall ensure that all its approved users and sales personnel shall obtain Series-IV: IRD certification within a period of two years from the date of this notification. Further, all approved users and sales personnel employed by the trading member after the date of this notification shall obtain Series-IV: IRD certification within a period of one year from the date of employment. (Refer to SEBI Notification No. LAD-NRO/GN/2010-11/12/10230 on June 29, 2010, Notification No. LAD-NRO/GN/2013-14/41/118 dated January 20, 2014, and Exchange Notice No. 20140122-8 January 22, 2014).

#### **F. NISM Series - XIII Certification (CDCE):**

National Institute of Securities Markets (NISM) vide its press release dated December 09, 2014, has launched the NISM-Series-XIII: Common Derivatives Certificate Examination.

- NISM Series - I: Currency Derivatives Certification Examination
- NISM Series - IV: Interest Rate Derivatives Certification Examination
- NISM Series - VIII: Equity Derivatives Certification Examination

Candidates who have passed NISM-Series-XIII: Common Derivatives Certificate Examination shall be deemed to have obtained the requisite standard as specified in the above three exams. (Refer to Exchange Notice No. 20150209-5 dated February 9, 2015).

#### **5.6 Transactions outside the trading system of the Exchange/Principal To Principal Transactions:**

Where a member-broker either buys or sells securities directly from / to his client without entering the client order on the trading system of the Exchange, then he is said to be entering into transaction on principal-to-principal basis with his client. Member-brokers are allowed to enter into principal-to-principal transactions with their clients, subject to certain conditions.

The following are the requirements regarding transactions on principal-to-principal basis:

- 1) Written consent of the client is to be obtained for executing a transaction on principal-to-principal basis, as required under Section 15 of the Securities Contracts (Regulation) Act, 1956 and Bye-law 199 of the Rules, Byelaws and Regulations of the Exchange. Such consent from the client is to be obtained within a period of three days of execution of the transactions. Also separate consent is required to be obtained from a client for each transaction. One general letter consenting to all the transactions of this nature by a client will not do.

- 2) Contract notes issued by the member-brokers to the clients, when dealing with them as principals, are to be issued in accordance with Form B or BB as prescribed in Regulation 14 of the Rules, Bye-laws and Regulations of the Exchange.
- 3) Such transactions can be entered only as spot delivery contracts and required to be reported to the Exchange on the same day pursuant to SEBI circular no. SMD/RCG/CIR/(BKG)/293/95 dated March 14, 1995 and Exchange Notice No.20040306-9 dated March 6, 2004.
- 4) The transactions done on the spot basis are to be settled on the same day as the date of the contract or on the next day as provided in section 2 (i) of the Securities Contracts (Regulation) Act, 1956. The Exchange does not guarantee the settlement of these bargains.

It may be pertinent to mention that when a member-broker is transacting with client on principal-to-principal basis, much transparency is required. To maintain this transparency, Section 15 of the Securities Contracts (Regulation) Act, 1956 provides that no member-broker of a recognized Stock Exchange shall in respect of any securities enter into any contract as a principal with any person other than a member-broker of a recognized Stock Exchange unless he has secured the consent or authority of such person and discloses in the note, memorandum or agreement of sale or purchase that he is acting as a principal.

The member-brokers are also required vide Rule 15 (2)(c) of Securities Contracts (Regulations) Rules, 1957, to maintain and preserve the written consent of the client in respect of contracts entered into as principals.

It may be further noted that for Principal-to-Principal transactions, no brokerage is charged to the client.

Principal-to-Principal transactions cannot be entered into in respect of scrip that is delisted or scrip, trading in which is suspended. Further the price charged for the scrip for which transaction entered into on Principal-to-Principal basis should be within the range of open and closing price of the scrip on that date.

#### **Cross Deals and Negotiated Deals:**

A cross deal is a deal between two clients of the same member-broker and negotiated deal is a deal between two member-brokers the terms of which have been negotiated by member-brokers between themselves.

SEBI vide its Circular no. SMDRP/POLICY/CIR-32/99 dated September 14, 1999 has directed that all negotiated deals (including cross deals) are not permitted. As per SEBI directive, all negotiated deals will be permitted only if these are executed on screen in the price and order matching mechanism of the exchange just like any other normal trade.

## **5.7 Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication:**

It has been observed by SEBI that unauthenticated news related to various scrips are circulated in blogs/chat forums/e-mail etc. by employees of broking houses/other intermediaries without adequate caution as mandated in the code of conduct for Stock Brokers and respective Regulations of various intermediaries registered with SEBI. Further, in various instances, it has been observed that the Intermediaries do not have proper internal controls and do not ensure that proper checks and balances are in place to govern the conduct of their employees. Due to lack of proper internal controls and poor training, employees of such intermediaries are sometimes not aware of the damage which can be caused by circulation of unauthenticated news or rumours. It is a well established fact that market rumours can do considerable damage to the normal functioning and behaviour of the market and distort the price discovery mechanisms.

In view of the above, SEBI Registered Market Intermediaries are directed as follows:-

- 1) Proper internal code of conduct and controls should be put in place.
- 2) Employees/temporary staff/voluntary workers etc. employed/working in the Offices of market intermediaries do not encourage or circulate rumours or unverified information obtained from client, industry, any trade or any other sources without verification.
- 3) Access to Blogs/Chat forums/Messenger sites etc. should either be restricted under supervision or access should not be allowed.
- 4) Logs for any usage of such Blogs/Chat forums/Messenger sites (called by any nomenclature) shall be treated as records and the same should be maintained as specified by the respective Regulations which govern the concerned intermediary.
- 5) Employees should be directed that any market related news received by them either in their official mail/personal mail/blog or in any other manner, should be forwarded only after the same has been seen and approved by the concerned Intermediary's Compliance Officer. If an employee fails to do so, he/she shall be deemed to have violated the various provisions contained in SEBI Act/Rules/Regulations etc. and shall be liable for action. The Compliance Officer shall also be held liable for breach of duty in this regard.

## **5.8 Guidelines on Outsourcing of Activities by Intermediaries:**

SEBI Circular no. CIR/MIRSD/24/2011 dated December 15, 2011 wherein SEBI has issued guidelines on Outsourcing of Activities by Intermediaries.

Outsourcing may be defined as the use of one or more than one third party – either within or outside the group - by a registered intermediary to perform the activities associated with services which the intermediary offers.

The intermediaries desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. A few examples of core business activities may be –

execution of orders and monitoring of trading activities of clients in case of stock brokers; dematerialisation of securities in case of depository participants; investment related activities in case of Mutual Funds and Portfolio Managers. Regarding Know Your Client (KYC) requirements, the intermediaries shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued there under from time to time.

**Other Obligations:**

- a) Reporting To Financial Intelligence Unit (FIU)
- b) Need for Self-Assessment of existing Outsourcing Arrangements

**Principles for Outsourcing for Intermediaries:**

- 1) **An intermediary seeking to outsource activities shall have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced. The Board / partners (as the case may be) {hereinafter referred to as the “the Board”} of the intermediary shall have the responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy:**
  - i) The policy shall cover activities or the nature of activities that can be outsourced, the authorities who can approve outsourcing of such activities, and the selection of third party to whom it can be outsourced. For example, an activity shall not be outsourced if it would impair the supervisory authority’s right to assess, or its ability to supervise the business of the intermediary. The policy shall be based on an evaluation of risk concentrations, limits on the acceptable overall level of outsourced activities, risks arising from outsourcing multiple activities to the same entity, etc.
  - ii) The Board shall mandate a regular review of outsourcing policy for such activities in the wake of changing business environment. It shall also have overall responsibility for ensuring that all ongoing outsourcing decisions taken by the intermediary and the activities undertaken by the third-party, are in keeping with its outsourcing policy.
- 2) **The intermediary shall establish a comprehensive outsourcing risk management program to address the outsourced activities and the relationship with the third party:**
  - i) An intermediary shall make an assessment of outsourcing risk which depends on several factors, including the scope and materiality of the outsourced activity, etc. The factors that could help in considering materiality in a risk management program include:
    - a. The impact of failure of a third party to adequately perform the activity on the financial, reputational, and operational performance of the intermediary and on the investors / clients.

- b. Ability of the intermediary to cope up with the work, in case of non-performance or failure by a third party by having suitable back-up arrangements;
    - c. Regulatory status of the third party, including its fitness and probity status.
    - d. Situations involving conflict of interest between the intermediary and the third party and measures put in place by the intermediary to address such potential conflicts, etc.
  - ii) While there shall not be any prohibition on a group entity / associate of the intermediary to act as the third party, systems shall be put in place to have an arm's length distance between the intermediary and the third party in terms of infrastructure, manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures in this regard shall be made as part of the contractual agreement. It shall be kept in mind that the risk management practices expected to be adopted by an intermediary while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.
  - iii) The records relating to all activities outsourced shall be preserved centrally so that the same is readily accessible for review by the Board of the intermediary and / or its senior management, as and when needed. Such records shall be regularly updated and may also form part of the corporate governance review by the management of the intermediary.
  - iv) Regular reviews by internal or external auditors of the outsourcing policies, risk management system and requirements of the regulator shall be mandated by the Board wherever felt necessary. The intermediary shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations.
- 3) **The intermediary shall ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and regulators, nor impede effective supervision by the regulators:**
  - i) The intermediary shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.
  - ii) Outsourcing arrangements shall not affect the rights of an investor or client against the intermediary in any manner. The intermediary shall be liable to the investors for the loss incurred by them due to the failure of the third party and also be responsible for redressal of the grievances received from investors arising out of activities rendered by the third party.
  - iii) The facilities / premises / data that are involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the registered intermediary. The intermediary itself and Regulator or the persons authorized by it shall have the right to access the same at any point of time.
  - iv) Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its

regulatory responsibilities such as supervision/inspection of the intermediary.

**4) The intermediary shall conduct appropriate due diligence in selecting the third party and in monitoring of its performance:**

- i) It is important that the intermediary exercises due care, skill, and diligence in the selection of the third party to ensure that the third party has the ability and capacity to undertake the provision of the service effectively.
- ii) The due diligence undertaken by an intermediary shall include assessment of:
  - a) Third party's resources and capabilities, including financial soundness, to perform the II outsourcing work within the timelines fixed.
  - b) Compatibility of the practices and systems of the third party with the intermediary's requirements and objectives.
  - c) Market feedback of the prospective third party's business reputation and track record of their services rendered in the past.
  - d) Level of concentration of the outsourced arrangements with a single third party; and the environment of the foreign country where the third party is located.

**5) Outsourcing relationships shall be governed by written contracts / agreements / terms and conditions (as deemed appropriate) {hereinafter referred to as "contract"} that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities, expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.:**

- i) Outsourcing arrangements shall be governed by a clearly defined and legally binding written contract between the intermediary and each of the third parties, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the intermediary.

Care shall be taken to ensure that the outsourcing contract:

- a) clearly defines what activities are going to be outsourced, including appropriate service and performance levels.
- b) provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties.
- c) provides for the liability of the third party to the intermediary for unsatisfactory performance/other breach of the contract.
- d) provides for the continuous monitoring and assessment by the intermediary of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the intermediary to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory



obligations.

- e) includes, where necessary, conditions of sub-contracting by the third-party, i.e. the contract shall enable intermediary to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing.
- f) has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract.
- g) specifies the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.
- h) provides for preservation of the documents and data by third party.
- i) provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract.
- j) provides for termination of the contract, termination rights, transfer of information and exit strategies.
- k) addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when intermediary outsources its activities to foreign third party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction.
- l) neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- m) provides for the intermediary and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.

**6) The intermediary and its third parties shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities:**

- I) Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.
- II) An intermediary shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the third party level. Notably, it shall consider contingency plans at the third party; co-ordination of contingency plans at both the intermediary and the third party; and contingency plans of the intermediary in the event of non-performance by the third party.
- III) To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the intermediary to fulfill its obligations to other market participants/clients/regulators and could undermine the privacy interests of its customers, harm the intermediary's reputation, and may ultimately impact on its overall operational risk profile. Intermediaries shall, therefore, seek to ensure that third party maintains appropriate IT security and robust disaster recovery capabilities.

- iv) Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by the intermediary to confirm the adequacy of the third party's systems.
- 7) **The intermediary shall take appropriate steps to require that third parties protect confidential information of both the intermediary and its customers from intentional or inadvertent disclosure to unauthorised persons:**
- i) An intermediary that engages in outsourcing is expected to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.
  - ii) The intermediary shall prevail upon the third party to ensure that the employees of the third party have limited access to the data handled and only on a "need to know" basis and the third party shall have adequate checks and balances to ensure the same.
  - iii) In cases where the third party is providing similar services to multiple entities, the intermediary shall ensure that adequate care is taken by the third party to build safeguards for data security and confidentiality.
- 8) **Potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties:**

In instances, where the third party acts as an outsourcing agent for multiple intermediaries, it is the duty of the third party and the intermediary to ensure that strong safeguards are put in place so that there is no co-mingling of information /documents, records and assets.

**Activities that shall not be Outsourced:**

The intermediaries desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. A few examples of core business activities may be – execution of orders and monitoring of trading activities of clients in case of stock brokers; dematerialisation of securities in case of depository participants; investment related activities in case of Mutual Funds and Portfolio Managers. Regarding Know Your Client (KYC) requirements, the intermediaries shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued there under from time to time.

**Other Obligations:**

- i. **Reporting To Financial Intelligence Unit FIU** - The intermediaries shall be responsible for reporting of any suspicious transactions / reports to FIU or any other competent authority in respect of activities carried out by the third parties.

- ii. **Need for Self-Assessment of existing Outsourcing Arrangements** – In view of the changing business activities and complexities of various financial products, intermediaries shall conduct a self-assessment of their existing outsourcing arrangements within a time bound plan, in line with the requirements of the guidelines/principles.
- iii. **Reliance on third party for carrying out Client Due Diligence** - Registered intermediaries may rely on a third party for the purpose of a identification and verification of the identity of a client and b determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act. However, registered intermediaries shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable. SEBI circular CIR/MIRSD/1/2014 dated March 12, 2014.

#### REGULATORY REQUIREMENTS/REFERENCES:

1	Guidelines for location of CTCL terminals and usage thereof	Exchange Notice No. 104616/2001 dated November 12, 2001 , 20040205-13 dated February 05, 2004, 20100224-18 dated February 24, 2010, 20080417-24 dated April 17, 2008, 20131224-7 dated December 24, 2013, 20140205-25 dated February 5, 2014, 20140612-7 dated June 12, 2014, 20120823-13 dated August 23, 2012, 20111213-2 dated December 13, 2011
2	Placing of notice boards	Exchange Notice No. 20050902-21 dated September 02, 2005, 20101109-1 dated November 9, 2010, 20140828-39 dated August 28, 2014, 20140902-12 dated September 2, 2014
3	Inspection of Authorized Person.	Exchange Notice No. 20191018-43 dated October 18, 2019
4	Notification under regulation 3 of the Securities and Exchange board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007	SEBI notification no. LAD-NRO/GN/2010-11/12/10230 dated June 29th, 2010, SEBI notification no. LAD-NRO/GN/2010-11/21/29390 dated December 10, 2010, SEBI notification no. LAD-NRO/GN/2012-13/30/5474 dated January 11, 2013; SEBI notification no. LAD-NRO/GN/202-13/33/1103 dated March 11, 2013; SEBI notification no. LAD-NRO/GN/2013-14/41/118 dated January 20, 2014;  Exchange Notice No. 20121108-13 dated November 08, 2012, 20111213-2 dated December 13, 2011, 20140902-8 dated September 2, 2014, 20090520-18

		dated May 20, 2009, 20130312-5 dated March 12, 2013, 20130122-24 dated January 22, 2013 and 20140122-8 January 22, 2014
5	Transactions outside the trading system of the Exchange	SEBI circular no. SMD/RCG/CIR/(BKG)/293/95 dated March 14, 1995 and Exchange Notice No.20040306-9 dated March 6, 2004.
6	Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication	(SEBI circular Cir/ISD/1/2011 dated March 23, 2011; Exchange Notice No. 20110323-31 dated March 23, 2011 and SEBI Addendum circular no. Cir/ISD/2/2011 dated Mach 24, 2011; Exchange Notice no. 20110324-24 dated March 24, 2011)
7	Guidelines on Outsourcing of Activities by Intermediaries	(SEBI Circular No CIR/MIRSD/24/2011 dated December 15, 2011; Exchange Notice no. 20111216-1 dated December 16, 2011)
8	Framework for Supervision of Authorized Persons (APs) & Branches by Members	Exchange Notice No. 20191018-43

## ITEM 6 - BOOKS OF ACCOUNTS AND OTHER DOCUMENTS

### **6.1 Maintenance of books of accounts and other documents/Preservation of records:**

The member-brokers of the Exchange are required to maintain the following books of accounts and records as per Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992. These books and records are to be preserved for a minimum period of five years as per the requirements of Regulation 18 of SEBI (Stock Brokers and Sub- Brokers) Regulations, 1992. In case such documents are maintained in electronic form, provisions of Information Technology Act, 2000 in this regard shall be complied with.

It may however, be noted that, in cases where copies of books of accounts have been taken by any of the enforcement agencies like CBI, Police, ED etc. during the course of any investigation, it is necessary to preserve the original documents, both in electronic and physical form till the trial is completed. Members may refer to Exchange Notice No. 20050805 -20 dated August 5, 2005 & Exchange Notice No. 20051227 – 18 dated December 27, 2005 in this regard.

As per Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 following books of accounts & documents are required to be maintained by the members.

- a) Register of transactions (Sauda Book)
- b) Clients' ledger.
- c) General ledger.
- d) Journal.
- e) Cash book.
- f) Bank passbook.
- g) Register of securities
- h) Member's contract books showing details of all contracts entered into by him with other members of the same exchange
- i) Counterfoils or duplicates of contract notes issued to clients.
- j) Written consent of clients in respect of contracts entered into as principals;
- k) Margin deposit book.
- l) Client account opening form in the format as may be specified by the Board

In addition to the above statutory requirements, member-brokers of the Exchange are inter-alia, required to maintain the following records/documents at the time of inspection by the BSE officials :

Sr. No.	Document Required

1	Action letter received from the other Exchange of previous Inspection
2	Action letter received from the SEBI of previous Inspections
3	Findings of two half yearly Internal Audit Reports of last calendar year.
4	BOOKS OF ACCOUNTS
a	Trial Balance
b	General Ledger (Including Dividend ledger & Brokerage ledger)
c	Client Ledgers (Notice Number : 20210205-30 dated February 5 ,2021)
d	All the Bank Books & Cash Book (Extract from back office)
e	Bank Statements
f	Contract notes sent to the clients along with acknowledgement proof
g	Client Registration Documents
h	Sauda Book (Should contain details such as UCC, Back Office Code, Client Name, Scrip Code, Scrip Name, Bought, Sold, Net Rate, Value, Brokerage, Order ID, Order Time, Trade ID, Trade Time)
i	AP's Inspection Report
j	Securities Register (Scrip wise – Client wise register)
k	Securities Register (Client wise – Scrip wise register)
5	CERTIFICATES & APPROVALS
a	Registration Certificate of Authorized Persons/Remisers.
b	Exchange approval for Own Trading from Multiple locations
c	Intimation Letter to Exchange for Own trading from default location
d	Digital Signature Certificate for ECN
e	Certifications authorizing Terminal Operators.
f	Approval letter for SLB
g	In case you deal with any other stock broker BSE as a client, copy of the BSE approval for the same
h	In case you deal with any non-BSE stock broker as a client, copy of intimation of the same to BSE
i	Approval received from BSE for Internet Trading (SOR/Wireless trading/Mobile trading)
j	Approval received from BSE for Margin Trading
k	Approval received from BSE for DMA
l	Approval received from BSE for Algorithmic trading
m	Whether system audit for algorithmic trading has been carried out?
6	DOWNLOADABLES & SYSTEM REQUIREMENTS
a	Order Book (Order Log)
b	Margin Deposit Book / Ledger ( Clearing Corporation files)
c	ECN Log Report (If applicable)



d	Terminal details uploaded to BSE
7	<b>AUTHORITY &amp; UNDERTAKINGS</b>
a	Acknowledged copy of Board Resolution for Signing Contract Notes
b	Acknowledged letter of appointment of Compliance Officer
C	POD & Intimation letter sent to FIU regarding appointment of Principal Officer under PMLA
d	POD & intimation letter sent to FIU regarding appointment of designated director under PMLA
8	<b>DOCUMENTS &amp; REGISTERS</b>
a	Pool A/c and CUSA A/c Statements (Transaction as well as Holding Statements of client/beneficiary)
b	RCBDL FILE
c	ACBDL FILE (If applicable)
d	Client wise segregation of securities
e	Statement of Account & Proof of sending to the clients
f	Register of Securities (Notice Number : 20210205-30)
g	Daily Margin Statement & Proof of sending to the clients
h	Lease Agreement/Rent Receipt or any other documentary evidence for Branch Offices.
i	Proof of Designation for all Client Bank Accounts
j	Proof of investor grievance ID printed on any printed material
k	Investor Grievance Register
l	Copy of the contract note no.1
9	<b>POLICIES AND PROCEDURE DOCUMENTS (SEBI Circular : MIRSD/SE/Cir-19/2009 dated December 3, 2009 – mandatory to give to clients with standard documents )</b>
a	Policy for Prevention of Anti Money Laundering including Customer identification policy, Customer due Diligence, Risk Categorization, Identification of Client of special Category, Alert note/reports, creating awareness among the clients & staff
b	Risk Management System/Policy
c	Internal Control System
d	Code of Internal Procedures and Conduct for prevention of Insider Trading
e	Policy for unauthentic news circulation
f	Redressal mechanism for Investor Grievance
g	Documented Error Account Policy

Members are required to maintain separate set of books for each Exchange in which they operate.

Further, for a particular Exchange a separate set of books is required to be maintained for each particular segment of the Exchange in which the member is operating.

From the above list of books and documents, few terms are explained herein below.

**A. Order Book:**

SEBI vide Circular no. SMD/POLICY/IECG/1-97 dated February 11, 1997 has provided that the member-brokers should maintain record of time when a client has placed the order. This information is required to be maintained by the member-broker in his Order Book. Order book should generally contain the following information:

- Identity of the person placing the order
- Date and time of order received.
- Name of the person receiving the order
- Name of the client, description and value of the securities to be bought or sold
- Terms and conditions of the order stating price/rate limit or price/trade related instructions and time limit (if any)
- Details of any modification or cancellation, if any
- Reference number of the contract note issued
- Serially numbered orders

**B. Broker Query File (BRK file):**

This statement is downloaded to the member-broker by the BSE on a daily basis after the market hours. This statement shows the details of all the transactions executed by a member-broker across all his terminals for a particular trading day. It shows Trade ID, Transaction ID, Time of execution of a transaction, scrip quantity, scrip code, type of transaction (such as own, client etc), Client ID and the terminal from which the transaction was executed alongwith date.

**C. Register of Transactions (Sauda Book):**

All member-brokers are required to maintain a `Sauda Book`, which contains details of all trades transacted by them on a day-to-day basis. This is a basic record, which each member-broker is required to maintain regularly on day-to-day basis. It contains the details regarding the name of the scrip, name of the client on whose behalf the deals have been done, rate and quantity of scrip bought or sold. These details are to be maintained date-wise. This register contains all the transactions, which may be of any of the kind mentioned below:

- Member-broker's own business on the Exchange.
- Member-broker's business on the Exchange on behalf of clients.

- Member-broker's business with the clients on principal-to-principal basis.
- Member-broker's business with the members of other Stock Exchanges.
- Spot transactions, etc.

**D. Margin Deposit Book:**

The member-brokers are required to maintain a margin deposit book wherein details of all the margins deposited with the stock broker by the clients are to be recorded as per Regulation 17(1) of SEBI (Stock- brokers and Sub-brokers) Regulations, 1992.

**E. Investor Grievance Register and designated e-mail ID:**

Members are required to maintain Investor Grievance Register for writing investor's grievances (BSE Notice No. 20070906-10 dated September 06, 2007).

SEBI vide its circular No.MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006 advised all the members to designate e-mail IDs of their respective grievance redressal division and/or of their compliance officers exclusively for the purpose of registering complaints by investors and display such e-mail IDs and other relevant details prominently on their websites and in the various materials / pamphlets / advertisement campaigns initiated by them for creating investor awareness. (Exchange Notice No.20070131-11 dated January 31, 2007).

**F. Clients Ledger:**

Every member-broker is required to maintain a clients' ledger in respect of all the clients registered with him. This ledger contains the details of the bills raised by the member-broker on the clients and the payment received from or made to them. Inspection of this ledger can bring out the cases of delay by a member-broker in making payment to the clients.

**G. Dematerialised Securities:**

The member-brokers are required to maintain a proper record of all shares received and delivered from their demat account as well as preserve acknowledged copies of the delivery instructions given to their DP for transferring the securities from their Pool Account to the Client's Account after the Pay-Out.

All member-brokers are required to open a demat accounts with their Depository Participants (DPs) for handling the receipt and delivery of the shares. In case member is also doing his own trading then, a separate demat account is required to be opened for own shares.

One account is 'Own Beneficiary Account' wherein the demat securities belonging to the member-broker for his own account are held. In case of sale of securities by clients, the clients transfer the securities to the member-broker's beneficiary account (Pool Account) before the pay-in and the

member-broker transfers the same from the fromhis account to the Clearing House on the Pay-in day. In case of purchase of securities by the clients, the Clearing House transfers the securities to the Pool Account (in case of both NSDL & CDSL) of the member-broker and the member-broker then transfers the same to the Demat Account of the respective clients.

#### **H. Bank Book and Cash Book:**

The member-brokers are required to maintain separate bank accounts for own funds and clients' funds received from the clients and payments made to the clients should be reflected in the Client's designated Bank Account. All expenses should be made from OWN bank account. For format of Bank Book refer: 20180830-31 dated August 30, 2018.

#### **REGULATORY REFERENCES/REQUIREMENTS.**

1	Maintenance of books of accounts and other documents /Preservation of records	Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 of the SEBI (Stock Brokers and Sub- Brokers) Regulations, 1992, Regulation 18 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, , Rule 8(1)(f) and 8(3)(f) of Securities Contract (Regulations) Rules, 1957, SEBI vide Circular no. SMD/POLICY/IECG/1-97 dated February 11, 1997 and SEBI circular no.SMD/POLICY/CIR- 6/97 dated May 07, 1997.  Exchange Notice No. 20050805 -20 dated August 5, 2005, 20051227 – 18 dated December 27, 2005, 20070906-10 dated September 06, 2007, 20070131-11 dated January 31, 2007, 20030903-5 dated September 3, 2003
2	Format of Register of Securities, Holding Statement, Bank Book and Client Ledger	Exchange Notice No. 20180830-31 dated August 30, 2018 & 20210205-30 dated February 05, 2021.

## **ITEM 7 - COMPLIANCE REQUIREMENTS**

### **7.1 Compliance Calendar:**

A consolidated checklist of reports / statements / certificates / data / submissions to be made by members to the Exchange is made available at

[https://www.bseindia.com/downloads1/Due\\_Dates\\_Compliance\\_Reporting.pdf](https://www.bseindia.com/downloads1/Due_Dates_Compliance_Reporting.pdf)

### **7.2 Enhanced Supervision of stock brokers:**

SEBI vide circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 provide the guidelines for implementation of Enhanced Supervision of Stockbrokers covering the following board areas: -

1. Uniform nomenclature to be followed by stockbrokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Stock Exchanges/Depositories.
2. Monitoring of Clients' Funds lying with the Stockbroker by the Stock Exchanges, through a sophisticated alerting and reconciliation mechanism, to detect any misutilisation of clients' fund.
3. Changes in the existing system of internal audit for stockbrokers/depository participants viz. appointment, rotation of Internal Auditors, formulation of objective sample criteria, monitoring of quality of Internal Audit Reports, timeline for submissions of Internal Audit Reports, etc.
4. Monitoring of Financial Strength of Stockbrokers by Stock Exchanges to detect any signs of deteriorating financial health of stockbrokers and serve as an early warning system to take pre-emptive and remedial measures.
5. Imposition of uniform penal action on stockbrokers/depository participants by the Stock Exchanges/Depositories in the event of non-compliance with specified requirements.
6. Other Requirements:
  - a. Uploading client's funds and securities balances by Stockbrokers to Stock Exchange System and onwards transmission of the same to the clients for better transparency.
  - b. Clarification on Running Account Settlement
  - c. Providing PAN details of Directors, Key Management Personnel and Dealers, to Stock Exchanges and any change thereof.

“Trading Members are not able to promptly furnish daily reconciliation statement indicating the purpose of such transfers, when the same is sought by the Exchange during inspections or offsite supervision. In view of this, it is reiterated that the members shall maintain the reconciliation statement on a daily basis as prescribed and provide the same as and when sought by the relevant authority.” (Reference Exchange Notice no. Exchange Notice 20160927-41 dated September 27, 2016 and 20230309-38 dated 09 Mar 2023.)

Further clarification on reporting of securities balance under the Enhanced Supervision Framework has been provided vide Exchange notice no. 20170829-26 dated August 29, 2017 whereby it has been clarified that securities in the demat account(s) of the clients, opened with the Trading Members in their capacity as a Depository Participants or with any other Depository Participant for facilitating online

trading by client is not required to be reported.

**A. Weekly Clients' Funds lying with the Stockbroker:**

In accordance with the SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/03 dated January 12, 2024 (Exchange Notice No. 20240112-31 dated January 12, 2024) on Subject "Ease of doing business-Changes in reporting", weekly reporting requirement of data towards Monitoring of Clients' Funds lying with the Stock Broker under Enhanced Supervision as prescribed under Exchange Notice No. 20180403-51 dated April 03, 2018 is discontinued with immediate effect, i.e. trading members are not required to submit the aforementioned data for the week ended January 12, 2024 and onwards. Accordingly, period of the last applicable submission is week ended January 05, 2024, due date of which was January 10, 2024.

**B. Submission of Holding Statement –**

Members are required to submit, Holding Statement data for all dates (Monday to Saturday) on daily from January 30, 2023 due date of which shall be January 31, 2023 and each day thereafter.

**C. Reporting of Client Level Cash & Cash Equivalent and Bank account Balances**

In accordance with SEBI circular SEBI/HO/MRD2\_DCAP/CIR/2021/0598 dated July 20, 2021, Exchange notices 20210922-64 dated September 22, 2021 and 20211022-44 dated October 22, 2021 on segregation and monitoring of collateral at client level, members are required to submit the relevant details, as sought, to their respective Clearing Members in order to enable them to submit the same to Clearing Corporations. The trading members who are self-clearing members are required to report said data to Clearing Corporations.

In order to utilize the aforesaid submission by Exchanges for supervisory activities and with an objective to discontinue the Cash and Cash Equivalent submission being reported by trading members to Exchanges, Clearing Corporations in consultation with Exchanges had revised the reporting format of segregation and monitoring of collateral at client level with inclusion of certain additional columns/details which are reported in Cash & Cash Equivalent submission.

Further, the Exchange vide notice 20230720-39 dated July 20, 2023 informed members that data reported by them towards segregation and monitoring of collateral at client level submission to clearing member or clearing corporations as case may be, is used by the Exchange also for undertaking supervisory activities.

As the Exchange has started using such submission for the supervisory activities and in order to ease out the compliance burden of the members, the Exchange has decided to discontinue the requirements of reporting of day wise Client Level Cash and Cash Equivalent Balances by members from March 18, 2024 and accordingly, period of last submission which would be applicable to members for weekly Cash and Cash Equivalent Balances reporting shall be week ending March 16, 2024 due date of the same shall be March 21, 2024.

However, members are strictly advised to report correct data in the segregation and monitoring of collateral at client level submission to their Clearing Members or Clearing Corporations as case may



be, in accordance with the guidelines issued by Clearing Corporations/ Exchanges from time to time.

Members attention is also drawn to the Exchange notice 20210226-54 dated February 26, 2021 wherein it was mentioned that the financial ledger balance (Clear) in Cash & Cash Equivalent and securities/ commodities holding in Holding Statement as of Saturday reported by the members on weekly basis shall be disseminated by the Exchange to the clients via SMS/Emails on as is basis.

In light of discontinuation of Cash & Cash Equivalent submission, the financial ledger balance (Clear) of Saturday as reported by members in submission of segregation and monitoring of collateral at client level to Clearing Corporations/Clearing Members on daily basis and securities/ commodities holding of Saturday as reported by members in Holding Statement to the Exchange on daily basis shall be disseminated by the Exchange to the clients via SMS/Emails on as is basis from the week ending March 02, 2024 and thereafter.

Further, it has been observed that certain members are not making submission of segregation and monitoring of collateral at client level to Clearing Members /Clearing Corporations of Saturday. In view of the same, members are advised to ensure that submission of segregation and monitoring of collateral at client level of Saturday is also made to Clearing Members /Clearing Corporations.(Refer Exchange Notice 20240313-35 dated March 13, 2024.)

Exchange vide Notice 20201229-32 dated December 29, 2020, 20210106-36 dated January 06, 2021 and 20210108-48 dated January 08, 2021 advised members to submit Undertaking/Authorization to Exchange to access the information/statements pertaining to all bank accounts, maintained by members, opened/reported to the Exchange from time to time, from Banks or through a financial technology solution provider authorized by the Exchange. Further, Exchange also advised members to submit written confirmation to be obtained from certain Banks as specified in point (ii) & (iii) of the Exchange Notice 20220316-9 dated March 16, 2022 that Bank shall submit day wise account number wise end of day clear running balances and/or information/statement of all bank accounts maintained with such bank(s) to Exchange on daily/weekly basis as may be required by the Exchange.

In this regard, Exchange has now started receiving information pertaining to bank accounts maintained by the trading members from the Banks as specified in the aforesaid Notice dated March 16,2022. In view of the same and in order to ease out the compliance burden of the members, Exchange has decided to discontinue the aforesaid requirements of reporting of Bank Account Balances by Members from October 30, 2023 and accordingly, period of last submission which would be applicable to member for daily Bank Balance reporting shall be October 28,2023 due date of the same shall be October 30, 2023.

The requirement of reporting aforesaid day wise Bank Balances was introduced with an objective to monitor the availability of client assets with member in accordance with SEBI guidelines on Enhanced supervision of Stockbroker. Hence, Members are requested to note that it shall be their responsibility to ensure that their Banks submit daily Bank balances on T+1 basis to Exchange. (Refer Exchange Notice No. 20231020-49 dated 20 October 2023)

This is further to SEBI Circular no SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 and BSE circular 20240119-30 dated January 19, 2024 on Operational guidelines and SOP

on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) which states any clients' clear credit balances which are not placed by the SBs/CMs with the CC and are reported in the segregation file as "Retained with TM" or "Retained with CM, the Clearing Members are required to report retention reasons. Basis discussion amongst Exchanges and Clearing Corporation, it has been decided to capture justifications for retention of collateral in the daily client collateral segregation file. The guidelines and revised format of daily collateral segregation data is provided in Annexure 1 of Exchange notice no. 20240318-55 dated 18 March 2024.

#### **D. Miscellaneous**

##### **Financial Indicators data submission as per Enhanced Supervision Document (ESD)**

This data is to be submitted every year and it is to be submitted in BEFS under Risk Based Supervision

Submissions of Financial Indicators are required to be made online in electronic format through BEFS Portal. The path to the Financial Indicator Entry screen is BEFS >> Risk Based Supervision >> Financial Indicators Entry tab.

*In case of any queries, members may reach us at [bse.rbs@bseindia.com](mailto:bse.rbs@bseindia.com)*

#### **7.3 Guidelines for maintaining bank accounts and Reporting of Bank & Demat Accounts:**

One of the requirements of the Enhanced Supervision of Stock Brokers circular is the reporting by all the Members of their existing as well as their new bank & demat accounts to the Exchange. A facility has been provided by the Exchange whereby Members can report details of their bank & demat accounts to the Exchange, electronically through BEFS.

The procedure for submitting the information through BEFS (BSE Electronic Filing System) is given in the notice issued by Exchange. The Members may note that all new bank & demat accounts shall be informed to the Exchanges within one week of the opening of the account through the same module.

Exchange has decided to seek information/ statements pertaining to all Bank accounts maintained by members directly from Bank or through a financial technology solution provider authorised by the Exchange. Hence, all members are advised to provide an undertaking authorising the Exchange to instruct the bank(s) of the members to seek any information/statements pertaining to all bank accounts (maintained by members) directly from the Bank or through a financial technology solution provider authorised by the Exchange. Further, members are advised to keep the Bank/s appropriately notified of the said authorisation to enable them to honour the instructions received from Exchange. Trading members shall submit updated/ fresh undertaking/authorisation to the Exchange within seven working days of opening of any new bank account.

This has reference to Exchange notice nos. 20201106-46, 20201127-14 and 20201218-63 dated November 06, 2020, November 27, 2020 and December 18, 2020 on Guidelines for maintaining client

bank accounts by the Trading Members wherein trading members were advised to close the excess bank accounts named as "Name of Stock Broker - Client Account" by December 31, 2020.

Member can maintain maximum of 30 bank accounts named as "Name of Stock Broker - Client Account" across all segments and Exchanges at a time.

Members are also requested to note that, as per the requirement of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 "In case of closure of any of the reported bank accounts, the same shall be communicated to the Stock Exchanges within one week of its closure."

Exchange vide notice nos. 20220203-42 dated February 03, 2022, 20220316-9 dated March 16, 2022, 20220412-30 dated April 12, 2022, has prescribed that members shall maintain client bank accounts with followings banks only:

- i) Banks designated as Clearing Banks by any of the Clearing Corporations from time to time
- ii) Banks which are not designated as Clearing Banks however empaneled for the purpose of issuance of BGs and FDRs by any of the Clearing Corporations from time to time.
- iii) Payment Banks licensed under Banking Regulation Act, 1949.

However, members can maintain the client banks accounts with banks stated above in point (ii) & (iii) only if member has obtained written confirmation from such bank(s) that Bank shall submit day wise account number wise end of day clear running balances and/or information/statement of all bank accounts maintained with such bank(s) to Exchange on daily/weekly basis as may be required by the Exchange. Members shall submit updated/ fresh confirmation to the Exchange within seven working days of opening of any new client bank account.

Further, member shall maintain own/proprietary account with Scheduled Banks or Payment Banks licensed under Banking Regulation Act, 1949 only. Members are also requested to note that, as per the requirement of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 "In case of closure of any of the reported bank accounts, the same shall be communicated to the Stock Exchanges within one week of its closure."

Further, members shall submit updated/ fresh confirmation to the Exchange within seven working days of opening of any new client bank account. SEBI vide circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 had mandated uniform nomenclature to be followed by stock brokers for Naming/Tagging of Bank and Demat Accounts to reflect the purpose for which those bank/demat accounts are being maintained and the reporting of such accounts to the Stock Exchanges/Depositories. Vide SEBI circular no. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, it was also decided that naming proprietary demat accounts of the stock broker as 'Stock Broker – Proprietary Account' is voluntary and accounts which are not tagged would be deemed to be proprietary. In consultation with Stock Exchanges and Depositories, SEBI vide circular SEBI/HO/MIRSD/ MIRSD\_DPIEA/P/CIR/2022/83

dated June 20, 2022, has decided that all demat accounts maintained by stock brokers should be appropriately tagged. Further, it is prescribed that:

- I. All demat accounts of stock brokers which are untagged need to be appropriately tagged by June 30, 2022.
- II. Credit of securities shall not be allowed in any demat account left untagged from July 01, 2022 onwards. Credits on account of corporate actions shall be permitted.
- III. Debit of securities shall also not be allowed in any demat account left untagged from August 01, 2022.
- IV. Stock Broker shall obtain permission from Stock Exchanges to allow tagging of such demat accounts from August 01, 2022 onwards. Stock Exchange shall grant such approval within two working days after imposing penalty as per their internal policy.

Members are advised to display details of all their active client bank accounts on their website which are reported to Exchange in accordance with Exchange notice no. 20160927-41 dated September 27, 2016 on Enhanced Supervision of Stock Brokers. Details of client banks accounts to be displayed on website shall include Name of Bank Account, Bank Account number and IFSC along with following note :

*“Investors are requested to note that Stock broker (name of stock broker) is permitted to receive/pay money from/to investor through designated banks accounts only named as client bank accounts. Stock broker (name of stock broker) is also required to disclose these client bank accounts to Stock Exchange. Hence, you are requested to use following client bank accounts only for the purpose of dealings in your trading account with us. The details of these client bank accounts are also displayed by Stock Exchanges on their website under “Know/ Locate your Stock Broker” Members were advised to implement the provisions of the notice by March 15, 2023. (Reference BSE notice no. 20230127-42 dated 27 Jan 2023 subject Display of Details of Client Bank Accounts on Website)*

#### **7.4 Application Programming Interface (API) for Weekly submission of Holding Statement:**

Exchange vide Notice No. 20220602-43 dated June 2, 2022 and Notice no. 20220715-15 dated July 15, 2022 regarding Application Programming Interface (API) for weekly submission of Holding Statement. The functionality for Application Programming Interface (API) for weekly submissions was made applicable from the week ended July 16, 2022, and onwards.

Exchange vide notice No. 20220526-6 dated May 26, 2022, 20220602-43 dated June 02, 2022, 20220624-43 dated June 24, 2022 and 20220715-15 dated July 15 2022 has introduced Application Programming Interface (API) for Weekly submission of Holding Statement and the same has been mandatorily made applicable from week July 16, 2022 and onwards, the due date of which was July 21, 2022, and for each week thereafter.

With a view to enhance monitoring of client assets on continuous basis, it has been decided to revise the frequency of submission of Holding statement from weekly to daily and accordingly, member shall

make the submission of Holding Statement for each day of the week (except Sunday) daily from January 30, 2023, due date of which shall be January 31, 2023 and each day thereafter. (Reference Notice No. 20230113-13 dated 13 Jan 2023 and 20230127-8 dated 27 January 2023, subject, Daily submissions of Holding Statement)

#### **7.5 Submission of Designated Director details to FIU-IND and Registration on FIU-IND's FINnet Gateway:**

SEBI had directed the members to appoint a person as a 'Designated Director' in addition to Principal Officer to comply with AML/CFT requirements. 'Designated Director' includes

- i) the Managing Director or a Whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,
- ii) the managing partner if the reporting entity is a partnership firm,
- iii) the proprietor if the reporting entity is a proprietorship concern,
- iv) the managing trustee if the reporting entity is a trust,
- v) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals.
- vi) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above."

The members are required to provide details of the Designated Director, such as name, designation and address to the office of the Director to FIU-IND.

FIU has informed the Exchange that FIU-INDIA has initiated the fresh registration of the Reporting Entities (REs) in FINnet 2.0 system from January 19, 2022. As part of the envisaged FINnet 2.0 system, all Reporting Entities (REs) registered in FINnet 1.0 are required to re-register themselves in FINnet 2.0 module. It may please be noted that as part of the re-registration exercise, REs are required not only to register Principal Officer but the details of Designated Director also need to be provided.

Further, any new RE who wishes to register afresh with FIU-IND needs to get registered both on FINnet 1.0 and FINnet 2.0 as report filing is still to be done on FINnet 1.0 portal till the time FINnet 2.0 becomes fully functional. (Refer Exchange Notice No. 20220912-63 dated September 12, 2022)

#### **7.6 Internal Audit of trading members:**

Internal Audit for Stock Brokers/Clearing Members was introduced by SEBI vide Circular No. MIRSD/DPSIII/Cir-26/08 dated August 22, 2008.

All the stock brokers/trading members are required to carry out complete internal audit on a half yearly basis by Internal Audit can be conducted by Independent qualified Chartered Accountants or Company Secretaries or Cost and Management Accountants who are in practice and who do not have any conflict of interest.



Further, members are advised to adhere to the norms prescribed under clause 4.2 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, w.r.t Appointment and Rotation of Internal auditors. Accordingly, members shall not appoint or re-appoint the internal auditor who has completed its term as specified under clause 4.2.1.2 (a) and 4.2.1.2 (b) of aforesaid circular.

Members are required to submit the internal audit report and internal audit certificate along with management comments for negative observations, if any with the BSE within two months from the end of the relevant half yearly period i.e The half yearly internal audit is required to be carried out for the period from April to September & October to March. Internal Audit report to Stock Exchanges for half year ending September 30<sup>th</sup> has to be submitted by November 30<sup>th</sup> and half year ending March 31<sup>st</sup> to be submitted by May 31<sup>st</sup>. The internal audit report is required to be submitted to the BSE in electronic form through BEFS as per the format prescribed by the BSE.

The minimum sample size required to be verified for the internal audit is prescribed by the BSE and it needs to be adhered to. Whenever any negative observation is reported by the auditor, the management of the member is required to give their comments on the negative observation. The audit report is required to be submitted by the auditor to the member, who will place it before the board for its consideration and then shall forward it to the BSE. Further, the quality of internal audit reports received from members shall be monitored and appropriate steps shall be taken if the reports do not meet minimum expected quality levels. In case where internal audit report submitted is incomplete and not as per the guidelines like only certificate submitted without report or management comments not given etc., same would be treated as non-submission of internal audit report. Members are strictly advised to submit the report in the format prescribed by the Exchange.

Refer to the Exchange notice no. 20220601-52 dated June 1, 2022 wherein all members were informed that with an objective to improve regulatory compliances, the penalty structure has been revised.

It is to be noted that the due date to submit the Internal Audit Report is within two months from the end of half year i.e., for the half year ended March 31, 2024, the due date is May 31, 2024. The penalties/disciplinary actions for late/non-submission of the Internal Audit Report and non-compliances observed in the Internal Audit Report, shall be applicable as per the Exchange notice no. 20220601-52 dated June 01, 2022, or any other relevant notices that may be issued by the Exchange from time to time. Refer Exchange notice no. 20240412-45 dated 12 April 2024.

SEBI vide Circular No. MIRSD/DPSIII/Cir-26/08 dated August 22, 2008 and Exchange vide Notice No. 20080825-2 dated August 25, 2008 and Notice No. 20081022-30 dated October 22, 2008 made it mandatory for all Trading Members/Clearing Members to carry out complete internal audit on a half yearly basis. Further, SEBI vide Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, prescribed additional requirements for internal audit, viz. appointment, rotation of internal auditors, formulation of objective sample criteria, monitoring of quality of internal audit reports, timelines for submissions of internal audit reports, etc. Further, Exchange vide Notice No. 20220221-65 dated February 21, 2022 and 20221017-42 dated October 17, 2022, has prescribed additional eligibility criteria for the auditors qualified to conduct internal audit of members.



This is reference to the Exchange Notice No. 20231003-61 dated October 03, 2023, wherein the Exchange had revised the eligibility criteria. The Audit Firms who meet the prescribed eligibility criteria may submit an online application for empanelment for undertaking assignments relating to internal audit of Trading Members of the Exchange by using the following URL provided on the Exchange website. Members may please note that the Exchange shall accept the internal audit report certified by empanelled auditor only with effect from the half year ending March 31, 2024, onwards. (Refer Exchange Notice No. 20231215-55 dated 15 December 2023)

To enhance the ease of doing compliance and reduce operational difficulties faced by Members/Audit Firms, it has been decided that the auditors empanelled with any of the Exchange(s), shall be eligible to conduct internal audit of the Trading Members of any of the Exchange(s). The Trading Members may choose any of the empanelled auditors at any of the Exchange(s). (Refer Exchange notice No. 20240304-60 dated 04 March 2024 and 20231215-55 dated 15 December 2023)

URL for empanelment of Internal Auditor: <https://www.bseindia.com/register/AuditorRegistration.aspx>

### **Revision in penalty for adverse observations in the Internal Audit Report:**

In order to bring parity between the action of adverse observations reported by Internal Auditor during the half yearly submission and observation during the course of inspection, the Penalty Framework as provided in Exchange notice no. 20180214-31 dated February 14, 2018, and other relevant circulars issued from time to time shall be applicable for such adverse observations in the Internal Audit Report.

## **7.7 System Audit of Stock Brokers / Trading members:**

Pursuant to SEBI circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013; and Exchange notice no. 20131107-6 dated November 7, 2013, and Exchange Notice 20230331-66 Dated March 31, 2023 on the Annual System Audit of Stock Brokers / Trading members.

The Trading Members are required to note the following:

### **1) Periodicity of submission of system audit report:**

System Audit of stock brokers should be conducted with the following periodicity:

- a) Annual system audit is prescribed for stock brokers who satisfy any of the following criteria:
  - i) Stock Brokers who use Intermediate Messaging Layer (IML) / Internet Based Trading (IBT)/ Direct Market Access (DMA)/ Securities Trading using Wireless Technology (STWT) / Smart Order Routing (SOR) and have presence in more than 10 locations or number of terminals are more than 50.
  - ii) Stock Brokers who are depository participants or are involved in offering any other financial services.
- b) Half yearly system audit has been prescribed for stock brokers who use Algorithmic Trading or

provide their clients with the facility of Algorithmic Trading as per SEBI Circular CIR/MRD/16/2013 dated May 21, 2013.

c) For all other stock brokers, system audit shall be conducted once in two years.

## 2) Terms Of Reference (ToR):

The audit shall be conducted in accordance with the Norms, Terms of Reference (ToR) and Guidelines issued by SEBI and BSE Ltd. Separate ToRs are specified for the following categories of brokers:

- a) **Type I Broker:** Brokers who trade only through exchange provided terminals i.e. BOLT / BOLT Plus system. (ToR as per Annexure I)
- b) **Type II Broker:** Brokers who trade through API based trading terminals like [IML] or IBT/DMA/STWT or SOR facility and who may also be TYPE I Brokers. (TOR as per Annexure II)
- c) **Type III Broker:** Brokers who use Algorithmic Trading facility to trade and who may also be TYPE II Brokers. (TOR as per Annexure III).

The broker type, terms of reference and periodicity of submission is given below in tabular form for easy reference of members and for members to determine their broker type and periodicity of submission of report which is required:

Sr. No.	Particulars	Broker Type*	Terms of Reference (ToR)	Presence of broker	Periodicity of submission of report
1	IML / IBT / DMA / STWT / SOR users and who may also be Type I brokers.	II	TOR II	Presence in not more than 10 locations and number of terminals are not more than 50.	Once in two years. **
				Presence in more than 10 locations or number of terminals are more than 50.	Annual
2	Algo users and who may also be Type III brokers	III	TOR III	Not Applicable	Half yearly

\*\*Annual, if depository participant or is involved in offering any other financial services.

\* Type of stock broker as specified in SEBI circular CIR/MRD/DMS/34/2013 dated November 06, 2013

Stock brokers who are using trading software provided by the Exchange (BOLT/BOLT PLUS) and/or software provided by Exchange owned application Service Provider (ASP) shall not be covered in the system audit.

### 3) **Auditor selection norms:**

The System Audit should be carried out by auditor as per the norms prescribed below:

- a) The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. stock exchanges, clearing corporations, depositories, stock brokers, depository participants etc. The audit experience should cover all the major areas mentioned under Terms of Reference (ToR) of the system audit specified by SEBI / stock exchange.
- b) It is recommended that resources employed shall have relevant industry recognized certifications e.g. D.I.S.A. (ICAI) Qualification, CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
- c) The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT 5 / ISO27001.
- d) The Auditor shall not have any conflict of interest in conducting fair, objective and independent audit of the Stock Broker. Further, the directors / partners of Auditor firm shall not be related to any stock broker including its directors or promoters either directly or indirectly.
- e) The Auditor shall not have any cases pending against its previous audited companies/firms, which fall under SEBI's jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.
- f) A declaration stating that the auditor is in compliance with the requirements prescribed by SEBI vide its circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013, and clarifications / guidelines issued by SEBI / BSE must be included in all the audit reports.
- g) The Auditor may perform a maximum of 3 successive audits of the stock broker.
- h) The following penalty/disciplinary actions would be initiated against the Member for late/non-submission of System Audit Report as per Exchange Notice (20231005-54 Dated October 05, 2023).

After submission of preliminary system audit report, members are required to submit the corrective action report (if applicable) as per above mentioned notices.

“Members who are providing algorithmic trading services/strategies as well as Members who feature in any of the unregulated platforms offering such services are advised to refrain from undertaking the following:

- a. Directly or indirectly make any reference to the past or expected future return/performance of the algorithm; and / or
- b. Directly or indirectly associate with any platform providing any reference to the past or expected future return/performance of the algorithm.
- c. Members who are directly/indirectly referring to any past or expected future return/performance of an algorithm or are associated with any platform providing such reference, shall remove the

same from their website and / or disassociate themselves from the platforms providing such references, as the case may be, within seven days i.e. by September 09, 2022.

(Reference Notice no. 20220907-46 dated 07 Sep 2022, 20240119-55 dated 19 January 2024, SEBI circular ref. no. SEBI/HO/MIRSD/DOP/P/CIR/2022/117 dated September 02, 2022.)

## **7.8 Cyber Security & Cyber Resilience framework for Stock Brokers:**

Pursuant to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 and SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019 on Cyber Security & Cyber Resilience framework for Stock Brokers / Depository Participants and Exchange circular no. 20191022-27 dated October 22, 2019, members are required to submit the f Cyber Security and Cyber Resilience to the Exchange.

As per SEBI Circular SEBI Circular dated October 15, 2019 , the periodicity of audit for the compliance with the provisions of Cyber Security and Cyber Resilience provisions for stock brokers, irrespective of number of terminals and location presence, shall be as under:

<b>Type of stock broker as specified in SEBI circular CIR/MRD/DMS/34/2013 dated November 06, 2013</b>	<b>Periodicity</b>
Type I	Annual
Type II Using IML / IBT / DMA / STWT / SOR	Annual
Type III Using ALGO	Half-yearly

Submission of Cyber Security & Cyber Resilience Audit Report shall be considered completed only after trading member submits the report to the Exchange after providing management comments.

### **Quarterly reporting:**

SEBI circular's SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, para 52 in Annexure I states that:

*“Quarterly reports containing information on cyber-attacks and threats experienced by Stock Brokers / Depository Participants and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities / threats that may be useful for other Stock Brokers / Depository Participants should be submitted to Stock Exchanges / Depositories.”*

In view of the above, members are required to submit the quarterly incident reporting as per the format provided by notice no. SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019 by sending at email at [cybersecurityreporting@bseindia.com](mailto:cybersecurityreporting@bseindia.com) within 15 days of the end of quarter.

As per SEBI's directive, and as per Exchange notice no. 20210430-20 dated April 30, 2021 and 20220919-2 dated September 19, 2022, all Members shall prepare and maintain a Standard Operating Procedure (SOP) with respect to handling of Cyber Security incidents as indicated below:

- 1) Members shall have a well-documented Cyber Security incident handling process document (Standard Operating Procedure - SOP) in place. Such policy shall be approved by Board of the Member (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be and shall be reviewed annually by the “Internal Technology Committee” as constituted under SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, for review of Security and Cyber Resilience policy.
- 2) Members shall examine the Cyber Security incident and classify the Cyber Security incidents into High/ Medium/ Low as per their Cyber Security incident handling process document. The Cyber Security incident handling process document shall define decision on Action/ Response for the Cyber Security incident based on severity.
- 3) Members shall report the Cyber Security incident to Indian Computer Emergency Response Team (CERT-In) in accordance with the guidelines / directions issued by CERT-In from time to time. Additionally, the Members, whose systems have been identified as “Protected system” by National Critical Information Infrastructure Protection Centre (NCIIPC) shall also report the incident to NCIIPC.
- 4) Members shall provide the reference details of the reported Cyber Security incident with CERTIn to the Exchange and SEBI. Members shall also provide details, regarding whether CERT-In team is in touch with the Member for any assistance on the reported Cyber Security incident. If the Cyber Security incident is not reported to CERT-In, members shall submit the reasons for the same to the Exchange and SEBI. Members shall communicate with CERT-In/ Ministry of Home Affairs (MHA)/ Cyber Security Cell of Police for further assistance on the reported Cyber Security incident.
- 5) Members shall submit details whether Cyber Security incident has been registered as a complaint with law enforcement agencies such as Police or its Cyber Security cell. If yes, details need to be provided to Exchange and SEBI. If no, then the reason for not registering complaint shall also be provided to Exchange and SEBI.
- 6) The details of the reported Cyber Security incident and submission to various agencies by the Members shall also be submitted to Division Chiefs (in-charge of divisions at the time of submission) of DOS-MIRSD and CISO of SEBI.
- 7) The following penalty/disciplinary actions would be initiated against the Member for late / non-submission of Quarterly Cyber Incident Reporting (QCIR) as per Exchange Notice 20230704-27 on 4th July 2023;
- 8) The Designated Officer of the Member (appointed in terms of para 6 of the aforementioned SEBI Circular dated December 03, 2018) shall continue to report any unusual activities and events, all Cyber-attacks, threats, cyber-incidents and breaches experienced by Members to Exchange (in manner specified by BSE) & SEBI (on the dedicated email ID sbdp-cyberincidents@sebi.gov.in) within 6 hours of noticing / detecting such incidents or being brought to the notice about such incidents as well as submit the quarterly reports containing the information on cyber-attacks, threats, cyber-incidents and breaches experienced by Stock Brokers and measures taken to mitigate

vulnerabilities, threats and attacks including information on bugs / vulnerabilities, threats that may be useful for other Stock Brokers / Depository Participants / Exchanges / Depositories and SEBI shall be submitted to Stock Exchanges within 15 days after the end of the respective quarter in the manner as specified by BSE from time to time.

SEBI vide its circular No. SEBI/HO/MIRSD/TDP/P/CIR/2022/80 dated June 07, 2022, wherein they have provided partial modification to Annexure – 1 of SEBI Circular dated December 03, 2018 (paragraph 11, 41, 42 and 44). As per modified paragraph 42 & 44, Stock Brokers shall conduct the VAPT at least once in a financial year by engaging only CERT-In empaneled organizations for conducting VAPT and submit the VAPT report to the Stock Exchanges after approval from Technology Committee of respective Stock Brokers, within 1 month of completion of VAPT activity as per the scope defined in modified para 11 & 41 of Annexure – 1 of SEBI Circular dated December 03, 2018. Stock Exchanges in consultation with SEBI, clarified that the VAPT shall be carried out and completed during the period September to November of every financial year and the final report on said VAPT shall be required to be submitted to the Stock Exchanges within one month from the date of completion of VAPT after approval from Technology Committee of respective Stock Brokers vide Exchange notice no. 20220919-2 dated September 19, 2022.

In addition, Stockbrokers shall perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system which is a critical system or part of an existing critical system. Further, any gaps / vulnerabilities detected shall be remedied on immediate basis and compliance of closure of findings identified during VAPT shall be submitted to the Stock Exchanges within 3 months post the submission of final VAPT report.

Exchange vide its notice no. 20221208-43 dated December 08, 2022, has informed that it has developed a separate module on BEFS (BSE Electronic Filing System), to facilitate members for electronic submission of VAPT report to Exchange. Members are requested to take note of the following for submission of VAPT report:

- i) The detailed VAPT report along with summary of report (as per format specified in Annexure – 1 of aforesaid circular) needs to be uploaded as single document. The VAPT report shall be digitally signed by CERT-In empaneled entity as appointed by the Member for conducting the VAPT. The guidelines for submitting the report on the electronic interface is given in Annexure – 2 of aforesaid circular.
- ii) The link for submission of VAPT report has been activated. All VAPT reports for FY2022-23 and onwards shall henceforth be submitted electronically on the interface as mentioned under Annexure – 2 of aforesaid circular.
- iii) Further, as per para 44 of SEBI Circular No. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 amended vide SEBI Circular No. SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022 requires that any gaps / vulnerabilities detected shall be remedied on immediate basis and compliance of closure of findings identified during VAPT shall be submitted to the Stock Exchanges within 3 months post the submission of final VAPT report.
- iv) For any open vulnerabilities as reported & submitted in VAPT report, members are required



to submit Compliance Report in the format attached as Annexure – 3 of aforesaid circular digitally signed by the CERT-In empaneled entity as appointed by the Member (on the letter head of the CERT-In empaneled entity).

- v) In view of the above, Members are advised as under:
- a) Adherence with the reporting timelines for submission of VAPT report and Compliance report to the Exchange.
  - b) Ensure that all open gaps / vulnerabilities are closed within prescribed timelines and are accordingly confirmed in the Compliance report.
  - c) The following penalty/disciplinary actions would be initiated against the Member for late/non- submission of Cyber Security and Cyber Resilience Audit Report as per Exchange Notice (20231005-54 Dated October 05, 2023).

### **7.9 Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries:**

SEBI has issued a circular no. SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 dated January 4, 2019 regarding “Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries”

With effect from quarter ending March 2019, all registered Stock Brokers / Depository Participant are required to submit the details as per form (Annexure A) of the above mentioned SEBI circular and make submissions on quarterly basis within 15 calendar days of the expiry of the quarter, through BEFS.

Further, Exchange vide notice no. 20231212-50 dated December 12, 2023 had informed that the timeline for reporting of Artificial Intelligence (AI) and Machine Learning (ML) applications and systems has been revised.

Accordingly, Trading Members are required to submit the details on the captioned matter for the period ending March 31, 2024, as per the applicability criteria given below:

Intermediary	Revised Timeline for reporting of AI/ML applications
Trading Members using Algorithm software	Half yearly basis within 15 calendar days of the expiry of the half year
Other Trading Members	Annually within 15 calendar days of the expiry of a year

It may be noted that the revised submission timelines are applicable for the half year /annual period ending March 31, 2024.

### **7.10 Risk Based Supervision:**

As communicated vide Exchange notice no. 20141209-1 dated December 09, 2014, SEBI/Exchanges had put in place a system of “Risk Based Supervision” of Members in order to regulate the marketplace

effectively and strengthen its regulatory framework.

**Risk Based Supervision Model follows four distinct steps:**

- Assessing the risk posed by a market entity,
- Assigning 'risk and impact rating' to it,
- Determine the supervisory risk rating score
- Adopt a suitable supervisory approach.

In this regard, SEBI has formulated a Risk Assessment template in consultation with Stock Exchanges and various Member Associations, Member risk is calculated based on the information available with Exchange and details submitted by members to Exchange. The submission is to be made electronically through BEFS only and no physical copies need to be submitted to the Exchange.

The submission of RBS data is mandatory for all active Members of the Exchange (i.e. those who have executed/cleared even a single trade during the submission period (respective Half Year/ Financial Year)) and in case of any non-submission by a member, appropriate disciplinary action may be initiated. Members are also requested to preserve and maintain the working of the data submitted for Risk Based Supervision as the same may be verified during the inspections.

Kindly refer Annexure 1 of Exchange Notice 20240412-54 dated Apr 12, 2024 for clarification on data to be submitted of Risk Based Supervision.

*“In order to ascertain the adherence to the AML/CFT norms and evaluate the implementation & effectiveness of measures to combat money laundering and terrorist financing, SEBI has advised the Exchanges to collate data/information from the Members relating to client risk categorisation & due diligence, ML/TF risk assessment, Alert Generation System, conduct of AML/CFT related trainings, BO identification, record keeping etc. of all the active Members who have executed trades in a FY.”*

Accordingly, Members are required to submit Internal Risk Assessment via BEFS portal, under Internal Risk Assessment - IRA Submission.

**7.11 Maintenance of a website by stock brokers:**

i) This is in continuation to Exchange Notice nos. 20230216- 4 dated February 16, 2023, 20230417-50 dated April 17, 2023 and 20230803-22 dated August 3, 2023 on “Maintenance of a website by Stockbrokers and depository participants” wherein Trading Members were advised to maintain a designated website and display mandatory information to help the investors to keep themselves well informed about the various activities of the Members. Please note that the provisions of this circular shall come into effect from August 16, 2023. Trading Members are required to report the URL of their Website to the Exchange within a week of the circular coming into effect i.e., by August 24, 2023. Failure to submit/upload declarations within the prescribed timelines would be treated as non-compliance and the applicable penalty / disciplinary action will be initiated as per Exchange notice No. 20230808-2 dated 08 August 2023.

ii) Such website shall mandatorily display the following information, in addition to all such information,

which have been mandated by SEBI/stock exchanges/depositories from time to time.

- a) Basic details of the SB/DP such as registration number, registered address of Head Office and branches, if any.
  - b) Names and contact details such as email ids etc. of all key managerial personnel (KMPs) including compliance officer.
  - c) Step-by-step procedures for opening an account, filing a complaint on a designated email id, and finding out the status of the complaint, etc.
  - d) Details of Authorized Persons.
- III) The URL to the website of a SB/ DP shall be reported to the stock exchanges/depositories within a week of this circular coming into effect. Any modification in the URL shall be reported to stock exchanges/depositories within 3 days of such changes.
- IV) With a view to facilitating informed decision making by the investors trading in derivatives segment, it has been decided to introduce 'Risk disclosures' with respect to trading in Futures & Options (F&O) segment. Accordingly, all stock brokers shall display the 'Risk disclosures' given at Annexure-I on their websites and to all their clients in the manner as specified below. Upon login into their trading accounts with brokers, the clients may be prompted to read the 'Risk disclosures' (which may appear as a pop-up window upon login) and shall be allowed to proceed ahead only after acknowledging the same. The 'Risk disclosures' shall be displayed prominently, covering at least 50 percent area of the screen.

## **7.12 Responsibilities on Qualified Stock Brokers (QSB):**

Exchange vide its notice no. 20230303-66 dated March 03, 2023. SEBI, vide Gazette Notification dated January 17, 2023, amended the SEBI (Stock Brokers) Regulations, 1992 for designating certain stock brokers as QSBs. Subsequently, SEBI vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 06, 2023, on "Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs)" enumerated the parameters for designating certain stock brokers, having regard to their size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, as Qualified Stock Brokers (QSBs), on the basis of certain parameters and appropriate weightages thereon.

Accordingly, on the basis of the parameters defined in the aforesaid circular, the list of designated Qualified Stockbrokers (QSBs) is enclosed herewith as Annexure A (list is in alphabetical order and is not indicative of ranking). These QSBs shall be required to meet enhanced obligations and discharge additional responsibilities. Enhanced monitoring of QSBs shall be carried out by all Exchanges w.e.f. July 01, 2023.

BSE in consultation with SEBI and other Exchanges has formulated comprehensive operating guidelines applicable to designated QSBs along with timelines for adherence to said compliance.

Stock Brokers designated as QSBs shall be required to comply with enhanced obligations as specified in aforesaid guidelines and discharge additional responsibilities w.e.f. July 01, 2023. (refer Exchange Notice 20230601-54 dated 01 June 2023 and 20240314-17 dated 14 March 2024) SEBI vide Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024, on “*Measures to instill trust in securities market – Expanding the framework of Qualified Stock Brokers (QSBs) to more stock brokers*” has extended the framework of QSBs to more stock brokers. Accordingly, on the basis of the parameters defined in the aforesaid Circular, the revised list of designated Qualified Stock Brokers (QSBs) is enclosed in Exchange notice No. 20240319-49 dated 19 March 2024. These QSBs shall be required to meet enhanced obligations and discharge additional responsibilities as specified in Comprehensive Operating Guidelines issued vide Exchange Notice No. 20230601-54 dated June 01, 2023.

All Qualified Stock Brokers (QSBs) shall maintain the Profit and Loss (P&L) data of their clients on continuous basis as per the format given at Annexure-II. The P&L data of the clients shall be retained for at least 5 years.

(Refer Exchange Notice No. 20230519-29 dated 19 May 2023, SEBI circular ref. no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/73 dated May 19, 2023)

Stock Brokers designated as QSBs vide Exchange notice no. 20230303-66 dated March 3, 2023 and not included in Annexure A of Exchange notice 20240319-49 dated 19 March 2024, shall continue to comply with the enhanced obligations and responsibilities, for an additional period of 3 financial years or such time, as may be specified by the Exchange, in consultation with SEBI.

### **7.13 Integration of investor complaints:**

Trading Members of the Exchange are hereby informed that with a view to monitor the complaints received by the Trading Members from their Investors, it has been decided that the details of all such direct complaints shall now be disclosed by the trading member to the Stock Exchanges.

In view of the above, the trading members are required to submit the details of the direct complaints received by them (through any channel) in the format enclosed as Annexure A in Exchange Notice no. 20230406-15 dated 06 April 2023, on monthly basis, through ‘BEFS portal’ available to Member.

Path for submission of the complaints is provided below:

**BEFS Portal -----> Menu -----> Complaint Management -----> Direct Member Complaints**

Trading Members are requested to upload the details of all complaints pending as on March 31, 2023, along with complaints received by them during the month of April 2023, by May 07, 2023. Subsequently, the details of complaints shall be submitted on monthly basis within seven days of the subsequent month.

Further, in circumstances wherein there is no opening balance of complaints at the beginning of the month and no complaints are received during the month, the trading members are requested to upload

file with comments 'Nil submission'.

## 7.14 Framework for Adoption of Cloud Services by SEBI Regulated Entities (REs)

SEBI vide circular SEBI/HO/ITD/ITD\_VAPT/P/CIR/2023/033 dated March 06, 2023 has issued "Framework for Adoption of Cloud Services by SEBI Regulated Entities (REs)". The objective of the framework is to highlight the key risks, and mandatory control measures which REs need to put in place before adopting cloud computing. The document also sets out the regulatory and legal compliances by REs if they adopt such solutions.

### Regulatory Reference/ Requirements:

S. No	Particular	Notices and other details
1	Enhanced Supervision of stock brokers	Exchange Notice Nos. 20160927-41 dated September 27, 2016, 20161020-17 dated October 20, 2016, 20161027-1 October 27, 2016, 20161122-24, November 22, 2016, 20161221-20 dated December 21, 2016, 20170623-14 dated June 23, 2017, 20170925-34 dated September 25, 2017, 20211019-40 dated October 19, 2021, 20220105-1 dated January 05, 2022, 20220119-26 dated January 19, 2022, 20220624-45 dated June 24, 2022.
2	Guidelines for maintaining bank accounts and Reporting of Bank & Demat Accounts	SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, SEBI/HO/MIRSD/DOP/P/CIR/2021/653 dated October 28, 2021, SEBI/HO/MIRSD/MIRSD_DPIEA/P/CIR/2022/83 dated June 20, 2022. Exchange Notice No. 20201106-46 dated November 06, 2020, 20201127-14 dated November 27, 2020, 20201218-63 dated December 18, 2020, 20220203-42 dated February 03, 2022, 20220316-9 dated March 16, 2022 and 20220412-30 dated April 12, 2022.
3	Submission of data for monitoring of clients' funds lying with the stock broker – Cash and Cash Equivalent Submission	Exchange Notice No. 20180420-14 dated April 20, 2018, , 20200602-33 dated June 02, 2020, 20201217-54 dated December 17, 2020, 20210927-48 dated September 27, 2021, 20220903-1 dated September 03, 2022.
4	Application Programming Interface (API) for Weekly submission of Holding Statement, Cash and Cash Equivalent Balances and Bank Balances	Exchange Notice No. 20220526-6 dated May 26, 2022, 20220602-43 dated June 02, 2022, 20220624-43 dated June 24, 2022 and 20220715-15 dated July 15 2022

5	Submission of Designated Director details to FIU-IND and Registration on FIU-IND's FINnet Gateway.	Exchange notice no. 20140313-5 dated March 13, 2014, 20140603-17 dated June 3, 2017 and 20140708-7 dated July 8, 2014, 20140811-4 dated August 11, 2014, 20220527-56 dated May 27, 2022, 20220912-63 dated September 12, 2022 and 20221107-50 dated November 7, 2022
6	Internal Audit of trading members	SEBI circular MIRSD/DPSIII/Cir-26/08 dated August 22, 2008, SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Exchange Notice nos. 20231013-57 dated October 13, 2023, 20230413-31 dated April 13, 2023.
7	System Audit of trading members	SEBI circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013 and Exchange notice no. 20230519-13 dated May 19, 2023.
8	Cyber Security Audit and Resilience report	SEBI circular no. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 and SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019 and Exchange notice no. 20230607-4 dated June 07, 2023 and 20231023-1 dated October 23, 2023.
9	Risk Based Supervision	Exchange Notice Nos. 20141209-1 dated December 09, 2014, 20170517-13 dated May 17, 2017, 20170531-1 dated May 17, 2017 and 20230412-15 dated April 12, 2023.
10	Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries	SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 dated January 4, 2019 and Exchange notice no. 20190107-8 dated January 7, 2019

S. No.	Circular/ Notice No.	Subject
1	20230113-13	Daily submissions of Holding Statement and Bank Balances
2	20210118-31	Changes in the reporting format of data towards
		'Client Level Cash & Cash Equivalent Balances' and 'Holding Statement' (System Live)
3	20201217-54	Changes in the reporting format of data towards
		'Client Level Cash & Cash Equivalent Balances' and 'Holding Statement'
4	20200930-66	Disciplinary actions for Incorrect/ Wrong submission of data towards Holding Statement
5	20200731-25	Clarifications on submission of Holding Statement
6	20230206-48	Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs)



7	20230207-3	Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs)
8	20160927-41, 20161020-17, 20161027-1 20161122-24, 20161221-20, 20170623-14, 20170925-34	Enhanced supervision of stock brokers
9	20161017-17	Details of Bank and Demat Account
10	20170512-15, 20170925-34	Monitoring of Clients' Funds lying with the Stock Broker
11	20170426-24 , 20170925-34	Uploading client's funds and securities balances
12	20161214-4, 20161215-6 , 20161226-5	Updating of PAN details of dealers

## **ITEM 8 - APPLICABLE FINE STRUCTURE**

### **8.1 List of common violations and applicable penalties (All Segments):**

Based on the findings during inspections conducted in the past and review of the commonly observed compliance issues, grouping of violations and the penalties thereof have been revised. Penalties are indicative in nature and could undergo change in specific cases depending on frequency and gravity of the violations. Actions in respect of violations having high impact would be dealt on case to case basis depending on seriousness and gravity of such violations. Further to the above, details include:

- a) list of common violations and the applicable penalties as decided by the relevant authority.
- b) Details of escalation of penalties in case of repeat violations observed (during inspections conducted in last three financial years)

Members are hereby required to take preventive steps to avoid the violations and to put systems and procedures in place so as to ensure compliance with the applicable requirements.

### **8.2 Revision in Charges/Penalty norms:**

To ensure strict compliance with SEBI orders debaring entity / entities from accessing securities market, members may note that for the violation observed in case of members dealing on behalf of SEBI debarred entity / entities, Exchange has decided to levy an indicative penalty of 0.25% of gross traded value of the transactions entered into by a member on behalf of debarred entity / entities subject to a minimum of Rs50,000/-

Members are hereby advised to take preventive steps to avoid the violation of dealing with SEBI debarred entity/entities and to put systems and procedures in place so as to ensure compliance with various Rules, Bye-laws & Regulations of the Exchange, notices / circulars issued by the Exchange in addition to the directions given by SEBI/Exchange, in this regard.

### **8.3 Indicative list of penalties/actions:**

Members are advised to take note of the same and put in place systems and procedures so as to ensure adherence to the compliance requirements and avoid any penalty.

## Regulatory Requirements/References.

S. No.	Particular	Notice Nos.
1	List of common violations and applicable penalties (All Segments)	Exchange notice number 20180214-31 dated February 14, 2018.
2	Revised Penalty Structure for Cash Dealings by Stock Brokers	Exchange Notice No.20181106-14 dated November 06, 2018
3	Indicative Penalty Structure for Margin Trading	Exchange Notice No.20181227-20 dated December 27, 2018
4	Penalty structure related to the provisions of Handling of Clients' Securities by Trading Members	Exchange Notice No.20200228-63 dated February 28, 2020
5	Penalty Structure for Cyber Security and Cyber Resilience Audit of Trading Members	Exchange Notice No.20200428-36 dated April 28, 2020
6	Disciplinary actions for incorrect/wrong submission of data towards Holding Statement	Exchange Notice No.20200930-66 dated September 30, 2020
7	Penalty structures for Late/Non submission of data towards undertaking to freeze the bank account	Exchange Notice No.20201217-1 dated December 17, 2020
8	Penalty structures for Non-closure of Client Collateral / Client Margin Trading Securities demat accounts	Exchange Notice No.20201221-46 dated December 21, 2020
9	Penalty structure for Non closure of bank account named as "Stock Broker - Client Account" in excess of 30 by December 31, 2020	Exchange Notice No.20210211-24 dated February 11, 2021

S. No.	Particular	Notice Nos.
10	Penalty structure for Non-issuance of 'Statement of Accounts' for funds, securities and commodities on weekly basis to clients	Exchange No.20210927-47 September 27, 2021 Notice dated
11	Penalty structure for incorrect submission of Client Level Holding Statement, Cash & Cash Equivalent Balances and Bank Account Balances by members	Exchange No.20210927-48 September 27, 2021 Notice dated
12	Penalty/Disciplinary action for delay in submission of Internal Audit Report and adverse observations in the Internal Audit Report	Exchange No.20220601-52 01, 2022. Notice dated June
13	Penalty Structure for Late/Non-submission of Reporting requirement on Settlement of Running Account of Clients' Funds	Exchange No. 20230403-53 2023 Notice dated 03 April No. 20230403-53 dated 03 April 2023
14	Segregation and Monitoring of Collateral at Client Level - Penalty mechanism for Short Allocation	Exchange No. 20230427-28 2023 Notice dated 27 April No. 20230427-28 dated 27 April 2023
15	Cyber Security & Cyber Resilience framework for Stock Brokers / Depository Participants	Exchange No. 20230519-12 2023. Exchange No. 20231023-1 dated 23 October 2023. Notice dated 19 May No. 20230519-12 dated 19 May 2023. Exchange No. 20231023-1 dated 23 October 2023.
16	System Audit of Stockbrokers / Trading Members	Exchange No. 20230519-13 2023. Exchange No. 20231023-2 23 October 2023. Notice dated 19 May No. 20230519-13 dated 19 May 2023. Exchange No. 20231023-2 23 October 2023.
17	Operations of Trading Terminals	Exchange notice no. 20230525-24 dated 25 May 2023 Exchange notice no. 20230525-24 dated 25 May 2023
18	Penalty proposal towards disincentives/ penalties towards non-compliance Cyber Security Audit, System Audit, Cyber Incident Reporting, Technical Glitch related violations by members	Exchange Notice No. 20230704-27 2023 dated 04 July Exchange Notice No. 20230704-27 2023 dated 04 July 2023

19	Maintenance of a website by stock brokers and depository participants	Exchange Notice no. 20230808-2 dated 08 August 2023
20	Penalty Structure related to provisions of Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Bank Guarantees (BGs) created out of clients' funds	Exchange Notice no. 20230831-13 dated 31 August 2023
21	Penalties/Disciplinary action(s)/charges for Non-submission of VAPT Report and/or Compliance Report and/or non-closure of open vulnerabilities	Exchange Notice No. 20230831-17 dated 31 August 2023
22	Penalty Structure Upstreaming of clients' funds by Stock-brokers (SBs) / Clearing Members (CMs)	Exchange Notice No. 20230831-46 dated 31 August 2023
23	Quarterly cyber security incident reporting	Exchange Notice No. 20230929-24 dated 29 September 2023
24	Revised Penalty Structure w.r.t. Unauthorised trades executed in the clients' account	Exchange Notice No. 20231121-12 dated 21 November 2023
25	Modification of Client Codes (All Segments) – Update and Revised penalty structure	Exchange Notice No. 20231129-47 dated 29 November 2023.

## ITEM 9 - CONFLICTS OF INTEREST

### **9.1 General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognized Stock Exchanges, Recognized Clearing Corporations, Depositories and their Associated Persons in Securities Market:**

SEBI has decided to put in place comprehensive guidelines to collectively cover Intermediaries, Recognized Stock Exchanges, Recognized Clearing Corporations, Depositories (hereinafter collectively referred to as "such entities") and their associated persons, for elimination of their conflict of interest. Such entities shall adhere to these guidelines for avoiding or dealing with or managing conflict of interest.

For the purpose of these guidelines "intermediaries" and "associated persons" have the same meaning as defined in Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007. Following are the abstract of these guidelines.

Such entities and their associated persons shall,

- I) lay down, with active involvement of senior management, policies and internal procedures to identify and avoid or to deal or manage actual or potential conflict of interest, develop an internal code of conduct governing operations and formulate standards of appropriate conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned.
- II) at all times maintain high standards of integrity in the conduct of their business.
- III) ensure fair treatment of their clients and not discriminate amongst them;
- IV) ensure that their personal interest does not, at any time conflict with their duty to
- V) their clients and client"s interest always takes primacy in their advice, investment.
- VI) decisions and transactions.
- VII) make appropriate disclosure to the clients of possible source or potential areas of conflict of interest which would impair their ability to render fair, objective and unbiased services.
- VIII) endeavor to reduce opportunities for conflict through prescriptive measures such as through information barriers to block or hinder the flow of information from one department/ unit to another, etc.
- IX) place appropriate restrictions on transactions in securities while handling a mandate of issuer or client in respect of such security so as to avoid any conflict.
- X) not deal in securities while in possession of material non published information.
- XI) not to communicate the material non published information while dealing in securities on behalf of others.
- XII) not in any way contribute to manipulate the demand for or supply of securities in the market or to influence prices of securities.
- XIII) not have an incentive structure that encourages sale of products not suiting the risk profile of their clients.
- XIV) Not share information received from clients or pertaining to them, obtained as a result of their dealings, for their personal interest.



The Boards of such entities shall put in place systems for implementation of the guidelines and provide necessary guidance enabling identification, elimination or management of conflict-of-interest situations.

Such entities shall conduct assessment of their existing policies on conflict of interest in a time bound manner, not later than 6 months from the date of the circular and bring them in line with the requirements of these guidelines.

**REGULATORY REQUIREMENTS/REFERENCES:**

<b>S. No.</b>	<b>Particular</b>	<b>Notice</b>
1	General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognised Stock Exchanges, Recognised Clearing Corporations, Depositories and their Associated Persons in Securities Market.	SEBI circular No. CIR/MIRSD/5/2013 dated August 27, 2013; Exchange Notice No. 20130904-6 dated. September 4, 2013

## **ITEM 10 – ANTI MONEY LAUNDERING PROVISIONS (PMLA)**

SEBI has directed members as a part of requirement of Member registration with SEBI to ensure compliance with the provisions of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) circulars issued by SEBI time to time.

Members are required to comply with regulatory requirements related to Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) - Obligations of Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules Framed there-under.

### **10.1 Guidelines on Prevention of Money Laundering Standards:**

Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force w.e.f. July 01, 2005. The Guidelines on Prevention of Money Laundering Standards, inter-alia require the members to :

- Appoint Principal Officer & informed to FIU-India.
- Appointment of Designated Director and upload a copy of intimation letter to FIU-India on BEFS. The Designated Director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under PMLA.
- Have documented procedures to implement the Anti Money Laundering provisions as envisaged under Prevention of Money Laundering Act, 2002.
- Ensure Client Due Diligence Process
  - Policy for acceptance of clients.
  - Procedure for identifying the clients.
  - Risk Management.
  - Monitoring of Transactions.
- Classify clients into high, medium & low risk categories as per the risk perceived.
- Documentation and regular updation of risk assessment. Should be made available to competent authorities and self-regulating bodies.
- Have system in place for generation of alerts for identifying suspicious transactions.
- Monitor and report Suspicious Transactions (strs) to FIU-India.
- Impart training to staff & educate clients about objectives of PMLA.
- Record keeping requirement revised for a period of five years pertaining to following:
  - Transaction of clients
  - Identity of clients
  - Monitoring of transactions
  - Record of information related to transactions, whether attempted or executed which are reported to Director, FIU-IND

As per PMLA guidelines, members will have to comply with following requirements.

## **Policy for acceptance of clients**

### **10.2 Know Your Client (KYC):**

The Know Your Client (KYC) policy should clearly spell out the client identification procedure to be carried out at different stages i.e. while establishing the member-client relationship, while carrying out transactions for the client or when the member has doubts regarding the veracity or the adequacy of previously obtained client identification data.

Members should ensure that an account is not opened where they are unable to apply appropriate client due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the intermediary is suspected to be non-genuine, perceived non-co-operation of the client in providing full and complete information. No account is opened in a fictitious / benami name or on an anonymous basis.

Members should develop customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing. By establishing such policies and procedures, they will be in a better position to apply customer due diligence on a risk sensitive basis depending on the type of customer business relationship or transaction.

### **10.3 Funds:**

Apart from the routine requirements of obtaining bank proof & receipt/payment of funds from the respective client's account, the members shall have to maintain records pertaining to the transactions of the value and nature prescribed as under :

- (a) all cash transactions of the value of more than Rs.10 lakhs or its equivalent in foreign currency,
- (b) all series of cash transactions integrally connected to each other which have been valued below Rs.10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month and
- (c) all suspicious transactions whether or not made in cash.

### **10.4 Securities:**

Members should obtain sufficient information in order to identify persons who beneficially own or control securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party should be identified using client identification and verification procedures.

## **10.5 Risk Based Approach:**

It is generally recognized that certain clients may be of a higher or lower risk category depending on circumstances such as the client's background, type of business relationship or transaction etc. As such, the members should apply each of the customer due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the members should adopt an enhanced customer due diligence process for higher risk categories of clients. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents that members should obtain necessarily depend on the risk category of a particular client.

## **10.6 No of STR reporting to Exchange:**

Trading members are informed that as a part of PMLA compliance, the trading members shall be henceforth required to report the number of Suspicious Transaction Reports (STRs) filed by them with FIU-IND to the Exchange on a monthly basis.

Further, trading members are required to submit the data in the BEFS under FIU-IND – STR reporting module.

- 1) The members are required to fill details of Registration with FIU such as FIUREID, Date of registration, Principal Officer details & Designated Director details. Further, in case of change in the details submitted, members are required to update the relevant fields.
- 2) The members are required to report the no. of STR filed with FIU-IND on a monthly basis.
- 3) Further as per Exchange notice no. 20230207-14 dated February 07,2023 in terms of the PML Rules, stock brokers are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND).

## **10.7 List of Designated Individuals/Entities:**

The Ministry of Home Affairs, in pursuance of Section 35(1) of UAPA 1967, declares the list of individuals/entities, from time to time, who are designated as 'Terrorists'. The registered intermediaries shall take note of such lists of designated individuals/terrorists, as and when communicated by SEBI.

All orders under section 35 (1) and 51A of UAPA relating to funds, financial assets or economic resources or related services, circulated by SEBI from time to time shall be taken note of for compliance.

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at <https://press.un.org/en/content/press-release>. The details of the lists are as under:

- i) The “ISIL (Da’esh) & Al-Qaida Sanctions List”, which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & Al-Qaida Sanctions List is available at: <https://www.un.org/securitycouncil/sanctions/1267/press-releases>.
- ii) The list issued by United Security Council Resolutions 1718 of designated Individuals and Entities linked to Democratic People's Republic of Korea [www.un.org/securitycouncil/sanctions/1718/press-releases](http://www.un.org/securitycouncil/sanctions/1718/press-releases).

## **10.8 Jurisdictions that do not or insufficiently apply the FATF Recommendations:**

FATF Secretariat after conclusion of each of its plenary, releases public statements and places jurisdictions under increased monitoring to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing risks. In this regard, FATF Statements circulated by SEBI from time to time, and publicly available information, for identifying countries, which do not or insufficiently apply the FATF Recommendations, shall be considered by the registered intermediaries.

The registered intermediaries shall take into account the risks arising from the deficiencies in AML/CFT regime of the jurisdictions included in the FATF Statements. However, it shall be noted that the regulated entities are not precluded from having legitimate trade and business transactions with the countries and jurisdictions mentioned in the FATF statements.

## **10.9 Procedure for freezing of funds, financial assets or economic resources or related Services Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (UAPA), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated February 02, 2021 detailing the procedure for the implementation of Section 51A of the UAPA:**

Under the aforementioned Section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. These guidelines have been further amended vide a Gazette Notification dated June 08, 2021.

## **10.10 Reporting to Financial Intelligence Unit-India:**

In terms of the PML Rules, intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIUIND) at the following address:

Director, FIU-IND,  
Financial Intelligence Unit - India  
6th Floor, Tower-2, Jeevan Bharati Building,  
Connaught Place, New Delhi-110001, INDIA  
Telephone : 91-11-23314429, 23314459  
91-11-23319793(Helpdesk) Email: [helpdesk@fiuindia.gov.in](mailto:helpdesk@fiuindia.gov.in)

(For FINnet and general queries)

[ctrcell@fiuindia.gov.in](mailto:ctrcell@fiuindia.gov.in)

(For Reporting Entity / Principal Officer registration related queries)

[complaints@fiuindia.gov.in](mailto:complaints@fiuindia.gov.in)

Website: <http://fiuindia.gov.in>

## **10.11 Designation of officers for ensuring compliance with provisions of PMLA:**

Appointment of a Principal Officer: To ensure that the registered intermediaries properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. Names, designation and addresses (including email addresses) of 'Principal Officer' including any changes therein shall also be intimated to the Office of the Director-FIU-IND. As a matter of principle, it is advisable that the 'Principal Officer' is of a sufficiently senior position and is able to discharge the function with independence and authority.

Appointment of a Designated Director: In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:

“Designated director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes –

- a) the Managing Director or a Whole-Time Director duly authorized by the Board of Directors if the reporting entity is a company,
- b) the managing partner if the reporting entity is a partnership firm,



- c) the proprietor if the reporting entity is a proprietorship firm,
- d) the managing trustee if the reporting entity is a trust,
- e) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and
- f) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above”.

## **10.12 Hiring and Training of Employees and Investor Education:**

**Hiring of Employees:** The registered intermediaries shall have adequate screening procedures in place to ensure high standards when hiring employees. They shall identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

**Training of Employees:** The registered intermediaries shall have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements shall have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

**Investor Education:** Implementation of AML/CFT measures requires registered intermediaries to demand certain information from investors which may be of personal nature or has hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need for registered intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. Registered intermediaries shall prepare specific literature/pamphlets etc. so as to educate the client of the objectives of the AML/CFT programme.

### **Regulatory Requirements/References:**

<b>S. No.</b>	<b>Subject</b>	<b>Circular No.</b>
1	AML Guideline	SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023 and 2SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2023/091 dated June 16, 2023, SEBI/HO/MIRSD/SEC-FATF/P/CIR/2023/0170 dated October 13, 2023
2	AML Guideline	Exchange Notice No. 20230207-14 dated 07 February 2023, Exchange Notice No. 20231016-13 dated 16 October 2023 and Exchange Notice No. 20231016-13 dated 16 October 2023

**ITEM 11 – INDICATIVE LIST OF SOME OF THE PENALTIES APPLICABLE AS PER EXCHANGE NOTICES:**

BSE Exchange notice no. 20180214-31 dated February 14, 2018, on Revised penalty structure applicable as per exchange notices. Further Exchange has issued various notices to inform about the revised penalty structure to the market vide following notices:

<b>Notice No.</b>	<b>Subject</b>
20231229-11	Uniform penalty structure for Clearing Members
20231129-47	Modification of Client Codes (All Segments) – Update and Revised penalty structure
20231121-12	Revised Penalty Structure w.r.t. Unauthorised trades executed in the clients' account
20230831-46	Penalty Structure Upstreaming of clients' funds by Stock-brokers (SBs) / Clearing Members (CMs)
20230831-13	Penalty Structure related to provisions of Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Bank Guarantees (BGs) created out of clients' funds
20230704-27	Penalty proposal towards disincentives/ penalties towards non-compliance Cyber Security Audit, System Audit, Cyber Incident Reporting, Technical Glitch related violations by members
20180214-31	Revised penalty structure
20230403-53	Penalty Structure for Late/Non-submission of Reporting requirement on Settlement of Running Account of Clients' Funds
20230320-72	Penalty Structure for Non-display of Brokerage, Statutory & Regulatory Levies to the investors
20230301-3	Revised Penalty structure for incorrect submission of Client Level Holding Statement, Cash & Cash Equivalent Balance, and Bank Account Balances by members
20230221-5	Segregation and Monitoring of Collateral at Client Level - Penalty mechanism for Short Allocation
20230106-56	Penalty structure for position limit violation in Equity Derivative and Currency Derivative segment
20221121-7	Penalty Structure for non-compliance w.r.t publishing of Investor Grievance Escalation
20220601-52	Penalty/Disciplinary action for delay in submission of Internal Audit Report and adverse observations in the Internal Audit Report
20211125-68	Segregation and Monitoring of Collateral at Client Level - Penalty
20210927-47	Penalty structure for Non-issuance of 'Statement of Accounts' for funds, securities and commodities on weekly basis to clients
20210820-3	Penalty for Repeated Delivery Default
20210817-28	Uniform penalty structure for Clearing Members
20210701-1	Penalty for not extending Best Price Execution facility to all Clients
20210629-38	Penalty for not extending Interoperability facility to all Clients.

20210430-62	Extension in timelines - Penalty for not extending Interoperability facility to all Clients
20210325-58	Penalty Structure for not extending Interoperability facility to all clients
20210324-45	Revised Penalty Structure w.r.t. Unauthorized trading determined by Grievance Redressal Committee (GRC) / Arbitration
20210211-24	Penalty structure for Non closure of bank account named as “Stock Broker - Client Account” in excess of 30 by December 31, 2020
20201223-69	Securities Lending & Borrowing – penalty norms.
20201221-46	Penalty structures for Non-closure of Client Collateral / Client Margin Trading Securities demat accounts
20201217-1	Penalty structures for Late/Non submission of data towards undertaking to freeze the bank account
20200903-46	Levy of penalty for short/ non collection of margins from clients in cash and derivative segments
20200710-44	Penalty structure related to the provisions of Handling of Clients’ Securities by Clearing Members
20200527-36	Revision of penalty norms - Market Making on SME Segment – Update
20200428-36	Penalty Structure for Cyber Security and Cyber Resilience Audit of Trading Members
20200228-63	Penalty structure related to the provisions of Handling of Clients’ Securities by Trading Members
20190328-2	Penalty norms of Equity Derivatives Segment to be applicable in Equity Cash Segment.
20181227-20	Indicative penalty structure for Margin Trading
20181106-14	Revised Penalty structure for Cash Dealings by Stock Brokers
20180509-41	Penalty for delay in issuance of Daily margin statement or issued with material discrepancies
20180326-42	Revision of penalty norms for violation of trading limits (assigned by clearing members to trading members) in Equity Derivatives & Currency Derivatives segments.
20180326-41	Revision of penalty norms for de-activation of trading terminals due to non-availability of Total Liquid Assets (Collateral) during trading session, in Equity Cash Segment.

## ITEM 12 – GUIDELINES / COMPLIANCE REQUIREMENTS

### Guidelines

Notice No	Subject
20240406-4	Operational Guidelines and SOP for Monitoring of Client funds under Enhanced Supervision
20240313-29	Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011
20240207-44	Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011
20231023-30	Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011

20231016-13	Amendment to the Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money-laundering Act, 2002 and Rules framed there under
20230902-1	Guidelines in pursuance of amendment to SEBI KYC Registration Agency (KRA) Regulations, 2011
20230818-44	Guidelines in pursuance of amendment to SEBI KYC Registration Agency (KRA) Regulations, 2011
20230704-2	Implementation of Security Council Resolution on Democratic People's Republic of Korea (Amendment) Order, 2021: Updates to UNSC's 1718 Sanctions List of Designated Individuals and Entities
20230630-44	Implementation of circular on upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
20230616-36	Amendment to Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money-laundering Act, 2002 and Rules framed there under
20230614-75	Guidelines/clarifications on Margin collection & reporting
20230601-54	Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs) – Comprehensive Operating Guidelines
20230426-68	Guidelines/clarifications on Margin collection & reporting
20230421-49	Guidelines in pursuance of amendment to SEBI KYC Registration Agency (KRA) Regulations, 2011
20230323-6	TRAI - Guidelines to curb spam SMSes and misuse of headers and Content Templates by unauthorized Telemarketers (UTMS)
20230811-35	Simplification of KYC process and rationalisation of Risk Management Framework at KYC (Know Your Client) Registration Agencies (KRAs)
20230802-31	Trading Preferences by Clients – Applicability for commodity derivatives.
20230801-17	Due diligence of clients (It has been observed by the Exchange that clients are having multiple PAN's with same name and same bank account number)
20230731-5	Nomination for Eligible Trading and Demat Accounts
20230720-40	FAQ on Trading Preferences by Clients
20230207-14	Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed there under.
20220902-47	Guidelines/clarifications on Margin collection & reporting
20220727-51	Implementation of Circular on 'Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011'

20220624-48	Implementation of Circular on 'Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011'
20220623-52	Guidelines/clarifications on Margin collection & reporting
20220427-34	Guidelines for maintaining bank accounts by the Trading Members (Live)
20220412-30	Guidelines for maintaining bank accounts by the Trading Members
20220412-12	Guidelines in pursuance of amendment to SEBI KYC Registration Agency (KRA) Regulations, 2011
20220316-9	Guidelines for maintaining bank accounts by the Trading Members
20220203-42	Guidelines for maintaining bank accounts by the Trading Members
20211012-54	Guidelines/Clarifications on Margin collection & reporting
20210805-36	Guidelines for execution of client transactions at the best available market price
20210205-30	Guidelines for 'Statement of Accounts' for Funds, Securities and Commodities
20201218-63	Guidelines for maintaining client bank accounts by the Trading Members
20201127-14	Guidelines for maintaining client & settlement bank accounts by the Trading Members
20201127-12	Guidelines/clarifications on Peak Margin collection and reporting
20201106-46	Guidelines for maintaining client & settlement bank accounts by the Trading Members
20200928-45	Guidelines/clarifications on Margin collection & reporting
20200903-1	Investor Awareness regarding the revised guidelines on margin collection
20200831-45	Guidelines/clarifications on Margin Collection & Reporting
20200731-7	Guidelines / clarifications on Margin collection & reporting
20200626-7	Guidelines for execution of client transactions at the best available market price

- Some other regulatory requirements for compliance:

<b>Sr. No.</b>	<b>Particulars</b>	<b>Exchange Notice No.</b>
1	Mode of payment and delivery **	Exchange Notice No. 20030903-5 dated September 3, 2003.
2	Receipt of funds in the form of pre-funded instruments / Electronic fund transfers	SEBI circular CIR/MIRSD/03/2011 dated June 9, 2011; Exchange Notice no. 20110610-6 dated June 10, 2011

3	Pre-paid Schemes	Exchange Notice No. 20140324-15 dated March.24, 2014
4	Prevention of Unauthorized Trading by Stock Brokers	Exchange noticeno. 20170927-38 dated September 27, 2017.
5	Most Important Terms and Conditions (MITC)	Exchange notice no. 20231115-1 dated November 15, 2023
6	Ease of Doing Investments by Investors- Facility of voluntary freezing/ blocking of Trading Accounts by Clients	Exchange notice no. 20240112-30 dated January 12, 2024.
7	Ease of doing business- Changes in reporting	Exchange notice no. 20240112-31 dated January 12, 2024
8	Discontinuation of Submission of data towards Monitoring of Client Funds under Enhanced Supervision	Exchange notice no. 20240116-47 dated January 16, 2024
9	Discontinuation of Reporting of Client Level Cash and Cash Equivalent Balances	Exchange notice no. 20240313-35 dated March 13, 2024
10	Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	Exchange notice no. 20230608-41 dated June 08, 2023
11	Trading Preferences by Clients	Exchange notice no. 20230621-20 dated June 21, 2023
12	Block Mechanism in Demat Account of Clients Undertaking sale transactions	Exchange notice no. 20220819-31 dated August 19, 2022.
13	Bank Guarantees (BGs) created out of clients' funds	Exchange notice no. 20230425-35 dated April 25, 2023 , 20230526-53 dated May 26, 2023 & 20231107-1 dated November 07, 2023.
14	Discontinuation of Reporting of Bank Account Balance and Bank Statement	Exchange notice no. 20231020-49 dated Oct 20, 2023

- SEBI has issued a circular no. SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27, 2003, and SMD/SED/CIR/93/23321 and letter No. SMD-1/23341 dated November 18, 1993 regarding regulation of transactions between clients and brokers.
- Other Regulatory Notices / Details

Exchange Notice No.	Particulars
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20190524-46	Participation of Mutual Funds in Commodity Derivatives Market in India
20190524-45	Participation of Portfolio Managers in Commodity Derivatives Market in India
20200513-29	Entities permitted to undertake e-KYC Aadhaar Authentication service of UIDAI in Securities Market
20200731-41	Mobile Number Revocation list (MNRL) published on Telecom Regulatory Authority of India (TRAI)
20201201-27	Treatment of Inactive Trading account
20200731-16	Use of digital signature certifications for authentication / certification of filings / submissions made to Stock Exchanges

- In order to facilitate clients to offer physical shares for buyback in rolling settlement a new client category i.e. “BBPH” for BUYBACK PHYSICAL has been introduced in Cash segment. (Refer to Exchange Notice No.20131001-31 dated October 1, 2013).
- With reference to the Exchange notice Nos. 20080130-15 dated January 30, 2008, and notice No. 20080506-16 dated May 06, 2008, and 20230331-20 dated March 31, 2023, respectively informing the trading members regarding framework for Short Selling Transaction. In this regard, please refer SEBI Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/1 dated January 05, 2024 - Framework for Short Selling. (Refer Exchange Notice No. 20240205-11 dated 05 February 2024).

(Please note that Notices issued from time to time by the Exchange as per BSE Ltd. website and by SEBI on its website from time to time shall supersede the Notices / Circulars mentioned in the Master Circular for the applicable compliances required to be complied from time to time).