**Inspection and Audit Department**

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## Item 1 - Client Registration

### 1.1 Know Your Client Forms

As per SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** Members (Stock Broker) and as per SEBI Circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 on Know Your Client (KYC) norms for the securities market are required to continue to comply with regulatory requirements relating to client registrations as follows.

Members are required to comply with following requirements regarding Client Registration.

i. For the purpose of registration of new clients, the Member shall make available a folder / booklet containing following documents required for registration of a client. Members will have to ensure that a copy of the whole set is provided by them to the clients:

a) List of mandatory documents to be obtained from the clients.
   - i. Part-I KYC Form for " Individuals" & "Non- Individuals"
     Part-II KYC Form for “Individuals” and “Non-Individuals”.
   - ii. Uniform Risk Disclosure Document
   - iii Rights and Obligations of Members, Authorized Persons, and Clients
   - iv Guidance Note – Do’s and Don’ts for the clients.

b) A tariff sheet specifying various charges, including brokerage, payable by the client, to avoid any dispute later. List of documents which are voluntary/non-mandatory in nature.

c) Policies and Procedures

d) Information on contact details of senior officials and Investor grievance cell of the Member, so that the client can approach them in case of any grievance.

ii. The non-mandatory documents (any other document concerned with any term(s) or condition(s), other than those covered in the Mandatory documents) may be obtained from clients subject to the following conditions:

a) 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, Business Rules, Byelaws, circulars of the Exchange, directives, and guidelines of SEBI. Any such clause in contravention of the above shall be null and void.
b) Any authorization sought in non-mandatory part shall not be in contravention of the provisions of Rules, Byelaws, Business Rules, circulars of the Exchange and Rules, Byelaws, directives and guidelines of SEBI and has to be a separate document and shall require specific consent of the client.
c) Authorization sought in non-mandatory part shall always be subject to the following conditions.
   - c.i. The authorization shall contain a clause that the Client may revoke the authorization at any time.
   - c.ii. The authorization shall be in writing and be signed by the client only and not by any person authorized on his behalf.

c.iii. The authorizations so obtained are not for any inter family / group company / related accounts adjustment.

c.iv. The authorizations so obtained are not for any adjustment of funds among securities Exchange and commodities Exchange.

It may be noted that Aadhar card issued by Unique Identification Authority of India (UIDAI) would be admissible as Proof of Identity and Proof of Address in Know Your Customer (KYC) documentation in the Commodity Futures Market and also it has been decided to accept e-KYC service launched by UIDAI also, 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 ("which is in an electronic form and accessible so as to be usable for a subsequent reference"), shall be treated as sufficient proof of Identity and Address of the client. However, the client will need to authorize the intermediary to access his data through UIDAI system.

iii. Further as per SEBI Circular no. CIR/MIRSD/64/2016 dated July 12,2016 following requirements are made applicable.

Members are required to provide copy of following standard documents, which are part of the account opening kit, to the clients.

- Rights and Obligations of Members, Authorized Persons and Clients
- Uniform Risk Disclosure Documents
- Guidance Note detailing Do's and Don'ts for trading on stock exchanges.

Stock broker 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, stock broker/ shall maintain logs of the same.

Stock brokers shall continue to make the documents mentioned above as ( 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 & Guidance Note detailing Do's and Don'ts for trading on exchanges) available on their website and keep the clients informed about the same.

iv. When establishing a relationship with a new Client, Members of the Exchange must take reasonable steps to assess the background, genuineness, beneficial identity, financial soundness of such person, and his trading objectives by registering the client with them in the format prescribed as CLIENT REGISTRATION FORM, The Member of the Exchange shall also obtain from all Corporate Clients an approved copy of the board resolution permitting trading in Derivatives contracts in commodities.

v. Member of the Exchange shall make the Client aware of particulars of Member's registration number allocated by the Exchange and SEBI, employee primarily responsible for the Clients affairs, the precise nature of business to be conducted, the risk associated with business in

trading in contracts listed in the exchange including any limitations on that liability and the capacity in which the Member of the Exchange acts and the Client's liability thereon.

vi. The Member of the Exchange shall also furnish a copy of all the documents to all his clients and maintain their acknowledgement.

vii. Further SEBI has decided regarding IPV (In Person Verification) requirement for all intermediaries as follows.

a) It shall be mandatory for all the intermediaries to carry out IPV of their clients.

b) 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.

c) The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.

d) 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.

e) Stock broker has an option of doing 'in-person' verification through web camera at the branch office of the stock broker/authorized person's office.

f) 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.

viii. Amendment in 'Rights and Obligations of Members, Authorized Persons and Clients' of FMC circular No. FMCCOMPLIVKRA-051114 dated February 26, 2015, is specified in SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/33 March 11, 2020 issued vide Exchange circular MCX/INSP/162/2020 dated March 11, 2020 and the circular states as under : -

1. SEBI, vide circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016, inter-alia, specified that provisions of FMC circular No. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015, shall be applicable to all commodity derivatives exchanges including regional commodity derivatives exchanges for compliance by their members.

2. Clause 42 of 'Rights and Obligations of Members, Authorized Persons and Clients' of FMC circular No. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015, specifies the following: In case, client opts to receive the contract note in electronic form, he shall provide an appropriate email id (created by the client) to the member. Member shall ensure that all the Rules / Business Rules / Byelaws / Circulars issued from time to time in this regard are complied with. The client shall communicate to the member any change in e-mail id through a physical letter. If the client has opted for internet trading, the request for change of email id may be made through the secured access by way of client specific user id and password. The Appendix A specified in the above clause is

the ECN (Electronic Contract Note) Declaration Form in which e-mail id is required to be written in own handwriting of the client.

3. Clause 48 of 'Rights and Obligations of Members, Authorized persons and Clients' of FMC circular dated February 26, 2015, specifies the following: The Electronic Contract Note (ECN) declaration form will be obtained from the client who opts to receive the contract note in electronic form. This declaration will remain valid till it is revoked by the client.

4. Clause 37 'Rights and Obligations of Stock Brokers and Clients' of SEBI circular no. CIR/MIRSD/16/2011 dated August 22, 2011 (now modified by SEBI Circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 on Know Your Client (KYC) norms for the securities market) specifies the following: In case, client opts to receive the contract note in electronic form, he shall provide an appropriate e-mail id to the stock broker. The client shall communicate to the stock broker any change in the email-id through a physical letter. If the client has opted for internet trading, the request for change of email id may be made through the secured access by way of client specific user id and password.

5. As per the aforementioned clauses, clients in commodity derivatives segment are required to submit a physical form for providing e-mail id, if they wish to receive contracts notes in electronic form. Whereas, clients in segments other than commodity derivatives segment are required to provide an appropriate email id to the stock broker.

6. For ease of investors with regard to receiving electronic contract notes, it has been decided to replace the Clause 42 of 'Rights and Obligations of Members, Authorized Persons and Clients' of FMC circular No. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015, with Clause 37 of 'Rights and Obligations of Stock Brokers and Clients' of SEBI circular no. CIR/MIRSD/16/2011 dated August 22, 2011 (now modified by SEBI Circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 on Know Your Client (KYC) norms for the securities market). Further, Clause 48 of 'Rights and Obligations of Members, Authorized Persons and Clients' of FMC circular No. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015, shall stand rescinded.

**Additional Requirement (for new clients)**

Further SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled Regulatory Framework for Commodity Derivatives Brokers has made applicable SEBI Circular number CIR/MIRSD/01 /2013 dated Jan 04, 2013 and also Clause 1 to 11 and Clause 14 to 19 of Annexure A of SEBI Circular number MIRSD/ SE /Cir-19/2009 dated Dec 03, 2009 for new client accounts with respect to requirements of Financial Documents, PAN, Inactive Clients etc. which inter alia states that :

**Rationalization process for obtaining PAN by Investors**

With a view to bring about operational flexibility and in order to ease the PAN verification process, the intermediaries 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.

**Include procedure for filing of complaints on SCORES in Welcome Kit**

As per Exchange circular MCX/ISD/359/2019 dated July 5, 2019 - Members are also directed to include procedure for filing of complaints on SCORES and benefits for the same in the welcome kit to be given to the investors at the time of registration with them.

**Client Registration Procedure**

**Following clauses of SEBI Circular number MIRSD/ SE /Cir-19/2009 dated Dec 03, 2009 (Clause 1 to 11 and Clause 14 to 19 Of Annexure A) are made applicable by the SEBI.**

- The stock broker shall register a client and make available a folder /book containing all the documents required for 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. Once signed, a copy of the same shall be made available to the client.

- The folder/book shall have two parts: (a) Mandatory and (b) Non-mandatory.

- Member shall execute mandatory documents in the format as prescribed by SEBI.

- The client shall indicate that stock exchange as well as market segment where he intends his trade to be executed. He shall do so in the KYC form in his own hand and signed against these.

- The KYC form shall capture the identity and the address of the introducer instead of his MAPIN/UID. The KYC shall be modified to this extent.

- The stock broker shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment every financial year. In respect of other clients, the stock broker shall obtain the documents in accordance with its risk management system. Members are, therefore, again advised to update the financial information of their clients at least once in a financial year.

- The Stock Broker shall also capture details of action taken against a client by SEBI or other authorities during the last 3 years.

- There shall be a mandatory document dealing with Policies and Procedures for each of the following under appropriate headings:

  a. setting up client's exposure limits,

  b. applicable brokerage rate,

c. imposition of penalty/delayed payment charges by either party, specifying the rate and the period (This must not result in funding by the broker in contravention of the applicable laws),

d. the right to sell clients' commodities /securities or close clients' positions, without giving notice to the client, on account of non-payment of client's dues (This shall be limited to the extent of settlement/margin obligation),

e. shortages in obligations arising out of internal netting of trades,

f. conditions under which a client may not be allowed to take further position or the broker may close the existing position of a client,

g. temporarily suspending or closing a client's account at the client's request, and

h. deregistering a client.

**General**

- All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.

- 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.

- The stock brokers having own web-sites 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.

- No term of the agreement other than those prescribed by SEBI, shall be changed without the consent of the client. Such change needs to be preceded by a notice 15 days.

- 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.

**Non-mandatory Documents**

- It may be noted that any voluntary clause / document added by the stockbrokers shall form part of the non-mandatory documents. The stockbroker shall ensure that any voluntary clause/document shall neither dilute the responsibility of the stockbroker nor it shall be in conflict with any of the clauses in the mandatory documents, Rules, Business Rules , Bye-laws, Regulations, Notices, Guidelines and Circulars issued by SEBI and the Stock Exchange 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, Business 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.

**Stock Brokers are further advised to ensure the following:**

(1) It may be noted that proper segregation of the mandatory and non-mandatory documents shall be made.
(2) Additional documents shall state at the beginning in bold that the document is voluntary.
(3) 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.
(4) 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.
(5) The docket or folder containing draft mandatory documents for signing and the checklist containing mandatory documents shall not include draft voluntary documents, if any.
(6) 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.

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

(7) 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

(8) No documentation shall give any exclusive right or control to the trading member or third party over the demat 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.

(9) The stockbroker 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.

(10) 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 secured manner.

(11) It has been decided that while a stockbroker 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 and e-mail address on account opening documents

**1.2 <u>Clarification on KYC Process and Use of Technology for KYC</u>**

SEBI registered intermediary shall continue to ensure to obtain the express consent of the investor before undertaking online KYC.

SEBI, from time to time has issued various circulars to simplify, harmonize the process of KYC by investors / RI. Constant technology evolution has taken place in the market and innovative platforms are being created to allow investors to complete KYC process online. SEBI held discussions with various market participants and based on their feedback and with a view to allow ease of doing business in the securities market, it has been decided to make use of following technological innovations which can facilitate online KYC:

a) eSign service is an online electronic signature service that can facilitate an Aadhaar holder to forward the document after digitally signing the same provided the eSign 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 eSign 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 eSign shall also be accepted as valid signature.

Any document, except for the documents mentioned in the First Schedule of the IT Act 2000, may be authenticated by an investor by way of electronic/digital signature including Aadhaar eSign, therefore, the process of performing KYC can be completed by using electronic/digital signature including Aadhaar eSign. In case of non-individual clients, intermediaries may take caution and satisfy themselves regarding the genuineness of the authorization and identity of the authorized signatories.

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 eSign, in the following manner:

i) The investor visits the website/App/digital platform of the RI and fills up the online KYC form and submits requisite documents online.

ii) 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 eSign 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 UIDAIs 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 investor 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 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 as obtained shall be verified with the information provided by investor.

e. Any OVD other than Aadhaar shall be submitted through Digilocker / under eSign mechanism.

f. In terms of Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules) "Officially Valid Documents" means the following:

1 the passport
2 the driving licence,
3 proof of possession of Aadhaar number,
4 the Voter's Identity Card issued by Election Commission of India,
5 job card issued by NREGA duly signed by an officer of the State Government

6 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.

iii) 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.

iv) 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.

v) 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:
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 eSign, or Affix online the cropped signature on the filled KYC form and submit the same to the RI under eSign.

vi) 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.

vii) The original seen and verified requirement, for OVD would be met where the investor provides the OVD in the following manner:
   i. As a clear photograph or scanned copy of the original OVD, through the eSign mechanism,
   or;
   ii. As digitally signed document of the OVD, issued to the DigiLocker by the issuing authority.

**Features for online KYC App of the RI** - SEBI registered intermediary may implement their own Application (App) for undertaking online KYC of investors. The App shall facilitate taking photograph, scanning, acceptance of **OVD through Digilocker**, video capturing in live environment, usage of the App only by authorized person of the RI.

The App shall also have features of random action initiation for investor response to establish that the interactions not pre-recorded, time stamping, **geo-location tagging** to ensure physical location in India etc is also implemented. RI shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RI shall **carry out the liveliness check** in order to guard against spoofing and such other fraudulent manipulations.

The RI shall before rolling out and periodically, carry out software and security audit and validation of their App. The RI may have additional safety and security features other than as prescribed above.

**Feature for Video in Person Verification (VIPV) for Individuals** – To enable ease of completing IPV of an investor, intermediary may undertake the VIPV of an individual investor through their App. The following process shall be adopted in this regard:

i. Intermediary through their authorised official, specifically trained for this purpose, may undertake live VIPV of an individual customer, after obtaining his/her informed consent. The activity log along with the credentials of the person performing the VIPV shall be stored for easy retrieval.
ii. The VIPV shall be in a live environment.
iii. The VIPV shall be clear and still, the investor in the video shall be easily recognisable and shall not be covering their face in any manner.
iv. The VIPV process shall include random question and response from the investor including displaying the OVD, KYC form and signature or could also be confirmed by an OTP.
v. The RI shall ensure that photograph of the customer downloaded through the Aadhaar authentication / verification process matches with the investor in the VIPV.
vi. The VIPV shall be digitally saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.
vii. The RI may have additional safety and security features other than as prescribed above.

### 1.3 <u>In-person verification (IPV)</u>

In line with the uniformity brought out in the KYC procedure across intermediaries, the IPV requirements for all the intermediaries have been streamlined and harmonized by SEBI, as follows:

i. It shall be mandatory for all the intermediaries 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, or Authorised 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.

Based on the suggestions received from depositories and other market participants on the above-mentioned circular, SEBI has vide its email dated February 4, 2022, advised to issue following clarifications:

1. With respect to the SEBI circular which mentions use of Aadhaar e-Sign mechanism, it is now further clarified that any document, except for the documents mentioned in the First Schedule of the IT Act 2000, may be authenticated by an investor by way of electronic/digital signature including Aadhaar eSign, therefore, the process of performing KYC can be completed by using electronic/digital signature including Aadhaar eSign. In case of nonindividual clients, intermediaries may take caution and satisfy themselves regarding the genuineness of the authorization and identity of the authorized signatories.

2. With regard to requirement of geo-tagging in India mentioned as per SEBI circular, it is reiterated that while completing the investor's KYC through KYC app of the intermediary, the Registered Intermediary (RI) shall continue to ensure the requirement of geo-tagging with the investor's physical location in India as per SEBI guidelines till further clarification is issued by SEBI in the matter.

Clarification in respect of In-person Verification: -

1. <u>In case of individuals:</u>

    a. Stock broker has an option of doing 'in-person' verification through web camera at the branch office of the stock broker/authorised person'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. <u>In case of stock exchange subsidiaries</u>

    SEBI pursuant to its circular clarified that the subsidiaries of stock exchanges, acting as stockbrokers, may rely upon the 'in-person' verification done by their Authorised 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 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 digilocker or any other source which could be verified online.

SEBI has issued Master Circular on Know Your Client (KYC) norms for the securities market vide SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023

Any modifications/updation in existing KYC records, shall be effected in line with the provisions of this Circular by December 31, 2023 and on and from the date of issue of this Circular, all circulars for the purpose of KYC as listed in Appendix shall stand rescinded as indicated therein.

Please note that as per SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 dated August 01, 2023 on Trading Preferences by Clients – Applicability for commodity derivatives, Members shall use the format as prescribed by the erstwhile Forward Markets Commission (FMC) vide Page 2 of 3 its circular no. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015.

### 1.4 Uploading KYC information with KYC Registration Agency (KRA)

SEBI simplified the account opening process for investors. and 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 has to 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 is not required to undergo the same process again with another intermediary. Accordingly, SEBI has formulated the KYC Registration Agency Regulations, 2011.

List of entities registered as KYC Registration Agency with SEBI, is available on SEBI website.

### 1.5 Trading Preferences by Clients

SEBI vide its Circular dated SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 dated August 01, 2023 on Trading Preferences by Clients – Applicability for commodity derivatives has standardized the format of "Trading Preferences" vide its circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023 in order to ensure that clients are permitted to access all the stock exchanges in which the stock brokers are registered for the same segment. Accordingly, Para C of Annexure – 8 of "Master Circular for Stock Brokers" with reference no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023, has been modified as under:

| Please sign in the relevant boxes where you wish to trade. Please strike off the segment not chosen by you. | | |
|---|---|---|
| Exchanges | NSE, BSE & MSEI | MCX, NCDEX, BSE & NSE |

| All Segments | Cash / Mutual Fund | F&O | Currency | Debt | Commodity Derivatives |
|---|---|---|---|---|---|
| If you do not wish to trade in any of segments / Mutual Fund, please mention here | | | | | |

All stock brokers are mandated to register their new clients on all the active stock exchanges after obtaining the trading preferences as per the aforementioned format. For existing clients, the stock brokers are mandated to offer them access on all the active stock exchanges for the segments already opted by them, as a default mode, within three (03) months from the effective date of the circular and inform their respective clients through email / SMS. Clients shall be given a choice to opt out of such access by providing negative consent in this regard. Further, the stock brokers shall activate / deactivate the segments based on the preference of the clients

It is hereby clarified that the aforesaid format of "Trading Preferences" as specified in SEBI circular dated June 21, 2023, shall not be made applicable to members registered exclusively with commodity derivatives exchanges. Such members shall use the format as prescribed by the erstwhile Forward Markets Commission (FMC) vide its circular no. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015.

With reference to para 6 of the SEBI circular dated June 21, 2023, it is also clarified that opting out facility should be provided to new as well as existing clients, and negative consent should be obtained separately from clients in writing. Stock brokers shall be mandated to maintain records of such written negative consent provided by the clients for at least five years.

### 1.6 FAQ - Trading Preferences by Clients

FAQ on SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023 and SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 dated August 01, 2023 on Trading Preferences by Clients

| Sr No | For Members exclusive to Commodity Segment | For Members not exclusive to Commodity Segment |
|---|---|---|
| 1 | Is it mandatory to register new clients in all the Exchanges? | |
| | No. Clients to be registered only on the Exchange after obtaining the trading preferences as per format prescribed in SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/132 dated August 01, 2023 | Yes, it is mandatory to register new clients on all the active Stock Exchanges for the segment after obtaining the trading preferences for the segment as per format prescribed in SEBI circular number SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/95 dated June 21, 2023 except for commodity segment. |
| 2 | Is it mandatory to register existing clients in all the Exchanges? | |
| | No. Clients to be registered only on the Exchange based on the trading preferences | Yes. Stockbroker shall offer access to clients on all the active Stock |

| | | |
|---|---|---|
| | provided by the clients as per SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD 1/P/CIR/2023/132 dated August 01, 2023. | Exchanges for the active segments, except for commodity segment, already opted by them as a default mode. |
| 3 | Does an existing client needs to sign the trading preference to get enabled in other Exchanges as per the new format? | |
| | Yes. Clients to be registered only on the Exchange based on the trading preferences provided by the clients. | No. Except for the commodity segment the stock brokers are mandated to offer clients access on all the active Stock Exchanges for the segments already opted by them, as a default mode latest by October 31, 2023 i.e. within three months from the effective date of the June 21, 2023 circular. The stockbrokers are required to inform their respective clients through email / SMS. |
| 4 | Is it mandatory to provide Opt-out facility to clients? | |
| | Not applicable. Only Opt-in facility to be provided to clients. | Yes. Except for the commodity segment selected for trading, opting out facility should be provided to new as well as existing clients and negative consent should be obtained separately from clients in writing/ through registered email id/ or 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). Stock brokers are mandated to maintain records of such negative consent provided by the clients for atleast 5 years. The stock brokers shall deactivate the segments as and when the negative consent is received from the clients |
| 5 | What is the due date to comply with the provisions of the June 21, 2023 circular? | |
| | Not applicable. | For the provisions related to existing clients in other than commodity segment – latest by October 31, 2023. For the provisions related to New clients – From August 1, 2023. |
| 6 | Does June 21, 2023 circular apply on inactive clients? | |
| | Not applicable. | The provisions of the circular applies to clients compliant with all mandatory UCC requirements communicated through various SEBI/ |

| | | |
|---|---|---|
| | | Exchange circulars from time to time. For noncompliant / inactive clients, the provision of the circular shall be applicable upon activating the UCCs. However, for commodity segment, client to be activated based on trading preference. |
| 7 | Does the information needs to be updated in UCC system as per June 21, 2023 circular? | |
| | Clients to be registered only on the Exchange based on the trading preferences provided by the clients. | Yes. The appropriate information, as applicable needs to be updated in UCC system as per SEBI circular dated June 21, 2023. |
| 8 | Whether the June 21, 2023 circular is applicable to trading members having clientele base consisting of only institutional investors? | |
| | Not applicable. Clients to be registered only on the Exchange based on the trading preferences provided by the clients. | Yes, the captioned circular is applicable to trading members having clientele base consisting of only institutional investors. |
| 9 | Whether the trading members can implement the provisions of the June 21, 2023 circular on immediate basis before the applicable date as provided in the circular? | |
| | Not applicable | Yes, the trading member can implement the circular on immediate basis before the applicable date as provided in the SEBI circular dated June 21, 2023 read in line with SEBI circular dated August 01, 2023 |
| 10 | In case of existing clients, if UCC is currently created only in one exchange for a segment as per client's preference in KYC, then it needs to be done in other exchanges for that segment. What if client might not be interested to trade in other exchanges? | |
| | Clients can provide trading preference, in case they wish to trade. UCC to be created only after obtaining the client preference to trade on particular exchange. | Except for the commodity segment the stock brokers are mandated to offer clients access on all the active Stock Exchanges for the segments already opted by them, as a default mode latest by October 31, 2023 i.e. within three months from the effective date of the circular. The stockbrokers are required to inform their respective clients through email / SMS. Further, if the client is not interested to trade on any particular exchange, then the trading member has to obtain negative consent from the client as stated in Point no: 4. |

| | | |
|---|---|---|
| 11 | If the trading member is not registered in a particular segment in any of the Exchanges, whether the said segment can be removed from the format? | |
| | Not applicable. As format prescribes only commodity segment. | Yes. If the trading member is not registered in a particular segment in any of the Exchanges, then the said "segment" need not be mentioned in the "Trading Preferences" format. Further, if the trading member is not registered in a particular Exchange, the said "Exchange" need not be mentioned in the "Trading Preferences" format. Further, if member is registered in commodity segment, then the option to choose the exchange should also be given as per format prescribed in SEBI circular dated August 01, 2023 |

**1.7 <u>Guidelines for Intermediaries in pursuance of the SEBI KYC Registration Agency Regulations, 2011</u>**

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.

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.

The intermediary shall promptly provide KYC related information to KRA, as and when required. The intermediary shall have adequate internal controls to ensure the security / authenticity of data uploaded by it.

**<u>Guidelines for uploading the KYC data of the existing clients in pursuance of the SEBI KYC Registration Agency Regulations, 2011</u>**

For existing clients who trade / invest / deal with the intermediary anytime during the prescribed time phases starting from April 16, 2012, the intermediaries shall forthwith upload their KYC details in the KRA system.

KRAs shall send letters to the clients for the receipt of the initial / updated KYC documents from intermediary in accordance with the time schedule. The KYC data of the existing clients, who trade / invest or deal after the prescribed time phase, shall be uploaded on a continuous basis.

While uploading the existing clients' KYC details in the KRA system, the intermediary shall indicate the date of account opening / activation / updation 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.

The intermediary shall highlight the KYC details about the existing client which is missing / not available, as per the KYC requirements prescribed by SEBI, 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.

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.

**<u>As per SEBI circular SEBI/HO/MIRSD/DoP/P/CIR/2022/46 dated April 06, 2022 and SEBI /HO/MIRSD/FATF/P/CIR/2023/0144 dated August 11, 2023</u>**

- The KYC records of new clients (who have used Aadhaar as an OVD) shall be validated within 2 days of receipt of KYC records by KRAs.

- KRA shall intimate the KRA identifier to the client within 2 working days of receipt of KYC records by the KRAs by post or email and maintain the proof of dispatch.

    - PAN
    - Name
    - Address
    - Email Id and Mobile Number of Client

  In case of PAN exempt records, the other attributes i.e. name, address, mobile number and email id shall be verified
  Records of Clients verified by KRA with official database shall be considered as Validated Records

- Member's attention is drawn to para 11 of said circular which mandates that clients whose KYC records are not found to be valid by KRA after the validation process shall not be allowed to transact in securities market and shall be allowed to transact in securities market only after their KYC is validated.

- KYC records of all existing clients (who have used Aadhaar as an OVD) shall be validated within a period of 180 days from November 01, 2022.

- The validation of all KYC records (new and existing) shall commence from November 01, 2022.

As per MCX/S&I/220/2024 dated April 10, 2024 - All PANs that become KRA compliant subsequently, will be permitted to trade on T+1, based on the information received from KRA by the Exchange.

**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. In order 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 stockbrokers 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 website 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 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/2022/44 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.

The DDPI shall serve the same purpose of PoA. The use of DDPI shall be limited only for the following purposes:

i. 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.
ii. 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.
iii. Mutual Fund transactions being executed on Stock Exchange order entry platforms
iv. Tendering shares in open offers through Stock Exchange platforms

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 and 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 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."*

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.

## 1.10 Nomination for Eligible Trading Accounts

a) Investors opening new trading account(s) on or after October 01, 2021, shall have the choice of providing nomination or opting out nomination. Formats enclosed under PART B. These Forms would also be applicable for any subsequent change / withdrawal of nomination.
b) In this regard, Trading Members shall activate new Trading accounts from October 01, 2021, only upon receipt of above formats.
c) The nomination and Declaration form shall be signed under wet signature of the account holder(s) and witness shall not be required. However, if the account holder(s) affixes thumb impression (instead of wet signature), then witness signature shall be required in the forms. The on-line nomination and Declaration form may also be signed using e-Sign facility and in that case witness will not be required. Intermediaries shall ensure that adequate systems are in place including for providing for eSign facility and also take all necessary steps to maintain confidentiality and safety of client records.
d) Submission of 'choice of nomination' for trading accounts has been made voluntary as a step towards ease of doing business vide SEBI circular no. SEBI/HO/MIRSD/POD-1/P/CIR/2023/158 dated September 26, 2023
e) Submission of "Choice of Nomination" for Demat and Mutual fund Folio is **June 30, 2024**
f) Trading Members shall 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 wherein the 'choice of nomination' is not captured. The communication shall provide guidance through which the client can provide his/her 'choice of nomination'.
g) Trading Members may get "choice of nomination" by way of two factor authentication (2FA) login on the internet trading platform for Stock Brokers providing such services.

## 1.11 Guidelines on Identification of Beneficial Ownership

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 intermediary 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 who 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.

## 1.12 Client Registration Documents in vernacular language

In order to facilitate better understanding of the registration documents by the investors, Exchange has provided the following documents in 15 regional vernacular languages.

1. 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.
2. Uniform Risk Disclosure Documents for all segments / exchanges.
3. Guidance Note detailing Do's and Don'ts for trading on exchanges.

The above mentioned documents in the vernacular languages are available on MCX website and can be downloaded. Trading Members are advised to make available the documents to their clients on demand and also display the same on their own website. It may be noted that the documents are a translated version of the original documents in English. In case of any ambiguity the contents of the English version would prevail.

## 1.13 Simplification of Account Opening Kit

In order to further simplify the process of client registration, SEBI has issued a circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 on the captioned subject wherein it is decided that members can make available the standard documents such as Rights & Obligations, Risk Disclosure Document, Do's and Don'ts to their clients either in electronic or physical mode as per the preference of the clients after maintaining appropriate proof of dispatch/logs. 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 shall maintain logs of the same.

### 1.14 Treatment of Inactive Trading account

In order to provide guidelines regarding treatment of inactive account and ensure uniformity across all the members, the following guidelines, framed in joint consultation with other Exchanges.

i. **Definition of Inactive Trading accounts:** In case of trading account, the term inactive account refers to such account wherein no trades have been carried out since last 12 (Twelve) months across all Exchanges.

ii. **Transaction in Inactive Trading accounts:** The inactive accounts identified based on the above criteria shall be flagged as 'Inactive' by the Trading Member in UCC database of all the respective Exchanges. The Members are also required to ensure that any further trading by such client should be allowed only after undertaking sufficient due diligence (including IPV) and obtaining the updated information related to KYC from the concerned Client. Appropriate disciplinary actions may be initiated in case of any trades are executed in any account flagged as 'Inactive'.

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 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.

iii. All trading members are advised to upload correct status of the client code in the UCC database of the Exchanges prior to the execution of the trades.

## 1.15 Guidelines for online closure of trading accounts

SEBI 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. A 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 get closed. 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 member shall maintain and store system logs of the closure instructions and e-signed electronic requests (uneditable) 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.

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

Government of India has authorized the Central Registry of Securitization and Asset Reconstruction and Security interest of India CERSAI, to act as, and to perform the functions of, the Central KYC Records Registry under the PML Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a client. Accordingly, every reporting entities are required to capture the KYC information for sharing with the Central KYC Records Registry.

### 1.17 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).

**1.18 Know Your Client requirements for Foreign Portfolio Investors (FPIs)**

1. Securities and Exchange Board of India (SEBI), vide circular number IMD /FPI&C/CIR/P/2019/124 dated November 05, 2019, had issued the Operational Guidelines (hereinafter referred to as OG) for FPIs, DDPs and Eligible Foreign Investors under the Securities and Exchange Board of India (Foreign portfolio x`Investors), Regulations 2019.

2. Subsequently, further guidelines pertaining to FPIs, DDPs and EFIs have been issued by SEBI through various circulars.

3. SEBI circular no. SEBI/HO/MRD/MRD-RAC-1/P/CIR/2022/131 dated September 29, 2022 states that it has been decided to allow foreign investors to participate in Indian ETCDs through the FPI route, subject to conditions prescribed by SEBI. regarding "Participation of SEBI registered Foreign Portfolio Investors (FPIs) in Exchange Traded Commodity Derivatives in India".

4. SEBI has also incorporated the provisions of the aforesaid circulars in the Master Circular having number SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 which supersedes the earlier Operational Guidelines issued vide circular dated November 05, 2019. The Master circular also inter alia mentions that "The circulars mentioned in Annexure A of the aforesaid Master Circular having number SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 shall stand rescinded with."

5. The issuance of this Master Circular. With respect to the directions or other guidance issued by SEBI, as specifically applicable to FPIs, shall continue to remain in force in addition to the provisions of any other law for the time being in force. Terms not defined in the Master Circular shall have the same meaning as provided under the Regulations.

**1.19 Uploading / updating Client information in KYC records, UCC Database, KRA Database, CKYCR**

Exchange Circular MCX/INSP/363/2016 dated October 21, 2016 mentions the below compliance:

**With respect to uploading of Client details in UCC Database, uploading of KYC records to KYC Registration Agency (KRA) & Central KYC Records Registry (CKYCR)**

1) As per the RIGHTS AND OBLIGATIONS OF MEMBERS, AUTHORIZED PERSONS AND CLIENTS, the Client shall immediately notify the Member in writing if there is any change in the information in the 'account opening form' as provided at the time of account opening and thereafter; including the information on winding up petition/insolvency petition or any litigation which may have material bearing on his capacity. The Client shall provide/update financial information to the Member on a periodic basis.

2) Members are required to do necessary due diligence to ensure the correctness of such change in details/information of Clients, obtain appropriate documents / records in support of the change from the Clients, immediately update the changed details / records in KYC details, their back office records, upload the changed details/information to the Exchange in UCC Database, Upload the details/information/records to KRA and CKYCR. Members shall preserve such documents/records received from clients along with the Client Registration Form of respective clients.

3) Further, if any non-delivery / return of communication or bounce back of email is observed, Members are required to be extra cautious, enquire about the correctness of contact / communication details and email id with the Clients, and update the change, if any, in related records, including that of the Exchange, KRA and CKYCR.

4) It is reiterated that Members are required to update mandatory details for new as well as existing Clients as required in the UCC database of the Exchange for the client categories including Public and Private Companies/ Body Corporate/ Partnership Firm/ Hindu Undivided Family/ Limited Liability Partnership/ Association of Person/ Trust/ Co-Operative Society/ Artificial Judicial Person.

## 1.20 Most Important Terms And Conditions (MITC)

In order to bring into focus the critical aspects of the broker-client relationship and for ease of understanding of the clients, SEBI vide SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023 has prescribed that the brokers shall inform a standard Most Important Terms and Conditions (MITC) which shall be acknowledged by the client.

- MITC shall be required to be acknowledged i.e duly signed by client on boarded w.e.f April 1, 2024 onwards
- For existing clients, MITC shall be informed by members 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 to such clients through alternate channels which may include physical delivery/SMS/electronic instant messaging services after adhering with the safeguards prescribed under Exchange Circular no. MCX/INSP/337/2022 dated June 08, 2022, on Issuance of Electronic Contract Notes (ECN) through SMS/electronic instant messaging services

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | SEBI Circular Number |
|---|---|---|
| 1 | Regulatory Framework for Commodity Derivatives Brokers | SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 |
| 2 | Simplification of Account Opening Kit | CIR/MIRSD/64/2016 dated July12, 2016 |
| 3 | Simplification and Rationalization of Trading Account Opening Process (IPV) | CIR/MIRSD/16/2011 dated Aug 22, 2011 (now modified by SEBI Circular number SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 on Know Your Client (KYC) norms for the securities market) along with Annexures 1 to 6; SEBI Circular No MIRSD/Cir- 26 /2011dated December 23, 2011 |
| 4 | Rationalization process for obtaining PAN by Investors | Circular number CIR/MIRSD/01 /2013 dated Jan 04, 2013 |
| 5 | Dealings between a client and a stock broker (trading members included) | Circular number MIRSD/ SE /Cir-19/2009 dated Dec 03, 2009 ( Clause 1 to 11 and Clause 14 to 19 Of Annexure A) |
| 6 | Master Circular on Know Your Client (KYC) norms for the securities market. | SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 |
| 7 | Guidelines in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011 and for In-Person Verification (IPV) | Para 1 of MIRSD/Cir- 26 /2011 dated Dec 23, 2011 |
| 8 | Uploading of the existing clients' KYC details with Central KYC Records Registry (CKYCR) System by the registered intermediaries | CIR/MIRSD/120 /2016 dated November 10, 2016 |
| 9 | Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011 | SEBI/HO/MIRSD/DoP/P/CIR/2022/46 Dated April 06, 2022 |
| 10 | Participation of Eligible Foreign Entities (EFEs) in the commodity derivatives market | SEBI/HO/CDMRD/DMP/CIR/P/2018/134 dated October 09,2018 |
| 11 | Operational Guidelines for FPIs & DDPs under SEBI (Foreign | IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019 |

| Sr. No. | Subject | SEBI Circular Number |
|---|---|---|
| | Portfolio Investors), Regulations 2019 and for Eligible Foreign Investors | |
| 12 | Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors | SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022. The circulars mentioned in Annexure A of the aforesaid Master Circular having number SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 shall stand rescinded with. |
| 13 | Nomination for Eligible Trading and Demat Accounts | SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021 |
| 14 | Nomination for Eligible Trading and Demat Accounts – Extension of timelines and relaxations for existing account holders | SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/23 dated February 24, 2022 |
| 15 | 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/HO/MIRSD/DOP/CIR/P/2020 dated September 08, 2020,SEBI Circular SEBI/HO /MIRSD/SEC-5/P/CIR/2022/99 dated July 20, 2022. |
| 16 | Uploading KYC information with KYC Registration Agency KRA | SEBI Circular No MIRSD/Cir- 26 /2011dated December 23, 2011,SEBI circular MIRSD/ Cir-5 /2012 dated April 13, 2012, SEBI notification no LAD-NRO/GN/201213/35/6998 dated March 22, 2013; |
| 17 | Delivery of copy of duly completed Client registration forms | SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009 |
| 18 | Execution of 'Demat Debit and Pledge Instruction' (DDPI) / Power of Attorney (POA) by clients | SEBI circular No. CIR/MRD/DMS/13/2010, dated April 23, 2010; SEBI circular no CIR/MRD /DMS/28/2010 dated August 31, 2010;<br>SEBI circular No. SEBI/HO/MIRSD /DOP/CIR/P/2020/158 dated August 27,2020,<br>SEBI circular No. SEBI/HO/MIRSD/DoP /P/CIR/2022/44 dated April 04, 2022,<br>SEBI circular No. SEBI/HO/MIRSD /DoP/P/CIR/2022/91 June 30, 2022,<br>SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/137 dated October 06, 2022, SEBI circular no. SEBI/HO/MIRSD /DoP/P/CIR/2022/162 dated November 25, 2022 |

| Sr. No. | Subject | SEBI Circular Number |
|---|---|---|
| 19 | Guidelines on Identification of Beneficial Ownership | SEBI circular No. CIR/MIRSD/2/2013 dated January 24, 2013 |
| 20 | Client Registration documents in vernacular language | MCX/INSP/419/2016 dated December 6, 2016 |
| 21 | Operationalization of Central KYC Records Registry CKYCR and uploading of clients' KYC details | SEBI circular CIR/MIRSD/ 66 /2016 dated July 21, 2016, SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023, MCX/INSP/710/2023 dated October 17, 2023 |
| 22 | Online Closure of Trading Accounts | MCX/INSP/460/2021 dated July 26, 2021 |
| 23 | Online Closure of Trading Accounts | MCX/INSP/524/2021 dated August 18, 2021 |
| 24 | Guidelines for Inactive Client Accounts | MCX/INSP/908/2020 dated December 02, 2020 |
| 25 | Guidelines for Inactive Client Accounts | MCX/INSP/908/2020 dated December 02, 2020 |
| 26 | Participation of SEBI registered FPIs in Exchange Traded Commodity Derivatives in India | MCX/FIM/560/2022 dated September 29, 2022 |
| 27 | Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011 | MCX/INSP/218/2022 April 12, 2022 |
| 28 | Trading Preferences by Clients – Applicability for commodity derivatives | MCX/INSP/501/2023 dated August 01, 2023<br>SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 August 01, 2023 |
| 29 | 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 | SEBI/HO/MIRSD/POD-1/P/CIR/2023/158 dated September 26, 2023<br><br>MCX/INSP/649/2023 dated September 26, 2023 |
| 30 | Extension of timelines for providing 'choice of nomination' in eligible demat accounts and mutual fund folios | SEBI/HO/MIRSD/POD-1/P/CIR/2023/193 dated December 27, 2023<br>MCX/INSP/935/2023 dated December 28, 2023 |
| 31 | Most Important Terms and Conditions (MITC) | MCX/INSP/008/2024 dated January 05, 2024, |

| Sr. No. | Subject | SEBI Circular Number |
|---|---|---|
| | | SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023,<br><br>Exchange Circular no. MCX/INSP/775/2023 dated November 15, 2023 |
| 32 | Master Circular on Know Your Client (KYC) norms for the securities market | MCX/INSP/710/2023 dated October 17, 2023<br><br>SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 |

List of Circulars- rescinded & modified as per SEBI Circular SEBI/HO /MIRSD /SECFATF /P /CIR /2023/169 dated October 12, 2023, on Know Your Client (KYC) norms for the securities market : -

| List of Circulars rescinded | | |
|---|---|---|
| **Sr. No.** | **Circular No. and date** | **Subject** |
| 1 | SEBI/MIRSD/Cir.No.02/2010 dated 18-Jan-10 | Mandatory Requirement of “In-Person” Verification of clients |
| 2 | CIR/MIRSD/22/2011 dated 25-Oct-11 | In-person verification (IPV) of clients by subsidiaries of Stock Exchanges, acting as Stock Brokers |
| 3 | MIRSD/Cir-23/2011 dated 02-Dec-11 | The Securities And Exchange Board of India (KYC Registration Agency) Regulations, 2011 |
| 4 | MIRSD/Cir-26/2011 Dated 23-Dec-11 | Guidelines In Pursuance of The SEBI KYC Registration Agency (KRA) Regulations, 2011 And For In-Person Verification (IPV) |
| 5 | MIRSD/CIR-5/2012 dated 13- Apr-12 | Uploading of The Existing Clients’ KYC Details In The KYC Registration Agency (KRA) System by The Intermediaries |
| 6 | CIR/MIRSD/09/2012 dated 13- Aug-12 | Aadhaar Letter As Proof of Address For Know Your Client (KYC) Norms |
| 7 | CIR/MIRSD/12/2012 dated 21-Sep-12 | Processing of investor complaints against KRA {KYC (Know Your Client) Registration Agency} in SEBI Complaints Redress System (SCORES) |
| 8 | CIR/MIRSD/01/2013 dated 04- Jan-13 | Rationalisation Process For Obtaining PAN by Investors |
| 9 | CIR/MIRSD/2/2013 dated 24- Jan-13 | Guidelines On Identification of Beneficial Ownership |

| List of Circulars rescinded | | |
|---|---|---|
| **Sr. No.** | **Circular No. and date** | **Subject** |
| 10 | CIR/MIRSD/ 4 /2013 dated 28- Mar-13 | Amendment to SEBI {(Know Your Client) Registration Agency} Regulations, 2011 and relevant circulars |
| 11 | CIR/MIRSD/09/2013 dated 08- Oct-13 | For Know Your Client Requirements |
| 12 | CIR/MIRSD/13/2013 dated 26-Dec-13 | For Know Your Client Requirements |
| 13 | CIR/MIRSD/1/2015 dated 04- Mar-15 | Saral Account Opening Form For Resident Individuals |
| 14 | CIR/MIRSD/29/2016 dated 22- Jan-16 | Know Your Client Requirements - Clarification On Voluntary Adaptation of Aadhaar Based E-KYC Process |
| 15 | CIR/MIRSD/66/2016 dated 21- Jul-16 | Operationalisation of Central KYC Records Registry (CKYCR) |
| 16 | CIR/MIRSD/120/2016 dated 10-Nov-16 | Uploading of The Existing Clients' KYC Details With Central KYC Records Registry (CKYCR) System by The Registered Intermediaries |
| 17 | SEBI/HO/MIRSD/DOP/CIR/P /2019/111 dated 15-Oct-19 | Cyber Security &Cyber Resilience framework for KYC Registration Agencies |
| 18 | SEBI/HO/MIRSD/DOP/CIR/P/2 019/123 dated 05-Nov-19 | E-KYC Authentication Facility Under Section 11A of The Prevention of Money Laundering Act, 2002 by Entities In The Securities Market For Residents Investor |
| 19 | SEBI/HO/MIRSD/DOP/CIR/P/2 020/73 dated 24-Apr-20 | Clarification On Know Your Client (KYC) Process And Use of Technology For KYC |
| 20 | SEBI/HO/MIRSD/DOP/CIR/P/2 020/80 dated 12-May-20 | Entities Permitted To Undertake E-KYC Aadhaar Authentication Service of UIDAI In Securities Market |
| 21 | SEBI/HO/MIRSD/DOP/CIR/P /2020/167 dated 08-Sep-20 | Entities Permitted To Undertake E-KYC Aadhaar Authentication Service of UIDAI In Securities Market – Addition of NSE To The List |
| 22 | SEBI/HO/MIRSD/DOP/CIR/P/2 021/31 dated 10-Mar-21 | Rollout of Legal Entity Template |
| 23 | SEBI/HO/MIRSD/DoP/P/CIR/ 2022/74 dated 30-May-22 | Modification in Cyber Security and Cyber resilience framework of KYC Registration Agencies (KRAs) |
| 24 | SEBI/HO/MIRSD/DoP/P/Cir/2 022/89 dated 24-Jun-22 | Implementation of Circular on 'Guidelines in pursuance of amendment to SEBI KYC (Know Your Client) Registration Agency (KRA) Regulations 2011 |

| List of Circulars rescinded | | |
|---|---|---|
| **Sr. No.** | **Circular No. and date** | **Subject** |
| 25 | SEBI/HO/MIRSD/TPD/P/CIR/ 2022/95 dated 05-Jul-2022 | Modification in Cyber Security and Cyber resilience framework of KYC Registration Agencies (KRAs) |
| 26 | SEBI/HO/MIRSD/DoP/P/Cir/2 022/89 dated 20-Jul-22 | Entities allowed to use e-KYC Aadhaar Authentication Services of UIDAI in Securities Market as Sub KUA |
| 27 | SEBI/HO/MIRSD/SEC5/0/CIR/2022/100 dated 27- Jul-22 | Implementation of Circular on 'Guidelines in pursuance of amendment to SEBI KYC (Know Your Client) Registration Agency (KRA) Regulations 2011' |
| 28 | SEBI/HO/MIRSD/SEC5/P/CIR/2023/00 26 dated 08- Feb-2023 | Entities allowed to use e-KYC Aadhaar Authentication Services of UIDAI in Securities Market as Sub KUA |
| 29 | SEBI/HO/MIRSD/FATF/P/CI R/2023/0144 dated 11-Aug202 | Simplification of KYC process and rationalisation of Risk Management Framework at KYC (Know Your Client) Registration Agencies (KRAs) |

| List of Circulars modified | | |
|---|---|---|
| **Sr. No.** | **Circular No. and date** | **Subject** |
| 1 | CIR/MIRSD/16/2011 dated 22-Aug-2011 | Simplification and Rationalization of Trading Account Opening Process. |
| 2 | MIRSD/SE/CIR-21/2011 dated 05-Oct-11 | Uniform Know Your Client (KYC) Requirements For The Securities Markets |

## Item 2- Contract Notes & Levy of Brokerage

### 2.1 Issue of contract notes

Members are required to comply with the following requirements related to issuance of contract notes to clients and levy of Brokerage.

i. Issue of Contract Notes:

a) Members are required to deliver contract notes to the clients within 24 hours of the commodity derivatives transactions made by or on behalf of the client and the proof of delivery of the same needs to be preserved by the member.

b) Contract note shall be signed by the member or their Authorised signatory.

c) Contract note shall be serially numbered beginning from one, which shall be reset only at the beginning of the next financial year.

d) The delivery of the contract notes should be at the address of the client. Delivery of contract notes to an address (either email or physical address) other than that of the client shall be deemed to be non-delivery of the contract notes.

e) The proof of the physical delivery of contract note need to be preserved by the member.

f) In case the member has made margin calls to the client and the client has failed to comply with these margin calls, then the contract note issued by member for transactions owing to non-compliance of such margin calls would bear a remark specifying the same.

g) Member shall issue contract notes in the format prescribed by the exchange from time to time.

ii. Electronic Contract note (ECN)

SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** has made applicable SEBI Circular number SMDRP/Policy/Cir-56/2000 dated Dec 15, 2000, SMD/SE/15/2003/29/04 dated Apr 29, 2003, MRD/DoP/SE/Cir20/2005 dated Sep 8, 2005, Clause 13 of Annexure A to MIRSD/ SE /Cir-19/2009 dated Dec 3, 2009 with respect to contract notes.

a) Use of Digital Signature on Contract Notes

Brokers are allowed to issue contract notes authenticated by means of digital signatures provided that the broker has obtained digital signature certificate from Certifying Authority under the IT Act, 2000. Mode of confirmation by the client may be as specified in the Uniform Client Registration Form.

b) Issuing ECNs when specifically consented
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/ format specified by the exchange.

The stock broker may issue electronic contract note if specifically authorized by the client subject to the following conditions:

I. 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.

II. 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.

III. 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.

c) Where to send ECNs

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 for receipt of ECNs.

d) Requirement of digital signature

All ECNs sent through the e-mail shall be digitally signed, encrypted, non-tamper able and shall comply with the provisions of IT Act, 2000. In case the ECN is sent through e-mail as an attachment, the attached file shall also be secured with the digital signature, encrypted and non- tamper able.

e) Requirements for acknowledgement

The acknowledgement of the email shall be retained by the member in a soft and non-tamper able form.

f) Proof of delivery

I. 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.

II. The member shall clearly communicate to 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.

g) Log Report for rejected or bounced mails

I. 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.

II. Also, the member shall take all possible steps (including settings of mails servers, etc.) to ensure receipt of notification of bounced mails by the member at all times within the time period specified by SEBI / Exchange.

III. Non-Maintenance of the log report is tantamount to non-maintenance of proof of delivery by the Member and the Member shall be levied penalty as per the Penalty Structure.

h) When to issue or send in Physical form

I. **Issue in Physical mode** - 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 the physical form to such clients.

II. **Send in Physical mode** - 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 period stipulated by SEBI / Exchange and maintain the proof of delivery of such physical contract notes.

i) General Requirements: -

I. ECNs through website

In addition to the e-mail communication of the ECNs in the manner stated above, in order to further strengthen the electronic communication channel, the member shall simultaneously publish the ECN on the designated web-site in a secured way and enable relevant access to the clients.

II. Access to the website

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.

j) Preservation / Archive of electronic documents

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

In the light of various disputes observed in the delivery of contract notes in respect of Commodity derivatives and with a view to reducing the incidences of complaints in respect of non-receipt of contracts, the Members shall take every step necessary to ensure full compliance with the above requirements.

## 2.2 Levy Of Brokerage / Regulatory Charges / Levies

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

a) **Statutory levies:** These are charges levied by Central/ State governments e.g. GST, CTT, Stamp Duty, etc. and may be recovered from client only at actuals paid/ Payable.

b) **Regulatory levies/charges:** These are charges levied by SEBI / Exchanges / Clearing **Corporations** e.g. 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.**

c) **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 and it should be shown in a separate column in the contract notes.

Members of the Exchange are hereby notified that the Exchange may specify the maximum and minimum brokerage rates, which shall be adhered to by the members of the Exchange while dealing with their clients. Such brokerage rates may be commodity specific absolute figure or in terms of percentage on value of a contract irrespective of class of commodity. Such brokerage amount must be shown separately in the contract notes to be issued by the members to their clients.

The maximum brokerage rate shall be 1 % in case of non-delivery transactions and 2 % (plus expenses) in case of transactions resulting into delivery.

**In case of Option Contracts**: Maximum permissible brokerage rate is 2.50% of premium amount or Rs.250/- per lot, whichever is higher. Members can charge the 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. Member shall not share brokerage with another member of the exchange or an employee of another Member of the exchange or with whom members are forbidden to do business under the Rules, Bye-laws and Business Rules of the Exchange or with any Member of other Exchange who is Suspended or Expelled or Declared Defaulter

In view of applicability of provisions of the Goods & Service Tax Laws which includes GST Act, GST Rules, Notifications issued from time to time herein below referred as GST Laws and with a view to facilitate members to use common Contract Note across commodity exchanges**.**

The Contract Note format may be used as a Common Contract Note across commodity exchanges and it contains following additional details regarding provisions of GST Laws:

1. State/State Code (Place of supply)
2. GST Identification No. of client (if available)
3. Taxable value of supply (TV)
4. GSTIN of the trading member.
5. CGST, SGST, IGST and UTT percentage rate applicable as per GST laws
6. Description of Service
7. Accounting code of services

Common Contract Note format is not a Tax Invoice however members in compliance with the GST laws may issue Contract Note cum Tax Invoice / Bill without

compromising with the contents of the Contract Note format by including additional relevant details to their clients.

The members are required to comply with the applicable provisions of GST Laws, and attention is also drawn to specific provisions of GST Laws; Extract of "The Central Goods And Services Tax Act, 2017" is as follows:

Important applicable provisions of the Central Goods and Service Tax Act 2017 related to Chapter VII Tax Invoice, Credit and Debit Notes.

"

*THE CENTRAL GOODS AND SERVICES TAX ACT, 2017*
*CHAPTER VII*
*TAX INVOICE, CREDIT AND DEBIT NOTES*

*31.*
*(2) A registered person supplying taxable services shall, before or after the provision of service but within a prescribed period, issue a tax invoice, showing the description, value, tax charged thereon and such other particulars as may be prescribed:*
*Provided that the Government may, on the recommendations of the Council, by notification and subject to such conditions as may be mentioned therein, specify the categories of services in respect of which—*
*(a) any other document issued in relation to the supply shall be deemed to be a tax invoice; or*
*(b) ….*

*32.*
*(1) …*
*(2) No registered person shall collect tax except in accordance with the provisions of this Act or the rules made thereunder.*

"

The above guidelines are subject to the member following the practice consistently for a minimum period of 1 year and the practice not being changed in the intermediate period.

Members may issue Contract Note cum Tax Invoice (in compliance with the GST laws) or Contract Note without compromising with the contents of the Contract Note format by including additional relevant details to their clients.

With changing technology and increase in usage of electronic instant messaging services other than e-mail by a large number of investors and based on the representations received by SEBI, with regard to Issuance of ECN, as stated in aforesaid SEBI circular, the following is clarified:

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, however certain safeguards as listed below, need to be ensured:

**a** The digitally signed ECNs may be sent only to those clients who have opted to receive the contract notes in an electronic form. Members may add any SMS / electronic instant

messaging services as an additional mode of delivery of ECNs based on its readiness on fulfilling the further guidelines and shall provide an option to clients for receiving ECNs through such additional modes of communication.

**b** 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.

**c** The client shall communicate to the member any change in the email-id / mobile number through a physical letter. 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.

**d** ECN sent through SMS / electronic instant messaging services, shall be sent as an attachment and not as a link. The attached file may be secured with the digital signature, encrypted, non tamperable and password protected.

**e** The messages sent through SMS / electronic instant messaging services not to be covered under auto delete facility at the option of the members.

**f** The members shall ensure that all ECNs are sent from the same ID and appropriate logs (sent/delivered/seen/not delivered/blocked etc.) are maintained by the members regarding the same.

**g** Other existing requirements for issuance of ECN, like publishing of ECN on the designated website of the member, access to the website to enable clients to access ECNs, maintenance of proof of delivery (ECN log), sending in physical mode in case of non-delivery (bounced mails), etc. as mentioned in SEBI Circular MRD/DoP/SE/Cir-20/2005 dated Sep 8, 2005 should continue to be applicable

### 2.3 Display of Brokerage, Statutory & Regulatory Levies

In order to bring more transparency to investors on the brokerage and other charges being levied by the members, Exchanges in consultation with SEBI have advised members that the details of brokerage/charges to be levied for each order shall be prominently displayed to the investor on the "Order placement window/screen" on their Internet Based Trading (IBT) / Wireless Trading (WT) applications prior to placement of order.

## REGULATORY REQUIREMENTS/ REFERENCES:

| Sr. No. | Subject | Circular reference |
|---|---|---|
| 1 | Use of Digital Signature on Contract Notes | SMDRP/Policy/Cir-56/2000 dated Dec 15, 2000 |
| 2 | Issuance of Contract Notes in electronic form | SMD/SE/15/2003/29/04 dated Apr 29, 2003 |
| 3 | Electronic issuance of contract notes – Additional conditions | MRD/DoP/SE/Cir-20/2005 dated Sep 8, 2005 |
| 4 | Dealings between a client and a stockbroker (trading members included) | Clause 13 of Annexure A to MIRSD/SE /Cir-19 /2009 dated Dec 3, 2009 |

| | | |
|---|---|---|
| 5 | Format of revised Contract Note | MCX/INSP/174/2017 dated June 09, 2017 |
| 6 | Issuance of Electronic Contract Notes (ECN) through SMS/electronic instant messaging services | MCX/INSP/337/2022 dated June 08, 2022 |
| 7 | Display of Brokerage, Statutory & Regulatory Levies | MCX/CTCL/567/2022 October 03, 2022 |

**Item 3 - Margin collection from clients**

**3.1 All margins should necessarily be collected from the respective client only.**

**a.** The 'margins' for this purpose shall mean initial margin, extreme loss margin (ELM), mark to market margin, special / additional margin, delivery margin or any other margin as prescribed by the Exchange to be collected by member from their clients.

**b.** The members are required to collect upfront initial margins and Extreme Loss margin (ELM) from their clients. The members will have time till 'T+2' working days to collect margins (except initial margins and ELM) from their clients. (The clients must ensure that the initial margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by Exchanges/Members. The period of T+2 days has been allowed to members to collect margin from clients taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that clients have been allowed 2 days to pay margin due from them.)

**c.** The Member shall send margin statements to the clients on daily basis. Margin statement should include details of collateral deposited, collateral utilized and collateral status (available balance/due from client) with break up in terms of cash, fixed deposit receipts value of securities pledge, etc.

**d.** 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 (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

**e. False/ Incorrect reporting of Margins Non-compliance:**

Margin amount reported to the Clearing Corporation (CC) / Exchange as collected, however margins not collected in any method prescribed by Exchange / CC, if considered by the member as margins collected would be construed as false/incorrect reporting to the Exchange/CC.

**f. Penalty structure in case of false/incorrect margin reporting:**

In case, false reporting of margins is observed, the penalty structure for disciplinary action as stipulated in Exchange Circular MCX/INSP/712/2019 dated December 18, 2019

**g. Penalty in case of short reporting of margin shall not to be passed on to the clients:**

The Exchange had clarified vide its' circular nos. MCX/INSP/659/2020 dated September 09, 2020, MCX/INSP/672/2021 dated October 22, 2021 and MCX/INSP/303/2022 dated May 24, 2022 with respect to "Clarification on Margin collection & reporting", that Members are not permitted to pass on the penalty levied by clearing corporation on account of "short/non-collection of upfront margins" to clients under any circumstances.

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 which penalty is levied by the Clearing Corporation on the member for short reporting of margins other than 'upfront margins' such as MTM margin and other margins not forming part of upfront margin (like Additional Margin, Special Margin, Tender Margin, Delivery Margin and Concentration Margin), 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.

Member shall submit an undertaking to Exchange on half yearly basis (i.e. April-September and October-March) confirming that penalty levied by clearing corporation on account of "short/non-collection of upfront margins from clients" is not being passed on to respective clients under any circumstances. Further members are requested to note that submission of the said undertaking shall be made part of periodic internal audit report and henceforth the same shall be provided by member for the applicable period along with internal audit report of said periods to Exchange.

## 3.2 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 margin 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.

TM / CM are prohibited from holding any client securities in any beneficial owner accounts of TM/CM, other than specifically tagged accounts.

**Operational mechanism for margin pledge**

**INITIATION OF MARGIN PLEDGE**

1. 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.
2. 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'.
3. The 'pledge request form' shall have a clause regarding express consent by the client for repledge of the securities by the TM to CM and further by the CM to CC.
4. 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.
5. 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.
6. 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 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 the 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;
    a. cash and cash equivalent deposited by CM,
    b. own securities pledged by CM with CC,
    c. 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.
    d. 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:

i) 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

ii) 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.

**Changes to the Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments as per SEBI/HO/MRD2/DCAP/P/CIR/2022/60 May 10, 2022**

1. In view of the representations received from market participants and based on deliberations with various stakeholders, it has now been decided that EOD margin collection requirement from clients, in derivatives segments (including commodity derivatives), shall also be calculated based on the fixed BOD margin parameters.

2. It is clarified that the above-mentioned change is only for the purpose of verification of upfront collection of margins from clients. The margin parameters applicable for collection of margin obligation by Clearing Corporations shall continue to be updated on intra-day and EOD basis, as per the extant provisions.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Mechanism for regular monitoring of and penalty for short collection/ non-collection of margins | SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 7, 2016. |
| 2 | Commodity Derivatives- Miscellaneous norms | SEBI/HO/CDMRD/DRMP/CIR/P/2016/93 dated September 26, 2016. |

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 3 | Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System | SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 |
| 4 | Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments | SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 |
| 5 | Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / repledging of securities | SEBI/HO/MIRSD/DoP/P/CIR/2022/44 dated April 04, 2022 |
| 6 | Changes to the Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments | SEBI/HO/MRD2/DCAP/P/CIR/2022/60 May 10, 2022 |
| 7 | Short reporting of margin shall not to be passed on to the clients | Exchange circular nos. MCX/INSP/659/2020 dated September 09, 2020, MCX/INSP/672/2021 dated October 22, 2021, and MCX/INSP/303/2022 dated May 24, 2022 |
| 8 | Changes to the Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments | SEBI/HO/MRD/MRD-PoD-2/P/CIR/ 2023/016 dated February 01, 2023 |

## Item 4 - Dealings with clients

### 4.1 Mode of payment and delivery

The brokers and authorized persons should not accept cash from the client whether against obligations or as margin for purchase of commodities derivatives and / or give cash against sale of commodities derivatives to the clients.

All payments shall be received / made by the brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through NEFT, or any other mode allowed by RBI. The brokers shall accept cheques drawn only by the clients and issue cheques in favour of the clients only, for their transactions.

All payments shall be received / made by the stockbrokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through electronic fund transfer, or any other mode permitted by the Reserve Bank of India. The stock brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker.

### 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., it is observed that the stockbrokers are unable to maintain an audit trail of the funds so received, as the details of the name of the client and bank account-number are not mentioned on such instruments. This may result in flow of third-party funds / unidentified money, which is not in accordance with the provisions of SEBI Circular No. SEBI / MRD / SE / Cir-33 / 2003 / 27 / 08 dated August 27, 2003 and also affects the integrity of the securities market.

Therefore, with a view to address the aforesaid concerns, it has been decided as under:

1) If the aggregate value of pre-funded instruments is Rs.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 a 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.

2) Maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only.

**4.3 Segregation Of Client And Own Funds**

SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled Regulatory Framework for Commodity Derivatives Brokers has made applicable SEBI Circular number SMD/SED/CIR/93/23321 dated Nov 18, 1993 and SEBI Circular number MRD/DoP/SE/Cir- 11/2008 dated Apr 17, 2008 with respect to segregation of client and own funds and securities / commodities which inter-alia states that:

i. It shall be compulsory for all Member brokers to keep the money of the clients in a separate account and their own money in a separate account. No payment for transactions in which the Member broker is taking a position as a principal will be allowed to be made from the client's account. The above principles and the circumstances under which transfer from client's account to Member broker's account would be allowed are enumerated below.

a) Member Broker to keep Accounts:

Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member-

i. Moneys received from or on account of each of his clients and,
ii. the moneys received and the moneys paid on Member's own account.

b) Obligation to pay money into "clients' accounts"

Every member broker who holds or receives money on account of a client shall forthwith pay such money to current or deposit account at bank to be kept in the name of the member in the title of which the word "clients" shall appear (hereinafter referred to as "clients account"). Member broker may keep one consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit: Provided that when a Member broker receives a cheque or draft representing in part money belonging to the client and in part money due to the Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down below in para D (ii).

c) What moneys to be paid into "clients account".

No money shall be paid into clients account other than –

i. money held or received on account of clients;
ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;

iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;

iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.

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d) What moneys to be withdrawn from "clients account".

No money shall be drawn from clients account other than –

i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;

ii. such money belonging to the Member as may have been paid into the client account under para i C (ii) or i C [iv] given above;

iii. money which may by mistake or accident have been paid into such account in contravention of para C above.'

e) Right to lien, set-off etc., not affected. Nothing herein mentioned above shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counterclaim charge or otherwise against moneys standing to the credit of clients account.

i. It shall be compulsory for all Member brokers to keep separate accounts for client's securities / commodities and to keep such books of accounts, as may be necessary, to distinguish such securities / commodities from his/their own securities / commodities. Such accounts for client's securities / commodities shall, inter-alia provide for the following:-

a. Securities / commodities that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;

b. Fully paid for client's securities / commodities registered in the name of Member, if any, towards margin requirements etc.;

ii. 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.

iii. Brokers should further be able to produce the aforesaid records during inspection. The records should include details of:-

a. Receipt of collateral from client and acknowledgement issued to client on receipt of collateral.

b. Client authorization for deposit of collateral with the exchange / clearing corporation / clearing house towards margin.
c. Record of deposit of collateral with exchange / clearing corporation / clearing house
d. Record of return of collateral to client
e. Credit of corporate action benefits to clients
f. The records should be periodically reconciled with the actual collateral deposited with the broker.

iv. Brokers should issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance / due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities.

v. 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.

vi. In case client collateral is found to be mis-utilised, the broker would attract appropriate deterrent penalty for violation of norms provided under Securities Contract Regulation Act, 1956, SEBI Act ,1992, SEBI Regulations and SEBI circulars, Business Rules and Exchange circulars, Exchange Byelaws, Rules as applicable from time to time.

ii. **Ensure compliance as per SEBI circular MRD/DoP/SE/CIR-11/2008 dated April 17, 2008 and SEBI circular SMD/SED/CIR/93/23321 dated November 18, 1993.**

### 4.4 Settlement of Running Account of Clients' Funds

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:

- 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 would continue until it is revoked by the clients.
- Authorization shall be signed by the client only & not by any POA/DDPI holder.
- 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,** the actual settlement of funds shall be done by the member on first Friday of the Month or Quarter as per the preference of the client.

The settlement of running account of funds of the client shall be done by the trading member on first Friday and / or Saturday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan–Mar) for all the clients who have opted for quarterly settlement 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. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges.

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

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, member shall settle running account of client on first Friday of the quarter or month as per the preference of the client irrespective of date of his/her last transaction or receipt of funds.

Further to streamlines the process of settlement and ensures ease of doing business for various stakeholders viz. stock brokers and banks, while at the same time safeguarding the interests of the investors by ensuring error free settlement SEBI Circular no. **SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 December 28, 2023** on Settlement of Running Account of Client's Funds lying with Trading Member (TM), has allowed to settle the running account of clients on Friday and/or Saturday w.e.f January 2024 onwards.

In compliance of the above, Exchange vide its Circular no. MCX/INSP/153/2024 dated March 18, 2024 has issued annual calendar for the settlement of running account (quarterly and monthly) for the financial year 2024-25 as below: -

Exchanges have jointly framed operational guidelines with respect to Settlement of Running Account of Client's Funds lying with Trading Member: -

- Guidelines as stipulated with respect to running account settlement in SEBI Circulars SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023, SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated December 28, 2023, Exchange circulars MCX/INSP/551/2022 dated September 26, 2022 and MCX/INSP/002/2024 dated January 02, 2024 shall continue to be followed by members, with following amendments

1. Members are required to carry out settlement on the dates as stipulated by the Stock Exchanges in Annual Calendar issued by them for the settlement of running account of client's funds (Quarterly/Monthly).

2. Following points with respect to computation stipulated in point number 5 of Exchange FAQ issued vide circular MCX/INSP/551/2022 dated September 26, 2022, are clarified for the purpose of settlement of the clients carried out on Saturday (non-trading day):
    - The outstanding pay in and margin obligation data of the last trading day shall be considered in the computation specified in the point number 5 of FAQ e.g. the EOD outstanding pay in and margin obligation of last trading day i.e. Friday shall be considered for the purpose of settlement to be carried out on Saturday assuming Friday is not a trading holiday.
    - Margin pledged securities as on settlement date i.e. Saturday shall be considered.
    - Client Funds Balance as on settlement date i.e. Saturday shall be considered

- While computing the value of margin pledged securities, the closing rate for T1 trading day should be considered after appropriate hair-cut viz. VaR margin rate applicable for the security in the Capital Market segment. e.g. Closing rate of T-1 trading day i.e. Thursday shall be considered for settlement to be carried out on Saturday assuming Friday and Thursday are not a trading holiday.

3. Members are requested to note that clarifications provided in point number 2 mentioned above are only applicable to settlement carried out on Saturday i.e. nontrading day. There is no change for the settlement carried out on Friday i.e. trading day.
4. Members shall ensure that funds if any, received by Members from clients, whose running account has been settled, shall remain in the "Up Streaming Client Nodal Bank Account" and such funds shall not be used for settlement of running account of other clients
5. In accordance with SEBI guidelines on upstreaming of client's funds, with respect to Question number 11 of FAQ issued vide circular MCX/INSP/551/2022 dated September 26, 2022 on circumstances wherein the settlement need not be done by a member, sub point 11(b) of the same stands modified as under:
   "Margin received in the form of Bank Guarantees in accordance with SEBI guidelines on upstreaming of clients funds which are created by clients".

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

**1** 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.

**2** The client shall bring to notice any dispute within 7 working days from the date of receipt of funds / securities or statement.

**3** No inter-client adjustment for the purpose of settlement of the "running account".

**4** Such periodic settlement may not be necessary:
   a. In case of institutional clients settling trades through "custodians"
   b. For margin received in the form of BGs and FDRs
   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 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.
   d. Clearing members who are clearing trades of custodial participants/ trading members.

**5** Settlement is done after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges.

**Other Points to be noted:**

a. 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.
b. 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.

c. 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.
d. Retention of any amount towards administrative / operational difficulties in settling the accounts of clients is not allowed.
e. 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.
f. Once the 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.
g. 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.
h. 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.
i. 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.

Members are advised to ensure that the settlement of running account of clients' funds is done in accordance with the guidelines issued by SEBI/ Exchanges.

If the client specifically requests for a pay-out, the same shall be made and the evidence of such requests received from clients shall be maintained by the member. It is to be noted that for each such payout to the credit balance clients, a separate request received from clients, which could be, inter alia, in the form of writing, telephone recording, email from registered mail id, record of messages through registered mobile phones, log for internet requests shall be maintained by the members.

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:

| Sr. No. | Reporting Requirement | Timelines |
|---|---|---|
| 1. | Submission of summary of settlement of clients' funds | Within 2 Trading Day post settlement date |

| | | |
|---|---|---|
| 2. | Submission of UCC wise settlement details | Within 10 trading days post settlement date |

Note:

1) The above requirement is applicable to all Trading members, except for those who are carrying out only proprietary trading and/or only trading for institutional clients.
2) Members carrying out only proprietary trading and/or only trading for institutional clients will have to give a one-time declaration through the system.
3) Members servicing both institutional & non-institutional clients shall be required to submit the data for all non-institutional clients.
4) Reporting requirement on Settlement of Running Account of Clients' Funds lying with Trading Member (TM) -: Refer MCX/INSP/668/2023 dated September 29, 2023 MCX/INSP/016/2023 January 07, 2023 and MCX/INSP/016/2023 January 07, 2023.
5) Settlement of Running Account of Client's Funds lying with Trading Member (TM) - MCX/INSP/207/2023 dated March 29, 2023.

### 4.5 FAQs on Settlement of Running Account of Client's Funds

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:

**i.** Entire pay-in obligation of funds outstanding at the end of day on date of settlement, across all segments.

**ii.** Member may retain 50% of end of the day (EOD) margin requirement as cash margin, excluding the margin on consolidated crystallized obligation/ MTM.

**iii.** 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.

Computation for arriving at retention of excess client funds based on above points would be as under:

| Scenario | Fund Pay in Obligation for T & T-1 day | EOD Margin Requirement | Cash margin to be retained (50% of EOD Margin) | Computation of 225% of margin to be retained | | | Client Funds Balance | Maximum funds that can be retained ( i.e. Sum of cash margin to be retained, non-cash 225% EOD margin after securities /commodities adjustment and funds pay in obligation) | Client Funds to be returned ( i.e. client fund balance if available after adjusting maximum funds that can be retained) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 225 % of EOD margin minus cash margin as computed in column C | Securities Pledged / Repledged or commodities | 225% of EOD margin to be retained from funds if available after adjusting securities pledged/repledged or commodities | | | |
| | A | B | C= 50%* B | D = (225% * B)-C | E | F =MAX((D-E),0) | G | H=A+C+F | I=MAX((G-H),0) |
| 1 | 110000 | 100000 | 50000 | 175000 | 200000^ | 0 | 300000 | 160000 | 140000 |
| 2 | 150000 | 150000 | 75000 | 262500 | 300000^ | 0 | 200000 | 225000 | 0 |
| 3 | 100000 | 100000 | 50000 | 175000 | 125000 | 50000 | 210000 | 200000 | 10000 |
| 4 | 15000 | 200000 | 100000 | 350000 | 200000 | 150000 | 300000 | 265000 | 35000 |
| 5 | 0 | 25000 | 12500 | 43750 | 200000^ | 0 | 10000 | 12500 | 0 |
| 6 | 5000000 | 12500000 | 6250000 | 21875000 | 30000000^ | 0 | 50000000 | 11250000 | 38750000 |

^ *Excess securities need not to be unpledged.*

An indicative format of retention statement is given in Exchange circular number MCX/INSP/551/2022 dated September 26, 2022.

In case of any other format, members should ensure that the contents specified by the relevant circulars are covered in the retention statement.

**Note:**

a) 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.

b) 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.

c) 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.

d) No inter client adjustment/ passing of Journal Entries can be done/ considered for the purpose of settling client accounts.

e) Obtaining of 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.

**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 circular MCX/INSP/551/2022 dated September 26, 2022**

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Reporting requirement on Settlement of Running Account of Clients' Funds lying with Trading Member (TM) | MCX/INSP/016/2023 January 07, 2023 and MCX/INSP/668/2023 September 29, 2023 |
| 2 | Settlement of Running Account of Client's Funds lying with Trading Member (TM) | MCX/INSP/207/2023 dated March 29, 2023. |
| 3 | Penalty Structure for Late/Non-submission of reporting requirement on Settlement of Running Account of Clients' Funds | MCX/INSP/233/2023 dated April 05, 2023. |
| 4 | Settlement of Running Account of Client's Funds lying with Trading Member (TM). | SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 |
| 5 | Settlement of Running Account of Client's Funds lying with Trading Member (TM) | SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 |
| 6 | Settlement of Running Account of Client's Funds lying with Trading Member (TM) | SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 December 28, 2023<br><br>MCX/INSP/002/2024 January 02, 2024<br>MCX/INSP/937/2023 dated December 28, 2023 |
| 7 | Annual Calendar and Operational Guidelines for Settlement of Running account of clients' funds lying with the Trading members | MCX/INSP/153/2024 March 18, 2024 |
| 8 | FAQs on Settlement of Running Account of Client's Funds lying with Trading Member | MCX/INSP/551/2022 dated September 26, 2022 |

### 4.6 Statement of Accounts for Funds, Securities and Commodities

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

**Clarifications on Statement of Accounts**

i. Member shall send a complete 'Statement of Accounts' for funds and securities/commodities in respect of each of its clients on weekly basis from Monday to Saturday for each week.

ii. 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.

iii. 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.

iv. In respect of Trading Members who offer trading facility to their clients through internet and provide to such clients an access to an on-line account viewing and print-out facility, it would be treated as sufficient compliance if they send the 'Statement of Accounts' by email to such clients.

v. 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, uncleared 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.

vi. 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.

vii. 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.

viii. Member shall ensure that the statement of account of funds /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.

ix. 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. 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.

x. 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.

Additionally, 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.

xi. 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.

xii. 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.

**4.7 <u>Financing of securities / commodities transactions</u>**

Trading members are advised not to indulge in practice of financing the Securities Transactions. Members are also advised to desist from acting as a conduit or front for financing any secondary market transactions, including transactions in commodity derivatives, 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 no. 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.

**It may be noted that facilitating any arrangements / agreement by way of loans/credit facilities by NBFCs to the clients for funding the peak margin / other margin requirements or secondary market transactions is in violation of the SCRA/SEBI guidelines.**

**<u>In view of the same, members are again advised to ensure the following:</u>**

i. Trading members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group or associate company, to fund any secondary market transactions or margin

requirements in respect of transactions executed by the trading members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered into by the trading members' clients with any person.

ii. Trading members shall not entertain any instructions to trade in securities or transfer of funds or securities, from any entity other than the clients, by prior arrangement or otherwise to facilitate financing of clients' transactions or margin requirements in respect of the transactions. Any financing arrangement with a general authorization by the clients are not permitted.

iii. Trading members shall not otherwise finance or act as a conduit or front for financing any secondary market transactions or margin requirements in respect of the transactions entered into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.

iv. Trading Members shall not share transaction/obligation details of the clients with NBFC or any other lending institutions.

v. Trading members shall not engage in cross-selling of lending products or open joint accounts (2 in 1 type of) in collaboration with NBFC or any other lending institutions.

### 4.8 Handling of client funds & securities

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 circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022.

**"Client unpaid securities pledgee account", which shall be opened by TM/CM as per SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022.

All the existing "client unpaid securities accounts" shall be wound up on or before April 15, 2023. The securities lying in such accounts shall either be disposed off in the market or be transferred to the client's demat account by the TM/CM accordingly, failing which such accounts shall be frozen for debit and credit.

### 4.9 Segregation and Monitoring of Collateral at Client Level

SEBI circular no. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021, Exchange circular nos. MCX/INSP/614/2021 dated September 23, 2021 and MCX/INSP/684/2021 dated October 26, 2021 on segregation and monitoring of collateral at client level wherein members were advised to submit the relevant details, as sought, to their respective Clearing Members in order to enable them to submit the same to Clearing Corporations

Some of the common reasons of incorrect reporting observed in the said submission to Clearing Member /Clearing Corporation are listed out in enclosed Annexure A of Exchange Circular MCX/INSP/531/2023 dated August 16, 2023.

### 4.10 Prevention of Unauthorised Trading by Stock Brokers

In order to strengthen the regulatory provisions against un-authorised trades, SEBI vide its circular dated March 22, 2018 bearing Ref no. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 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 messages through mobile phones
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. 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 evidence, 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.

When dispute arises, the burden of proof will be on the broker to produce the above records for the disputed trades.

If SEBI desires that specific records be preserved, then such records shall be kept till further intimation by SEBI.

### 4.11 Issuance of Annual Global Statement

SEBI has directed that all members shall issue an Annual Global Statement to their clients. The statement shall be issued within 30 days from the end of the financial year and shall contain details of all transactions executed by the client in the financial year so that it would be helpful to the investors to ascertain the profit or loss made, long term or short term capital gain and also helpful in filing income tax returns, since all transactions done in a particular period are available at one place.

Further, following points shall be ensured by the members:

a) The Stock Broker may provide any additional data like ISIN, average rate, net position, etc.
b) Consolidated report to be given for entire financial year.
c) Each distinct security/ commodity should be mentioned as a separate line item.
d) The Annual Global Transaction Statement (AGTS) may be given on trade day basis or settlement day basis.
e) AGTS should be generated PAN wise. However, a single PAN has been issued multiple UCCs (e.g. NRI clients, different UCCs allotted across different segments/ exchanges), then UCC wise
AGTS may be provided.
f) Effect of close out/ settlement / auction transactions should be mentioned in the purchase/ sale column, as appropriate.
g) AGTS must be provided to all the clients within 30 days from the end of the financial year.
h) Regulatory directives as applicable from time to time regarding communication to clients should be adhered to
i) 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.
j) If the client desires any further information/ details regarding the AGTS, the same should be provided by the Stock Broker.

Issuance of Annual Global Statement by stock brokers to their clients / investors (MCX/INSP/013/2018 January 12, 2018 and MCX/INSP/444/2017 November 28, 2017)

### 4.12 Discontinuation of acceptance of cash by Stock Brokers

SEBI vide its circular Ref no. SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 12, 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.

### 4.13 Code of conduct

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

### 4.14 Authorised Persons and Investment Advisors:

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

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

This has reference to SEBI circular no. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020, on "Standard Operating Procedure in the cases of Trading Member /Clearing Member leading to default".

In accordance to the point no.9 of the above-mentioned circular, 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.

**4.16 Investor Awareness regarding margin by way of pledge / re-pledge of securities**

Members are requested to create awareness among investors about procedure of pledge / re-pledge of securities and placing it as collateral with their Trading Member (TM) / Clearing Member (CM) and 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. Members are also advised to communicate the following message to their clients and display the same on their respective websites:

"Attention Investors

1. Stock Brokers can accept securities as margin from clients only by way of pledge in the depository system w.e.f. September 01, 2020.
2. Update your email id and mobile number with your stock broker / depository participant and receive OTP directly from depository on your email id and/or mobile number to create pledge.
3. Check your securities / MF / bonds in the consolidated account statement issued by NSDL/CDSL every month..... Issued in the interest of Investors"

**4.17 Display of Advisory for Investors**

- Members are also advised to display the following messages on their respective websites under a separate banner "Advisory for investors". In case of non-availability of website, the same may be forwarded to the clients by way of an email:

"Attention Investors!

- Beware of fixed / guaranteed / regular returns / capital protection schemes. Stock Brokers (Brokers/Members) or their authorized persons or any of their associates are not authorized to offer fixed / guaranteed / regular returns / capital protection on your investment or authorized to enter into any loan agreement with you to pay interest on the funds offered by you. Please note that in case of default of a member claim for funds or securities / commodities given to the

Broker under any arrangement / agreement of indicative return will not be accepted by the relevant Committee of the Exchange as per the approved norms.

- Do not keep funds idle with the Stock Broker. Please note that your Stock Broker has to return the credit balance lying with them, within three working days in case you have not done any transaction within last 30 calendar days. Please note that in case of default of a Member, claim for funds and securities/commodities, without any transaction on the Exchange will not be accepted by the relevant Committee of the Exchange as per the approved norms."

### 4.18 Maintenance of a website by Stock Brokers and Depository Participants

SEBI vide its circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/30 dated February 15, 2023 on Maintenance of a website by stock brokers and depository participants and SEBI/HO/MIRSD/DOP/P/CIR/2021/676 dated December 02, 2021 on Publishing Investor Charter and disclosure of Investor Complaints by Stock Brokers on their websites.

As per the provisions of clause 3 and clause 4 of the said circular, SEBI has mandated following information to be published by Stock Brokers (SB) on their respective websites in addition to all such information, which have been mandated by SEBI / Stock Exchanges/Depositories from time to time.

i) Basic details of the SB / DP such as registration number, registered address of Head Office and branches, if any

ii) Names and contact details such as email ids etc. of all Key Managerial Personnel (KMPs) including Compliance Officer.

iii) 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.

iv) Details of Authorised Persons.

As per Exchange circular MCX/MEM/254/2023 dated April 18, 2023, all Members dealing in clientele business are advised to mandatorily display the information as provided in Annexure-A (refer format Annexure A-1 of the aforesaid circular) and update the information from time to time.

The confirmation of compliances mentioned in the aforesaid Exchange circular should be submitted to the Exchange in the formats in the aforesaid circular:

i. "Annexure-B" of the aforesaid circular: Declaration for Maintenance of Website* [*applicable to the Members dealing in clientele business (i.e. clients mapped to them)]
ii. "Annexure-C" of the aforesaid circular: Members dealing in only Proprietary Trading.
iii. FAQs on the aforesaid circular have been provided in "Annexure-D" of the aforesaid circular.

As per Exchange circular MCX/MEM/520/2023 dated August 10, 2023, inter alia states as under:

"This is with reference to the Exchange circular no. MCX/MEM/112/2023 dated February 17, 2023 and circular no. MCX/MEM/254/2023 dated April 18, 2023 on "Maintenance of a website by Stock

Brokers and Depository Participants" wherein 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. Members are also required to note that any modification in the URL shall be reported to the Exchange within 3 days of such changes. Please note that the provisions of this circular shall come into effect from August 16, 2023. 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 the details within the prescribed timelines would be treated as non- compliance and attract penal / disciplinary action.

The same will be communicated in due course.

All the Members are hereby advised to take note of the above and ensure strict adherence to the compliance requirements."

### 4.19 Naming and Tagging of bank and depositories account

**SEBI vide its circular SEBI/HO/MIRSD/ MIRSD_DPIEA/P/CIR/2022/83 dated June 20, 2022 issued circular on Naming / Tagging of demat accounts maintained by Stock Brokers**

As per Circular SEBI/HO/ MIRSD/ MIRSD_DPIEA/P/CIR/2022/83 dated June 20, 2022 and Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022

Bank accounts and Demat accounts maintained by all stock brokers shall have appropriate nomenclature to reflect the purpose for which those bank/demat accounts are being maintained.

The nomenclature for bank accounts and demat accounts to be followed is given as under:

1. Bank account(s) which hold clients' funds shall be named as "Name of Stock Broker - Client Account".

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

3. Stock brokers are required to maintain demat accounts only under the following 5 categories:

| Sr. No. | Demat Account Category | Purpose of Demat Account |
|---|---|---|
| 1 | Proprietary Account | Hold Own Securities |
| 2 | Pool Account | Settlement Purpose |
| 3 | Client Unpaid Securities Pledgee Account For pledging of Unpaid Securities of Clients | Client Unpaid Securities Pledgee Account For pledging of Unpaid Securities of Clients |

| | | |
|---|---|---|
| 4 | Client Securities Margin Pledge Account For Margin obligations to be given by way of Pledge/ Repledge | Client Securities Margin Pledge Account For Margin obligations to be given by way of Pledge/ Repledge |
| 5 | Client Securities under Margin Funding Account Hold funded securities in respect of margin funding | Client Securities under Margin Funding Account Hold funded securities in respect of margin funding |

4. Naming proprietary bank accounts of the stock broker as 'Stock Broker Proprietary Account' is voluntary. It is however clarified that bank account which do not fall under the above point 1 and 2 above would be deemed to be proprietary.

5. All demat accounts maintained by stock brokers should be appropriately tagged. Further, it is prescribed that:

   5.1 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.

   5.2 Debit of securities shall also not be allowed in any demat account left untagged from August 01, 2022.

   5.3 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.

   5.4 The provision at 4 shall not be applicable for the demat accounts which are used exclusively for banking activities by stock brokers which are also banks.

**Client Nodal MFOS account is to be opened as per SEBI Circular -** SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023, on “Upstreaming of clients’ funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)”.

**SEBI vide its Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 has inter-alia directed following, regarding segregation of client and own funds & tagging of bank and depositories account, etc.**

i. Reporting of Bank accounts maintained by Stock Broker:

   a. The stock brokers shall inform the Stock Exchanges of existing and new bank account(s) in the following format:

| Name and address of Bank | Name of the Branch | Account Number | IFSC Code | Name of Account | Purpose of Account (Own/Client/ Settlement) | Date of Opening |
|---|---|---|---|---|---|---|
| | | | | | | |

b. The stock brokers shall inform the Stock Exchanges of existing and new demat account(s) in the following format.

| Name of DP | Account Number/ Client ID | DP ID | Name of Account Holder | PAN | Subtype/ tag of Demat Account (Proprietary/ Client/ Pool/ Collateral) | Date of Opening |
|---|---|---|---|---|---|---|
| | | | | | | |

c. Members shall also ensure compliance with the following:

1) All existing demat accounts maintained by stock brokers are assigned the appropriate nomenclature as mentioned above
2) All existing bank accounts maintained by stock brokers which do not have the above mentioned nomenclature, shall be assigned appropriate nomenclature details of all existing bank and demat accounts shall be communicated to Stock Exchanges by the stock brokers in the format specified above
3) All new bank and demat accounts opened by the stock brokers shall be named as per the above given nomenclature and the details shall be communicated to the Stock Exchanges within one week of the opening of the account.
4) In case of closure of any of the reported bank and demat accounts, the same shall be communicated to the Stock Exchanges within one week of its closure.
5) Any non-compliance/non-reporting in this regard by the stock broker shall attract penal action as per the provisions of Stock Exchanges.

Following requirement shall be applicable:

d. In line with the prevalent regulatory requirement, it is reiterated that;

1) Stock Broker shall not use client funds and securities for proprietary purposes including settlement of proprietary obligations.

2) Transfer of funds between "Name of Stock Broker - Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker - Client Account" to "Name of Stock Broker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

e. 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 payin.

**4.20 Submission of "Holding Statement"**

Members shall be required to submit the data of Holding Statement for each day of the week (except Sunday) daily, the due date of which shall be the subsequent day and each day thereafter.

All Members are required to ensure that submissions of "Holding Statement is made on daily basis correctly within timelines.

Members are requested to take note of the below while submitting:

1. Members shall make submissions for the UCC registered on the Exchange and for proprietary (OWN) trading.
2. Members are not required to upload data for clients who have zero funds, securities and commodities balances and have also not traded in last 12 months in any of the Exchanges.
3. The requirement for submissions are applicable to all Trading Members, except for those who are carrying out only proprietary trading and/or only trading for Custodian Settled clients. Members carrying out only proprietary trading and/or only trading for Custodian Settled clients will have to give a one-time declaration.
4. Members shall not be required to submit Holding statement in case of Nil holding of securities and commodities after providing declaration.
5. Members shall upload across all Exchanges the securities & commodities balances.

**4.21 Monitoring of Financial Strength of Stock Brokers**

The Stock Exchanges shall monitor the following financial indicators and ratios of stock brokers.

Financial Indicators:

- Percentage change in net worth over last year/last submission.
- Percentage change in reserves and surplus or in accumulated losses over last year.
- Percentage change in advance/margin/collaterals from customers over last year/submission.
- Percentage change in inter corporate deposits given over last year/submission.

Financial Ratios:

- (Total outside liabilities i.e. all liabilities of a broker except those owed to his shareholders) / (Net worth).
- (Value of Investments or advances or loans to group companies or associates or firms or entities) / (Net worth).
- (Value of maximum outstanding inter corporate debt during the year) / (Net worth).
- Value of maximum outstanding inter corporate debt during the year) / (Share capital).

Stock Brokers shall submit financial statements to Stock Exchanges in the same format as prescribed under the Companies Act, 2013 irrespective of whether they fall under the purview of the Companies Act, 2013 or not. The due date for submission of the aforesaid financial statements to Stock Exchanges shall be the same as prescribed under the Companies Act, 2013 for submission to Registrar of Companies.

No stockbroker shall appoint or re-appoint—

- an individual as statutory auditor for more than one term of five consecutive years; and
- an audit firm as statutory auditor for more than two terms of five consecutive years:

Provided that –

- An individual statutory auditor who has completed his term as mentioned above shall not be eligible for re-appointment as statutory auditor in the same stock broker for five years from the completion of his term.

- A statutory audit firm which has completed its term as mentioned above shall not be eligible for re-appointment as statutory auditor in the same stock broker for five years from the completion of such term.

- Provided further that as on the date of appointment no statutory audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a stock broker immediately preceding the financial year, shall be appointed as statutory auditor of the same stock broker for a period of five years.

The stock brokers shall provide Permanent Account Numbers of all their Directors, Key Management Personnel and dealers to the Stock Exchanges. Any change in the aforesaid details/information shall be intimated to the Stock Exchanges within seven days of such change.

**4.22 Submission of Undertaking / Authorization to the Exchange to access the information/ statements pertaining to all bank accounts (maintained by members) from Banks.**

Exchange seeks information/ statements pertaining to all Bank accounts maintained by members directly from Banks or through a financial technology solution provider authorized by the Exchange. Hence, all members are required to submit Undertaking/Authorization to the Exchange for accessing 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, members are advised to keep the Bank/s appropriately notified of the said authorization to enable them to honour the instructions received from the Exchange. Trading members shall not be required to submit updated/ fresh undertaking/authorization to the Exchange for any new bank account opened.

The member has to submit undertaking/authorization through the Enhanced Supervision portal and physical copy of undertaking also has to be sent to the corporate office of the Exchange.

Board Resolution for execution of the said undertaking/authorization and authorization for signing the same should be enclosed along with the undertaking/authorization.

Trading members shall not be required to submit updated/ fresh undertaking/authorization to the Exchange for any new bank account opened.

The format of undertaking/authorization is appended below.

**Format of Undertaking**

To be on Member's Letterhead with Designated Director's signature and Stamp UNDERTAKING/AUTHORIZATION TO BE SUBMITTED BY TRADING MEMBERS To Multi Commodity Exchange of India Limited (MCX) This undertaking/authorization is provided on this _____day of _____, 21.

By I/We, _____ Member of Multi Commodity Exchange of India Limited (MCX) (bearing Trading Member Id. ……) having office at ……,……..... (hereinafter referred to as "Member", which expression, unless repugnant to the context or meaning thereof, shall be deemed to include its successors and assigns).

In favour of: Multi Commodity Exchange of India Limited (MCX), a company incorporated under the Companies Act, 1956 having its corporate office at Exchange Square, Suren Road, Chakala Andheri East, Mumbai – 400093 (hereinafter referred to as "MCX", which expression, unless repugnant to the context or meaning thereof, shall be deemed to include its successors and assigns).

I/We hereby solemnly declare that: Whereas the Multi Commodity Exchange of India Limited (MCX) has issued circular dated January 08, 2021, on authorizing MCX to seek information/statement of all bank accounts maintained by members directly from Banks or

through a financial technology solution provider authorized by the Exchange. Now, in consideration of the above, I / We do hereby agree and authorize that:

1. Multi Commodity Exchange of India Limited (MCX) is empowered/authorized to seek any information/statement of all bank accounts (maintained by me/us) opened/reported to the Exchange from time to time, from the concerned banks directly or through a financial technology solution provider authorized by the Exchange.

2. This Undertaking/Authorization shall be binding on my / our successors, legal representatives and assigns.

3. I / We declare that representations made by me/us are true and correct. Solemnly authorized at) this ___ day of _____, 20__) (Name of Designated Director) (Name of Trading Member) (with rubber stamp & SEBI Registration No.) Note: Board Resolution for execution of the said undertaking/authorization and authorization for signing the same should be enclosed along with the document.

**4.23 Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT)**

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.

This is in reference to the letter dated January 2, 2018, sent by FIU-IND to the Designated Directors & Principal Officers of Stock Brokers regarding “Guidelines for detecting suspicious transactions under Rule 7(3) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005” wherein certain red flag indicators (RFIs) were identified. FIU-IND in its above letter inter-alia stated that,

- FIU-IND had constituted a Working Group consisting of members from securities market and FIU-IND in consultation with SEBI. Based on the recommendations of the Working Group, certain red flags have been identified. It has been felt that these red flags should be implemented by the concerned Reporting Entities (Res) including Stock Brokers for identification of suspicious transactions.

- The guidelines for detecting suspicious transactions for stock brokers are issued after consultation with SEBI for compliance by the Res concerned.

- The alerts generated by using the indicators as given in the guidelines and also as given in the SEBI Master circular should be properly analysed with a view to identify suspicious transactions and if the RE comes to conclusion that the cases could be a suspicious transaction, then the cases may be brought to the notice of FIU-IND by filing STRs following the prescribed procedure.

- It should be noted that the analysis process in the RE should be such as not to lead to tipping-off.

Members are requested to ensure that all regulatory guidelines mentioned in the above referred FIU-IND letter and SEBI Master circular SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023 in this regard are implemented.

Members are required to comply with “Guidelines for detecting suspicious transactions under Rule 7(3) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005”.

SEBI has issued Master Circular no. SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023 (as enclosed herewith) on the subject, “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”.

In view of the amendments to the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 and to further enhance the effectiveness of AML/CFT framework, certain provisions of the aforesaid Master Circular shall stand modified as per SEBI SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2023/091 dated June 16, 2023 - 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.

**UNSC Sanction List -** The updates regarding amendments made to UNSC Sanctions List are available on SEBI website under “Media” in a separate tab “UNSC Sanctions Committee List” and are also issued by the Exchange from time to time. Members are requested to visit SEBI website on a regular basis for updates in this regard and you are advised as under :-

a) Follow the procedure as mentioned in the Central government Order dated Feb 02, 2021 detailing the implementation of Section 51A of Unlawful Activities (Prevention) Act, 1967.

b) Scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list and also ascertain the same for future accounts as well (as per clause 2.8.1 of SEBI “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”) dated Oct 15, 2019

and

c) Forward any request for de-listing received by them, electronically to Joint Secretary (CTCR) (e-mail id: jsctcr-mha@gov.in) and a copy of the same to MHA, Joint Secretary (UNP) (e-mail id: jsunp@mea.gov.in).

d) Inform individuals, groups, undertakings, or entities seeking to be removed from the Security Council’s ISIL (Da'esh) and Al-Qaida Sanctions List to submit their request for delisting to an independent and impartial Ombudsperson who has been appointed by the United Nations

Secretary-General More details are available at the following URL: https://www.un.org/securitycouncil/ombudsperson/application

**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 thereunder from time to time. These are broadly categorised as under:**

a) Written Anti Money Laundering Policies and Procedures to Combat Money Laundering and Terrorist Financing
b) Client Due Diligence (CDD)
   - Client identification procedure including identification of beneficial ownership
   - Policy for acceptance of clients
   - Clients of special category (CSC)
   - Risk based Approach
c) Monitoring of transactions
d) Appointment of Designated Director and Principal Officer
e) Identifying Suspicious transactions and reporting to Financial Intelligence Unit – India
   - Suspicious Transaction Reports (STR)
   - Cash Transaction Reports (CTR)
f) Record Keeping, Information to be maintained & Retention of Records
g) Employees' Hiring/Training and Investor Education

**Further, in terms of the PMLA Act, Members are required to comply with the following:**

a) To report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit –India (FIU-IND) at the following address:
   Director,
   FIU-IND, Financial Intelligence Unit-India,
   6th Floor, Hotel Samrat,
   Chanakyapuri,
   New Delhi-110021.
   Website: http://fiuindia.gov.in"

   Members are, therefore, advised to file the Cash Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) for the suspicious transactions with FIU-IND from time to time as per the provisions of PMLA regulations.

b) To conduct ongoing due diligence and scrutiny i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account where necessary, the client's source of funds. Further, the Members shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process. Also, in terms of Know Your Client (KYC) norms,

Members are required to obtain financial details of the clients at the time of registration and update it periodically (i.e. at least once in a financial year).

Members are, therefore, again advised to update the financial information of their clients at least once in a financial year.

c) To ensure that exposure to clients (i.e. open positions, Margin received, MTM loss incurred, receipts of funds etc.) is not disproportionate to client's updated financial information (i.e. Income/profit/Net worth of the client)

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1. | 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 | SEBI/HO/MIRSD/SEC-FATF/P/CIR/2023/0170 dated October 13, 2023 |

### 4.24 Maintenance of Daily Reconciliation Statement

As per clause 2.4.2 of SEBI Circular on Enhanced Supervision, "Transfer of funds between "Name of Stock Broker - Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker - Client Account" to "Name of Stock Broker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred."

Members need 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.

It is reiterated that the members shall maintain the reconciliation statement on a daily basis as prescribed in the SEBI circular and provide the same as and when sought by the relevant authority.

### 4.25 Display of Details of Members' Client Bank Accounts on Website

Details of client bank accounts to be displayed on member's 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 bank 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 the Stock Exchange on their website under "Membership→→→Notice Board→→→Member & AP Details".

Based on the details of Bank accounts provided by member under Enhanced Supervision, Exchange shall also display the details of Client Bank accounts of member on Exchange's website under "Membership→→→Notice Board→→→Member & AP Details".

**4.26 <u>Centralized mechanism for reporting the demise of an investor through KRAs</u>**

SEBI vide its circular no. SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/0000000163 dated October 03, 2023 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.

**A. Obligation of Intermediary – verification of the death certificate**

(1) Upon receipt of intimation about the demise of an investor from a joint account holder(s) or nominee(s) or legal representative or family member (hereinafter, collectively referred to as 'notifier(s)', the 'concerned intermediary shall obtain the death certificate along with the PAN from the notifier and carry out the following steps:-Verify the death certificate (to be completed by the next working day of its receipt)

i. Online viz. the website of the issuing Government authority, or
ii. Offline: OSV ('Original Seen and Verified') process by intermediary

The intermediary shall treat the OSV of the death certificate accompanied with the PAN of deceased investor, received electronically along with the credentials of the notifier (including his / her PAN) and the validation report from an Investor Service Centre (ISC) of the Stock Exchange or Depository (MII) to be on par with its own OSV.

a. Record and retain self-certified copy of proof of identity, relationship with deceased and contact details of the notifier.

(2) If the concerned intermediary, after receiving information about the demise of the investor from the notifier or after inferring the same, does not have access to or is not in a position to obtain the death certificate, then it shall carry out the following steps;

a. Intimate the investor, notifier(s), or the nominee(s) that the KYC status of the investor has been flagged off as "On Hold" and require them to furnish the death certificate of the concerned investor.
b. Upon receipt of the death certificate, the intermediary shall follow the steps as per paragraph (1) above.

**B. Obligation of intermediary - Updation of records in the KRA system by the Intermediary**

(3) After verification of the death certificate, the concerned intermediary shall (on the same day of verification):
   a. Submit a 'KYC modification request' to the KRA that "information on death of investor received; death certificate verified" and also upload the relevant documents.
   b. Block all debit transactions in the account / folios of the deceased investor.

It is noted that for joint accounts, the specified mode of operation should be adhered to, and if the account is operated on Either OR Survivor, or Anyone or Survivor, etc. (i.e. modes other than joint mode), the account operation in such mode shall continue.

(4) In case the death certificate is not received, the concerned intermediary shall (by the next working day of the intimation):
   a. Submit a 'KYC modification request' in the KRA system, "information on death of investor received; confirmation awaited".

**C. Intimation on Transmission of assets of the deceased investor**

(5) Upon receipt of notification from KRA as "Blocked Permanently", all intermediaries shall:
   a. immediately block all debit transactions in the account / folios of the deceased investor as per paragraph 3 b. above and
   b. Intimate the notifier / nominee, within 5 days about the procedure for transmission, provide the transmission request form and the list of documents required for the transmission. In case of joint account/s, the intermediary shall intimate the surviving joint account holder(s) as aforesaid.

**D. Transaction request in accounts / folios flagged off as "On Hold"**

(6) If there is any transaction request received by any intermediary in the account / folio held by it, which is flagged off as "On Hold" as per paragraph 2, it shall allow the transaction only after conducting additional due diligence as may be appropriate, including through video call with the investor or In-Person Verification (IPV) which serves to establish that the investor is alive.
(7) In case where the information about demise of the investor is proven to be incorrect when the intermediary is able to establish contact with the concerned investor, the intermediary shall submit a 'KYC modification request' in the KRA system as, "intimation of death of investor is false" and also upload a report of its additional due diligence to the KRA. This shall be done on the same day in order to avoid any inconvenience to the investor.
(8) The KRA shall in turn, revert the status of the KYC to 'Clear or Validated' and issue this update to all linked intermediaries, all on the same day.

**4.27 - <u>Ease of doing investments by investors- facility of voluntary freezing/ blocking of trading accounts by clients</u>**

SEBI vide its circular no. SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024 has prescribed to laid own a framework for Trading Members to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients on account of suspicious activities by ISF under under the aegis of stock exchanges, in consultation with SEBI and the same shall, inter-alia, contain necessary guidelines with respect to the following:

1. Detailed policy for voluntary freezing/ blocking the online access of the trading account of the client including the following: -
    - **a.** modes through which a client can request/communicate to the Trading Member for voluntarily blocking the trading accounts;
    - **b.** issuing of acknowledgement to the clients on receipt of message;
    - **c.** time period within which the request shall be processed and the trading account shall be frozen/blocked
2. Action to be taken by the Trading Member pursuant to the receipt of request for freezing/blocking of the trading account;
3. Process for re-enabling the client for trading/transfers;
4. Intimation to be provided by the trading member to the clients w.r.t. introduction of the facility to block the trading accounts

The framework to be implemented by Trading Members with effect from **July 01, 2024**

**<u>REGULATORY REQUIREMENTS/ REFERENCES:</u>**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Enhanced supervision of Stock Brokers/Depository Participants<br><br>Discontinuation of Submission of data towards Monitoring of Clients' Funds under Enhanced Supervision | SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016<br><br>MCX/INSP/031/2024 dated January 17, 2024 |
| 2 | Submission of Undertaking / Authorization to the Exchange to access the information/ statements pertaining to all bank accounts (maintained by members) from Banks | MCX/INSP/015/2021 dated January 08, 2021<br>MCX/INSP/061/2021 dated January 29, 2021 |
| 3 | Guidelines for detecting suspicious transactions under Rule 7(3) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 | MCX/INSP/419/2019 dated August 06, 2019 |

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 4 | 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 | SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/ 022 dated February 03, 2023 |
| 5 | Mode of payment and delivery | SEBI/HO/MIRSD /DOP/CIR /P/2018/113 dated July 12, 2018,<br>SEBI/HO/ MIRSD/DoP/P/ CIR/2022/119 dated September 19, 2022,<br>SEBI/HO/MIRSD /DoP/P/CIR /2022/162 dated November 25, 2022, |
| 6 | Receipt of funds in the form of Pre-funded instruments / Electronic fund transfers | CIR/MIRSD/03/2011 dated June 9, 2011 |
| 7 | Settlement of Running Account of Clients' Funds | SEBI/MIRSD/Cir/01/2011 dated May 13, 2011,<br>MIRSD/ SE/Cir-19/2009 dated 3rd December, 2009, SEBI/HO/MIRSD/DOP /P/CIR/2021 /577 dated June 16, 2021<br>SEBI/HO/MIRSD /DOP/P/CIR/2022 /101 dated July 27, 2022 |
| 8 | Statement of Accounts for Funds, Securities and Commodities | SEBI/MIRSD/Cir/01/2011 dated May 13, 2011 |
| 9 | Clarifications on funding in connection with / incidental to /consequential upon the securities business | SEBI/HO/MIRSD/MIRSD2/ CIR/P/ 2016/95 September 26, 2016 |
| 10 | Handling of client funds and securities | SMD/SED/CIR/93/23321 dated November 18, 1993,<br>SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95, September 26, 2016,<br>CIR/HO/MIRSD/DOP/CIR/P/2019/ 75 dated June 20, 2019,<br>SEBI/HO /MRD2_DCAP /CIR /2021 /0598 dated July 20, 2021,<br>SEBI/HO/MIRSD/DOP/P/CIR/2021/59 dated July 16, 2021,<br>SEBI/HO/MIRSD/DoP/P/CIR/2022/109 dated August 18, 2022,<br>SEBI/HO /MIRSD/DoP/P/CIR/2022 /143 dated October 27, 2022, |

| Sr. No. | Subject | Circular No. |
|---|---|---|
| | | SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/ 153 dated November 11, 2022 |
| 11 | Pledging of client securities | SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 September 26, 2016<br>CIR/HO/MIRSD /DOP/CIR/P/2019/75 dated June 20, 2019 |
| 12 | Prevention of Unauthorised Trading by Stock Brokers | CIR/HO/MIRSD /MIRSD2/CIR /P/2017/108 dated September 26, 2017,<br>CIR/HO/MIRSD /MIRSD2/CIR/P/ 2017/124 dated November 30, 2017,<br>CIR/HO/MIRSD/MIRSD/CIR/P/2018/09 dated January 11, 2018<br>SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, |
| 13 | Discontinuation of acceptance of cash by Stock Brokers | SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 12, 2018 |
| 14 | Submission of undertaking pursuant to Standard Operating Procedure in the cases of Trading Member leading to default | SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01,2020 |
| 15 | Maintenance of a website by Stock Brokers and Depository Participants | SEBI/HO/MIRSD/MIRSD-PoD-/P/CIR/2023/30 dated February 15, 2023<br>MCX/MEM/112/2023 February 17, 2023 |
| 16 | Enhanced Supervision of Stockbrokers | SEBI/HO/MIRSD /MIRSD2 /CIR/P /2016/95 dated September 26, 2016<br>SEBI Circular SEBI/HO /MIRSD/DOP/CIR /P/2018/153 dated December 17, 2018 |
| 17 | Guidelines for maintaining bank accounts and Reporting of Bank & Demat Accounts | SEBI/HO/MIRSD /DOP/P/CIR /2021/653 dated October 28, 2021,<br>SEBI/HO/MIRSD/MIRSD2/CIR/ P/2016/95 dated September 26,2016,<br>SEBI/HO/MIRSD/MIRSD_DPIEA/P/CIR/2022/83 dated June 20, 2022 |
| 18 | Advisory for Investors | MCX/ISD/625/2021 dated September 29, 2021 |
| 19 | Reporting for 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 04, 2019 |

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 20 | Mode of payment and delivery | SMD/MRD/SE/CIR-33/2003/27/08 dated August 27, 2003 |
| 21 | Regulation of transaction between Clients and Members | SMD-1/23341 dated November 18,1993 |
| 22 | Regulation of transaction between Clients and Brokers | SMD/SED/CIR/93/23321 dated November 18, 1993 |
| 23 | Submission of Undertaking / Authorization to the Exchange to access the information/ statements pertaining to all bank accounts (maintained by members) from Banks. | MCX/INSP/438/2023 dated June 30, 2023 |
| 24 | Circular on Prevention of Unauthorised Trading by Stock Brokers | SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018 |
| 25 | Regulation of Transactions between Clients and Brokers | SMD/SED/CIR/93/23321 dated November 18, 1993 |
| 26 | Collateral deposited by clients with brokers. | MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 |
| 27 | Enhanced supervision of Stock Brokers/Depository Participants | SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 |
| 28 | Naming / Tagging of demat accounts maintained by Stockbrokers. | SEBI/HO/MIRSD/MIRSD_DPIEA/P/CIR/2022/83 dated June 20, 2022 |
| 29 | Maintenance of current accounts in multiple banks by Stockbrokers | MCX/INSP/438/2023 dated June 30, 2023 |
| 30 | Investor Awareness regarding margin by way of pledge of securities | MCX/INSP/438/2023 dated June 30, 2023 |
| 31 | Reporting for 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 04, 2019 |
| 32 | Maintenance of Daily Reconciliation Statement | MCX/INSP/438/2023 dated June 30, 2023 |
| 33 | Display of Details of Members' Client Bank Accounts on Website | MCX/INSP/438/2023 dated June 30, 2023 |
| 34 | Change in frequency of submission for Holding Statement and Bank Account Balances | MCX/INSP/438/2023 dated June 30, 2023 |
| 35 | Reporting requirement on Settlement of Running Account of Clients' Funds lying with Trading Member (TM) | MCX/INSP/438/2023 dated June 30, 2023 |

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 36 | FAQ on Settlement of Running Account of Client's Funds lying with Trading Member (TM) | MCX/INSP/438/2023 dated June 30, 2023 |
| 37 | Centralized mechanism for reporting the demise of an investor through KRAs | MCX/INSP/671/2023 dated October 04, 2023<br><br>SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/0000000163 dated October 03, 2023 |
| 38 | Ease of Doing Investments by Investors- Facility of voluntary freezing/ blocking of Trading Accounts by Clients | MCX/INSP/036/2024 January 19, 2024<br><br>SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024 |

**Item 5 - Office management**

**5.1 Guidelines for location of CTCL terminals and usage thereof**

Trading terminals shall be located only in the main / branch offices of the trading member or in the office of a registered Authorised person of the trading member for the operations of the trading member.

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" Illegal trades.

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" Illegal 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.

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.

Members should ensure that correct and updated information relating to trading terminal and certification is reported to the Exchange and any non-compliance in this regard shall attract appropriate disciplinary actions including levy of penalty.

Members are advised to take note of the same and put in place systems and procedures to ensure adherence to the compliance requirements.

**"Pro – account" trading terminal (SEBI Circular SEBI/MRD/SE/CIR-32/2003/27/08 dated August 27, 2003)**

**Disclosure of proprietary trading by Broker to Client (SEBI Circular no. SEBI/MRD/SE /CIR-42/2003 dated November 19, 2003)**

## 5.2 Notice boards

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.

Further, offices of all Members its registered Authorized Persons shall prominently display basic information regarding Grievance Redressal Mechanism available to investors as per format given in SEBI circular CIR/MIRSD/3/2014 dated August 28, 2014.
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## 5.3 Display of details by stock brokers

SEBI has issued circular no Cir/MIRSD/9/2010 dated November 4, 2010 regarding Display of details by stock brokers including trading members in their portal/web site, if any, notice / display boards, advertisements, publications, know your client forms, member client agreements, Contract notes, Statement of funds and securities, and correspondences with the clients.

| What to display | Where to display |
|---|---|
| Stock broker may use the brand name / logo of its group companies, it must display more prominently its Name as registered with SEBI, Own logo, if any,<br>Registration number, and Complete address with telephone numbers the name of the compliance officer, his telephone number and e-mail address | Portal /web site, if any, Notice / display boards, Advertisements, Publications, Know your client forms, Client registration documents, Contract notes, Statement of accounts for funds and securities, and correspondences with the clients |

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Use of terminals, placing of notice boards | SEBI circular CIR/MIRSD/3/2014 dated August 28, 2014 |
| 2 | Display of details by stockbrokers including trading members | SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010 |

## Item 6 - Dealings with intermediaries

### 6.1 Dealings by branches, intermediaries, authorised persons etc.

Members need to undertake appropriate due diligence. The due diligence to be undertaken by the Trading Members may include: -

(i) ensuring that receipt or payment of funds and securities are only from or to the respective clients and not from other person including branch official, authorised person, dealer, etc.,

(ii) 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;

(iii) ensuring that the no margin/pay-in obligation/pay-out adjustment is done among clients or between clients and authorised persons, branch officials, dealers, etc.,

(iv) ensuring making and receipt of payments only by 'Account Payee' cheque or by direct bank debit/credit and not dealing in cash;

(v) ensuring that the branch official, authorised 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 authorisation from it;

(vi) 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.

### 6.2 Framework for Supervision of Authorised Persons (APs) & branches by Members

Members have been formerly issued guidelines with regard to monitoring and review of trading activities of the APs & branches including periodic inspection of branches assigned to APs and records of the operations carried out by them.

In order to enhance the effectiveness of the supervision and ensure uniformity & standardization across all Members, the following guidelines, framed in joint consultation with SEBI & other Exchanges, have been prescribed:

a) Every Member shall be required to inspect every year at least 30% of its active Authorized Persons/ Branches and also ensure that each active AP/ Branches is inspected at least once in every three years. For this purpose, an active AP/ Branches 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.

In case of any inputs/alerts about any suspicious transactions/dealing/assured returns etc. by an AP or a Branch, Members shall carry out an immediate inspection, irrespective of when the last inspection was carried out and initiate appropriate action.

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.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Framework for Supervision of Authorised Persons (APs) and Branches by Members | MCX/INSP/438/2023 dated June 30, 2023 |

**6.3 Certification Requirement**

**NISM-Series-XVI: Commodity Derivatives**

SEBI vide its notification no. SEBI/LAD-NRO/GN/2019/41 published in the Gazette of India on November 21, 2019 notified about requisite certifications for approved users and sales personnel of the trading members in commodity derivatives segment.

The members shall ensure that all such associated persons who are approved users or sales personnel as on the date of this notification obtain the certification by passing the Commodity Derivatives Certification Examination within two years from the date of this notification:

Provided that a 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 the Commodity Derivatives Certification Examination within one year from the date of their employment.

Provided further that an associated person, who being an approved user or sales personnel, has obtained:

a) MCCP Certification (MCX Certified Commodity Professional)
b) NCDEX Institute of Commodity Markets and Research (NICR) – Commodity Trader Certification Course
c) NSE's Certification in Financial Markets (NCFM) – Commodity Market Module

as on the date of the aforesaid notification shall be exempted from the requirement of obtaining certification by passing the Commodity Derivatives Certification Examination till the validity of the said certification.

Exchange circular MCX/TRD/026/2023 dated January 16, 2023 – "Requirement of NISM-Series-XVI- Commodity Derivatives Certification Examination details for Approved User" inter alia states as under:

"Members are advised to monitor the expiry of existing exam certificate for approved User ID / CTCL Dealer (Terminal) and also the applicable due date in case of new approved User ID / CTCL Dealer (Terminal). In both the above cases, the Members shall ensure timely and progressive actions are taken by its approved User ID / CTCL Dealer (Terminal) to obtain and upload a fresh certificate well within the due date / validity date, as applicable. Member shall exercise appropriate due diligence and also check the authenticity and validity of the exam certificate prior to the upload of certificate on the Exchange portal."

**NISM Series IIIA – Securities Intermediaries Compliance**

SEBI vide its notification no. LAD-NRO/GN/202-13/33/1103published in the Gazette of India on March 11, 2013 notified about requisite certifications for compliance officers.

Accordingly, it is notified that with effect from the date of this notification, the associated persons functioning as compliance officers of intermediaries registered with the Board as stock brokers, 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 hereinafter referred to as "NISM" by passing the NISM-Series-III A: Securities Intermediaries Compliance Non-Fund Certification Examination hereinafter referred to as "SICCE" as mentioned in the NISM communiqué No. NISM/Certification/Series-III A: SIC/2013/01 dated January 7, 2013.

Provided that 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.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Mandatory requirement of NISM-Series-III A, Certification for Compliance officer | MCX/MEM/124/2019 dated March 6, 2019 |
| 2 | Requirement of NISM-Series-XVI: Commodity Derivatives Certification Examination for Approved users | MCX/TRD/742/2020 dated October 06, 2020 |

**6.4 Guidelines on Outsourcing of Activities by Intermediaries**

SEBI Regulations for various intermediaries require that they shall render at all times high standards of service and exercise due diligence and ensure proper care in their operations. It

has been observed that often the intermediaries' resort to outsourcing with a view to reduce costs, and at times, for strategic reasons.

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.

**Principles for Outsourcing**

The risks associated with outsourcing may be operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk, counter party risk, concentration and systemic risk. In order to address the concerns arising from the outsourcing of activities by intermediaries, the principles for outsourcing by intermediaries have been framed which shall be followed by all intermediaries registered with SEBI.

**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.**

a. 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.

b. 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 programme to address the outsourced activities and the relationship with the third party.**

2.1 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 programme 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 the measures put in place by the intermediary to address such potential conflicts, etc.

2.2 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.

2.3 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.

2.4 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 fulfil its obligations to customers and regulators, nor impede effective supervision by the regulators.**

3.1 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.

3.2 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.

3.3 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.

3.4 Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its 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.**

4.1 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.

4.2 The due diligence undertaken by an intermediary shall include assessment of:

a. third party's resources and capabilities, including financial soundness, to perform the 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
e. 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 and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.**

5.1 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.

5.2 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.**

6.1 Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.
6.2 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.
6.3 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 fulfil 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.
6.4 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.**

7.1 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.
7.2 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.
7.3 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.

**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, shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable as per SEBI circular CIR/MIRSD/1/2014 dated March 12, 2014

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Guidelines on Outsourcing of Activities by Intermediaries | SEBI Circular No. CIR/MIRSD/24/2011 dated December 15, 2011 |

## Item 7 - Books Of Accounts And Other Documents

### 7.1 Books of Accounts and other Records

Member shall maintain properly and preserve following Books of Accounts and other records /Registers for a period as may be prescribed by Exchange or SEBI from time to time.

Records of transaction of all purchases and sales of commodities / contracts, Record in respect of premium / discount, Records in respect of brokerage, Client Ledger, General Ledger, Journals, Cash Book, Bank Book & Bank pass Book / Bank statement, Margin Deposit Book/ Records of margin, Record of all statements received from the appropriate agencies and records of all correspondence with them, Reports like trade log / order log, Duplicate copies of the contract notes issued, Proof of dispatch & receipt/delivery of contract notes, Record of Deliveries Received / Tendered Contract wise, Periodic bank reconciliation statement, Register of Commodities , Register of complaints / grievances, ECN log report, Client registration documents.

**FATCA and CRS**

Members' attention is also drawn to SEBI Circulars no. CIR/MIRSD/2/2015 dated August 26, 2015 on Implementation of Multilateral Competent Authority Agreement and Foreign Account Tax Compliance Act and Circular no. CIR/MIRSD/3/2015 dated September 10, 2015 on Reporting Requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)-Guidance Note. Members are advised to note the contents of aforementioned SEBI Circulars and ensure necessary compliance of applicable regulatory requirements mentioned therein, including registration and reporting. As per SEBI vide circular no. SEBI/HO/MIRSD/SECFATF/P/CIR/2024/12 February 20, 2024, the intermediaries who are Reporting Financial Institution (RFI), shall upload the FATCA and CRS certifications obtained from the clients onto the system of KRAs with effect from **July 01, 2024.** Further, all existing obtained from clients prior to July 01, 2024 shall be uploaded by the intermediaries onto the systems of KRAs within a period of 90 days of implementation of this circular i.e from July 01, 2024. It is to be noted that the onus of obtaining and reporting the FATCA and CRS certification and related compliances shall lie with the respective intermediaries. Members are advised to ensure necessary compliance of the regulatory requirement from time to time.

**FATF Statements**

As part of the on-going efforts to identify and work with jurisdictions with strategic AML/CFT deficiencies, the FATF plenary releases fresh Statements titled 'Public Statement' and 'Improving Global AML/CFT compliance: on-going process', from time to time which is available in Public domain (FATF Webpage: http://www.fatf-gafi.org ).

Members are requested to take note of the same and are advised that this does not preclude regulated entities from legitimate trade and business transactions with these countries and jurisdictions.

**PAN**

Members are required to comply with Permanent Account Number or Form 60 as defined in the Income –tax Rules 1962 where the client is a company/Partnership firm/trust/ unincorporated association or body of individuals.

The stock brokers shall provide Permanent Account Numbers of all their Directors, Key Management Personnel and dealers to the Stock Exchanges within three months from the date of this circular. Any change in the aforesaid details/information shall be intimated to the Stock Exchanges within seven days of such change.

### 7.2 Preservation of records

As per regulation 18 of SEBI Stock Broker Regulations, 1992 every stock broker shall preserve the books of account and other records maintained under regulation 17 for a minimum period of five years. In case such documents are maintained in electronic form, provisions of Information Technology Act, 2000 in this regard shall be complied with.

It has been noticed that enforcement agencies like CBI, Police, Crime Branch etc. have been collecting copies of the various records/documents during the course of their investigation. The originals of such documents maintained either in physical or in electronic form or in both would be required by such enforcement agencies during trial of the case also. In view of the above, it is clarified that if a copy is taken by such enforcement agency either from physical or electronic record then the respective original is to be maintained till the trial or investigation proceedings have concluded.

## REGULATORY REQUIREMENTS/ REFERENCES:

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Maintenance of books of accounts and other documents / Preservation of records | SEBI circular MRD/Dop/SE/CIR-21/2009 dated December 09, 2009 |
| 2 | Maintenance and Preservation of Records | SEBI/HO/CDMRD/DMP/CIR/P/2016/74 dated August 30, 2016 |

## Item 8 - Compliance Submissions and Requirements

### 8.1 Monitoring of clients' funds lying with the stock broker submission

SEBI has issued circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/03 dated January 12, 2024 regarding "Ease of doing business- Changes in reporting"

In accordance with the said SEBI circular, weekly reporting requirement of data towards Monitoring of Clients' Funds lying with the Stock Broker under Enhanced Supervision as prescribed under Exchange circular no. MCX/INSP/127/2018 dated April 02, 2018 is discontinued i.e. trading members are not required to submit the aforementioned data.

Exchange circular MCX/INSP/676/2021 dated October 22, 2021, directed that trading members are required to submit the data towards monitoring of client's funds as on last trading day of the week on or before the next three trading days. It has come to the notice of the Exchange that members are submitting details of Fixed Deposit Receipts (FDR) not placed with clearing corporation/clearing members as a part of client bank account balances. Further, certain members are submitting details of such FDRs which are lien marked for availing overdrafts and are not unencumbered.

Further, SEBI vide its circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, has provided a framework on "Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System". The said circular also states that, for the purpose of providing collateral in the form of securities as margin, a client shall pledge securities with Trading Member, and Trading Member shall re-pledge the same with Clearing Member and Clearing Member, in turn, shall repledge the same to Clearing Corporation (CC).

### 8.2 Cash & Cash Equivalent balances' and Holding Statement

Exchange has introduced reporting formats of 'Cash & Cash Equivalent balances' and 'Holding Statement' in order to enable the members to upload reports in uniform format to all Exchanges.

Members shall be required to submit the data of 'Cash & Cash Equivalent balances' and 'Holding Statement' on a weekly basis for all calendar days of the week except Sunday on or before the next four trading days of the subsequent week.

Further, members are requested to take note of the below:

1. Members shall make aforementioned submissions for the UCC registered on the Exchange and for proprietary (OWN) trading.
2. Members are not required to upload data for clients who have zero funds, securities and commodities balances and have also not traded in last 12 months in any of the Exchanges.
3. The requirement for aforementioned submissions are applicable to all Trading Members, except for those who are carrying out only proprietary trading and/or only trading for Custodian Settled clients. Members carrying out only proprietary trading and/or only trading for Custodian Settled clients will have to give a one-time declaration.

4. Members shall not be required to submit Holding statement in case of Nil holding of securities and commodities after providing declaration.

Reference to relevant Circulars: -

- MCX/INSP/956/2020 dated December 18, 2020
- MCX/INSP/769/2021 dated December 14, 2021
- MCX/INSP/010/2022 dated January 6, 2022

### 8.3 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 the Enhanced Supervision portal. The procedure for submitting the information through the portal is given in the circular 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 seeks 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.

Member can maintain maximum of 30 client bank accounts 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.”

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 empanelled 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.”

Submission of Undertaking / Authorization to the Exchange to access the information/ statements pertaining to all bank accounts (maintained by members) from Banks is issued vide Exchange circular MCX/INSP/061/2021 dated January 29, 2021.

**8.4 <u>Submission of Designated Director details to FIU-IND and Registration on FIU-IND's FINnet Gateway.</u>**

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.

## 8.5 Submission of Internal Audit Report

Internal Audit for Stockbrokers/Clearing Members was introduced by SEBI vide Circular No. MIRSD/DPSIII/Cir-26/08 dated August 22, 2008.

All stockbrokers/clearing 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 & Management Accountants who are in practice and do not have any interest in or relation with the Member other than the Internal Audit assignment. As per the relevant circulars issued by the Exchange, all the members are required to submit the report within 2 months from the end of the audit period.

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.

Exchange vide its circular no. MCX/INSP/672/2023 October 05, 2023 has revised the eligibility criteria for the auditors qualified to conduct Internal Audit of Members which shall be applicable with effect from the half year ended March 31, 2024, and onwards

Revised eligibility criteria for the auditors qualified to conduct the internal audit of members

1. Auditor in the Audit Firm should be an independent qualified Chartered Accountant or Company Secretary or Cost and Management Accountant who is in practice and who does not have any conflict of interest.
2. The Audit Firm should have a minimum of 5 years' experience in carrying out audits, preferably in securities markets.
3. The Audit Firm should have at least two partners at all times.
4. The Audit Firm is not debarred or restrained from issuing any certificate by ICAI, ICSI, ICMAI, RBI, SEBI or by other regulator/law enforcement agency.
5. Any partner/employee of the Audit Firm shall have a valid NISM Series III-A: Securities Intermediaries Compliance Certification or certification of "Financial Market & Securities Laws" as provided by ICAI or equivalent certification offered by any other institution. Further, any partner/employee of the Audit Firm having valid certification of NISM-Series XIV: Internal Auditors for Stockbrokers is also eligible till the expiry of the Certification.
6. In addition to the above, the Audit Firm which undertakes the Internal Audit of Qualified Stock Brokers ("QSBs") should have at least five partners at all times; of which at least two partners should be full time partners

Submission of Internal Audit Report for the half year ended on September 30, 2023, is to be complied as per MCX/INSP/243/2023 dated April 10, 2023 and the eligibility criteria for the auditors qualified to conduct internal audit of members is as per MCX/INSP/084/2022 February 16, 2022

**Framework for Auditors for conducting Internal Audit of Trading Members**

All Members of the Exchange were directed inter alia that internal audit on a half yearly basis is required to 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.

National Stock Exchange of India Limited (NSE) and BSE Ltd. (BSE) have issued the eligibility criteria and detailed procedure for the empanelment of auditors for conducting Internal Audit of Trading Members vide NSE Circular nos. NSE/INSP/59789 dated December 15, 2023 and NSE/INSP/60986 dated March 04, 2024, and BSE Notice nos. 20231215-55 dated December 15, 2023 and 20240304-60 dated March 04, 2024 respectively.

Accordingly, as advised by SEBI and jointly discussed between the Exchanges, the audit firms meeting the prescribed eligibility criteria and who are empanelled with either NSE or BSE would be eligible to conduct the Internal Audit of Trading Members registered with MCX, from the half year ending March 31, 2024, onwards. The process for disciplinary action including dis-empanelment where necessary, will be informed through a separate Circular in consultation with other Exchanges. Members may please note that the Exchange shall accept the internal audit report certified by such empanelled auditor only, with effect from the half year ending March 31, 2024, onwards.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Internal Audit of Members | MCX/INSP/438/2023 dated June 30, 2023 |
| 2 | Submission of Internal Audit Report for the half year ended on March 31, 2024 | MCX/INSP/180/2024 dated March 26, 2024 |
| 3 | Internal Audit for Stockbrokers/ Clearing Members | SEBI vide Circular No. MIRSD/DPSIII/Cir-26/08 dated August 22, 2008. |
| 4 | Internal Audit of Members – eligibility criteria | MCX/INSP/438/2023 dated June 30, 2023 |
| 5 | Internal Audit of Members | MCX/INSP/672/2023 dated October 05, 2023 |
| 6 | Framework for Auditors for conducting Internal Audit of Trading Members | MCX/INSP/180/2024 dated March 26, 2024 |

**8.6 Risk Based Supervision (RBS) submission.**

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.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Risk Based Supervision | MCX/INSP/438/2023 dated June 30, 2023 and<br><br>MCX/INSP/231/2024 dated April 16, 2024 |

## Item 9 - Other Compliances

### 9.1 Publishing Investor Charter And Disclosure Of Investor Complaints By Stock Brokers on their websites

In order to facilitate investor awareness about various activities which an investor deals with such as opening of account, KYC and in person verification, complaint resolution, issuance of contract notes and various statements, process for dematerialization/rematerialization etc., SEBI, in consultation with the market participants, has prepared an Investor Charter for Stock Brokers inter-alia detailing the services provided to Investors, Rights of Investors, various activities of Stock Brokers with timelines, DOs and DON'Ts for Investors and Grievance Redressal Mechanism which is placed at Annexure 'A' of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/676 dated December 02, 2021 on Publishing Investor Charter and disclosure of Investor Complaints by Stock Brokers on their websites.

Members shall disclose the data on complaints received against them or against issues dealt by them and redressal thereof, latest by 7th of succeeding month on their website, as per the format given in the aforementioned SEBI circular.

To bring transparency in the Investor Grievance Redressal Mechanism, the Members were advised to publish Investor Charter and disclose the Investor Complaints on their respective websites.

An effective grievance procedure ensures an amiable work environment, as it redresses the grievance to mutual satisfaction and helps the management to frame policies and procedures, in line with the regulations.

**Members are advised to take the below measures:**

a) Multiple modes of communication should be made available to the investors, with a view to ensure seamless process in raising the complaints.
b) Strengthen the complaint redressal mechanism by hiring qualified / dedicated trained resource, impart adequate trainings for better handling and suitable closures.
c) Investor Grievances escalation matrix to be explicitly displayed on the website and mobile application under the 'Contact Us' page. The 'Contact Us' link should be placed on the index/homepage of the website. Upon clicking the same, it should display the details.
d) Escalation matrix should also be a part of the complaint redressal communications between the members and investors.
e) Acknowledgment should be sent to the investor, once the grievance is received / escalated / resolved and should state the Service ticket / Complaint reference number in it.
f) Members, who are also a Depository Participant, shall provide separate escalation matrix for Demat related queries. In case they have a common grievance handling unit, they may display the common Escalation matrix.
g) Enhance Investor education vide educational videos, webinars etc.
h) Provide regular updates to investors on changes in rules/regulations through support portals.
i) Details of services provided to clients may be displayed on homepage of the website.
j) Automate procedural requirements by online submission and acceptance of forms & KYC related matters.

k) Regular system audits to reduce the occurrence of technical issues and downtimes. Members are advised to ensure the compliance of the above-mentioned requirement and provide a confirmation of the same to MCX. Information regarding submission of confirmation by members will be communicated separately.

Investor Grievances escalation matrix to be explicitly displayed on the website and mobile application under the 'Contact Us' page.

**Escalation Matrix:**

| Details of | Contact Person | Address | Contact No. | Email Id | Working hours |
|---|---|---|---|---|---|
| Customer care | | | | | |
| Head of Customer care | | | | | |
| Compliance Officer | | | | | |
| CEO | | | | | |

In view of the same, Trading Members who have their own website & deal with retail clients, are advised to ensure the compliance of above mentioned requirement and provide confirmation of the same to MCX. Members are advised to provide an email confirmation to the Exchange at customersupport@mcxindia.com in the below prescribed format:

| Member ID | Member Name | Website / URL of Member along with 'Contact Us' link on the index/homepage of the Member website |
|---|---|---|
| | | |

In absence of response/complaint not addressed to your satisfaction, you may lodge a complaint with SEBI at https://scores.gov.in/scores/Welcome.html or Exchange at https://www.mcxindia.com/Investor-Services .

Please quote your Service Ticket/Complaint Ref No. while raising your complaint at SEBI SCORES/Exchange portal.

Note:

- Please mention working hours of each escalation level (eg. Mon-Sat; 9:00 am to 12:30 pm and 2:00 pm to 6:00 pm).
- Same contact number shall not be mentioned for more than one or all escalation levels.
- Contact numbers mentioned shall be handled by the escalated person.
- Ensure the contact numbers mentioned are reachable.
- Ensure IVRS allows caller to the reach the desired escalated level

## REGULATORY REQUIREMENTS/ REFERENCES:

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Publishing Investor Charter and disclosure of Investor Complaints by Stock Brokers on their websites | SEBI/HO/MIRSD/DOP/P/CIR/2021/676 dated December 02, 2021; MCX/ISD/775/2021 dated December 15, 2021<br>MCX/ISD/758/2021 December 07, 2021 |

| | | |
|---|---|---|
| 2 | Investor Charter – Escalation Matrix | MCX/ISD/638/2022 dated November 10, 2022 |
| 3 | Addendum to Investor Charter – Escalation Matrix | MCX/ISD/671/2022 dated November 25, 2022 |

### 9.2 Portfolio Management Services

SEBI vide circular number SEBI/HO/IMD/DF1/CIR/P/2019/066 dated May 22, 2019 mentioned that in supersession to Circular SEBI/HO/CDMRD/DMP/P/CIR/2016/100 dated September 27, 2016 Portfolio Managers are now permitted to participate in Exchange Traded Commodity Derivatives on behalf of their clients.

It would be mandatory for Portfolio Managers to appoint SEBI registered Custodian before dealing in Exchange traded Commodity Derivatives.

The participation of Portfolio Managers in the exchange traded commodity derivatives would be subject to the following:

- Portfolio Managers may participate in Exchange Traded Commodity Derivatives on behalf of their clients and such participation shall be in compliance with all the rules, regulations including SEBI (Portfolio Managers) Regulations, 1993 and circulars/guidelines and position limit norms as may be applicable to 'clients', issued by SEBI and Exchanges from time to time.
- Portfolio Managers may participate in Exchange Traded Commodity Derivatives after entering into an agreement with the clients. Portfolio Managers may execute addendums to the agreement with their existing clients, permitting the Portfolio Managers to participate in the Exchange Traded Commodity Derivatives on their behalf.
- Portfolio Managers shall provide adequate disclosures in the Disclosure Document as well as the agreement with the client pertaining to their participation in the Exchange Traded Commodity Derivatives, including but not limited to the risk factors, margin requirements, position limits, prior experience of the Portfolio Manager in Exchange Traded Commodity Derivatives, valuation of goods etc
- In case dealing in Commodity derivatives lead to delivery of physical goods, there is a possibility that, the Portfolio Manager remains in possession of the physical commodity. In such cases, the goods need to be disposed off at the earliest, within the timelines as agreed upon between the client and the Portfolio Manager. The responsibility of liquidating the physical goods shall be with the Portfolio Manager
- Portfolio Managers shall also provide periodic reports to the clients as per Regulation 21 of SEBI (Portfolio Managers) Regulations, 1993 regarding their exposure in Exchange Traded Commodity Derivatives.
- Portfolio Managers shall report the exposure in Exchange Traded Commodity Derivatives under the heading of 'Commodity Derivatives' in the monthly reports submitted to SEBI.

Members of the Exchange should refrain from indulging themselves in any activity in the nature of offering assured / guaranteed returns, and such other services to its clients for investment in commodity future contracts either directly or indirectly.

**The following activities will not be allowed to the Commodity Derivatives brokers:**

i. Any activity in the nature of promise of assured returns after a certain fixed time period (for example a month, 3 months or 6 months etc.) or assured profits by the member or profit sharing activity.
ii. any activity without completing Uniform Client Registration formalities with the client.
iii. any activity without presenting client with a Risk Disclosure Document .
iv. any activity without proper orders from the client for managing his accounts / executing trade etc.
v. any advertisement / publicity made by the Member highlighting only the benefits of Commodity Derivatives without highlighting the risk involved
vi. any other activity which is ambiguous or misleading the client in any way.

Commodity specific and research-oriented advice can be given by the members. Such services may include, technical analysis of price movement, trends, present and future outlook based on technical and fundamental analysis, newsletters dealing with such analysis, etc. in compliance with applicable regulatory requirements of the exchange and SEBI in this regard from time to time.

Members are advised that if they are found indulging in offering services, as aforesaid, will attract strict disciplinary action like suspension from membership and deactivation of terminals in addition to imposition of deterrent monetary penalty as may be specified from time to time and/deemed appropriate in this regard such Members will also be liable for a penalty of minimum Rs.1 Lakh per case.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Participation of Portfolio Managers in Commodity Derivatives Market in India | SEBI/HO/IMD/DF1/CIR/P/2019/066 dated May 22, 2019 |

**9.3 Customer Protection**

Members are directed to comply with the following:

i. The members shall execute the trade of clients only after keeping evidence of the client placing such order; it could be, inter alia, in the form of sound recording.

The member shall keep evidence of making the payment to the client on account of the Mark to Market gains made by the clients.

The KYC documents required to be signed by clients shall not contain inequitable, onerous or unreasonable conditions imposed on clients such as: -

Waiver to the member from sending contract notes; Retaining the MTM (Mark to Market) gains by the Member with himself; and Any condition which gives the member the freedom to trade on behalf of the client without the explicit and specific order issued by the client.

ii. No member shall execute trades of clients before completing KYC formalities.

### 9.4 BPO / KPO Services - Segregation thereof From Commodity Derivative Markets

As per SEBI circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016, provisions of Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 and SEBI Circular number SMD/Policy/Cir-6/97 dated May 07, 1997 are made applicable with respect to BPO / KPO services - segregation thereof from commodity derivative markets.

### 9.5 Rule 8(1)(f) of Securities Contracts (Regulation) Rules, 1957

Inter-alia states that “No person shall be eligible to be elected as a member if he is engaged as principal or employee in any business other than that of securities [or commodity derivatives] except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business”.

### 9.6 Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957

Inter-alia states that “No person shall be eligible to be elected as a member if he engages either as principal or employee in any business other than that of securities or commodity derivatives] except as a broker or agent not involving any personal financial liability”.

In view of the above members have to segregate BPO / KPO services from commodity derivative markets. Members are requested to comply with the provisions of Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.

Borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f) of the SCRR 1957.

### 9.7 Severance of connections with other businesses

Rule 8(1)(f) and Rule 8(3)(f) of the SCRR 1957, requires that members of a Stock Exchange, whether individual, partnership or corporate, shall not engage in any business other than that of securities..

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Reference |
|---|---|
| 1 | Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 |
| 2 | SMD/Policy/Cir-6/97 dated May 07, 1997 |
| 3 | SMD/VRN/1476/95 dated April 27, 1995. |

### 9.8 Logo of MCX

Members are requested to comply with the following:

Members are not permitted to use the below mentioned Exchange Logo in any manner whatsoever.




In addition to the above Exchange logo, Members are not allowed to use any other Logo which the Exchange may prescribe from time to time.

### 9.9 Procedure for implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 – Directions to stock exchanges and registered intermediaries

SEBI has issued circular no. SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/062 dated April 26, 2023, regarding Procedure for implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 – Directions to stock exchanges and registered intermediaries. Exchange has issued the MCX/INSP/293/2023 dated May 05, 2023 in this regard.

### 9.10 Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs)

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.
Based on the parameters defined in the aforesaid circular, the list of stock brokers designated as Qualified Stockbrokers (QSBs) was released vide Exchange circular no. MCX/MEM/154/2023 dated March 06, 2023.

MCX in consultation with SEBI and other Exchanges has formulated comprehensive operating guidelines applicable to designated QSBs along with timelines for adherence to said compliance requirements vide Exchange Circular no. MCX/MEM/358/2023 dated June 02, 2023

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.

Additionally, SEBI vide its circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024 has issued circular on Measure to instill trust in securities Market-Expanding the framework of qualified Stock Brokers (QSBs) to more stock brokers has decided to extend the framework of QSBs to more stock brokers considering the additional parameter enumerated therein. Accordingly, the Exchange vide its circular no. MCX/MEM/160/2024 dated March 19, 2024 has issued the revised list of designated Qualified Stock Brokers (QSB) as mentioned in the above said circular.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs) | SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 06, 2023 |
| 2 | Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs) | MCX/MEM/154/2023 dated March 06, 2023 |
| 3 | Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs) – Comprehensive operating guidelines | MCX/MEM/358/2023 dated June 02, 2023 |
| 4 | Measure to instill trust in securities Market-Expanding the framework of qualified Stock Brokers (QSBs) to more stock brokers | SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024<br>MCX/MEM/136/2024 dated March 12, 2024<br>MCX/MEM/160/2024 dated March 19, 2024 |

### 9.11 Charging interest on delayed payment of penalties

As per MCX Circular MCX/INSP/319/2023 dated May 15, 2023.

To avoid delay in remitting the penalty, the Exchange has decided that:

a. If the penalty is less than ₹50,000/-, the Exchange would be directly debiting the penalty to the Settlement account of respective Member / their Clearing Member, after the due date.

b. If the penalty is ₹50,000/- or above, the Exchange would be charging interest @ 12%, per annum, for every day of delay (delay would be counted from the due date), along with applicable taxes, if any.

The provisions of this circular shall be applicable with effect from June 1, 2023. Members are required to note the above and ensure timely payment of penalty to avoid interest on delayed payment of penalty.

### 9.12 Bank Guarantees (BGs) created out of clients' funds

As per MCX Circular MCX/INSP/270/2023 dated April 25, 2023

1. Currently Stockbrokers (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: -

    a. Beginning May 01, 2023, no new BGs shall be created out of clients' funds by SBs/CMs.
    b. Existing BGs created out of clients' funds shall be wound down by September 30, 2023.

2. 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.

3. Member cannot create BG out of clients' funds and accordingly, value of any BG including BG created out of members' own funds cannot be considered for the computation of availability of client payables effective from October 01, 2023.

4.Member should not include the value of BG while reporting data towards the weekly monitoring of client funds (Enhanced Supervision of Stock Brokers) under aforesaid data points of Annexure A of the Exchange circular no. MCX/INSP/676/2021 dated October 22, 2021.

**FAQ on Bank Guarantees (BGs) created out of clients' funds**

1) **Can Bank Guarantees (BGs) be created out of clients' funds?**
   No, SEBI vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023 has prohibited creation of BG out of clients' funds as under:
   a. Beginning May 01, 2023, no new BGs to be created out of clients' funds by SBs/CMs.
   b. Existing BGs created out of clients' funds to be wound down by September 30, 2023.

2) **Can Bank Guarantees (BGs) be created out of own funds of member?**
   Yes, Bank Guarantees can be created from own funds of member.

3) **Since Bank Guarantees (BGs) cannot be created out of clients' funds, can BG created out of own funds of member be considered towards availability of clients' funds as per Enhanced Supervision Guidelines?**
   In light of SEBI circular and Exchange circular dated April 25, 2023 issued on prohibition of creation of BG from clients' funds effective from October 01, 2023, member cannot consider the value of any BG including BG created from own funds of member for the purpose of availability of clients' funds.

4) **What is the impact on reporting of BG value by member under weekly submission of data towards monitoring of client funds (Enhanced Supervision of Stock Brokers) and weekly cash & cash equivalent submission by member to Exchange?**
As member cannot consider the value of any BG including BG created from own funds for the purpose of availability of clients' funds, member should not include value of any BG including BG created from own funds while reporting values under data point numbered as 2, "Aggregate value of collateral deposited with Clearing Corporations in form of Cash and Cash Equivalents (Rs.)" and data point numbered as 3, "Aggregate value of collateral deposited with clearing member in form of Cash and Cash Equivalents (Rs.)" of Annexure A of the Exchange circular no. MCX/INSP/676/2021 dated October 22, 2021. Further, full value of BG should be reported under data point numbered as 8 of Enhanced Supervision guidelines. It may also be noted that point no 25 and 26 (ES Information Type) of weekly submission of Client Level Cash & Cash Equivalent Balances as prescribed by Exchange circular MCX/INSP/769/2021 dated December 14, 2021 should also be reported in accordance with aforesaid guidelines i.e. full value of BG to be reported under row item "NON FUNDED BG"

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Bank Guarantees (BGs) created out of clients' funds | MCX/INSP/438/2023 dated June 30, 2023<br><br>and MCX/INSP/766/2023 |

**9.13 Norms relating to trading by Members**

1. A stock broker of an exchange cannot deal with the brokers of the same exchange either for proprietary trading or for trading on behalf of clients, except with the prior permission of the exchange.

2. A stock broker of an exchange can deal with only one broker of another exchange for proprietary trading after intimating the names of such stock broker to his parent Stock Exchange.

**9.14 Standardisation of Bank Book and Client ledger**

As per the Exchange Bye-laws 2.3.11 and 11.5 and Exchange Circular no. MCX/INSP/325/2016 dated September 29, 2016, all members of the Exchange shall be required to maintain properly and preserve, Books of accounts, Registers, Statements and other records, in physical or electronic form, as may be specified, for a period prescribed by the Exchange or SEBI, from time to time.

In order to standardise the maintenance of books of accounts / records and ensure uniformity across all Members, a standard format for Bank Book and Client Ledger is prescribed in Exchange circular number MCX/INSP/438/2023 dated June 30, 2023.

1. Format for maintenance of Bank Book

2. Format for maintenance of Client Fund Ledger
3. Guidelines with respect to standardisation of Bank Book and Client Ledger

The above formats shall be applicable with effect from October 01, 2023 and the Members are advised to make necessary changes in the back office to comply with the above requirements.

Further, Members are requested to note that, post implementation of standard formats, Exchange may seek periodic submission of data related to funds of clients in the manner prescribed in the above referred format. The details of the same including the periodicity shall be informed in due course.

Members may further note that non-maintenance of Bank Book and Client Ledger for funds in the prescribed format is a non-compliance as per Bye-laws, Business Rules and circulars of the Exchange.

Members are requested to take note of the above and comply with applicable regulatory requirements.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Standardisation of Bank Book and Client ledger | MCX/INSP/438/2023 dated June 30, 2023 |

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

SEBI has issued circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023, on the subject "Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to 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 upstreamed by SB/ CMs to CCs only in the form of either cash, lien on FDR (subject to certain conditions enumerated below), or pledge of units of Mutual Fund Overnight Schemes (MFOS).

Further, to improve operational efficiency and to reduce costs, CCs shall also facilitate a mechanism to adjust the margin blocked in the form of cash, towards client fund pay-in obligations. Such mechanism shall be provided by CCs by 1st January 2024.

The provisions of this framework shall not be applicable to bank-CMs (including Custodians that are banks), and for proprietary funds of SBs/CMs in any segment and SB's proprietary funds deposited with CM in the capacity of a client.

**9.16 <u>Operational Guidelines with respect to Upstreaming of Clients funds</u>**

Exchange vide its circular no. MCX/INSP/049/2024 dated January 25, 2024 has issued Operational guidelines and SOP on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) for monitoring the implementation of provisions of circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 (including determination of cut-off times) framed by Broker's Industry Standards Forum (ISF) and relevant stakeholders in consultation with SEBI. Members are requested to take note of the above and comply with applicable regulatory requirements.

**<u>Operational Guidelines with respect to Upstreaming of Clients funds</u>**

1 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.

2 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.

3 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 avail any funded or non-funded banking facilities based on the FDRs created out of the clients' funds.
- The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination 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.

4 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 SB/CM is required to ensure that such clients are complying with the net worth requirement as mentioned in Point no 2 of the Annexure A of the said SEBI circular. In case of non-individual clients who have provided BGs as margin for commodity derivatives segment, the SB/CM shall obtain audited net worth certificate from the client's statutory auditor on annual basis within six months from the end of the financial year. Further, in the event of invocation of BG, the funds shall be credited only to USCNBA bank account of the SB/CM and the funds shall be up-streamed on the same day to the respective Clearing Corporation.

5 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.

6 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.

7 It may be noted that funds received from the clients cannot be used for the creation of Bank Guarantees (BG). However, in the interest of encouraging and development of hedging in the commodity derivatives market, it has been decided to allow Bank guarantees provided only by non-individual clients, based on certain terms and conditions. Such clients shall provide a declaration and underwriting that they shall have no recourse to SEBI or exchanges in case of wrongful invocation of such BGs by SB/CM. These BGs shall bear a

condition that on invocation, the moneys shall be credited only to the (USCNBA) account and thereafter upstreamed to the CC. The other terms and conditions are:

**Eligible clients:**

i Only non-individual clients shall be allowed to give BGs as margins, specifically for commodities segment.

ii Net worth of such clients should be at least Rs. 1000 crores. If the net worth of the client is less than Rs. 1000 crores and client is a part of a group company of a MNC group or large conglomerate in India and that MNC or large conglomerate has Ultimate Beneficial Ownership of more than 50% in the concerned client, then the net worth of the MNC group as a whole or the net worth of the large conglomerate can be considered which should be minimum Rs. 5000 crores.

**Eligibility conditions for BGs**

iii Only Banks approved by CCs shall be considered for issuance of such BGs.

iv BG terms and conditions should clearly mention the Upstreaming Client Nodal Bank Account (USCNBA) bank account number where the funds shall be credited in case of invocation by SB/CM.

v In the event of invocation of BG, the funds shall be credited only to USCNBA bank account of the SB/CM and the funds shall be up-streamed on the same day to CC.

vi SB/CM shall mandatorily inform the CC at the time of invocation of BG.

vii SB/CM cannot accept BGs as margins from the above mentioned clients in excess of 25% of its net worth.

**Declaration and undertaking to be given by clients.**

viii CFO / COO / CEO / MD of such clients should give an undertaking to the Member at the time of giving BG as margins:

a. We agree to issue the BG lien in favour of trading member _____ for trading in capital markets for client code _____ as per the contractual arrangement with the said trading member.
b. We declare that we clearly understand that in case trading member wrongly invokes the BG, we shall not have any recourse to Exchange or SEBI to the extent of BG amount and shall not be compensated in any manner from Investor Protection Fund.

**Other Conditions**

ix SB/CM shall put its own funds with CC to the extent of BG amount towards the margin requirements of these clients.

x SB/CM cannot use borrowed funds for this purpose. Trading member shall give auditors certificate on half yearly basis to CC in this regard.

8 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.

9 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 upstreamed 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.

10 System to report justifications listed out in point number 9 above by the SB/CM on daily basis shall be made available by CCs in due course.

11 Any credit balance of the clients retained by the TM / CM for the reason code listed above in 9 (i) and 9 (vii) should remain in the USCNBA or same can be returned back to the same client to whom it belongs through DSCNB account.

12 The cut-off times under Point 9 of SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 for upstreaming of the clear credit balances of the clients have been determined by the CCs in consultation with ISF as 5 pm

13 For availability of the clients' funds under Enhanced Supervision guidelines, the clients' funds lying in USCNBA/DSCNBA/Settlement account only to the extent permissible as per point number 9 mentioned above can be considered.

14 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)

15 A schematic representation of flow of funds is enclosed in Exchange circular.

16 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.

Compliance with respect to provisions of upstreaming of Clients funds as stipulated by SEBI/Exchanges/CCs shall also be part of internal audit checklist, which shall be verified by auditors every half year.

**Penalty structure in case of non-compliance: -**

In case of non-compliance of the provisions of Exchange circular nos. MCX/INSP/367/2023 dated June 09, 2023, MCX/INSP/404/2023 dated June 26, 2023, MCX/INSP/441/2023 dated June 30, 2023, MCX/INSP/532/2023 dated August 16, 2023 and MCX/INSP/573/2023 dated August 30, 2023 on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Exchange circular no. MCX/INSP/270/2023 dated April 25, 2023 on Bank Guarantees (BGs) created out of clients' funds, the Exchange has issued circular no. MCX/INSP/585/2023 September 01, 2023 formulating penalty structure for non-compliance which shall be applicable w.e.f **September 01, 2023**. Members are requested to take note of the above and comply with applicable regulatory requirements.

## 9.17 FAQ on Upstreaming of Client's Funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporation (CCs)

**1) In which forms the client funds can be upstreamed by SB/CM?**

The client funds shall be upstreamed by SBs/CMs to CCs only in the form of either cash, lien on FDR or pledge of units of Mutual Fund Overnight Schemes (MFOS).

**2) To whom the framework of upstreaming of client funds is applicable?**

The framework is applicable to all SBs/CMs/non-bank Custodians. Bank-CMs (including custodians that are banks) and proprietary funds of SBs/CMs in any segment and SB's

proprietary funds deposited with CM in the capacity of a client are exempt from the scope of this circular.

**3) Whether the tenure of existing FDRs is required to be reduced upto one year?**

Yes. The residual maturity of existing FDRs would need to be upto one year and one day from July 01, 2023.

**4) Is it required to wind up the existing bank guarantees (BGs) created out of client funds and placed with CCs/CMs before June 30, 2023?**

As per SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023, all the existing BGs created out of client funds and placed with CCs/CMs shall be wound down by September 30, 2023.

**5) Whether FDR can be created by SB in favour of CM?**

No. FDRs created out of client funds shall necessarily be lien-marked to one of the CCs at all times. Through this lien, the CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing FDR.

**6) Can FDRs be made from multiple USCNB accounts?**

Yes. Client FDRs may be created from the USCNB accounts across the multiple bank accounts.

**7) In which kind of MFOS can the client funds be invested?**

SBs/CMs shall ensure that 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).

**8) Whether the MFOS can be considered as collateral with CC/CM under Enhanced Supervision reporting?**

MFOS can be included in collateral available with CC/CM for the purpose of reporting under Enhanced Supervision. Accordingly, the provision of Exchange Circular MCX/INSP/676/2021 dated October 22, 2021 shall stand modified to this extent with effect from July 01, 2023.

**9) Which bank accounts to be displayed on website?**

Name of Bank Account, Bank Account number and IFSC of Only USCNB accounts along with following note shall be displayed on website.

*"Investors are requested to note that Stock broker (name of stock broker) is permitted to receive money from investor through designated bank accounts only named as Up streaming Client Nodal Bank Account (USCNBA). Stock broker (name of stock broker) is also required to disclose these USCNB accounts to Stock Exchange. Hence, you are requested to use following USCNB accounts only for the purpose of dealings in your trading account with us. The details of these*

*USCNB accounts are also displayed by Stock Exchanges on their website under "Membership→→→Notice Board→→→Member & AP Details."*

Accordingly, the provision of Exchange Circular MCX/INSP/156/2023 dated March 06, 2023 shall stand modified to this extent with effect from July 01, 2023.

**10) Can the member maintain FDR/MFOS that are not lien marked/pledged with CC?**

FDR created out of client funds shall necessarily be lien-marked to one of the CCs at all the times. Further, SBs/CMs shall provide MFOS units as collateral to the CC. While providing the units as collateral, SBs/CMs shall identify the end clients. In order to implement the same, a pledge shall be created from the Client Nodal MFOS account to SB/CM margin pledge account of the SB/CM. SB/CM shall further repledge the same to CC using the existing pledge re-pledge mechanism.

**11) Whether any client funds remaining after making FDR or investment in MFOS are required to be upstreamed?**

Yes. As per Para I of Part C of the SEBI circular dated June 08, 2023 on Upstreaming of clients funds, other than the FDRs (liened to CCs) and MFOS (pledged to CCs), any remaining client funds with SBs/CMs shall be upstreamed to a CC before a stipulated cut-off time.

**12) Is it mandatory to open new bank account with nomenclature "Name of the SB/CM – USCNBA" and "Name of the SB/CM – DSCNBA" or whether nomenclature of existing accounts reported as "Name of SB/CM - Client Account" can be changed? Further can member open multiple USCNBA or DSCNBA?**

SBs/CMs may change the nomenclature of existing client accounts to "Name of the SB/CM – USCNBA" and/or "Name of the SB/CM – DSCNBA". All other bank accounts named as "Name of SB/CM - Client Account" shall be closed.

Further, member may also open new bank account with nomenclature "Name of the SB/CM – USCNBA" and "Name of the SB/CM – DSCNBA". However, member can maintain USCNBA or DSCNBA up to 30 only as per the guidelines issued by the Exchange on maintenance of client bank accounts.

**13) How shall member inform revised nomenclature of existing client bank accounts to the Exchange? What will be the impact of this circular on Daily Bank Balance reporting, Holding Statement and weekly Cash & Cash Equivalent submission by member to Exchange?**

Member shall be allowed to input "Up streaming Client Nodal Bank Account (USCNBA)" and "Down streaming Client Nodal Bank Account (DSCNBA)" for all existing client bank accounts through the Enhanced Supervision Portal. Similarly, one more category i.e., "Client Nodal MFOS Account", for reporting of demat account shall be made available in the existing DP account reporting structure through the Enhanced Supervision Portal.

Members shall not report holding lying in “Client Nodal MFOS Account" to the Exchange. Therefore, there shall not be any impact on reporting format of Holding statement submission.

Since the members shall also upstream unclaimed client funds to CC, member shall report 0 in “CLIENT BANK ACCOUNT NO.” column of Cash & Cash equivalent submission.

.

**14) Whether requirement pertaining to running account settlement of client funds continue after implementation of this circular?**

Yes. Compliance with respect to running account settlement of client funds shall continue.

**15) How to treat the funds which are received after CM upstreaming cut off time?**

As per Para (V) of Part C of SEBI Circular dated June 08, 2023 on Upstreaming of client funds, SB/CM shall not accept any fresh client funds from 30 minutes before SB upstreaming cut off time.

**16) What time can broker start receiving the funds from clients on next day?**

It is reiterated that as per para (V) of Part C of SEBI Circular dated June 08, 2023 on Upstreaming of client funds, the SBs shall not accept any fresh client funds from 30 minutes before the SB upstreaming cut off time. Thereafter, SBs shall accept funds from the clients next day from the beginning of the day.

**17) Can funds be retained by SB in USCNBA and directly transferred to DSCNBA in case of intraday trades? (Trades squared off on the same day)**

No. All client funds received in USCNBA shall be first upstreamed to CCs through settlement account and then the same can be received back from CC to settlement account and settlement account to DSCNBA from which, funds shall be released to the client.

**18) For management of FDR (creation, renewal and maturity), which bank account (USCNBA or DSCNBA) should be utilized?**

SBs/CMs may create FDRs out of clients’ funds from USCNB account only. Such FDRs created out of client funds shall necessarily be lien-marked to one of the CCs at all the times. Upon encashment/maturity of the FDR, the funds shall necessarily be received in the same USCNB account.

**19) For management of MFOS (subscription/redemption), which bank account (USCNBA or DSCNBA) should be utilized?**

As per Para III of Part B of SEBI Circular dated June 08, 2023, SBs/CMs shall maintain a dedicated demat account (hereinafter referred to as “Client Nodal MFOS Account”) for

subscription/ redemption of MFOS units. The depositories shall allow subscription/redemption transactions only in the said account.

Further, SBs/CMs shall subscribe for MFOS units out of clients' funds from USCNB account only. Such MFOS units should be in dematerialized (demat) form and must necessarily be pledged with a CC at all times. Upon redemption of MFOS units, the funds shall necessarily be received in the same USCNB account.

**20) How does the SB/CM consider / process the release requests received from the clients before the client release request cut-off time?**

The release requests received from the clients before "client release request cut off time" must be processed the same day. Further, such funds received from the CC must either be paid out to the clients on the same day or upstreamed back to the CC on the same day.

**21) Whether any fund movements between USCNBA and DSCNBA be allowed?**

As per Para II (a) of Part C of SEBI Circular dated June 08, 2023 on Upstreaming of Clients' funds, SB/CM shall receive clients' funds in USCNBA for further upstreaming to the CCs. Further Para II (b) of Part C of the said Circular prescribes that payment to clients should be done by SBs only from DSCNBA account post receiving of funds from CC/CM same day. Any balance left in the account post cutoff time should be transferred by SBs to USCNBA for further upstreaming it to the CCs. Therefore, no fund movements from USCNBA to DSCNBA shall be allowed. However, funds from one USCNBA can be moved to another USCNBA. Similarly, funds from one DSCNBA can be moved to another DSCNBA, and from DSCNBA to USCNBA.

**22) Can one common USCNB account and one common DSCNB account be maintained by the member?**

Yes. One common USCNB account and one common DSCNB account can be maintained by the member.

**23) Is there any restriction on the count of USCNBA and DSCNBA?**

Members may have multiple USCNBA and DSCNBA; however, the count of all USCNBA and DSCNBA shall not exceed 30 bank accounts.

**24) Is there any collateral benefit provided by MCXCCL on the up-streamed funds?**

Collateral benefit shall be provided to the respective client based on the segment wise collateral allocated to the clients and reported by the Trading Member in accordance with the provisions of the SEBI Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 on "Segregation and Monitoring of Collateral at Client Level".

**25) How to deal with funds received from clients post upstreaming cut off time?**

As per Para V of Part C of SEBI Circular dated June 08, 2023, SBs shall not accept any fresh client funds from 30 minutes before the SB upstreaming cut-off time.

**26) Is there any impact on maintenance of a separate client bank account maintained for keeping untraceable/unclaimed clients funds?**

Funds lying in a separate client bank account maintained for keeping untraceable/unclaimed clients funds shall be upstreamed to CC.

**27) What if Self Clearing Member (SCM) in Capital market segment, Trading Member (TM) in Derivative segment(s) – Can the member maintain the common USCNBA & DSCNBA or Separate for SCM & TM?**

Yes. One common USCNBA and one common DSCNBA across segments may be maintained.

**28) Whether the SBs/CMs are required to submit any reconciliation statement? If so, what is the periodicity?**

Members shall maintain the reconciliation statement for withdrawal of client funds from CCs on a daily basis and provide the same as and when sought by the relevant authority.

| Sr. No. | Circular number | Particulars |
|---|---|---|
| 1 | MCX/INSP/438/2023 dated June 30, 2023 | Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) |
| 2 | MCX/INSP/438/2023 dated June 30, 2023<br>MCX/INSP/573/2023 dated August 30, 2023<br>MCX/INSP/532/2023 dated August 16, 2023 | FAQ on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) |
| 3 | MCX/INSP/049/2024 dated January 25, 2024 | Operational guidelines and SOP on Upstreaming of clients' funds by Stock Brokers<br>(SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) |
| 4 | MCX/INSP/867/2023 dated December 12, 2023 | Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing<br>Corporations (CCs) |
| 5 | MCX/INSP/441/2023 dated June 30, 2023 | Implementation of circular on upstreaming of clients' funds by Stock Brokers (SBs) /Clearing Members (CMs) to Clearing Corporations (CCs) |

## 9.18 Precautions for clients dealing in Options

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 sensitise 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, which 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 unauthorised / unregistered investment advisors and influencers.

Members are advised to regularly look for various unsolicited messages/unauthorised 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, authorised persons and clients. Members are also advised to take appropriate actions on the individuals/entities using their name/brand/logo and engaging in unauthorised market practices.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Precautions for clients dealing in Options | MCX/INSP/438/2023 dated June 30, 2023. |

**9.19 Unauthorised Market Practices by Trading Members**

Members' attention is drawn to Exchange Bye-Laws, Rules & Business Rules, wherein it was reiterated that members are not permitted to undertake any business/activity that is not allowed.

Members are advised to refrain from engaging in below mentioned practices.

**a) Incentives/referral schemes:** Members are advised not to engage oneself in running schemes such as sponsoring/funding ETF units for opening of trading account. Members are also advised not to offer 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. Members are hereby advised to refrain from such practices and trading account opened through client referral should be strictly complied with Exchange/SEBI circulars/guidelines. Client shall not be subjected to any kind of trade inducement (including by way of generating trade calls through Interactive Voice Response (IVR) system) and it shall be ensured that all instructions for placement of orders are obtained from the respective client only.

**b) Issue of advertisements:** Members are advised not to use celebrities to promote their business, products/services/brokerage plans etc., including undertaking brand

promotion. Members are hereby advised to refer Exchange circular no. MCX/MEM/184/2017 dated June 16, 2017 in this regard. 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 circular no. MCX/INSP/908/2020 dated December 02, 2020, Members are required to flag the client account as "inactive" in case there are no transaction in the client account for a period of 12 months. members shall not urge 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 copy of 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 reflect satisfactory financial position of the client before allowing them to trade in derivative segment.

**e) Assured Return Schemes/ Unauthorised Portfolio Management Service:** Members are advised not to get involved in activities/schemes of fixed / periodic payments, which are not permitted under the Bye-Laws, Rules & Business Rules and circulars of SEBI/Exchanges. It is reiterated that members are not permitted to undertake any business/activity that is not allowed under the Bye-Laws, Rules & Business Rules 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):** Members are advised that clients trading in derivatives should not be lured to share trading credentials – (login id & passwords) with the individuals/persons who promise assured returns and trade on behalf of these clients. In view of the same, members are hereby advised to carry out surveillance of trading activities of clients. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment is in proportion to their income / networth.

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:

a) Sharing
   i. trading credentials – login id & passwords,
   ii. trading strategies
   iii. position details
b) Trading in leveraged products /derivatives without proper understanding, which 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 based on recommendations from unauthorised / unregistered investment advisors.

Members are advised to lookout 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 Bye-Laws, Rules & Business Rules 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.

**REGULATORY REQUIREMENTS/ REFERENCES:**

| Sr. No. | Subject | Circular No. |
|---|---|---|
| 1 | Unauthorised Market Practices by Trading Members | MCX/INSP/438/2023 dated June 30, 2023. |

**9.20 Safeguarding clients' assets**

Activities not permitted / Liability of member for acts of omission and commission of Authorised Persons.

1. Members to ensure that they are not engaged into activities / schemes of fixed / periodic payments, which are not permitted by the Exchange / SEBI.

2. Members are not permitted to undertake any business / activity which are in contravention of Exchange / SEBI regulatory requirements including operating any schemes of unauthorised collective investments / portfolio management, promising indicative / guaranteed / fixed returns / payments etc.

3. Members may please note that all the acts of omission and commission of the Authorised Persons and its Directors / Partners, employees etc., shall be deemed to be those of the member and member shall be responsible for all such acts of its Authorised person(s) and / or their Directors / Partners, employees etc., including liabilities arising there from.

| Sr. No. | Circular number | Particulars |
|---|---|---|
| 1 | MCX/INSP/438/2023 dated June 30, 2023. | Safeguarding clients' assets |

**9.21 Enforcement Actions**

**A. Exchange circulars specifying regulatory actions are as under: -**

| Sr. No. | Circular number | Particulars |
|---|---|---|
| 1 | MCX/INSP/400/2017 dated October 30, 2017 | Revised Penalty Structure |
| | | Annexure A – Part I (a) - Penalties / Disciplinary Actions for violations with financial implications |
| | | Annexure A – Part I (b) - Penalties / Disciplinary Actions for procedural violations |
| | | Annexure A - Part I (c) - Penalties / Disciplinary Actions for other procedural violations |
| | | Annexure A - Part II - Details of existing penalties / Disciplinary Actions for other violations |
| | | Annexure B - Penalties / Disciplinary Actions to the provisions of enhanced Supervision Guidelines |
| 2 | MCX/INSP/468/2018 dated November 13, 2018 | Revised penalty for dealings in cash with clients/other entities |
| 3 | MCX/INSP/602/2019 dated October 23, 2019 | Penalties for the non-compliances / violations reported in the Internal Audit Report (IAR) |
| 4 | MCX/INSP/712/2019 dated December 18, 2019 | Revised penalty structure for false / incorrect reporting of Margin collected (from clients) to the Exchange (Penalty for the instances of false / incorrect reporting of margin occurred from September 01, 2019). |
| 5 | MCX/INSP/397/2020 dated June 05, 2020. | Penalty Structure for Non-compliance in Handling of Clients' Securities by Members |
| 6 | MCX/INSP/962/2020 dated December 22, 2020 | Penalty structure for Non closure of Client Collateral / Client Margin Trading Securities demat accounts |
| 7 | MCX/INSP/124/2021 dated February 26, 2021 | Penalty structure for Late/Partial/Non-submission of undertaking/authorization to Exchange to access the information/statements pertaining to all bank accounts (maintained by members) from Banks |
| 8 | MCX/INSP/125/2021 dated February 26, 2021 | Penalty structure for Non-closure of bank account maintained in excess of 30 (nos.) named as "Stock Broker - Client Account" by December 31, 2020 |

| Sr. No. | Circular number | Particulars |
|---|---|---|
| 9 | MCX/INSP/590/2021 dated September 14, 2021 | Penal / Disciplinary Actions for Incorrect submission of data towards Holding Statement |
| 10 | MCX/INSP/152/2022 dated March 14, 2022 | Penalty structure for Non-issuance of 'Statement of Accounts' for funds, securities and commodities on weekly basis to clients |
| 11 | MCX/INSP/153/2022 dated March 14, 2022 | Material wrong submission or incorrect submission of Cash & Cash Equivalent Balances and |
| 12 | MCX/INSP/303/2022 dated March 24,2022 | Clarification on Margin collection & reporting |
| 13 | MCX/INSP/325/2016 dated September 29, 2016 | Penalties for other violations |
| 14 | MCX/INSP/590/2021 dated September 14, 2021 | Penal / Disciplinary Actions for Non / Late submission of data towards Cash and Cash Equivalents |
| 15 | MCX/INSP/233/2023 dated April 05, 2023 | Penalty Structure for Late/Non-submission of Reporting requirement on Settlement of Running Account of Clients' Funds |
| 16 | MCX/INSP/585/2023 dated September 01, 2023 | 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. |

**B. Other Circular specifying regulatory action: -**

| Sr. No. | Circular issued by Ministry of Finance, Government of India | Particulars |
|---|---|---|
| 1 | Circular no. F. No. 1/26/SE/91 dated August 12, 1991 issued by Ministry of Finance (Department of Economic Affairs), Government of India | Expulsion of a Member on account of action taken by other MIIs |

**Penalties / Disciplinary Actions for violations will be applicable as per relevant circulars issued and applicable from time to time.**