Circular no.: MCX/INSP/325/2016 **September 29, 2016**

Master circular of Inspection & Audit Department

Consequent to repeal of Forward Contracts (Regulation) Act, 1952 and transfer and vesting of the undertaking of Forward Markets Commission with SEBI w.e.f September 29, 2015 the existing bye-laws, rules, regulations, circulars, etc. made by the recognised commodity exchanges under FCRA shall be applicable upto September 28, 2016. Therefore, the Exchange has made Bye-laws and Rules under Securities Contract Regulation Act, 1956 (SCRA) which are approved by SEBI and duly notified in the Gazette of India dated September 24, 2016 and the Gazette of Maharashtra dated September 22, 2016 and the same shall be effective from September 29, 2016.
In terms of the provisions of the said Bye-laws and Rules of the Exchange approved by SEBI under SCRA, the Members of the Exchange are hereby notified as under;

Further to, Circulars of SEBI made applicable to the Exchange and with a view to facilitate members to comply with the regulatory requirements, the Exchange has consolidated regulatory requirements as applicable to the members of the Exchange as below:

Part A	Master Circular-Inspection & Audit Department
Part B	Annexures

The provisions of this Circular shall be applicable to all Members and shall come into force w.e.f September 29, 2016.

Members are requested to take note of the circular and ensure compliance of the same.

Notwithstanding the above circular, anything done or any action taken including any inspection, audit, penalty, proceedings, etc. under the earlier circular shall be continued or enforced by the Exchange or Relevant Authority as if the said circulars has not been made inapplicable.

C N Upadhyay
Vice President
Inspection & Audit

Encl.: Part A and Part B

Kindly contact Inspection & Audit Team on 022-7181-5000 or send an email at inspection@mcxindia.com for further clarification.

PART-A- Master Circular-Inspection & Audit Department

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1. Client Registration

1.1 Know Your Client Forms

As per SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** Members (Stock Broker) are required to continue to comply with regulatory requirements relating to client registrations as follows.

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

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

a) List of mandatory documents to be obtained from the clients.

a.i. Annexure 1 – *Part-I KYC Form for " Individuals only"
Part-I KYC Form for "Non- Individuals only"
Part-II KYC Form for “Individuals” and “non-individuals”.
a.ii. Annexure 2 – Uniform Risk Disclosure Document
a.iii. Annexure 3 – Rights and Obligations of Members, Authorized Persons and Clients
a.iv. Annexure 4 – Guidance Note – Do’s and Don’ts for the clients

*As per SEBI Circular number CIR/MIRSD/ 66 /2016 dated July 21, 2016. CERSAI has prescribed Annexure I Part I for “Individuals only".

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

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

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

a) The clauses in the non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents, as also the Rules, Business Rules, Bye-laws, 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 (including Business Rules, circulars of the Exchange and directives and guidelines of SEBI and Exchanges 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 noted that Aadhar card issued by Unique Identification Authority of India (UIDAI) would be admissible as Proof of Identity and Proof of Address in Know Your Customer (KYC) documentation in the Commodity Futures Market and also it has been decided to accept e-KYC service launched by UIDAI also, as a valid process for KYC verification. The information containing relevant client details and photograph, made available from UIDAI as a result of e-KYC process ("which is in an electronic form and accessible so as to be usable for a subsequent reference"), shall be treated as sufficient proof of Identity and Address of the client. However, the client will need to authorize the intermediary to access his data through UIDAI system.

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

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

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

With a view to simplify the account opening kit, it has been decided that, stock broker shall make available these standard documents to the clients, either in electronic or physical form, depending upon the preference of the client as part of account opening kit. The preference of the client shall be sought as part of the account opening form. In case the documents are made available in electronic form, stock broker/ shall maintain logs of the same.

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

v. Member of the Exchange shall make the Client aware of particulars of Member's registration number allocated by the Exchange and SEBI, employee primarily responsible for the Clients affairs, the precise nature of business to be conducted, the risk associated with business in trading in contracts listed in the exchange including any limitations on that liability and the capacity in which the Member of the Exchange acts and the Client's liability thereon by issuing to the Client a copy

of the RISK DISCLOSURE DOCUMENT. The Member of the Exchange shall furnish a copy of the Risk Disclosure Document and Rights & Obligations of Members, Authorized Persons & Clients to all his clients and to get and maintain their acknowledgement on second copy of the same document.

vi. Further SEBI vide its circular no. MIRSD/Cir- 26/2011 dated ,Dec 23, 2011 and Circular CIR/MIRSD/16/2011 dated Aug 22, 2011 have decided regarding IPV (In-Person Verification) requirement for all intermediaries as follows.

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

b) The intermediary shall ensure that the details like name of the person doing IPV, his designation, organization with his signatures and date are recorded on the KYC form at the time of IPV.

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

d) In case of Stock brokers, their Authorized Persons (appointed by the stock brokers after getting approval from the concerned Stock Exchanges in terms of SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 06, 2009) can perform the IPV.

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

h) In case of non-resident clients, employees at the stock broker's local office, overseas can do in-person' verification. Further, considering the infeasibility of carrying out 'In-person' verification of the non-resident clients by the stock broker's staff, attestation of KYC documents by Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy / Consulate General in the country where the client resides may be permitted.

Additional Requirement (for new clients)

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

Rationalization process for obtaining PAN by Investors

• With a view to bring about operational flexibility and in order to ease the PAN verification process, the intermediaries may verify the PAN of their clients online at the Income Tax website without insisting on the original PAN card, provided that the client has presented a document for Proof of Identity other than the PAN card.

Client Registration Procedure

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

•The stock broker shall register a client and make available a folder /book containing all the documents required for registration of a client. The folder/book shall have an index page listing all the documents contained in it and indicating briefly significance of each document. Once signed, a copy of the same shall be made available to the client.

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

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

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

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

• The stock broker shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment. In respect of other clients, the stock broker shall obtain the documents in accordance with its risk management system.

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

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

a. setting up client's exposure limits,

b. applicable brokerage rate,

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

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

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

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

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

h. deregistering a client.

Non-mandatory Documents

• Any term or condition other than those stated in the mandatory part shall form part of non-mandatory documents.

• The clauses in the non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents, as also the Rules, Regulations, Articles, Byelaws, circulars, directives and guidelines of SEBI and Exchanges.
Any such contravening clause shall be null and void.

• Any authorization sought in non-mandatory part shall be a separate document and shall have specific consent of the client.

General

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

• A copy of all the documents executed by client shall be given to him, free of charge, within 7 days from the date of execution of documents by the client. The stock broker shall take client's acknowledgement for receipt of the same.

• The stock brokers having own web-sites shall display all the documents executed by a client, client's position, margin and other related information, statement of accounts, etc. in the web-site and allow secured access by way of client-specific user id and password.

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

• The stock broker shall frame the policy regarding treatment of inactive accounts which should, inter-alia, cover aspects of time period, return of client assets and procedure for reactivation of the same. It shall display the same on its web site, if any.

• 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.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	SEBI Circular Number
1	Regulatory Framework for Commodity Derivatives Brokers	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016
2	Simplification of Account Opening Kit	CIR/MIRSD/64/2016 dated July12, 2016
3	Guidelines in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011 and for In-Person Verification (IPV)	MIRSD/Cir- 26/2011 dated ,Dec 23, 2011
4	Simplification and Rationalization of Trading Account Opening Process (IPV)	CIR/MIRSD/16/2011 dated Aug 22, 2011
5	Rationalization process for obtaining PAN by Investors	Circular number CIR/MIRSD/01 /2013 dated Jan 04, 2013
6	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)
7	Operationalisation of Central KYC Records Registry (CKYCR)	CIR/MIRSD/ 66 /2016 dated July 21, 2016

1.2 Uploading Client Registration details to KYC Registration Agencies (KRAs)

Common/Uniform Client Registration In Commodity Derivative Markets Through KYC Registration Agencies (KRAs)

SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** has made applicable SEBI Circular number MIRSD/Cir-23/2011 dated December 02, 2011 and Para 1 of MIRSD/Cir-26/2011 dated December 23, 2011 with respect to KYC Registration Agencies which inter alia issued guidelines/requirements as follows.

SEBI simplified the account opening process for investors and made it uniform across Intermediaries in the securities markets vide aforementioned circulars. Further, to avoid duplication of KYC process with every intermediary, KRA system was developed for centralization of the KYC records in the securities markets.

Members are required to upload the details of clients after doing the initial KYC of the new clients on the system of KRA and central KYC as per their guidelines applicable from time to time.

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

Guidelines for Members:

A. The Member shall perform the initial due diligence of the new client whose KYC data are not available with the KRAs, upload the KYC information for both individuals and non-individuals with proper authentication on the system of the KRA, furnish the scanned images of the KYC documents to the KRA, and retain the physical KYC documents.

B. The Member shall furnish the physical KYC documents or authenticated copies thereof to the KRA, whenever so desired by the KRA.

C. A new client can be allowed to start trading / dealing in commodity futures on the Exchange platform through the Member as soon as the client is registered by completing the necessary KYC documentation process. However, the Member shall be under obligation to upload KYC details with proper authentication on the system of the KRA, within 10 days of receipt of the KYC documents from the client.

D. With respect to the existing clients, who were registered with the Members but whose **KYC Data were not available with any of the KRAs**, the Members were require to upload the KYC information with proper authentication on the system of the KRA, furnish the scanned images of the documents to the KRA and retain the physical KYC documents by December 01, 2015.

E. With respect to the existing clients, who are presently registered with any of the Members and whose **KYC data are already uploaded on the system of any of the KRAs**, the Member to whom such client approaches, shall download the client's details from the system of KRA.

F. Provided that upon receipt of information on change in KYC details and status of the clients by the Member or when it comes to the knowledge of the Member, at any stage, the Member shall be responsible for uploading the updated information on the system of KRA with proper authentication on the system of the KRA, furnish the scanned images of the additional KYC documents to the KRA, and retain the physical KYC documents.

G. The Members shall also upload the KYC details about their existing clients which are missing/ not available with them by calling for the same from their clients.

H. The Member shall not use the KYC data of a client obtained from the KRA for purposes other than it is meant for; nor shall it make any commercial gain by sharing the same with any third party including its affiliates or associates.

I. The Member shall have the ultimate responsibility for the KYC of its clients, by undertaking enhanced KYC measures commensurate with the risk profile of its clients.

J. The Member shall at all times, have adequate internal controls to ensure the security / authenticity of data uploaded.

K. As per the SEBI circular CIR/MIRSD/ 66 /2016 dated 21st July 2016 and the 2015 amendment to PML (Maintenance of Records) Rules, 2005 (the rules), every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the Rules, as per the KYC template for 'individuals' finalized by CERSAI

L. Accordingly, the KYC template finalised by CERSAI shall be used by the registered intermediaries as Part I of AOF for individuals. The KYC template for "individuals" and the "Central KYC Registry Operating Guidelines 2016" for uploading KYC records on CKYCR as finalized by CERSAI from time to time, it is clarified that the requirement for Permanent Account Number (PAN) would continue to be mandatory for completing the KYC process

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	SEBI Circulars
1	The Securities and Exchange Board of India (KYC Registration Agency) Regulations, 2011.	MIRSD/Cir-23/2011 dated Dec 2, 2011
2	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
3	Operationalisation of Central KYC Records Registry (CKYCR)	CIR/MIRSD/66/2016 dated July 21,2016

2. Segregation Of Client And Own Funds

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

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

a) Member Broker to keep Accounts:

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

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

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

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

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

No money shall be paid into clients account other than –

i. money held or received on account of clients;
ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;
iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;
iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.

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

No money shall be drawn from clients account other than –

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

ii. such money belonging to the Member as may have been paid into the client account under para 1 C (ii) or 1 C [iv] given above;

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

e) Right to lien, set-off etc., not affected. Nothing herein mentioned above shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counter-claim 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 that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;
b. Fully paid for client's securities / commodities registered in the name of Member, if any, towards margin requirements etc.;

iii. Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral.

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

a) Receipt of collateral from client and acknowledgement issued to client on receipt of collateral
b) Client authorization for deposit of collateral with the exchange / clearing corporation / clearing house towards margin
c) Record of deposit of collateral with exchange / clearing corporation / clearing house
d) Record of return of collateral to client
e) Credit of corporate action benefits to clients

The records should be periodically reconciled with the actual collateral deposited with the broker

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

vi. In case of complaints against brokers related to misuse of collateral deposited by clients, exchanges should look into the allegations, conduct inspection of broker if required and based on its findings take necessary action.

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

Further, SEBI vide its Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 has inter-alia directed following, regarding segregation of client and own funds & tagging of bank and depositories account, etc. which shall be applicable within three months from September 26, 2016.

viii. Naming/Tagging of Bank and Demat Accounts by Stock Broker:

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

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

- Bank account(s) which hold clients funds shall be named as "Name of Stock Broker - Client Account".
- Bank account(s) which hold own funds of the stock broker shall be named as "Name of Stock Broker - Proprietary Account".
- Demat account(s) which hold clients' securities shall be named as "Name of Stock Broker – Client Account".
- Demat account(s) which hold own securities of the stock broker, shall be named as "Name of Stock Broker – Proprietary Account".
- Demat account(s), maintained by the stock broker for depositing securities collateral with the clearing corporation, shall be named as "Name of Stock Broker – Collateral Account".
- Bank account(s) held for the purpose of settlement would be named as " Name of Stock Broker - Settlement Account"

ix. Reporting of Bank accounts maintained by Stock Broker:

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

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

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

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

c) Members shall also ensure compliance with the following:

a) All existing demat accounts maintained by stock brokers are assigned the appropriate nomenclature as mentioned above, within three months from September 26, 2016.

b) All existing bank accounts maintained by stock brokers which do not have the above mentioned nomenclature, shall be assigned appropriate nomenclature, within six months from September 26, 2016.

c) Details of all existing bank and demat accounts shall be communicated to Stock Exchanges by the stock brokers in the format specified above within one month from September 26, 2016.

d) All new bank and demat accounts opened by the stock brokers shall be named as per the above given nomenclature and the details shall be communicated to the Stock Exchanges within one week of the opening of the account.

e) In case of closure of any of the reported bank and demat accounts, the same shall be communicated to the Stock Exchanges within one week of its closure

f) Depositories shall ensure that once the nomenclature for a particular demat account has been assigned by the stock broker, then the same shall not be modified.

g) Any non-compliance/non-reporting in this regard by the stock broker shall attract penal action as per the provisions of Stock Exchanges.

Following requirement shall be applicable within three months from September 23, 2016:

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

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

- 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.

- Transfer of securities between "Name of the Stock Broker - Client Account " and individual client's BO account, “Name of the Stock Broker – Pool Account" and “Name of the Stock Broker – Collateral Account" is permitted. Transfer of securities between ”Name of the Stock Broker - Client Account” to ”Name of the Stock Broker - Proprietary Account” is permitted only for legitimate purposes such as, implementation of any Government/Regulatory directions or orders, in case of erroneous transfers pertaining to client's securities, for meeting legitimate dues of the stock broker, etc. For such transfer of securities, stock broker shall maintain a stock transfer register clearly indicating the day-wise details of securities transferred.

- Exchange 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.

e) As per existing norms, a stock broker is entitled to have a lien on client's securities to the extent of the client's indebtedness to the stock broker and the stock broker may pledge those securities. This pledge can occur only with the explicit authorization of the client and the stock broker needs to maintain records of such authorisation. Pledge of such securities is permitted, only if, the same is done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations,1996. To strengthen the existing mechanism, the stock brokers shall ensure the following:

- Securities of only those clients can be pledged who have a debit balance in their ledger.

- Funds raised against such pledged securities for a client shall not exceed the debit balance in the ledger of that particular client.
- Funds raised against such pledged securities shall be credited only to the bank account named as "Name of the Stock Broker - Client Account".
- The securities to be pledged shall be pledged from BO account tagged as "Name of the Stock Broker - Client Account".
- Stock Brokers shall send a statement reflecting the pledge and funding to the clients as and when their securities are pledged/unpledged as given below:

Date	Client Code	Ledger debit at the end of trade day*	Collateral of client available with Broker					Pledged Quantity	Pledged Value	Borrowing	Details of Pledgee
			ISIN/ Security Name	Previous day's closing price	Total Quantity	Total Value (Total Quantity * Previous day closing price)	Total Value (Adjusted for applicable haircut				

**Ledger debit would be after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients*

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

x. Uploading clients' fund balance and securities balance by the Stock Brokers on Stock Exchange system

Stock brokers shall upload the following data on a monthly basis for every client onto each Stock Exchange system where the broker is a member

a) Exchange-wise end of day fund balance as per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges

b) End of day securities balances (as on last trading day of the month) consolidated ISIN wise (i.e., total number of ISINs and number of securities across all ISINs)

c) For every client, number of securities pledged, if any, and the funds raised from the pledging of such securities

d) The data at x a), x b) and x c) pertains to the last trading day of the month. The stock broker shall submit the aforesaid data within seven days of the last trading day of the month.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	Regulation of Transactions between Clients and Brokers	SMD/SED/CIR/93/23321 dated November 18, 1993
2	Collateral deposited by clients with brokers	MRD/DoP/SE/Cir-11/2008 dated April 17, 2008
3	Enhanced supervision of Stock Brokers/Depository Participants	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

3. Monitoring Of Clients' Funds Lying With The Stock Broker

The following provisions shall be applicable from April 01, 2017 pursuant to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

i. Stock brokers shall submit the following data as on last trading day of every week to the Stock Exchanges on or before the next trading day:

a. Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges - **A**

b. Aggregate value of collateral deposited with clearing corporations and/or clearing member (in cases where the trades are settled through clearing member) in form of Cash and Cash Equivalents (Fixed deposit (FD), Bank guarantee (BG), etc.) (across Stock Exchanges). Only funded portion of the BG, i. e. the amount deposited by stock broker with the bank to obtain the BG, shall be considered as part of **B.**

c. Aggregate value of 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) - **C**

d. Aggregate value of Debit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients, uncleared cheques issued to clients and the margin obligations) - **D**

e. Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing member (across Stock Exchanges) - **E**

f. Aggregate value of Non-funded part of the BG across Stock Exchanges. - **F**

g. Aggregate value of Proprietary Margin Obligation across Stock Exchanges - **P**

h. Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges - **MC**

i. Aggregate value of Unutilized collateral lying with the clearing corporations and/or clearing member across Stock Exchanges - **MF**

ii. Based on the aforesaid information submitted by the stock broker, monitoring of clients' funds lying with the stock brokers shall be done on the principles enumerated below:

a. Funds of credit balance clients used for settlement obligation of debit clients or for own purpose:

Principle:

The total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C)

Stock Exchanges shall calculate the difference i.e. G as follows –

G = (A+B)-C

If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate utilization of clients' funds for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes. The negative value of G acts as an alert to the Stock Exchanges.

Thereafter, the absolute value of G shall be compared with debit balance of all clients as per client ledger D as follows:

If the absolute value of (G) is lesser than |D|, then the stock broker has possibly utilised funds of credit balance clients towards settlement obligations of debit balance clients to the extent of value of G.

If the absolute value of (G) is greater than |D|, then the stock broker has possibly utilised a part of funds of credit balance clients towards settlement obligations of debit balance clients and remaining part for his own purposes. In such cases the amount of client funds used for own purpose is calculated as follows:
H - |G| - |D|

b. Funds of clients used for Margin obligation of proprietary trading:

Verify whether the proprietary margin obligations (across Stock Exchanges) is less than the own funds and securities lying with the Stock Exchanges as collateral deposit, as follows

Principle:
The sum of Proprietary funds and securities i.e. (G + E + F) lying with the clearing corporation/clearing member should be greater than or equal to Proprietary margin obligations (P)

If value of G is positive (i.e. A+B > C), then proprietary funds are lying with the clearing corporation/clearing member and/or client bank accounts along with the clients funds to the extent of positive value of G.

The sum of the proprietary funds (positive value of G), the value of proprietary securities (E) and the non-funded portion of bank guarantee (F) available in the Stock Exchanges is compared with the Proprietary margin obligations (P)

.
If P > (G+E+F), then Stock Exchange shall calculate the difference I, which is the amount of proprietary margin obligation funded from clients assets.

I = P - (G+E+F)

If G is negative, then, value of G is considered as 0, as there is no proprietary funds lying with the stock exchange.

The value of I indicates the extent of funds and securities of clients which is possibly utilised towards proprietary margin obligations. This value of I acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' assets towards proprietary margin obligations.

c. Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

Stock Exchanges shall thereafter, verify whether the clients funds lying with the clearing corporation/clearing member are utilised towards margin obligations of debit balance clients and proprietary margin obligations.

Principle:

The clients' funds lying with the clearing corporation/clearing member should be less than or equal to sum of credit clients' margin obligations (MC) and free collateral deposits available with the clearing corporation/clearing member (MF)

If value of G is negative (i.e. A+B < C), then fund lying with the clearing corporation/ clearing member (B) is entirely clients' fund. In such cases, B is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/ clearing member. The value of J is calculated as under:

J = B - (MC + MF)

If value of G is positive (i.e. A+B > C), then fund lying with the clearing corporation/clearing member (B) may contain proprietary and clients' fund. Hence, the value of clients funds lying with the clearing corporation/ clearing member i.e. (C-A) shall be considered in the place of B.

In such cases, (C-A) is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/clearing member. The value of J, which is clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations, is calculated as under:

J = (C - A) - (MC + MF)

The value of J, if positive, indicates the extent of clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations. This value of J acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.

Based on the alerts generated, Stock Exchange shall, inter-alia, seek clarifications, carry out inspections and initiate appropriate actions to protect the clients' funds from being misused. Stock Exchanges shall also maintain records of such clarifications sought and details of such inspections. **The aforesaid calculations are illustrated in tabular format in Table 1, 2 & 3 below.**

Table 1 RECONCILIATION - Funds of credit balance clients used for settlement obligation of debit balance clients or for own purpose:

Funds Available in client bank accounts and cash/cash equivalent deposits with clearing corporation/ clearing member - across all Stock Exchanges		**Clients' Funds as per the client ledger- across all Stock Exchanges**	**Difference**	**Calculate only if G is negative.**		
Total of end of the day balance in all the Client Bank Accounts	**Collateral deposited with clearing corporation / clearing member in form of Cash and Cash Equivalents***	**Total Credit Balance of all the clients (after adjusting for open bills and uncleared cheques)**		**Total debit balance (after adjusting for open bills and uncleared cheques)**	**Amount of funds of one client used for another client**	**Amount of fund used for own purpose (only if absolute value G is greater than debit balance clients)**
A	**B**	**C**	**G=(A+B)-C**	**D**	**G, if |G|<|D|**	**H - |G|-|D|**

** cash equivalents contains other components of collateral deposited by the stock broker, such as, FD, bank Guarantee etc excluding the Non- cash component.* If **G is negative,** then there is utilization of clients' funds for other purposes i.e. either funds of credit balance clients are being utilized for settlement obligations of debit balance clients or for the stock brokers' own purposes. The difference has following two components:

Component I: Use of fund of one client for giving exposure to another client
Component II: Use of client fund for own purposes by stock broker

Amount of funds of one client used for settlement obligation another client = Total Debit balances of all Clients (after adjusting for open bills and uncleared cheques)

Misuse of client's fund for own purpose = Absolute value of G - Total Debit balances of all clients (after adjusting for open bills and uncleared cheques)

Table 2 RECONCILIATION - Funds of clients used for Margin obligation of proprietary trading:

G(if positive) - own money	Value of Own Securities Deposited as Collateral with Clearing corporation/ Clearing member - across all Stock Exchanges	Non funded portion of the Bank Guarantee (F) - across all Stock Exchanges	Proprietary margin Obligation- across all Stock Exchanges	Difference
G (from the reconciliation stage I - positive value)	E	F	P	I = P - (G+E+F)

Proprietary Obligation mentioned in column P shall be the sum of cash margin obligations and derivative margin obligations for proprietary trading as on reporting day.

Table 3 RECONCILIATION - Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

Total of end of the day balance in all Client Bank Accounts- across all Stock Exchanges	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques)- across all Stock Exchanges	Collateral deposited with clearing corporation/ clearing member in form of Cash and Cash Equivalents- across all Stock Exchanges	Margin utilized for positions of Credit Balance Clients (all exchanges)	Free/unblocked Collateral deposited with clearing corporation/ clearing member **(MF)**	Difference
A (from the reconciliation stage 1 - positive value)	C	B	MC	MF	B-(MC+M F) Or (C-A)-(MC+MF)

Aforesaid monitoring mechanism shall be applicable within three months from provisions issued by SEBI vide Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 except for those who are carrying out only proprietary trading and/or only trading for institutional clients.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	Enhanced supervision of Stock Brokers/Depository Participants	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

4. Monitoring Of Financial Strength Of Stock Brokers

The following provisions shall be applicable from April 01, 2017 pursuant to SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

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

No stock broker shall appoint or re-appoint—

i. an individual as statutory auditor for more than one term of five consecutive years; and

ii. an audit firm as statutory auditor for more than two terms of five consecutive years

Provided that—

i. An individual statutory auditor who has completed his term under clause 5.3 (a) above shall not be eligible for re-appointment as statutory auditor in the same stock broker for five years from the completion of his term.

ii. An statutory audit firm which has completed its term under clause 5.3 (b) above, shall not be eligible for re-appointment as statutory auditor in the same stock broker for five years from the completion of such term.

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

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	Enhanced supervision of Stock Brokers/Depository Participants	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

5. Anti-Money Laundering/Countering The Financing Of Terrorism (AML/CFT)

SEBI has directed members as a part of requirement of Member registration with SEBI to ensure compliance with the provisions of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) circulars issued by SEBI time to time.

Members are required to comply with regulatory requirements related to Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT)- Obligations of Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules Framed there-under.

SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** has made applicable
SEBI Circular no. CIR/MIRSD/1/2014 dated Mar 12, 2014, SEBI Circular no.CIR/MIRSD/2/2013 dated Jan 24, 2013 and SEBI Circular no.CIR/ISD/AML/3/2010 dated Dec 31, 2010 with respect to Anti-Money Laundering and Maintenance of Records which states as under:

- **Requirements specified by SEBI Master Circular on Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT)- Obligations of Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules Framed there-under are as follows**

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PART – I OVERVIEW

1. Introduction

1.1. The Directives as outlined below provide a general background and summary of the main provisions of the applicable anti-money laundering and anti-terrorist financing legislations in India. They also provide guidance on the practical implications of the Prevention of Money Laundering Act, 2002 **(PMLA)**. The Directives also set out the steps that a registered intermediary or its representatives shall implement to discourage and to identify any money laundering or terrorist financing activities. The relevance and usefulness of these Directives will be kept under review and it may be necessary to issue amendments from time to time.

1.2. These Directives are intended for use primarily by intermediaries registered under Section 12 of the Securities and Exchange Board of India Act, 1992 **(SEBI Act)**. While it is recognized that a "one- size fits- all" approach may not be appropriate for the securities industry in India, each registered intermediary shall consider the specific nature of its business, organizational structure, type of clients and transactions, etc. when implementing the suggested measures and procedures to ensure that they are effectively applied. The overriding principle is that they shall be able to satisfy themselves that the measures taken by them are adequate, appropriate and abide by the spirit of such measures and the requirements as enshrined in the PMLA.

2. Back Ground

The PMLA came into effect from 1st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on 1st July, 2005 by the Department of Revenue, Ministry of Finance, Government of India. The PMLA has been further amended vide notification dated March 6, 2009 and inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as prescribed in Section 12 A read with Section 24 of the Securities and Exchange Board of India Act, 1992 **(SEBI Act)** will now be treated as a scheduled offence under schedule B of the PMLA.

As per the provisions of the PMLA, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue,

merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under Section 12 of the SEBI Act , shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA.

Such transactions include:

- All cash transactions of the value of more than Rs 10 lakh or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakh or its equivalent in foreign currency where such series of transactions take place within one calendar month.
- All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non-monetary account such as demat account, security account maintained by the registered intermediary.

It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.

In case there is a variance in CDD/AML standards prescribed by SEBI and the regulators of the host country, branches/overseas subsidiaries of intermediaries are required to adopt the more stringent requirements of the two.

3. Policies and Procedures to Combat Money Laundering and Terrorist financing

3.1. Essential Principles

3.1.1. These Directives have taken into account the requirements of the PMLA as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed Directives in Part II have outlined relevant measures and procedures to guide the registered intermediaries in preventing ML and TF. Some of these suggested measures and procedures may not be applicable in every circumstance. Each intermediary shall consider carefully the specific nature of its business, organizational structure, type of client and transaction, etc. to satisfy itself that the measures taken by it are adequate and appropriate and follow the spirit of the suggested measures in Part II and the requirements as laid down in the PMLA.

Obligation to establish policies and procedures

3.1.2. Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve

to prevent and impede money laundering and terrorist financing. The PMLA is in line with these measures and mandates that all intermediaries ensure the fulfilment of the aforementioned obligations.

3.1.3. To be in compliance with these obligations, the senior management of a registered intermediary shall be fully committed to establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The Registered Intermediaries shall:

a. issue a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;

b. ensure that the content of these Directives are understood by all staff members;

c. regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures;

d. adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF;

e. undertake client due diligence **("CDD")** measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction;

f. have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and

g. develop staff members' awareness and vigilance to guard against ML and TF

3.1.4. Policies and procedures to combat ML shall cover:

a. Communication of group policies relating to prevention of ML and TF to all management and relevant staff that handle account information, securities transactions, money and client records etc. whether in branches, departments or subsidiaries;

b. Client acceptance policy and client due diligence measures, including requirements for proper identification;

c. Maintenance of records;

d. Compliance with relevant statutory and regulatory requirements;

e. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and

f. Role of internal audit or compliance function to ensure compliance with the policies, procedures, and controls relating to the prevention of ML and TF, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff, of their responsibilities in this regard. The internal audit function shall be independent, adequately resourced and commensurate with the size of the business and operations, organization structure, number of clients and other such factors.

PART – II DETAILED DIRECTIVES

4. Written Anti Money Laundering Procedures

4.1. Each registered intermediary shall adopt written procedures to implement the anti-money laundering provisions as envisaged under the PMLA. Such procedures shall include inter alia, the following three specific parameters which are related to the overall **'Client Due Diligence Process'**:

a. Policy for acceptance of clients

b. Procedure for identifying the clients

c. Transaction monitoring and reporting especially Suspicious Transactions Reporting **(STR).**

5. Client Due Diligence

5.1. The CDD measures comprise the following:

a. Obtaining sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures. The 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.

b. Verify the client's identity using reliable, independent source documents, data or information;

c. Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted.

Further, the Prevention of Money Laundering Rules, 2005 also require that every banking company, financial institution and intermediary, as the case may be, shall identify the beneficial owner and take all reasonable steps to verify his identity. The Government of India in consultation with the regulators has now specified a uniform approach to be followed towards determination of beneficial ownership. Accordingly, the intermediaries shall comply with the following guidelines.

c.1. **For clients other than individuals or trusts:**

Where the client is a person *other than an individual or trust*, viz., company, partnership or unincorporated association/body of individuals, 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:

c.1.1. The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

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

i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;

ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or

iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.

c.1.2. In cases where there exists doubt under clause c.1.1 above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

c.1.3. Where no natural person is identified under clauses c.1.1 or c.1.2 above, the identity of the relevant natural person who holds the position of senior managing official.

c.2. **For client which is a trust:**

Where the client is a *trust*, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest

in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

c.3. **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.

c.4. **Applicability for foreign investors:**

Intermediaries dealing with foreign investors' viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, may be guided by the clarifications issued vide SEBI circular CIR/MIRSD/11/2012 dated September 5, 2012, for the purpose of identification of beneficial ownership of the client.

d. Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c);

e. Understand the ownership and control structure of the client;

f. Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds; and

g. Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

5.2. Policy for acceptance of clients:

5.2.1. All registered intermediaries 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. By establishing such policies and procedures, they will be in a better position to apply client due diligence on a risk sensitive basis depending on the type of client business relationship or transaction. In a nutshell, the following safeguards are to be followed while accepting the clients:

a. No account is opened in a fictitious / benami name or on an anonymous basis.

b. Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters shall enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of Know Your Client **(KYC)** profile.

c. Documentation requirements and other information to be collected in respect of different classes of clients depending on the perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.

d. Ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures / KYC policies. This shall applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non-genuine, or there is perceived non-co-operation of the client in providing full and complete information. The market intermediary shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The market intermediary shall be cautious to ensure that it does not return securities of money that may be from suspicious trades. However, the market intermediary shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.

e. The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity/ value and other appropriate details. Further the rights and responsibilities of both the persons i.e. the agent- client registered with the intermediary, as well as the person on whose behalf the agent is acting shall be clearly laid down.

   Adequate verification of a person's authority to act on behalf of the client shall also be carried out.

f. Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

g. The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).

5.3. Risk-based Approach

5.3.1. It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of business relationship or transaction etc. As such, the registered intermediaries shall apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the registered intermediaries shall adopt an enhanced client due diligence process for higher risk categories of clients.
Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents that registered intermediaries shall obtain necessarily depend on the risk category of a particular client.

Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.

5.3.2. Risk Assessment

i. Registered intermediaries shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions (these can be accessed at http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml and http://www.un.org/sc/committees/1988/list.shtml).

ii. The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self-regulating bodies, as and when required.

5.4. Clients of special category (CSC):

Such clients include the following-

a. Non-resident clients

b. High net-worth clients,

c. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations

d. Companies having close family shareholdings or beneficial ownership

e. Politically Exposed Persons **(PEP)** are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The additional norms applicable to PEP as contained in the subsequent para 5.5 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs.

f. Companies offering foreign exchange offerings

g. Clients in high risk countries where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, countries active in narcotics production, countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, countries against which government sanctions are applied, countries reputed to be any of the following – Havens/

sponsors of international terrorism, offshore financial centres, tax havens, countries where fraud is highly prevalent. While dealing with clients in high risk countries where the existence/effectiveness of money laundering control is suspect, intermediaries apart from being guided by the Financial Action Task Force (FATF) statements that identify countries that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf- gafi.org), shall also independently access and consider other publicly available information.

h. Non-face to face clients

i. Clients with dubious reputation as per public information available etc.

The above mentioned list is only illustrative and the intermediary shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

5.5. Client identification procedure:

The KYC policy shall clearly spell out the client identification procedure 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.

Intermediaries shall be in compliance with the following requirements while putting in place a Client Identification Procedure **(CIP)**:

a. All registered intermediaries shall proactively put in place appropriate risk management systems to determine whether their client or potential client or the beneficial owner of such client is a politically exposed person. Such procedures shall include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures as outlined in clause 5.5 shall also be applicable where the beneficial owner of a client is PEP.

b. All registered intermediaries are required to obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, registered intermediaries shall obtain senior management approval to continue the business relationship.

c. Registered intermediaries shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP".

d. The client shall be identified by the intermediary by using reliable sources including documents / information. The intermediary shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

e. The information must be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the

intermediary in compliance with the directives. Each original document shall be seen prior to acceptance of a copy.

f. Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority within the intermediary.

5.5.1. SEBI has prescribed the minimum requirements relating to KYC for certain classes of registered intermediaries from time to time. Taking into account the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI from time to time, all registered intermediaries shall frame their own internal directives based on their experience in dealing with their clients and legal requirements as per the established practice.

Further, the intermediary shall conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.

5.5.2. Every intermediary shall formulate and implement a CIP which shall incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients. PML Rules have recently been amended vide notification No. 13/2009 dated November 12, 2009 and need to be adhered to by registered intermediaries.

It may be noted that irrespective of the amount of investment made by clients, no minimum threshold or exemption is available to registered intermediaries (brokers, depository participants, AMCs etc.) from obtaining the minimum information/documents from clients as stipulated in the PML Rules/SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures by registered intermediaries. This shall be strictly implemented by all intermediaries and non-compliance shall attract appropriate sanctions.

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

i. 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.

ii. Such reliance shall be subject to the conditions that are specified in Rule 9(2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Further, it is clarified that the registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

6. Record Keeping

6.1. Registered intermediaries shall ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

6.2. Registered Intermediaries shall maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour.

6.3. Shall there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, registered intermediaries shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:

a. the beneficial owner of the account;

b. the volume of the funds flowing through the account; and

c. for selected transactions:

- the origin of the funds;
- the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
- the identity of the person undertaking the transaction;
- the destination of the funds;
- the form of instruction and authority.

6.4. Registered Intermediaries shall ensure that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

6.5. More specifically, all the intermediaries shall put in place a system of maintaining proper record of transactions prescribed under Rule 3 of PML Rules as mentioned below:

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

b. all series of cash transactions integrally connected to each other which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds rupees ten lakh;

c. all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;

d. all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

7. Information to be maintained

Intermediaries are required to maintain and preserve the following information in respect of transactions referred to in Rule 3 of PML Rules:

a. the nature of the transactions;

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

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

d. the parties to the transaction.

Retention of Records

7.1. Intermediaries shall take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the 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 intermediary.

7.2. As stated in sub-section 5.5, intermediaries are required to formulate and implement the CIP containing the requirements as laid down in Rule 9 of the PML Rules and such other additional requirements that it considers appropriate. Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of **five years** after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

7.3. Thus the following document retention terms shall be observed:

a. All necessary records on transactions, both domestic and international, shall be maintained at least for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed thereunder as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.

b. Registered intermediaries shall maintain and preserve the record of documents evidencing the identity of its clients and beneficial owners (e.g., copies or records of

official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of **five years** after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

7.4. In 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.

7.5. Records of information reported to the Director, Financial Intelligence Unit - India (FIU-IND): Registered intermediaries shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

8. Monitoring of transactions

8.1. Regular monitoring of transactions is vital for ensuring effectiveness of the AML procedures. This is possible only if the intermediary has an understanding of the normal activity of the client so that it can identify deviations in transactions /activities.

8.2. The intermediary shall pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. The intermediary may specify internal threshold limits for each class of client accounts and pay special attention to transactions which exceeds these limits. The background including all documents/office records/memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further such findings, records and related documents shall be made available to auditors and also to SEBI/stock exchanges/FIUIND/ other relevant Authorities, during audit, inspection or as and when required. These records are required to be maintained and preserved for a period of **five years** from the date of transaction between the client and intermediary as is required under the PMLA.

8.3. The intermediary shall ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND. Suspicious transactions shall also be regularly reported to the higher authorities within the intermediary.

8.4. Further, the compliance cell of the intermediary shall randomly examine a selection of transactions undertaken by clients to comment on their nature i.e. whether they are in the nature of suspicious transactions or not.

9. Suspicious Transaction Monitoring & Reporting

9.1. Intermediaries shall ensure that appropriate steps are taken to enable suspicious transactions to be recognized and have appropriate procedures for reporting suspicious

transactions. While determining suspicious transactions, intermediaries shall be guided by the definition of a suspicious transaction contained in PML Rules as amended from time to time.

9.2. A list of circumstances which may be in the nature of suspicious transactions is given below. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:

a) Clients whose identity verification seems difficult or clients that appear not to cooperate;

b) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;

c) Clients based in high risk jurisdictions;

d) Substantial increases in business without apparent cause;

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

f) Attempted transfer of investment proceeds to apparently unrelated third parties;

g) Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services, businesses reported to be in the nature of export- import of small items.

9.3. Any suspicious transaction shall be immediately notified to the Money Laundering Control Officer or any other designated officer within the intermediary. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall not be told of the report/suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken. The Principal Officer/Money Laundering Control Officer and other appropriate compliance, risk management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information.

9.4. It is likely that in some cases transactions are abandoned or aborted by clients on being asked to give some details or to provide documents. It is clarified that intermediaries shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

9.5. Clause 5.4(vii) of this Master Circular categorizes clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'CSC'. Intermediaries are directed that such clients shall also be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.

10. List of Designated Individuals/Entities

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 http://www.un.org/sc/committees/1267/consolist.shtml. Registered intermediaries are directed to ensure that accounts are not opened in the name of anyone whose name appears in said list. Registered intermediaries 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. Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to SEBI and FIU-IND.

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

Section 51A, of the Unlawful Activities (Prevention) Act, 1967 **(UAPA),** relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated August 27, 2009 detailing the procedure for the implementation of Section 51A of the UAPA.

Under the aforementioned Section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. The obligations to be followed by intermediaries to ensure the effective and expeditious implementation of said Order has been issued vide SEBI Circular ref. no: ISD/AML/CIR-2/2009 dated October 23, 2009, which needs to be complied with scrupulously.

12. Reporting to Financial Intelligence Unit-India

12.1. In terms of the PML Rules, intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi-110021.
Website: http://fiuindia.gov.in

12.2. Intermediaries shall carefully go through all the reporting requirements and formats given on the website of Financial Intelligence Unit – India and shall ensure furnishing of information within the due dates prescribed Financial Intelligence Unit – India.

12.3. Intermediaries shall not put any restrictions on operations in the accounts where an STR has been made. Intermediaries and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level.

It is clarified that the registered intermediaries, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

13. Designation of an officer for reporting of suspicious transactions

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

13.2. Appointment of a Designated Director

i. In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:

"Designated Director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes:

(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, and

(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."

ii. In terms of Section 13 (2) of the PML Act (as amended by the Prevention of Money-laundering (Amendment) Act, 2012), the Director, FIU-IND can take appropriate action, including levying monetary penalty, on the Designated Director for failure of the intermediary to comply with any of its AML/CFT obligations.

iii. Registered intermediaries shall communicate the details of the Designated Director, such as, name, designation and address to the Office of the Director, FIU-IND.

14. Employees' Hiring/Employee's Training/ Investor Education

14.1. Hiring of Employees

The registered intermediaries shall have adequate screening procedures in place to ensure high standards when hiring employees. They shall identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

14.2. Employees' Training

Intermediaries must have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements shall have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

14.3. Investors Education

Implementation of AML/CFT measures requires intermediaries to demand certain information from investors which may be of personal nature or has hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need for intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. Intermediaries shall prepare specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT programme.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	Master Circular on AML/CFT	CIR/ISD/AML/3/2010 dated Dec 31, 2010
2	Guidelines on Identification of Beneficial Ownership	CIR/MIRSD/2/2013 dated Jan 24, 2013
3	AML/CFT obligations of Securities Market Intermediaries under the Prevention of Money-Laundering Act, 2002 and Rules framed there under.	CIR/MIRSD/1/2014 dated Mar 12, 2014

6. Mode of Payment

6.1 Mode of Payment/Dealings In Cash

As per SEBI circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 and circulars referred therein Members are required to comply with the following.

i. Brokers and authorised person should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients.

ii. All payments shall be received/ made by the Members from/ to the clients strictly by account payee crossed cheques/ demand drafts or by way of direct credit into the bank account through EFT, or any other mode allowed by RBI. The Members shall accept the cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. However, in exceptional circumstances the broker or authorised person may receive the amount in cash, to the extent not in violation of the Income Tax requirement as may be in force from time to time.

iii. 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.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	Mode of payment and delivery	SMD/MRD/SE/CIR-33/2003/27/08 dated August 27, 2003
2	Regulation of transaction between Clients and Members	Ref. SMD-1/23341 dated November 18, 1993
3	Regulation of transaction between Clients and Brokers	Ref. SMD/SED/CIR/93/23321 dated November 18, 1993

6.2 Guidelines On Pre-Funded Instruments / Electronic Fund Transfer:

As per SEBI circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 and circulars referred therein Members are required to comply with the following.

i. If the aggregate value of pre-funded instruments is Rs. 50,000/- or more, per day per client, the stock brokers may accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank

account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:

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

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

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	PRE-FUNDED INSTRUMENTS / ELECTRONIC FUND TRANSFER:	CIR/MIRSD/03/2011 dated June 09, 2011

7. Non/Short Collection of Margins from Clients/Incorrect Reporting

As per SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 7, 2016 and SEBI/HO/CDMRD/DRMP/CIR/P/2016/93 dated September 26, 2016 members are required to comply with following:

i. Framework for collection of Margins and reporting of short-collection/non-collection of margins by members from their clients shall be as under:

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) Members shall ensure that the margins collected by them from their clients are highly liquid in nature.

d) While accepting collaterals from their clients, members shall ensure that such collaterals are free from any encumbrance and in sufficiently liquid form, so that the same are readily available for encashment, in the event of client default and may include following:

- Funds/Cash Margin (through cheque/NEFT/RTGS/ECS)
- Bank guarantee favouring the member
- Fixed deposit receipt lien marked in favour of the member
- Liquid Securities in dematerialized form, actively traded on the National Exchanges with appropriate hair-cut
- Units of liquid mutual funds in dematerialized form with appropriate hair-cut
- Exchange Approved commodities with appropriate hair-cut

e) Members shall desist from accepting illiquid collaterals like immovable properties, etc and third party collaterals against the margin requirements of their clients.

f) The members shall report to the Exchange by T + 5 day the actual short-collection/non-collection of all margins from clients.

g) The Exchanges provides a suitable mechanism to enable the members to report the collection of all margins from their clients at the end of each trading day and to report short collection/non-collection of all margins by the T+5 day.

h) All instances of non-reporting shall amount to 100% non-collection of margin and the penalty as prescribed above shall be charged on these instances in respect of non-collection.

i) Exchanges shall examine implementation of these instructions during the inspection of its members. If during inspection or otherwise, incorrect reporting on collection of margin from client by member is found, the member shall be penalized up to 100% of such amount short collected.

j) The members shall monitor trades of every client. Suitable mechanism may be put in place to intimate the clients as and when the margins are used up to an appropriate level as considered fit.

k) It may be noted that Exchange may take such strict action as it may deem fit, including levy of higher fines / deactivation of trading terminals / suspension / etc. in case non-compliance to margin related provisions or if the violation is of repetitive nature.

l) It is clarified that the penalties specified in the circular are for actual short-collection/ non-collection of margins by members from clients and not merely because members have used a different format for reporting or due to technical errors in reporting.

Exchange levies penalty on the reported instances of short collection/ non-collection of client margin on the T+5 reporting due date. In case of any short reporting/ non-reporting of client margin due to any technical reason, members may place their request for revision in the reported margin collections and the consequent reversal/ refund of such penalty in writing to the Exchange strictly within 10 calendar days from the date of levy of penalty.
Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

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

8. Contract Note & Levy Of Brokerage

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

i. Issue of Contract Notes:

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

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

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

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

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

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

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

ii. Electronic Contract Note (ECN)

SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** has made applicable SEBI Circular number SMDRP/Policy/Cir-56/2000 dated Dec 15, 2000, SMD/SE/15/2003/29/04 dated Apr 29, 2003, MRD/DoP/SE/Cir-20/2005 dated Sep 8, 2005, Clause 13 of Annexure A to MIRSD/ SE /Cir-19/2009 dated Dec 3, 2009 with respect to contract notes.

a) Use of Digital Signature on Contract Notes

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

b) Issuing ECNs when specifically consented

The digitally signed ECNs may be sent only to those clients who have opted to receive the contract notes in an electronic form, either in the client registration document or by a separate letter/ format specified by the exchange.

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

I. The authorization shall be in writing and be signed by the client only and not by any authorized person on his behalf or holder of the Power of Attorney.

II. The email id shall not be created by the broker. The client desirous of receiving ECN shall create / provide his own email id to the stock broker.

III. The authorization shall have a clause to the effect that any change in the email-id shall be communicated by the client through a physical letter to the broker. In respect of internet clients, the request for change of email id may be made through the secured access by way of client-specific user id and password.

c) Where to send ECNs

The usual mode of delivery of ECNs to the clients shall be through e-mail. For this purpose, the client shall provide an appropriate e-mail account to the member for receipt of ECNs.

d) Requirement of digital signature

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

e) Requirements for acknowledgement

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

f) Proof of delivery

I. The proof of delivery i.e., log report generated by the system at the time of sending the contract notes shall be maintained by the member for the specified period under the extant regulations of SEBI / stock exchanges and shall be made available during inspection, audit, etc.

II. The member shall clearly communicate to the client for this purpose that non-receipt of bounced mail notification by the member shall amount to delivery of the contract note at the e-mail ID of the client.

g) Log Report for rejected or bounced mails

I. The log report shall also provide the details of the contract notes that are not delivered to the client / e-mails rejected or bounced back.

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

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

h) When to issue or send in Physical form

I. **Issue in Physical mode** - In the case of those clients who do not opt to receive the contract notes in the electronic form, the member shall continue to send contract notes in the physical form to such clients.

II. **Send in Physical mode** - Wherever the ECNs have not been delivered to the client or has been rejected (bouncing of mails) by the e-mail ID of the client, the member shall send a physical contract note to the client within the stipulated time period stipulated by SEBI / Exchange and maintain the proof of delivery of such physical contract notes.

i) General Requirements:-

I. ECNs through website

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

II. Access to the website

In order to enable clients to access the ECNs posted in the designated website in a secured way, the member shall allot a unique user name and password for the purpose, with an option to the client to access the same and save the contract note electronically or take a print out of the same.

j) Preservation / Archive of electronic documents

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

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

Members are required to issue contract note to their clients only as per the format enclosed herewith (Annexure 5) and comply with the regulatory requirements as mentioned above.

iii. LEVY OF BROKERAGE

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.

iv. 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

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

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 stock broker (trading members included)	Clause 13 of Annexure A to MIRSD/SE/Cir-19/2009 dated Dec 3, 2009

9. Settlement of Client Accounts

SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** has made applicable SEBI Circular number MIRSD /Cir/ 01/ 2011 dated May 13, 2011 and Clause 12 of Annexure A to MIRSD/ SE /Cir-19/2009 dated Dec 3, 2009 with respect to Running Account Settlement which states that:

Unless otherwise specifically agreed to by a client, the settlement of funds/securities shall be done within 24 hours of the pay-out. However, a client may specifically authorise the stock broker to maintain a running account subject to the following conditions:

i. The authorization shall be signed by the client only and not by any authorised person on his behalf or any holder of the Power of Attorney.

ii. The authorisation shall be dated and shall contain a clause that the clients may revoke the authorisation at any time. The stock brokers, while sending periodical statement of accounts to the clients, shall mention therein that their running account authorisation would continue until it is revoked by the clients."

iii. For the clients having outstanding obligations on the settlement date, the stock broker may retain the requisite securities/funds towards such obligations and may also retain the funds expected to be required to meet margin obligations for next 5 trading days, calculated in the manner specified by the exchanges.

iv. The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month, depending on the preference of the client. While settling the account, the broker shall send to the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

v. The client shall bring any dispute arising from the statement of account or settlement so made to the notice of the broker preferably within 7 working days from the date of receipt of funds/securities or statement, as the case may be.

vi. Such periodic settlement of running account may not be necessary for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG)/Fixed Deposit receipts (FDR).

vii. The stock broker shall transfer the funds / securities lying in the credit of the client within one working day of the request if the same are lying with him and within three working days from the request if the same are lying with the Clearing Member/Clearing Corporation.

viii. There shall be no inter-client adjustments for the purpose of settlement of the 'running account'.

Further SEBI has issued Circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 inter-alia making following provisions regarding Running Account Settlement which shall be applicable within three months from September 26, 2016.

ix. There must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.

x. 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.

xi. The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.

xii. 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.

With a view to do away with the need to transfer small amounts from Members to the clients and to cut down avoidable transactions with the minimum amount prescribed which can be retained by the members, it may be noted that as per existing requirements members may not refund amounts below Rs. 50,000/- to clients for the purpose of settlements.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	Dealings between a Client and a Stock broker	Clause 12 of Annexure A to MIRSD/ SE /Cir-19/2009 dated Dec 3, 2009
2	Clarification on circular dated December 3, 2009 on 'Dealings between a Client and a Stock broker'	Circular number MIRSD /Cir/ 01/ 2011 dated May 13, 2011
3	Enhanced Supervision of Stock Brokers/Depository Participants	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

10. Internal Audit

SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** has made applicable Para 7 to 11 of SEBI circular no MIRSD/Master Cir-04/2010 dated March 17, 2010 regarding Internal Audit which states as under, Members are required to comply with the same.

i. The member shall carry out complete internal audit on a half yearly basis by an independent qualified Chartered Accountant, Company Secretary or Cost and Management Accountant who is in practice and does not have any conflict of interest.

ii. The audit shall cover, inter alia,

   a. the existence, scope and efficiency of the internal control system,

   b. compliance with the provisions of the SEBI Act, 1992, Securities Contracts (Regulation) Act 1956, SEBI (Intermediaries) Regulations, 2008, SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, circulars issued by SEBI from time to time, Bye Laws and Regulations and circulars issued by the Stock Exchange / Clearing Corporation,

   c. data security and insurance in respect of operations, and

   d. Efficacy of the investor grievance redressal mechanism and discharge of various obligations towards clients.

iii. The internal auditor shall submit the audit report to the member, who shall place it before its Board of Directors/Proprietor/Partners and shall forward the same along with para-wise comments to the respective stock exchange/clearing corporation within three months from the end of the half year period.

iv. The Stock Exchange/Clearing Corporation shall analyze the audit reports so received and take appropriate follow up action.

v. The Stock Exchange/Clearing Corporation shall initiate appropriate actions – remedial, penal or disciplinary - against the members where deficiencies are noticed in audit reports or where audit report has not been received, and inform the details of action taken to SEBI, within six months from the end of the half year period.

Further, SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 titled **"Enhanced Supervision of Stock Brokers/Depository Participants"** has interalia stated additional requirements in-relation to Internal Auditor which shall become effective as mentioned hereunder.
"

i. Further to SEBI Circular MIRSD/DPSIII/Cir-26/08 dated August 22, 2008. The following additional requirements in relation to internal auditors shall become applicable:

ii. Appointment and Rotation of Internal auditors

   a. Stock Exchanges shall ensure that;

I. Stock Broker obtains from the internal auditor the following details and shares the same with the Stock Exchange:

I.1. Declaration stating that the internal auditor or its directors/partners have no interest in or relation with the stock broker concerned other than the proposed internal audit assignment, and

I.2. Details of the internal auditor viz., Name, Address, PAN, Designation of Auditor, Name & Address of the Audit Firm, registration number of the Auditor and the Audit firm, any regulatory action taken against internal auditor/partner/director, if any, etc.

b. No stock broker shall appoint or re-appoint—

I. an individual as internal auditor for more than one term of five consecutive years; and

II. an audit firm as internal auditor for more than two terms of five consecutive years:

Provided that—

c. An individual internal auditor who has completed his term under clause ii (b) (I) above shall not be eligible for re-appointment as internal auditor for the same stock broker for five years from the completion of his term;

d. An audit firm which has completed its term under clause 4.2.1.2 (b) above, shall not be eligible for re-appointment as internal auditor for the same stock broker for five years from the completion of such term; Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a stock broker immediately preceding the financial year, shall be appointed as internal auditor for the same stock broker for a period of five years:

e. The block of five years shall start from FY 2016-17.

iii. Formulation of objective sample criteria for Internal Audit

a. The Stock Exchanges shall, in consultation with each other, develop for each theme/area of the internal audit, a pre-defined objective sample criteria, which shall mention not only the sample size but also the method used for arriving at the sample size. For example, with respect to verification of compliance with KYC norms, instead of the current practice of selecting a minimum number of KYCs, the sample selected may be a certain percentage of the top clients in each client category (Corporate, Partnership, Individual, Trust, Others) based on total turnover on the Stock Exchange and whose account has been opened during the audit period. For each theme/area of audit, internal audit report shall

clearly specify the sample size verified, number of instances where adverse observations have been made as also the details of the adverse observations. Stock Exchanges shall issue detailed guidelines regarding the above before March 31, 2017.

iv. Monitoring of quality of Internal Audit Reports

a. The Stock Exchange shall every year identify a certain number of internal auditors based on criteria, such as, number and size of stock brokers audited, discrepancy in findings of auditor vis-a-vis Stock Exchange inspection, regulatory actions taken against the auditor/partners/directors, etc. A certain number of stock brokers who have been audited by these identified internal auditors shall be selected for inspection by the Stock Exchanges. The selection of these stock brokers shall be on the basis of the Supervisory Risk Rating Score derived from the Risk Based Supervisory System. Further, the sample and period of inspection shall be the same as that used for internal audit.

b. In cases where material deviations are observed between the findings of the internal audit report and the Stock Exchange inspection report, the Stock Exchanges shall caution the stock broker to reconsider the appointment of that particular internal auditor. The same shall also be brought to notice of all the stock brokers who are audited by that particular internal auditor. The Stock Exchange shall also bring the deviations to the notice of the internal auditor. The Stock Exchange inspections shall be so planned that at least one client (i..e stock broker) of each internal auditor is covered at least once in five years.

v. Submissions of Internal Audit Report

a. Stock Brokers shall ensure that the internal audit reports are submitted to the Exchanges within two months of the end of respective half years for which the audit is being conducted. The due date for submissions shall be as under:

S. No.	**Period of Audit**	**Due Date for submission**
1.	For half year ending September 30th	November 30th
2.	For half year ending March 31st	May 31st

vi. The above mentioned additional requirements with respect to Internal Audit shall be applicable for half year from April 01, 2017 to September, 30, 2017 and onwards.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	Internal Audit	MIRSD/DPSIII/Cir-26/08 dated August 22, 2008
2	Enhanced Supervision of Stock Brokers/Depository Participants	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

11. Guidelines for Outsourcing of Activities

SEBI vide circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** has made applicable SEBI circular no CIR/MIRSD/24/2011 dated December 15, 2011, titled "Guidelines for outsourcing of activities by Intermediaries" which states that:

i. 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.

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

iii. 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.

iv. 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 based on the principles advocated by the IOSCO and the experience of Indian markets, SEBI had prepared a concept paper on outsourcing of activities related to services offered by intermediaries.

Based on the feedback received on the discussion paper and also discussion held with various intermediaries, stock exchanges and depositories, the principles for outsourcing by intermediaries have been framed.dd These principles shall be followed by all intermediaries registered with SEBI.

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

vi. Other Obligations

a) 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.

b) 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, not later than six months from the date of issuance of this circular and bring them in line with the requirements of the guidelines/principles.

Members are required to comply with the above mentioned SEBI guidelines for Outsourcing of Activities by Intermediaries.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	Guidelines For Outsourcing Of Activities by Intermediaries	CIR/MIRSD/24/2011 dated December 15, 2011

12. Display of Details

12.1 Display Of Details By Members

As per SEBI circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 Members are required to comply with the following.

i. It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently:

   a. its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers in its portal /web site, if any, notice / display boards, advertisements, publications, know your client forms, and member client agreements;

   b. its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in contract notes, statement of funds and securities, and correspondences with the clients.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	DISPLAY OF DETAILS BY STOCK BROKERS	Cir/MIRSD/9/2010 dated November 4, 2010

12.2 Information Regarding Grievance Redressal Mechanism:

As per SEBI circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 and circulars referred therein Members are required to comply with the following.

i. As an additional measure for information of all investors who deal / invest / transact in the market, it has been decided that offices of all Stock Brokers and its Authorized Person(s) shall prominently display basic information about the grievance redressal mechanism available to investors as mentioned below,

FOR MEMBERS

Dear Investor, In case of any grievance / complaint against the Member

- Please contact Compliance Officer of the Member/ email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- You may also approach CEO/ Partner/Proprietor (Name) / email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- If not satisfied with the response of the Member, you may contact the concerned Stock Exchange at the following -

Exchange	Web Address	Contact No	Email-id
MCX	www.mcxindia.com	022-6731-8888	grievance@mcxindia.com

- You can also lodge your grievances with SEBI at http://scores.gov.in. For any queries, feedback or assistance, please contact SEBI Office on Toll Free Helpline at 1800 22 7575 / 1800 266 7575.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	INFORMATION REGARDING GRIEVANCE REDRESSAL MECHANISM	CIR/MIRSD/3/2014 dated August 28, 2014

13. Other Compliances

Stamp Duty

Members of the Exchange shall ensure adherence to the Rates and Compliance requirements with respect to payment of stamp duty and pay the stamp duty as per the applicable criteria and rates specified by the respective state government.

Portfolio Management Services

As per SEBI circular number SEBI/HO/CDMRD/DMP/P/CIR/2016/100 dated September 27, 2016 and circulars referred therein interalia stating that, PMS would not be permissible in the Commodity Derivative Market.

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

In addition to PMS activities, the following activities will also 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. No member can provide any fund based portfolio management or portfolio advisory service.

Members are advised that if they are found indulging in offering services like portfolio management services and others, 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.

Reference- SEBI Circulars

Sr. No.	Subject	Circular No.
1	PORTFOLIO MANAGEMENT SERVICES	SEBI/HO/CDMRD/DMP/P/CIR/2016/100 dated September 27, 2016

Customer Protection

Members are directed to comply with the following:

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

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

iii. 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 MTM (Mark to Market) 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.

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

BPO / KPO Services - Segregation thereof From Commodity Derivative Markets

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

Rule 8(1)(f) of Securities Contracts (Regulation) Rules, 1957 interalia states that**,**

No person shall be eligible to be elected as a member if –

i. He is engaged as a principal or employee in any business other than that of commodity derivatives except as a broker or agent not involving any personal

financial liability unless he undertakes on admission to server his connection with such business:

Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 interalia 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 –

i. he engages either as principal or employee in any business other than that of commodity derivatives except as a broker or agent not involving any personal financial liability.

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

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

Logo Of MCX

Members are requested to comply with the following :

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

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

Books of Accounts and other Records

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

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

statement, Register of complaints / grievances, ECN log report, Client registration documents.

Members are required to comply with the applicable regulatory requirements in this regard as mentioned above.

14. Indicative Penalties

Members of the Exchange may note that apart from other applicable penalties, following is the list of indicative common violations and the applicable penalties / fines. It may be noted that the penalties are indicative in nature and could undergo change in specific cases depending on frequency and gravity of the violations.

Actions in respect of violations having high impact would be dealt on case to case basis depending on seriousness, quantum and gravity of such violations

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

For the violations observed during inspections or otherwise, appropriate disciplinary actions shall be initiated as per Rules, Bye-Laws and Circulars of the Exchange applicable from time to time.

Subject	List of Violations	Applicable penalty / fines
Books Of Accounts, Records, Register	**I** Non-Maintenance of following Books of Accounts / Records / Registers: (a) Sauda Book (b) Client Ledger (c) General Ledger (d) Journals (e) Cash Book (f) Bank Pass Book	Minimum of Rs. 25,000/- and Maximum of Rs. 50,000/- per register or / and deactivation of trading terminals till compliance is done.
	II Non-Maintenance of following Books of Accounts / Records / Registers properly: (a) Sauda Book (b) Client Ledger (c) General Ledger (d) Journals (e) Cash Book (f) Bank Pass Book	Minimum of Rs. 10,000/- and Maximum of Rs. 25,000/- per register.
	Books of Accounts other than above not maintained	Rs. 5,000/-
	Books of Accounts other than above not maintained properly	Rs. 2,500/-
	Books of Accounts not maintained for Branch / Authorised Person	Rs. 2500/- Per Office

Subject	List of Violations	Applicable penalty / fines
	Books of Accounts not maintained properly for Branch / Authorised Person	Rs. 1500/- Per Office
	Segregation of Exchange wise client ledgers not maintained	Rs. 5000/- Per Office
	Non-maintenance of vouchers (entries being directly posted to ledgers)	One or Few Instances : Advice Multiple Instances : Warning
	Non-maintenance of up to date bank reconciliation statements	One or Few Instances : Advice Multiple Instances : Warning
Registers and Documents	Non-maintenance of registers (Register of Commodities / Register of Margin Deposit)	If both the registers are not maintained, Rs. 5000/- is levied, For 1 register, it is Rs. 1000/-
	Non-availability of prescribed information in Register of Commodities/ Register of Complaints / Register of Margin Deposit	One or Few Instances : Advice Multiple Instances : Warning
	Non-maintenance of Trading (TWS)reports	One or Few Instances : Advice Multiple Instances : Rs. 1000/-
	Non-obtainment of board resolution permitting trading in derivatives, from non- individual constituents	One or Few Instances : Advice Multiple Instances : Rs 500/- Per default (maximum of Rs.5000/-)
Banking Operations	Non maintenance of Client a/c	One or Few Instances : Rs 10,000/- Multiple Instances : Rs 15,000/-
	Use of Client bank account for purposes other than specified	One or Few Instances : Warning Multiple Instances : Rs 5000/-
Dealings with Clients	Commodities due to one client transferred to other clients	One or Few Instances : 2500/- Multiple Instances : Rs 5000/-
	Quarterly statement of accounts for settlements and margins not sent to constituents Partial compliance for issue of statement	One or Few Instances : 2500/- Multiple Instances : Rs 5000/-

Subject	List of Violations	Applicable penalty / fines
	of accounts for funds and commodities	
Dealings with intermediaries	Sharing of brokerage with -another member -an employee of another member or a person for or with whom members are forbidden to do business	One or Few Instances : 2500/- Multiple Instances : Rs 5000/-
	-Persons who are not approved user Dealing with unregistered intermediaries	One or Few Instances : 2500/- Multiple Instances : Rs 5000/-
	Brokerage charged at a rate higher than the permissible maximum limit	One or Few Instances : 2500/- Multiple Instances : Rs 5000/-
	Doing business with or for the trading members who are prohibited to transact, including suspended/expelled/defaulter trading member; defaulting constituents and employees of other trading members	One or Few Instances : 2500/- Multiple Instances : Rs. 5000/-
MCA & KYC Norms	KYC Forms formalities – not maintained or /and not maintained properly	Rs. 10,000/- per client.
	(a) Non-execution of member-client agreement	Rs. 10,000/- per client.
	(b) Discrepancies / deviation from the prescribed member-client agreement, if such discrepancies/ deviations are detrimental to clients Risk Disclosure Document not issued to clients/incomplete	Rs. 5,000/ - per client.
Clients Related	Non-segregation of clients money	Rs. 25,000/- or 1% on the non - segregated client money, whichever is higher.
	Use of clients funds for own purpose/ for other clients.	Rs. 50,000/ - or 1% per month of the money utilized, whichever is higher.
	Delay in Payment of Funds to Clients Account/Delay in transfer of Commodities to Clients	Rs. 5,000/- - Rs. 25,000/ - per instance.

Subject	List of Violations	Applicable penalty / fines
	Delay in Payment of Funds to Clients / Delay in transfer of Commodities to Clients beyond 15 days from the date of receipt of request from Clients	Rs. 50,000/- or 1% of the value of the amounts / commodities, per instance
	More than one ID to a client	Rs. 10,000/ - per ID
	Non-maintenance of client code/non mapping of trading code.	Rs. 10,000/ - per client
	Contract Note – non-issued	Rs. 10,000/ - per client
	Belated issue/no proof of receipt of contract note.	Rs. 5,000/- per client
	Non-maintenance of duplicate copies of contract note sent	Rs. 5,000/- per client
	Non-maintenance of Grievance/Complaints Register	Rs. 10,000/ - per Register per office
	Margin Collection: Non collection / partial collection upto the period September 6, 2016.	0.1% of the margin not collected.
	Adopting procedure (like use of pro- code for client trade) to evade margin	0.5% per day of the margin money evaded or Rs. 5,000/- per day, whichever is higher
	Net worth certificate – non-production/improper	Rs. 200/- per day.
	Non-display of Information Board including details of Registration details as prescribed by the Exchange.	Rs. 10,000/ - per office.
	Unauthorized or Illegal Trading activities / Fictitious Transactions	Minimum of Rs. 1 lakh per case and Max. Rs. 5 lakh. Offences like wash trades will be investigated by the exchange and other penalty provisions such as termination / suspension of members will be imposed.
	Violation of the Advertisement Code of the Exchange	Rs. 5,000/- per instance
	Trading (TWS/CTCL) terminals provided to intermediaries or unauthorized extension of trading net work / non submission of required details of CTCL terminals to the Exchange	First Instance – Rs. 25,000/- per terminal. Repeated Instances – Rs. 50,000/- per terminal and / or deactivation of trading terminals till the compliance is made.
	Non-payment of statutory dues/duties/fees etc.	Appropriate action by the Exchange. However, such additional action by the Exchange will in no way interfere with the penal provisions in the respective acts.

Subject	List of Violations	Applicable penalty / fines
Contract Notes	Issue of contract notes otherwise than in the prescribed format/issue of contract notes without the signature of authorized signatory or which do not bear a running serial number or bear a serial number which is not initiated at the beginning of each financial year	One or Few Instances : Rs 2500/- Multiple Instances : Rs 5000/-
	Difference in trade rate as per the TWS system and the rate charged	Excess amount to be returned to the client and fine equal to twice the excess amount charged or Rs. 25,000/-, whichever is higher, to be levied on the member.
Portfolio Management Services (PMS)	Member indulged in offering portfolio management services or any services or any service in the nature of portfolio management services directly or indirectly	Deactivation of terminals, suspension/termination from membership and in addition a penalty of Minimum ₹. 1 lakh per case
Periodic Settlement of Accounts of Clients by the Members	Member has not done periodic settlement of client accounts by the members	₹. 5,000/- per client per settlement period
Modification of Client Codes	Modification/Transfer of trades otherwise than on the Exchange trading platform or for purposes other than Permitted	In excess of 5% of value (turnover), Penalty of 2% of value (turnover) modified, otherwise a fine of 1% of value (turnover) modified
Incorrect reporting of short collection/non-collection of Margins	Member has falsely reported margin collection to the Exchange	If during inspection or otherwise, incorrect reporting of margin collected from client by member is found, the member shall be penalized up to 100% of such amount incorrectly reported and other disciplinary actions.
Membership Requirements	Shareholding pattern not verifiable due to incomplete / absence of records	Rs 5000/-
	Any change in the shareholding pattern / profit sharing ratio without the prior approval of the Exchange involving dilution not below the minimum prescribed shareholding of the dominant promoter group	Rs 10000/-
	Any other change in the shareholding pattern / profit sharing ratio of the Trading Member without the approval of the Exchange	Rs 2500/-

Subject	List of Violations	Applicable penalty / fines
	Change in the shareholding pattern without the approval of the Exchange which has resulted in the dilution of the shareholding / profit sharing ratio of the dominant group below 51%	One or Few Instances : Rs 25,000/- Multiple Instances : Rs 50,000/-
	Member acting through or on behalf of another member for trading on the Exchange without the prior approval of the Exchange in writing	One or Few Instances : Rs. 2500/- per instance Multiple Instances : Rs.5,000/- per instance.
	Dealing with one member of another exchange for proprietary trading without intimating the name of such member to MCX	One or Few Instances : Rs. 2500/- per instance Multiple Instances: Rs.5,000/- per instance.
	Dealing with more than one member / Authorised Person # of another exchange for proprietary trading	One or Few Instances : Rs. 2500/- per instance Multiple Instances : Rs.5,000/- per instance.
	Dealing with a member of another exchange on behalf of constituents without necessary registration	One or Few Instances : Rs. 2500/- per instance Multiple Instances : Rs.5,000/- per instance.
	Non-compliance of Networth requirements as per the exchange.	One or Few Instances : Rs. 1000/- per instance Multiple Instances : Rs.5,000/- per instance.
	Non completion of MCCP certification Examination	Rs.1000/-
Office Management	Usage and operation of a trading terminal by a person (an employee of the trading member) other than an approved user	First time advice then 250/- per trading terminal. (Maximum of Rs.2500)
	Trading terminals provided to unregistered intermediaries or unauthorised extension of trading network / non submission of required details of terminals to the Exchange Terminals for which information has been uploaded but with minor errors	For each unauthorised / non-approved USER ID, a fine of Rs 1000/- per USER ID be levied for the first five USER ID's and the fine amount be stepped up by Rs 5000/- per USER ID in successive batches of five terminals each thereafter.
	Non-display of SEBI/MCX Registration certificate	Advice
	Non-appointment of compliance officer	Rs 1000/-

Subject	List of Violations	Applicable penalty / fines
	Non- submission/delayed submission of Annual compliance report on or before the due date	Rs 100/- per day shall be levied till the date of submission
Dealing in Cash transactions	Non-Compliance of the provisions of Cash Dealings	0.5% of the total value of cash tranactions

15. Illustrative Compliance Checklist

Members of the Exchange are here by advised to comply with the following compliance requirements. However, it may be noted that the below mentioned list of compliance is illustrative in nature and not exhaustive. Members should comply with all the regulatory requirements laid down by the Exchange / SEBI from time to time.

RECORD COMPLIANCE:

Member will have to keep and maintain all Books of Accounts and other Records / Registers / Details as under:

i. Records of transaction of all purchases and sales of commodities / contracts
ii. Record in respect of premium / discount
iii. Records in respect of brokerage
iv. Client Ledger
v. General Ledger
vi. Journals
vii. Cash Book
viii. Bank Book & Bank pass Book / Bank statement
ix. Margin Deposit Book/ records of margin
x. Record of all statements received from the appropriate agencies and records of all correspondence with them
xi. Reports like trade log / order log
xii. Duplicate copies of the contract notes issued
xiii. Proof of dispatch & receipt/delivery of contract notes
xiv. Record of Deliveries Received / Tendered Contract wise.
xv. Periodic bank reconciliation statement.
xvi. Register of complaints / grievances
xvii. ECN log report
xviii. Client registration documents

In addition to above, member shall keep and maintain such number of books of accounts, documents, and records as prescribed by the Exchange and / or any relevant authority from time to time.

The above records / details are required to be preserved for a minimum period as prescribed by SEBI/Exchange and / or any relevant authority from time to time.

ADMINISTRATIVE COMPLIANCE:

i. Member shall obtain client registration documents containing all the prescribed mandatory documents like KYC application form, Rights & obligations of Members, AP & clients, Do's & Don'ts for the clients, Risk Disclosure Document, Tariff sheet etc.

ii. Member shall ensure that additional voluntary/non-mandatory clause/document added under client registration documents by the member are not in contravention with Rules/Bye -Laws/Notices/Circulars of the Exchange/SEBI and shall sought separate authorizations from the client and do have specific consent of the client in voluntary document.

iii. Member shall upload KYC details of all the clients on KRA systems including Central KYC within the timelines prescribed by the Exchange and / or any relevant authority from time to time.

iv. Running account authorization given by the client (if any) is signed by client and not by POA (Power of Attorney) holder and contains a clause which explicitly allows a client to revoke the said authorization at any time.

v. Member shall take reasonable steps to assess the background, genuineness, financial soundness and investment objectives of their clients while registering.

vi. Member shall not become a constituent of another member or allow any of the member of the Exchange be their constituent.

vii. Member shall not deal or access the Trading System of the Exchange through another Member or on behalf of any other member without prior approval of the Exchange.

viii. Member will have to ensure that he shall not undertake his trading activities with /on behalf of any member, who has been suspended, expelled or declared defaulter by the Exchange / SEBI and other National Exchanges.

ix. Member shall ensure that he has not appointed any Authorised / Approved User Person without the permission of the Exchange and has informed the Exchange whenever there is any change in the same.

x. Member is required to ensure that they give intimation / take approval of the Exchange whenever there is a change in the constitution and/or shareholding pattern as may be applicable from time to time. Member is required to ensure that he has not given any ID to any users which are not registered with the Exchange and therefore all the users are registered with the Exchange.

xi. The Member is required to ensure that he has installed antivirus software which is capable to take care of operating systems and in case of members using internet for trading has installed firewalls to protect their networks.

xii. The member shall ensure that guidelines prescribed for issue of advertisement is adhered to while issuing advertisement and that approval of the Exchange is obtained.

xiii. Member shall comply with all the guidelines/circulars issued by SEBI/Exchange and / or any relevant authority with respect to Anti-Money Laundering and Maintenance of records as prescribed from time to time.

xiv. Member shall comply with all the guidelines/circulars issued by SEBI/Exchange and / or any relevant authority with respect to Outsourcing of Activities by Intermediaries as prescribed from time to time.

xv. The member shall ensure that the details required by the Exchange like Annual Returns (financial statements, Sharing Pattern, Shareholding Pattern, Net worth Certificate) self-certification letter, unique client code details or such other details whenever called upon is submitted to the appropriate authority of the Exchange from time to time.

xvi. The member shall ensure that the details sought by Relevant Authority are being submitted within the timelines prescribed by the Exchange and / or any relevant authority from time to time.

xvii. Member shall not share brokerage with unregistered intermediaries/another member/employee of another member/person for or with whom members are forbidden to do business/persons other than Authorized Persons or persons or any other unregistered intermediary.

xviii. Member shall pay applicable Commodity Transaction Tax (CTT) /Stamp Duty/ Service Tax/ Sales Tax/Value Added Tax (VAT) and other applicable statutory dues to respective authorities within the timelines prescribed by the Exchange and / or any relevant authority from time to time.

xix. Member shall not indulge directly or indirectly in any activity in the nature of Portfolio Advisory Services/ Portfolio Management Services.

xx. Member shall comply with all the guidelines/circulars issued by SEBI/Exchange and / or any relevant authority with respect to segregation of BPO/KPO services from Commodity Derivatives Market as prescribed from time to time.

xxi. The Member shall send margin statements to the clients on daily basis. Margin statement should include details of collateral deposited, collateral utilized and collateral status (available balance/due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee, warehouse receipts, securities etc.

xxii. Member shall not collect short margin penalty in excess of actual penalty from the clients.

xxiii. MCX Certified Commodity Professional (MCCP) shall be held by at least two of the employees of members.

xxiv. The members using trading software are required to conduct system audit of their trading facility in accordance with the circular regarding Annual System Audit of the trading member of Exchange issued by SEBI.

xxv. Member is required to ensure that he has not carried out any activity connected to their operations as Member, in any office or premises without intimation to the Exchange.

DEALING WITH CLIENTS

i. Member shall settle accounts (funds) of their clients within the timelines prescribed by the Exchange and / or any relevant authority from time to time.

ii. Members shall collect upfront initial margin, Extreme Loss Margin (ELM) and other margins (including additional margin , special margin, tender margin and delivery margin) also Mark to Market loss (MTM), as applicable within specified time limits from their respective clients and report the same correctly to the Exchange, within the timeline specified.

iii. Member shall send to the client a statement of accounts containing an extract from the client ledger of funds for the relevant settlement period and the statement also explains the retention of funds in case of margin with respect to open position of client.

iv. The Member shall send a complete `Statement of Accounts' for both funds and commodities in respect of each of its clients in such periodicity and format within such time, as may be prescribed by the relevant Exchange, from time to time, where the trade is executed.

The Statement shall also state that the client shall report errors, if any, in the Statement immediately in the statement within such time as may be prescribed by relevant Exchange from time to time where the trade was executed, from the receipt thereof to the stock broker.

ORDER COMPLIANCE:

i. Member shall obtain instructions from his constituents before placing, modification / cancellation of order.

ii. Member shall make available the details of the order status to his constituents at the request of constituents.

iii. Member shall maintain evidence of client placing / modifying / cancelling orders in any form, which may include written or electronic or voice recording instrument.

CONTRACT NOTE COMPLIANCE:

i. Member shall issue contract note for trades executed in prescribed format with all the relevant details duly filled in within 24 hours from the close of trading hours when the trade is executed. Member may also issue digitally signed contract note at the request of his constituents subject to the compliance of all the provision of IT Act. 2000, directives and circulars issued by Exchange.

ii. Member shall send physical contract note within stipulated time in case of bounced back of ECN mail.

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

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

v. Where the member has more than one office, member can set separate series number with dealing office name or code as a prefix to the serial number.

vi. Member shall ensure that brokerage is charged separately and is not in excess of the agreed rates and / or is within the maximum prescribed limits and the same is indicated separately from the price in the contract note.

vii. Member shall ensure that the Unique Membership Code (UMC) or Registration Number allotted by Securities and Exchange board of India (SEBI) shall be printed on the Contract note.

RISK MANAGEMENT COMPLIANCE:

i. Member is required to ensure that he has collected adequate margin from clients before entering any orders for his clients.

ii. In case member has more than one terminal, member has to ensure that appropriate risk management system / limit checking / surveillance mechanism is installed at appropriate level so that overall Exposure as well as Intraday limit is being used properly.

iii. Member shall ensure that MCX Market data has not been used other than for legitimate purposes.

DEALING WITH CLEINT FUND & ITS COMPLIANCE:

i. Member shall ensure that he has made full payment to their constituents on receipt of pay-out from the Exchange within the time limits prescribed by the Exchange.

ii. Member is required to ensure that he has maintained separate bank account for their own account and clients account.

iii. Member is advised to designate an Exclusive e-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints by investors and to display the email ID and other relevant details prominently on their websites and in the various materials/pamphlets/advertisement campaigns initiated by them for creating investor awareness and member are also required to ensure that Complaint of any client is not pending for more than thirty days (please provide the details of complaints if any pending for more than 30 days).

iv. Member is required to ensure that funds/commodities of a client were not used for meeting own obligations or for any other clients.

INSPECTION OF BOOKS OF ACCOUNTS AND OTHER RELATED DOCUMENTS:

Member shall ensure to keep ready all the necessary Books of Accounts, Records, Documents, to provide all the relevant details at the time of inspection of Books of Accounts and to co-operate with the Inspection Team.