Master Circular 2016

Finance and Accounts Department

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# **I. Master Circular on Valuation of Unlisted (Unquoted) Securities for Computation of Networth**

1. Valuation of Unlisted (Unquoted) securities

The Fair value of the unlisted (unquoted) securities is to be certified by the Chartered Accountant of the Trading Members who issues the networth certificate in the prescribed format.

The method for determination of fair value of unlisted (unquoted) securities held by a Trading Member for computation of networth is as follows –

Fair value means the average of the Earning value and the Breakup Value. For this purpose: -

1. The breakup value means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company.
2. The earning value means the value of the equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalized at the following rate:

* In case of predominantly manufacturing company, eight percent;
* In case of predominantly trading company, ten percent;
* In case of predominantly service sector company (other than a NBFC), six percent;
* In case of any other company, including NBFC, twelve percent,
* If, an investee company is a loss making company, the earning value will be taken at zero

Thus, Earning Value for an NBFC with capitalisation rate of 12% would be earning per share multiplied by 100/12.

1. Valuation of shares of BSE Ltd. for purpose of computation of Networth

The Exchange in order to have uniformity with regard to value of shares of BSE Ltd. based on the formula mentioned in the Notices dated December 1, 2008 and May 29,2015 has determined the ‘Fair Value’ of Shares of BSE Ltd., duly certified by the Auditor of the Exchange at **Rs.** **221.56 per share**. This value can be taken into account by the trading members for the purpose of computation of their Networth as on March 31, 2015 and thereafter for the purpose of computation of Networth as on September 30, 2015. It may be noted that the determination of the fair value is the average of Earnings Value of **Rs. 218.05** per share and Break-up Value of **Rs. 225.07** per share as determined on the basis of the said notices.

# **II. Master Circular on Direct Tax Matters**

1. Non deduction of TDS on Service Tax element of Bills

As per CBDT Circular No 1/ 2014, wherever in terms of the agreement/contract between the payer and the payee, the service tax component comprised in the amount payable to a resident is indicated separately, tax is required to be deducted at source under Chapter XVII-B of the Act on the amount paid/payable without including such service tax component.

1. Amendment of Income Tax Rule 6DDA with respect to transactions on Stock Exchange

CBDT Notification No. 14/2011 dt. 9th March, 2011/F.No.142/25/2008-SO (TPL) has amended Income-tax Rule 6DDA effective from 01st April, 2011 as follows -

“1. The Stock Exchange shall ensure that transactions (in respect of cash and derivative market) once registered in the system are not erased; and

2. The Stock Exchange shall ensure that the transactions (in respect of cash and derivative market) once registered in the system are modified only in cases of genuine error and maintain data regarding all transactions (in respect of cash and derivative market) registered in the system which have been modified and submit a monthly statement in Form No. 3BB to the Director General of Income-tax (Intelligence), New Delhi within fifteen days from the last day of each month to which such statement relates to.”

1. Notification of BSE as a recognized Stock Exchange under clause (d) of the proviso to clause (5) of Section 43 of the Income Tax

Bombay Stock Exchange Ltd., is notified as a recognised Stock Exchange for the purpose of clause (d) of proviso to clause (5) of Section 43 of the Income Tax Act, 1961 w.e.f. 25th January 2006. Accordingly, Derivative trades carried out on the Exchange trading platform will not be deemed to be speculative transaction till such time the recognition granted to the Exchange is not withdrawn.

# **III. Master Circular for Securities Transaction Tax**

1. Securities Transaction Tax (STT) Rates

Securities Transaction Tax (STT) was introduced in Chapter VII of the Finance (No. 2) Act 2004. The same is chargeable as per the rates given below -

| **Sr. No.** | **Taxable Securities Transactions** | **Effective till 31.05.16** | **Effective from 01.06.16** | **Payable by** |
| --- | --- | --- | --- | --- |
| 1. | Purchase of an equity share in a company, where –  (a) the transaction of such purchase is entered into in a recognised stock exchange; and  (b) the contract for the purchase of such share is settled by the actual delivery or transfer of such share. | 0.1% | 0.1% | Purchaser |
| 1.A | Purchase of an unit of an equity oriented fund, where -  (a) the transaction of such purchase is entered into in a recognised stock exchange; and  (b) the contract for the purchase of such unit is settled by the actual delivery or transfer of such unit. | NIL | NIL | - |
| 2. | Sale of an equity share in a company, where -  (a) the transaction of such sale is entered into in recognised stock exchange; and  (b) the contract for the sale of such share is settled by the actual delivery or transfer of such share. | 0.1% | 0.1% | Seller |
| 2A. | Sale of an unit of an equity oriented fund, where -  (a) the transaction of such sale is entered into in a recognised stock exchange; and  (b) the contract for the sale of such unit is settled by the actual delivery or transfer of such unit. | 0.001% | 0.001% | Seller |
| 3. | Sale of an equity share in a company or a unit of an equity oriented fund, where --  (a) the transaction of such sale is entered into in a recognised stock exchange; and  (b) the contract for the sale of such share or unit is settled otherwise than by the actual delivery or transfer of such share or unit. | 0.025% | 0.025% | Seller |
| 4. | (a) Sale of an option in securities. | **0.017%** | **0.050%** | Seller |
|  | (b) Sale of an option in securities where option is exercised. | 0.125% | 0.125% | Purchaser |
|  | (c) Sale of a futures in securities. | 0.01% | 0.01% | Seller |

1. STT on Institutional Transactions

All institutional Buy and Sell transactions are treated separately for the calculation of STT and all these transactions are treated as delivery based transactions. No netting of institutional transactions is allowed for the calculation of STT and the STT applicable on delivery based transactions is being levied on such transactions.

1. Remittance of Excess STT collected by Members

Excess STT collected by some brokers/sub-brokers is required to be remitted to the Government account.

# **IV. Master Circular for Insurance**

1. Submission of proof of renewal of Broker’s Indemnity Insurance Policy

The Trading Members are required to submit proof of Broker’s Insurance Indemnity Policy on or before July 31 every year. In case of any delay in the same, fine of Rs. 100 per day is leviable.

1. Deficiencies observed in Broker’s Indemnity Insurance Policy

The members may note some of the deficiencies observed in Trading Members’ Indemnity Insurance Policy and take needful action -

* Non-insurance of errors / omissions while entering orders in exchange trading system by the Members or their Authorized Persons
* Non-insurance of branch locations
* Non-insurance of certain segments where the Member is currently operational
* Lower insurance cover as compared to the Members total business exposure
* Member-end hardware / software failure or any other failure leading to inability to enter orders into exchange trading system
* Cyber crime

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