Inspection and Enforcement Department

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CHAPTER 1 - CLIENT REGISTRATION

1.1 Know Your Client Forms

As per SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025 **("Stock Broker Master Circular")** 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 **("KYC Master Circular")** 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. The set of client registration documents are enclosed as **Annexure-1.**

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: **Annexure-2**

iii Rights and Obligations of Members, Authorized Persons, and Clients **Annexure-3**

iv Guidance Note – Do's and Don'ts for the clients: **Annexure-4**

v Most Important Terms and Conditions: **Annexure-5**

vi Facility of voluntary freezing/ blocking of Trading Accounts by 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 within the stock broking firm and investor grievance cell in the Stock Exchange, so that the client can approach them in case of any grievance.

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

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avoid any dispute in the future. The client would also be required to give acknowledgement of Most Important Terms and Conditions (MITC).

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

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iii. In accordance with paragraph 21.1.2 of the Stock Broker Master Circular, the 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.
- Most Important Terms and Conditions

Members 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, Members shall maintain logs of the same.

Members 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.

i. 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.

ii. 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.

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

v. 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:

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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 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

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Persons and Clients' of FMC circular No. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015, shall stand rescinded.

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

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- In accordance with paragraph 23.4 of the Stock Broker Master Circular, there shall be a mandatory document dealing with Policies and Procedures for each of the following under appropriate headings:

    a. refusal of orders for penny stocks

    b. setting up client's exposure limits,

    c. applicable brokerage rate,

    d. 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),

    e. 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),

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

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

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

    i. deregistering a client.

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- 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 Member shall take client's acknowledgement for receipt of the same.

- Members 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.

- Members shall frame the policy regarding treatment of inactive accounts which should, inter-alia, cover aspects of time period, return of client assets and

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procedure for reactivation of the same. It shall display the same on its web site, if any.

- As on 31st March of every year, a statement of balance of Funds and Securities in hard form and signed by the broker shall be sent to all the clients.

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.

Members 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.

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(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, Members should intimate the same to all clients & maintain the proof of dispatch or delivery. In case of internet clients, Members 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>

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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 / Members. 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 Member, 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 Member and fills up the online KYC form and submits requisite documents online.

ii) Members shall obtain the express consent of the client before undertaking online KYC.

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iii) 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 Member 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). Member 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:

i the passport

ii the driving licence,

iii proof of possession of Aadhaar number,

iv the Voter's Identity Card issued by Election Commission of India,

v job card issued by NREGA duly signed by an officer of the State Government

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vi 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.

iv) 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.

v) 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.

vi) 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 Member under eSign, or Affix online the cropped signature on the filled KYC form and submit the same to the Member under eSign.

vii) The Member 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.

viii) The original seen and verified requirement under paragraph 48(c) of KYC Master Circular, for OVD would be met where the investor provides the OVD in the following manner:

a As a clear photograph or scanned copy of the original OVD, through the eSign mechanism,

or;

b As digitally signed document of the OVD, issued to the DigiLocker by the issuing authority.

Features for online KYC App of the Member - Members 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. Members 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

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of the customer beyond doubt. Members shall **carry out the liveliness check** in order to guard against spoofing and such other fraudulent manipulations.

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

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

In accordance with paragraph 54 to 59 of the KYC Master Circular, the IPV requirements for all the Members have been streamlined and harmonized by SEBI, as follows:

i It shall be mandatory for all Members to carry out IPV of their clients.

ii Members 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 Member can be relied upon by another intermediary.

iv In case of Members, their Authorised Persons (appointed by the Member after getting approval from the concerned Stock Exchanges) 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. Additionally, entities registered as Category 1 Execution Only Platform (EOP) can perform the IPV.

vi 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 Member shall continue to ensure the requirement of geo-tagging with the investor's

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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. Members has an option of doing 'in-person' verification through web camera at the branch office of the Member/authorised person's office.

   b. In case of non-resident clients, employees at the Member'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 Member's staff, attestation of KYC documents by Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy / Consulate General in the country where the client resides may be permitted.

2. In case of stock exchange subsidiaries: SEBI pursuant to its circular clarified that the subsidiaries of stock exchanges, acting as 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 has prescribed the KYC Master Circular and any modifications/updation in existing KYC records, shall be effected in line with the provisions of the KYC Master Circular.

   SEBI *vide* paragraph 61 of the KYC Master Circular, has 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 client has been completed using the Aadhaar authentication/ verification of UIDAI

   b. IPV / VIPV shall not be required by the member when the KYC form has been submitted online, documents have been provided through Digilocker any other source which could be verified online.

As per SEBI letter no. MIRSD/DPS-III/130466/2008 dated July 02, 2008, SEBI has emphasized that it shall be the responsibility of the stock broker to satisfactorily identify his clients and to ensure in-person verification by his own staff while registering clients and keep complete audit trail for the same. SEBI has also mentioned that it would be stock brokers' responsibility to provide client details as and when required.

Accordingly, Members are required to ensure 'in-person' verification by their own staff only while registering the clients, including clients of their branches and sub brokers, and that this function is not outsourced. Further the date of verification, name and signature of the official who has done in-person verification and the stamp of the member should be incorporated in the client registration form.

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In case of 'In-person' verification of non-residents, the members should obtain from such clients KYC documents attested by any one of the following entities - Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy / Consulate General in the country where the client resides.

1.4 Feature for Video in Person Verification ("VIPV") for Individuals:

In accordance with the provisions of paragraph 60 of the KYC Master Circular, 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:

a. 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.

b. The VIPV shall be in a live environment.

c. 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.

d. 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.

e. The Member shall ensure that photograph of the customer downloaded through the Aadhaar authentication / verification process matches with the investor in the VIPV.

f. The VIPV shall be digitally saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.

g. The Member may have additional safety and security features other than as prescribed above.

1.5 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 within 3 working days from the date of completion of completion. 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.

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Guidelines for Intermediaries in pursuance of the SEBI {KYC (Know Your Client) REGISTRATION AGENCY} Regulations, 2011 **(KRA Regulations)**
After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA within 3 working days from the date of completion of the KYC process. 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.

Further, SEBI vide paragraph 86 of the KYC Master Circular, has prescribed that for existing clients, the KYC data shall be uploaded by the intermediary provided they are in conformity with the details sought in the uniform KYC format. While uploading these clients' data the intermediary shall ensure that there is no duplication of data in the KRA system.

Guidelines for uploading the KYC data of the existing clients in pursuance of the KRA Regulations
KRAs shall send letters to the clients within 2 working days of the receipt of the initial / updated KYC documents from intermediary. 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, as per Regulation 16(a) of the KRA Regulations, intermediaries shall furnish the scanned images of the KYC documents to the KRA and retain the physical KYC documents.

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1.6 Unique Client Code

In accordance with paragraph 20 of the Stock Broker Master Circular, it shall be mandatory for the Member to use unique client code for all clients. For this purpose, the Member shall collect and maintain in their back office the Permanent Account Number (PAN) allotted by the Income Tax Department for all their clients.

In case of other entities -

a. Members shall verify the documents with respect to the unique code and retain a copy of the document.

b. Members shall also be required to furnish the above particulars of their clients to the Stock Exchanges/Clearing Corporations

1.7 Mapping of Unique Client Code (UCC) with demat account of clients

For mapping of UCC with the demat account of the clients, the following Mechanism has been implemented: -

a. UCC allotted by the Member to the client shall be mapped with the demat account of the client.

b. A client may trade through multiple Members in which case each such UCC shall be mapped with one or more demat account(s).

c. Stock Exchanges shall share the UCC data with the Depositories which shall include the PAN, segment, Member code and UCC allotted. Such UCC data, in respect of new UCCs created, shall be shared with the Depositories, on a daily basis.

d. Depositories shall map the UCC data in the demat account based on the PAN provided in the UCC database.

e. Clients may make a request to their depository participants to delink or add UCC details which shall be processed by the Depository through depository participants. Before any addition of UCC in the demat account, the Depositories shall validate the same with the Stock Exchanges / client.

1.8 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/P/CIR/2025/90 dated June 17, 2025, has been prescribed as under:

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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.

As per Para 21.7 of SEBI Master circular dated June 17, 2025 has prescribed that aforementioned format of “Trading Preferences” 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.

The format as per FMC circular is set out below:

Note: Please sign in the relevant boxes against the Exchange with which you wish to trade. The Exchange not chosen should be struck off by the client.

Sr. No	Name of the National Commodity Exchange #	Date of consent for trading on concerned Exchange	Signature of the client

#At the time of printing the form, the Member must specify the names of the Exchanges where the Member has membership.

[In case of allowing a client for trading on any other Exchange at a later date, which is not selected now, a separate consent letter is required to be obtained by the Member from client and to be kept as enclosure with this document]

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.

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The aforementioned provisions shall also be applicable to the clients registered in accordance with SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020.

1.9 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 provided by the clients as per SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD 1/P/CIR/2023/132 dated August 01, 2023.	Yes. Stockbroker shall offer access to clients on all the active Stock 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

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Sr No	For Members exclusive to Commodity Segment	For Members not exclusive to Commodity Segment
		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

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Sr No	For Members exclusive to Commodity Segment	For Members not exclusive to Commodity Segment
		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

1.10 Rationalisation of Risk Management Framework at KRAs

In accordance with paragraph 96 to 103 of the KYC Master Circular, as a part of risk management framework, the KRAs shall verify the following attributes of records of all clients within 2 days of receipt of KYC records:

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- PAN (including PAN Aadhaar linkage, as referred to in rule114 AAA of the Income-tax Rules, 1962)
- 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.
- Clients in whose case, attributes of records as mentioned above cannot be verified, shall not be allowed to transact further in securities market until the attributes are verified.
- Records of Clients of which all attributes mentioned above are verified by KRAs with official databases (such as Income Tax Department database on PAN, Aadhaar XML/Digilocker/ M-Aadhaar) shall be considered as Validated Records.
- The validated records shall be allowed portability i.e. the client need not undergo the KYC process again when the client approaches different intermediary in securities market and the intermediary shall fetch the validated records from the KRA database.
- The KRAs shall follow uniform internal guidelines/standards detailing aspects of identification of attributes and procedures for verification/ validation, in consultation with SEBI.
- The systems of intermediaries and the KRAs shall be integrated to facilitate seamless movement of documents/information to and from the intermediary to the KRAs for verification/validation of attributes under risk management framework.
- The records of all existing clients whose KYC has been completed based on OVDs other than Aadhaar, shall be verified by December 31, 2023.

As per Exchange has issued from time to time on Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011 - 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.

1.11 <u>Delivery of copy of duly completed Client registration forms</u>

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. Members 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.

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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. Members 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.

1.12 Requirement of Permanent Account Number (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 an individual/company/Partnership firm/trust/ unincorporated association or body of individuals.

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

In accordance with paragraph 7 to 10 of the KYC Master Circular, PAN shall be the unique identification number for all participants transacting in the securities market, irrespective of the amount of transaction.

Members shall verify the PAN of their clients online at the Income Tax website without insisting on the original or copy of PAN card. As per the provisions of Income-tax Act, 1961(Income Tax Act), the PAN allotted to a person shall become inoperative if it is not linked with Aadhaar. Since PAN is the key identification number and part of KYC requirements for all transactions in the securities market, all registered intermediaries shall ensure valid PAN in the KYC documentation for all clients.

Status of Aadhaar and PAN linkage shall be flagged at the system of KRA

In accordance with paragraph 11 of the KYC Master Circular, the following are exempted from the mandatory requirement of PAN:

i. Transactions undertaken on behalf of Central Government and/or State Government and by officials appointed by Courts e.g. Official liquidator, Court receiver etc. (under the category of Government) for transacting in the securities market.

ii. Investors residing in the state of Sikkim.

iii. UN entities/multilateral agencies exempt from paying taxes/filing tax returns in India.

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iv. SIP of Mutual Funds upto ₹50,000/-per year.

In case there is change in the name subsequent to issuance of PAN of the client, registered intermediaries can collect the PAN card proof as submitted by the client provided it is supported by a marriage certificate issued by the State Government or gazette notification, indicating such a change of name.

The e-PAN issued by Central Board of Direct Taxes (CBDT) can also be produced by client for KYC compliance. e-PAN is a digitally signed PAN card issued in electronic format by the Income-tax department.

1.13 <u>Execution of 'Demat Debit and Pledge Instruction' (DDPI) / Power of Attorney (POA) by clients</u>

In accordance with paragraph 37 of the Stock Broker Master Circular, SEBI has prescribed guidelines regarding execution of a 'Demat Debit and Pledge Instruction' **("DDPI") (Enclosed as Annexure – 6),** under which the clients shall explicitly agree to access the Beneficial Owner (BO) account of the client to meet settlement obligations of the trade executed by the client. In order to make the process more transparent and simpler, the following conditions shall be made part of a separate document viz. 'Demat Debit and Pledge Instruction' (DDPI).

i Transfer of securities held in the beneficial owner accounts of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by clients on the Stock Exchange through the same member. For pledging / re-pledging of securities in favour of the member for the purpose of meeting margin requirements of the client in connection with the trades executed by such a client on the Stock Exchange;

ii Pledging / re-pledging of securities in favour of Members for the purpose of meeting margin requirements of the clients in connection with the trades executed by the clients on the Stock Exchange.

iii Mutual Fund transactions being executed on stock exchange order entry platforms and which shall be in compliance with SEBI Circulars with Reference No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 04, 2021, SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/635 dated October 04, 2021 and SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29 dated March 15, 2022 or any other circular which may be issued in this regard; and

iv Tendering shares in open offers which shall be in compliance with SEBI circular SEBI/HO/CFD/DCR-III/CIR/P/2021/615 dated August 13, 2021 or any other circular which may be issued in this regard.

The DDPI shall serve the same purpose of PoA and significantly mitigate the misuse of PoA. The use of DDPI shall be limited only for the purposes as mentioned in para i, ii, iii and iv above.

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, PoA shall no longer be executed for the conditions specified in para i and ii.

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The DDPI, which is indexed as part of the Voluntary Documents in Annexure-7 of the Stock Broker Master Circular, and shall be executed only if the client provides his/her explicit consent for the same, including internet based trading. The DDPI shall also be adequately stamped. The DDPI can be digitally signed by the clients.

The existing PoAs shall continue to remain valid till the time client revokes the same. Thus, the Member 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.

PoA is optional and should not be insisted upon by the Member / depository participant for opening of the client account.

For the execution of the DDPI for fulfilling delivery / settlement obligations, prior to executing actual transfer of securities based on details provided by Member / depository participant, the Depositories shall ensure matching and confirming the transfer of securities with client-wise net delivery obligation arising from the trade executed on the exchange, as provided by the Clearing Corporation to Depositories for each settlement date.

Securities transferred on the basis of the DDPI provided by the client shall be credited to client's Member pool account / CM pool account / demat account of clearing corporation, as the case may be. The DDPI provided by the client shall be registered in the demat account of the client by Members. Stock Exchanges and Depositories shall ensure that Member/ depository participant providing DDPI facility, has enabled its clients to revoke / cancel the DDPI provided by them.

Power of Attorney

In accordance with paragraph 36 of the Stock Broker Master Circular, SEBI has prescribed guidelines to standardize the norms to be followed by Members/ Members and depository participants while obtaining PoA from the clients, guidelines as set out therein, shall be made applicable to Members/ Members and depository participants.

Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-in/pay-out of funds etc. No Member or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour. However, internet based trading is exempted from this clause.

Members/ DP may revoke those authorizations that are inconsistent with the present guidelines by communicating the inconsistent clauses to the existing clients. In the event, the deleted clauses are not accepted by the client, Member/ DP may be required to either obtain fresh PoA or close the account. In case of any addition to the existing PoA, Members / DP shall be required to obtain a new PoA from clients.

1.14 PoA favouring Members

PoA executed in favour of a Member by the client should be limited to the following:

Securities

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a. For transfer of securities held in the beneficial owner accounts of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by clients on the Stock Exchange through the same Member.

b. For pledging / re-pledging of securities in favour of the Member for the purpose of meeting margin requirements of the clients in connection with the trades executed by the clients on the Stock Exchange.

c. To apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers, redemptions etc. pursuant to the instructions of the Client(s). However, a proper audit trail should be maintained by the Member to prove that the necessary application/act was made/done pursuant to receipt of instruction from Client. Further, redemptions are also included in PoA pursuant to client's instructions.

Funds

Transfer of funds from the bank account(s) of the clients for the following:

a. For meeting the settlement obligations of the client(s)/ margin requirements of the client(s) in connection with the trades executed by the clients on the Stock Exchange through the same Member.

b. For recovering any outstanding amount due from the client(s) arising out of clients trading activities on the Stock Exchanges through the same Member.

c. For meeting obligations arising out of the client subscribing to such other products/facilities/services through the Member like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares in etc.

d. Towards monies/fees/charges, etc. due to the Member / depository participant / principal payable by virtue of the client using / subscribing to any of the facilities/services availed by the client at his/her instance.

Necessary audit trail should be available with the Member for such transactions.

1.15 PoA favouring Members and Depository Participants

PoA executed in favour of a member and Depository Participant by the client should:

a. Identify/provide the particulars of the beneficial owner account(s) and the bank account(s) of the client(s) that the member is entitled to operate.

b. Provide the list of clients' & brokers' Bank accounts & demat accounts where funds and securities can be moved. Such bank & demat accounts should be accounts of related party only. The list of clients' and members' Bank account and demat accounts may be updated / amended by proper communication without executing a new PoA every time. Copies of such communication may be preserved as annexure to PoA.

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c. Be executed in the name of the concerned SEBI registered entity only and not in the name of any employee or representative of the Member /depository participant.

d. Not provide the authority to transfer the rights in favour of any assignees of the Member/depository participant.

e. Be executed and stamped as per the rules / law prevailing in the place where the PoA is executed or the place where the PoA is kept as a record, as applicable.

f. Contain a clause by which the Member would return to the client(s), the securities or fund that may have been received by it erroneously or those securities or fund that it was not entitled to receive from the client(s).

g. Be revocable at any time. However, such revocation shall not be applicable for any outstanding settlement obligation arising out of the trades carried out prior to receiving request for revocation of PoA. Further, the PoA revocation requests should be dated and time stamped by the brokers for ensuring proper audit trail.

h. Be executed by all the joint holders (in case of a demat account held jointly). If the constitution of the account is changed for whatever reason, a new PoA should be executed.

i. Authorize the Member/depository participant to send consolidated summary of Client's scrip-wise buy and sell positions taken with average rates to the client by way of SMS / email on a daily basis, notwithstanding any other document to be disseminated as specified by SEBI from time to time.

General Guidelines

The PoA shall not facilitate the Member to do the following:

a. Off-market trades between parties other than the related parties as mentioned in the PoA.

b. Transfer of funds from the bank account(s) of the Clients for trades executed by the clients through another Member.

c. Open a broking / trading facility with any Member or for opening a beneficial owner account with any depository participant.

d. Execute trades in the name of the client(s) without the client(s) consent.

e. Prohibit issue of Delivery Instruction Slips (DIS) to beneficial owner (client).

f. Prohibit client(s) from operating the account.

g. Merging of balances (dues) under various accounts to nullify debit in any other account.

h. Open an email ID/ email account on behalf of the client(s) for receiving statement of transactions, bills, contract notes etc. from Member / depository participant.

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i. Renounce liability for any loss or claim that may arise due to any blocking of funds that may be erroneously instructed by the Member to the designated bank.

1.16 Member / Depository Participant should ensure that:

i A duplicate/ certified true copy of the PoA is provided to the Client(s) after execution.

ii In case of merger/ demerger of the Member/depository participant with another entity/ into another entity, the scheme of merger/ demerger should be approved by High Court and one month prior intimation given to the client about the corporate restructuring to facilitate investor/ client to continue or discontinue with the broker.

All off-market transfer of securities shall be permitted by the Depositories only by execution of Physical Delivery Instruction Slip (DIS) duly signed by the client himself or by way of electronic DIS. The Depositories shall also put in place a system of obtaining client's consent through One Time Password (OTP) for such off market transfer of securities from client's demat account.

1.17 Nomination for Eligible Trading Accounts

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.

In accordance with paragraph 22 of the Stock Broker Master Circular, may have the choice of providing nomination or opting out nomination as follows:

a) The format for nomination form is given in **Annexure – 7**.

b) Opt out of nomination through 'Declaration Form', as provided in **Annexure – 8**.

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.

Trading Members shall ensure that adequate systems are in place including for providing for e-Sign facility and also take all necessary steps to maintain confidentiality and safety of client records.

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'.

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Trading Members may get “choice of nomination” by way of two factor authentication (2FA) login on the internet trading platform for Members providing such services.

Re-submission of nomination details shall be optional for the existing investors who have already provided the nomination details prior to July 23, 2021.

The details required in the form at **Annexure – 7** of the circular, viz. mobile number, e-mail ID and identification details of the nominee(s)/ guardian(s) of the minor nominee(s) are optional.

1.18 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 Members shall comply with the following guidelines. Further, in accordance with circular no. SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/78 dated June 06, 2024, 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*’ (**AML CFT Guidelines**), the Members 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. where the client is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.

Explanation:

“Controlling ownership interest” means ownership of or entitlement to more than 10% of shares or capital or profits of the company;

“Control” shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements. where the client is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of/entitlement to more than 10% of capital or profits of the partnership or who exercises control through other means. Explanation: “Control” shall include the right to control the management or policy decision.

b. where the client is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than 15% of the property or capital or profits of such association or body of individuals;

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c. where the client is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than 15% of the property or capital or profits of such association or body of individuals;

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

B. For client which is a trust:

The intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 10% 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.

1.19 Client Registration Documents in vernacular language

In order to facilitate better understanding of the registration documents by the investors, Exchange *vide* circular no. MCX/INSP/419/2016 dated December 06, 2016 has provided the following documents in 15 regional vernacular languages.

1. Document stating the Rights & Obligations of members 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.

1.20 Simplification of Account Opening Kit

In order to further simplify the process of client registration, SEBI *vide* paragraph 21 of the Stock Broker Master Circular, has 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

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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, Members shall maintain logs of the same.

1.21 Guidelines for Inactive Client Accounts

In view of the representations received from Brokers' Industry Standards Forum and after consideration of the same by SEBI, Exchange vide circular no. MCX/INSP/716/2024 dated October 28, 2024 has revised the guidelines on Treatment of Inactive Trading Account as under:

1. **Definition of Inactive Trading Account:** In case of trading account, the term inactive account refers to such account wherein any of below mentioned activities has not been carried out by client since last 24 (Twenty-Four) months:

   i Trading or participation in OFS/buy-back/Open Offer across any of the exchanges/segments* of the exchanges through the same Member or

   *Cash/Equity Derivative/ Currency Derivative/ Commodities Derivative/EGR /Debt/Online Bond Platform/ Execution Only Platform /Any other segment as may be allowed by SEBI/stock exchanges from time to time.

   ii Transaction in nature of applying/subscribing IPOs (where the IPO bid is successful & not cancelled)/SGBs/Mutual Funds (lumpsum investment or investments through successful SIP instalment payments) on the Mutual Fund platform of the stock exchanges through the same Member or

   iii Modification/updation of e-mail Id/Mobile Number/Address in KYC record of client through the same Member and the same has been uploaded to KRA to ensure Validated/Registered status.

2. 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.

3. In case the client who is flagged as inactive seeks re-activation of the trading account, the Trading Member, while reactivating the said client, shall:

   i Mandatorily comply with In-Person Verification/Video In-Person Verification (IPV/VIPV) requirement specified in the KYC Master Circular.

   ii Seek confirmation from the client if there is any change in clients' basic details such as Address, Mobile number, Email ID, Bank/DP account, income, etc. as registered with the Member. In case of changes in any of the said details, the Member shall seek the updated details along with the necessary documents and update in its records as well in the UCC records of the respective Exchanges. In case of KRA Validated status or Registered status through same intermediary cases, the Trading Member may fetch the details along with the necessary documents from the KRA record and display the said details for confirmation of the client and updation in its record. If there is change, then member shall update

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the UCC records of Exchanges as well as KRA. If client has confirmed that there is no change, the Member shall maintain the verifiable logs of the same.

iii Notwithstanding anything contained above, in case a client seeks re-activation then member shall verify client status as per KRA and if the client status as per KRA is not validated (i.e. "On hold"/"Rejected"/"Registered" through other intermediary, etc.) then the member shall seek basic details like Address, Mobile number, Email ID, Bank/DP account, income, etc. along with the necessary documents as required by KRA and upload the same to KRA to ensure validated/registered status as per KRA before permitting client to trade on the Exchanges.

4. Once an inactive trading account is re-activated as per the procedure prescribed in point no. 3 mentioned above, the computation of next 24 months for the purpose of identifying client as inactive in the subsequent period shall be considered from the date of last reactivation of trading account.

5. Member may send the communication/notification to the clients prior to flagging their trading account as inactive however such communication/notification should not ask the clients to trade in order to prevent their accounts from being flagged as inactive. Any noncompliance in this regard shall be viewed seriously and strict disciplinary actions against the Trading Member may be initiated.

6. In case of existing clients who are inactive as per earlier guidelines, but are active as per revised guidelines, they may be considered as active client for trading. However, while reactivating such clients' accounts, the members shall also ensure to update the status of such clients as active in UCC database of the Exchange.

7. The Trading Member shall not be required to upload the details of such inactive clients having NIL balances in daily submission of Holding Statement to the Exchange as prescribed in Exchange Circular no. MCX/INSP/044/2023 dated January 25, 2023 and daily submission of Segregation and Monitoring of Collateral at Client level to Clearing Members/Clearing Corporations. However, details of the clients having funds or securities balances shall be reported (daily submission of Segregation and Monitoring of Collateral at Client level file reporting to Clearing Corporations in case of funds and daily submission of Holding Statement to the Exchange in case of securities) even if their UCC has been flagged as 'Inactive'.

8. Notwithstanding anything contained above, the Member shall also ensure adequate due diligence of the client on an ongoing basis (including, but not limited to, doing Re-KYC) in compliance with the provisions of the PMLA guidelines issued from time to time and in accordance with their respective KYC policies.

9. Return of Clients assets: Members are required to ensure that all client accounts are settled on monthly or quarterly basis (as per the client preferences) in the manner prescribed from time to time. In case a member is unable to settle the client accounts due to non-availability of client's account details and non-traceability of client, Members are advised to make all efforts to trace the clients to settle client account and maintain an audit trail for such efforts made for tracing such clients and settling their account. In case of

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receipt of any claims from such clients, members are advised to settle the accounts immediately and ensure that the payment/delivery is made to the respective clients only. Member shall ensure to keep such unsettled funds upstreamed to Clearing Corporations.

1.22 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 in Exchange circular no. MCX/INSP/460/2021 July 26, 2021 and Exchange Circular no. MCX/INSP/592/2024 dated September 10, 2025. 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. The guidelines for online closure of trading accounts are as below:

1. 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.

2. 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.

3. In case of trading account, the client can request for account closure through web portal / app of the trading member through secured access with 2 factor authentication or by sending the trading account closure request on email through his/her/its registered email ID. The closure request received through SMS, other messaging apps, etc. shall not be entertained by the trading member.

4. Once the application for closure of trading account is received, the member shall provide acknowledgement to the client on registered email id and / or mobile number about the receipt of closure request and shall not permit any further requests for execution of trades by the client.

5. 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.

6. 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 5 above. Client needs to ensure that there are no

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securities / commodities available in the trading member's demat account at the time of account closure request.

7. 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 segregation and monitoring of collateral at client level reporting.

8. 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.

9. 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 received in electronic form in a secured manner and the same shall be subject to 100% internal audit.

10. 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.

11. Exchanges shall continue its complaint redressal mechanism for dealing with complaints related to online closure of trading accounts.

1.23 <u>Operationalisation of Central KYC Records Registry (CKYCR) and uploading of clients' KYC details</u>

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, in accordance with paragraph 114 of the KYC Master Circular, all reporting entities are required to capture the KYC information for sharing with the Central KYC Records Registry.

As per paragraph 115 and 116 **of** the KYC Master Circular, the KYC details of existing and new individual clients shall be uploaded as under:

a. Registered intermediaries (RI) shall within ten days after the commencement of an account – based relationship with a client, file the electronic copy of the client's KYC records with the CKYCR.

b. Registered intermediaries shall ensure that all existing KYC records of legal entities and of individual clients are uploaded on to CKYCR when the updated information is obtained / received from the client.

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c. 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 Member 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.

d. Once KYC Identifier is generated by CKYCR, the RIs shall ensure that the same is communicated to the individual/legal entity.

1.24 Know Your Client requirements for Foreign Portfolio Investors (FPIs)

SEBI vide Circular no. SEBI/HO/AFD/AFD-PoD-2/P/CIR/2024/70 dated May 30, 2024, has issued "Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors which supersedes Securities and Exchange Board of India (SEBI), vide circular number SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 on FPIs, DDPs and Eligible Foreign Investors under the Securities and Exchange Board of India(Foreign Portfolio Investors), Regulations 2019.

1. 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".

2. SEBI has also incorporated the provisions of the aforesaid circulars in the Master Circular having number SEBI/HO/AFD/AFD-PoD-2/P/CIR/2024/70 dated May 30, 2024 which supersedes the earlier Operational Guidelines issued vide circular dated December 19, 2022. 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 the issuance of this Master Circular.."

3. 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.

Master Circular no: SEBI/HO/AFD/AFD-PoD-2/P/CIR/2024/70 dated May 30, 2024, has issued "Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors".

1.25 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)

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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.

1.26 <u>Most Important Terms And Conditions (MITC)</u>

SEBI vide paragraph 21.4 of the Stock Broker Master Circular and Exchange vide circular no. MCX/INSP/008/2024 dated January 05, 2024, has prescribed that the Members 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
- 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.

The standard Most Important Terms and Conditions (MITC) is prescribed below: -

Most Important Terms and Conditions (MITC)

(For non-custodial settled trading accounts)

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1. Your trading account has a “Unique Client Code” (UCC), different from your demat account number. Do not allow anyone (including your own Member, their representatives and dealers) to trade in your trading account on their own without taking specific instruction from you for your trades. Do not share your internet/ mobile trading login credentials with anyone else.

2. You are required to place collaterals as margins with the Member before you trade. The collateral can either be in the form of funds transfer into specified Member bank accounts or margin pledge of securities from your demat account. The bank accounts are listed on the Member website. Please do not transfer funds into any other account. The Member is not permitted to accept any cash from you.

3. The Member’s Risk Management Policy provides details about how the trading limits will be given to you, and the tariff sheet provides the charges that the Member will levy on you.

4. All securities purchased by you will be transferred to your demat account within one working day of the payout. In case of securities purchased but not fully paid by you, the transfer of the same may be subject to limited period pledge i.e. seven trading days after the pay-out (CUSPA pledge) created in favor of the Member. You can view your demat account balances directly at the website of the Depositories after creating a login.

5. The Member is obligated to deposit all funds received from you with any of the Clearing Corporations duly allocated in your name. The Member is further mandated to return excess funds as per applicable norms to you at the time of quarterly/ monthly settlement. You can view the amounts allocated to you directly at the website of the Clearing Corporation(s).

6. You will get a contract note from the Member within 24 hours of the trade.

7. You may give a one-time Demat Debit and Pledge Instruction (DDPI) authority to your Member for limited access to your demat account, including transferring securities, which are sold in your account for pay-in.

8. The Member is expected to know your financial status and monitor your accounts accordingly. Do share all financial information (e.g. income, networth, etc.) with the Member as and when requested for. Kindly also keep your email Id and mobile phone details with the Member always updated.

9. In case of disputes with the Member, you can raise a grievance on the dedicated investor grievance ID of the Member. You can also approach the stock exchanges and/or SEBI directly.

10. Any assured/guaranteed/fixed returns schemes or any other schemes of similar nature are prohibited by law. You will not have any protection/recourse from SEBI/stock exchanges for participation in such schemes.

Further, the standard Most Important Terms and Conditions (MITC) is also enclosed as **Annexure 5** of account opening documents in PART-B.

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1.27 FAQ on KYC Norms for The Securities Market

FREQUENTLY ASKED QUESTIONS ON KYC NORMS FOR THE SECURITIES MARKET

DISCLAIMER: These FAQs are prepared with a view to guide market participants on KYC norms for the securities market. For full particulars of law governing KYC norms, please refer to the PMLA and Rules framed thereunder and to the Acts / Regulations/ Guidelines / Master Circular / Circulars, etc. appearing in the Legal Framework section of SEBI website at www.sebi.gov.in.

1. What is KYC?

   Know Your Client (KYC) means identifying and verifying the client's identity and the identity of the beneficial owner through documents submitted for Proof of Identity (PoI) and Proof of Address (PoA) and compliance with rules, regulations, guidelines and circulars issued by the Board or any other authority for Prevention of Money Laundering from time to time.

2. Who is considered a 'beneficial owner'?

   Beneficial owner is the natural person or persons who ultimately own, control or influence a client and / or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

3. When is KYC done?

   KYC is to be carried out at the time of commencement of an account based relationship. Existing clients are required to update their KYC documents from time to time.

4. Why is KYC compulsory?

   The Prevention of Money Laundering Act, 2002 (PMLA) along with the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PML Rules) are the principal laws enacted to prevent money laundering activities in India. As per PMLA and Rules framed thereunder, intermediaries in securities market are required to perform Client Due Diligence. KYC records including details submitted for account opening of the client play a crucial role in ensuring Client Due Diligence.

5. What are the benefits of KYC?

   The main aim of conducting KYC is to verify the identity of clients / beneficial owners, nature and purpose of client relationships and examine the probabilities of any illegal wrongdoings. Additionally, KYC helps to make sure that all transactions are legitimate and transparent. Updating KYC details from time to time with the intermediaries, aids the investors in receiving timely information.

6. Can intermediaries seek additional KYC information?

   Yes, client needs to furnish additional KYC Information as required under the law.

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7. What is Part I and Part II of the account opening form (AOF)?

Client needs to fill the account opening form at the time of commencement of an account based relationship. Part I of the AOF is the KYC form in which the basic details about the client is captured.

Part II of the form pertains to the additional KYC information as may be sought separately by the financial intermediary such as asset management company, stock broker, depository participant opening the client's account.

8. Is there a uniform KYC form to be used for account opening?

Yes. KYC templates provided by Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) for individuals and for legal entities are used for capturing the KYC information. The CKYCR templates - Individual and Legal Entity provided by CERSAI is available at https://www.ckycindia.in/ckyc/?r=download.

9. What are the different modes of KYC verification available to clients?

Clients can complete their KYC verification through physical mode / online or app based mode.

10. Is Permanent Account Number (PAN) card considered as an identity proof for the purpose of KYC?

No. PAN is not included under the list of officially valid document for the purpose of identity under the rule 2(d) of the PML rules.

11. Is it mandatory to provide PAN details, if it is not considered as proof of identity?

Yes. PAN is the key identification number and part of KYC requirements for all transactions in the securities market.

12. Is PAN-Aadhaar seeding mandatory for transactions in securities market?

No. The Indian government has made it mandatory for everyone to link their PAN to their Aadhaar, with certain exceptions for NRIs, non-citizens, those over 80, and residents of the states of Assam, Jammu and Kashmir and Meghalaya.

Clients in whose case, PAN Aadhaar linkage are not found to be verified, shall be allowed to transact with the existing intermediary subject to valid PAN, however the client's KYC shall not be allowed portability in securities market.

13. A client has recently completed PAN-Aadhaar seeding. What is the next step?

The client has to inform the respective intermediary about completion of PAN-Aadhaar seeding. The client can also update this information on the KRA portal.

14. What is the difference between masked and unmasked Aadhaar?

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The only significant difference between masked Aadhaar and regular Aadhaar is the visibility of the Aadhaar number. Where masked Aadhaar has only the last 4- digits of Aadhaar visible, a regular Aadhaar will display the complete 12-digit Aadhaar number.

15. What is meant by OVD?

Officially valid documents (OVDs) are government issued documents that can be accepted as identity and address proof and defined as per Rule 2 (d) of PML Rules.

16. Which documents are acceptable as Proof of Identity (PoI) and Proof of Address (PoA)?

The following documents are acceptable as PoI and PoA:

i the passport;
ii the driving licence;
iii proof of possession of Aadhaar number;
iv the Voter's Identity Card issued by Election Commission of India;
v job card issued by NREGA duly signed by an officer of the State Government;
vi the letter issued by the National Population Register containing details of name address; or
vii any other document as notified by the Central Government in consultation with the Regulator.

17. Which documents are acceptable as deemed OVD for POA?

In case the document furnished by the client does not contain updated address, the following documents (or their equivalent e-documents thereof) are acceptable for the limited purpose of proof of address, provided that the client submits updated officially valid document (or their equivalent e-documents thereof) with current address within a period of three months of submitting the following documents:

i utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);

ii property or municipal tax receipt;

iii pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;

iv letter of allotment of accommodation from employer issued by state or central government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allotting official accommodation.

18. Is the client required to update KYC records?

Yes. Clients are required to update KYC records as and when there is any change / modification in the KYC information submitted.

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19. Is the client required to intimate change in name?

Yes. Client intending to change his / her name is required to submit the modification form along with the self-attested copy of the documentary proof bearing the new name.

20. If correspondence and permanent address are different, documentary proof for which address is to be submitted?

If correspondence and permanent address is different, then proof for both is to be provided. However, if a client has provided Aadhaar / Aadhaar number for identification and wants to provide a current address, which is different from the address indicated in the Aadhaar, the client may give a self-declaration to that effect to the respective intermediary.

21. What is digital KYC?

Digital KYC means capturing live photo of the client and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the registered intermediary as per the provisions contained in the Prevention of Money Laundering Act.

22. How does the digitized KYC process work?

In the digital KYC process, the investor's photograph, acceptance of officially valid document through technologically assisted facilities like Digi locker, online / offline / biometric Aadhaar, video capturing in live environment, time stamping, geo-location tagging to ensure physical location being in India and liveliness check is carried out. In the online KYC mode, the documents along with the wet / cropped signature are e-signed.

23. What is the online e-Sign Electronic Signature Service and whether it is a legally valid signature?

e-Sign Electronic Signature Service is an innovative initiative by allowing easy, efficient, and secure signing of electronic documents by authenticating signer using Aadhaar e-KYC services. With this service, any Aadhaar holder can digitally sign an electronic document without having to obtain a physical digital signature dongle. The Electronic Signatures facilitated through e-Sign Online Electronic Signature Service is legally valid.

24. In digital process of KYC, do we need to submit mobile number?

Yes. The mobile number should preferably be the one seeded with Aadhaar.

25. In case registered intermediary is availing penny drop facility using API of the bank, is copy of signed cancelled cheque required to be obtained from client?

If registered intermediary is availing penny drop facility using API of the bank, copy of signed cancelled cheque is not required to be obtained. However, in cases where penny

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drop match fails, or in cases where penny drop doesn't return joint account holder name, clients can be asked to submit proofs like copy of signed cancelled cheque.

26. If the investor's bank does not support the penny drop facility, can such details be accepted based on the copy of the signed cancelled cheque?

    The registered intermediary should attempt verification of bank account details using penny drop facility in all cases. But, if the investor's bank does not provide response to the penny drop, the bank details can be accepted based on the copy of the signed cancelled cheque.

27. Can SEBI registered intermediary, while entering into account based relationship, rely on the records of client due diligence (KYC) carried out by a third party?

    Yes, subject to compliance with provisions of sub-rule 9 (2) of Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

28. What is KRA?

    KRA (Know Your Client) Registration Agency is a SEBI registered intermediary to maintain KYC records of clients and provides centralization of the KYC records in the securities market. The intermediary performs the initial KYC of the client and uploads the details on the system of the KRA.

29. What is KRA validation?

    KRA validation refers to the process of verifying and validating the KYC attributes of KYC records stored in the KRA.

30. What are Validated Records in the risk management framework at KRAs?

    In the risk management framework, the KRAs are required to verify KYC attributes like PAN, Name, Address, client's mobile number and email id of the client's KYC records uploaded on their system with official databases such as Income Tax Department database on PAN, Aadhaar XML / Digilocker / M-Aadhaar). The records verified with official databases and where PAN-Aadhaar linkage has also been verified are considered as Validated Records.

31. What is portability of KYC records?

    The clients whose KYC records are validated by the KRAs need not undergo the KYC process again when the client approaches another intermediary in securities market (portability of KYC records) and the intermediary can fetch the validated records from the KRA.

32. Are new clients allowed to transact in securities market, pending validation of KYC records by KRAs?

    Yes. The clients can open an account with intermediaries and transact in securities market as soon as the KYC process is completed. However, clients whose KYC attributes cannot

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be verified by KRAs will not be allowed to transact further in the securities market until the attributes are verified.

33. How can a client find the status of his KYC and what are its implications?

KRAs facilitate the clients to check their KYC status on the KRA website. The different KYC status and implications thereto are also available on the KRAs website.

34. My KYC status is shown as “validated” with one KRA. However, my KYC is not seen in another KRA? What is the reason and implication, if any?

Each KYC record is unique and tagged with a single PAN. The client whose KYC record is validated by a KRA has portability of KYC record and the client need not undergo the KYC process again when he / she approaches another intermediary in securities market.

35. How can a client find out if any intermediary has downloaded / modified his KYC record?

The client gets an intimation from the respective KRA as and when his / her KYC is downloaded / modified by any intermediary.

36. Does a client who has done his KYC with a DP need to do KYC again if he wishes to invest in mutual funds?

The clients whose KYC records are validated by the KRAs need not undergo the KYC process again when the client approaches another intermediary in securities market (portability of KYC records) and the intermediary can fetch the validated records from the KRA.

37. What is the time period to redress investor grievances pertaining to KYC in SCORES?

Within 21 days from the date of receipt of the complaint.

38. What is CKYCR?

Central KYC Records Registry (CKYCR) is an initiative of the Government of India, which act as centralized repository of KYC records of all entities in the financial sector with uniform KYC norms and inter-usability of the KYC records across the sector. Once the KYC form is submitted, a unique KYC Identification Number (also known as CKYC Number) is generated and communicated to the client by SMS / Email.

39. Are registered intermediaries required to upload client’s KYC records with the CKYCR?

As required under the PML Rules, registered intermediaries are required to capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the PML Rules and as per the KYC template finalised by CERSAI.

1.28 Accessibility and Inclusiveness of Digital KYC to Persons with Disabilities

SEBI vide circular no. SEBI/HO/MIRSD/SECFATF/P/CIR/2025/74 dated May 23, 2025 and Exchange circular no. MCX/INSP/299/2025 dated June 19, 2025 on Accessibility and

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Inclusiveness of Digital KYC to Persons with Disabilities has issued a FAQ on account opening by person with disability to ensure that the uniform KYC process is more inclusive and accessible to persons with disability for full and effective participation in securities market. In this regard, SEBI has issued circular no. SEBI/HO/ITD-1/ITD_VIAP/P/CIR/2025/111 dated July 31, 2025, SEBI/HO/ITD-1/ITD VIAP/P/CIR/2025/121 dated August 29, 2025, SEBI/HO/ITD-1/ITD_VIAP/P/CIR/2025/131 dated September 25, 2025 and HO/13/19/13(2)2025-ITD-1_VIAP/I/187/2025 dated December 08, 2025.

Members are requested to comply with the compliance requirement as prescribed by SEBI and relevant circulars issued by the Exchange from time to time on person with disability.

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 and Rationalization of Trading Account Opening Process (IPV)	SEBI letter no. MIRSD/DPS-III/130466/2008 dated 2nd July 2008; 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
3.	Rationalization process for obtaining PAN by Investors	Circular number CIR/MIRSD/01 /2013 dated Jan 04, 2013
4.	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)
5.	Master Circular on Know Your Client (KYC) norms for the securities market.	SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023
6.	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
7.	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

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Sr. No.	Subject	SEBI Circular Number
8.	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
9.	Operational Guidelines for FPIs & DDPs under SEBI (Foreign Portfolio Investors), Regulations 2019 and for Eligible Foreign Investors	IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019
10.	Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors	SEBI/HO/AFD/AFD-PoD-2/P/CIR/2024/70 dated May 30, 2024
11.	Nomination for Eligible Trading and Demat Accounts	SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021
12.	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
13.	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.
14.	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;
15.	Delivery of copy of duly completed Client registration forms	SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December 2009
16.	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; SEBI circular No. SEBI/HO/MIRSD /DOP/CIR/P/2020/158 dated August 27,2020, SEBI circular No. SEBI/HO/MIRSD/DoP /P/CIR/2022/44 dated April 04, 2022,

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Sr. No.	Subject	SEBI Circular Number
		SEBI circular No. SEBI/HO/MIRSD /DoP/P/CIR/2022/91 June 30, 2022, 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
17.	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/MIRSDSECFATF/P/CIR/2024/78 dated June 06, 2024
18.	Client Registration documents in vernacular language	MCX/INSP/419/2016 dated December 06, 2016
19.	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
20.	Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011	MCX/INSP/218/2022 April 12, 2022
21.	Trading Preferences by Clients – Applicability for commodity derivatives	MCX/INSP/501/2023 dated August 01, 2023 SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 August 01, 2023
22.	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 MCX/INSP/649/2023 dated September 26, 2023
23.	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 MCX/INSP/935/2023 dated December 28, 2023

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Sr. No.	Subject	SEBI Circular Number
24.	Most Important Terms and Conditions (MITC)	MCX/INSP/008/2024 dated January 05, 2024, SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023, Exchange Circular no. MCX/INSP/775/2023 dated November 15, 2023
25.	Master Circular on Know Your Client (KYC) norms for the securities market	MCX/INSP/710/2023 dated October 17, 2023 SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023
26.	Review of validation of KYC records by KRAs under Risk Management Framework	MCX/INSP/315/2024 dated May 15, 2024
27.	FAQ on KYC Norms for The Securities Market	MCX/INSP/321/2024 dated May 16, 2024
28.	Online Closure of Trading Accounts	MCX/INSP/592/2024 dated September 10, 2024
29.	Guidelines for Inactive Client Accounts	MCX/INSP/716/2024 dated October 28, 2024
30.	Stock Broker Master Circular	MCX/INSP/324/2025 dated July 01, 2025 SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025
31.	Online Closure of Trading Accounts	MCX/INSP/592/2024 dated September 10, 2024
32.	Guidelines for Inactive Client Accounts	MCX/INSP/716/2024 dated October 28, 2024

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CHAPTER 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.

h) Exchange *vide* its circular no. MCX/INSP/354/2025 dated July 24, 2025 has decided to revise the format of the existing contract note. The copy of the revised contract note along with FAQs are enclosed as **Annexure-9** and **Annexure-10,** respectively.

ii. Electronic Contract note (ECN)

In accordance with paragraph 52 of the Stock Broker Master Circular:

Members are allowed to issue contract notes authenticated by means of digital signatures provided that the Members has obtained digital signature certificate from Certifying Authority under the Information and Technology Act, 2000 (hereinafter referred to as **"IT Act 2000"**).

Contract notes can be issued by the Members in electronic form authenticated by means of digital signatures.

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All the members of stock exchanges who are desirous of issuing Electronic Contract Notes (ECNs) to their clients shall comply with the following conditions:

a) Use of Digital Signature on Contract Notes

Members are allowed to issue contract notes authenticated by means of digital signatures provided that the Members 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 Member 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 Member.

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-tamperable.

e) Requirements for acknowledgement

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

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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 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 contract note to the client in any of the following manner within the stipulated time under the extant regulations of SEBI/stock exchanges and maintain the proof of delivery of such 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.

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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.

III. 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.

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 either in the Member – Client agreement / Tripartite agreement or by a separate letter. The mode of confirmation shall be as per the agreement entered into with the clients. 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.

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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

2.2 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.

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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.

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.	Contract Note	MCX/INSP/082/2016 dated March 23, 2016
6.	Format of revised Contract Note	MCX/INSP/174/2017 dated June 09, 2017
7.	Issuance of Electronic Contract Notes (ECN) through SMS/electronic instant messaging services	MCX/INSP/337/2022 dated June 08, 2022

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Sr. No.	Subject	Circular reference
8.	Display of Brokerage, Statutory & Regulatory Levies	MCX/CTCL/567/2022 October 03, 2022
9.	Ease of Doing Business: Text on Contract Note with respect to Fit and Proper status of shareholders	MCX/INSP/291/2024 dated May 06, 2024 SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/25 dated April 24, 2024
10.	Revision in Contract Note Format	MCX/INSP/354/2025 dated July 24, 2025

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CHAPTER 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 *inter alia* 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.

   The margin requirements to be considered for the intra-day snapshots in derivatives segments (including commodity derivatives), shall be calculated based on the fixed Beginning of Day (BOD) margin parameters. The BOD margin parameters would include all SPAN margin parameters as well as ELM requirements. The End of Day (EOD) margin collection requirement from clients, in derivatives segments (including commodity derivatives), shall also be calculated based on the fixed BOD margin parameters. The provisions are 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

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

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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 No. MCX/COMP/213/2026 dated April 17, 2026 on Ease of Doing Business - Rationalization and Standardization of penalties levied on Trading Members.

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/672/2021 dated October 22, 2021 MCX/INSP/303/2022 dated May 24, 2022 and MCX/INSP/372/2022 June 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.

The above mentioned guideline w.r.t passing the penalty related to short reporting of margins other than 'upfront margins' shall be applicable w.e.f. 21st October, 2021. It has been brought to the notice of the Exchange that few Members are passing on the penalty w.r.t short collection of upfront margins to clients.

In view of the above it is hereby once again reiterated 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.

Further, Members are advised that if such penalty has been passed on to the clients after 21st October, 2021, the same shall be refunded to the clients on an immediate basis.

Further, in view of the representations received from Broker's Industry Standards Forum (ISF) and after consideration of the same by SEBI, Exchange vide circular no. MCX/INSP/662/2024 dated October 03, 2024 has decided that penalty levied by clearing corporations of short/non-collection of upfront margins may be passed on to client if

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short/non collection of upfront margin is on account of following reasons attributable to client:

i. Cheque issued by client to member is dishonoured
ii. Increase in margins on account of change in hedge position by client/ expiry of some leg(s) of the hedge positions of the clients

However, with respect to point number II mentioned above, members are requested to note that penalty can be passed only if member in its Risk Management Policy, has informed their clients of potential situations resulting in a hedge break / loss of cross margin benefits like square off by the clients / expiry of some leg(s) of the hedge positions of the clients, leading to higher margin obligations on the open position(s).

The provisions of this circular are applicable for aforesaid penalty levied by clearing corporations on or after November 01, 2024, and accordingly, members are advised to inform their clients of aforesaid change in their risk management policy at least 7 days in advance from the date of applicability of this circular or date of aforesaid penalty levied by clearing corporation whichever is later.

Further, wherever penalty for short reporting of upfront margin in cases mentioned above is being passed on to the client, relevant supporting documents for the same should be provided to the client and audit trail should be maintained.

Exchange vide circular no. MCX/INSP/372/2022 dated June 24, 2022 has prescribed that 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 <u>Acceptance of Collateral from clients only by way of "Margin Pledge"</u>

Members 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 Member 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 Member, such holding of power of attorney shall not be considered as equivalent to the collection of margin by the Member 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

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securities as margin to the Member. The Member 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 the 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.

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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.

In case where client sells the securities, which are pledged in favor of TM/CM as Margin pledged securities (including pledged funded stock) / CUSPA pledge, depositories shall provide a functionality of single instruction in the form of 'Pledge release for early pay in' to TM/CM wherein pledge will be released and early pay in block will be set up immediately in client demat account subject to pay in validation i.e. only to the extent of delivery obligation of that client as provided by CCs to depositories without the need for physical instruction or electronic instruction or DDPI/POA.

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.

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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.

e) 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.

f) 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.

g) 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.

h) In case of invocation of margin pledged securities (including pledged funded stock) of client by Trading member (TM), the invoked securities, other than mutual fund units that are not traded on the exchanges, shall be blocked for early pay-in in the client's demat account with a trail being maintained in TM/CM's 'Client Securities Margin Pledge Account' / 'Client Securities under Margin Funding Account'. The pay in block in client's demat account shall be subject to pay in validation i.e. only to the extent of delivery obligation of that client as provided by CCs to depositories.

In case of invocation of Mutual fund (MF) units that are not traded on the exchange, depositories shall provide a functionality of single instruction in the form of 'invocation cum redemption' wherein invoked MF units will come to the TM/CM's 'Client Securities Margin Pledge Account', and go for auto redemption from the said account.

In scenarios, where client's trading account is frozen or client trading codes are marked as 'Not permitted to trade' or equivalent at the stock exchanges subsequent to creation of pledge, the invoked securities will come to demat account of TM/CM and the same shall be sold by TM/CM under the proprietary code. In order to prevent the accumulation of client securities in the demat account of TM/CM, it must be ensured by TM/CM that pay-in of securities is done on the same day of invocation.

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

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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

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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.

3.3 Guidelines on consideration of VAR Margin Rate/Haircut on securities for Margin Collection & Reporting

As per guidelines issued by Exchange, margin can be collected in form of securities (including mutual fund, Government securities and Treasury bills) in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges, with appropriate haircut. For the purpose of client Margin collection and reporting, the member shall compute the value of such securities as per the closing rate on T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security on that day i.e. T-1 day.

Exchange has received representations from member associations that while providing collateral limit since Clearing Corporations consider VAR margin at the beginning of the T Day for the purpose of valuation of margin pledge-repledge securities, the same practice of applying VAR margin at the beginning of T Day should also be permitted while computing the value of securities for the purpose of client Margin collection and reporting by Trading Member.

In view of the above and in consultation with Broker's Industry Standards Forum (ISF), members are requested to note that for the purpose of client Margin collection and reporting, the member shall compute the value of securities as per the closing rate on T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security at the beginning of T day.

Detailed with respect to VAR/Haircut applicable on securities is as under:

Sr No	Securities	Guidelines for VAR/Haircut
1	G-Sec/T-Bill	Haircut as specified by clearing corporation from time to time. In case where clearing corporations have not specified the haircut for G-Sec/T-bills then haircut of 10%.

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Sr No	Securities	Guidelines for VAR/Haircut
2	Dematerialized units of liquid mutual funds	Haircut equivalent to the VAR of T day for listed liquid mutual funds. In case of others (mutual funds not listed), the haircut should be equivalent to 10% of the NAV. Member may refer MF haircut file (MF_VAR_DDMMYYYY) available on NSE Website.
3	Liquid securities, in dematerialized form, actively traded on the National Exchanges	Haircut at a rate not less than the VAR margin rate of the security at the beginning of T Day. Member may refer below files downloaded from Exchanges website NSE: C_VAR1_DDMMYYYY_1.DAT (refer column VAR Margin i.e. column number 7) BSE :ICCL00_VARELMAM_DDMMYY (refer column VAR Margin of BOD file of T day

Member may have preference of one exchange var file over another exchange var file however said practice should be part of Members Risk Management Policy and followed uniformly across all clients.

The provisions of circular shall be effective from **June 30, 2025.** Members are requested to take note of the above and comply with the applicable regulatory requirements.

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. MCX/C&S/274/2016 dated September 07, 2016
2	Commodity Derivatives-Miscellaneous norms	SEBI/HO/CDMRD/DRMP/CIR/P/2016/93 dated September 26, 2016. MCX/C&S/292/2016 dated September 26, 2016
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 MCX/INSP/118/2020 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 MCX/INSP/519/2020 dated July 21, 2020
5	Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards	SEBI/HO/MIRSD/DoP/P/CIR/2022/44 dated April 04, 2022 MCX/INSP/201/2022 dated April 06, 2022

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Sr. No.	Subject	Circular No.
	deliveries / settlement obligations and pledging / repledging of securities	
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 dated May 10, 2022 MCX/INSP/279/2022 dated May 11, 2022
7	Short reporting of margin shall not to be passed on to the clients	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 MCX/INSP/067/2023 dated February 02, 2023
9	Clarification on Margin collection & reporting	MCX/INSP/672/2021 dated October 22, 2021 MCX/INSP/303/2022 dated May 24, 2022 MCX/INSP/372/2022 dated June 24, 2022
10	Clarification on Margin Collection & Reporting	MCX/INSP/662/2024 dated October 03, 2024
11	SEBI - Master Circular for Stock Brokers	MCX/INSP/324/2025 dated July 01, 2025 SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025
12	Margin obligations to be given by way of Pledge/Re-pledge in the Depository System	MCX/INSP/325/2025 dated July 01, 2025 SEBI/HO/MIRSD/MIRSD PoD/P/CIR/2025/82 dated June 03, 2025
13	Guidelines on consideration of VAR Margin Rate/Haircut on securities for Margin Collection & Reporting	MCX circular no. MCX/INSP/123/2025 dated March 05, 2025.
14	Ease of Doing Business - Rationalization and Standardization of penalties levied on Trading Members	MCX/COMP/213/2026 dated April 17, 2026

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CHAPTER 4 - DEALINGS WITH CLIENTS

4.1 Mode of payment and delivery:

In accordance with paragraph 28 of the Stock Broker Master Circular, Members 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 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 Members 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 Member.

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

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

In accordance with paragraph 28.2 of the Stock Broker Master Circular, SEBI 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 paragraph 29 of the Stock Broker Master Circular 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 Members 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.

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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 <u>Segregation of Client and Own Funds:</u>

SEBI *vide* paragraph 90 read with Annexure 41 of the Stock Broker Master Circular has made SEBI circular bearing reference no. SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI circular bearing reference no. MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008 (*subsumed under paragraph 24 of the Stock Broker Master Circular*) with respect to segregation of client and own funds and securities / commodities to all commodity derivatives exchanges. Paragraph 24 of the Stock Broker Master Circular *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 paragraph (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;

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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 paragraph (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.

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 paragraph (c)(ii) or (c)(iv) given above;

iii. money which may by mistake or accident have been paid into such account in contravention of paragraph (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.

ii. 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 received for sale or kept pending delivery in the market.

b. Securities / commodities fully paid for, pending delivery to clients.

c. Securities / commodities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s).

d. 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.

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

f. Securities / commodities given on Vyaj-badla. Member shall obtain authorization from clients for the same.

iii. Members shall make payment to their clients or deliver the securities / commodities purchased within 24 hours of pay-out unless the client has requested otherwise.

iv. Members shall issue the contract note for purchase/sale of securities commodities to a client within 24 hours of the execution of the contract.

v. In case of sales on behalf of clients, Members shall be at liberty to close out the contract by effecting purchases if the client fails to deliver the securities / commodities sold with valid transfer documents within 48 hours of the contract note having been delivered or before delivery day (as fixed by the Exchange for the concerned settlement period), whichever is earlier. Loss on the transaction, if any, will be deductible from the margin money of that client.

4.4 <u>Collateral deposited by Clients with Brokers</u>

i. In accordance with paragraph 25 of the Stock Broker Master Circular, Members 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. Members should also maintain records to ensure proper audit trail of use of client collateral.

ii. Members 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

iii. The records should be periodically reconciled with the actual collateral deposited with the Member.

iv. Members 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 client collateral is found to be mis-utilised, the Member would attract appropriate deterrent penalty for violation of norms provided under Securities Contract Regulation Act,

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1956, SEBI Act ,1992, SEBI Regulations and SEBI circulars, Business Rules and Exchange circulars, Exchange Byelaws, Rules as applicable from time to time.

4.5 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:

i. The authorization shall be dated and shall contain a clause that the clients may revoke the authorization at any time. The Members, 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.

ii. Authorization shall be signed by the client only & not by any authorised person on his behalf or any holder of the PoA.

iii. The actual settlement of funds shall be done by the Member, at least once in a calendar quarter or month, depending on the client's preference.

iv. The Member, after considering the End of the Day (EOD) obligation of funds across all the Exchanges, shall settle the running accounts at the choice of the clients on quarterly and monthly basis, on the dates stipulated by the Stock Exchanges.

v. Stock exchanges are required to, jointly, issue the annual calendar for the settlement of running account (*quarterly and monthly*) at the beginning of the financial year.

vi. Such periodic settlement of running account may not be necessary:

a) for clients availing margin trading facility as per SEBI.
b) for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG) in accordance with guideline on Upstreaming of client funds by SB/CM to CC

vii. The Member shall transfer the funds / securities/commodities lying in the credit of the client available with TM/ CM/CC within the timeline specified the Exchange. These conditions above shall not apply to institutional clients settling trades through custodians. The existing practice may continue for them.

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 vide circular SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated December 28, 2023 accepted the recommendation to settle the running account of clients on Friday and/or Saturday. Accordingly, The Trading Member, after considering the End of the Day (EOD) obligation of funds across all the Exchanges, shall settle the running accounts at the choice of the clients on quarterly and monthly basis, on the dates stipulated by the Stock Exchanges.

In compliance of paragraph 4.5(v) above, Exchange vide its Circular no. MCX/INSP/031/2026 dated January 21, 2026 has issued annual calendar for the settlement of running account of clients' funds lying with the Trading Member (quarterly and monthly) for the financial year 2026 - 27. The annual calendar is annexed herewith as **Annexure-11.**

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SEBI vide its circular no. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2025/1 dated January 06, 2025, on Measure for ease of doing business - Paragraph 48.4 of the Stock Broker Master Circular provides that for the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction and any amount of such client's funds is lying with member for more than such 30 calendar days, the entire credit balance of client shall be returned to the client by TM, on the upcoming settlement dates of monthly running account settlement cycle (irrespective of settlement cycle preferred by the client) as stipulated by stock exchanges.

However, if the client trades after 30 calendar days and before aforesaid upcoming settlement dates of monthly running account settlement cycle, the settlement of account of client shall continue to be done by the Trading member as per the preference of quarterly/monthly as indicated by the client for running account settlement.

Exchanges have jointly framed operational guidelines with respect to settlement of running account of client's funds lying with a Member on **Saturday**:

- 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 (*now as per the Stock Broker Master Circular*), 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 issued vide circular MCX/INSP/551/2022 dated September 26, 2022 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

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settlement to be carried out on Saturday assuming Friday and Thursday are not a trading holiday. Further, as per Exchange circular no. MCX/INSP/123/2025 dated March 05, 2025, with effect from June 30, 2025, the Trading Member shall compute the value of securities as per the closing rate on T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security at the beginning of T day

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. non trading 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.

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 clients availing margin trading facility to the extent of funds relating to margin trading facility used by client.

    c. For funds received from the clients towards collaterals/margin in the form of bank guarantee (BG) in accordance with the upstreaming guidelines

    d. Cheques received by the Member from the clients and credited in the respective client ledger but uncleared on settlement date

    e. In the case of new client, no settlement would be required on first settlement date (i.e. first Friday of the Month or Quarter as per the preference of client) immediate after registration of client. 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. Clearing members who are clearing trades of custodial participants/ trading members.

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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:

i 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.

ii 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.

iii Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients) is not allowed.

iv 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.

v 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 days from the date of settlement.

vi 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.

vii 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 Member may issue a physical payment instrument.

viii 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 5 days from the date of settlement.

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.

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

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shall report UCC wise settlement details to the Exchange within the prescribed timelines as specified below:

Sr. No.	Reporting Requirement	Timelines
1.	Submission of UCC wise settlement details. The format for UCC wise settlement is enclosed as **Annexure-12**.	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/294/2024 dated May 07, 2024

5) Settlement of Running Account of Client's Funds lying with Trading Member (TM) - MCX/INSP/207/2023 dated March 29, 2023.

4.6 FAQs on Settlement of Running Account of Client's Funds

In case of client having any outstanding trade position on first Friday or Saturday of the day of running account settlement date of the Month / Quarter, as stipulated by Exchange 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.

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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 enclosed herewith as **Annexure-13**.

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 haircut viz. VaR margin rate applicable for the security in the Capital Market segment. However, member shall compute the value of securities as per the closing rate on T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security at the beginning of T day with effect from June 30, 2025 as per Exchange circular no. MCX/INSP/123/2025 March 05, 2025

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.

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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.

Exchange has issued clarifications on this subject *vide* Exchange circular no. MCX/INSP/551/2022 dated September 26, 2022 in the form of frequently asked questions (FAQs). Please refer to the relevant circular to access the FAQs.

Further, to streamline 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 vide circular SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated December 28, 2023 accepted the recommendation to settle the running account of clients on Friday and/or Saturday. Accordingly, The Trading Member, after considering the End of the Day (EOD) obligation of funds across all the Exchanges, shall settle the running accounts at the choice of the clients on quarterly and monthly basis, on the dates stipulated by the Stock Exchanges.

4.7 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 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

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/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. The format of the statement of accounts for funds and securities/commodities is enclosed as **Annexure-27.**

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 Member 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.

4.8 Financing of securities / commodities transactions

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.

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Further, paragraph 46.2.2 of the Stock Broker Master Circular provides securities lying with trading member/clearing member in client unpaid securities account shall not be permitted to be pledged / transferred to Banks / NBFCs for raising funds by trading member/clearing member. Even with authorization by client, the same would amount to fund based activity by trading member/clearing member 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.

In view of the same, members are again advised to ensure the following:

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.

However, during inspection of Trading Members, it was observed that unique client codes, settlement details and obligation details of clients' transactions were shared by Trading Members with their related NBFC entities.

In view of the above, it is reiterated that members are advised to refrain from sharing data relating to transaction / obligation details of the clients with any NBFCs or any lending institutions. Members are requested to take note of the above and comply with the applicable regulatory requirements.

4.9 Handling of client funds & securities

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In order to provide clarity with respect to a TM/CM maintaining a running account for client securities and pledging the client securities with Banks/NBFCs, SEBI *vide* paragraph 46 of the Stock Broker Master Circular has decided that:

i. All the securities received in pay-out, shall be transferred to the demat account of the respective clients directly from the pool account of the TM/CM within one working day of the pay-out.

ii. TM/CM shall invoke the pledge only against the delivery obligation of the client. On invocation, the securities shall be blocked for early pay-in in the client's demat account with a trail being maintained in the TM/CM's client unpaid securities pledgee account.

Discontinuation of Client Level Cash and Cash Equivalent Balances

a. In accordance with paragraph 1.1.13 of Chapter 4 of the Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024, SEBI has prescribed guidelines regarding Segregation and Monitoring of Collateral at Client Level, in order to further strengthen the mechanism of protection of client collateral from (i) misappropriation/ misuse by TM/ CM and (ii) Default of TM/CM and/or other clients. The circular has, inter alia, stipulated mechanism for reporting by TMs and CMs, collateral deposit and allocation, collateral valuation, blocking of margins, change of allocation, client margin reporting and default management process and procedure of default of TMs and CMs.

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

c. Further, Exchange circular no. MCX/INSP/531/2023 dated August 16, 2023 informed members that data reported by them towards segregation and monitoring of collateral at client level submission to clearing member or clearing corporations as case may be, is used by the Exchange also for undertaking supervisory activities. As Exchange has started using the said submission for the supervisory activities and in order to ease out the compliance burden of the members, Exchange has decided to discontinue the requirements of reporting of day wise Client Level Cash and Cash Equivalent Balances by members from April 22, 2024 and accordingly, period of last submission which would be applicable to members for weekly Client Level Cash and Cash Equivalent Balances reporting shall be week ending April 20, 2024 due date for which was April 25, 2024.

d. However, members are strictly advised to report correct data in the segregation and monitoring of collateral at client level submission to their Clearing Members or Clearing Corporations as case may be, in accordance with the guidelines issued by Clearing Corporations/ Exchanges from time to time.

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In view of the same, members are advised to ensure that submission of segregation and monitoring of collateral at client level of Saturday is also made to Clearing Members /Clearing Corporations. Members are requested to take note of the above and comply with applicable regulatory requirements.

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. The trading members who are self-clearing members are required to report said data to Clearing Corporations.

Members are requested to note that data reported by them towards said submission to clearing member or clearing corporations as case may be, is used by the Exchange also for undertaking various supervisory activities. Based on the submissions made by the members, it has been observed that certain members are not reporting correct data. In view of the same, members are strictly advised to report correct data to their Clearing Members or Clearing Corporations as case may be, in accordance with the guidelines issued by Clearing Corporations from time to time.

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

Sr. No	Common reasons of incorrect reporting of data towards submission made for Segregation and Monitoring of Collateral at Client level
1	Duplicate records are uploaded in the segregation submission.
2	Multiple files with same records are uploaded by member to CM/CC.
3	Same ledger balance for a client is reported to all clearing corporations for each segment instead of reporting respective segment wise ledger balance to respective CC.
4	Same ledger balance of commodity segment of client is reported to all commodity clearing corporations e.g. same and combined ledger balance of NCDEX and MCX commodity segment is reported to clearing corporation NCCL and MCXCCL.
5	Data is not reported for certain clients by member.
6	Data is reported incorrectly under various columns named as “Financial Ledger balance-A”, “Financial Ledger balance (clear)-B”, “Peak Financial Ledger, Balance (Clear)-C”, “Value of CC approved Commodities”, “Credit entry in ledger in lieu of EPI for clients /TM Pro”, “Pool Account for clients / TM Pro”, “Cash Collateral for MTF positions”. Please refer column number 710,11,12,18,20,21 and 65 of MCX circular no.: MCX/MCXCCL/662/2022 d8ated November 21, 2022 while reporting data.

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Sr. No	Common reasons of incorrect reporting of data towards submission made for Segregation and Monitoring of Collateral at Client level
7	Value of Funded portion and non funded portion of BG are incorrectly reported in columns named as “Bank Guarantee (BG) Funded portion retained with CM”, “Bank Guarantee (BG) Non funded portion retained with CM”, “Bank Guarantee (BG) Funded portion placed with MCXCCL”, “Bank Guarantee (BG) Non funded portion placed with MCXCCL”. Please refer column number 59,60, 61 and 62 of MCX circular no.: MCX/MCXCCL/662/2022 dated November 21, 2022 while reporting data.
8	The amount of funds released on account of running account settlement of client on settlement date as per MCX circular no. MCX/INSP/447/2022 dated July 27, 2022 and debited from bank account on next day of settlement date is not reported by member in the segregation submission under column number 63 ‘Settlement Amount’. Further, as per the guidelines of clearing corporations, values are required to be reported under column ‘Settlement Amount’ in the submission made for the next working day immediate after running account settlement date. However same is reported by member in the segregation submission made for running account settlement date.
9	Funded value of BG is reported under non funded value column or vice-versa.

1.1.1. Clarifications on Reporting of Segregation and Monitoring of collateral at Client level Submission

Exchange has received representations from Broker’s Industry Standards Forum (ISF) that since there is no specific Unique Client Code (UCC) stipulated under which unidentified credits/funds received by member are required to be allocated and reported under aforesaid submission, members are unable to allocate and report such unidentified credits/funds received by member lying in suspense account /unidentified credits/any other account maintained by member.

In view of the above representations received from Broker’s Industry Standards Forum (ISF) and after consideration of the same by SEBI, members are requested to note followings clarifications:

- Member shall create a designated UCC “SUSPE1234N” on the PAN of member in the back office under which such unidentified/suspense account funds shall be allocated and reported to CCs under aforesaid submission. Member shall keep unidentified credits or suspense account funds upstreamed to clearing corporations.

- Member shall not create said UCC in the UCC database of Exchanges and accordingly, orders should not be permitted by trading members on said UCC.

Further, in view of the representations received from Broker’s Industry Standards Forum (ISF) and members with respect to reporting of segregation and monitoring of collateral at client level, members are requested to note following clarifications:

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<table>
<tr><th>Sr no</th><th>Queries</th><th>Queries</th></tr>
<tr><td>1</td><td>How should member do the reporting on T Day of early pay in of funds made to CC against the settlement obligation (including Offer for Sale amounts to the extent lying with CC on end of the T Day) which is due for settlement on upcoming day(s)?</td><td>Reporting on days prior to Settlement date of such obligations/OFS

The amount of early payin of funds for settlement obligation (including OFS) should be shown in the column numbered as 46 "Cash placed with CC" instead of column numbered as 22 "Cash Retained by TM" as funds are transferred to CC and not available in bank account of member.

Reporting on Settlement date of such obligations/OFS

Not applicable as funds are not available in clear ledger balance of client and used for settlement obligation

Example: Client has given Rs. 100 against the trade on T Day which is due for settlement on next day (T+1). Member has made early pay in of said funds to CC on T Day.

Reporting on T and T+1 days would be as under assuming no other transaction in client ledger

<table>
<tr><td>Particular</td><td>T Day</td><td>T+1 day</td></tr>
<tr><td>Clear Ledger Balance (Column number 11)</td><td>100</td><td>0</td></tr>
<tr><td>Cash Retained by TM (Column number 22)</td><td>0</td><td>0</td></tr>
<tr><td>Cash Placed with CC (Column number 46)</td><td>100</td><td>0</td></tr>
</table>
</td></tr>
<tr><td>2</td><td>While reporting peak ledger balance of Reporting date in column numbered as 12 "Peak Financial Ledger Balance (Clear)-C in the books of TM for clients and in the books of CM for TM (Pro) and in the books of CM for</td><td>No, while reporting peak ledger balance of Reporting date, Member is not required to reduce the debit bill, if any of Cash Market, FO, CD and Commodity segment which are due for settlement on the Reporting date.

Example 1: Debit Settlement bill of CM segment due on Reporting date is Rs. 100. Highest Peak ledger balance throughout</td></tr>
</table>

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Sr no	Queries	Queries
	CP", whether same should be reported after reducing the debit settlement bill of Cash Market, FO, CD and Commodity segment which are due for settlement on the Reporting date ?	the day without debiting this bill in ledger is Rs. 500. Highest peak ledger balance throughout the day after posting this debit bill is Rs. 400. In above case, member should report 500 as peak ledger balance for Reporting date. **Example 2:** Credit Settlement bill of CM segment due on Reporting date is Rs. 100. Highest Peak ledger balance throughout the day without crediting this bill in ledger is Rs. 400. Highest peak ledger balance throughout the day after posting this credit is Rs. 500. In above case, member should report 500 as peak ledger balance for Reporting Date.

4.10 Prevention of unauthorised trading by Members

In order to strengthen the regulatory provisions against un-authorised trades, SEBI *vide* paragraph 35 of the Stock Broker Master Circular has directed all members to execute trades of clients only after keeping evidence of the client placing the order which could be, inter alia, in the form of:

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

When a dispute arises, the Member shall produce the above mentioned records for the disputed trades. However, for exceptional cases such as technical failure etc. where Member fails to produce order placing evidences, the Member 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.

Further, wherever the order instructions are received from clients through the telephone, the Member shall mandatorily use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

The Member are required to maintain the records specified above for a minimum period for which the arbitration accepts investors' complaints as notified from time to time currently three years.

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However, in cases where dispute has been raised, such records shall be kept till final resolution of the dispute.

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

It has been observed that certain members initiate buy/sell order(s) on behalf of the clients and communicate to the clients through IVR (Interactive Voice Response) system. Such clients are asked to press a predefined number/ option during the said IVR call to obtain the confirmation of order placement. Few examples of such practices of sending recorded messages through IVR system and seeking confirmation are listed below:

1. Buy 50 shares of XYZ Ltd. at Rs.200/-. If you wish to proceed with buying, Press 1.

2. There is a credit balance of Rs.1,00,000/- in your account with us. Select Option/Press 1 to buy Liquid Bees of the said amount.

3. You may sell Liquid Bees held in your demat account with us. Press 2 to Sell the same.

Exchange vide circular no MCX/INSP/568/2025 dated October 31, 2025, clarified that orders initiated by the Trading Members on behalf of clients through IVR (Interactive Voice Response) system and considering pressing a predefined number / option as order confirmation shall not be considered as legally verifiable record of order placement.

4.11 <u>Issuance of Annual Global Transaction Statement</u>

SEBI has directed that all Members shall issue an Annual Global Transaction 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.

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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.

The indicative format of the Annual Global Statement along with FAQ issued by the Exchange vide circular MCX/INSP/013/2018 dated January 12, 2018, is enclosed as **Annexure-14**.

4.12 Discontinuation of acceptance of cash by Members

In terms of paragraph 28.1 of the Stock Broker Master Circular, Members should not accept cash from their clients whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients.

4.13 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.

4.14 Code of conduct

Members should comply with code of conduct prescribed for Stock Brokers under Chapter VIII of the of SEBI (Stock Brokers) Regulations, 2026 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.

4.15 Authorised Persons, Portfolio Managers and Investment Advisors:

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

4.16 Trading Members Leading to Default

4.15.1. SEBI vide paragraph 79 of the Stock Broker Master Circular read with Exchange circular no. MCX/ISD/215/2025 dated April 29, 2025 (as may be amended from time to time), has specified the Standard Operating Procedure (**SOP**) with timelines for the steps/ actions to be taken by the Exchange(s) pertaining to trading members who are likely to default in repayment of funds or securities to its clients.

4.15.2. Members are required to take note of the same and ensure compliance with any circulars issued or may be issued by the Exchange's investor services department in this regard.

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

SEBI vide paragraph 79 of the Stock Broker Master Circular read with Exchange circular no. MCX/ISD/215/2025 dated April 29, 2025 (as may be amended from time to time), has specified the SOP in the cases of trading member / clearing member leading to default.

In accordance with paragraph 79.8 of the Stock Broker Master Circular, all Members are advised to provide the following:

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.

Members are required to take note of the same and ensure compliance with any circulars issued or may be issued by the Exchange's investor services department in this regard.

4.18 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

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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 Member / 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".

All Members having websites are hereby advised to display the above messages on the homepage of their respective websites at a prominent place.

4.19 Display of Advisory for Investors

Members are advised to display the advisory for investors as prescribed under Exchange circular no. MCX/ISD/215/2025 dated April 29, 2025 (as may be amended from time to time) 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.

4.20 Maintenance of a website by Members

As per paragraph 93.1 of the Stock Broker Master Circular read with the Exchange circular no. MCX/MEM/227/2025 April 30, 2025, all Members are mandated to maintain a designated website as per the requirements prescribed by SEBI and the Exchange.

All the Members are hereby advised to take note and ensure strict adherence to the compliance requirements as prescribed.

4.21 Precautions for clients dealing in Options

Members are 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 on boarding 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, 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.

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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.

4.22 <u>Naming and Tagging of bank and depositories account</u>

As per paragraph 15.3 of the Stock Broker Master Circular, bank accounts and Demat accounts maintained by all Members 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) to receive the clients’ funds related to stock broking transactions shall be named as "Name of Stock Broker/Clearing Member - USCNB account

2. Payment to the clients related to stock broking transactions shall be named as "Name of the SB/CM – DSCNB account”.

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

4. Stock brokers are required to maintain demat accounts only under the following 6 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

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Sr. No.	Demat Account Category	Purpose of Demat Account
6.	Client Nodal MFOS Account*	For subscription/ redemption of MFOS units

*As per paragraph 97.9 of the Stock Broker Master Circular, a Client Nodal MFOS account is required to be open for subscription / redemption of MFOS units.

5. Naming proprietary bank accounts of the Member 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.

6. All demat accounts maintained by Members should be appropriately tagged. Provided that this requirement shall not be applicable to Members which are also primary dealers for their demat accounts which are used exclusively for activities other than stock broking activities.

   Further, it is prescribed that:

   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.

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

   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.

   4. The provision shall not be applicable for the demat accounts which are used exclusively for (i) banking activities by Members which are also banks; and (ii) activities other than stock broking activities by primary dealers.

4.23 <u>Reporting of Bank Accounts maintained by Stock Broker</u>

Paragraph 15.4 of the Stock Broker Master Circular provides the following:

i. Reporting of Bank accounts maintained by the Member:

   a. Members shall inform the Exchange 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 / USCNBA /	Date of Opening	Date of A/c Closing

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					DSCNA / Settlement)		

Member which is also bank or primary dealer, shall be required to report only those bank accounts to the stock exchanges that are used for their stock broking activities.

b. Members shall also ensure compliance with the following:

1) All new bank and demat accounts shall be named as per the above given nomenclature.

2) The details regarding bank accounts only shall be communicated by stock broker to the stock exchanges within seven working days of the opening of the account.

3) Closure of any of the reported bank accounts shall be communicated to the stock exchanges within seven working days of its closure.

4) Any non-compliance/non-reporting in this regard by the Members shall attract penal action as per the provisions of Exchanges.

5) Depositories shall provide details of all demat accounts opened / closed by a stock broker to the concerned stock exchanges. The periodicity and mechanism of sharing the said details shall be jointly determined by stock exchanges and depositories.

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

1) Members 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.

3) The Stock Exchanges shall monitor compliance with the above requirements, during inspections and the same shall be reviewed by the internal auditor of the broker during the half yearly internal audits.

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

4.24 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 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 accounts shall be informed to the Exchanges within seven working days 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 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.

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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.

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

Paragraph 97 of the Stock Broker Master Circular provides for the '*Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)*'.

As per the framework, stock brokers/clearing members shall upstream all the clients' clear credit balances to clearing corporations on End of Day (EOD) basis. Such upstreaming shall be done only in the form of either cash, lien on Fixed Deposit Receipts (**FDRs**) created out of clients' funds, or pledge of units of Mutual Fund Overnight Schemes (**MFOS**) created out of clients' funds.

The provisions of this framework shall not be applicable to bank-clearing members (including Custodians that are banks), and for proprietary funds of stock brokers/clearing members in any segment and stock broker's proprietary funds deposited with clearing member in the capacity of a client.

4.26 Operational Guidelines with respect to Upstreaming of Clients funds

Exchange *vide* circular no. MCX/INSP/049/2024 dated January 25, 2024 has issued operational guidelines and standard operating procedures on the upstreaming of clients' funds. Members are requested to take note of the below and comply with applicable regulatory requirements.

Operational Guidelines with respect to Upstreaming of Clients funds

1 Paragraph 97.2 of the Stock Broker Master Circular provides that Members are required to maintain the following designated bank account (s) to receive/pay funds from/to their clients:

- 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"

2 In addition, CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature "Name of the CM –TM prop account" to receive/pay proprietary funds from/to the stock brokers.

3 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.

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4 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.

5 The bank instruments provided by the clients as collateral (i.e. client FDRs and client BGs) cannot be upstreamed 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

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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.

6 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.

7 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.

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

9 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 (*now paragraph 43 of the Stock Broker Master Circular*), 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.

10 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.

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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.

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

12 Any credit balance of the clients retained by the TM / CM for the reason code listed above in 10 (i) and 10 (viii) should remain in the USCNBA or same can be returned back to the same client to whom it belongs through DSCNB account.

13 The cut-off times under Point 9 of SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 (*now paragraph 97.15 of the Stock Broker Master Circular*), for upstreaming of the clear credit balances of the clients have been determined by the CCs in consultation with ISF as 5 pm.

14 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.

15 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.

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- "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)

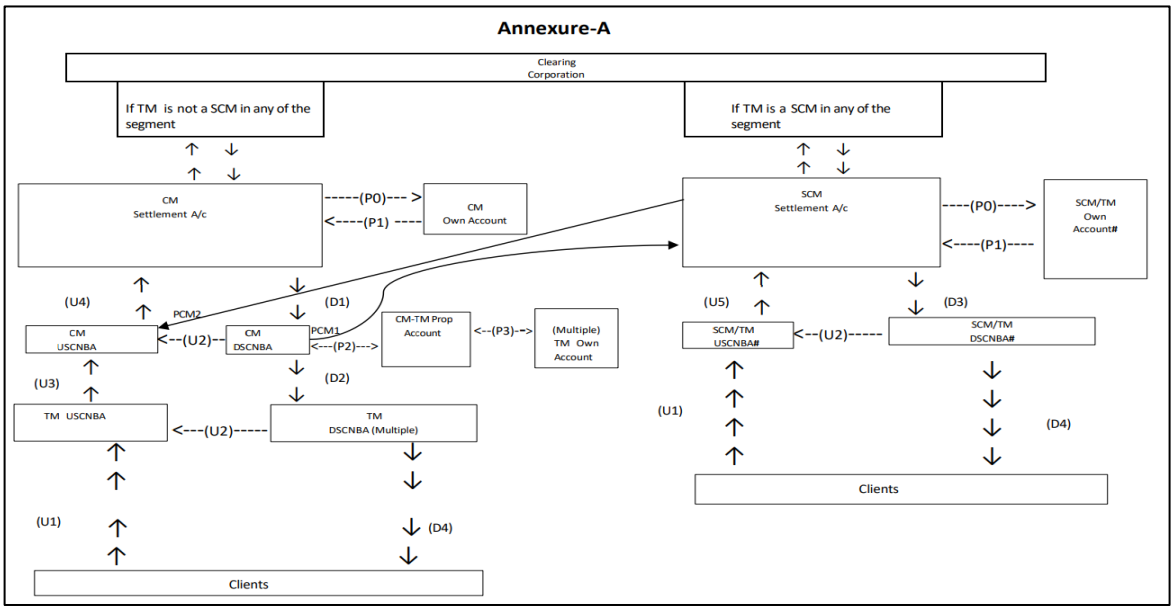
16 The provisions of upstreaming framework shall not be applicable to

- 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.

17 A schematic representation of flow of funds is as below:



Notes to the Operational Guidelines:

<u>Upstreaming</u>

(U1) - The Clients funds shall be received only to the Designated Bank Account "USCNBA".

(U2) - Funds from DSCNBA can be transferred to USCNBA.

(U3) - Funds received in TMs USCNBA can be transferred to CMs USCNBA only. This step will not be applicable in case of SCM.

(U4) - Funds received in CM USCNBA can be transferred to CM Settlement account only. This step will not be applicable in case of SCM.

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(U5) - In case of SCM, funds received in USCNBA can be transferred to Settlement account only.

Downstreaming

(D1) - Funds from CM settlement account can be transferred to Clearing Member's DSCNBA account. This step will not be applicable in case of SCM.

(D2) - Withdrawal of funds from CM DSCNBA towards client payables of TM shall only be transferred to Trading Member's DSCNBA account. This step will not be applicable in case of SCM.

(D3) - In case of SCM, withdrawal of funds from settlement account towards client payables of TM shall only be transferred to DSCNBA account.

(D4) - Payment shall be made to clients from TM DSCNBA account only.

Proprietary Funds

(P0) - Funds from Settlement A/c other than client payables can be transferred to Member's OWN account (Dues of clients to Member or member's own funds).

(P1) - Transfer of funds from Member's OWN account to Settlement A/c.

(P2) - Funds from CM DSCNBA account other than client payables of TM can be transferred to CM-TM prop account (Dues of clients to Member or member's own funds) for onward transfer to TM own account. Similarly, TM own funds can be received in CM DSCNBA account from CM-TM prop account only. This step is not applicable in case of SCM.

(P3) - Own funds of TM from their own account i.e. Name of Stok-Broker- Proprietary Account can be transferred to CM-TM prop account only. Similarly own funds of TM shall be transferred to TM own account i.e. Name of Stok-Broker- Proprietary Account from CM-TM Prop account only. This step is not applicable in case of SCM.

Transfer of funds between PCM & SCM Bank Accounts (Applicable only when trading member is SCM in one or more segment(s) and only TM (i.e. not SCM) in any other segment(s)

(PCM1) - Funds from CM DSCNBA can be transferred to SCM Settlement A/c. However, trading member shall ensure that funds to clients should be given from SCM/TM DSCNBA only. This step is optional.

(PCM2) - Funds from SCM Settlement A/c can be transferred to CM USCNBA. This step is optional.

Standard Operating Procedures with respect to Upstreaming of Clients funds

(1) For the purpose of monitoring of upstreaming of clients' funds, CCs shall share following justifications provided by members with Exchanges for non-upstreaming of client funds by member to CCs.

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a. Receipt of funds from the clients post stipulated cut off time in the USCNBA(s).

b. 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.

c. MFOS in transit and subsequently pledged to the CC on or before next settlement day.

d. Funds retained in the DSCNBA account 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.

e. Funds retained in the DSCNBA account on account of cheques issued to client but not cleared.

f. Funds credited back by the CC in the settlement account on account of OFS.

g. 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.

h. Funds retained overnight in DSCNBA account on running account settlement days.

(2) 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.

(3) CCs shall share the details of funds credited back by CCs to settlement account of member post upstreaming cut off time with Exchanges.

(4) In order to monitor the availability of client's funds at aggregated level with member by Exchanges, CCs shall share details of collateral of members deposited with them to Exchanges. Similarly, Depositories shall share member wise client wise details of pledged MFOS with Exchanges and CCs.

(5) Depository shall monitor that all the time MFOS are pledged/repledged client wise/member wise to CCs and such MFOS should not be transferred through off market.

(6) 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.

4.27 <u>FAQ on Upstreaming of Client's Funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporation (CCs)</u>

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

Public **Public**

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 and one day?

There is no tenure restriction of FDRs created out of proprietary funds. Existing FDRs (created out of clients' funds and having tenure of more than one-year and one day) created prior to issuance of the SEBI circular (before June 08, 2023) shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions as mentioned below:

- The tenure of such FDRs shall not be more than one year and one day; and the FDRs should be pre-terminable on demand.
- SBs/ CMs may create FDRs out of clients' funds only with those banks which satisfy the CC's exposure norms as specified by SEBI or CCs from time to time.
- Every FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.
- Through this lien, CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
- The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination costs.
- SBs/CMs shall not avail any funded or non-funded banking facilities based on FDRs created out of clients' funds.

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.

Public Public

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). The list of such eligible MFOS would be published from time to time.

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?

Public Public

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. Members shall comply the same by August 31, 2023.

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. The detailed process for reporting for revised nomenclature of bank account has been communicated to members vide Exchange Circular no. MCX/INSP/442/2023 dated June 30, 2023. 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 which has been further modified by SEBI circular dated June 30, 2023 on Upstreaming of clients’ funds, SBs/CMs may receive funds from clients beyond the prescribed cutoff time for upstreaming subject to the condition that there shall not be any further movement of funds from that account (i.e., a debit freeze) till the opening of upstreaming window on the next day. However, such funds should be received for legitimate purpose. The said provision is applicable with effect from September 01, 2023.

16) 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.

Public Public

17) 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.

18) 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.

19) 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.

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

As per Para II (b) of Part C of the SEBI circular dated June 08,2023, payment to clients should be done by SBs only from DSCNBA account post receiving of funds from CC/CM same day. 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. The aforesaid provision is applicable from September 01, 2023.

21) 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.

22) 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.

23) Is there any collateral benefit provided by CCs on the up-streamed funds?

Public Public

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".

24) 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.

25) 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.

26) Whether the balance of the Settlement account shall be considered under Weekly Enhanced Reporting?

Balance of the Settlement account shall not be considered. Accordingly, members shall not report the same under Weekly Enhanced Reporting. Accordingly, the provision of Exchange Circular no. MCX/INSP/676/2021 dated October 22, 2021 shall stand modified to this extent with effect from July 01, 2023. However, amount to the extent of client funds credited back to settlement account of member by CC on account of Offer for Sale (OFS) release after cut off time can be considered while reporting Enhanced supervision data to Exchange.

27) 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.

28) Whether member is required to upstream the funds received from client on pay in day for the purpose of pay in obligation?

Member is not required to upstream the funds to CC which are received from clients on settlement/pay in date itself before funds pay in time against their funds pay in obligation as such funds shall be taken by CC during the settlement process against settlement obligation e.g. if time for funds pay in to CC is 8:30 AM and client transfers funds before 8:30 AM against its funds pay in obligation to be settled today, then funds received from such client in USCNB account shall be transferred to settlement account from which CC shall take the same as part of settlement process. However, funds received which would not be needed for CC pay-in and used by member for internal settlement shall need to be upstreamed.

29) Whether member is required to upstream the funds payout received from CC before releasing it to clients?

Public **Public**

No, funds received in form of payout from CC can directly be transferred to DSCNB account for onward transfer to clients.

30) In case of TM/CM investing in MFOS, should TM take consent of the client?

TM/CM is not required to take consent of the client.

31) What would be the impact of variable net worth computation due to SEBI circular of Upstreaming?

There is no change in the method of calculation of variable net worth by the members.

32) To which accounts will the member transfer the funds released by CC?

Sr No	Reason for collateral withdrawal	Transferred from settlement account to
1.	CM Prop (only for PCMs)	CM Own Account
2.	TM Prop (for PCMs, TCMs and ITCMs)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
3.	TM - Client unpaid securities obligations / MTF Obligations	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
4.	TM - Loss due to sale of unpaid securities	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
5.	TM – Penalties	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
6.	TM - Statutory levies (STT / Stamp Duty / SEBI Turnover Fee)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
7.	TM - Brokerage (including exchange transaction fee)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
8.	TM - Other charges (DP charges, etc.)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
9.	TM - Funds to be released to client on account of regulatory requirements such as running account settlement	CM DSCNBA for onwards transfer to client if it is not required to pass on to TM else CM DSCNBA to TM DSCNBA for onwards transfer to client.
10.	TM - Funds withdrawal request from client	CM DSCNBA for onwards transfer to client if it is not required to pass on to TM else

Public Public

Sr No	Reason for collateral withdrawal	Transferred from settlement account to
		CM DSCNBA to TM DSCNBA for onwards transfer to client.
11.	Reconverting to another form of Collateral	DSCNBA for onward transfer to USCNBA
12.	Giving to Other CC	Other CC Settlement account
13.	Pay-in purpose	No action

33) In which account will the CM receive the funds of TMs (Pro) and the funds of TM clients?

CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature "Name of the CM –TM prop account" to receive/pay proprietary funds from/to Stock Brokers. Further, the CM should also ensure that Stock Broker Prop funds are received only from "Name of Stock- Broker -Proprietary Account".

CMs shall receive clients' funds in USCNBA for further upstreaming it to the CC.

34) In case of receipt of payout to CM by CC for TMs (only doing Pro trades), how the fund flow will happen?

The withdrawal request/payout shall be transferred from CC to CM settlement account and from there to DSCNBA. The CM may further transfer it to "Name of the CM –TM prop account" for onward transfer to "Name of Stock-Broker -Proprietary Account".

35) Is there a requirement for SBs to open USCNBA/DSCNBA if SBs are only trading and/or clearing for their prop/own trades and do not have any clients/CPs?

No. There is no mandate to open USCNBA/DSCNBA if SBs are only trading and/or clearing for their prop/own trades and do not have any clients/CPs.

36) Fixed Deposit created out of client's monies but could not be lien marked to CC within operating hours, would there be any implications?

In accordance with SEBI circular dated June 08, 2023, Every FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.

37) For the purpose of upstreaming of clients' funds, do clients' funds mean net of brokerage / debits / charges to be recovered etc. or upstreaming is expected on Gross basis for receipt of any funds from the clients?

All funds received from client is required to be up streamed as per SEBI circular. Further, the SBs/CMs may seek withdrawal of client funds from CCs only under scenarios as mentioned with appropriate reason code.

38) Do we need to allocate all the funds upstreamed to CC?

Public Public

Yes, in order to comply with SEBI Circular no. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 on "Segregation and Monitoring of Collateral at Client Level".

39) For FDR's created towards base capital / interest free security deposit given to CC, whether this can be placed for more than one year and one day?

Yes, as membership deposit requirement is required to be placed out of own funds from members.

40) Whether the cut off prescribed by the CCs are for USCNBA or for settlement account?

In terms of SEBI circular, the CM shall transfer to CC any time during the day but not later than the respective cut off time prescribed by the CC. Hence, CMs are required to ensure that all client funds are transferred from USCNBA to Settlement to CC before cut off time.

41) What shall be the flow of funds received in CM-TM prop account?

Proprietary funds received from the Stock Broker by the Clearing Member in the CM-TM prop account should be transferred to USCNBA for onward upstreaming to CC. Further, the CM should also ensure that proprietary funds of the Stock Broker are received in the said CM – TM prop Account only from Stock Broker proprietary account named as "Name of Stock Broker – Proprietary account".

42) Is the clause 2.3 of SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 applicable to existing FDRs which are placed with CM by SBs (created out of client funds) and such FDRs are not placed with CC?

No. As clause 2.3 of SEBI Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 is applicable only for FDRs which are placed with CCs. Therefore, CM shall not retain any FDRs which are created out of client funds and submitted by SBs to them.

43) Can member have funds in DSCNB account post upstreaming cut off time for releasing the same to clients?

Yes, member can have funds in DSCNB account post upstreaming cut off time to transfer the same to client on same day itself thereby ensuring that there is no balance in DSCNB account on EOD basis. On running account settlement days, funds may remain in DSCNB account even beyond EOD, on exception basis, as long as instructions to banks have been given by EOD.

44) Whether member is required to upstream the funds received for trades rejected by custodian (i.e. DVP trades)?

In case of DVP trades, member may receive funds from custodians in their own account instead of USCNB account and accordingly, member shall not require to upstream these funds to clearing corporations. However, in case such funds are received in the USCNB account, then such funds would need to be upstreamed and withdrawn with appropriate reason code.

4.28 <u>Bank Guarantees (BGs) created out of clients' funds</u>

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1. As per paragraph 96 of the Stock Broker Master Circular, SEBI has decided to implement measures in order to safeguard the interests of the investors. No new BGs shall be created out of clients' funds by stock brokers / clearing members.

2. The provisions of this framework shall not be applicable for proprietary funds of stock brokers / clearing members in any segment and stock broker's proprietary funds deposited with clearing member in the capacity of a client.

3. Members 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. Members are advised not to consider BG for the computation of availability of client payables and accordingly, 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:

b. Beginning May 01, 2023, no new BGs to be created out of clients' funds by SBs/CMs.

c. 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

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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”

4.29 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. 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.

Members shall submit updated / fresh undertaking / authorisation to the Exchange within seven working days of opening of any new bank account.

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 _____, 20__.

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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.

4.30 <u>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 thereunder</u>

The AML CFT Guidelines which stipulate the essential principles for combating Money Laundering (**ML**) and Terrorist Financing (**TF**) and provide detailed procedures and obligations to be followed and complied with by all the registered intermediaries.

The Prevention of Money Laundering Act, 2002 (**PMLA**) and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (**PML Rules**), as amended from time to time and notified by the Government of India, mandate every reporting entity (including all intermediaries registered under section 12 of the Securities and Exchange Board of India Act, 1992 (**SEBI Act**) and stock exchanges), to adhere to client account opening procedures, maintain records and report such transactions as prescribed therein to the relevant authorities. The PML Rules, *inter alia*, empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and the form in which such information is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by

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regulator for detecting the transactions specified in the PML Rules and for furnishing information thereof, in such form as may be directed by the regulator.

SEBI has from time to time issued circulars/directives with regard to Know Your Client (**KYC**), Client Due Diligence (**CDD**), Anti-Money Laundering (**AML**) and Combating the Financing of Terrorism (**CFT**) specifying the minimum requirements. It is emphasized that the registered intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address the concerns of money laundering and suspicious transactions undertaken by clients.

Further, the PML Rules empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and form in which it is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by the regulator for detecting the transactions specified in the PML Rules and for furnishing information thereof, in such form as may be directed by SEBI.

The brief contents of the AML CFT Guidelines have been narrated below. The Members are advised to take note of the AML CFT Guidelines and comply with the applicable regulatory requirements.

A. Policies and Procedures to Combat Money Laundering and Terrorist Financing

- Essential Principles
- Obligation to establish policies and procedures
- Obligation to establish policies and procedures – inter-alia containing following four specific parameters which are related to the overall 'Client Due Diligence Process
    - Policy for acceptance of clients;
    - Procedure for identifying the clients
    - Risk Management
    - Monitoring of Transactions

B. Client Due Diligence (CDD)

- identify persons who beneficially own or control the securities account
- identify the clients, verify their identity using reliable and independent sources of identification
- verify the client's identity using reliable, independent source documents, data or information
- identifying beneficial ownership and control,
    - where the client is a company

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- where the client is a partnership firm
- where the client is an unincorporated association or body of individuals
- Where the client is a trust
- Applicability for foreign investors

C. Policy for acceptance of clients

Members shall develop client acceptance policies and procedures that aim to identify the types of clients that are likely to pose a higher than average risk of ML or TF.

D. Client identification procedure

The KYC policy shall clearly spell out the client identification procedure (CIP) to be carried out at different stages i.e. while establishing the intermediary – client relationship, while carrying out transactions for the client or when the intermediary has doubts regarding the veracity or the adequacy of previously obtained client identification data

E. Reliance on third party for carrying out Client Due Diligence (CDD)

- identification and verification of the identity of a client and
- 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.
- risk Management
  - risk-based Approach
  - risk Assessment

F. Monitoring of Transactions

Members shall pay special attention to all complex unusually large transactions / patterns which appear to have no economic purpose. The Members may specify internal threshold limits for each class of client accounts and pay special attention to transactions which exceeds these limits.

G. Suspicious Transaction Monitoring and Reporting

- Clients whose identity verification seems difficult or clients that appear not to cooperate;
- Asset management services for clients where the source of the funds is not clear or not in keeping with clients' apparent standing / business activity;
- Clients based in high risk jurisdictions;

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- Substantial increases in business without apparent cause;

- Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;

- Attempted transfer of investment proceeds to apparently unrelated third parties;

- Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services.

H. Record Management

- **Information to be maintained**

  i. the nature of the transactions;

  ii. the amount of the transaction and the currency in which it is denominated;

  iii. the date on which the transaction was conducted; and

  iv. the parties to the transaction

- **Record Keeping**

  o maintaining proper record of the nature and value of transactions

    - all cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency;

    - all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency

    - all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions

    - all suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into or from any non-monetary account such as demat account, security account maintained by the Member.

I. Retention of Records

Records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a period of five years from the date of transactions between the client and Members. In

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situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they shall be retained until it is confirmed that the case has been closed.

Members shall maintain and preserve the records of information related to transactions, whether attempted or executed, which are reported to the Director, FIU –IND, as required under Rules 7 and 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the Member.

J. Procedure for freezing of funds, financial assets or economic resources or related services

Members shall ensure that in terms of Section 51A of the Unlawful Activities (Prevention) Act, 1967 (**UAPA**) and amendments thereto, they do not have any accounts in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC).

K. 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

The Government of India, Ministry of Finance has issued an order dated January 30, 2023 vide F. No. P-12011/14/2022-ES Cell-DOR (**the Order**) detailing the procedure for implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 ("WMD Act"). The registered intermediaries are directed to comply with the procedure laid down in the said Order.

L. List of Designated Individuals/ Entities

The Ministry of Home Affairs, in pursuance of Section 35(1) of UAPA 1967, declares the list of individuals/entities, from time to time, who are designated as 'Terrorists'. The registered intermediaries shall take note of such lists of designated individuals/terrorists, as and when communicated by SEBI.

All orders under section 35 (1) and 51A of UAPA relating to funds, financial assets or economic resources or related services, circulated by SEBI from time to time shall be taken note of for compliance.

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at https://press.un.org/en/content/press-release. The details of the lists are as under:

1. The "ISIL (Da'esh) & Al-Qaida Sanctions List", which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & Al-Qaida Sanctions List is available at: https://www.un.org/securitycouncil/sanctions/1267/press-releases;

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2. The list issued by United Security Council Resolutions 1718 of designated Individuals and Entities linked to Democratic People's Republic of Korea www.un.org/securitycouncil/sanctions/1718/press-releases.

Members are directed to ensure that accounts are not opened in the name of anyone whose name appears in said list. Members shall continuously 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. The Members shall maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis to verify whether the designated individuals/entities are holding any funds, financial assets or economic resources or related services held in the form of securities with them.

M. Reporting to Financial Intelligence Unit-India

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, Tower-2, Jeevan Bharati Building,
Connaught Place, New Delhi-110001, INDIA
Telephone : 91-11-23314429, 23314459 91-11-23319793(Helpdesk)
Email: helpdesk@fiuindia.gov.in
(For FINnet and general queries)
ctrcell@fiuindia.gov.in
(For Reporting Entity / Principal Officer registration related queries)
complaints@fiuindia.gov.in
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.

N. Ongoing due diligence

i. 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 Member'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 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.

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ii. 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)

O. Designation of officers for ensuring compliance with provisions of PMLA

Appointment of a Principal Officer

To ensure that the Members properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. Names, designation and addresses (including email addresses) of 'Principal Officer' including any changes therein shall also be intimated to the Office of the Director-FIU-IND.

Principal Officer means 'an officer designated by a Member provided that such officer shall be an officer at the management level'.

Appointment of a Designated Director

Designated director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the PMLA and the PML Rules and includes

a) the Managing Director or a Whole-Time Director duly authorized by the Board of Directors if the reporting entity is a company,

b) the managing partner if the reporting entity is a partnership firm,

c) the proprietor if the reporting entity is a proprietorship firm,

d) the managing trustee if the reporting entity is a trust,

e) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and

f) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above".

Members shall communicate the details of the Designated Director, such as, name designation and address to the Office of the Director, FIU – IND.

P. Hiring and Training of Employees and Investor Education

Hiring of Employees:

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Members shall have adequate screening procedures in place to ensure high standards when hiring employees.

Training of Employees:

Members shall have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures.

Investor Education:

Members shall prepare specific literature/ pamphlets etc. so as to educate and sensitize their clients of the objectives of the AML/CFT programme.

SEBI has directed members as a part of requirement of Member registration with SEBI to ensure compliance with regulatory requirements related to AML CFT Guidelines, and related circulars issued by SEBI from time to time.

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 Members 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 the AML CFT Guidelines in this regard are implemented.

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

UNSC Press Release and Sanction List:-

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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 UAPA.

b) Follow the procedure as mentioned in the Ministry of Finance Order F. No. P12011/14/2022-ES Cell-DOR, dated January 30, 2023, detailing the procedures for the implementation of Section 12A of Weapons of Mass destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005.

c) 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 paragraph 54 of the AML CFT Guidelines and

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

e) Inform individuals, groups, undertakings or entities seeking to be removed from the Security Council’s ISIL (Da'esh) and Al-Qaida Sanctions List can 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

f) Further, the updates regarding amendments made to UNSC Sanctions List are also available on SEBI website under “Media and Notifications” in a separate tab “UNSC Sanctions Committee List”. You are requested to visit SEBI website on a regular basis for updates in this regard.

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

Sr no	Particular	Circular number
1.	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/MIRSDSECFATF/P/CIR/2024/78 June 06, 2024
2.	Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of	MCX/INSP/384/2024 dated June 07, 2024

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Sr no	Particular	Circular number
	Money Laundering Act, 2002 and Rules framed there under.	

4.31 Maintenance of Daily Reconciliation Statement

As per paragraph 15.4.4.2 of the Stock Broker Master Circular and Exchange circular no. MCX/INSP/165/2023 March 10, 2023, 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 Member, etc. For such transfer of funds, Members 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.

4.32 Display of Details of Members' USCNBA on Website

Details of Up streaming Client Nodal Bank Account (USCNBA) 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 USCNBA accounts of member on Exchange's website under "Membership→→→Notice Board→→→Know Your Broker".

4.33 Centralized mechanism for reporting the demise of an investor through KRAs

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

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(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:-

a. 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.

b. 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. <u>Obligation of intermediary - Updation of records in the KRA system by the Intermediary</u>

(1) 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

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Survivor, etc. (i.e. modes other than joint mode), the account operation in such mode shall continue.

(2) 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. <u>Intimation on Transmission of assets of the deceased investor</u>

(1) 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. <u>Transaction request in accounts / folios flagged off as "On Hold"</u>

(1) 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 B and C above, 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.

(2) 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.

(3) 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.

Members are requested to ensure compliance of the above.

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

As per paragraph 50 of the Stock Broker Master Circular, SEBI has prescribed to laid own a framework for 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 the aegis of

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stock exchanges, in consultation with SEBI 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 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 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

Exchange vide its circular no. MCX/INSP/218/2024 dated April 09, 2024 has laid down the framework for Members to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients on account of suspicious activities. The framework, as finalized in accordance with the Stock Broker Master Circular is enclosed herewith as **Annexure-15**.

Further, in accordance with the Stock Broker Master Circular, the Members shall frame a policy in line with the above mentioned framework, which shall be the part of the Member's Risk Management Policy. The Members shall disclose on their website, the above policy along with the process and mode(s) through which the client can place the request to freeze / block & unfreeze / unblock the trading account along with the timelines that will be followed by the trading members for the same.

With respect to new clients onboarded with effect from July 01, 2024, the policy so framed in line with the above mentioned framework shall form part of account opening kit.

Further, with respect to the existing clients, the aforesaid policy so framed by the trading members shall be communicated by July 01, 2024 via email or any other suitable mechanism which can be preserved. In case if communication gets bounced/undelivered, the same shall be communicated through alternate channels to such clients. Other suitable mechanism may include physical delivery/SMS/electronic instant messaging services after adhering with the safeguards prescribed under Exchange Circular no. MCX/INSP/337/2022 dated June 08, 2022 on Issuance of Electronic Contract Notes (ECN) through SMS/electronic instant messaging services.

The Exchanges has formulated the Penalty Structure for failure to implement the Framework to provide the Facility of Voluntary Freezing / Blocking of Trading Accounts vide its circular no. MCX/COMP/213/2026 dated April 17, 2026.

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4.35 Technology based sharing mechanisms of common submissions among Exchanges

As part of reporting requirements and as, Members currently submit various compliance reports/submission periodically to all the stock exchanges where stock brokers are registered as a member. Members who are registered with multiple Exchanges are required to submit the same compliance reports to each Exchange separately. Hence there are multiple repetitions for stock brokers while carrying out report submission activities across the exchanges.

For promoting ease of doing business for the stock brokers and to avoid submission of same compliance report multiple times, stock exchanges have developed a technology-based sharing mechanism for the sharing of compliance report/information among exchanges. The objective behind the same is to do away with the duplication of activities to be carried out by stock brokers for common periodic submission of data/documents to multiple Exchanges. The submissions which are common across exchanges and do not have exchange specific data/submissions will be considered for Common Reporting.

In view of the above, Exchange *vide* Circular no. MCX/MEM/348/2025 dated July 18, 2025 has decided that henceforth, Members of the Exchange who are also registered with NSE are required to submit their compliance reports to NSE only. NSE in turn will share such compliance reports (including data/documents) with the Exchange. Submitting data to NSE alone will be treated as submission to the Exchange and the same will be in compliance of the regulatory requirements for such stock brokers.

The technology based sharing mechanisms of common submissions among Exchanges is for the purpose of ease in the reporting requirement for stock brokers, however the processing of the submission along with the monitoring and supervision of compliance will continue to be carried out by respective stock exchanges as per the existing process. The technology based sharing mechanisms of common submissions among Exchanges will be operational in phase manner with effect from August 01, 2025.

To start with in phase-I, members of the Exchange who are also a member of NSE are not required to submit 40 compliance reports/submissions to the Exchange as per the list prescribed by the Exchange *vide* Circular no. MCX/MEM/348/2025 dated July 18, 2025.

Members of the Exchange who are not registered with NSE will continue to make submissions to the Exchange as per existing process. Summary details of said 40 compliance reports are as under:

Particulars	**No of compliance reports / submission**
Qualified Stock Broker (QSB) compliances	39
Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries	1

In continuation for the same, for Phase-II, Members of the exchange who are also a member of NSE are not required to submit 30 compliance reports/submissions to the Exchange as per the list prescribed under Exchange circular no. MCX/MEM/499/2025 dated September 29, 2025. The

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Phase-II of technology-based sharing mechanisms of common submissions among Exchanges will be operational with effect from October 15, 2025. Please refer to the Annexure in the aforesaid circular to access the list.

REGULATORY REQUIREMENTS/ REFERENCES:

Sr. No.	Subject	Circular No.
1.	Mode of payment and delivery	SEBI circular bearing reference no. SEBI/MRD/SE/CIR-33/2003/27/08 dated August 27, 2003; SEBI circular bearing reference no. SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 12, 2018; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025
2.	Receipt of funds in the form of Pre-funded instruments / Electronic fund transfers	SEBI circular bearing reference no. SEBI/MRD/SE/CIR-33/2003/27/08 dated August 27, 2003; SEBI circular bearing reference no. CIR/MIRSD/03/2011 dated June 09, 2011; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025.
3.	Segregation of client and own funds	SEBI circular bearing reference no. SMD/SED/CIR/93/23321 dated Nov 18, 1993; SEBI circular bearing reference no. MRD/DoP/SE/Cir- 11/2008 dated Apr 17, 2008; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/104 dated September 21, 2017; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025.
4.	Collateral deposited by Clients with Brokers	SEBI circular bearing reference no. MRD/DoP/SE/CIR-11/2008 dated April 17, 2008; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025.
5.	Settlement of running account of clients' funds	SEBI circular bearing reference no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021; SEBI circular bearing reference no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated December 28, 2023; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2025/1 dated January 06, 2025; SEBI circular bearing reference no.

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Sr. No.	Subject	Circular No.
		SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025. MCX circular no. MCX/INSP/031/2026 dated January 21, 2026; MCX circular no. MCX/INSP/123/2025 dated March 05, 2025; MCX circular no. MCX/INSP/11/202 dated January 6, 2025; MCX circular no. MCX/INSP/294/2024 dated May 7, 2024; MCX circular no. MCX/INSP/002/2024 dated January 02, 2024; MCX circular no. MCX/INSP/937/2023 dated December 28, 2023; MCX circular no. MCX/INSP/668/2023 dated September 29, 2023; MCX circular no. MCX/INSP/233/2023 dated April 05, 2023; MCX circular no. MCX/INSP/207/2023 dated March 29, 2023; MCX circular no. MCX/INSP/016/2023 dated January 07, 2023.
6.	FAQs on Settlement of Running Account of Client's Funds	MCX circular no. MCX/INSP/571/2021 dated September 03, 2021; MCX circular no. MCX/INSP/551/2022 dated September 26, 2022.
7.	Statement of accounts for funds, securities and commodities	MCX circular no. MCX/INSP/077/2021 dated February 05, 2021.
8.	Financing of securities / commodities transactions	SEBI circular bearing reference no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025. MCX circular no. MCX/INSP/449/2024 dated July 08, 2024; MCX circular no. MCX/INSP/407/2022 dated July 07, 2022; MCX circular no. MCX/INSP/082/2021 dated February 10, 2021.
9.	Handling of client funds & securities	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022; SEBI circular bearing reference no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.
10.	Segregation and Monitoring of Collateral at Client Level	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no.

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Sr. No.	Subject	Circular No.
		SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023; SEBI circular bearing reference no. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021. MCX circular no. MCX/INSP/630/2024 dated September 24, 2024; MCX circular no. MCX/INSP/531/2023 dated August 16, 2023; MCX circular no. MCX/INSP/107/2022 dated February 25, 2022; MCX circular no. MCX/INSP/733/2021 dated November 25, 2021; MCX circular no. MCX/INSP/684/2021 dated October 26, 2021; MCX circular no. MCX/INSP/614/2021 dated September 23, 2021; MCX circular no. MCX/INSP/458/2021 dated July 26, 2021.
11.	Prevention of unauthorised trading by Members	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018. MCX circular no. MCX/INSP/111/2018 dated March 26, 2018; MCX circular no. MCX/INSP/011/2018 dated January 11, 2018; MCX circular no. MCX/INSP/449/2017 dated November 30, 2017; MCX circular no. MCX/INSP/346/2017 dated September 26, 2017
12.	Issuance of Annual Global Statement	MCX circular no. MCX/INSP/013/2018 January 12, 2018; MCX circular no. MCX/INSP/444/2017 dated November 28, 2017.
13.	Discontinuation of acceptance of cash by Members	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 12, 2018; SEBI circular bearing reference no. SEBI/MRD/SE/CIR-33/2003/27/08 dated August 27, 2003. MCX circular no. MCX/INSP/263/2018 dated July 12, 2018.

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Sr. No.	Subject	Circular No.
14.	Code of conduct	Chapter VIII of the SEBI (Stock Brokers) Regulations, 2026
15.	Authorised Persons, Portfolio Managers and Investment Advisors	Requirement as specified in SEBI and Exchange circulars
16.	Trading Members Leading To Default	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/DPIEA/CIR/2022/72 dated May 27, 2022; SEBI circular bearing reference no. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020. Exchange circular no. MCX/ISD/215/2025 dated April 29, 2025; MCX circular no. MCX/ISD/313/2022 dated May 27, 2022; MCX circular no. MCX/ISD/955/2020 dated December 18, 2020; MCX circular no. MCX/ISD/801/2020 dated October 27, 2020; MCX circular no. MCX/ISD/732/2020 dated October 01, 2020; MCX circular no. MCX/ISD/654/2020 dated September 08, 2020; MCX circular no. MCX/ISD/471/2020 dated July 02, 2020.
17.	Submission of undertaking pursuant to Standard Operating Procedure in the cases of Trading Member leading to default	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/DPIEA/CIR/2022/72 dated May 27, 2022; SEBI circular bearing reference no. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020. Exchange circular no. MCX/ISD/215/2025 dated April 29, 2025; MCX circular no. MCX/ISD/313/2022 dated May 27, 2022; MCX circular no. MCX/ISD/955/2020 dated December 18, 2020; MCX circular no. MCX/ISD/801/2020 dated October 27, 2020; MCX circular no. MCX/ISD/732/2020 dated October 01, 2020; MCX circular no. MCX/ISD/654/2020 dated September 08, 2020; MCX circular no. MCX/ISD/471/2020 dated July 02, 2020.

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Sr. No.	Subject	Circular No.
18.	Investor Awareness regarding margin by way of pledge / re-pledge of securities	MCX Circular no. MCX/INSP/649/2020 dated September 07, 2020; MCX Circular no. MCX/INSP/635/2020 September 01, 2020.
19.	Display of Advisory for Investors	MCX exchange circular no. MCX/ISD/215/2025 dated April 29, 2025; MCX circular no. MCX/ISD/625/2021 dated September 29, 2021.
20.	Maintenance of a website by Members	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/30 dated February 15, 2023. MCX circular no. MCX/MEM/520/2023 dated August 10, 2023; MCX circular no. MCX/MEM/254/2023 dated April 18, 2023; MCX circular no. MCX/MEM/112/2023 dated February 17, 2023; MCX circular no. MCX/INSP/156/2023 dated March 06, 2023.
21.	Precautions for clients dealing in Options	MCX/INSP/438/2023 dated June 30, 2023.
22.	Naming and tagging of bank and depositories account	SEBI circular bearing reference no. HO/38/11/(1)2026-MIRSD-POD/I/7656/2026 dated March 23, 2026; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023; SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022; SEBI circular bearing reference no. SEBI/HO/ MIRSD/ MIRSD_DPIEA/P/CIR/2022/83 dated June 20, 2022. MCX circular no. MCX/INSP/165/2023 dated March 10, 2023; MCX circular no. MCX/INSP/442/2022 dated July 26, 2022; MCX circular no. MCX/INSP/386/2022 dated June 29, 2022; MCX circular no. MCX/INSP/361/2022 dated June 20, 2022.
23.	Enhanced Supervision of Stock Brokers / Depository Participants - Reporting of Bank and Demat accounts maintained by Stock Broker;	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2017/123 dated

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Sr. No.	Subject	Circular No.
		November 29, 2017; SEBI circular bearing reference no. CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017; SEBI circular bearing reference no. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017; and SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. MCX circular no. MCX/INSP/343/2017 dated September 25, 2017; MCX circular no. MCX/INSP/195/2017 dated June 22, 2017 MCX circular no. MCX/INSP/438/2016 dated December 20, 2016; MCX circular no. MCX/INSP/294/2016 dated September 26, 2016.
24.	Guidelines for maintaining bank accounts and Reporting of Bank & Demat Accounts	MCX circular no. MCX/INSP/828/2020 dated November 09, 2020; MCX circular no. MCX/INSP/904/2020 dated November 27, 2020; MCX circular no. MCX/INSP/960/2020 dated December 21, 2020; MCX circular no. MCX/INSP/065/2022 dated February 07, 2022; MCX circular no. MCX/INSP/161/2022 dated March 16, 2022; MCX circular no. MCX/INSP/223/2022 dated April 13, 2022; MCX circular no. MCX/INSP/285/2022 dated May 13, 2022;
25.	Bank Guarantees (BGs) created out of clients' funds	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025. MCX circular no. MCX/INSP/270/2023 dated April 25, 2023; MCX circular no. MCX/INSP/438/2023 dated June 30, 2023; and MCX circular no. MCX/INSP/766/2023 dated November 7 2023.
26.	Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023. MCX circular no. MCX/INSP/367/2023 dated June 09, 2023; MCX circular no. MCX/INSP/441/2023 dated June 30, 2023; MCX circular no. MCX/INSP/867/2023 dated December 12, 2023.

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Sr. No.	Subject	Circular No.
27.	FAQ on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	MCX circular no. MCX/INSP/404/2023 dated June 26, 2023 MCX circular no. MCX/INSP/532/2023 dated August 16, 2023 MCX circular no. MCX/INSP/573/2023 dated August 30, 2023
28.	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.	MCX/INSP/585/2023 dated September 1, 2023.
29.	Operational guidelines and SOP on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	MCX/INSP/049/2024 dated January 25, 2024
30.	Submission of undertaking / Authorization to the Exchange to access the information/ statements pertaining to all bank accounts (maintained by members) from banks	MCX circular no. MCX/INSP/061/2021 dated January 29, 2021; MCX circular no. MCX/INSP/015/2021 dated January 08, 2021.
31.	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 circular bearing reference no. SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/78 dated June 06, 2024. MCX circular no. MCX/INSP/384/2024 dated June 07, 2024; MCX circular no. MCX/INSP/707/2023 dated October 16, 2023; MCX circular no. MCX/INSP/388/2023 dated June 16, 2023; MCX circular no. MCX/INSP/079/2023 dated February 07, 2023; MCX circular no. MCX/INSP/191/2021 dated March 25, 2021; MCX circular no. MCX/INSP/588/2019 dated October 16, 2019; MCX circular no. MCX/INSP/285/2019 dated May 29, 2019; MCX circular no. MCX/INSP/255/2018 dated July 4, 2018.
32.	Maintenance of daily reconciliation statement	MCX circular no. MCX/INSP/165/2023 dated March 10, 2023.

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Sr. No.	Subject	Circular No.
33.	Display of details of members' client bank accounts on website.	MCX circular no. MCX/INSP/156/2023 dated March 06, 2023.
34.	Centralized mechanism for reporting the demise of an investor through KRAs	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/OIAE/OIAE_IAD 1/P/CIR/2023/0000000163 dated October 03, 2023. MCX circular no. MCX/INSP/671/2023 dated October 04, 2023.
35.	Ease of doing investments by investors - facility of voluntary freezing/ blocking of trading accounts by clients	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024. MCX circular no. MCX/COMP/213/2026 dated April 17, 2026; MCX circular no. MCX/INSP/036/2024 dated January 19, 2024.
36.	Technology based sharing mechanisms of common submissions among Exchanges	Exchange circular no. MCX/MEM/499/2025 dated September 29, 2025; MCX/MEM/348/2025 dated July 18, 2025

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CHAPTER 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 Member or in the office of a registered Authorised Person of the Member for the operations of the 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.

5.2 "Pro – account" trading terminal:

As per paragraph 31 of the Stock Broker Master Circular, the following is prescribed

i. Facility of placing orders on "pro-account" through trading terminals shall be extended only at one location of the Members as specified / required by the members.

ii. Trading terminals located at places other than the above location shall have a facility to place orders only for and on behalf of a client by entering client code details as required / specified by the Exchange / SEBI.

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iii. In case any member requires the facility of using "pro-account" through trading terminals from more than one location, such Member shall be required to submit an undertaking to the Exchange stating the reason for using the "pro-account" at multiple locations and the Exchange may, on case to case basis after due diligence, consider extending the facility of allowing use of "pro-account" from more than one location.

5.3 Disclosure of proprietary trading by Broker to Client

a. As per paragraph 30 of the Stock Broker Master Circular, every Member shall disclose to his client whether he does client based business or proprietary trading as well.

b. The Member shall disclose this information upfront to his new clients at the time of entering into the KYC agreement.

c. In case of a Member who at present does not trade on proprietary account, chooses to do so at a later date, he shall be required to disclose this to his clients before carrying out any proprietary trading.

5.4 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 **Annexure 16.**

5.5 Display of details by Members

In accordance with paragraph 84 of the Stock Broker Master Circular, the following details by Members are to be displayed including 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, 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:

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Sr. No.	Subject	Circular No.
1.	Guidelines for location of CTCL terminals and usage thereof	SEBI circular bearing reference no. SMD/POLICY/CIR - 49/2001 dated October 22, 2001.
2.	“Pro – account” trading terminal	SEBI circular bearing reference no. SEBI/MRD/SE/CIR-32/2003/27/08 dated August 27, 2003; SEBI circular bearing reference no. SEBI/HO/CDMRD/DMP/CIR/P/2016/49 dated April 25, 2016; MCX circular no. MCX/T&S/123/2016 dated April 26, 2016; SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; MCX/INSP/324/2025 dated July 01, 2025.
3.	Disclosure of proprietary trading by Broker to Client	SEBI circular bearing reference no. SEBI/MRD/SE/CIR-42/2003 dated November 19, 2003; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; MCX circular no. MCX/T&S/123/2016 dated April 26, 2016.
4.	Notice boards	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. CIR/MIRSD/3/2014 dated August 28, 2014; SEBI circular bearing reference no. CIR/MIRSD/9/2010 dated November 04, 2010.
5.	Display of details by Members	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. CIR/MIRSD/9/2010 dated November 04, 2010.

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CHAPTER 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 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 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.

Exchange vide Circular reference no. MCX/INSP/572/2024 dated August 29, 2024, has prescribed a framework for supervision of authorised persons (APs) & branches by members have been issued. To enhance the effectiveness of supervision and ensure uniformity and standardisation across all Members, the minimum / indicative scope, criteria and guidelines of AP Inspections, along with indicative methodology, in joint consultation with other Exchanges have been revised. The revised Scope and Indicative Methodology for Branch / AP Inspections by Members is prescribed below:

Members are advised to perform enhanced due diligence to ascertain the suitability of an AP for their role. This includes in-person verification, site visits, PAN validation, background checks, scrutiny of all demat and bank account statements of the APs, continuous screening / verification that they are not debarred by SEBI & Exchanges, and including any other verification as deemed fit by the Member.

Further, the details of AP such as address, contact details, details of directors/ Partners of AP, terminals allocated, no. of clients etc. need to be updated in Exchange records from time to time.

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In cases where APs are operating from member branch/offices the members ought to maintain appropriate segregation of the space allocated to such AP. Such Member locations should also have the mandatory display pertaining to a particular AP in addition to that of the Member.

Members shall ensure adequate scanning of social media to identify any mis-selling/ assured returns or unauthorised schemes operated by AP including loan transactions. Members shall be mandatorily required to report any observed incidents related to assured returns or unauthorised schemes operated by the AP to the Exchange within one working day. On identification of any such case the Member shall inspect the AP concerned/ investigate the matter and take appropriate actions as required. Members are required to take necessary actions, including withdrawal of approval on disciplinary grounds, withholding funds due to the APs until investor issues are resolved, sending alert messages to investors in the APs location, filing complaints with the relevant police station, and implementing all necessary measures to safeguard the interests of investors and the market. Members are required to maintain and provide documentary evidence of police complaints, press releases, advertisements issued to the market, communication logs of alert messages sent to investors, and other measures taken to safeguard interest of investors including disciplinary actions taken against the APs.

Scope and Indicative Methodology for Branch / AP Inspections by Members:

Members while undertaking the inspection of Branches and AP offices shall ensure that all applicable regulatory requirements including circulars issued by SEBI and Exchanges from time to time have been complied with, including but not limited to the following parameters:

Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
1.	Dealing with client's	Whether all clients are registered directly with the Trading Member only.	Examine the books of account demat and bank statements) during the inspection period to identify any clients not registered with the Trading Member.
2.	Dealing with client's	There is no movement of Funds and securities between the clients and AP.	i) Examine all Demat statements and bank accounts of the AP during the inspection period. ii) Obtain a written confirmation from the AP that all their demat and bank accounts have been disclosed to the Trading Member. iii) If any other account of an AP is identified while examining bank and demat accounts, seek details of those accounts as well.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
3.	Dealing with client's	There are no fixed payments at regular intervals to the clients mapped to AP.	Examine all client's ledgers during the inspection period to identify any fixed periodic payments.
4.	Dealing with client's	There are no cash dealings done with clients by AP.	Examine all bank accounts of the AP during the inspection period for any cash deposits / dealings with clients.
5.	Dealing with client's	The AP is not involved in any fund-based activities / collecting deposits from investors / unauthorised trading or any other such schemes.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
6.	Dealing with client's	The AP is not involved in any illegal/dabba/paper trading.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
7.	Dealing with client's	The AP has not dealt with any unregistered intermediary on behalf of its clients/self.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
8.	Dealing with client's	The AP is not involved in accepting deposits from the public and giving assured returns to their clients.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
9.	Dealing with client's	Complaints received against AP pertaining to Assured Returns / Unauthorised Trading / Dabba Trading / associated with unregistered intermediary.	Review all complaints received against the AP and conduct an analysis.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
10.	Dealing with client's	The AP does not offer any incentives to clients for opening trading accounts.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
11.	Dealing with client's	AP has sought any authorisation to trade on behalf of its clients.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
12.	Management of branches / AP and internal control	Advertisements for soliciting business are not issued by the APs in newspapers / pamphlets / journals / magazines / emails including social media like Facebook, Instagram, telegram channels etc., without seeking appropriate approvals from the Exchange, through the Trading Member. This includes not publishing performance returns etc.	Scan all social media accounts, newspapers, and print media platforms etc.
13.	Terminal operations and related systems	All AP terminals are as per the information reported to the Exchange.	To verify that all terminals in the main office and all branches of the AP aligns with the details reported to the Exchange.
14.	Terminal operations and related systems	Trading terminals are operated by approved and certified users.	To verify that all terminals in the main office and all branches of the AP are operated by individuals approved / certified as reported to the Exchange.
15.	Terminal operations and related systems	Adequate systems, including voice recording, have been put in place, with a view to ensure recording of order placement from clients. Trading Members must	To verify if the system is installed in the main office & all branches of the AP if any.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
		ensure that APs who do not have trading terminals assigned to them, cannot place trades on behalf of the Trading Member's clients.	
16.	Management of branches / AP and internal control	Documents like contract notes, statement of funds, daily margin statement are not generated and issued by the AP. However, AP may provide administrative assistance in procurement of documents from the Trading Member, after maintaining proper records of the same.	To verify the process followed by the AP to fulfil its daily operations.
17.	Management of branches / AP and internal control	The AP has not dealt with / or associated with any other Trading Member/AP on behalf of its clients/self on the same Stock Exchange.	i) To review all bank accounts of AP during the inspection period. ii) Member to seek declaration signed by the AP and retain it for the future reference.
18.	Management of branches / AP and internal control	Trading Activities / Turnover of AP / Clients mapped with the AP are monitored, and necessary Actions / investigations are undertaken on a timely basis.	Analysis of client trading patterns and detecting unusual activities if any.
19.	Management of branches / AP and internal control	The AP has the necessary infrastructure like adequate office space, equipment, and manpower to effectively discharge the activities on behalf of the Trading Member.	Physical verification during Inspection.
20.	Management of branches / AP and internal control	Complaints received by and against the APs are handled appropriately and proper records are maintained.	Review all complaints received by and against the AP are handled appropriately and within stipulated TAT.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
21.	Management of branches / AP and internal control	Proper segregation and demarcation are maintained at AP office.	Physical verification during Inspection.
22.	Management of branches / AP and internal control	Notice board of the Trading Member containing all details / information prescribed from time to time, are displayed at the AP/s location.	To ensure that displays in the main office and all branches of the AP adhere to the prescribed guidelines.
23.	Management of branches / AP and internal control	SEBI registration certificate of the Trading Member and registration letter issued by the Exchange is displayed at the location.	To ensure that displays in the main office and all branches of the AP adhere to the prescribed guidelines.
24.	Management of branches / AP and internal control	As required by SEBI circular CIR/MIRSD/3/2014 dated August 28, 2014, information about the grievance redressal mechanism available to investors is prominently displayed at the location.	To ensure that displays in the main office and all branches of the AP adhere to the prescribed guidelines.
25.	Management of branches / AP and internal control	Branch/AP records/data are properly maintained with confidentiality in a secure manner including sufficient backup.	To verify the process followed by the AP in carrying out its daily operations.
26.	Management of branches / AP and internal control	In case of change/shifting of location of AP/Branch, the following is ensured:	
		a) All clients mapped to the AP/Branch are notified at least thirty days before the change.	Maintenance of logs of communication sent to all clients.
		b) Notice Board and applicable SEBI registration	To ensure that displays comply with the prescribed guidelines.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
		certificates are immediately put up at the new location.	
		c) The new location, including details of terminals if any, have been duly reported to the Exchange, and the old location, including terminals at the old location if any have been deactivated.	Maintenance of trail of reporting of terminals / communication for change in location.
		d) At the new location, adequate systems including voice recording, display of Notice Board and SEBI Registration certificates, and terminals etc. have been promptly installed to ensure the smooth functioning of business operations and the recording of order placements from clients.	To verify if the system is installed in the main office & all branches of the AP if any.
27.	Management of branches / AP and internal control	Any changes in the AP's contact details, such as registered / communication address, email address, mobile number or any changes in the Directors/ Partners of AP, are not reported/ incorrectly reported to the Members.	Maintenance of communication by AP to Member.
28.	Management of branches / AP and internal control	The AP's mobile number, and email address are not mapped to any of its client in UCC uploaded to Exchange.	To verify with the Member database of all the clients of the AP's.

Inspection Criteria:

All Members are required to inspect at least 50% of their registered APs/Branches every year, irrespective of the AP/Branch inspections conducted in the previous year and ensure that each registered AP/Branch is inspected at least once every two years. APs/Branches meeting any of

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the below criteria shall be inspected annually, irrespective of when the last inspection was carried out:

1) The top 50% of registered APs/Branches based on AP/Branch turnover for the previous year.

2) APs/Branches against whom one or more unauthorised trading complaints have been received.

3) Market intelligence/ Scanning of social media: In the case of any inputs or alerts about suspicious transactions, dealing, assured returns, mis-selling etc. by an AP or a Branch, Members shall carry out an immediate inspection, irrespective of when the last inspection was conducted, and initiate appropriate action.

4) Sudden increase in AP Turnover/clients/commission paid by Member.

Inspection Guidelines:

Members shall ensure the availability of adequate resources – both human and technological to effectively monitor their APs and comply with regulatory requirements.

It is recommended to distribute AP inspections evenly throughout the year to ensure better quality of inspection. Members shall conduct mystery shopping and surprise visits, wherever required

Inspections conducted throughout the financial year, including their scope, criteria, and indicative methodology, shall adhere to the guidelines specified in this circular. Additionally, Members are required to conduct inspections of APs covering the period from the end of last inspection period, ensuring the entire calendar month is included. For instance, if an AP is inspected on June 15, 2024, the inspection should cover the period from the end of last inspection period to May 31, 2024.

Members shall maintain trail of communication with the AP's inspected and shall retain the report of the inspection/visit conducted for a period of not less than five years. The inspection reports shall be made available for verification by SEBI/Exchanges as and when required including any related information/details that may be sought.

Submission Timelines:

Inspections undertaken during each quarter shall be reported within one month from end of the said quarter. For instance:

Inspections undertaken during the FY	Due date of reporting
Inspections done during the Quarter-1	July 31, XXXX
Inspections done during the Quarter-2	Oct 30, XXXX
Inspections done during the Quarter-3	Jan 31, XXXX
Inspections done during the Quarter-4	Apr 30, XXXX

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Further, in case no inspection is undertaken during a particular quarter, Members will have to mandatorily submit a "Nil" declaration for the said quarter.

Reporting Platform:

All AP Inspection reports should be sent by email to apcell@mcxindia.com.

Disciplinary Action:

Failure to conduct, submit, or delayed submission of AP inspections within the specified timelines will be considered as non-compliance. In such instances, the appropriate penalty or disciplinary action, in accordance with the prevailing rules, shall be initiated.

List of violations and Disciplinary Action on Authorised Person observed during Inspection

Exchange *vide* circular no MCX/INSP/577/2025 dated November 06, 2025, specified the indicative disciplinary actions to be applied by Trading Members against their Authorised Persons (APs) in cases of non-compliance identified during AP inspections. However, while taking action against APs, the Trading Members shall consider the nature and significance of the non-compliance observed during inspection of APs and take appropriate actions over and above the indicative disciplinary actions specified by Exchanges as Trading Members are accountable for all acts of omission and commission of the authorized person.

Areas of violations are categorized into A, B and C and for each category indicative action is prescribed as below:

Violation Category	Indicative Action
A	Termination on Disciplinary grounds, informing all clients of the AP, withhold money due to the AP, and public notification. (for violations mentioned in point no. 2, 4, 5, 6, 8 and 9 of **Annexure 17**, it is mandatory to file police complaint for termination of AP on disciplinary grounds).
B	Issuance of a warning Letter, with instruction to avoid repeat violations, with termination on disciplinary grounds in case of repeated offenses.
C	Issuance of an Advisory Letter, with instruction to avoid repeat violations. In case of repeat violation, warning letter to be issued.

The detailed list of inspection areas and its categorization is attached as **Annexure-17**.

Penalty structure for non-compliance with oversight of Authorised Persons by the trading members

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Exchange vide circular no MCX/INSP/204/2025 dated April 25, 2025, formulated a penalty structure for non-compliance with oversight of Authorised Persons by the trading members. The penalty structure in this regard is prescribed as below:

Sr. No	Particulars	Penalty/disciplinary action	Penalty/Disciplinary Action in case of Repeat Violation
1.	Member not having appropriate systems in place to monitor, review trading terminals mapped to its branches / AP	Rs. 1,000/- per terminal + Direction to place appropriate systems, **within 15 days**, to monitor, review trading terminals mapped to its branches / AP	2nd time - 50% escalation + Direction to place appropriate systems, **within 15 days**, to monitor, review trading terminals mapped to its branches / AP 3rd time - 100% escalation + Direction to place appropriate systems, **within 15 days,** to monitor, review trading terminals mapped to its branches / AP
2.	Delay in reporting of AP inspection to the Exchange	Penalty of Rs. 10,000/- per day after the due date.	Repeat violations: Escalation of 50%. Subsequent violations will be placed before the relevant authority for disciplinary actions.
3.	Incorrect submission of information to the Exchange regarding AP inspections	Penalty of Rs. 25,000/- per day after the due date. Additional disciplinary action shall be taken in case of submission of materially incorrect information.	
4.	Not conducting of AP Inspections in accordance with the prescribed framework	Penalty of Rs. 2 lakh for each year.	
5.	Non reporting / partial reporting of UCC details mapped to the Aps	Penalty of Rs. 2 lakh.	

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Sr. No	Particulars	Penalty/disciplinary action	Penalty/Disciplinary Action in case of Repeat Violation
Note: It may be noted that in all the above cases, the relevant authority on a case-to-case basis and based on the gravity of non-compliance may decide on additional disciplinary actions.			

Penalty structure on Members where Members / their Employees / Authorised Persons (APs) use their contact details for clients account opening or for existing clients []

Exchange *vide* circular no MCX/INSP/270/2025 dated May 28, 2025, formulated a penalty structure on Members where Members / their Employees / Authorised Persons (APs) use their contact details for client accounts opening or for existing clients by the Members.

The penalty structure in this regard is given below:

Particulars	Penalty / Regulatory Action	Penalty / Regulatory Action in case of Repeat Violation
Members / their Employees / Authorised Persons (APs) use their contact details (email id / mobile no) for clients' account opening or for existing clients.	Rs. 15,000/- per Client	Increase penalty amount by 50%

REGULATORY REQUIREMENTS/ REFERENCES:

Sr. No.	Subject	Circular No.
1.	Framework for Supervision of Authorised Persons (APs) & Branches by Members	SEBI circular bearing reference no. MIRSD/DR-1/CIR-16/09 dated November 06, 2009; SEBI circular bearing reference no. SEBI/CIR/MIRSD/AP/8/2010 dated July 23, 2010; SEBI circular bearing reference no.SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; MCX circular no. MCX/INSP/572/2024 dated August 29, 2024.
2.	Penalty structure for non-compliance with oversight of Authorised Persons by the trading members	MCX circular no. MCX/INSP/204/2025 dated April 25, 2025

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Sr. No.	Subject	Circular No.
3.	List of violations and Disciplinary Action on Authorised Person observed during Inspection	MCX circular no. MCX/INSP/577/2025 dated November 06, 2025
4.	Penalty structure on Members where Members / their Employees / Authorised Persons (APs) use their contact details for clients account opening or for existing clients	MCX/INSP/270/2025 dated May 28, 2025

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 November 21, 2019 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 /

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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/202-13/33/1103 published 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 SEBI as Members, 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.

All such intermediaries shall ensure that associated persons functioning as compliance officers as on the date of this notification obtain certification by passing SICCE within two years from March 11, 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	SEBI notification no. LAD-NRO/GN/202-13/33/1103 dated March 11, 2013; MCX circular no. MCX/MEM/124/2019 dated March 6, 2019
2.	Requirement of NISM-Series-XVI: Commodity Derivatives Certification Examination for Approved users	SEBI notification no. SEBI/LAD-NRO/GN/2019/41 dated November 21, 2019. MCX circular no. 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.

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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.

In accordance with paragraph 86 of the Stock Broker Master Circular, SEBI has prescribed the following principles for outsourcing:

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.

Activities that shall not be Outsourced

The Members desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. An example of core business activity may be – execution of orders and monitoring of trading activities of clients in case of Members. Regarding Know Your Client (KYC) requirements, the Members shall comply with the provisions of Securities and Exchange Board of India {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued thereunder from time to time.

PRINCIPLES FOR OUTSOURCING FOR INTERMEDIARIES

2. 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.

2.1. 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.

a. 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.

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3. The intermediary shall establish a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the third party.

3.1 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.

3.2 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.

3.3 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.

3.4 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.

4. 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.

4.1 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.

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4.2 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.

4.3 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.

4.4 Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision/inspection of the intermediary.

5. The intermediary shall conduct appropriate due diligence in selecting the third party and in monitoring of its performance.

5.1 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.

5.2 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.

6. 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.

6.1 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.

6.2 Care shall be taken to ensure that the outsourcing contract:

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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.

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7. The intermediary and its third parties shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.

7.1 Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.

7.2 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.

7.3 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.

7.4 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.

8. 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.

8.1 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.

8.2 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.

8.3 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.

9. 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

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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 SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/78 dated June 06, 2024

6.5 General guidelines for dealing with conflicts of interest of Stock Brokers and their Associated Persons in Securities Market

1. In accordance with paragraph 87 of the Stock Broker Master Circular, SEBI has prescribed general guidelines for dealing with Conflicts of Interest of Stock Brokers / Trading Members and their Associated Persons in Securities Market. On the lines of Principle 8 of the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulations, it has been decided to put in place comprehensive guidelines to collectively cover such Stock Brokers / Trading Members, for elimination of their conflict of interest, as detailed hereunder.

2. Stock Brokers shall adhere to these guidelines for avoiding or dealing with or managing conflict of interest. They shall be responsible for educating their associated persons for compliance of these guidelines.

3. For the purpose of these guidelines "associated persons" shall have the same meaning as defined in the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

4. Stock brokers and their associated persons shall,

i lay down, with active involvement of senior management, policies and internal procedures to identify and avoid or to deal or manage actual or potential conflict of interest, develop an internal code of conduct governing operations and formulate standards of appropriate

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conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned;

ii at all times maintain high standards of integrity in the conduct of their business;

iii ensure fair treatment of their clients and not discriminate amongst them;

iv ensure that their personal interest does not, at any time conflict with their duty to their clients and client's interest always takes primacy in their advice, investment decisions and transactions;

v make appropriate disclosure to the clients of possible source or potential areas of conflict of interest which would impair their ability to render fair, objective and unbiased services;

vi endeavour to reduce opportunities for conflict through prescriptive measures such as through information barriers to block or hinder the flow of information from one department/ unit to another, etc.;

vii place appropriate restrictions on transactions in securities while handling a mandate of issuer or client in respect of such security so as to avoid any conflict;

viii not deal in securities while in possession of material non published information;

ix not to communicate the material non published information while dealing in securities on behalf of others;

x not in any way contribute to manipulate the demand for or supply of securities in the market or to influence prices of securities;

xi not have an incentive structure that encourages sale of products not suiting the risk profile of their clients;

xii not share information received from clients or pertaining to them, obtained as a result of their dealings, for their personal interest;

The boards of Members shall put in place systems for implementation of the aforementioned guidelines and provide necessary guidance enabling identification, elimination or management of conflict of interest situations. The Boards shall review the compliance of the above guidelines periodically.

The said guidelines shall be in addition to the provisions, if any, contained in respective regulations/ circulars issued by the Board from time to time regarding dealing with conflict of interest, in respect of such entities.

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; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025. MCX circular no. MCX/INSP/363/2016 dated October 21, 2016.
2.	General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognised Stock Exchanges, Recognised Clearing Corporations, Depositories and	SEBI Circular No. CIR/MIRSD/5/2013 dated August 27, 2013; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025.

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	their Associated Persons in Securities Market.	

6.6 Portfolio Management Services

As per paragraph 4.3 of the Master Circular for Commodity Derivatives Segment dated August 04, 2023 and bearing reference no. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2023/136, portfolio managers are permitted to participate in Exchange Traded Commodity Derivatives (**ETCDs**) on behalf of their clients.

It shall be mandatory for portfolio managers to appoint SEBI registered custodian before dealing in ETCDs.

The participation of portfolio managers in ETCDs would be subject to the following:

- Portfolio managers may participate in ETCDs on behalf of their clients and such participation shall be in compliance with all the rules, regulations including SEBI (Portfolio Managers) Regulations, 2020 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 ETCDs 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 ETCDs 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 ETCDs, including but not limited to the risk factors, margin requirements, position limits, prior experience of the portfolio manager in ETCDs, 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

- Since foreign portfolio investors are allowed to participate in ETCDs market subject to certain conditions, portfolio managers shall ensure that any transaction relating to any FPI on-boarded by them are conducted after strictly following those conditions.

- Portfolio managers shall also provide periodic reports to the clients as per the SEBI (Portfolio Managers) Regulations, 2020 regarding their exposure in ETCDs.

- Portfolio managers shall report the exposure in ETCDs 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.

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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.	Portfolio Management Services	SEBI circular bearing reference no. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2023/136 dated August 04, 2023. MCX/TRD/267/2019 dated May 22, 2019.

CHAPTER 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.

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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.

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.

Members shall ensure compliance with the circulars related to FATF requirements issued by the Exchange from time to time.

7.2 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 (*refer **Annexure-18***)
2. Format for maintenance of Client Fund Ledger (*refer **Annexure-19***)
3. Guidelines with respect to standardisation of Bank Book and Client Ledger (*refer **Annexure-20***)

The above formats are applicable with effect from October 01, 2023 and the Members must 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.

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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.	Norms relating to trading by Members	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025.
2.	Standardisation of bank book and client ledger	MCX circular no. MCX/INSP/438/2023 dated June 30, 2023; MCX circular no. MCX/INSP/325/2016 dated September 29, 2016.

7.3 Preservation of records

In terms of Rules 14 and 15 of Securities Contracts Regulation Rules, 1957 ("SCRR, 1957") every recognized stock exchange and its Stock Brokers / Trading Members are required to maintain and preserve the specified books of account and documents for a period ranging from two years to five years.

Further, as per regulation 16 of SEBI Stock Broker Regulations, 2026 every Member shall preserve the books of account and other records maintained under regulation 15 for a minimum period of eight 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

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Sr.No.	Subject	Circular No.
2.	Maintenance and Preservation of Records	SEBI/HO/CDMRD/DMP/CIR/P/2016/74 dated August 30, 2016; MCX/INSP/264/2016 dated September 02, 2016 SEBI/HO/MIRSD/MIRSD PoD/P/CIR/2025/90 dated June 17, 2025; MCX/INSP/324/2025 dated July 01, 2025

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CHAPTER 8 - COMPLIANCE SUBMISSIONS AND REQUIREMENTS

8.1. Monitoring of clients' funds lying with the Member submission

SEBI vide paragraph 15 of the Stock Broker Master Circular has prescribed the legal framework governing Enhanced Supervision of Stock Brokers.

In accordance with the above, 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.

Further, in accordance with point number 5(b) of SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/03 dated January 12, 2024, on Ease of doing business - Changes in reporting, the Operational guidelines and SOP for monitoring of "G" Principle framed by Broker's Industry Standards Forum (ISF) and relevant stakeholders in consultation with SEBI are as under:

Operational Guidelines for computation of 'G' Principle

1. G Principle: The total available funds i.e. cash and cash equivalent with the Member and with the clearing corporation/clearing member should always be at all times equal to or greater than clients' funds/payable as per the ledger balance.

2. The updated guidelines for each of the data-points required for computation of aforesaid G principle are as under:

Sr. No.	Particulars	Remark
1.	Total of day end balance in Bank Accounts	Clients' funds lying in USCNBA/DSCNBA/Settlement account only as per bank statement to the extent of permissible justifications as stipulated by Exchange/CC from time to time under upstreaming framework of client funds. Note: - • Balances in OD/LAS (Loan against shares) accounts shall not be considered. • Any FDR that has been created out of the client funds by member and lying with member shall not be considered towards availability of client funds payable.
2.	Collateral deposited with clearing corporations/ clearing member in form of Cash and Cash Equivalents	Aggregate value of collateral deposited with all clearing corporations/clearing member in form of Cash & Cash Equivalents as mentioned below (Cash, FD and Mutual Fund Overnight Schemes i.e. MFOS). • Cash

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Sr. No.	Particulars	Remark
		• FDRs created out of clients' funds lien marked to CCs fulfilling conditions stipulated by Exchange/CC from time to time under upstreaming framework of clients' funds • MFOS created out of clients' funds and pledged with Clearing corporation fulfilling conditions stipulated by Exchange/CC from time to time under upstreaming framework of clients' funds Note: - Early pay in of funds to CC to be considered, if it is debited from settlement bank account and same is not included in any of collateral report of clearing corporations For MCXCCL deposits, members may refer 1.68. Collateral File to Members (nomenclature: MCX_CD__.csv and MCX_CD__.csv). For NSE Clearing deposits, the amount of Cash and FDRs can be taken from the COLLDTLS file downloaded to the members. For ICCL deposits, members may refer to the "Collateral Margin Report" or "Holding Statement" of each segment for deriving the amount of collateral in the form of Cash, FD & MFOS. For NCCL deposits, the amount of Cash and FDRs can be taken from the CL0102 file
3.	Total Credit Balance of all clients	Aggregate value of clear Credit Balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations if posted in the client ledger if any). Open bills also contain 'value of credit entry posted in client ledger in lieu of successful EPI of securities to CC. Debit balance of client in MTF will not be adjusted against the credit balance of same client in non-MTF.

Standard Operating Procedures for Monitoring of G Principle

1. For the purpose of monitoring of 'G' Principle by Exchanges, Clearing Corporations (CCs) shall share following information on daily basis:

    - The Client Collateral Segregation Report as submitted by the members to CCs.

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- The details of collateral of trading members lying with CCs or their Clearing Members.

2. Depositories shall share member wise client wise details of pledged MFOS with Exchanges and CCs.

3. Exchanges will seek bank balance details of trading members from banks directly based on authorization and undertaking given by members to Exchanges. However, it shall be the responsibility of members to ensure that banks provide details of their bank accounts as sought by Exchanges on daily basis.

4. Compliance with respect to provisions of monitoring 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.

REGULATORY REQUIREMENTS/ REFERENCES:

Sr.No.	Subject	Circular No.
1.	Operational Guidelines and SOP for Monitoring of client funds under Enhanced Supervision	MCX/INSP/211/2024 dated April 08, 2024
2.	Ease of doing business-Changes in reporting	SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/03 dated January 12, 2024

8.2. Submission of Designated Director details to FIU-IND and Registration on FIU-IND's FINnet Gateway.

SEBI had directed the members to appoint a person as a 'Designated Director' in addition to Principal.

Officer to comply with AML/CFT requirements. 'Designated Director' includes –

i. the Managing Director or a Whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,

ii. the managing partner if the reporting entity is a partnership firm,

iii. the proprietor if the reporting entity is a proprietorship concern,

iv. the managing trustee if the reporting entity is a trust,

v. a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals,

vi. such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above.

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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.

8.3. <u>Submission of Internal Audit Report</u>

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

SEBI vide paragraph 13.2 of the Stock Broker Master Circular mandates 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 paragraph 15.6 of the Stock Broker Master Circular 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 paragraph 15.6.2.1 (iii) and paragraph 15.6.2.1(iv) of the Stock Broker Master 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.

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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.

Members' attention is drawn to Exchange circular nos. MCX/INSP/372/2022 dated June 24, 2022 and MCX/INSP/662/2024 dated October 03, 2024 wherein it has been prescribed that the trading member shall submit an undertaking to Exchange on half yearly basis along with Internal Audit Report confirming that the penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" is not being passed on to respective clients. Accordingly, the facility to submit the same has been provided under 'Internal Audit Tab' in the Enhanced Supervision portal. The undertaking submitted by the member shall be digitally signed by the proprietor or partner or the designated director of the company.

Exchange has advised Internal Auditors to take note of the following while carrying out the Audit:

i. There are certain changes in the sampling criteria and methodology for sample selection compared to previous half year submission. Auditors are advised to refer sample size in the circular issued Exchange from time to time carefully before initiating the audit.

ii. Auditors are required to mandatorily adhere to the sample selection guidelines specified in the circular issued Exchange from time to time and mention the sample size selected along with the details of the instances of Non-Compliance (if any) against each of the checklist points in the Internal Audit Report.

iii. Internal Auditors are mandatorily required to upload the list of all samples selected and supporting documents, using the upload functionality available for each head of area of verification at the time of uploading the Internal Audit report on the portal. For submissions pertaining to Qualified Stock Broker data shall be submitted under point no 19 of Area of Verification. All working papers and records with respect to the Audit should be retained by the Auditors for verification and sharing with the Exchange, as and when required.

iv. As per the Exchange circular no. MCX/INSP/322/2025 dated June 30, 2025, regarding "Monitoring corrective actions taken by the Members pursuant to Inspection by SEBI". Additional submission of "Certificate of Compliance" is applicable to all those members, where SEBI has issued Administrative Warning Letters (AWL). Empaneled Internal Auditor shall submit Certificate of Compliance on AWL. Member response on Administrative Warning Letter shall be available to the Auditor for verification under Auditor Login.

v. For each "Not Complied" observation, wherever applicable the auditor shall mandatorily provide the "Complete Auditor remarks", "No. of instances where noncompliance is

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observed", "% of Instances where Non-compliance is observed" and "Amount/value involved where Non-compliance is observed" while submitting the Audit report.

vi. It is mandatory to mention Unique Document Identification Number (UDIN) on the Certificate of Compliance (If applicable) and Internal Audit Certificate. Hence, auditors shall ensure that Certificate of Compliance and Internal Audit Certificate mandatorily contain different UDIN.

vii. Internal auditor shall report directly to the Exchange in the event of non-cooperation by the member by sending an email at inspection@mcxindia.com. In case of resignation by the auditor from Internal Audit Assignment, Internal auditor shall communicate the reason for such resignation to the Exchange.

The following annexures are applicable for the Internal Audit report. To access such formats, please refer to the relevant circular issued by the Exchange from time to time.

Serial No.	Description
1.	Internal Audit Certificate
2.	Format of Internal Audit Report
3.	Guidelines on sample selection and other points to be noted
4.	List of Indicative Processes & reference of Exchange / SEBI Circulars
5.	Manual for submission of Internal Audit Report – Member
6.	Manual for submission of Internal Audit Report and Auditor Certificate –Auditor
7.	Format for Internal Audit Report for Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs) – Applicable only for QSB Member
8.	Relevant abstract of SEBI circular nos SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017

The Exchange will initiate appropriate actions – remedial, penal or disciplinary – against the members where deficiencies / non-compliances / violations are noticed in audit reports or where audit report has not been received on time and the same will be intimated separately as per Exchange circular no. MCX/INSP/525/2025 dated October 10, 2025 and MCX/COMP/213/2026 dated April 17, 2026.

Further, Members are advised to adhere to the norms prescribed under clause 4.2 of SEBI circular no. 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 SEBI circular and Exchange circular nos. MCX/INSP/672/2023 dated October 05, 2023 and MCX/INSP/180/2024 dated March 26, 2024.

8.4. 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.

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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.

8.5. <u>Submission of Action Taken Report for non – compliances reported in the Internal Audit Report</u>

In order to provide ease of doing compliance and to ensure timely closure of the non-compliance(s) reported in the Internal Audit Reports, the Exchanges in joint consultation with SEBI have prescribed a framework for closure of non-compliances reported in the internal audit report through submission of Action Taken Report.

Exchange *vide* its circular no MCX/INSP/622/2025 dated December 02, 2025 and circular no MCX/INSP/650/2025 dated December 19, 2025 has issued such framework, the detailed procedure for submission of the Action Taken Report on the Enhanced Supervision Portal and format of Audit Certificate for Action Taken Report.

Under this framework,

- Trading Members shall be required to close all non-compliances reported in the internal audit report within 2 months from the end of due date of submission of Internal Audit Report i.e. due date for submission of Action Taken Report for Internal Audit Period ended March 31 and September 30 shall be July 31 and January 31 respectively.

- Action Taken Report shall be certified by the empanelled Internal Auditor of the Trading Member, confirming the status of compliance and shall cover at least a period of one month for sample verification.

- Action Taken Reports shall be submitted electronically through the Inspection module in the Enhanced Supervision Portal under the Internal Audit Report Tab.

- In case the observations are not closed in the Action Taken Report or Action Taken Report has not been submitted within the due date, prescribed monetary penalty/disciplinary actions shall be initiated in accordance with Exchange Circular No. MCX/INSP/525/2025 dated October 10, 2025 or such other penalty circulars issued by the Exchange from time to time.

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The aforesaid framework shall be applicable for all the internal audit reports received from the half year ended September 30, 2025 and onwards.

Please see below the list of annexures applicable for the submission of Action in circular of respective half yearly submission:-

- Help file for submission of Action Taken Report electronically through the Member Portal.

- Auditor Certificate for Action Taken Report

Members are further advised to note that prescribed monetary penalty/disciplinary actions shall be initiated in accordance with Exchange Circular no. MCX/INSP/525/2025 dated October 10, 2025, in case the observations are not closed in the Action Taken Report or Action Taken Report is not submitted within the due date.

As per the Exchange Circular no. MCX/INSP/356/2025 dated July 24, 2025 all cases where critical non-compliances viz; shortall of client funds/securities/commodities/networth/incorrect reporting of networth to the Exchange resulting in shortfall/ not meeting the minimum networth criteria for providing margin trading facility wherein such shortalls are not recouped and offering fixed/assured/periodic returns to clients / mobilizing deposits from investors are reported in the Internal Audit Report, immediate action shall be taken in accordance with Exchange circular no. MCX/INSP/525/2025 dated October 10, 2025 without waiting for submission of Action Taken Report.

Members are requested to note that submission of Action Taken Report shall be considered complete only after Member submits the action taken report to the Exchange and receives an acknowledgment email. Action Taken Report saved in the system or submitted only by Auditor shall not be considered as final submission to Exchange.

8.6. <u>Reporting of critical non-compliances observed in the internal audit of Trading Members</u>

Exchange *vide* its circular no MCX/INSP/356/2025 dated July 24, 2025 has prescribed that the Internal auditor shall not wait till the submission of Internal Audit Report for reporting these non-compliances and shall report the critical non-compliances to the Exchange within 2 days from the date of finding of such non-compliance. Critical non-compliances for the purpose of reporting in terms of this circular are as under-

1. Shortfall of client funds / securities / commodities wherein such shortfall is not recouped.

2. Shortfall of networth / Incorrect reporting of net worth to the Exchange resulting in shortfall (below the minimum prescribed networth) / Not meeting the minimum networth criteria for providing Margin Trading Facility wherein such shortfall is not recouped.

3. Offering fixed/assured/periodic returns to clients / mobilizing deposits from investors.

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The underlying objective is to further strengthen the internal audit process/mechanism and to initiate immediate actions in critical cases where the non-compliances pertaining to shortfall of client funds / shortfall of networth etc. are observed in the internal audit.

REGULATORY REQUIREMENTS/ REFERENCES:

Sr. No.	Subject	Circular No.
1.	Submission of data towards Holding Statement *(as applicable)*	MCX/INSP/956/2020 dated December 18, 2020
2.	Segregation and Monitoring of Collateral at Client Level	MCX/INSP/614/2021 dated September 23, 2021
3.	Internal Audit of Members	MCX/INSP/438/2023 dated June 30, 2023
4.	Internal Audit for Stockbrokers/ Clearing Members	SEBI vide Circular No. MIRSD/DPSIII/Cir-26/08 dated August 22, 2008.
5.	Internal Audit of Members – eligibility criteria	MCX/INSP/438/2023 dated June 30, 2023
6.	Internal Audit of Members	MCX/INSP/672/2023 dated October 05, 2023
7.	Framework for Auditors for conducting Internal Audit of Trading Members	MCX/INSP/180/2024 dated March 26, 2024
8.	Discontinuation of Client Level Cash and Cash Equivalent Balances	MCX/INSP/261/2024 dated April 26, 2024
9.	Reporting of critical non-compliances observed in the internal audit of Trading Members	MCX/INSP/356/2025 dated July 24, 2025
10.	Submission of Internal Audit Report for the half year ended on September 30, 2025	MCX/INSP/529/2025 dated October 13, 2025
11.	Ease of Doing Compliance- Submission of Action Taken Report for non-compliance(s) reported in the Internal Audit Report	MCX/INSP/622/2025 dated December 02, 2025
12.	Ease of Doing Compliance- Submission of Action Taken Report (ATR) for non-compliance(s) reported in the Internal Audit Report	MCX/INSP/650/2025 dated December 19, 2025

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8.7. Submission of "Holding Statement"

With a view to enhance monitoring of client assets on continuous basis, it has been decided to revise the frequency of submission of Holding statement from weekly to daily and accordingly, Member shall mandatorily make the submission of Holding Statement for each day of the week (except Sunday) w.r.f January 30, 2023 and onwards 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 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.

The format of the holding statement is enclosed as **Annexure 21**.

8.8. Monitoring of Financial Strength of Members

The Exchange shall monitor the following financial indicators and ratios of Members.

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).

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- (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).

Members shall submit financial statements to 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 Exchanges shall be the same as prescribed under the Companies Act, 2013 for submission to Registrar of Companies.

No Member 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 Member 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 Member 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 Member immediately preceding the financial year, shall be appointed as statutory auditor of the same Member for a period of five years.

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

8.9. <u>Risk Based Supervision (RBS) submission</u>

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)).

Exchange has prescribed that all data/details/information pertaining to Risk Based Supervision has to be submitted electronically only and no physical copies need to be submitted to the Exchange.

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The link for submitting the data/details/information is as under: https://member.mcxindia.com. The procedure to submit data/details/information sought by the Exchange has been mentioned in Circular related to submission of risk based supervision.

Members may note that submission of data/details/information pertaining to Risk Based Supervision is mandatory for all active Members of the Exchange (i.e. Members who have executed even a single trade during the period of submission *(April to September and April to March of respective financial year)*. Further, the data/details/information collected from Members towards RBS is also shared with SEBI and any false/incorrect submission of data is viewed seriously by the Exchange.

In case of any non-submission/delayed submission by any Member, disciplinary actions as prescribed by the Exchange from time to time will 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.

8.10. Violations observed by SEBI during Inspection of Brokers

In compliance with requirement of circular ref no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/110 dated August 09, 2024, which required Exchanges to publish the illustrative list of common violations / deficiencies observed by SEBI during its inspection of Members, the Exchange vide its circular no. MCX/INSP/559/2024 dated August 23, 2024 has issued a list of common violations / deficiencies observed by SEBI during the inspections of trading members (for the period April 2023 to March 2024) which is enclosed herewith as **Annexure-22**.

All trading members are advised to take note of the areas listed, put in place necessary systems and procedures to strengthen their compliance level and ensure adherence to the relevant compliance requirements.

8.11. Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs)

SEBI *vide* paragraph 19 of the Stock Broker Master Circular has prescribed '*Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs)*'. SEBI has enumerated the parameters for designating certain Members, 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.

The parameters along with the list of Members designated as Qualified Stockbrokers (QSBs) is provided under Exchange circular no. MCX/MEM/170/2026 dated April 01, 2026.

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 the prescribed enhanced obligations and discharge the prescribed additional responsibilities.

SEBI vide paragraph 19.4.5 and 19.4.6 of the Stock Broker Master Circular, has facilitated Members to voluntarily get designated as QSBs. Accordingly, Members who have not qualified

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to become QSB by virtue of parameters prescribed, may apply to Exchange, for voluntary designation as QSB. All applications for voluntary designation as QSB may be submitted to VQSB@mcxindia.com.

The Members designated as voluntary QSB by Exchange shall comply with the enhanced obligations and responsibilities as specified in paragraph 19 of the Stock Broker Master Circular, and also discharge additional responsibilities as specified by the Exchange, for an additional period of 3 financial years from the year when they were designated as QSB or such time, as may be specified by the Exchange, in consultation with SEBI.

8.12. Monitoring corrective actions taken by the Members pursuant to Inspection by SEBI

This is in reference to inspections of the Members conducted by SEBI, including joint inspection along with the Stock Exchanges. Following these inspections, SEBI will forward the violations brought out during inspection(s), which require corrective measures to be taken by respective members, to one of the concerned Stock Exchanges (hereinafter referred to as Assigned Stock Exchange) for further necessary action, along with the timelines for taking such corrective measures.

Pursuant to above and notwithstanding SEBI's discretion to take disciplinary actions for non - compliance(s) reported during inspection, SEBI shall advise the Assigned Stock Exchange to monitor the timeliness and completeness of corrective actions taken by the Members. Accordingly, in consultation with SEBI and other Stock Exchanges, Exchange vide circular no. MCX/INSP/322/2025, dated June 30, 2025, has informed Members that upon receiving communication from SEBI, the Exchange shall intimate the same to the Member and commence monitoring the implementation of these corrective actions within the timeline prescribed by SEBI.

Members are required to take all the necessary corrective actions as directed by SEBI and submit the compliance status report to the Assigned Stock Exchange in the format prescribed in **Annexure-23** within the prescribed timelines. Members shall note that in the event of any non-compliance / non-implementation of the SEBI directives and / or non-adherence to the timelines prescribed by SEBI with respect to corrective actions, the following action shall be initiated by the Assigned Stock Exchange, independent of action taken by SEBI:

Period of continued non-compliance / non-submission beyond prescribed or permitted time by SEBI, (No. of calendar days)	**Applicable action (per calendar day and per instance of continued non -compliance)**
1 to 15	Warning + Notice for applicability of monetary penalty

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16 to 30	Monetary penalty of Rs. 2,500 per day + Notice for prohibition of new clients
31 to 45	Prohibition on onboarding of new clients until all observations are complied* + Disablement* of proprietary trading terminals in all segments until all observations are complied
46 onwards	Prohibition on onboarding of new clients until all observations are complied* + Disablement* of proprietary trading terminals in all segments until all observations are complied

**Prohibition on onboarding of new clients and / or square off mode for proprietary trading of terminals in all segments shall be done across Exchanges basis intimation to other Exchange by ASE.*

The above action shall be levied on:

i. Observation (s) where Member has not implemented or has delayed the implementation of corrective actions.

ii. Observation(s) where Member has not submitted compliance certificate, construing the same as not complied.

The action taken by the Assigned Stock Exchange is without prejudice to SEBI's right to take any disciplinary action in the matter.

Further, Members shall ensure that during their half yearly internal audit in which the "Compliance Status Report on the Corrective Actions Taken" is submitted by the Member to the Assigned Stock Exchange, the Exchange empanelled internal auditor shall check the veracity of the said Compliance Status Report and submit a certificate as per **Annexure-23** certifying the corrective actions taken by the Member as directed by SEBI along with the corresponding half yearly internal audit report.

Assigned Stock Exchange shall verify the instances pertaining to the above-mentioned audit period during subsequent comprehensive inspection by the Exchange which may include said audit period to confirm the correctness of "Compliance Status Report on the Corrective Actions Taken" submitted by Members and the said compliances certified by the Exchange empanelled internal auditor vide "Certificate of Compliance on the Corrective Actions Taken by Member".

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If the empanelled internal auditor identifies any observation that contradicts the compliance status report submitted by the Member (i.e. Compliance Status Report on the Corrective Actions Taken) and/or if the Exchange during subsequent comprehensive inspection identifies any observation that contradicts with the compliance certificate certified by the empanelled internal auditor (i.e. Certificate of Compliance on the Corrective Actions Taken by Member) or if the Member fails to submit the Internal Audit Report (IAR), the Assigned Stock Exchange under intimation to SEBI shall take:

Applicable action on the respective observation as per the penalty circulars issued by the Assigned Stock Exchange from time to time.

Most stringent action as per the above grid considering that corrective actions as per the SEBI direction have not been taken by the Member and the non-compliance has continued for more than 45 days from the date of submission of compliance status report by the Member and / or compliance certificate certified by empanelled internal auditor till the date of inspection.

Necessary action against the empanelled internal auditor as per the extant framework of the Assigned Stock Exchange including recommending necessary action to other Stock Exchange where such an internal auditor may be empanelled.

The format of auditor's certificate for certifying compliance status (i.e. Certificate of Compliance) on corrective actions taken by the Members is prescribed under **Annexure-24**.

REGULATORY REQUIREMENTS / REFERENCES:

Sr. No.	Subject	Circular No.
1.	Logo of MCX	MCX circular no. MCX/COMP/085/2010 dated March 18, 2010.
2.	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 circular bearing reference no. SEBI/HO/MIRSD/MIRSDSECFATF/P/ CIR/2024/78 dated June 06, 2024. MCX circular no. MCX/INSP/293/2023 dated May 05, 2023.
3.	Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs)	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024; SEBI circular bearing reference no.

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		SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 06, 2023. MCX circular no. MCX/MEM/154/2023 dated March 06, 2023; MCX circular no. MCX/MEM/358/2023 dated June 02, 2023; MCX circular no. MCX/MEM/136/2024 dated March 12, 2024; MCX circular no. MCX/MEM/160/2024 dated March 19, 2024; MCX circular no. MCX/MEM/486/2024 dated July 22, 2024.
4.	Violations observed by SEBI during Inspection of Brokers	MCX/INSP/559/2024 dated August 23, 2024
5.	Monitoring corrective actions taken by the Members pursuant to Inspection by SEBI	MCX/INSP/322/2025 dated June 30, 2025
6.	Submission of holding statement	MCX circular No. MCX/INSP/044/2023 dated January 25, 2023; MCX circular no. MCX/INSP/590/2021 dated September 14, 2021; MCX circular no. MCX/INSP/032/2021 dated January 15, 2021; MCX circular no. MCX/INSP/956/2020 dated December 18, 2020.
7.	Enhanced Supervision of Stock Brokers / Depository Participants - Reporting of Bank and Demat accounts maintained by Stock Broker;	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. MCX circular no. MCX/INSP/294/2016 dated September 26, 2016.
8.	Risk Based Supervision	MCX/INSP/438/2023 dated June 30, 2023 and MCX/INSP/231/2024 dated April 16, 2024 MCX/INSP/517/2025 dated October 07, 2025
9.	Accessibility and Inclusiveness of Digital KYC to Persons with Disabilities	SEBI/HO/MIRSD/SECFATF/P/CIR/2025/74 dated May 23, 2025 MCX/INSP/299/2025 dated June 19, 2025

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CHAPTER 9 - OTHER COMPLIANCES

9.1 Publishing Investor Charter and Disclosure of Investor Complaints by Members on their websites

Paragraph 78 of the Stock Broker Master Circular provides for the publishing of Investor Charter and disclosure of Investor Complaints by Members on their websites. Investor Charter for stock brokers *inter-alia* provide details about the services provided to investors, rights of investors, various activities of Members with timelines, DOs and Don'ts for investors and grievance redressal mechanism.

Members are advised to bring the Investor Charter to the notice of their clients (existing as well as new clients) by uploading the Investor Charter on their respective websites, making them available at prominent places in the office, providing a copy of the Investor Charter as a part of account opening kit to the clients, through e-mails / letters etc.

Additionally, to bring transparency in the Investor Grievance Redressal Mechanism, Members shall continue to 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 prescribed by SEBI.

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.

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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.sebi.gov.in/ 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 (e.g. 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.

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- 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 Members on their websites	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD PoD1/P/CIR/2025/22 dated February 21, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025. MCX circular no. MCX/ISD/758/2021 dated December 07, 2021; MCX circular no. MCX/ISD/775/2021 dated December 15, 2021; MCX circular no. MCX/ISD/638/2022 dated November 10, 2022; MCX circular no. MCX/ISD/671/2022 dated November 25, 2022; MCX circular no. MCX/ISD/133/2025 dated March 18, 2025.

9.2 Customer Protection

Members are directed to comply with the following:

i. 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.

ii. Members shall keep evidence of having dispatched the contract note to the clients.

iii. Members shall keep evidence of making the payment to the client on account of the Mark to Market (**M-T-M**) gains made by the clients.

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

a) Waiver to the member from sending contract notes;
b) Retaining the M-T-M gains by the Member with himself; and
c) 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.

v. No Member shall execute trades of clients before completing KYC formalities.

9.3 BPO / KPO Services - Segregation thereof From Commodity Derivative Markets

As per paragraph 90 read with Annexure 41 of the Stock Broker Master Circular, provisions of Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 (**SCRR**) and SEBI

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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. The relevant rules of the SCRR are set out below:

Rule 8(1)(f) of the SCRR

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*

Provided that nothing herein shall be applicable to any corporations, bodies corporate, companies or institutions referred to in clauses (a) to (n) of sub-rule (8).

Provided further that investments made by a member shall, at all times, not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker."

Rule 8(3)(f) of the SCRR

Inter-alia states that:

"*No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if—*

(f) 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, provided that —

(i)the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,

(ii)in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,

(iii)nothing herein shall affect members of a recognised stock exchange which are corporations, bodies corporate, companies or institutions referred to in items (a) to (n)of sub-rule (8).

Provided further that investments made by a member shall, at all times, not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker."

In view of the above, Members are required to ensure that BPO/KPO services are completely segregated and there is no common ownership, management, control of these entities with any of the members of Indian Commodity Exchanges.

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Members are requested to comply with the provisions of Rule 8(1)(f) and 8(3)(f) of the SCRR.

Borrowing and lending of funds, by a 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.

9.4 Severance of connections with other businesses

Rule 8(1)(f) and Rule 8(3)(f) of the SCRR, 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.	Subject	Circular No.
1.	Customer Protection	FMC circular bearing reference no. FMC/Comp/VI/2009/04/06/114/5787 dated September 16, 2009. Circular Nos. MCX/012/2006 dated January 10, 2006; MCX/COMP/206/2008 dated June 16, 2008; MCX/256/2008 dated July 31, 2008; MCX/COMP/029/2009 dated January 19, 2009 and MCX/COMP/399/2009 dated September 30, 2009.
2.	BPO / KPO Services - segregation thereof from commodity derivative markets	Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957. SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SMD/Policy/Cir-6/97 dated May 07, 1997
3.	Severance of connections with other businesses	Rule 8(1)(f) and Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957. SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SMD/VRN/1476/95 dated April 27, 1995.
4.	Gazette Notification - Amendment to the Securities Contracts (Regulations) Rules, 1957	MCX/MEM/272/2025 dated May 28, 2025

9.5 Logo of MCX

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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.

9.6 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 *vide* the AML CFT Guidelines have prescribed the '*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. Members are requested to take note and comply with the applicable regulatory requirements.

9.7 Charging interest on delayed payment of penalties

It has come to the notice of the Exchange that in some instances, there is delay in remitting the penalty by the Member. As per MCX Circular no. MCX/INSP/319/2023 dated May 15, 2023, to avoid delay in remitting the penalty, the Exchange has provided for the following:

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

ii. If the penalty is Rs. 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.

Members are required to note the above and ensure timely payment of penalty to avoid interest on delayed payment of penalty.

9.8 Norms relating to trading by Members

As per paragraph 32 of the Stock Broker Master Circular, the following is prescribed:

1. A Member 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. The stock exchange while giving such permission, shall consider the reasons stated by the brokers for dealing with brokers of the same exchange and after

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carrying out due diligence allow such brokers to deal with only one Member of the same exchange.

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

3. 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

9.9 <u>Unauthorised Market Practices by Trading Members</u>

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.

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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. Sharing 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,

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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.

9.10 Advisory on Impersonation and Unauthorised Market Practices

Further, considering the recent investor complaints and media reports, it is observed that some unscrupulous persons/ entities operating through Indian and International mobile numbers, through impersonation on social media platforms like WhatsApp Groups, Telegram Channels, Facebook, Instagram Channels, etc. are falsely claiming to be associated with reputed financial institutions, showcasing fake certificates purportedly issued by SEBI/ Exchanges.

In view of the above and to protect the investors from unauthorized schemes/frauds due to impersonation, trading members are advised to actively search the web/social media platforms for possible impersonation of their name regularly and immediately take following actions:

a Initiate steps to take down such App/website/social media posts etc. by filing police complaints,

b Issue public notices and

c Notify clients about-such impersonation findings, guiding them to verify the authentication of offer like asking them to visit official website or tagging official social media handles or calling customer care at email/phone no., etc. and advise clients not to participate/subscribe to any such product/scheme being offered.

Consequently, trading members are requested to report such instances/findings along with action taken to MCX on email enforcement@mcxindia.com,within 3 days after filing of police complaint.

Further, as a part of investor awareness and cautioning public at large, Exchange is publishing and updating all issued press releases on its website under ‘Media coverage and Press releases issued to caution investors’ heading. The link to view/refer issued press releases on MCX website is given below. Trading Members are requested to communicate about following link to their clients for their information & awareness. MCX website Link- https://www.mcxindia.com/media/press-releases. Members are advised to take note of the above and take necessary action.

9.11 Submission of ATR on Impersonation and Unauthorized Market Practices

Members attention is drawn to the Exchange circular no. MCX/INSP/262/2024 dated April 26, 2024, regarding “Advisory on Impersonation and Unauthorised Market Practices”, wherein

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members were advised to actively search the web/social media platforms for possible impersonation of their name/logo regularly and immediately take following actions:

a. Initiate steps to take down such App/website/social media posts etc. by filing police complaints,

b. Issue public notices and

c. Notify clients about-such impersonation findings, guiding them to verify the authentication of offer like asking them to visit official website or tagging official social media handles or calling customer care at email/phone no., etc. and advise clients not to participate/subscribe to any such product/scheme being offered.

Additionally, Members were also requested to report such instances/findings along with action taken to the Exchange within 3 days after filing of police complaint.

In this regard, the details of the action taken by Members can now be submitted to the Exchange online, through Member Portal https://member.mcxindia.com. The details of information / data to be provided in this regard and the procedure for submitting the same through Member Portal is prescribed under Exchange circular no. MCX/INSP/262/2024 dated April 26, 2024.

Further, as a part of investor awareness and cautioning public at large, Exchange is publishing and updating all press releases issued by it on website under 'Media coverage and Press releases issued to caution investors' heading. The link to view/refer press releases on MCX website is as follows: https://www.mcxindia.com/media/press-release. Members are requested to communicate this link to their clients for information & awareness.

9.12 Measures to instil confidence in securities market – Brokers' Institutional mechanism for prevention and detection of fraud or market abuse

Chapter IV of the SEBI (Stock Brokers) Regulations, 2026 requires Members to put in place an institutional mechanism for prevention and detection of fraud or market abuse.

Paragraph 98 of the Stock Broker Master Circular read with MCX circular no. MCX/INSP/450/2024 dated July 08, 2024 provides that a Member shall comply with the following obligations / mechanisms as laid down in Chapter IV of the SEBI (Stock Brokers) Regulations, 2026:

1. Systems for surveillance of trading activities and internal controls;

2. Obligations of the stock broker and its employees;

3. Escalation and reporting mechanisms;

4. Whistle blower policy.

Applicability:

The effective date for implementation with respect to provisions mentioned above, for different Members has been prescribed in the table below:

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Number of active UCCs* of stockbroker	Applicability of Operational / working Modalities & Guidance Note
> 50,000	January 01, 2025
2,001 to 50,000	April 01, 2025
upto 2,000	April 01, 2026

** -as on last day of the preceding month of the date of issuance of the circular*

In case of Qualified Stock Brokers (QSBs), considering that enhanced obligations and responsibilities such as governance structure and processes and surveillance of client behaviour are already being followed by them, the effective date for implementation of the circular for QSBs (irrespective of number of UCCs) is **August 01, 2024.**

The Exchange *vide* circular no. MCX/S&I/006/2025 dated January 03, 2025, has also released a guidance note for the following:

1. Recommend best practices to be adopted by the Member for effective trade surveillance operations;
2. Describe some common types of market abuse practices and how to identify them; and
3. Provide an accountability matrix for different types of suspicious behaviour.

Members are advised to take note of the guidance note as prescribed by the Exchange in the aforesaid circular and shall ensure compliance.

REGULATORY REQUIREMENTS/ REFERENCES:

Sr. No.	Subject	Circular No.
1.	Charging interest on delayed payment of penalties	MCX Circular no. MCX/INSP/319/2023 dated May 15, 2023.
2.	Unauthorised Market Practices by Trading Members	MCX circular no. MCX/INSP/193/2022 dated March 31, 2022.
3.	Advisory on Impersonation and Unauthorised Market Practices	MCX circular no. MCX/INSP/262/2024 dated April 26, 2024.
4.	Measures to instil confidence in securities market – Brokers' Institutional mechanism for prevention and detection of fraud or market abuse	SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/90 dated June 17, 2025; SEBI circular bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/96 dated July 04, 2024.

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Sr. No.	Subject	Circular No.
		MCX circular no. MCX/INSP/450/2024 dated July 08, 2024.MCX circular no. MCX/S&I/006/2025 dated January 03, 2025
5.	Submission of ATR on Impersonation and Unauthorized Market Practices	MCX/INSP/855/2024 dated December 30, 2024

9.13 Miscellaneous

Advertisement by Members

Members shall not issue advertisements of their business, including in their internet sites, by subsidiaries, group companies etc. in contravention to Regulation 18(7) of the SEBI (Stock Broker) Regulations 2026 read with the code of advertisement for Members prescribed under MCX/MEM/089/2023 dated February 09, 2023.

9.14 Distribution of Third – Party Products by Members

It has been observed that several Members, or their holding/group entities, have developed applications or websites (online platforms) that not only provide stock broking services but also allow the distribution and offering of third-party products. In cases where the platforms are operated by holding or group entities, it has been observed that such platforms host a range of third-party products alongwith stock broking services.

With the objective of streamlining the process of distribution of third-party products, the Exchange vide circular no. MCX/MEM/295/2025 dated June 17, 2025 formulated the Regulatory framework for Distribution of third-party products by Members either on their own platform or through their group companies/associates' platforms (i.e. third-party app/parent app).

The Regulatory framework is as under: -

a. Third party products (TPP) distributed/offered on the Platform must be regulated, directly or indirectly, by appropriate financial sector regulators.

b. Stock broker shall enter into an agreement with TPP provider or holding/group company (where platform is parent app) expressly stating that there shall not be any personal financial liability devolve upon the broker which is relating to any non-broking third party products offered on the (parent) app.

c. Broker shall provide specific disclosures to the client that third party products are not Exchange traded products, and the broker is just acting as distributor and all disputes with respect to the distribution activity, would not have access to SCORES/ODR, Exchange investor redressal forum or Arbitration mechanism.

d. TPP shall be offered under a different tab/link/page with specific display of the name and registration number of concerned regulator.

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e. Broker shall strictly maintain segregation, confidentiality and security of client data, ensuring that neither its parent company/ TPP Providers have access to the broker's data.

f. Broker's app shall be under 2FA login or where the Platform is Parent App, access to the broking tab on Parent App shall be under 2FA login and shall be in compliance with 2FA norms prescribed by the stock exchanges/SEBI from time to time or any other norm stringent than that.

g. There should not be any liaising between stock broker and TPP provider. The Client shall have a choice to avail which product they wish to avail. They shall not be mandated/forced to avail any third-party products available on the Platform.

h. The Member must obtain express/explicit consent from the client for sharing their information, except trade, fund balance or settlement obligation data unless permitted to the respective entity under the respective SEBI regulations or the entity comes under the regulatory jurisdiction of SEBI (for limited purpose of displaying it to client only), with the Third-Party Product Provider. Further, express consent and/or explicit confirmation shall be obtained from the clients by providing an option to the clients to only select/opt in for sharing their information. Moreover, client should be given an option to withdraw the consent anytime.

i. Broker shall not be responsible for compliance with client KYC for the third-party products. Each Third-Party Product Provider shall be responsible to ensure compliance with its own KYC requirements applicable to its product.

j. The agreement for availing third-party products shall be between the client and the TPP Provider. The broker shall not enter into any tripartite agreement whereby they will also become party to the agreement for availing third-party products, including for performance guarantee etc.

k. Payments for third-party products should be made directly between the client and the Third-Party Product Provider, without any routing of such payments/funds through the books of the Member. However, exchanges may provide exemptions to brokers in case of certain products where broker is permitted to collect the amount on behalf of the Third-Party Product Provider by respective regulatory body e.g. NPS (regulated by PFRDA) etc. However, in such cases, it may be stated that a separate non-withdrawable bank account shall be maintained by broker for the collection of amounts and any amount collected on their behalf shall be credited to the bank account of the Third-Party Product Provider within such time period as may be permitted by the concerned regulator.

l. The broker, where they are acting as distributor/referrer/lead generator, may carry out advertisement/marketing of the third-party products in compliance with Code of Advertisement as prescribed by the SEBI/Stock Exchanges/respective financial sector regulator from time to time.

m. Brokers shall engage only in the lending products which are permitted by the SEBI from time to time, such as MTF and T+1+5 funding.

Exchange *vide* Circular no. MCX/COMP/658/2025 dated December 23, 2025 clarified that Stock Brokers are not permitted to engage (as distributors) in any lending products (such as

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Home Loan, Vehicle Loan, Personal Loan, Education Loan, LAS etc.) other than those specifically permitted by SEBI from time to time.

Exchange *vide* circular no. MCX/COMP/667/2025 dated December 26, 2025 further clarified that reference on the app/platform of stock brokers to banking products offered by banks/Non-Banking Financial Companies (NBFC) shall be permitted where such reference are in the nature of referral arrangement and subject to compliance with the aforesaid third-party product guidelines.

9.15 Standard Operating Procedure (SOP) on National Cybercrime Reporting Portal (NCRP) and Citizen Financial Cyber Fraud Reporting and Management System (CFCFRMS) – Custody, Restoration of Money and Grievance Redressal

Exchange vide Circular no. MCX/COMP/149/2026 dated March 23, 2026 has informed that Ministry of Home Affairs and Indian Cyber Crime Coordination Centre has formulated a Standard Operating Procedure (SOP) for the National Cybercrime Reporting Portal (NCRP) and the Citizen Financial Cyber Fraud Reporting and Management System (CFCFRMS) covering aspects relating to custody, restoration of money and grievance redressal in cases of cyber-enabled financial crimes.

The SOP aims to address issues arising from actions taken by Law Enforcement Agencies (LEAs) of States/UTs, Banks, Financial Intermediaries (FIs), and other stakeholders based on complaints reported on NCRP. The objective of the SOP is to establish a smooth, fair and transparent framework based on a uniform process to be followed by all participating entities across the country.

Members are specifically advised to take note of Para 9.6 of the SOP, which provides guidance on measures to be undertaken in cases involving certain securities market related transactions.

Members are requested to take note of the aforesaid SOP and ensure necessary compliance with the provisions contained therein, wherever applicable.

Members are requested to refer to Exchange circular no. MCX/COMP/149/2026 dated March 23, 2026 for SOP and related compliance in the matter.

9.16 <u>FATCA and CRS</u>

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

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and related compliances shall lie with the respective intermediaries. Members are advised to ensure necessary compliance of the regulatory requirement from time to time.

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CHAPTER 10 - ENFORCEMENT

10.1. Rationalisation and Standardisation of penalties levied on Members

1. This is with reference to Exchange Circular No. MCX/INSP/525/2025 dated October 10, 2025, wherein disciplinary actions under Rules, Bye-laws and Business Rules of the Exchange viz. “Disciplinary proceedings, penalties, suspension and expulsion”, were prescribed for various regulatory non-compliances. The said disciplinary actions were based on the recommendations of the Working Group constituted by SEBI, which comprised of members from all Exchanges and Stockbroker associations viz. ANMI, BBF & CPAI and approved by SEBI.

2. In continuation to the said objective of standardizing the disciplinary framework applicable to Members across exchanges, the working group, after detailed deliberations, has *vide* Exchange Circular No. MCX/COMP/213/2026 dated April 17, 2026 proposed actions for additional set of violations where actions were not prescribed in the previous Circular No. MCX/INSP/525/2025 dated October 10, 2025, along with modifications to certain existing violations.

3. The revised consolidated list of violations / non-compliances, their classification and the corresponding prescribed actions, approved by SEBI is as detailed in **Annexure-25**.

4. The provisions of this circular shall be applicable with immediate effect as under:

    i. On all cases under process / all non-compliances identified or determined after the date of the circular where penalty is being reduced

    ii. On all other cases where the date of violation falls after the date of the circular.

    iii. On all submission-based compliances where due date falls after the date of the circular.

5. Further, Members are requested to note the following:

    i. Relevant authority/committee shall have the discretion to levy any additional penalties or take any necessary actions such as imposing embargo on onboarding new clients / authorised person for any period of time as deemed necessary, disablement of terminals, suspension, expulsion, declaration of member as defaulter, cessation or such other action.

    ii. In case of monetary penalty/ financial disincentive for any of the observed non-compliance is less than Rs. 1000/-, Exchange shall ‘Advise’ the Member instead of levying such monetary penalty/ financial disincentive.

    iii. In case of escalations, maximum capped penalty wherever applicable shall also be escalated in accordance with mentioned escalation slab.

    iv. If the cumulative amount of penalty/ financial disincentive arising out of inspection observations (*i.e. emanating out of on-site/off-site or joint inspections*) in a financial year exceeds Rs. 1 Crore or 20% of Member’s latest reported networth, whichever is lower, then such inspection matters of those members will be referred to relevant authority/committee, for necessary action as deem fit.

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v. Any procedural / non-critical violations (*i.e. which do not impact the eligibility of the entity as a Member, and do not pose any risk to client funds or securities*) that are not covered under the prescribed penalty structure in this circular or any SEBI/Exchange circulars issued introducing any compliance provisions after the date of this Circular, shall attract 'Advice' followed by 'Warning' and 'Rs. 5,000 (Financial Disincentive)' for 2nd and 3rd repeat instances respectively till the issuance of prescribed structure for the said non-compliance. All other cases shall continue to be placed before relevant authority/committee, and the decisions thereon shall be communicated to Members by way of action letters / orders.

6. The existing process of placing matters before relevant authority/committee will continue to be followed for observations involving disciplinary action like the prohibition of onboarding of new clients, restriction on the onboarding of authorized persons or any action like disablement of terminals, suspension, expulsion, declaration of default and any other critical violations deemed fit by the relevant authority/committee. In such cases, the Exchange shall issue an Intimation of Observation (IO) / Letter of Observation (LO) to seek Member response. Thereafter, based on the response received on the IO / LO, if the observation persists, the Exchange shall issue Show Cause Notice (SCN). An opportunity of personal hearing before Relevant Authority/Committee may be provided. However, the actions like disablement of the trading terminals, prohibition of onboarding of new clients, blocking collateral etc. shall continue as specified under relevant annexure/circular mentioned below, without placing the matter before relevant authority/committee:

   i. Violations mentioned in Annexure 1.2 to 1.5 of **Annexure-25**.

   ii. Administrative actions taken by Exchange as specified against the relevant violation.

   iii. Monitoring corrective actions taken by Member pursuant to SEBI inspection (*MCX Circular No. MCX/INSP/322/2025 dated June 30, 2025, and other Circulars issued from time to time*)

   iv. Under SEBI SOP Circular SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020, regarding trading member / clearing member leading to default.

7. Trading Members must take note of the violations / non-compliances notified in the Letter of Observations (LO), Intimation of Observation (IO) and Show Cause Notice (SCN) along with the indicative penalties / penal actions / financial disincentives. It is in the interest of the Members to submit complete, accurate and correct information in response to Exchange communications along with complete documentary evidence to substantiate their response within the timelines specified in the LO / IO / SCN. Upon receipt of Trading Members' response to LO / SCN, the Exchange shall consider the same as final and complete the enforcement actions by issuing an Action Letter / Orders. Failure to submit a response to the LO / SCN within the prescribed timelines would be construed as "No additional information is available", and the Exchange shall proceed to complete the enforcement action based on the available documents. It is brought to the notice of the Trading Members that any failure to adhere to the timelines, unless extended by the Exchange as specified in Exchange Communications, may be treated as non-cooperation, and appropriate disciplinary proceedings may be initiated under Rules, Bye-laws and Business Rules of the Exchange.

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8. The amount collected in the form of penalty and financial disincentives is credited to Investor Protection Fund Trust (IPFT) of the Exchange.

9. The provisions of the current circular supersedes the earlier penalty circulars except mentioned in point 6 above.

10.2. <u>Review, appeal or waiver, emanating out of actions taken by the A) Exchange / Internal Committee (IC) and B) Member Committee (MC)</u>

SEBI *vide* circular SEBI/HO/MRD/POD-III/CIR/P/2025/112 dated August 05, 2025 streamlined the mechanism for handling of requests for review, appeal or waiver of penalty, based on feedback received from MIIs and deliberations in the Secondary Market Advisory Committee of SEBI (SMAC). The aforesaid circular envisaged the setting up of an appeal mechanism and in this regard it was stipulated that:

(1) Any request for review, appeal or waiver of penalty filed against actions taken by the Internal Committee (IC) of the Member Committee (MC), or against actions taken by the MII as per pre-approved policy on regulatory action shall be placed before the MC for its consideration.

(2) Any request for review, appeal or waiver of penalty filed against actions taken by the MC from the date of implementation of this circular shall be handled by a mechanism setup by the Governing Board of the MII with Public Interest Directors and/or Independent External Professionals not forming part of the MC. The Governing Board shall issue the Standard Operating Procedure (SOP) with regard to handling of such review, appeal or waiver of penalty requests, if any, emanating out of actions taken by the MC.

(3) For further appeal against the decisions emanating out of the appeal mechanism of the MII, the members or participants would be free to approach appropriate authority based on the applicable laws.

Exchange *vide* circular no. MCX/COMP/147/2026 dated March 23, 2026, informed Members that following two separate appeal mechanisms are in place at the Exchange for any requests for review, appeal or waiver of penalty.

A. For appeal against actions taken by Exchange / IC as per the pre-approved policy on regulatory action, request can be made before MC

B. For appeal against actions taken by MC, request can be made before the Appellate MC (AMC)

Initial Regulatory Action Taken by	**Appellate Forum**
Exchange / Internal Committee (IC) →	Member Committee (MC)
Member Committee (MC) →	Appellate Member Committee (AMC)

For any further appeal against the outcomes of above two mechanisms, Members may approach appropriate authority in accordance with applicable laws.

For any review request submitted, respective Committee of the Appellate Forum may, by way of a corrigendum or clarification, rectify any clerical, typographical, factual or calculation errors in any order or decision taken by it.

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The provisions to accept requests for appeal shall be applicable for the action taken by Exchange / IC / MC on or after September 19, 2025.

Members are requested to note the standard submission procedures are prescribed as below:

- Member shall file application within 45 days from the date of receipt of order / letter emanating from Exchange / IC / MC decision.
- Any application should clearly mention the grounds of review, appeal or waiver.
- Application shall be submitted at email id: appeal@mcxindia.com, supported by complete additional documentary evidence.
- For any review, appeal or waiver request, a processing fee of Rs.10,000/- (+ applicable GST) should be remitted in advance to the designated bank account of the Exchange. Proof of the payment shall be submitted along with requested email. The said processing fees shall be credited to the Exchange Investor Protection Fund Trust (IPFT).
- The Exchange reserves the right to prescribe and communicate additional terms and condition to be complied by the Members in this regard.

10.3. List of rescinded modified circular

List of rescinded circulars are enclosed as **Annexure-26** and List of modified circular are enclosed as **Annexure-27.**

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