

# National Stock Exchange of India Limited

## Circular

DEPARTMENT: INSPECTION	
Download Ref No: NSE/INSP/61851	Date: April 30, 2024
Circular Ref. No: 31/2024	

To All Members,

**Sub: Consolidated Circular – Inspection Department**

This is further to our consolidated Circular no. NSE/INSP/57394 dated June 30, 2023.

To facilitate members to comply with the regulatory requirements, the Exchange consolidates regulatory requirements and issues updated consolidated circulars periodically. Accordingly, regulatory requirements prescribed through various circulars issued by the Inspection Department of the Exchange till March 31, 2024 are consolidated in this circular.

In case of any inconsistency between the Consolidated Circular and the applicable circulars, the content of the relevant circular shall prevail.

*“Notwithstanding such rescission,*

*a. Anything done or any action taken or purported to have been done or contemplated under the rescinded guidelines before the commencement of this Master Circular shall be deemed to have been done or taken or commenced or contemplated under the corresponding provisions of the Master Circular or rescinded guidelines whichever is applicable.*

*b. The previous operation of the rescinded guidelines or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded guidelines, any penalty, incurred in respect of any violation committed against the rescinded guidelines, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded guidelines have never been rescinded.”*

**For and on behalf of  
National Stock Exchange of India Limited**

**Kapil Marwah  
Associates Vice President**

## National Stock Exchange of India Limited

In case of any clarifications, Members may contact our below offices:

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**ITEM 1****CLIENT REGISTRATION****1.1 Account Opening Process**

The stock broker / trading member shall 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 briefly indicating significance of each document.

SEBI has, vide its master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 (“**SB Master Circular**”) has consolidated the uniform documentation to be followed by all the stock brokers / trading members. Further, SEBI vide its Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023 prescribed the requirement of acknowledgement of Most Important Terms and Conditions (MITC) by the clients at the time of onboarding of the new clients. Details of such documentation is as under:

- Index of documents giving details of various documents for client account opening,
- Client Account Opening Form in two parts:
  - a. Know Your Client (KYC) form capturing the basic information about the client and instruction/checklist to fill up the form. Enclosed as **Exhibit 1**.
  - b. Document capturing additional information about the client related to trading account.
- Document stating the Rights & Obligations of stock broker, and client for trading on exchanges including additional rights & obligations in case of internet / wireless technology based trading and margin trading facility
- Uniform Risk Disclosure Documents for all segments / exchanges
- Guidance Note detailing Do’s and Don’ts for trading on exchanges
- Most Important Terms & Conditions to be provided and acknowledged i.e. duly signed by the client

In the account opening process, the stock brokers / trading members would also give the following useful information to the clients:

- a. A tariff sheet specifying various charges, including brokerage, payable by the client to avoid any disputes at a later date.
- b. Information on contact details of senior officials within the stock broking firm and investor grievance cell in the stock exchange, so that the client can approach them in case of any grievance.
- c. Document describing significant policies and procedures of the Member.

The folder/ book shall have two parts:

- a) Mandatory and
- b) Non-Mandatory Documents

1. Client Account Opening Form in two parts:

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

The client shall put his signatures while indicating preferences for trading in different exchanges / segments, in accordance with existing requirements and sign the account opening form. However, in case the investor wants to avail Running Account facility, execute Demat Debit and Pledge Instruction' (DDPI) or Power of Attorney, etc., he would have to give specific authorization to the stockbroker in order to avoid any dispute in the future.

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

Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to its presently being recognized as Proof of Identity as per SEBI Circular No. CIR/MIRSD/09/2013 dated October 08, 2013.

The Stock Broker shall ensure verification of PAN linking with Aadhaar at the time of account opening and if not linked, request such clients to ensure compliance with the same and further ensure that all its clients (both new and existing clients) are in compliance with the requirement of PAN-Aadhaar linkage as per the timelines prescribed by Government of India from time to time.

SEBI, in consultation with various market participants, shifted certain information contained in Section C of Part I to Part II of the Account Opening Form AOF for both individuals and non-individuals. Revised Part I of AOF was published in its Circular No. CIR/MIRSD/ 13 /2013 dated December 26, 2013, with directions to intermediaries to modify Part II accordingly.

Information as contained in revised Part I of AOF shall only be required to be captured in the systems of KRAs.

**SARAL Account Opening Form for resident individuals**

1. Individual investors, participating in the cash segment and who have not obtained various other facilities such as internet trading, margin trading, derivative trading and use of power of attorney can open a trading account by filling up a simplified Account Opening Form 'AOF' termed as 'SARAL AOF' given in Circular NSE/INSP/29057 dated March 05, 2015 enclosed as **Exhibit 2**. This form will be separately available



with the intermediaries and can also be downloaded from the Exchanges' and Depositories' website.

2. The investors who open account through SARAL AOF will also have the option to obtain other facilities, whenever they require, on furnishing of additional information as per prescribed regulations/circulars.
  3. The standard set of documents viz. Rights and Obligations document, Uniform Risk Disclosure Document and Guidance Note and documentary proof related to identity and address as specified in SEBI Circulars dated August 22, 2011, and October 5, 2011, shall continue to remain applicable and acknowledgement of Most Important Terms & Conditions from the client as prescribed under Exchange Circular NSE/INSP/60147 dated January 05, 2024 in accordance with SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023 shall become applicable for new clients onboarded with effect from April 01, 2024 onwards. It is further clarified that the provisions laid down under the PML Act, PML Rules, SEBI Master Circular on AML dated February 03, 2023, shall also continue to remain applicable for set of individual investors mentioned in paragraph 2 above.
  4. For these set of individual investors, it has been decided to simplify the requirement of submission of 'proof of address'. The matter has been examined in light of amendment to the PML Rules, 2005 and accordingly, the requirement of submission of 'proof of address' is as follows:
    - a. Henceforth, individual investor may submit only one documentary proof of address either residence/correspondence or permanent while opening a trading account or while undergoing updation.
    - b. In case the proof of address furnished by the said investor is not the address where the investor is currently residing, the stock broker may take a declaration of the residence/correspondence address on which all correspondence will be made by the stock broker with the investor. No proof is required to be submitted for such correspondence/residence address. In the event of change in this address due to relocation or any other reason, investor may intimate the new address for correspondence to the stock broker within two weeks of such a change. The residence/ correspondence address and any such change thereof may be verified by the stock broker through 'positive confirmation' such as
      - i Acknowledgment of receipt Welcome Kit/ dispatch of contract notes / any periodical statement, etc.
      - ii Telephonic conversation; iii visits, etc.
2. Document stating the Rights & Obligations of stock broker, and client for trading on exchanges including additional rights & obligations in case of internet / wireless technology based trading

SEBI with a view to simplify and rationalize the account opening process, had reviewed, consolidated and updated all the documents/requirements prescribed in respect of account

opening process over the years. The simplification includes replacement of all client-broker agreements with the 'Rights and Obligations' document, which shall be mandatory and binding on the existing and new stockbrokers including trading members and clients.

3. Document stating the Rights & Obligations of stockbroker for Margin Trading Facility

The Exchange, vide Circular No. NSE/COMP/35260 dated June 30, 2017, has framed a Rights and Obligations document laying down the rights and obligations of Members and clients for the purpose of margin trading facility (**MTF R&O**). The Rights and Obligations document shall be mandatory and binding on the Broker/Trading Member and the clients for executing trade in the Margin Trading framework. The MTF R&O is attached as **Annexure A** to the above-mentioned circular.

4. Uniform Risk Disclosure Documents for all segments / exchanges

5. Guidance Note detailing Do's and Don'ts for trading on exchanges

6. Most Important Terms & Conditions

Standard Most Important Terms and Conditions as finalized in accordance with point no. 4 of the SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 is attached as Annexure A to the Exchange Circular NSE/INSP/60147 dated January 05, 2024. With respect to new clients onboarded from April 01, 2024 onwards, the MITC shall require to be acknowledged i.e. duly signed by the client.

7.

8. Policies and Procedures – Document describing significant policies and procedures of the stock broker.

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

- i. Refusal of orders for penny stocks. illiquid securities may be considered while defining penny stocks by TM
- ii. Setting up client's exposure limits
- iii. Applicable brokerage rate
- iv. Imposition of penalty / delayed payment charges by either party specifying the rate & the period. The same should not result in funding
- v. The right to sell client's securities or close client's position without giving notice to the clients on account of non-payment of client's dues limited to the extent of settlement / margin obligation.
- vi. Internal Shortage

- vii. Conditions under which a client may not be allowed to take further position or the broker may close the existing position
- viii. Temporarily suspending or closing a client's account at the client's request, and deregistering a client

9. Tariff Sheet – Document detailing the rate/amount of brokerage and other charges levied on the client for trading on the stock exchanges

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

Stock Brokers are further advised to ensure the following:

- (1) It may be noted that proper segregation of the mandatory and non-mandatory documents shall be made.
- (2) All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.
- (3) Additional documents shall state at the beginning in bold that the document is voluntary.
- (4) However, if such documents are required in order to ensure smooth functioning of special facility such as internet trading offered by the trading member, the client shall be informed in writing clearly that such documents are voluntary, and the client need not execute such documents if he / she does not wish to use that facility.
- (5) Such documents, if any shall also recognize specifically the right of the client to terminate the document. In such an eventuality, the trading member may terminate the special facility.
- (6) The docket or folder containing draft mandatory documents for signing and the checklist containing mandatory documents shall not include draft voluntary documents, if any.
- (7) No term in the client registration documents, other than those prescribed by SEBI, shall be changed without the consent of the client. Such change needs to be preceded by a notice of 15 days.
- (8) The Client shall indicate the stock exchange as well as the market segment where he intends his trades to be executed. He shall do so in the KYC form in his own hand and sign against these.
- (9) The stockbroker 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 stockbroker shall obtain the documents in accordance with its risk management system.

List of Illustrative documents

- Copy of ITR Acknowledgement
  - Copy of Annual Accounts
  - In case of salary income - Salary Slip, Copy of Form 16
  - Net-worth certificate
  - Bank account statement for last 6 months
  - Copy of Holding statement of de-mat account
  - Any other relevant documents substantiating ownership of assets
  - Self-declaration along with relevant supporting
- (10) Details of any action/proceedings initiated/pending/ taken by SEBI/ Stock exchange/any other authority against the applicant/client or its partners/promoters/whole time directors/authorized persons in charge of dealing in securities during the last 3 years.
- (11) No documentation shall give any exclusive right or control to the trading member or third party over the demat account or ledger account or bank account of the client except to the extent of and restricted to the client's obligation to the trading member in respect of the transactions done or to be done like up-front margin by the trading member on behalf of the client on the Exchange.
- (12) The stockbroker shall frame the policy regarding treatment of inactive accounts which should, inter alia, cover aspects of time period, return of client assets and procedure for reactivation of the same. It shall display the same on its web site, if any. The guidelines in this regard have been issued vide Exchange Circular No. NSE/INSP/43488 dated February 10, 2020, and NSE/INSP/46506 and December 01, 2020.
- (13) In the case of existing clients, if the policies & procedures are not explicitly elaborated, TM should intimate the same to all clients & maintain the proof of dispatch or delivery. In case of internet clients, TM may provide the same electronically in a secured manner.
- (14) It has been decided that while a stockbroker may use the brand name / logo of its group companies, it must display more prominently its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers and e-mail address on account opening documents

Accessing Securities Market by Visually Challenged Investor

Based on the representations received, SEBI has clarified that there shall be no restrictions for a visually challenged person in getting registered as a client for trading/investing in the securities market, subject to the compliance requirements. Members are advised to offer

trading/investment facilities to the visually challenged persons without any discrimination and render all possible assistance to such persons for registering them as clients.

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

SEBI vide Circular No. CIR/MIRSD/09/2012 dated August 13, 2012, clarified that after consultation with Unique Identification Authority of India (UIDAI), Government of India, it was decided that the Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to its being recognized as Proof of Identity. Subsequently, vide Circular No. CIR/MIRSD/09/2013 dated October 08, 2013, SEBI clarified that in consultation with UIDAI and the market participants, it was 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 shall be treated as sufficient Proof of identity and Address of the client. Also vide Circular No. CIR/MIRSD/29/2016 dated January 22, 2016, SEBI clarified that the usage of Aadhaar card as issued by the UIDAI is voluntary. Hon'ble Supreme Court, in its judgement dated September 26, 2018, had struck down Section 57 of the Aadhaar Act as "unconstitutional" which means that no company or private entity can seek Aadhaar identification from clients or investors. The Aadhaar and Other Laws (Amendment) Ordinance, 2019 was promulgated on March 02, 2019, through which a new Section 11A was inserted in chapter IV of the Prevention of Money-Laundering Act, 2002. The Aadhaar and Other Laws (Amendment) Act, 2019 was notified in the Gazette of India on July 24, 2019.

The Department of Revenue (DoR), Ministry of Finance issued a Circular dated May 09, 2019, on procedure for processing of applications under section 11A of the Prevention of Money Laundering Act, 2002 ("PMLA"), for use of Aadhaar authentication services by entities other than the Banking companies. In terms of the said circular, if the Central Government is satisfied with the recommendations of the Regulator and Unique Identification Authority of India ("UIDAI") and reporting entity complies with such standards of privacy and security under the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 ("Aadhaar Act"), and it is necessary and expedient to do so, it may by notification, permit such entity to carry out authentication of the Aadhaar number of clients using e-KYC authentication facility.

The said circular also inter-alia specifies that, applications by the concerned entities under Section 11A of the PMLA for use of Aadhaar authentication services shall be filed before the Regulator, who after scrutiny shall forward the applications to UIDAI along with its recommendation. UIDAI shall scrutinize the applications received and send its recommendation to the Department of Revenue for notification under Section 11A of the PML Act. The Central Government, if satisfied with the recommendations of the Regulator and the UIDAI that the applicant fulfils all conditions under Section 11A, may by notification permit such applicant to perform authentication under clause (a) of sub-section (1) of Section 11A. At any point, after issue of such notification, based on a report of the appropriate Regulator or UIDAI or otherwise, if it is found that the reporting entity no longer fulfils the requirements for performing authentication under clause (a) of sub-section (1) of section 11A, the Central Government may withdraw the notification after giving an opportunity to the reporting entity.

Accordingly, entities in the securities market, as may be notified by the Central Government, shall be allowed to undertake Aadhaar Authentication under section 11A of the PMLA. SEBI Registered intermediaries for reasons such as online on-boarding of clients, customer convenience, increased efficiency and reduced time for client onboarding would prefer to use Aadhaar based e-KYC facility to complete the KYC of the client. These entities would be registered with UIDAI as KYC user agency (“KUA”) and shall allow all the SEBI registered intermediaries / mutual fund distributors to undertake Aadhaar Authentication of their clients for the purpose of KYC through them.

The SEBI registered intermediaries / mutual fund distributors, who want to undertake Aadhaar authentication services through KUAs, shall enter into an agreement with any one KUA and get themselves registered with UIDAI as sub-KUAs. The agreement in this regard shall be as may be prescribed by UIDAI. Upon notification by the Central Government / registration with UIDAI, the KUAs and sub-KUAs shall adopt the following process for Aadhaar e-KYC of investors (resident) in the securities market: -

**A. Online Portal based Investor (Resident) e-KYC Process (Aadhaar as an OVD)**

- i. Investor visits portal of KUA or the SEBI registered intermediary which is also a Sub-KUA to open account/invest through intermediary.
- ii. For Aadhaar e-KYC, investor is redirected to KUA portal. Investor enters the Aadhaar Number or Virtual Id and provides consent on KUA portal. Adequate controls shall be in place to ensure that Aadhaar Number is not stored anywhere by the Sub-KUA or KUA.
- iii. Investor will receive OTP in mobile number registered with Aadhaar. Investor enters the OTP sent by UIDAI on KUA portal for Aadhaar e-KYC.
- iv. KUA will receive the e-KYC details from UIDAI upon successful Aadhaar authentication which will be further forwarded to Sub-KUA in encrypted format (using KUAs own encryption key) and will be displayed to the investor on portal. Sharing of e-KYC data by the KUA with Sub-KUA may be allowed under Regulation 16(2) of Aadhaar (Authentication) Regulation, 2016. Sub-KUA shall clearly specify the name of the KUA and Sub- KUA, and details of sharing of data among KUA and Sub-KUA while capturing investor consent.
- v. Investor will fill the additional detail as required under KYC format.
- vi. SEBI registered Intermediary will upload additional KYC details to the KUA.

**B. Assisted Investor (Resident) e-KYC process (Aadhaar as an OVD)**

- a. Investor approaches any of the SEBI Registered Entity/ Sub-KUAs i.e., Mutual Fund Distributors or appointed persons for e-KYC through Aadhaar.
- b. SEBI registered entities (Sub-KUAs) will perform e-KYC using registered / Whitelisted devices with KUAs.

- c. KUA will ensure that all devices and device operators of Sub-KUA are registered / whitelisted devices with KUA.
- d. Investor will enter Aadhaar No. or Virtual Id and provides consent on the registered device.
- e. Investor provides biometric on the registered device.
- f. SEBI registered intermediary (Sub-KUA) fetches the e-KYC details through the KUA from UIDAI which will be displayed to the investor on the registered device.
- g. Investor will also provide the additional detail as required.

The KUA/ sub-KUA while performing the Aadhaar authentication shall also comply with the following:

- a. For sharing of e-KYC data with Sub-KUA under Regulation 16(2) of Aadhaar (Authentication) Regulations, 2016, KUA shall obtain special permission from UIDAI by submitting an application in this regard. Such permissible sharing of e-KYC details by KUA can be allowed with their associated Sub-KUAs only.
- b. KUA shall not share UIDAI digitally signed e-KYC data with other KUAs. However, KUAs may share data after digitally signing it using their own signature for internal working of the system.
- c. e-KYC data received as response upon successful Aadhaar authentication from UIDAI will be stored by KUA and Sub-KUA in the manner prescribed by Aadhaar Act/Regulations and circulars issued by UIDAI time to time.
- d. KUA/Sub-KUA shall not store Aadhaar number in their database under any circumstances. It shall be ensured that Aadhaar number is captured only using UIDAI's Aadhaar Number Capture Services (“ANCS”).
- e. The KUA shall maintain auditable logs of all such transactions where e-KYC data has been shared with sub-KUA, for a period specified by the Authority.
- f. It shall be ensured that full Aadhaar number is not stored and displayed anywhere in the system and wherever required only last 4 digits of Aadhaar number may be displayed.
- g. As per Regulation 14(i) of the Aadhaar (Authentication) Regulation, 2016, requesting entity shall implement exception-handling mechanisms and backup identity authentication mechanism to ensure seamless provision of authentication services to Aadhaar number holders.
- h. UIDAI may conduct audit of all KUAs and Sub KUAs as per the Aadhaar Act, Aadhaar Regulations, AUA/KUA Agreement, Guidelines, circulars etc. issued by UIDAI from time to time.



- i. Monitoring of irregular transactions - KUAs shall develop appropriate monitoring mechanism to record irregular transactions and their reporting to UIDAI.
- j. Investor Grievance Handling Mechanism - Investor may approach KUA for their grievance redressal. KUA will ensure that the grievance is redressed within the timeframe as prescribed by UIDAI. KUA will also submit report on grievance redressal to UIDAI as per timelines prescribed by UIDAI.

Onboarding process of KUA/Sub-KUA by UIDAI:

- a. As provided in the DoR Circular dated May 09, 2019, SEBI after scrutiny of the application forms of KUAs shall forward the applications along with its recommendation to UIDAI.
- b. For appointment of SEBI registered intermediary / MF distributors as Sub-KUAs, KUA will send list of proposed Sub-KUAs to SEBI and SEBI would forward the list of recommended Sub-KUAs to UIDAI for onboarding. An agreement will be signed between KUA and Sub-KUA, as prescribed by UIDAI. Sub-KUA shall also comply with the Aadhaar Act Regulations, Circulars, Guidelines etc. issued by UIDAI from time to time.
- c. Each sub-KUA shall be assigned a separate Sub-KUA code by UIDAI.

For non-compliances if any observed on the part of the reporting entities (KUAs/ SubKUAs), SEBI may take necessary action under the applicable laws and also bring the same to the notice of DoR / FIU for further necessary action, if any. Reporting entity (KUAs/Sub-KUAs) shall also adhere to the continuing compliances and standards of privacy and security prescribed by UIDAI to carry out Aadhaar Authentication Services under section 11A of PMLA. Based on a report from SEBI / UIDAI or otherwise, if it is found that the reporting entity no longer fulfills the requirements for performing authentication under clause (a) of section 11A (1) of PMLA, the Central Government may withdraw the notification after giving an opportunity to the reporting entity.

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

Government of India, DoR, vide Gazette Notification No. G.S.R. 261(E) dated April 22, 2020, and G.S.R. 516(E) dated August 20, 2020, has notified the following reporting entities as per the recommendation by UIDAI and SEBI to undertake Aadhaar authentication service of the UIDAI under section 11A of the Prevention of Money-laundering Act, 2002. In view of the same, the following entities shall undertake Aadhaar Authentication service of UIDAI subject to compliance of the conditions as laid down in this regard: The same has been communicated vide SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/80 dated May 12, 2020, and SEBI/HO/MIRSD/DOP/CIR/P/2020 dated September 08, 2020.

- I. Bombay Stock Exchange Limited
- II. National Securities Depository Limited



- III. Central Depository Services (India) Limited
- IV. CDSL Ventures Limited
- V. NSDL Database Management Limited
- VI. NSE Data and Analytics Limited.
- VII. CAMS Investor Services Private Limited
- VIII. Computer Age Management Services Private Limited
- IX. National Stock Exchange of India Limited

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

Further, Department of Revenue-Ministry of Finance, Government of India, vide Gazette Notification No. S.O. 3187(E) dated July 13, 2022, and S.O. 446 (E) dated January 30, 2023, has notified 155 reporting entities and 39 reporting entities respectively as sub-KUA to use Aadhaar authentication services of UIDAI under section 11A of the Prevention of Money-laundering Act, 2002. Addition / Modification in the said list of entities is communicated by Department of Revenue, Ministry of Finance through gazette notification from time to time.

**1.3. SEBI Master Circular on Know Your Client (KYC) norms for the securities market**

SEBI has issued a Circular No. SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023, on the subject “*Master Circular on Know Your Client (KYC) norms for the securities market*”. The Master Circular is a compilation of the circulars/ directions issued by SEBI up to September 30, 2023, and includes certain modifications to align with the provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and the SEBI KYC (Know Your Client) Registration Agency Regulations, 2011. The said Master Circular is enclosed as **Exhibit 3**.

**1.4 Clarification on KYC Process and Use of Technology for KYC**

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

- a) eSign service is an online electronic signature service that can facilitate an Aadhaar holder to forward the document after digitally signing the same provided the eSign signature framework is operated under the provisions of Second schedule of the Information Technology Act and guidelines issued by the controller.

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

Exchange vide Circular No. NSE/INSP/51278 dated February 08, 2022, has further clarified that any document, except for the documents mentioned in the First Schedule of the IT Act 2000, may be authenticated by an investor by way of electronic/digital signature including Aadhaar eSign, therefore, the process of performing KYC can be completed by using electronic/digital signature including Aadhaar eSign. In case of non-individual clients, intermediaries may take caution and satisfy themselves regarding the genuineness of the authorization and identity of the authorized signatories.

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

- i) The investor visits the website/App/digital platform of the RI and fills up the online KYC form and submits requisite documents online.
- ii) The name, photograph, address, mobile number, email ID, Bank details of the investor shall be captured online and OVD / PAN / signed cancelled cheque shall be provided as a photo / scan of the original under eSign and the same shall be verified as under:
- a. Mobile and email is verified through One Time Password (“**OTP**”) or other verifiable mechanism. The mobile number/s of investor accepted as part of KYC should preferably be the one seeded with Aadhaar (the RI shall ensure to meet the requirements of the mobile number and email as detailed under SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011).
- b. Aadhaar is verified through UIDAI’s authentication / verification mechanism. Further, in terms of PML Rule 9 (16), every RI shall, where the investor submits his Aadhaar number, ensure that such investor to redact or blackout his Aadhaar number through appropriate means where the authentication of Aadhaar number is not required under sub-rule (15). RI shall not store/ save the Aadhaar number of investor in their system. e-KYC through Aadhaar

- Authentication service of UIDAI or offline verification through Aadhaar QR Code/ XML file can be undertaken, provided the XML file or Aadhaar Secure QR Code generation date is not older than 3 days from the date of carrying out KYC. In terms of SEBI Circular No. CIR/MIRSD/29/2016 dated January 22, 2016, the usage of Aadhaar is optional and purely on a voluntary basis by the investor.
- c. PAN is verified online using the Income Tax Database.
  - d. Bank account details are verified by Penny Drop mechanism or any other mechanism using API of the Bank. (Explanation: based on bank details in the copy of the cancelled cheque provided by the investor, the money is deposited into the bank account of the investors to fetch the bank account details and name). The name and bank details as obtained shall be verified with the information provided by investor.
  - e. Any OVD other than Aadhaar shall be submitted through Digilocker / under eSign mechanism.
- iii) In terms of Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (“**PML Rules**”), “Officially Valid Documents” means the following:
- a) the passport,
  - b) the driving licence,
  - c) proof of possession of Aadhaar number,
  - d) the Voter's Identity Card issued by Election Commission of India,
  - e) job card issued by NREGA duly signed by an officer of the State Government and
  - f) the letter issued by the National Population Register containing details of name, address, or any other document as notified by the Central Government in consultation with the Regulator.
- iv) Further, Rule 9(18) of PML Rules states that in case OVD furnished by the investor does not contain updated address, the document as prescribed therein in the above stated Rule shall be deemed to be the OVD for the limited purpose of proof of address.
- v) PML Rules allows an investor to submit other OVD instead of PAN, however, in terms of SEBI Circular No. MRD/DoP/Cir- 05/2007 dated April 27, 2007, the requirement of mandatory submission of PAN by the investors for transaction in the securities market shall continue to apply.
- vi) Once all the information as required as per the online KYC form is filled up by the investor, KYC process could be completed as under:

- a. The investor would take a printout of the completed KYC form and after affixing their wet signature, send the scanned copy / photograph of the same to the RI under eSign, or
  - b. Affix online the cropped signature on the filled KYC form and submit the same to the RI under eSign.
- vii) The RI shall forward the KYC completion intimation letter through registered post/speed post or courier, to the address of the investor in cases where the investor has given address other than as given in the OVD. In such cases of return of the intimation letter for wrong / incorrect address, addressee not available etc., no transactions shall be allowed in such account and intimation shall also sent to the Stock Exchange and Depository.
- viii) The original seen and verified requirement under SEBI Circular No. MIRSD/SE/Cir-21/2011 dated October 5, 2011, for OVD would be met where the investor provides the OVD in the following manner:
- i. As a clear photograph or scanned copy of the original OVD, through the eSign mechanism, or;
  - ii. As digitally signed document of the OVD, issued to the DigiLocker by the issuing authority. Features for online KYC App of the RI - SEBI registered intermediary may implement their own Application (App) for undertaking online KYC of investors. The App shall facilitate taking photograph, scanning, acceptance of OVD through Digilocker, video capturing in live environment, usage of the App only by authorized person of the RI. The App shall also have features of random action initiation for investor response to establish that the interactions not pre-recorded, time stamping, geo-location tagging to ensure physical location in India etc is also implemented. RI shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RI shall carry out the liveness check in order to guard against spoofing and such other fraudulent manipulations. The RI shall before rolling out and periodically, carry out software and security audit and validation of their App. The RI may have additional safety and security features other than as prescribed above.

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

- i. Intermediary through their authorised official, specifically trained for this purpose, may undertake live VIPV of an individual customer, after obtaining his/her informed consent. The activity log along with the credentials of the person performing the VIPV shall be stored for easy retrieval.
- ii. The VIPV shall be in a live environment.

- iii. The VIPV shall be clear and still, the investor in the video shall be easily recognisable and shall not be covering their face in any manner.
- iv. The VIPV process shall include random question and response from the investor including displaying the OVD, KYC form and signature or could also be confirmed by an OTP.
- v. The RI shall ensure that photograph of the customer downloaded through the Aadhaar authentication / verification process matches with the investor in the VIPV.
- vi. The VIPV shall be digitally saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.
- vii. The RI may have additional safety and security features other than as prescribed above.

### **1.5 In-person verification (“IPV”)**

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

- i. It shall be mandatory for all the intermediaries to carry out IPV of their clients.
- ii. The intermediary shall ensure that the details like name of the person doing IPV, his designation, organization with his signatures and date are recorded on the KYC form at the time of IPV.
- iii. The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.
- iv. In case of Stockbrokers, or Authorised Persons appointed by the stockbrokers after getting approval from the concerned Stock Exchanges in terms of SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 can perform the IPV.
- v. In case of Mutual Funds, their Asset Management Companies (“AMCs”) and the distributors who comply with the certification process of National Institute of Securities Market NISM or Association of Mutual Funds AMFI and have undergone the process of ‘Know Your Distributor KYD’, can perform the IPV. However, in case of applications received by the mutual funds directly from the clients i.e. not through any distributor, they may also rely upon the IPV performed by the scheduled commercial banks.

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

1. In case of individuals:

- a. Stockbroker has an option of doing 'in-person' verification through web camera at the branch office of the stock broker/authorised person's office.
- b. In case of non-resident clients, employees at the stockbroker'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 stockbroker's staff, attestation of KYC documents by Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy / Consulate General in the country where the client resides may be permitted.

2. In case of stock exchange subsidiaries

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

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

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

1.6. Uploading KYC information with KYC Registration Agency ("KRA")

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

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

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

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

**Guidelines for Intermediaries in pursuance of the SEBI KYC Registration Agency Regulations, 2011**

After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents i.e. KYC application form and supporting documents of the clients to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch.

In case a client's KYC documents sent by the intermediary to KRA are not complete, the KRA shall inform the same to the intermediary who shall forward the required information / documents promptly to KRA.

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

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

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

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

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

While uploading the existing clients' KYC details in the KRA system, the intermediary shall indicate the date of account opening / activation / updation of information. In case the KRA system indicates that the client's KYC data already exists, the other intermediary shall upload the modifications, if any, after the aforesaid date so that the latest information about the client is available on the KRA system.

The intermediary shall highlight the KYC details about the existing client which is missing / not available, as per the KYC requirements prescribed by SEBI, only if it was not mandated



earlier, when the client's account was opened. KRAs shall make necessary provisions in their systems to categorize the KYC of such clients under the category of existing clients and highlight the information which is missing / not available.

When the existing client approaches another intermediary, it shall be the responsibility of that intermediary which downloads the data of that client from the KRA system, to update the missing information, do IPV as per requirements if not done already and send the relevant supporting documents, if any, to the KRA. Thereafter, the KRA system shall indicate the records as updated.

**Further, SEBI vide notification no. LAD-NRO/GN/2012-13/35/6998 dated March 22, 2013 has removed the requirement for sending original physical KYC documents of the clients to the KRA unless specifically desired by KRA. Instead, intermediaries shall furnish the scanned images of the KYC documents to the KRA, and retain the physical KYC documents.**

**1.7. Delivery of copy of duly completed Client registration forms**

The Exchange is in receipt of complaints from investors regarding non-availability of copies of the documents executed by them for registration and it is observed that many disputes are related to the contents thereof. In order to facilitate investors to have access to the details provided by them to trading members at the time of registration of their accounts, the trading members are required to comply with the following:

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



### 1.8. Allotment of two Trading Codes

For those investors who are required by applicable regulations not to buy or sell without adequate funds or securities to their credit before execution of transaction and whose transactions are to be settled by delivery only, the brokers may be permitted to allot up to two trading client codes i.e. for their buy and sell transactions separately and so that each leg of transaction is treated separately and not netted. Both the trading client codes would be mapped to the same Unique Client Code for the client. STT liability for such entities is thus to be determined on the basis of transactions being required to be settled by delivery only.

It is reiterated that the requirement is to be complied in letter and spirit by all the trading members in respect of the eligible clients without exception, failing which the Exchange will take such **disciplinary action as it may deem fit**.

### 1.9. Execution of ‘Demat Debit and Pledge Instruction’ (DDPI) / Power of Attorney by clients

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

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

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

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

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

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

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

Accordingly, SEBI Circular No. CIR/MIRSD/16/2011 dated August 22, 2011, stands amended to this extent.

All other provisions specified in SEBI Circular No. CIR/MRD/DMS/13/2010 dated April 23, 2010, read with SEBI Circular No. CIR/MRD/DMS/28/2010 dated August 31, 2010, and SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/158 dated August 27, 2020, shall continue to remain applicable.

#### **1.10 Trading Account of NRIs**

Based on representations and queries received from members, Exchange has issued frequently asked questions FAQs for NRI- Trading account. Clarification in respect of trading by NRI's in the form of frequently asked questions is made available in <https://www.nseindia.com/trade/members-faqs-nri-trading-account>

#### **1.11 Nomination for Eligible Trading Accounts**

- a) Investors opening new trading account(s) on or after October 01, 2021, shall have the choice of providing nomination or opting out nomination. Formats enclosed as **Exhibit 5**. These Forms would also be applicable for any subsequent change / withdrawal of nomination.
- b) In this regard, Trading Members shall activate new Trading accounts from October 01, 2021, only upon receipt of above formats.
- c) The nomination and Declaration form shall be signed under wet signature of the account holder(s) and witness shall not be required. However, if the account holder(s) affixes thumb impression (instead of wet signature), then witness signature shall be required in the forms. The on-line nomination and Declaration form may also be signed using e-Sign facility and in that case witness will not be required. Intermediaries shall

ensure that adequate systems are in place including for providing for eSign facility and also take all necessary steps to maintain confidentiality and safety of client records.

- d) Further, all existing eligible trading and demat account holders shall provide choice of nomination as per the option given in point no. a) above, on or before September 30, 2023, failing which the trading accounts shall be frozen for trading.

### **1.12 Guidelines on Identification of Beneficial Ownership**

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

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

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

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

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

- i. More than 10% of shares or capital or profits of the juridical person, where the juridical person is a company;
  - ii. More than 10% of the capital or profits of the juridical person, where the juridical person is a partnership; or
  - iii. More than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.
- b. In cases where there exists doubt under clause a above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

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

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

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

The intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee,

the protector, the beneficiaries with 10% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

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

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

**D. Applicability for foreign investors:**

Intermediaries dealing with foreign investors', may be guided by the Master Circular for Foreign Portfolio Investors, DDPs and Eligible Foreign Investors as issued by SEBI (SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022) and amended from time to time.

**1.13 Client Registration Documents in vernacular language**

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

1. Document stating the Rights & Obligations of stock broker and client for trading on exchanges including additional rights & obligations in case of internet / wireless technology based trading
2. Uniform Risk Disclosure Documents for all segments / exchanges
3. Guidance Note detailing Do's and Don'ts for trading on exchanges

The above-mentioned documents in the vernacular languages are available on NSE website at <https://www.nseindia.com/invest/investors-home> and can be downloaded. Trading Members are advised to make available the documents to their clients on demand and also display the same on their own website. It may be noted that the documents are a translated version of the original documents in English. In case of any ambiguity the contents of the English version would prevail.

**1.14 Simplification of Account Opening Kit**

In order to further simplify the process of client registration, SEBI has issued a Circular No. CIR/MIRSD/64/2016 dated July 12, 2016 on the captioned subject wherein it is decided that members can make available the standard documents such as Rights & Obligations, Risk Disclosure Document, Do's and Don'ts to their clients either in electronic or physical mode as per the preference of the clients after maintaining appropriate proof of dispatch/logs. The preference of the client shall be sought as part of the account opening form. In case the documents are made available in electronic form, stockbroker shall maintain logs of the same.

**1.15 Treatment of Inactive Trading account**

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

- i. **Definition of Inactive Trading accounts:** In case of trading account, the term inactive account refers to such account wherein no trades have been carried out since last 12 (Twelve) months across all Exchanges
- ii. **Transaction in Inactive Trading accounts:** The inactive accounts identified based on the above criteria shall be flagged as 'Inactive' by the Trading Member in UCC database of all the respective Exchanges. The Members are also required to ensure that any further trading by such client should be allowed only after undertaking sufficient due diligence (including IPV) and obtaining the updated information related to KYC from the concerned Client. Appropriate disciplinary actions may be initiated in case of any trades are executed in any account flagged as 'Inactive'.

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

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

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

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

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

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

- iv. **Return of Clients assets:** Members are required to ensure that all client accounts are settled on monthly or quarterly basis (as per the client preferences) in the manner prescribed from time to time.

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

Further in cases where Members are unable to trace such clients in spite of all efforts taken, members are directed to take the following steps:

- i. Open one separate Client Bank account and immediately set aside the funds in such account.
- ii. Maintain audit trail of UCC wise client funds transferred to/from such bank account.
- iii. Submit UCC wise fund information of such account to the Exchange on weekly basis.
- iv. In case of receipt of any claims from such clients, members are advised to settle the accounts immediately and ensure that the payment/delivery is made to the respective clients only.

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

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

- i. Client shall be entitled to close the trading account through online mode without giving any reasons to the trading member. Clients shall not be restricted from requesting, through online mode or offline mode, for the closure of trading account maintained with a member, subject to the compliance requirements as stipulated by SEBI / Stock Exchange from time to time.
- ii. Online request for closing of trading accounts shall be made available for the clients who have opened their accounts offline or online, by those trading members which provide facility of opening account online and provide various services to their clients in online mode. Those trading members that do not provide any services online and do not open accounts online may not be required to offer online closure of trading accounts.
- iii. The request for account closure shall be done only through web portal / app of the trading member through secured access by way of client specific user ID and password (in case of internet clients) and the request send through emails, SMS, other messaging

- apps, etc. shall not be entertained by the trading member. As the KYC process requires e-sign post which trading accounts can be opened by the trading member, for online closure of trading account, client shall be required to e-sign the form (using Aadhaar based online electronic signature service) to be verified by the trading member in accordance with guidelines as stipulated by SEBI / Stock Exchanges from time to time.
- iv. Once the application for closure of trading account is received, the member shall intimate to the client on registered email id and / or mobile number (on both, if available) about the receipt of closure request and shall not permit any further requests for execution of trades by the client. A confirmation regarding the application submitted, shall be sought from the client by way of OTP sent on the email id and / or mobile number updated in its source account (to be closed account) at the time of closure of trading account.
  - v. Trading account can be closed only if the client doesn't have a negative account balance and / or client do not have any open position and there are no pending arbitration matters / orders prohibiting the release of the client funds & securities at the time of account closure request. In case the client has debit balance (after considering balance across Stock Exchanges) or open positions and applies for closure of trading account, the member shall send a written response to client asking him to clear the debit balance / open positions prior to initiating the process for closure of broking account.
  - vi. On closure request, the member shall return funds and release all collateral and pledged securities back to the clients and close the trading account within 3 working days, subject to conditions mentioned in paragraph 5 above. Client needs to ensure that there are no securities / commodities available in the trading member's demat account at the time of account closure request.
  - vii. If the member authorises the request received, the trading account will get closed. Once the trading account is closed, thereafter trading member shall inform the same to the client and update the client status in the UCC database of the Stock Exchange as inactive / deleted, as applicable and thereafter the member is not required to report details of such client in "cash and cash equivalent" reporting.
  - viii. If the member rejects the client request for online closure of trading account received, the member shall mention the reason for such rejection and communicate the same to the client.
  - ix. Members shall ensure that the applications are processed as per the timelines mentioned above. Trading member shall maintain and store system logs of the closure instructions and e-signed electronic requests (uneditable) received in electronic form in a secured manner and the same shall be subject to 100% internal audit.
  - x. Notwithstanding any such closure of trading account, all rights, liabilities and obligations of the parties arising out of or in respect of transactions entered into prior to the closure of trading account shall continue to subsist and vest in / be binding on the respective parties or his / its respective heirs, executors, administrators, legal representatives or successors, as the case may be.



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

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

The KYC details of existing and new individual clients shall be uploaded as under:

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

#### **Rollout of Legal Entity Template**

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

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

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

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

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



The provisions of this circular are not applicable to Foreign Portfolio Investors (“FPIs”).

### **1.18 Know Your Client requirements for Foreign Portfolio Investors**

[SEBI \(Foreign Portfolio Investors\) Regulations, 2019 \(“the Regulations”\)](#) have been notified and have come into force with effect from September 23, 2019.

The [SEBI \(Foreign Portfolio Investors\) \(Amendment\) Regulations, 2022](#) was notified on January 14, 2022 for generation of Foreign Portfolio Investor (FPI) registration number by SEBI.

FPIs are required to provide KYC related documents based on the category under which it is registered. Once the KYC is completed, the intermediary will upload the Form and supporting documents on the KRA portal for other market intermediaries to access and complete their KYC requirements. Apart from the KYC requirement stated below, each intermediary may have additional documentation requirement for conducting enhanced due diligence as per their internal policies.

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

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

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

SEBI vide Master Circular no: SEBI/HO/AFD-2/CIR/P/2022/175 dated , December 19, 2022 , has issued “Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors”.

### **1.19 Amendment to the Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT)**

SEBI has issued Circular No. SEBI/HO/MIRSD/SEC-FATF/P/CIR/2023/0170 dated October 13, 2023, on the subject “Amendment to the Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money-laundering Act, 2002 and Rules framed there under”. The said Circular is enclosed as **Exhibit 6**.

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

### 1.20 **Trading Preferences by Clients**

SEBI has issued Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023 and Exchange has issued Circular No. NSE/INSP/57242 dated June 22, 2023 and NSE/INSP/57441 dated July 05, 2023, on the subject “Trading Preferences by Clients”. The circulars standardize the format of “Trading Preferences” in order to ensure that clients are permitted to access all the stock exchanges in which the stockbrokers are registered for the same segment. Accordingly, Para C of Annexure 8 of “SEBI Master Circular for Stock Brokers” with reference no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023, is modified as under:

C. TRADING PREFERENCES					
Please sign in the relevant boxes where you wish to trade. Please strike off the segment not chosen by you.					
Exchanges	NSE, BSE & MSEI				MCX, NCDEX ,BSE & NSE
All Segments	Cash/ Mutual Fund	F&O	Currency	Debt	Commodity Derivatives
If you do not wish to trade in any of segments/ Mutual Fund, please mention here _____.					

All stockbrokers are mandated to register their new clients on all the active stock exchanges after obtaining trading preferences as per the aforementioned format. The aforementioned provisions shall also be applicable to the clients registered in accordance with SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020.

Further, based on the queries/ representations received from members, Exchange vide Circular no. NSE/INSP/57652 dated July 20, 2023, has issued FAQs on the subject which are attached as **Exhibit 7**.

Further, SEBI issued Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 dated

August 01, 2023, on the subject “*Trading Preferences by Clients – Applicability for commodity derivatives*”. A copy of the said SEBI circular is enclosed as **Exhibit 8**. Vide Circular No. NSE/INSP/60042 dated December 29, 2023, the Exchange has clarified that Members shall obtain express consent and/or explicit confirmation from the clients for the trading preferences in the Equity Derivatives/Currency Derivatives/Commodities Derivatives Segments by providing an option to the clients to only select/opt in at the time of onboarding of the client.

#### **1.21 Most Important Terms and Conditions**

SEBI has issued Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023 and Exchange has issued Circular no. NSE/INSP/59367 dated November 15, 2023 on “Most Important Terms & Conditions (“MITC”).

The standard Most Important Terms and Conditions as finalized in accordance with point no. 4 of the aforesaid SEBI Circular is enclosed herewith as **Exhibit 9**.

With respect to new clients onboarded from April 01, 2024 onwards, the MITC shall require to be acknowledged i.e. duly signed by the client. Further, in accordance with aforesaid SEBI Circular dated November 13, 2023, members are also requested to note that the MITC shall be informed by members to their existing clients by June 01, 2024 via email or any other suitable mechanism which can be preserved. In case if communication gets bounced/undelivered, the same shall be communicated through alternate channels to such clients. Other suitable mechanism may include physical delivery/SMS/electronic instant messaging services after adhering with the safeguards prescribed under Exchange Circular no. NSE/INSP/52604 dated June 10, 2022.

**REGULATORY REQUIREMENTS/ REFERENCES:**

S. No	SUBJECT	CIRCULAR REFERENCES
1	Account Opening Process	<p>SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 along with Annexures 1 to 6; No: NSE/INSP/18677; Circular No. NSE/INSP/2011/121 August 22, 2011; SEBI Circular CIR/MIRSD/09/2012 dated August 13, 2012; Download Ref. No.: NSE/INSP/21465; Circular Ref. No.: 142/2012 dated August 13, 2012; SEBI Circular CIR/MIRSD/11/2012 dated September 05, 2012; Download Ref. No.: NSE/INSP/21622; Circular Ref. No.: 143/2012 dated September 5, 2012; SEBI Circular CIR/MIRSD/01/2013 dated January 04, 2013; Download Ref. No.: NSE/INSP/22490; Circular Ref. No.: 152/2013 dated January 7, 2013; Circular Ref. No.: 166/2013 dated September 13, 2013; SEBI Circular CIR/MIRSD/ 09/ 2013 dated October 8, 2013; Download Ref. No.: NSE/INSP/24676; Circular Ref. No.: 167/2013 dated October 8, 2013; SEBI Circular CIR/MIRSD/13/2013 dated December 26, 2013; Download Ref. No.: NSE/INSP/25392; Circular Ref. No.: 176/2013 dated December 26, 2013 ; SEBI Circular CIR/MIRSD/1/2015 dated March 04, 2015; Download Ref. No.: NSE/INSP/29057; Circular Ref. No.: 221/2015 dated March 5, 2015; Download Ref. No.: NSE/INSP/29071; Circular Ref. No.: 222/2015 dated March 9, 2015; Download Ref. No.: NSE/INSP/26779; Circular Ref No.: 183/2014 dated May 26, 2014; SEBI Circular CIR/IMD/FIC/11/2014 dated June 16, 2014; Download Ref. No.: NSE/INSP/26942; Circular Ref. No.: 186/2014 dated June 17, 2014 Download Ref. No.: NSE/INSP/29683; Circular Ref. No.: 233/2015 dated May 12, 2015; Download Ref. No.: NSE/INSP/31977; Download Ref. No.: NSE/INSP/31629; Circular Ref No.: 268/2016 dated January 25, 2016; SEBI Circular No. CIR/MIRSD/29/2016 dated Jan 22, 2016, Circular Ref. No: 39/2019, Download Ref No: NSE/INSP/42585 dated November 05, 2019, SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/123 dated November 05, 2019, Circular Ref. No: 40/2019, Download Ref No: NSE/INSP/42604 dated</p>

S. No	SUBJECT	CIRCULAR REFERENCES
		November 06, 2019, SEBI Circular No. IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019.
2	e-KYC Authentication facility under section 11A of the Prevention of Money Laundering Act, 2002 by Entities in the securities market for Resident Investors	Download Ref No: NSE/INSP/42585 dated November 05, 2019, SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/123 dated November 05, 2019. Download Ref No: NSE/INSP/44362 dated May 13, 2020, SEBI/HO/MIRSD/DOP/CIR/P/2020/80 dated May 12, 2020, Download Ref No: NSE/INSP/45644 dated September 08, 2020, SEBI/HO/MIRSD/DOP/CIR/P/2020 dated September 08, 2020. Download Ref No: NSE/INSP/53062 dated July 22, 2022, SEBI Circular SEBI/HO/MIRSD/SEC-5/P/CIR/2022/99 dated July 20, 2022. Download Ref No: NSE/INSP/55568 dated February 09, 2023, SEBI Circular SEBI/HO/MIRSD/SEC-5/P/CIR/2023/0026 dated February 08, 2023
3	SEBI Master Circular on Know Your Client (KYC) norms for the securities	Download Ref. No.: SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023; NSE/INSP/58955 dated October 16, 2023
4	Clarification on KYC Process and Use of Technology for KYC	SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020, Download ref no: NSE/INSP/44237 dated April 25, 2020, Exchange Circular NSE/INSP/51278 dated February 08, 2022 and Exchange Circular NSE/INSP/60042 dated December 29, 2023
5	In-person verification IPV	Circular no. NSE/INSP/2008/68, download reference no. NSE/INSP/10938 dated 4th July 2008, SEBI Circularis/MIRSD/16/2011 dated August 22, 2011 along with Annexures 1to 6; Download Ref. No: NSE/INSP/18677; Circular No. NSE/INSP/2011/121 August 22, 2011, SEBI Circular No MIRSD/Cir- 26 /2011dated December 23, 2011 Circular Ref. No.: 128/2011, download Ref. No.: NSE/INSP/19654 dated December 26, 2011
6	Uploading KYC information with KYC Registration Agency KRA	SEBI Circular No. MIRSD/Cir-23/2011dated December 5, 2011, Circular Ref. No.: 125/2011 download Ref. No.: NSE/INSP/19511 dated

S. No	SUBJECT	CIRCULAR REFERENCES
		December 6, 2011, SEBI Circular No. MIRSD/Cir-26/2011 dated December 23, 2011 Circular Ref. No.: 128/2011, download Ref. No.: NSE/INSP/19654 dated December 26, 2011, download Ref. No.: NSE/INSP/20162 dated February 29, 2012, SEBI Circular MIRSD/ Cir-5 /2012 dated April 13, 2012; Download Ref. No.: NSE/INSP/20547; Circular Ref No.: 134/2012 dated April 13, 2012, SEBI notification no LAD-NRO/GN/2012- 13/35/6998 dated March 22, 2013; SEBI Circular CIR/MIRSD/4/2013 dated March 28, 2013 Download Ref. No.: NSE/INSP/23113, Circular Ref No.: 156/2013 dated April 2, 2013
7	Delivery of copy of duly completed Client registration forms	SEBI Circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3rd December, 2009; Circular No. NSE/INSP/2008/67, download reference no. NSE/INSP/10872 dated June 23, 2008
8	Allotment of two Trading Codes	Circular No. NSE/INSP/2007/63, Download No. NSE/INSP/2007/9859 dated 4th December 2007
9	Execution of 'Demat Debit and Pledge Instruction' (DDPI) / Power of Attorney (POA) by clients	Download Ref. No: NSE/INSP/14646, Circular No. NSE/INSP/2010/97 dated 26th April, 2010 and SEBI Circular No. CIR/MRD/DMS/13/2010, dated April 23, 2010; Download Ref. No: NSE/INSP/15598, Circular No. NSE/INSP/2010/104 dated August 31, 2010 and SEBI Circular No. CIR/MRD/DMS/28/2010 dated August 31, 2010; SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/158 dated August 27, 2020, Download Ref No: NSE/INSP/45504, Circular Ref. No: 50/2020 dated August 27, 2020 SEBI Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/4 dated April 04, 2022, Download Ref No:NSE/INSP/51901 dated April 05, 2022. SEBI Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/91 June 30, 2022, Download Ref No: NSE/INSP/52827 dated June 30, 2022 SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/137 dated October 06, 2022, Download Ref No: NSE/INSP/53988 dated October 07, 2022; SEBI Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/162 dated

S. No	SUBJECT	CIRCULAR REFERENCES
		November 25, 2022, Exchange download Ref. No: NSE/INSP/54618 dated November 25, 2022.
10	Trading Account of NRIs	Download Ref. No.: NSE/INSP/16615, Exchange Circular No. NSE/INSP/2010/110 dated December 24, 2010
11	Nomination for Eligible Trading Accounts	SEBI Circular Ref. No. SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021, Download Ref. No.: NSE/INSP/49042, Circular Ref. No.: 37/2021 dated July 23, 2021 SEBI Circular No. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/23 dated February 24, 2022, Download Ref. No.: NSE/INSP/51438 dated February 24, 2022, and SEBI Circular ref no: SEBI/HO/MIRSD/MIRSD-PoD- 1/P/CIR/2023/42 dated March 27, 2023
12	Guidelines on Identification of Beneficial Ownership	SEBI Circular No. CIR/MIRSD/2/2013 dated January 24, 2013; Download Ref. No.: NSE/INSP/22614; Circular Ref. No.: 154/2013 dated January 24, 2013
13	Client Registration documents in vernacular language	SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 ;Download Ref no. NSE/INSP/32759 dated July 08, 2016
14	Simplification of Account Opening kit	SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 SEBI Circular CIR/MIRD/64/2016 dated July 12, 2016 ; NSE download Ref. No.: NSE/INSP/32807 dated July 14, 2016
15	Treatment of Inactive Trading account	NSE/INSP/43488 dated February 10, 2020, NSE/INSP/46506 dated December 01, 2020 NSE/INSP/ 49743 dated September 27, 2021
16	Guidelines for online closure of trading accounts	NSE/INSP/49055 dated Jul 26, 2021 NSE/INSP/49323 dated August 17, 2021
17	Operationalization of Central KYC Records Registry CKYCR and uploading of clients' KYC details	SEBI Circular CIR/MIRSD/ 66 /2016 dated July 21, 2016 Download Ref. No. NSE/INSP/32860 dated July 22, 2016 SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 Download Ref. No. NSE/INSP/33610 dated November 11, 2016 SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2021/31 dated March 10, 2021 Download Ref No: NSE/INSP/47857, Circular Ref. No: 14/2021 dated March 31, 2021



<b>S. No</b>	<b>SUBJECT</b>	<b>CIRCULAR REFERENCES</b>
18	Know Your Client requirements for Foreign Portfolio Investors (FPIs)	Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 [Last amended on August 10, 2023] SEBI Cir. No: SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022.
19	Amendment to the Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT)	SEBI Circular no. SEBI/HO/MIRSD/SEC-FATF/P/CIR/2023/0170 dated October 13, 2023.
20	Trading Preferences by Clients	Download Ref. No: SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023; SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 and Exchange Circular No. NSE/INSP/57242 dated June 22, 2023; NSE/INSP/57441 dated July 05, 2023
21	Most Important Terms and Conditions	Download Ref. No.: SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023 and Exchange Circular No. NSE/INSP/59367 dated November 15, 2023



**ITEM 2****CONTRACT NOTES****2.1 Issue of contract notes**

- As per NSEIL Regulations, every Trading Member shall issue a contract note to its clients for trades executed in such format as specified in the NSE Trading Regulations. It is hereby clarified that if a Trading Member is unable to provide all the trades of a client in a single contract note, it may, if it so desires, use continuation sheets subject, however, to the condition that the main sheet shall be in the prescribed contract note format and the continuation sheets shall contain the following particulars:
  - i) Name of the Trading Member to be pre-printed
  - ii) SEBI Registration number of the Trading Member to be pre-printed
  - iii) Name of the client
  - iv) Trading Code and Unique Client Code of the client
  - v) Contract Note number
  - vi) Settlement number
  - vii) Signature of authorised signatory to be signed by the same signatory who signed the main sheet in the prescribed format
  - viii) Page number starting from the main sheet in the prescribed format
  - ix) All the details mentioned in the box given in the contract note format namely Order number, Trade number, Trade time, Security/ Contract description, Quantity, Kind of security, Purchase / Sale rate, Brokerage, Net rate and Amount for the securities bought / sold
- Stationery control number of the continuation sheets shall be serially pre-printed for stock control purpose and the trading members shall maintain a control record for the printing and usage of the stationery.
- It is also clarified that a Trading member may, if it so desires, issue contract note cum bills without diluting the form prescribed for contract note.
- As per Regulations, the contract notes shall be numbered with unique running serial number commencing from one which shall be reset only at the beginning of every financial year. It is hereby clarified that financial year for the purpose of resetting the serial number of contract note is April to March.

- With reference to the NSE Circular dated May 25, 2021 ref no NSE/CML/48394 the contract notes pertaining to the Rights Entitlements should include the below disclaimer: “purchase of REs only gives them the right to participate in the ongoing Rights Issue of the concerned company by making an application with requisite application money or renounce the REs before the issue closes. REs which are neither subscribed by making an application with requisite application money nor renounced, on or before the Issue Closing Date shall lapse and shall be extinguished after the Issue Closing Date”
- Where the securities are liquidated by the Member, the contract note issued for such margin call related transactions shall carry an asterisk or identifier that the transaction has arisen out of margin call.

Contract Notes should not be generated and issued by the AP. However, AP may provide administrative assistance in procurement of documents from the Member, after maintaining proper records of the same. It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in contract notes issued to the clients.

### **2.1.1 Signature on Physical Contract Note**

As per exchange circular with reference number NSE/INSP/27155 dated 6th June, 2016 exchange has issued clarifications regarding signature on physical contract notes, with the following details:

- In order to reduce operational difficulties faced by the Members, exchange has clarified that Members may affix facsimile signatures / scanned signature on physical contract notes issued to their clients after ensuring that adequate controls and procedures are put in place regarding the use of facsimile/scanned signatures.
- Members opting to use this facility should have a well-documented policy regarding its use which shall be implemented after appropriate approval from board in case of corporates, partners in case of partnership firms or proprietor in case of sole proprietorship firm as the case may be. The policy should clearly specify the procedure to be adopted for its use, the controls in place and procedure to be followed in case of any change of authorized signatories. The authorized signatories should necessarily be approved by the Board/Partners/proprietor for use on the contract notes. In case, an authorized signatory whose signature was used for the above purpose, no longer holds that position with the Member, then the use of his signature shall not be permitted on the contract notes under any circumstances beyond the date from which the person ceases to hold the office.
- Any contract note issued with facsimile/scanned signature shall be deemed to have been signed by the authorized signatory notwithstanding any misuse of

facsimile/scanned signature and the ultimate responsibility to prove its genuineness shall rest with the Member.

## **2.2 Electronic issuance of contract notes**

### **Authorization for Electronic Contract Notes**

The stockbroker may issue electronic contract notes (“ECN”) if specifically authorized by the client subject to the following conditions:

- a) The authorization shall be in writing and be signed by the client only and not by any authorised person on his behalf or holder of the Power of Attorney.
- b) The email id shall not be created by the broker. The client desirous of receiving ECN shall create/provide his own email id to the stock broker.
- c) The authorization shall have a clause to the effect that 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.

### **Additional Conditions:**

SEBI has issued a Circular No. MRD/DoP/SE/Cir-20/2005 dated 8th September, 2005 regarding additional conditions for electronic issuance of contract notes, with the following details;

SEBI has stated that brokers can issue contract notes authenticated by means of digital signatures provided that the broker has obtained digital signature certificate from Certifying Authority under the Information Technology Act, 2000.

#### **2.2.1 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 Member — Client agreement I Tripartite agreement or by a separate letter. The mode of confirmation shall be as per the agreement entered into with the clients.

#### **2.2.2 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 which shall be made available at all times for such receipts of ECNs.

In addition to usual mode of delivery of ECNs to the clients through email, members may additionally send ECN through SMS / electronic instant messaging services as permitted vide Exchange Circular NSE/INSP/52604 dated June 10, 2022, however certain safeguards as listed below, need to be ensured:

- The digitally signed ECNs may be sent only to those clients who have opted to receive the contract notes in an electronic form. Members may add any SMS / electronic instant messaging services as an additional mode of delivery of ECNs based on their readiness to fulfil the additional guidelines mentioned below and shall provide an option to clients for receiving ECNs through such additional modes of communication.
- Members shall send ECN through SMS / electronic instant messaging services only to the applications linked to the registered mobile number/ email id of clients as uploaded by members on the Exchange portal/database.
- The client shall communicate any change in the email-id / mobile number through a physical letter to the member. If the client has opted for internet-based trading (IBT), the request for change of email id / mobile number may be made through the secured access by way of client specific user id and password.
- The messages sent through SMS / electronic instant messaging services not to be covered under the auto delete facility at the option of the members.
- The members shall ensure that all ECNs are sent from the same ID and appropriate logs (sent/delivered/seen/not delivered/blocked etc.) are maintained by the members regarding the same.
- Other existing requirements for issuance of ECN, like publishing of ECN on the designated website of the member, access to the website to enable clients to access ECNs, maintenance of proof of delivery (ECN log), sending in physical mode in case of non-delivery (bounced mails), etc. as mentioned in SEBI Circular MRD/DoP/SE/Cir-20/2005 dated September 8, 2005 should continue to be applicable.”

### **2.2.3 Requirement of digital signature**

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

### **2.2.4 Requirements for acknowledgement, proof of delivery, log report etc.**

#### **2.2.4.1 Acknowledgement**

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

#### **2.2.4.2 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 in the agreement / client registration documents executed with the client for this purpose that non-receipt of bounced mail notification by the member shall amount to delivery of the contract note at the e-mail ID of the client.

#### **2.2.4.3 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 mail servers, etc to ensure receipt of notification of bounced mails by the member at all times within the stipulated time period under the extant regulations of SEBI/stock exchanges.

#### **2.2.5 When to issue or send contract notes in Physical mode**

##### **2.2.5.1 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 mode to such clients.

##### **2.2.5.2 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 under the extant regulations of SEBI/stock exchanges and maintain the proof of delivery of such physical contract notes.

#### **2.2.6 General requirements**

##### **2.2.6.1 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 his designated website in a secured way and enable relevant access to the clients.

##### **2.2.6.2 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 username and password for the purpose, with an option to the client to access the same and save the contract note electronically or take a printout of the same.

##### **2.2.6.3 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 Exchanges from time to time.

### 2.3 **Format of Contract Notes**

In accordance with SEBI Circular SEBI/HO/MRD2/DCAP/P/CIR/2021/628 dated September 07, 2021, regarding Introduction of T+1 rolling settlement on an optional basis, the format of Contract Notes has been revised vide Exchange Circular No. NSE/INSP/51772 dated March 25, 2022. Accordingly, Members opting to send “Contract Note Cum Tax Invoice” shall send the contract note in the format enclosed as **Exhibit 10** and Members opting to send the Contract Note and the tax invoice separately shall send the contract note in the format enclosed as **Exhibit 11**.

Members issuing contract notes through STP are advised to get the necessary changes incorporated in the STP file format, in line with relevant regulatory requirements, through their STP service providers.

#### **a. Clarification on the Common Contract Note**

- The contract note should mandatorily be in the prescribed format. The format of “Contract Note Cum Tax Invoice” is enclosed as **Exhibit 10** referenced above.
- Members may opt to issue a single consolidated contract note or issue separate contract notes for different segments/Clearing Corporations as the case may be.
- In case of Institutional clients, the existing format and practice of issuing contract notes through STP may be continued.

The following clarifications may be noted for issuance of the revised format of contract notes:  
-

- a. The contract note shall be printed and issued in a readable font. The same need not be on a pre-printed stationary.
- b. In case of multiple Exchange memberships, all SEBI registration numbers are required to be mentioned where consolidated contract notes are issued.
- c. Serial Number of the contract notes issued in the prescribed format shall commence from the first trade executed on the date of initial issue in the new format. In case the Member does not opt for consolidated contract note, they may continue with the current serial numbers.
- d. Where Back-office trading code of a client is different from the UCC of such client that is uploaded to the Exchange, such Exchange and Segment wise back office code shall be separately mentioned in the table provided.

- e. In case a client has different Exchange wise & segment wise UCC, the same shall be mentioned by inserting an additional row in the table for capturing the trading and back office code.
- f. Exchange-wise rows for Brought Forward Position in case of Derivatives segment shall be optional and in such case the document shall be called Contract note and not Contract Note cum Bill.
- g. Where column for Brought Forward Position are not shown, column for “closing rate per unit only for derivatives” shall be removed from the common contract note format.
- h. Securities Transaction Tax STT and GST\* amounts shall be mentioned as a consolidated figure on the Contract note. Members may also provide details of STT trade wise in the contract notes. However details of trade wise STT shall be provided by the Members on an annual or periodic basis to clients on their specific request if the same is not provided in the contract note along with the contract note.  
  
*\*In case of GST, the tax shall appropriately be displayed as CGST, SGST, IGST as the case may be.*
- i. In case of any square off trade/s executed by the Trading Member, pursuant to margin calls being made to the client and the client failing to comply with them, the remark column in the contract note shall indicate the same against such trades.
- b. **Inclusion of ISIN details in Bills/ Contract Notes/ Statements issued by the Stockbrokers to their clients**

SEBI, vide its letter no. MIRSD/-4/AS/NS/6127/2015 dated February 26, 2015 has directed that “ISIN” details of securities traded in the Cash Segment shall be included in Bills/Contract Notes/Statements issued by the Stock Brokers to their clients.

**c. Format of Contract Note for Tri-party Repo trades on TRM Platform**

Exchange has issued Circular no: NSE/DS/56010 dated March 17, 2023 on “Tri-party Repo product of AMC Repo Clearing Limited (ARCL) on TRM Platform”, wherein Exchange has agreed to offer the tri-party repo product of ARCL for trading on Exchange’s TRM Platform.

In view of the above, Exchange vide Circular no. NSE/INSP/57417 dated July 03, 2023, has issued the format of the Contract Note for Tri-party Repo trades on TRM Platform in Debt segment of the Exchange. Format of the contract note is enclosed as **Exhibit 12**.

## **2.4 Statement of Securities Transaction Tax (“STT”)**

Trading members are informed that, “Statement of Securities Transaction Tax” containing the details as per Annexure – II to Circular no. NSE/CMO/0135/2004 and Annexure – III to Circular no. NSE/F&O/0062/2004 both dated 24th September 2004, may be issued on annual financial year basis, unless required by the clients otherwise, within one month from the close



of the financial year. However, trading members shall continue to give total STT amount on the contract notes.

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

SEBI vide Circular No. SEBI/DNPD/143542 /Cir-43/08 dated 6th November 2008, has extended the facility of issuance of ECNs as a legal document using STP to the equity derivatives segment and has provided a model contract note in electronic form IFN 515 messaging format and confirmation of electronic contract note IFN 598 messaging format. In consultation with SEBI, it has been decided that stamp duty would be incorporated as a separate field in the Straight Through Processing (STP) system with effect from January 01,2021. Accordingly, appropriate changes to the messaging standards have been prescribed vide NSE Circular No. NSE/INSP/45900 dated September 30, 2020.

## **2.6 Clarification on Brokerage, Statutory Levies and Regulatory Levies & Charges**

- i. Following levies/ brokerage can only be charged to client in the contract note:
  - a. **Statutory levies:** These are charges levied by Central/ State governments e.g. GST, Security Transaction Tax (STT), Stamp Duty, etc. and may be recovered from client only at actuals paid/ Payable.
  - b. **Regulatory levies/charges:** These are charges levied by SEBI / Exchanges / Clearing Corporations e.g. SEBI turnover fees, Exchange transaction charges, etc. If such charges are separately recovered from client, they may be specified in contract notes or may be given under the head “Other levies, if any”. The above charges may be recovered from client only at actuals paid/ Payable.
  - c. **Brokerage** can be charged as may be mutually agreed between member & client subject to maximum permissible by the Exchange and brokerage rates should be mentioned in a tariff sheet.

### **ii. Brokerage can be charged as under**

#### **Capital Market Segment-**

As per Circulars No NSE/ CMT/ 001 dated 28-Oct-1994 and NSE/INSP/3685 dated 17-Oct-2002, the maximum brokerage chargeable by a Trading Member in relation to trades effected in the securities admitted to dealings on the CM segment of the Exchange shall be 2.5 % of the contract price exclusive of statutory levies.

Where the sale / purchase value of a share is Rs.10/- or less, a maximum brokerage of 25 paise per share may be collected.

#### **Futures contracts –**

As per Regulation 3.7.2 of the Regulations F&O segment of the Exchange and Circular no. NSE/FOTRD/001 download ref no. 1688 dated 08-Jun-2000 and Currency Derivative Circular dated 26-Aug-2008, NSE/INSP/11184 the maximum brokerage

chargeable by a trading member in relation to trades executed on the Exchange shall be 2.5% of the contract value exclusive of statutory levies

**Option contracts –**

As per Circular No. NSE/F&O/0098/2005 download ref no. 5978 dated 30-Mar-05, and Circular no. NSE/INSP/2006/56 download ref no NSE/INSP/8338 dated 05-Jan-07 the trading member shall charge brokerage for option contracts on the premium amount at which the option contract was bought or sold and not on the strike price of the option contract. It is hereby clarified that brokerage on options contracts shall not exceed 2.5% of the premium amount or Rs.100/- per lot whichever is higher.

Aforesaid brokerage rates are applicable on Option contracts in Futures & Options segment as well as Currency Derivatives Segment and accordingly, the brokerage on options contracts in the Futures & Options segment or Currency Derivatives segment shall not exceed 2.5% of the premium amount or Rs.100/- (per lot) whichever is higher.

- iii. As per Circular No. NSE/INSP/2006/44 download ref no. 7330 dated 30-Mar-2006 contract description' shall have the details viz. instrument type, underlying symbol, expiry date, strike price and option type in case of Options Contract and in case of Futures Contract, instrument name underlying symbol and expiry date in the manner as provided by the Exchange.

i.e.

i. Contract description for a typical futures contract - FUTIDX NIFTY 30MAR13

ii. Contract description for a typical options contract- OPTSTKHINDLEVER 30MAR13 250 CE

- iv. ***Issue of Contract Note at weighted average price:***

As per Circular No. NSE/CMO/0023/98 download ref no.00670 dated 12-Nov-98 in case of multiple trades resulting from single order, at the request of the clients, the trading member may issue contract notes with weighted average price WAP as per the following procedure:

- The trading member shall be allowed to issue a contract note at weighted average price of all the trades executed for a single order. The weighted average price WAP shall be computed as per the following formula

$$\text{WAP Four decimals} = \frac{\text{Total value of the shares traded for an order}}{\text{Total number of shares traded for an order}}$$

- The member shall mention the words “as per annexure” in the place provided for order no., trade no., order time and trade time in the format of the contract note.

- A separate Annexure to the contract note should be issued to the clients containing details of all individual trades such as the contract number, Order number, Trades number, Trade time, Traded Quantity and Trade price, Symbol, Series, for a given order for which a weighted average price WAP is provided in the contract note.
- v. Members may give additional details in the contract notes without compromising with the minimum details as prescribed in the format.

### **Pre-paid Schemes**

Based on inspection of brokers and complaints received from clients/investors, it has been observed that some of the brokers are not properly documenting and disclosing to their clients details of schemes where funds are being collected in advance from them towards brokerage and other allied services. This leads to disputes, complaints and litigation later on.

Exchange in consultation with SEBI and Broker Association hereby clarified that;

- The terms & conditions of schemes relating to advance collection of funds towards brokerage and other allied services must be properly documented and positive confirmation of the clients for availing such services/schemes be obtained.
  - Where the funds are collected in advance under the pre-paid schemes, the broker must ensure that the brokerage charged should not exceed the amount specified under the exchange by-laws.
  - Complaints received in this respect will be viewed very seriously and the broker will be liable for disciplinary action.
- vi. **Display of Brokerage, Statutory & Regulatory Levies**

In order to bring more transparency to investors on the brokerage and other charges being levied by the members, Exchanges in consultation with SEBI have advised members that the details of brokerage/charges to be levied for each order shall be prominently displayed to the investor on the “Order placement window/screen” on their Internet Based Trading (IBT) / Wireless Trading (WT) applications prior to placement of order. Members have been advised to take note of the same and implement the provisions of the circular by January 31, 2023.

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

As per Regulation 19(1) of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 SECC Regulations, no person shall, directly or indirectly, acquire or hold equity shares of a recognised Stock Exchange or recognised Clearing

Corporation unless he is a fit and proper person in terms of Regulation 19 and 20 of the said SECC Regulations.

SEBI Circular No.CIR/MRD/DSA/01/2016 dated January 01, 2016 stipulates procedures for ensuring compliance with Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 SECC Regulations. The said SEBI circular also stipulates that post listing of Stock Exchanges, the text of the Regulation 19 & 20 of SECC Regulations with regard to fit and proper shall be made part of the contract note.

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

Download Ref. No.: NSE/INSP/34055 dated January 24, 2017

**2.8 Compliance with fit & proper requirement by Members in case of trading in securities of depositories**

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

**REGULATORY REQUIREMENTS/ REFERENCES**

1	Issuance of contract notes	SEBI Circular No. Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8th November 2010 and Circular No. NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date: 17th October, 2002; SEBI Circular No. CIR/MRD/DSA/24/2010 dated August 11, 2010 and exchange Circular No. Circular No. NSEIL/ARBN/2010/003, Download No. NSE/ARBN/2010/15609 dated August 31, 2010
2	Electronic issuance of contract notes	SEBI Circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3rd December, 2009, Circular Ref. No.: NSE/INSP/32524 dated June 06, 2016, Download Ref No: NSE/INSP/52604 dated June 10, 2022
3	Format of Contract Notes	Download Ref No: NSE/INSP/51772 dated March 25, 2022. Exchange Circular NSE/INSP/57417; Exchange Circular ref no: NSE/DS/56010 dated March 17, 2023
4	Statement of Securities Transaction Tax STT	Circular no. NSE/INSP/2006/55, Download Ref. No.: NSE/INSP/8108 Dated: 16th November 2006
5	Issuance of Contract Notes through STP in the Equity Derivatives Segment	SEBI Circular No. SEBI/DNPD/143542 /Cir-43/08 dated 6th November 2008; Circular No. NSE/INSP/2008/75, download reference no. NSE/INSP/11611 dated November 7, 2008, Download Ref No: NSE/INSP/45900, Circular Ref. No: 60/2020 dated September 30, 2020, Download Ref No: NSE/INSP/52257 dated May 10, 2022
6	Clarification on Brokerage, Statutory Levies and Regulatory Levies & Charges	Circular No. NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date: 17th October, 2002; Circular no. NSE/INSP/2006/56, download reference no. NSE/INSP/8338 dated 5th January 2007; Download Ref. No.: NSE/INSP/23739; Circular Ref. No.: 162/2013 dated June 24, 2013 Download Ref. No.: NSE/INSP/29701; Download Ref. No.: NSE/INSP/ NSE/INSP/26252; Circular Ref No.:180/2014 dated March 24, 2014; Circular Ref No.: 234/ 2015 dated May 13, 2015. Download Ref. No.: NSE/INSP/53297 dated August 12, 2022, Download Ref. No.: NSE/INSP/53939 dated October 03, 2022, Download Ref. No.: NSE/INSP/54746 dated December 07, 2022, Download Ref. No.: NSE/INSP/55031.
7	Compliance with fit & proper requirement by Members in case of trading in securities of	SEBI Circular CIR/MRD/DSA/01/2016 dated January 01, 2016 Download Ref. No.: NSE/INSP/34055 dated January 24, 2017 Regulation 23 of SEBI (Depositories and Participants) Regulations, 2018

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	Stock Exchanges	
8	Compliance with fit & proper requirement by Members in case of trading in securities of Depositories	Download Ref. No.: NSE/INSP/35116 dated June 14, 2017 SEBI (Depositories and Participants) Regulations, 2018

**ITEM 3****MARGIN COLLECTION FROM CLIENTS****3.1 Guidelines/ Clarification and FAQ on margin collection and reporting by trading members****a. Collection of upfront margin and Mark-to-Market (“MTM”) losses from clients**

Trading Members shall collect the margins from its respective client, in any of the following forms, provided they are free & unencumbered, after considering their risk management policy and liquidity aspects:

1. Consolidated funds balance across all segments and Exchanges (including Commodities).<sup>^</sup>
2. Bank guarantee fulfilling the requirements as stipulated in the Upstreaming Guidelines and received towards margin for commodity segment, issued by any approved bank and discharged in favor of the Member.
3. Securities (including mutual fund, Government securities and Treasury bills) in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges, with appropriate haircut. (List of illiquid securities are declared on a regular basis by the Exchanges). Further, TM shall, inter alia, accept collateral from clients in the form of securities, only by way of ‘margin pledge’, created in the Depository system (in accordance with the SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020).
4. In respect of sale of shares by a client for which early pay-in (“EPI”) has been accepted by depositories and credit entry is posted of the sale value of the shares in the ledger account of the client, EPI value may be considered as margin collected towards subsequent margin requirement of the client. However, the sale value of such securities (EPI value), as reduced by value of the 20% upfront Margin, shall be available as Margin for other positions across all the segments.
5. Cheques received /recorded in the books of Member on or before T Day and deposited by Member by T+1 day (excluding bank holiday, if any), can be considered towards collection/reporting of upfront margins, provided the same is cleared within T+5 working days. Cheques received /recorded in the books of Member on or before T+1 day and deposited by member by T+2 day (excluding bank holiday, if any), can be considered towards collection/reporting of margin on consolidated crystallized obligation (in Derivatives Segment), provided the same is cleared within T+5 working days. Cheques received / recorded in the books of Member on or before T+2 day and deposited by member by T+3 day (excluding bank holiday, if any), can be considered towards collection/reporting of MTM losses (in Cash and Commodity Segment), provided the same is cleared within T+5 working days.

For purpose of reporting margin collected by the trading members, it is further clarified that:

Members should ensure that only cheques which are cleared should be considered and cheques dishonoured or not cleared up to T+5 working days should not be reported as margin / margin



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

^Free and Unencumbered funds where funds are available in the bank account of client and specifically blocked by member on T day and actually moved to client bank account maintained by the member by T/T+1 day.

In consultation with SEBI and other Exchanges it has been clarified vide NSE Circular No. NSE/INSP/43493 dated February 11, 2020, that with effect from April 01, 2020 margin available with related entities (as specified in the question no. 14 of Exchange Circular No. NSE/INSP/43069 dated December 31, 2019) of the client cannot be considered as margin of the respective client. All margins should necessarily be collected from the respective client only.

The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:

- a) EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.

AND

- b) Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.

Higher of the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

**b. Peak Margin Collection and Reporting**

Exchange vide Circulars No. NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/46485 dated November 27, 2020, has issued Guidelines/clarifications on Peak Margin collection and reporting.

In view of the implementation of block mechanism and representations received from members associations, Exchange, vide Circular No. NSE/INSP/56512 dated April 26, 2023, clarified that Question no. 1 and clarification with respect to the same mentioned in Annexure A of the aforesaid circular dated November 27, 2020 has been partially modified as under:

***1. Whether early pay-in (EPI) of securities accepted by depository during the day can be considered as upfront/peak margin for the said sale transaction?***

*Yes, in respect of sale of shares by a client for which early pay-in (EPI) request via Block mechanism has been accepted by depositories, the same may be considered as margin collected towards peak margin for the said sale transaction.*

Further, Clarifications with respect to EPI, as mentioned in the 1st bullet point of question no.

03 in Annexure A of the Exchange Circular No. NSE/INSP/45191 dated July 31, 2020 has been partially modified as under:

*In respect of sale of shares by a client for which early pay-in (EPI) request via Block mechanism has been accepted by depositories and credit entry is posted of the sale value of the shares in the ledger account of the client, EPI value may be considered as margin collected towards subsequent margin requirement of the client. However, the sale value of such securities (EPI value), as reduced by value of the 20% upfront Margin, shall be available as Margin for other positions across all the segments. Illustration is mentioned below:*

<b>Day</b>	<b>Transaction</b>	<b>Scrip</b>	<b>Value</b>	<b>Upfront Margin</b>
T day	Sell	ABC Ltd.	100	20
Note: In this case, member can utilise, maximum, 80 (100-20) as margin towards subsequent margin requirement.				

Further, vide Circular No. NSE/INSP/57112 dated June 14, 2023, the Exchange reiterated that margin may be considered as collected towards peak margin of the sale transactions and the EPI value may be considered as margin collected towards subsequent margin requirement of client only upon early pay-in (EPI) request via Block mechanism has been accepted by the depositories and credit entry is posted of the sale value of the shares in the ledger account of the client.

**c. False reporting of Margins Non-compliance:**

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

**d. Penalty structure in case of false margin reporting:**

In case, false reporting of margins is observed, the penalty structure for disciplinary action as stipulated in Exchange Circular NSE/INSP/42919 dated December 16, 2019 and NSE/INSP/45533 dated August 31, 2020.

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

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

Exchange vide Circular No. NSE/INSP/52711 dated June 23, 2022 prescribed that, members shall submit an undertaking attached to Exchange on half yearly basis (i.e. April-September and October-March) confirming that penalty levied by clearing corporations on account of “short/non-collection of upfront margins from clients” is not being passed on to respective clients under any circumstances. Further members are requested to note that submission of said undertaking shall be made part of periodic internal audit report and henceforth same shall be provided by member for the applicable period along with internal audit report of said periods to Exchange. The format of said undertaking is enclosed as **Exhibit 13**.

Further, Exchange vide Circular No. NSE/INSP/53525 dated September 02, 2022, has advised the members to refund the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to the clients on an immediate basis if same has been passed on to the clients after October 11, 2021.

Based on queries received from Members with respect to Client Margin collection and reporting, Exchange vide Circular No. NSE/INSP/45191 dated July 31, 2020 has clarified the said queries in the form of an FAQs. Amendments to said circular have been notified vide Exchange Circular No. NSE/INSP/45534, dated August 31, 2020; NSE/INSP/45850 dated September 28, 2020 and NSE/INSP/46485 dated November 27, 2020.

### **3.2 Daily Margin Statement**

A format of daily margin statement across all the segments which stipulates minimum information to be provided to clients is enclosed as **Exhibit 14**.

### **3.3 Acceptance of Collateral from clients only by way of “Margin Pledge”**

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

For the purpose of providing collateral in form of securities as margin, a client shall pledge securities with TM, and TM shall re-pledge the same with CM, and CM in turn shall re-pledge the same to Clearing Corporation (CC). The complete trail of such re-pledge shall be reflected

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

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

### **Operational mechanism for margin pledge**

#### **INITIATION OF MARGIN PLEDGE**

1. For the purpose of providing collateral in form of dematerialised securities as margin, a client shall initiate the margin pledge only in favour of the TM / CM's separate client securities margin account tagged as 'Client Securities Margin Pledge Account' through physical instruction or electronic instruction mechanism provided by the Depositories. Such instructions shall have details of client UCC, TM, CM and Default Segment.
2. In cases where a client has given a 'Demat Debit and Pledge Instruction' ("DDPI")/ Power of Attorney (the "POA") to the TM / CM, the TM / CM may be allowed to execute the margin pledge on behalf of such client to the demat account of the TM / CM tagged as 'Client Securities Margin Pledge Account'.
3. The 'pledge request form' shall have a clause regarding express consent by the client for re-pledge of the securities by the TM to CM and further by the CM to CC.
4. On receipt of the margin pledge instruction either from the client or by TM / CM as per the DDPI/ POA, DP of a client shall initiate a margin pledge in the client's account and the status of instruction will remain pending till confirmation is received from client / pledgor. The client will submit acceptance by way of One Time Password (the "OTP") confirmation on mobile

number / registered e-mail id of the client or other verifiable mechanism. The Depositories shall develop a verifiable mechanism for confirmation of the pledge by the client.

5. In client account, margin pledge or re-pledge shall be reflected against each security, if it is pledged / re-pledged and in whose favour i.e. TM / CM / CC.
6. The TM can re-pledge only in favour of CM's demat account tagged as 'Client Securities Margin Pledge Account'. The CM shall create a re-pledge of securities on the approved list only to the CC out of 'Client Securities Margin Pledge Account'. While re-pledging the securities to the CC, CM/TM shall fully disclose the details of the client wise pledge to the CC/CM. CM would need to have visibility of client level position and client collateral so that CM shall allow exposure and / or margin credit in respect of such securities to that client to whom such securities belong.

### **Release of Margin Pledge**

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

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

### **Invocation of Margin Pledge**

- a) In case of default by a client of TM where the clients securities are re- pledged with the CM/ CC, the invocation request shall be made by the TM to CM and CM in turn will make request to CC as per the procedure laid down by the Depositories under their bye-laws.
- b) In case of default by a client of TM who has pledged securities with TM, The TM shall invoke the pledge.
- c) In case of default by a client of TM whose securities are re-pledged by TM with CM, the invocation request shall be made by TM to the CM. The CM, after doing its internal exposure and risk management, shall release the re-pledged securities to the 'Client Securities Margin Pledge Account' of the TM. The TM in turn will invoke the pledge of client's securities. .
- d) In the event of default by a client of a TM, whose securities are re-pledged by TM with CM and CM in turn has re-pledged with CC, the TM shall make a request for invocation of pledge with CM and CM in turn shall file a request with CC to release the re-pledged securities for invocation. The CC shall block equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client of TM to CM in "Client Securities

Margin Pledge Account” of CM. The CM shall do his own risk assessment of TM and would release re-pledged securities of the defaulting client of TM in “Client Securities Margin Pledge Account” of TM and TM shall invoke the pledge in Demat account of the client. In case of default by a client/ TM of CM whose securities are re-pledged with CC, CM shall file a request with CC for invocation of the pledged/ re-pledged securities of that client/TM. CC shall block the equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client/TM in “Client Securities Margin Pledge Account” of CM and the CM shall invoke the pledge in Demat account of the client/ TM. In case of default by TM or client of TM, CM shall be entitled to invoke pledged/ re-pledged securities of the TM. CM shall also be entitled to invoke directly the repledged securities of client of TM having open position with CM to close out such positions. In case of default by the CM, CC shall invoke securities pledged by the CM. After exhausting the CM own collateral, CC may also invoke re-pledge securities of that client who has open position, and their re-pledged securities are blocked by CC to close out their open positions. The re-pledge securities of other clients who did not have any open position with CC, their securities shall not be available to CC for invocation to meet settlement default of the CM.

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

- a) At present, the margin requirement is computed in real time at client level by the CC and is aggregated at the level of CMs to arrive at the total margin requirement. The CC maintains and monitor the collateral at the level of CM. The CM is required to provide the collateral in various acceptable forms such as Cash, Bank Guarantee, Govt. Securities, pledge of acceptable shares, etc.
- b) The day-to-day real time risk management with respect to client / TM exposure, and the margin requirement shall continue to be the responsibility of the CM, and CC shall not monitor the client level exposure against the available client level collateral in real time.
- c) In order to provide exposure to CM and/or to the clients / TM of a CM, CC shall aggregate margin requirement at CM level that shall be compared against the available collateral in real time as aggregate of;
  - a. cash and cash equivalent deposited by CM,
  - b. own securities pledged by CM with CC,
  - c. CC requires minimum 50% of the collateral to be deposited in cash and cash equivalent, if the total securities pledged by CM with CC exceed the total cash and cash equivalent, the value of securities will be restricted to amount of cash and cash equivalent.
  - d. The TM’s proprietary margin requirement will be treated as a client of CM and aggregated along with other clients.
- d) CM shall be allowed to re-pledge acceptable/approved client securities with the CC by furnishing the UCC wise client details. CC shall not allow any exposure to the CM on re-pledged securities of the client / TM. In case of a trade by a client / TM whose securities are re-pledged with CC, the CC shall first block the available collateral provided by CM as mentioned



in point (c) above. However, at periodical interval (latest by end of day), CC shall release the blocked securities collateral of CM to the extent of re-pledged securities collateral of that client / TM available with the CC.

- e) In the event of default by a client of TM, the TM shall make good the default to CM. In the event of default by a client or TM on its proprietary position, the CM shall make good the default to CC. However in the event of default by client/s leading to default of TM and also the CM, the following process shall be applied by TM/CM/CC for invocation of pledged and re-pledged securities of client/TM/CM:
- i) In case of default by a client of TM/CM or default of TM leading to the default of CM, CC shall:
- a. encash the available collateral including cash, cash equivalent collateral, CM's own pledged securities.
  - b. After encashing the available collateral of CM, also be entitled to directly invoke the re-pledged securities of client / TM who has any open position so as to close out the open positions of that client.
  - c. not be entitled to invoke re-pledged securities of those clients who did not have any open position to meet settlement obligation of the defaulting CM
- ii) In case of default by a client of TM or default of TM, CM Shall:
- a. be entitled to liquidate available cash, cash equivalent collateral and TM's own pledged /or re-pledged securities with CM/ CC to meet settlement/margin obligations of defaulting TM or client(s) of that TM.
  - b. After encashing the available collateral of TM, be entitled to directly invoke repledged securities of the client of defaulting TM who has open position through CM so as to close out his position.
  - c. not be entitled to invoke re-pledged securities of those clients of defaulting TM who did not have any open position,
  - d. ensure that the client securities of TM/ CM re-pledged with the CC are not utilized for meeting the margin requirement/ settlement obligation of a TM's/CM's own proprietary position or margin requirement/ settlement obligation of any other client of TM / CM.



**REGULATORY REQUIREMENTS/ REFERENCES:**

1	Guidelines/ Clarification and FAQ on margin collection and reporting by members	Circular Ref. No.: 126/2011, download Ref. No.: NSE/INSP/19583 dated December 14, 2011; Download Ref. No.: NSE/INSP/24805; Circular Ref No.: 168/2013 dated October 23, 2013; SEBI/HO/MRD/DRMNP/CIR/P/ 2018/75 dated May 02, 2018;; Circular Ref. No:23/2019, Download Ref No: NSE/INSP/41790 dated August 02, 2019; Circular Ref. No:48/2019, Download Ref No: NSE/INSP/42919 dated December 06, 2019; Download Ref No: NSE/INSP/43493, Circular Ref. No: 07/2020 dated February 11, 2020, Circular Ref. No:10/2020, Download Ref No: NSE/INSP/43653 dated February 25, 2020; Circular Ref. No:34/2020, Download Ref No: NSE/INSP/44490 dated May 28, 2020; Circular Ref. No:35/2020, Download Ref No: NSE/INSP/44511 dated May 30, 2020; Download Ref No: NSE/INSP/45072, Circular Ref. No: 44/2020 dated July 21, 2020; Download Ref. No. NSE/INSP/45191, Circular Ref. No: 47/2020 dated July 31, 2020; Download Ref No: NSE/INSP/45533, Circular Ref. No: 51/2020 dated August 31, 2020; Download Ref No: NSE/INSP/45534, Circular Ref. No: 52/2020 dated August 31, 2020; Download Ref No: NSE/INSP/45565, Circular Ref. No: 53/2020 dated September 02, 2020, Download Ref No: NSE/INSP/45850, Circular Ref. No: 57/2020 dated September 28, 2020, Download Ref No: NSE/INSP/46485, Circular Ref. No: 72/2020 dated November 27, 2020, Download Ref No: NSE/INSP/49929, Circular Ref. No: 48/2021 dated October 12, 2021., Download Ref No: NSE/INSP/52263 dated May 11, 2022, and NSE/INSP/52711 dated June 23, 2022., Download Ref No: NSE/INSP/53525 dated September 02, 2022, Download Ref No: NSE/INSP/55463 dated February 01, 2023; Exchange Circulars NSE/INSP/45191 dated July 31, 2020; NSE/INSP/46485 dated November 27, 2020; Circular NSE/INSP/56512 dated April 26, 2023; Exchange Circular NSE/INSP/45191 dated July 31, 2020; Circular NSE/INSP/57112 dated June 14, 2023
2	Daily Margin Statement Format	Download Ref. No: NSE/INSP/45191, Circular Ref. No: 47/2020 dated July 31, 2020
3	Acceptance of Collateral from clients only by way of 'Margin Pledge'	Circular no. NSE/INSP/2008/66, download reference no. NSE/INSP/10605 dated 21st April 2008; SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, Download Ref No: NSE/INSP/43653, Circular Ref. No: 10/2020 dated February 25, 2020

**ITEM 4****DEALINGS WITH CLIENTS****4.1 Mode of payment and delivery**

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

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

Stockbrokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker.

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

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

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

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

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

In order to mitigate the risk of client's securities, particularly those given towards delivery/settlement obligations, SEBI issued guidelines vide Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/119 dated September 19, 2022 regarding "*Validation of Instructions for Pay-In of Securities from Client demat account to Trading Member (TM) Pool Account against obligations received from the Clearing Corporations*". In terms of the Circular, instructions were provided to depositories in relation to validation of transfer instruction and process to be followed in case of matched and unmatched instructions. It is clarified that the process provided in terms of the Circular will not apply to clients having arrangements with custodians registered with SEBI for clearing and settlement of trades.

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

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

While receiving funds from the clients through pre-funded instruments, such as, Pay Order, Demand Draft, Banker's cheque, etc., it is observed that the stockbrokers are unable to maintain an audit trail of the funds so received, as the details of the name of the client and bank account-number are not mentioned on such instruments. This may result in flow of third-party funds / unidentified money, which is not in accordance with the provisions of the aforesaid Circular and also affects the integrity of the securities market.

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

- 1) If the aggregate value of pre-funded instruments is ` 50,000/- or more, per day per client, the stock brokers may accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:
  - a) Certificate from the issuing bank on its letterhead or on a plain paper with the seal of the issuing bank.
  - b) Certified copy of the requisition slip portion which is retained by the bank to issue the instrument.
  - c) Certified copy of the passbook/bank statement for the account debited to issue the instrument.
  - d) Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.
- 2) Maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only.

### **4.3 Settlement of Running Account of Clients' Funds**

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

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

As per SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022, the actual settlement of funds shall be done by the member on first Friday of the Month or Quarter as per the preference of the client. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

Further, Exchange has issued clarification in the form of frequently asked questions (FAQs) on Settlement of Running Account of Client's Funds vide NSE Circular No: NSE/INSP/53820, Circular Ref. No: 66/2022 dated September 23, 2022.

SEBI vide Circular no. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated December 28, 2023 has communicated that it has been decided to accept the recommendation to settle the running account of clients on Friday and/or Saturday, which streamlines the process of settlement and ensures ease of doing business for various stakeholders viz. stockbrokers and banks, while at the same time safeguarding the interests of the investors by ensuring error free settlement. Accordingly, as per aforesaid SEBI circular, with effect from the quarterly settlement of Jan-Mar 2024 and monthly settlement of January 2024, the trading members shall settle the running accounts of clients' funds on quarterly and monthly basis at the choice of the clients, on the dates stipulated by the Stock Exchanges. However, members shall ensure that funds if any, received by Members from clients, whose running account has been settled, shall remain in the "Up Streaming Client Nodal Bank Account" and such funds shall not be used for settlement of running account of other clients.

In accordance with aforesaid SEBI Circular, Exchange, vide Circular No. NSE/INSP/61164 dated March 15, 2024 has prescribed the annual calendar stipulating the running account settlement dates applicable for settlement of running account of clients' funds (quarterly and monthly) for the financial year 2024-25.

As Members have been seeking clarity with respect to the applicability of above provision, Exchange vide Circular no. NSE/INSP/60066 dated January 01, 2024 has clarified under consultation with SEBI that the above provision of the SEBI Circular No. SEBI/HO/MIRSD/MIRSDPoD1/P/CIR/2023/197 dated December 28, 2023 is applicable from the quarterly & monthly settlement dates of January 05 & 06, 2024 (i.e. first Friday & Saturday

of the Quarter January-March 2024 & first Friday & Saturday of the month January 2024) & onwards.

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

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

- While settling the account, the broker shall send to the client a ‘statement of accounts’ containing an extract from the client ledger for funds displaying all receipts/payments of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.
- The client shall bring to notice any dispute within 7 working days from the date of receipt of funds / securities or statement.
- No inter-client adjustment for the purpose of settlement of the “running account”.
- Transfer funds within 1 working day from the request if the same are lying with TM.
- Such periodic settlement may not be necessary:
  - a. In case of institutional clients settling trades through “custodians”
  - b. For clients availing margin trading facility to the extent of funds relating to MTF used by client.
  - c. For margin received in the form of BGs in accordance with the Upstreaming Guidelines
  - d. Clearing members who are clearing trades of custodial participants/ trading members.

Other Points to be noted:

- a) In case of client having any outstanding trade position on running account settlement date of the Month / Quarter as stipulated by Stock Exchange on which settlement of running account of funds is scheduled, a Trading member may retain funds calculated in the manner specified below:

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

**Notes:**

- i. Client's running account shall be considered settled if member has given instructions to bank for credit to client's bank account, provided that the member has sufficient balance in its account.
- ii. While computing the value of securities, the closing rate for the trade date prior to the settlement date (T-1 day) should be considered after appropriate hair-cut viz. VaR margin rate applicable for the securities in the Capital Market segment
- iii. In case the member applies haircut more than VaR rate on a regular basis and the actual margin is collected and exposure is provided accordingly, then such higher rate may be considered for determining the amount to be retained, provided the member has intimated the requirement of additional margins to the clients through the policy and procedures document and consistently through the daily margin statements issued to clients.
- iv. For the purpose of settlement of the clients carried out on **Saturday** (non-trading day), following points to be considered:
  - The outstanding pay in and margin obligation data of the last trading day shall be considered in the computation specified as above i.e. Friday shall be considered for the purpose of settlement to be carried out on Saturday assuming Friday is not a trading holiday.
  - Margin pledged securities as on settlement date i.e. Saturday shall be considered.
  - Client Funds Balance as on settlement date i.e. Saturday shall be considered.

- While computing the value of margin pledged securities, the closing rate for T-1 trading day should be considered after appropriate hair-cut viz. VaR margin rate applicable for the security in the Capital Market segment. e.g. Closing rate of T-1 trading day i.e. Thursday shall be considered for settlement to be carried out on Saturday assuming Friday and Thursday are not a trading holiday.
  - v. No inter client adjustment/ passing of Journal Entries can be done/ considered for the purpose of settling client accounts.
  - vi. Obtaining of authorization from the clients to the effect that no settlement need be done for running accounts is contradictory to the SEBI requirement and hence not permissible.
- b) Client's running account shall be considered settled only by making actual payment into client's bank account and not by making any journal entries. Journal entries in client account shall be permitted only for levy / reversal of charges in client's account.
- c) Members may issue a physical payment instrument (cheque or demand draft), only in cases where electronic payment instructions have failed or have been rejected by the bank and after keeping adequate record of the same. In such cases, the date of debit of funds in members bank account towards clearance of said physical instrument shall be considered as settlement date and not the date of issue of physical instrument.
- d) Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), is not allowed.
- e) The Authorized person is not permitted to accept client's funds and securities. The TM should keep a proper check. Proprietary trading by Authorized person should be permitted only on his own funds and securities and not using any of the client's fund.
- f) Once the TM settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date). TM shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions and prescribed format, within 5 working days.
- g) Client shall bring any dispute on the statement of running account, to the notice of TM within 7 working days from the date of the statement.
- h) 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.
- i) 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.



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

Members are advised to ensure that the settlement of running account of clients' funds is done in accordance with the guidelines issued by SEBI/ Exchanges. Further, as advised vide Exchange Circular No. NSE/INSP/51830 dated March 31, 2022, members shall not make part/periodic payments, that are not commensurate with the running account settlement guidelines. However, if the client specifically requests for a pay-out, the same shall be made and the evidence of such requests received from clients shall be maintained by the member. It is to be noted that for each such payout to the credit balance clients, a separate request received from clients, which could be, inter alia, in the form of writing, telephone recording, email from registered mail id, record of messages through registered mobile phones, log for internet requests shall be maintained by the members.

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

<b>Sr. No.</b>	<b>Reporting Requirement</b>	<b>Timelines</b>	<b>Format</b>
1.	Submission of summary of settlement of clients' funds	Within 2 Trading Day post settlement date	<b>Exhibit 15</b>
2.	Submission of UCC wise settlement details	Within 10 trading days post settlement date	<b>Exhibit 16</b>

**Note:**

- i. The above requirement is applicable to all Trading members, except for those who are carrying out only proprietary trading and/or only trading for institutional clients.
- ii. Members carrying out only proprietary trading and/or only trading for institutional clients will have to give a one-time declaration through the system.
- iii. Members servicing both institutional & non-institutional clients shall be required to submit the data for all non-institutional clients.

Vide Circular No. NSE/INSP/56261 dated April 03, 2023, Exchange has formulated a penalty structure for non-compliance with respect to aforesaid submissions and accordingly, any delay / non submission shall attract following penal/disciplinary actions:

<b>Sr. No.</b>	<b>Details of Violation/ Contravention</b>	<b>Due date for submission</b>	<b>Penalty/ Disciplinary actions</b>
1.	Delayed/Non-submission of summary of settlement as per the	Within 2 trading days post settlement	1. In case of non-submission of summary of settlement details within 2 trading days

Sr. No.	Details of Violation/ Contravention	Due date for submission	Penalty/ Disciplinary actions
	prescribed format	date	post settlement date or non-
2.	Delayed/Non-submission of UCC wise settlement details as per the prescribed format	Within 10 trading days post settlement date	<p>submission of UCC wise settlement details within 10 trading days post settlement date, penalty of Rs. 10,000 per day for each day of delay.</p> <p>2. In case of non-submission of summary of settlement details or UCC wise settlement detail within one week from the due date of submission of UCC wise settlement details (i.e. 10 trading days post settlement date), new client registration to be prohibited. Further, a seven days' notice shall be given intimating disablement of trading facility in the event of failure of the submission of data.</p> <p>3. In case of non-submission of summary of settlement details or UCC wise settlement details or both within two weeks from the due date of submission of UCC wise settlement details (i.e. 10 trading days post settlement date), Member shall be disabled in all segments till submission of data.</p>

#### **4.4 Annual Calendar and Operational Guidelines for Settlement of Running account of clients' funds lying with the Trading members**

In accordance with para 3.2 and 6.3 of SEBI Circular No. SEBI/HO/MIRSD/MIRSDPoD1/P/CIR/2023/197 dated December 28, 2023, Exchange, vide Circular No. NSE/INSP/61164 dated March 15, 2024, has prescribed the annual calendar for

the settlement of running account (quarterly and monthly) for the financial year 2024-25 enclosed as **Exhibit 17.**

Further, in accordance with para 6.4 of aforesaid SEBI Circular, Exchange vide aforesaid Circular, has framed operational guidelines enclosed herewith as **Exhibit 18.**

#### **4.5 Statement of Accounts for Funds, Securities and Commodities**

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

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

- i. Member shall send a complete 'Statement of Accounts' for funds and securities/commodities in respect of each of its clients on weekly basis from Monday to Saturday for each week.
- ii. The client shall bring any dispute arising from the statement of account to the notice of the member preferably within 7 working days from the date of receipt of statement.
- iii. The members shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and also has been flagged as 'Inactive' (i.e. if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange.
- iv. In respect of Trading Members who offer trading facility to their clients through internet and provide to such clients an access to an on-line account viewing and print-out facility, it would be treated as sufficient compliance of Regulation 6.1.5 d of Part A Chapter 6 of Capital Market Regulations of the Exchange, if they send the 'Statement of Accounts' by email to such clients.
- v. Members shall send the statement of accounts for funds/securities /commodities reflecting the balances of funds/securities/commodities after adjusting/reversal for open bills of the client, uncleared cheques deposited or issued by/to clients and the margin obligations posted in the client ledger, if any as on the last date of the statement i.e. Saturday of every week.
- vi. Further, member shall also disclose the details of pending settlement pay in/pay out obligations of all segments and uncleared cheques in respect to the funds/securities/commodities of the client as on last date of the statement i.e. Saturday of every week to the client in the weekly statement of accounts separately.
- vii. The weekly statement of accounts sent to the clients, shall necessarily contain a clause intimating the client that the client needs to refer to the daily margin statement for any pending/outstanding margin obligation of the trades executed by the client in case the margin obligations are posted in the client ledger.

viii. Member shall ensure that the statement of account of fund/securities/commodities reflecting the balance as on the last date of the statement matches with the financial ledger balance (Clear) in segregation and monitoring of collateral at client level submissions and securities/commodities holding in Holding Statement uploaded to the Exchange of the same date.

ix. Notwithstanding anything contained above, Member shall issue the statement of accounts for funds, securities and commodities for such period as may be requested by the client from time to time.

In respect of custodian participants clients, the requirement of the aforementioned Circulars / Regulations are applicable if the Members receive funds / securities / commodities from their Custodian Participants clients and / or pay funds / deliver securities / commodities to such Custodian Participants clients directly and not through the custodians/clearing members.

The format of the statement of accounts for funds and securities/commodities is enclosed as **Exhibit 19.**

x. Statement of Accounts at the time of Settlement:-

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

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

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

xi. The Members, while sending periodical statement of accounts to the clients, shall mention therein that their running account authorization would continue until it is revoked by the clients.

xii. It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in statement of funds and securities issued to the clients.

#### **4.6 Financing of Securities Transactions**

Exchange vide Circulars no. NSE/INSP/6938 dated December 09, 2005, NSE/INSP/47278 dated February 09, 2021 and NSE/INSP/52888 dated July 05, 2022, has advised members not to indulge in the practice of financing Securities Transactions. Members were also advised to desist from trading or acting as a conduit or intermediary for financing any secondary market

transactions entered by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing. Further, Exchange vide its Circular No. NSE/COMP/50957 dated January 07, 2022 has reiterated that members are not permitted to engage in any business or activities or transactions, directly or indirectly, other than that of securities or commodity derivative except as a broker or agent not involving any personal financial liability. Hence, it is reiterated that engaging in NBFC/Lending Business either directly or indirectly, tantamount to financing of transactions which is not in compliance with the guidelines issued vide aforesaid circulars.

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

- a) Trading members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group or associate company, to fund any secondary market transactions or margin requirements in respect of transactions executed by the trading members on behalf of their clients, or recognise or act in accordance with any such agreement or arrangement entered into by the trading members' clients with any person.
- b) Trading members shall not entertain, any instructions to trade in securities or transfer funds or securities, from any entity other than the clients, by prior arrangement or otherwise to facilitate financing clients' transactions or margin requirements in respect of the transactions. Any financing arrangement with a general authorization by the clients are not permitted.
- c) Trading members shall not also otherwise finance or act as a conduit or front for financing any secondary market transactions entered into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.
- d) Trading Members shall not share transaction/obligation details of the clients with NBFC or any other lending institutions.
- e) Trading members shall not engage in cross-selling of lending products or open joint (2 in 1 type of) accounts in collaboration with NBFC or any other lending institutions.

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

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

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

- a. If debit balance arises out of client's failure to pay such amount for less than fifth trading day reckoned from date of pay-in, such debit balances would not be construed as violation relating to funding.

- b. If debit balance arises out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and no further exposure is granted to client from the sixth trading day reckoned from the date of pay-in, such debit balance would not be construed as violation relating to funding.
- c. If debit balances arise out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client it would be construed as violation relating to funding.
- d. Delayed Payment Charges or interest charge for the funds deployed by the member may be charged at the rate/s consented by the client.

For the purpose of reckoning debit balance stated above, the debit balance in the client ledger consolidated across segments & Exchanges after giving effect to the release of margin to be considered.

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

Further, it is clarified that, any excess BGs in accordance with upstreaming guidelines held by the member on behalf of a client, are only for the purpose of meeting margin requirements, and the value of such excess BGs may not be adjusted for the calculation of the net debit balance (on which delayed payment fee is charged).

#### **4.8 Handling of Clients' Funds & Securities**

Members shall note the following: -

- a) Members shall not use client funds and securities for proprietary purposes including settlement of proprietary obligations.
- b) The securities received in pay-out against which payment has been made by clients, shall be transferred to the demat account of the respective clients within one working day of the payout. Such securities shall be transferred directly from the pool account of the TM/CM to the demat account of the respective client.
- c) In order to further streamline the process of handling of unpaid securities by TM/CM, SEBI vide Circular no: SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022, has decided that:
  - i. All the securities received in pay-out, shall be transferred to the demat account of the respective clients directly from the pool account of the TM/CM within one working day of the pay-out.

- ii. With regard to the unpaid securities (i.e., the securities that have not been paid for in full by the clients), such securities shall be transferred to respective client's demat account followed by creation of an auto-pledge (i.e., without any specific instruction from the client) with the reason "unpaid", in favor of a separate account titled – "client unpaid securities pledgee account", which shall be opened by TM/CM.
  - iii. After the creation of pledge, a communication (email / SMS) shall be sent by TM/CM informing the client about their funds obligation and also about the right of TM/CM to sell such securities in event of failure by client to fulfil their obligation.
  - iv. If the client fulfills its funds obligation within five trading days after the payout, TM/CM shall release the pledge so that the securities are available to the client as free balance.
  - v. If the client does not fulfil its funds obligation, TM / CM shall dispose off such unpaid securities in the market within five trading days after the pay-out. TM/CM, before disposing the securities, shall give an intimation (email / SMS) to the client, one trading day before such sale.
  - vi. The unpaid securities shall be sold in the market with the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.
  - vii. TM / CM shall invoke the pledge only against the delivery obligation of the client. On invocation, the securities shall be blocked for early pay-in in the client's demat account with a trail being maintained in the TM/CM's client unpaid securities pledgee account.
  - viii. Once such securities are blocked for early pay-in in client's demat account, the depositories shall verify the block details against the client level obligation in accordance with the SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/595 dated July 16, 2021 and SEBI/HO/MIRSD/DoP/P/CIR/2022/ 109 dated August 18, 2022.
  - ix. In case, such pledge is neither invoked nor released within seven trading days after the pay-out, the pledge on securities shall be auto released and the securities shall be available to the client as free balance without encumbrance.
  - x. Such unpaid securities pledged in client's account shall not be considered for the margin obligations of the client.
- d) Clearing Corporation has provided a facility for reversal of excess securities provided as early pay-in (EPI) on Trade day (T day). Accordingly, clearing corporations shall release excess EPI if any, after the cut-off time for EPI of securities on T day and reverse the same to clearing members who have opted for such facility in the respective



depositories. Members are also advised to ensure that excess securities provided as early pay-in (EPI) and released by the clearing corporation/clearing member on T Day are also transferred to the respective beneficiary account of their clients on the Trade day (T Day) itself.

SEBI vide Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/595 dated July 16, 2021, has introduced the process of Block Mechanism in demat account of clients undertaking sale transactions on optional basis. When the client intends to make a sale transaction, shares will be blocked in the demat account of the client in favour of Clearing Corporation. If sale transaction is not executed, shares shall continue to remain in the client's demat account and will be unblocked at the end of the T Day. Thus, this mechanism will do away with the movement of shares from client's demat account for early pay-in and back to client's demat account if trade is not executed.

SEBI vide Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/109 dated August 18, 2022, has made the facility of block mechanism mandatory for all Early Pay-In transactions. The same is applicable with effect from November 14, 2022.

It is clarified that the block mechanism shall not be applicable to clients having arrangements with custodians registered with SEBI for clearing and settlement of trades.

- e) SEBI has vide Circular No. SEBI/HO/MRD2\_DCAP/CIR/2021/0598 dated July 20, 2021 prescribed guidelines regarding Segregation and Monitoring of Collateral at Client Level, in order to further strengthen the mechanism of protection of client collateral from (i) misappropriation/ misuse by TM/ CM and (ii) Default of TM/CM and/or other clients. The circular has, *inter alia*, stipulated mechanism for reporting by TMs and CMs, collateral deposit and allocation, collateral valuation, blocking of margins, change of allocation, client margin reporting and default management process and procedure of default of TMs and CMs.
- f) Exchange has issued FAQs on Handling of Clients' Securities by Trading Members/Clearing Members vide Circular No. NSE/INSP/42229 dated September 27, 2019.

#### **4.9 Pledging of client securities**

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

#### **4.10 E-mail and SMS alerts to Investors**

The Securities and Exchange Board of India SEBI vide Circular No. CIR/MIRSD/15/2011 dated August 02, 2011, had advised the Stock Exchange to provide the facility of SMS and email alerts to investors. Pursuant to the said SEBI circular, the Exchange had provided a

facility for the trading members to upload the details of their clients such as name, mobile number, correspondence address and E-mail address on UCI Online.

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

In this regard, following circulars have been issued by the Exchange: -

Exchange Circulars No. NSE/INVG/21841 dated October 4, 2012, NSE/INSP/27339 dated August 12, 2014, and NSE/INSP/27368 dated August 18, 2014

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

1. Separate mobile number/E-mail address shall be uploaded for each client. The stock broker may, at the specific written request from client, upload the same mobile number/E-mail address of one of the client's family member. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.
2. Mobile numbers/e-mail addresses of member's employees/ authorized persons should not be uploaded as mobile number or E mail ID of the client.
3. For all existing clients, member should collect their e mail IDs & mobile numbers and upload the same to Exchange before executing any fresh transaction for that client.
4. Where members are unable to get the details from their existing clients, Members are advised to retain verifiable records of seeking details of email Id and mobile number for such clients. However no fresh trade can be done for such client unless the E mail ID & mobile number is collected and uploaded in UCI.
5. The E mail and mobile number details of the clients should not be kept blank in the UCI online database. All members are requested to strictly adhere to the aforementioned requirements and exercise due diligence while uploading the E mail ID and mobile numbers declared by their clients to the UCI online of the Exchange.

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

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

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

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

SEBI has issued Circular No. SEBI/HO/OIAE/OIAE\_IAD-1/P/CIR/2023/0000000163 dated October 03, 2023, on the subject “Centralized mechanism for reporting the demise of an investor through KRAs”. A centralized mechanism for reporting and verification in case of the demise of an investor and thereby smoothen the process of transmission in securities market has been introduced. The circular lists out operational norms including obligations of regulated entities, including registered intermediaries that have interface with ‘investors’/‘account holders’ who are natural persons.

Listed companies wanting to provide the beneficial access to such a centralized mechanism to their investors holding securities in physical form, are eligible to establish connectivity with KRA through their RTAs. A copy of the said circular is enclosed as **Exhibit 20**.

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

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

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

**4.13 Prevention of Unauthorised Trading by Stockbrokers**

In order to strengthen the regulatory provisions against un-authorized trades, SEBI vide its Circular dated March 22, 2018 bearing Ref no. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 has directed all members to execute trades of clients only after keeping evidence of the client placing the order which could be, inter alia, in the form of:

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

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

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

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

Separately, Members are requested to make a note of the revised penalty structure for unauthorized trading.

Details of contravention	Penalty
<p>a) Unauthorized trading** observed by Arbitrators while finalizing Arbitration / Appellate awards under old mechanism, even if trading member settled the claim.</p> <p>b) Unauthorized trading** as observed by Conciliator/ Arbitration under Online Dispute Resolution (ODR) mechanism introduced w.e.f. August 16, 2023, even if trading member settled the claim.</p> <p>** (induced trades or trades executed by the trading member / AP using any unfair means (ex. obtaining user ID and password of the client to execute trades etc., without the consent of the client).</p>	<p>Determined by Investor Grievance Redressal Committee (IGRC) / Conciliator / Arbitration.</p> <p>I. Monetary Penalty per case shall be Rs.50,000/- or 3% of the admissible amount determined in the IGRC, Conciliation, Arbitration order / award, Appellate order / award whichever is higher.</p> <p>II. In addition to the above penalty</p>
	<p>a) Member will be debarred from taking new clients for a period of one month, in case 25% of all the complaints (not less than 05) placed before IGRC / Conciliation / Arbitration in the immediately preceding calendar quarter are determined by it to be unauthorized trading cases.</p> <p>b) Where the number of unauthorized trading cases as per the numbers indicated at (II a) persist for three consecutive quarters, the Member concerned will be debarred from taking new clients and Authorized</p>

Details of contravention	Penalty
	<p>Persons (APs) if any, for a period of three months.</p> <p>c) The number of unauthorized trading cases as per numbers indicated at (II b) persists beyond three consecutive quarters, the matter be placed before the relevant Committee, for action.</p> <p>d) Member will be referred to inspection in case any of the above instance (i.e., II a, b, c) is triggered.</p>

The revised penalty structure is applicable for the cases in respect of trades executed and determined as unauthorized trades by the GRC order / Conciliatory reports / Arbitration / Appellate Awards with immediate effect.

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

SEBI has directed that all members shall issue an Annual Global Statement to their clients. The statement shall be issued within 30 days from the end of the financial year and shall contain details of all transactions executed by the client in the financial year. An indicative format of the Annual Global Statement along with FAQ issued by the exchange vide Circular No. NSE/INSP/36731 dated January 11, 2018, is enclosed as **Exhibit 21**.

Further, following points shall be ensured by the members:

- a) The Stock Broker may provide any additional data like ISIN, average rate, net position, etc.
- b) Consolidated report to be given for entire financial year.
- c) Each distinct security/ commodity should be mentioned as a separate line item.
- d) The Annual Global Transaction Statement (“AGTS”) may be given on trade day basis or settlement day basis.
- e) AGTS should be generated PAN wise. However, a single PAN has been issued multiple UCCs (i.e. NRI clients, different UCCs allotted across different segments/ exchanges), then UCC wise AGTS may be provided.
- f) Effect of close out/ settlement / auction transactions should be mentioned in the purchase/ sale column, as appropriate.

- g) AGTS has to be provided to all the clients within 30 days from the end of the financial year.
- h) Regulatory directives as applicable from time to time regarding communication to clients should be adhered to.
- i) All charges mentioned in the contract notes like Securities/ Commodities Transaction Tax, Stamp Duty, Exchange Transaction Charges, SEBI turnover fees, etc. should be provided in the report appropriately.
- j) If the client desires any further information/ details regarding the AGTS, the same should be provided by the Stock Broker.

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

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

#### **4.16 Clarification on physically settled Stock Derivatives**

SEBI vide Circular No. SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018 and Exchange vide Circular No. NSE/FAOP/37594 dated April 23, 2018 has introduced physical settlement of equity derivatives.

FAQs were issued on physically settled Equity Derivatives vide Exchange Circular NSE/INSP/38433 dated July 27, 2018. As per SEBI Circular No. SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018, SEBI/HO/MRD/DOP1/CIR/P/2019/28 dated February 08, 2019, and Exchange Circular No. NSE/FAOP/39824 dated January 01, 2019, physical settlement shall be mandatory for all stock derivatives with effect from October 2019 expiry onwards. Further, derivatives introduced on new stocks, meeting the enhanced eligibility criteria as specified by SEBI Circular No. SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018, would also be physically settled.

Members are required to make available the mechanism for physical settlement in stock derivatives to all their clients who wish to avail of the said facility without having any default option of mandatory/automated squaring off the positions. Necessary risk management measures can be put in place by the Members in their internal policies to handle the same and the same should be duly informed to the clients.

#### **4.17 Participation of Eligible Foreign Entities (EFEs) in the commodity derivatives market**

It has been decided to permit foreign entities having actual exposure to Indian commodity markets, to participate in the commodity derivative segment of recognized stock exchanges for hedging their exposure., through the FPI Route

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

With respect to various incentive schemes observed in the Market pertaining to client referrals, Exchange, with a view to safeguard the interest of the investors, has issued the following guidelines:

- a. For a particular referring person, the rate of the incentive should be flat (i.e. not slab based) and a single rate should be applied. It is hereby clarified that a trading member may have different referral incentive rates across different referring person.
- b. The referring person should not undertake any form of selling/advisory activities in secondary market w.r.t securities and should not manage the portfolio of any person who is being referred. He/she should strictly limit his/her role to “Referral” only.
- c. The referred client shall not be subjected to any kind of trade inducement by the referring person and it shall be ensured that all instructions for placement of orders are obtained from the respective clients only.
- d. All the details/information pertaining to the client shall be maintained confidentially and the same should not be disclosed to any person except as required under any law/regulatory requirements or with the express written permission of the client.
- e. All correspondences viz. contract notes, daily margin statement, statement of accounts, Annual global transaction statements etc. should be sent to the respective client only and under no circumstances will go to the referring person.
- f. The referring person cannot conduct IPV/OSV. However, referring person who are under an obligation to undertake IPV/OSV under their respective governing regulations, may continue to do so.
- g. Incentive amount should not be recovered from the client being referred and no obligation whatsoever should be cast on such client. There should be no financial transaction between the referred client and the referring person under the arrangement.
- h. Member shall be directly and wholly liable in case of any dispute w.r.t. referral program/incentive scheme or calculation of referral income between broker-referred/referring person. Such disputes/grievances will not be covered under investor protection or grievance redressal measures of the Exchange.

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

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



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

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

#### **4.19 Increasing awareness on Rights Entitlement (RE)**

Trading members are advised to inform all their clients about the commencement of trading in REs mentioning the ISIN of the RE and that the same shall not be mistaken for ordinary shares of the concerned company. Additionally Trading members shall also include a disclaimer text prominently in the contract notes containing purchase of REs informing the Clients that the purchase of REs only gives them the right to participate in the ongoing Rights Issue of the concerned company by making an application with requisite application money or renounce the REs before the issue closes. REs which are neither subscribed by making an application with requisite application money nor renounced, on or before the Issue closing date shall lapse and shall be extinguished after the Issue closing date.

#### **4.20 Creating Investor Awareness and safeguarding clients' assets**

Members are advised to regularly caution and create awareness amongst their clients/investors to abstain them from dealing in any schemes of unauthorised collective investments/portfolio management, indicative/ guaranteed/ fixed returns / payments etc. Members are also advised to display the messages as prescribed in NSE Circular (Ref. No: 45/2021, Download Ref No: NSE/INSP/49434 dated August 27, 2021) on their respective websites under a separate banner "Advisory for investors".

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

SEBI vide Circular No. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020, and Exchange vide Circular No. NSE/INSP44855 dated July 02, 2020, have issued "Standard Operating Procedure in the cases of Trading Member /Clearing Member leading to default".

In accordance to the point no.9 of the above mentioned circulars, all members are advised to provide: 1. A list of all its bank accounts. An undertaking enabling the Exchange/CC to instruct the bank(s) of the members to freeze the bank account(s) for debits in the cases of Trading Member/Clearing Member leading to default.

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

#### **4.22 Unauthorised Market Practices by Trading Members**

Exchange vide Circular no: NSE/INSP/51770 dated March 25, 2022, highlighted that certain practices followed by members are not in compliance with the relevant guidelines issued by the Exchange. Below are some of the market practices, that have come to the notice of the Exchange and members are advised to refrain from engaging in such practices.

- a) **Incentives/referral schemes:** It has come to the notice of the Exchange that members are running schemes such as sponsoring/funding ETF units for the opening of trading accounts. Members are also offering cashback to clients acquired through referral by partnering with the third-party digital payment applications as an incentive for opening a trading account with them. Acquisition of clients by offering such incentives/schemes is against the spirit of guidelines issued by Exchange, and any pattern observed in this regard will be liable for disciplinary action. Members are hereby advised to refrain from such practices, and trading accounts opened through client referral strictly complied with Exchange Circular No. NSE/INSP/43824 dated March 11, 2020. Client shall not be subjected to any kind of trade inducement (including generating trade calls through the Interactive Voice Response (IVR) system) and shall ensure that all instructions for placement of orders are obtained from the respective client only.
- b) **Issue of advertisements:** It is noted that Members are increasingly using influencers to promote their business, products/services/brokerage plans etc., including undertaking brand promotion. Members are hereby advised to undertake adequate due diligence to ensure that the content used by the influencer strictly adheres to the code of advertisement prescribed by the Exchange vide Circular no. NSE/COM/49888 dated October 8, 2021. Further, advertisements/promotional campaigns issued by the members should not promote or incentivize trading in specific securities/contracts which will have the effect of inducement to the clients.
- c) **Inactive accounts:** As per Exchange Circular no. NSE/INSP/ 49743 dated September 27, 2021, Members are required to flag the client account as “inactive” if there are no transaction in the client account for a period of one year. It has come to the notice of the Exchange that members are urging clients to execute trades in their account to prevent accounts from being flagged as inactive. Hence, Members should refrain from undertaking any activity including sending oral or written business communications to clients, inducing the clients to execute trades in their account for the sole purpose of keeping the account active.
- d) **Client registration documents:** The current regulatory requirements stipulate mandatory collection of additional documents related to financial details of the clients in case of trading in derivative segments, which includes a copy of the demat account holding statement of the client. In this regard, members are required to ensure adequate due diligence to ensure that the demat account holding statement reflects satisfactory financial position of the client before allowing them to trade in derivatives segment.
- e) **Assured Return Schemes/ Unauthorised Portfolio Management Service:** It has also come to the notice of the Exchange that certain members were engaging in activities/schemes of fixed / periodic payments, which are not permitted under the

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

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

#### **4.23 Precautions for clients dealing in Options**

Exchange vide Circular no. NSE/INSP/52900 dated July 06, 2022, reiterated members to carry out due diligence to ensure that evidence of financial information / income details reflecting the satisfactory financial position of the client are collected before onboarding the clients for trading in derivatives. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment, particularly in Options, is in proportion to their income / net worth.

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

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

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

refrain from engaging in any practice that is against the spirit of the guidelines issued by SEBI/Exchange.

#### **4.24 Early Pay-in of funds**

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

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

SEBI has issued circulars bearing Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023 (Exchange Circular no. NSE/INSP/57041 dated June 09,2023), Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 (Exchange Circular no. NSE/INSP/57382 dated June 30,2023) and Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 ( Exchange Circular no. NSE/INSP/59725 dated December 12,2023), on the subject “*Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)*”. Copy of SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 is attached as **Exhibit No. 22.**

Exchange, vide Circulars no. NSE/INSP/57250 dated June 22, 2023, NSE/INSP/57959 dated August 11, 2023, NSE/INSP/58146 dated August 29, 2023, and NSE/INSP/60369 dated January 20, 2024, has issued guidelines/ clarifications on the subject in the form of FAQs and Operational guidelines and SOP on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs).

The relevant key features of the Upstreaming Guidelines are set out below:

- (1) SBs/CMs shall upstream all the clients' clear credit balances to CCs on End of Day (EOD) basis. Such upstreaming shall be done only in the form of either cash, lien on Fixed Deposit Receipts (FDRs) created out of clients' funds, or pledge of units of Mutual Fund Overnight Schemes (MFOS) created out of clients' funds.
- (2) The nomenclature of existing designated client bank accounts which TM/CMs use to receive from their clients shall be changed to *Upstreaming Client Nodal Bank Account (USCNBA)*. Similarly, the nomenclature of existing designated client bank accounts from which TM/CMs use to pay funds to their clients shall be changed to *Down streaming Client Nodal Bank Account (DSCNBA)*. In addition, CMs, who clear trades for other stock brokers, shall only use designated bank account(s) maintained with the nomenclature “Name of the CM – TM prop account” to receive/pay proprietary funds from/to stock brokers. Further, SBs/CMs shall maintain a dedicated demat account (hereinafter referred to as “Client Nodal MFOS Account”) for subscription/ redemption

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

- (3) The clients may request release of funds to TM/CMs at any time during the day. The processing of such release requests shall be in accordance with the risk management practices of the TM/CM. All payment requests of the client received on a day shall be processed on or before the next settlement day. In cases, where the payment request is not processed on the same day, SB/CMs need to ensure that the funds of the client are placed with CC in terms of the Upstreaming Guidelines.
- (4) The bank instruments provided by clients as collateral (i.e. client FDRs and BGs) cannot be upstreamed to CCs, and they shall be ineligible to be accepted as collateral in any segment of securities market. However, it has been decided to allow BGs provided only by non-individual clients, as margins, specifically for commodities segment based on certain terms and conditions.
- (5) The cut-off times for upstreaming of clear credit balance of clients shall be determined by the CCs in consultation with Broker's Industry Standards Forum. Any clear credit balance that could not be upstreamed to CCs due to receipt of funds from clients beyond cut-off time shall necessarily remain in UNSCBA until it is upstreamed to CC on the next day.
- (6) The provisions of the Upstreaming Guidelines are not applicable to bank-CMs (including Custodians that are banks), and for proprietary funds of SBs/CMs in any segment and SB's proprietary funds deposited with CM in the capacity of a client.

The FAQs and the Operational Guidelines are enclosed as **Exhibit 23** and **Exhibit 24** respectively.

#### **4.26 Display of Details of USCNBA on Website**

With a view to bring more transparency in the dealings between the clients and the stock brokers and for the purpose of investor awareness, members are advised to display details of all their active *Up streaming Client Nodal Bank Account (USCNBA)* on their website. Details of USCNBAs to be displayed on website shall include Name of Bank Account, Bank Account number and IFSC along with following note:

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

Further, based on the details of Bank accounts provided by member under Enhanced Supervision, Exchange shall also display the details of USCNBA of member on Exchange's website under “Know/ Locate your Stock Broker”.

**4.27 Administrative actions for misuse of client funds**

Vide Circular no. NSE/INSP/57097 dated June 13, 2023, in order to initiate immediate actions in critical cases where misuse of client funds is observed, following administrative actions shall be taken by the Exchange w.e.f. September 01, 2023:

<b>Details of contravention</b>	<b>Administrative Action (s)</b>
Misuse of client funds in any of the Principles of Enhanced Supervision  (Highest shortfall observed on a single day in a calendar month for more than Rs.25 lakhs)	i. The proprietary deposits/collaterals of the Trading Member available with NCL shall be blocked to the extent of the shortfall/misuse amount or Rs.10 crores, whichever is lower.  ii. In case misuse is observed in all principles, amount equivalent to aggregate amount of all principles, shall be blocked.  iii. Proprietary deposits/collaterals shall be blocked after 2 trading days from the date of communication of the direction regarding the blocking of such deposits/collaterals to the Trading Member.  iv. Such deposits/collaterals shall be blocked for a period of 10 days.  v. No exposure will be granted to the Trading member on such deposits/collaterals.

Such administrative actions shall be in addition to the existing disciplinary actions/penalties prescribed in Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, for misuse of client funds.

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

SEBI has issued Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023 and Exchange has issued Circular No. NSE/INSP/56489 dated April 25, 2023 wherein creation of BG out of clients' funds has been prohibited as under:

- a. Beginning May 01, 2023, no new BGs to be created out of clients' funds by SBs/CMs.
- b. Existing BGs created out of clients' funds to be wound down by September 30, 2023. In view of the aforesaid circulars, member cannot create BG out of clients' funds and accordingly, value of any BG including BG created out of members' own funds cannot be considered for the computation of availability of client payables effective from October 01, 2023.



Since member cannot create BG out of clients' funds as per aforesaid circulars, value of any BG including BG created out of members' own funds cannot be considered for the computation of availability of client payables effective from October 01, 2023. Further, as per point number 3 of above SEBI Circular, trading members were required to report breakup of BG placed as collateral with clearing members on a periodic basis. In view of the same, for the purpose of reporting of BG details, Exchange vide circular NSE/INSP/56839 dated May 26, 2023, clarified following points as under:

- a) Members shall be required to report details of Bank guarantee breakup on weekly basis.
- b) Reporting requirement shall be effective from May 27, 2023 and first submission of this data shall be for the week ended May 27, 2023 to be submitted by next trading day of following week i.e. by May 29, 2023 and for every week thereafter. Data shall be reported for Saturday of each week.
- c) The reporting requirement shall apply to those trading members who have created BG in favor of their Clearing Member. The trading member shall not report BG created in favor of clearing corporation.
- d) The reporting requirement is not applicable to trading members who are self-clearing member as they are required to report to their respective clearing corporation as per the applicable guidelines of the respective clearing corporation e.g. If member is a trading and self-clearing member in CM segment and only trading member in FO segment, then trading member shall report BGs for FO segment only which are in favor of clearing member.
- e) The reporting requirement shall not apply to members who do not have Bank Guarantees in favor of clearing members. However, such members shall provide one time declaration to Exchange.

Reporting format for submitting the BG breakup to the Exchange has also been prescribed.

The Exchange, vide Circular no. NSE/INSP/59263 dated November 6, 2023 communicated that certain members are still considering the funded value of BG while reporting data towards the weekly monitoring of client funds (Enhanced Supervision of Stock Brokers) under data point numbered as 2 "Collateral deposited with clearing corporations in form of Cash and Cash Equivalents (In Rs.) and data point numbered as 3 "Collateral deposited with clearing member in form of Cash and Cash Equivalents (In Rs.)" of Annexure A of NSE Circular no. NSE/INSP/52724 dated June 24, 2022.

In view of the same, members have been advised not to consider BG for the computation of availability of client payables and accordingly, member should not include the value of BG while reporting data towards the weekly monitoring of client funds (Enhanced Supervision of Stock Brokers) under aforesaid data points of Annexure A of NSE Circular no. NSE/INSP/52724 dated June 24, 2022.



Further, based on representations received from Members, clarifications/guidelines on the subject in the form of FAQs are attached as **Exhibit 25**.

**4.29 Ease of Doing Investments by Investors - Facility of voluntary freezing/ blocking of Trading Accounts by Clients**

SEBI has issued Circular No. SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 on the subject “Ease of Doing Investments by Investors - Facility of voluntary freezing/ blocking of Trading Accounts by Clients” dated January 12, 2024.

In terms of the SEBI Circular, it has been decided that the framework for Trading Members to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients on account of suspicious activities shall be laid down on or before April 01, 2024, by the ISF, under the aegis of stock exchanges, in consultation with SEBI and the same shall, inter-alia, contain necessary guidelines with respect to (i) detailed policy for voluntary freezing/ blocking the online access of the trading account of the client (ii) action to be taken by Members pursuant to receipt of blocking/freezing of trading account, (iii) process for re-enabling the client for trading/transfers and (iv) intimation to be provided by the Members to the client.

The above-mentioned framework shall be implemented by Members by July 1, 2024.

Further, Stock Exchanges shall also put in place an appropriate reporting requirement by Trading Members to enforce the above system. A compliance report to this effect shall be submitted to SEBI by Stock Exchanges latest by August 31, 2024.

**4.30 Trading Supported by Blocked Amount in Secondary Market**

SEBI vide Circular No. SEBI/HO/MRD/MRD-PoD-2/CIR/2023/99 dated June 23, 2023 issued a circular on “Trading Supported by Blocked Amount in Secondary Market” to introduce supplementary process for trading in secondary market based on blocked funds in investor’s bank account, instead of transferring them upfront to the trading member, thereby providing enhanced protection of cash collateral. The said facility shall be provided by integrating Reserve Bank of India (RBI) approved Unified Payments Interface (UPI) mandate service of single-block- and- multiple- debits with the secondary market trading and settlement process.

A copy of the said SEBI circular is enclosed as **Exhibit 26**.

**REGULATORY REQUIREMENTS/ REFERENCES**

1	Mode of payment and delivery	Circular No. NSE/INSP/2003/21, download Ref. No: NSE/INSP/4377 Dated: 1st September 2003, SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 12, 2018, Download Ref. NSE/INSP/38322 July 13, 2018, SEBI Circular SEBI/HO/MIRSD/DoP/P/CIR/2022/119 dated September 19, 2022, Exchange download Ref. No: NSE/INSP/53756 dated September 20, 2022, Exchange download Ref. No: NSE/INSP/54365 dated November 10, 2022; SEBI Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/162 dated November 25, 2022, Exchange download Ref. No: NSE/INSP/54618 dated November 25, 2022.
2	Receipt of funds in the form of Pre-funded instruments / Electronic fund transfers	SEBI Circular CIR/MIRSD/03/2011 dated June 9, 2011; Download Ref. No: NSE/INSP/18024, Circular No. NSE/INSP/2011/118 June 09, 2011
3	Settlement of Running Account of Clients' Funds	SEBI Circular SEBI/MIRSD/Cir/01/2011 dated May 13, 2011; Circular No. NSE/INSP/2011/117 download Ref. No: NSE/INSP/17781 May 13, 2011; SEBI Circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3rd December, 2009, Download Ref. No: NSE/INSP/14048, Circular No. NSE/INSP/2010/91 dated 3rd February, 2010 and Download Ref. No: NSE/INSP/15008, Exchange Circular No. NSE/INSP/2010/101 June 17, 2010; Download Ref. No.: NSE/INSP/21651; Circular Ref No.: 144/ 2012 dated September 07, 2012; Download Ref. No.: NSE/INSP/24849; Circular Ref No.: 169/2013 dated October 29, 2013 Download Ref. No.: NSE/INSP/29096; Circular Ref No.: 223/ 2015 dated March 11, 2015; Download Ref No: NSE/INSP/43250, Circular Ref. No: 03/2020 dated January 16, 2020; Download Ref No: NSE/INSP/44459, Circular Ref. No: 32/2020 dated May 26, 2020; SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Download Ref No: NSE/INSP/48624, Circular Ref. No: 30/2021 dated June 16, 2021 and Download Ref No: NSE/INSP/51830 dated March 31, 2022, SEBI Circular No: SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022, Download Ref No: NSE/INSP/53115 dated July 27, 2022, , NSE/INSP/55135 dated NSE/INSP/55135 and NSE/INSP/56148 dated March 27, 2023; NSE/INSP/56261 dated April 03, 2023; SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated

		December 28, 2023, Download Ref No: NSE/INSP/53820, Circular Ref. No: 66/2022 dated September 23, 2022.
4	Annual Calendar and Operational Guidelines for Settlement of Running Account of clients' funds lying with the Trading members	Download Ref No. NSE/INSP/61164 dated March 15, 2024
5	Statement of Accounts for Funds, Securities and Commodities	Circular no. NSEIL/LEGAL/3401, download reference no. NSE/LEGL/3401 dated May 22, 2002; Circular no. NSEIL/LEGAL/7410, download reference no. NSE/LEGL/7410 dated April 21, 2006; SEBI Circular No. Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8th November 2010; SEBI Circular SEBI/MIRSD/Cir/01/2011 dated May 13, 2011; Circular No. NSE/INSP/2011/117 download Ref. No: NSE/INSP/17781 May 13, 2011, Download Ref No: NSE/INSP/47227, Circular Ref. No: 05/2021 dated February 03, 2021 Circular no. NSEIL/INSP/12, download reference no. NSE/INSP/3525 dated 29th July 2002; Download Ref. No: NSE/INSP/13606, Circular No. NSE/INSP/2009/85 dated December 03, 2009 and Download Ref. No: NSE/INSP/14048, Circular No. NSE/INSP/2010/91 dated February 03, 2010; Download Ref No: NSE/INSP/47227, Circular Ref. No: 05/2021 dated February 03, 2021; Download Ref No: NSE/INSP/48431, Circular Ref. No: 29/2021 dated May 28, 2021
6	Financing of securities transactions	Circular no. NSE/INSP/2005/42, Download reference no. NSE/INSP/6938 Dated 9th December 2005 Download Ref No: NSE/INSP/47278, Circular Ref. No: 07/2021 dated February 09, 2021
7	Clarifications on funding in connection with / incidental to /consequential upon the securities business	Download Ref. No.: NSE/INSP/20638; Circular Ref No.: 136/ 2012 dated April 26, 2012. Download Ref. No.: NSE/INSP/29662; Circular Ref No.: 232/ 2015 dated May 08, 2015 SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 September 26, 2016 Circular Ref. No: 338/2018, Download Ref. No. NSE/INSP/38945 dated September 24, 2018 Circular Ref. No: 24/2019, Download Ref. No. NSE/INSP/41842 dated August 13, 2019
8	Handling of client funds and securities	SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 September 26, 2016 SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019,

		<p>Circular Ref. No: 17/2019, Download Ref No: NSE/INSP/41359 dated June 20, 2019 Download Ref No: NSE/INSP/42052, Circular Ref. No: 27/2019 dated September 04, 2019 Download Ref No: NSE/INSP/47619, Circular Ref. No: 10/2021 dated March 12, 2021 SEBI Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021, Download Ref. No.: NSE/INSP/49008, Circular Ref. No.: 36/2021 dated July 20, 2021, Download Ref. No : NSE/INSP/46729, Circular No. : 77/2020 dated December 18, 2020. SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/59 dated July 16, 2021 and SEBI Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2022/109 dated August 18, 2022; SEBI Circular No: SEBI/HO/MIRSD/DoP/P/CIR/2022/143 dated October 27, 2022, Download Ref. No.: NSE/INSP/54238 dated October 28, 2022. SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022, Download Ref. No.: : NSE/INSP/54390 dated November 11, 2022.</p>
9	Pledging of client securities	<p>SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 September 26, 2016 SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, Circular Ref. No: 17/2019, Download Ref No: NSE/INSP/41359 dated June 20, 2019 Download Ref No: NSE/INSP/42052, Circular Ref. No: 27/2019 dated September 04, 2019</p>
10	E-mail and SMS alerts to Investors	<p>Download Ref. No.: NSE/INSP/27339; Circular Ref No.: 193/ 2014 dated August 12, 2015. Download Ref. No.: NSE/INSP/27368; Circular Ref No.: 194/ 2014 dated August 18, 2014. Download Ref. No.: NSE/INSP/27436; Circular Ref No.: 196/ 2014 dated August 26, 2014 Download Ref. No.: NSE/INSP/27494; Circular Ref No.: 197/ 2014 dated September 2, 2014; Circular Ref No.: 279/ 2016 dated May 31, 2016;</p>
11	Centralized Mechanism for reporting the demise of an investor through KRAs	<p>Download Ref. No.: SEBI Circular No. SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/0000000163 dated October 03, 2023;</p>
12	Timelines for Closure of financial accounts under Rule 114H 8 of the income Tax rules, 1962 under alternative procedure of FATCA	<p>Download Ref. No.: NSE/INSP/34660 dated April 17, 2017</p>

13	Prevention of Unauthorised Trading by Stock Brokers	Download Ref. No.: NSE/INSP/35929 dated September 27, 2017 SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017, SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/124 dated November 30, 2017, SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2018/09 dated January 11, 2018, SEBI Circular SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, Download Ref. No.: NSE/INSP/37301 dated March 26, 2018
14	Issuance of Annual Global Statement	Download Ref. No.: NSE/INSP/36731 dated January 11, 2018
15	Discontinuation of acceptance of cash by Stock Brokers	Download Ref. No.: NSE/INSP/38322 dated July 13, 2018; SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 12, 2018
16	Clarification on physically settled Stock Derivatives	Download Ref. No.: NSE/INSP/38433 dated July 27, 2018 Download Ref No: NSE/INSP/47293, Circular Ref. No: 08/2021 dated February 10, 2021
17	Participation of Eligible Foreign Entities (EFEs) in the commodity derivatives market	Download Ref. No.: NSE/INSP/39227,
18	Clarification on incentives/referral schemes	Download Ref No: NSE/INSP/43029, Circular Ref. No: 49/2019 dated December 26, 2019 Download Ref No: NSE/INSP/43824, Circular Ref. No: 14/2020 dated March 11, 2020
19	Increasing awareness on Rights Entitlement	SEBI Circular SEBI/HO/CFD/DIL2/CIR/P/2020/13 dated January 22, 2020 Download Ref. No.: NSE/INSP/47782, Circular Ref. No.: 13/2021 dated March 25, 2021
20	Creating investor awareness and safeguarding clients' assets	Download Ref No: NSE/INSP/49434, Circular Ref. No: 45/2021 dated August 27, 2021
21	Submission of undertaking pursuant to Standard Operating Procedure in the cases of Trading Member leading to default	SEBI Circular No. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020, and Exchange Circular NSE/INSP44855 dated July 02, 2020 Download Ref No: NSE/INSP/45626 dated September 07,2020

22	Unauthorised Market Practices by Trading Members	Download ref no: NSE/INSP/51770 dated March 25, 2022
23	Precautions for clients dealing in Options	Download ref no: NSE/INSP/52900 dated July 06, 2022
24	Early Pay-in of funds	Download ref no: NSE/INSP/55401 dated January 27, 2023.
25	Upstreaming of clients' funds by Stock Brokers/ Clearing Members/ Clearing Corporations	Download ref. no.: SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023; SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023; SEBI; Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023; Exchange Circular NSE/INSP/57250 dated June 22, 2023; NSE/INSP/57959 dated August 11, 2023, NSE/INSP/58146 dated August 29, 2023 NSE/INSP/60369 dated January 20, 2024
26	Display of Details of USCNBA on Website	Download ref no: NSE/INSP/55402 dated January 27, 2023.
27	Administrative actions for misuse of client funds	Download ref. no.: Exchange Circular NSE/INSP/57097 dated June 13, 2023; Circular No. NSE/INSP/53530 dated September 2, 2022
28	Bank Guarantees created out of clients' funds	Download ref. no.: SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023; Exchange Circular NSE/INSP/56489 dated April 25,2023
29	Ease of Doing Investments by Investors- Facility of voluntary freezing/ blocking of Trading Accounts by Client	Download ref. no.: SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024
30	Trading Supported by Blocked Amount in Secondary Market	Download ref. no.: SEBI/HO/MRD/MRD-PoD-2/CIR/2023/99 dated June 23,2023



**ITEM 5****OFFICE MANAGEMENT****5.1 Guidelines for location of CTCL terminals and usage thereof**

Trading members were, *inter alia*, informed vide Circular No. 163 (Download reference no NSE/MEM/1591) dated 20/04/2000 and clarified vide Circular No. 282 (Download reference no. NSE/MEM/3574) dated 29/08/2002 and NSE/MEMB/3635 dated 25/09/2002, that trading terminals shall be located only in the main / branch offices of the trading member or in the office of a registered Authorised person of the trading member for the operations of the trading member.

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

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

All Members are hereby advised to regularly monitor and review the trading activities/turnover from all the terminals located at all their Branch/AP locations and undertake necessary actions/investigations including conduct of surprise & periodic inspections in this regard.

Members are also advised to conduct an analysis of trends in trading volumes at different terminals and conduct close review of activities being conducted at the addresses at which trading terminals with low volume or declining trend of volumes are observed.

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

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

In view of the same, Members are advised to ensure that all their approved users/person have valid certification as specified by SEBI/ Exchange from time to time and no trades are executed without a valid certification. Members should ensure that correct and updated information relating to trading terminal and certification is reported to the Exchange and any non-compliance in this regard shall attract appropriate disciplinary actions including levy of penalty as specified under Exchange Circular bearing reference no. NSE/INSP/53530 dated September 2, 2022.



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

**5.2 Administrative actions for terminal(s) not found at the reported location(s)**

Vide Circular No. NSE/INSP/59809 dated December 18, 2023, the Exchange has informed the Members that in order to initiate immediate actions in cases where the terminal(s) are not found at the reported location(s), following administrative actions shall be taken by the Exchange:

<u>Details of contravention</u>	<u>Administrative Action (s)</u>
Terminal(s) not available at the reported location(s)	The Trading Member shall not be allowed to trade from those terminals, which are not found at the reported location.

Such administrative actions shall be in addition to the existing disciplinary actions/penalties prescribed by Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, for terminals that are not found at the reported location(s). Further, in case of repeated violations, escalated actions shall be initiated as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, which will be in addition to the administrative actions as prescribed.

**5.3 Penalty Provisions for trading terminals without having valid certification**

Regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 and Exchange Circular no. NSE/INSP/40559 dated March 27, 2019, stipulates passing of certification program by the associated persons of the Members. Members should also ensure that correct and updated information relating to trading terminals and certification is reported to the Exchange.

Vide Circular No. NSE/INSP/56784 dated May 22, 2023 it has been reiterated that all approved persons of the Members should have valid certification as specified by SEBI/ Exchange from time to time and no trades are executed without a valid certification. Members are advised to monitor the expiry of certification of approved persons and ensure that requisite certification has been renewed well before the expiry. Members shall exercise appropriate due diligence and verify the authenticity and validity of the certification prior to uploading the certification details to the Exchange.

Accordingly, the user ids/trading terminals of all approved persons (NEAT as well as 12-digit NNF terminals) having expired certification or not meeting certification requirement has been disabled/deactivated as on End of Day (EOD) of January 01, 2024.

Thereafter, on an ongoing basis, the Exchange at EOD shall disable the user id of all approved persons for which the certificate has expired, and renewal of the said certificate has not been updated in the Exchange database/records.

**5.4 Notice boards**

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

Further, offices of all Stock Brokers its registered Authorized Persons shall prominently display basic information regarding Grievance Redressal Mechanism available to investors as per **Exhibit 27**.

**5.5 Display of details by stock brokers**

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

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

**5.6 Risk disclosure with respect to trading by individual traders in Equity Futures & Options Segment.**

SEBI has issued Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/73 dated May 19, 2023, on the subject “Risk disclosure with respect to trading by individual traders in Equity Futures & Options Segment”. A copy of the said Circular is enclosed as **Exhibit 28**.

Based on queries received from members, NSE has issued clarification the FAQs vide Circular no. NSE/INSP/57111 dated June 14, 2023 enclosed as **Exhibit 29**.

**REGULATORY REQUIREMENTS/ REFERENCES**

1	Guidelines for location of CTCL terminals and usage thereof	Circular No. NSE/INSP/ 3800, download reference no. NSE/ INSP/ 2002/16 dated 13th December 2002; Download Ref. No.: NSE/INSP/28434; Circular Ref. No.: 212/2014 dated December 24, 2014, Download Ref. No.: NSE/MA/22732 dated February 13,2013 Download Ref No: NSE/INSP/40559, Circular Ref. No: 04/2019 dated March 27, 2019
2	Administrative actions for terminal(s) not found at the reported location(s)	Circular No.: NSE/INSP/59809 dated December 18, 2023; Circular No. NSE/INSP/53530 dated September 2, 2022
3	Penalty Provisions for trading terminals without having valid certification	Circular No. Exchange Circular no. NSE/INSP/40559 dated March 27, 2019; Exchange Circular No. NSE/INSP/56784 dated May 22, 2023
4	Notice Boards	Circular No. NSE/I&ID/2001/3, DOWNLOAD REF.NO: NSE/I&ID/2893 Dated: September 28, 2001, Circular no. 501, download ref no. NSE/MEM/6706 dated September 28, 2005, SEBI Circular CIR/MIRSD/3/2014 dated August 28, 2014, Download Ref. No. NSE/ISC/27486 dated September 1, 2014
5	Display of details by stockbrokers including trading members	SEBI Circular No. Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8 <sup>th</sup> November 2010.
6	Risk disclosure with respect to trading by individual traders in Equity Futures & Options Segment	Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/73 dated May 19, 2023

**ITEM 6****DEALINGS WITH INTERMEDIARIES****6.1 Dealings by branches, intermediaries, authorised persons etc**

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

- (i) ensuring that receipt or payment of funds and securities are only from or to the respective clients and not from other person including branch official, authorised person, dealer, etc.,
- (ii) ensuring that the persons operating the terminals, while placing orders on behalf of a registered client, do not use the 'remarks column' without proper explanation or to put codes which could later suggest the existence of one or more ultimate clients;
- (iii) ensuring that the persons operating the terminals use proper client code in respect of the orders received from such clients and do not combine orders of different persons;
- (iv) ensuring that the no margin/pay-in obligation/pay-out adjustment is done among clients or between clients and authorised persons, branch officials, dealers, etc.,
- (v) ensuring making and receipt of payments only by 'Account Payee' cheque or by direct bank debit/credit and not dealing in cash;
- (vi) ensuring that the branch official, authorised persons, dealers, etc., do not issue any contract note, bill, confirmation memo, debit/credit note etc., to the clients, unless it is issued in the name of the Trading Member under written authorisation from it;
- (vii) if the Trading Member is also a Depository Participant for the client, authorised person, branch official, dealer etc., then to watch for unexplained, frequent or large off- market transfers;
- (viii) ensuring that the clients using or frequenting such premises do not indulge in such activities using the premises, name or accounts of the Trading Member their AP(s) etc.,

- (ix) undertaking surprise inspections of such places to ensure prevention of any activity in violation of the Regulations.

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

The Trading Members are further advised to bring the contents of this Circular to the notice of all their employees, branches, authorised persons, dealers, clients etc., and educate them not to allow or indulge in such activities. If any Trading Member of the Exchange is found to be allowing such activities in violation of the Rules, Bye-laws and Regulations of the Exchange, the same will be viewed seriously by the Exchange and strict disciplinary action will be taken against the Trading Member concerned. Besides the same, the Trading Member may also be saddled with redressing investor grievances and claims arising out of such dealings.

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

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

In order to enhance the effectiveness of the supervision and ensure uniformity & standardization across all Members, the following guidelines have been prescribed:

1. Trading Members shall exercise adequate control and due diligence over the activities, conduct and transactions of their APs by conducting surprise and periodic Inspections and taking regular feedback from the clients of the APs. In case any anomaly is identified, Trading Members shall take necessary disciplinary actions against their APs. Further, Trading Members shall be vicariously and severally liable for any violation committed by their APs including operating any schemes of unauthorised collective investments/portfolio management and promising indicative/guaranteed/fixed returns etc. The Indian Contract Act, 1872 defines an 'Agent' in Section 182 as a person employed to do any act for another or to represent another in dealing with third persons. Accordingly, all provisions of Indian Contract Act, 1972 with respect to 'Agent' shall be applicable to Trading Members and APs associated with them.
2. Trading Members shall be held responsible and accountable for all acts of omission and commission of their APs and/or employees at their branches including any arrangements entered by the AP/employees with the clients of the Trading Member including:
  - a) Any unauthorised trading on behalf of the investors
  - b) Participation in any scheme of price manipulation willingly or unwillingly
  - c) Allowing investors to trade in instruments or amounts beyond limits specified in the SEBI/Exchange regulations/circulars.
3. Enhanced due diligence to be done by the Trading Members:
  - a. As per the existing process, Trading Members are required to submit KYC documents of the APs, at the time of onboarding. With a view to ensure that an

AP is suitable for the role, Trading Members are hereby advised to perform enhanced due diligence, by means of in-person verification/site visits, validating their PAN, conducting background checks, ensuring that they are not a part of SEBI & Exchange debarred list (ongoing basis) and any other activity as deemed fit.

- b. That all the details pertaining to the APs are provided at the time of onboarding, such as complete address (including Premises number, Building name, Area, City, State and Pin code) along with valid email address and contact number (for e.g., valid 10-digit mobile number/landline with City code). Further, Trading Members shall ensure that email address and contact details of an AP are not mapped to any of their existing APs and or clients of the Trading Members. A continual monitoring process should be in place, to identify such instances.
  - c. Trading Members shall ensure following:
    - i. Director/Partner of a registered AP/Trading Member is not appointed in the capacity of AP with any other Trading Member, or the same Trading Member registered with the Exchange.
    - ii. Director/Partner of an AP is not associated as Designated Director/Designated Partner/Compliance Officer with any Trading Member registered with the Exchange.
    - iii. Director/Partner of AP is not associated as Director/Partner with other AP registered with the Exchange.
    - iv. Further an Authorized person shall be affiliated with only one Trading Member of the Exchange at any point in time.
  - d) Members should restrict entities with names which may mislead clients/investors, including names with "Portfolio/wealth management/advisory" without a valid SEBI registration as specified in the Exchange Circular No. NSE/COMP/55716 dated February 22, 2023.
4. Trading Members are advised to capture actual reason on ENIT portal, while cancelling AP registration based on disciplinary grounds.
  5. To enhance effectiveness of the supervision and Inspection, below stated guidelines will be applicable from financial year 2024 – 25:
    - i. The scope of AP inspection has been increased from "Active APs" to "All Registered APs."
    - ii. Every Trading Member shall be required to conduct regular Inspection based on the volume/turnover of the registered AP as seen below:

<b>Revised Criteria based on volumes / turnover</b>	<b>Period of Inspection</b>
Top 50% of Registered APs	Once a Year
Subsequent Top 30% of Registered APs	Once in 18 months
Remaining 20% of Registered APs	Once in 2 years

6. As directed in the Exchange Circular No. NSE/COMP/50030 dated October 21, 2021, Trading Members shall report any incident observed by them involving assured returns or any unauthorised schemes operated by the AP to the Exchange within 2 working days. Trading Members, shall also take necessary measures, as mentioned in SEBI Circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009, including withdrawal of approval, withhold moneys due to the APs until resolution is offered to the investor problems, alert messages are sent to the investors in the location where AP operates, complaint is filed with the police station concerned, and all measures required are taken to protect the interest of investors and market. Exchange may also require Trading Members to obtain confirmation from their clients that there are no claims against such AP/s. Exchange may further ask for Press releases/advertisements regarding any disciplinary action taken by the Trading Member against the AP/s.
7. For the purpose of ensuring compliance and risk management practices in accordance with the regulatory requirements, Trading Members are advised to monitor their existing and newly onboarded APs based on the indicative scope as defined in the Exchange Circular No. NSE/INSP/42448 dated October 18, 2019 provided as **Exhibit 30.**
8. Members are advised to put in place adequate mechanisms to review the inspection reports and take suitable actions to ensure non-recurrence of any irregularities observed. Members shall on an annual basis place an MIS before their Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of inspections undertaken, irregularities observed and action taken.

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

**I. NISM Series IV - IRD**

SEBI vide its notification no. LAD-NRO/GN/2010-11/12/10230 published in the Gazette of India on June 29th, 2010 regarding certification of associated persons in the securities markets notified that the members are required to comply with the requirements of the notification.

Accordingly, it is notified that with effect from the date of this notification, the approved users and sales personnel of the trading members who are registered as such in the currency derivatives of a recognized stock exchange and trading in interest rate derivatives shall be required to have a valid certification from the National Institute of Securities Markets NISM by passing the NISM-Series-IV: IRD Certification Examination as mentioned in the NISM communiqué no. NISM/Certification/Series- IV:IRD/2010/1 dated May 18, 2010.

**II. NISM Series VII – Securities Operation and Risk Management**

SEBI vide its notification no. LAD-NRO/GN/2010-11/21/29390 published in the Gazette of India on December 10, 2010 regarding the above subject matter notified that the members are required to comply with the requirements of the notification.



Accordingly, it is notified that with effect from the date of this notification, the following category of associated persons, i.e., persons associated with a registered stock-broker/trading member/clearing member in recognized stock exchanges, who are involved in, or deal with, any of the following, namely: -

- Assets or funds of investors or clients,
- Redressal of investor grievances,
- Internal control or risk management, and
- Activities having a bearing on operational risk,

shall be required to have a valid certification from the National Institute of Securities Markets NISM by passing the NISM-Series-VII: Securities Operations and Risk Management Certification Examination as mentioned in the NISM communiqué/Press Release NISM/Certification/Series-VII: SORM/2010/01 dated November 11, 2010, read with Annexures-I and II thereto.

In view of the operational difficulties expressed by the Members, in consultation with SEBI and other Exchanges it has been decided that requirement of passing of NISM Series VII - Securities Operations and Risk Management Certification exam would be optional for associated persons handling the basic clerical/elementary functions in the above stated areas and whose work is supervised by NISM Series VII -Securities Operations and Risk Management Certification certified personnel. The broad indicative activities that can be classified as basic elementary level/clerical level are provided in the Annexure-A of NSE Circular No. NSE/INSP/27495 dated September 02, 2014.

Members should have a well-documented internal policy based on the above guidelines, approved by its Board / Partners / Proprietor. The adherence to the above shall be verified during the inspections and Internal Audits of the Members.

SEBI, vide their letter dated August 12, 2015 has directed the Exchange to clarify that NISM Series- VII Securities Operations and Risk Management Certification Examination notified vide Exchange Circulars no. NSE/INSP/16536 dated December 15, 2010 and NSE/INSP/27495 dated September 2, 2014 shall be accepted as an approved certification in Capital Market Segment. Accordingly, Members may note that NCFM Certification in Capital Market Segment for Corporate Manager ID and Branch Manager ID will not be insisted upon in case the users have a valid NISM Series-VII- Securities Operations and Risk Management Certification.

### **III. NISM Series VIII – Equity Derivative**

SEBI vide its notification no. LAD-NRO/GN/2012-13/30/5474 published in the Gazette of India on January 11, 2013 notified about requisite certifications for approved users and sales personnel in equity derivatives segment.

Accordingly, it is notified that with effect from the date of this notification the associated persons functioning as approved users and sales personnel of the trading members of an equity derivative exchange or equity derivative segment of a recognized stock exchange shall obtain certification for the purpose of sub-regulation 2 of regulation 16C of the Securities and

Exchange Board of India Stock Brokers Regulations, 1992 from the National Institute of Securities Market hereafter referred to as “NISM” by passing the NISM- Series-VIII: Equity Derivative Certification Examination hereafter referred to as “EDCE” as mentioned in the NISM communiqué No. NISM/Certification/Series – VIII:ED/2012/01 dated September 20, 2012.

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

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

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

Provided that a trading member, who engages or employs any such associated person who is approved user or sales personnel, after the date of this notification, shall ensure that such person obtains certification by passing the Commodity Derivatives Certification Examination within one year. from the date of their employment.

Provided further that an associated person, who being an approved user or sales personnel, has obtained any of the following certifications as on the date of this notification,-

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

shall be exempted from the requirement of obtaining certification by passing the Commodity Derivatives Certification Examination till the validity of the said certification.

**V. NISM Series IIIA – Securities Intermediaries Compliance**

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

Accordingly, it is notified that with effect from the date of this notification, the associated persons functioning as compliance officers of intermediaries registered with the Board as stock brokers, or depository participants, or merchant bankers, or underwriters, or bankers to the Issue, or debenture trustees or credit rating agencies, shall obtain certification from the National Institute of Securities Markets hereinafter referred to as “NISM” by passing the NISM-Series-III A: Securities Intermediaries Compliance Non-Fund Certification Examination hereinafter referred to as “SICCE” as mentioned in the NISM communiqué No. NISM/Certification/Series-III A: SIC/2013/01 dated January 7, 2013.

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

In this regard, SEBI has now issued notification no. LAD-NRO/GN/2014-15/23 dated March 10, 2015 wherein it has been decided that instead of obtaining multiple certifications for various derivative segments as mentioned above, NISM Series XIII: Common Derivatives Certification Examination "Series-XIII: CDCE" as mentioned in the NISM communiqué No. NISM/Certification/Series-XIII: COM/2014/01 dated December 09, 2014 is notified as an optional examination for the associated persons mentioned in the above mentioned notifications.

The associated persons who have obtained the Series-XIII: CDCE certification shall be deemed to have obtained the NISM-series-1; Currency Derivative Certification Examination, NISM-Series-IV; Interest Rate Derivatives Certificate Examination and NISM- Series-VII; Equity Derivatives certifications.

#### **6.4 Transactions outside the trading system of the Exchange**

Some unscrupulous elements reportedly arrange trading in securities outside the established trading system of the recognised stock exchanges, taking share prices disseminated on-line by major exchanges like NSE as reference prices. It appears that the accounts for such trades and their settlement are kept separately, mostly on cash basis and not combined with the books of accounts pertaining to the transactions on the stock exchanges, in order to avoid detection.

If any trading member of NSE or its Authorised Person is found to be carrying out such activities in violation of the Rules, Bye-laws and Regulations of the Exchange, the same will be viewed with utmost seriousness by the Exchange and strict disciplinary action will be taken.

The Exchange has already undertaken a public awareness campaign to educate the investors in this regard. The trading members are advised to bring the contents of the circular to the notice of all their branches, authorised persons, etc. also and ensure that these extended arms of trading members do not indulge in such activities. The trading members are further requested to display a copy of the advertisement issued in this regard at their offices, branches and offices of their Authorised Persons for additional publicity.

The trading members are also requested to educate their clients about the risks involved in dealing through such unauthorised trading mechanism including the grave risk of not having access to the dispute resolution and the arbitration mechanisms of the Exchange, in respect of any dispute arising out of such trades.

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

It has been observed by SEBI that unauthenticated news related to various scrips are circulated in blogs/chat forums/e-mail etc. by employees of broking houses/other intermediaries without

adequate caution as mandated in the code of conduct for Stockbrokers and respective Regulations of various intermediaries registered with SEBI. Further, in various instances, it has been observed that the Intermediaries do not have proper internal controls and do not ensure that proper checks and balances are in place to govern the conduct of their employees. Due to lack of proper internal controls and poor training, employees of such intermediaries are sometimes not aware of the damage which can be caused by circulation of unauthenticated news or rumours. It is a well-established fact that market rumours can do considerable damage to the normal functioning and behaviour of the market and distort the price discovery mechanisms.

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

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

## **6.6 Guidelines on Outsourcing of Activities by Intermediaries**

SEBI Regulations for various intermediaries require that they shall render at all times high standards of service and exercise due diligence and ensure proper care in their operations. It has been observed that often the intermediaries' resort to outsourcing with a view to reduce costs, and at times, for strategic reasons.

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

### **Principles for Outsourcing**

The risks associated with outsourcing may be operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk, counter party risk, concentration and systemic

risk. In order to address the concerns arising from the outsourcing of activities by intermediaries, the principles for outsourcing by intermediaries have been framed which shall be followed by all intermediaries registered with SEBI.

### **PRINCIPLES FOR OUTSOURCING FOR INTERMEDIARIES**

**1. An intermediary seeking to outsource activities shall have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced. The Board / partners as the case may be {hereinafter referred to as the “the Board”} of the intermediary shall have the responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy.**

1.1 The policy shall cover activities or the nature of activities that can be outsourced, the authorities who can approve outsourcing of such activities, and the selection of third party to whom it can be outsourced. For example, an activity shall not be outsourced if it would impair the supervisory authority’s right to assess, or its ability to supervise the business of the intermediary. The policy shall be based on an evaluation of risk concentrations, limits on the acceptable overall level of outsourced activities, risks arising from outsourcing multiple activities to the same entity, etc.

1.2 The Board shall mandate a regular review of outsourcing policy for such activities in the wake of changing business environment. It shall also have overall responsibility for ensuring that all ongoing outsourcing decisions taken by the intermediary and the activities undertaken by the third-party, are in keeping with its outsourcing policy.

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

2.1 An intermediary shall make an assessment of outsourcing risk which depends on several factors, including the scope and materiality of the outsourced activity, etc. The factors that could help in considering materiality in a risk management programme include:

- a. The impact of failure of a third party to adequately perform the activity on the financial, reputational and operational performance of the intermediary and on the investors / clients;
- b. Ability of the intermediary to cope up with the work, in case of non-performance or failure by a third party by having suitable back-up arrangements;
- c. Regulatory status of the third party, including its fitness and probity status;
- d. Situations involving conflict of interest between the intermediary and the third party and the measures put in place by the intermediary to address such potential conflicts, etc.

2.2 While there shall not be any prohibition on a group entity / associate of the intermediary to act as the third party, systems shall be put in place to have an arm’s length distance between the intermediary and the third party in terms of infrastructure, manpower, decision- making, record keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures in this regard shall be made as part of the contractual agreement. It shall be kept in mind that the

risk management practices expected to be adopted by an intermediary while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.

2.3 The records relating to all activities outsourced shall be preserved centrally so that the same is readily accessible for review by the Board of the intermediary and / or its senior management, as and when needed. Such records shall be regularly updated and may also form part of the corporate governance review by the management of the intermediary.

2.4 Regular reviews by internal or external auditors of the outsourcing policies, risk management system and requirements of the regulator shall be mandated by the Board wherever felt necessary. The intermediary shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations

**3. The intermediary shall ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and regulators, nor impede effective supervision by the regulators.**

3.1 The intermediary shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.

3.2 Outsourcing arrangements shall not affect the rights of an investor or client against the intermediary in any manner. The intermediary shall be liable to the investors for the loss incurred by them due to the failure of the third party and also be responsible for redressal of the grievances received from investors arising out of activities rendered by the third party.

3.3 The facilities / premises / data that are involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the registered intermediary. The intermediary itself and Regulator or the persons authorized by it shall have the right to access the same at any point of time.

**4. Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision/inspection of the intermediary. The intermediary shall conduct appropriate due diligence in selecting the third party and in monitoring of its performance.**

4.1 It is important that the intermediary exercises due care, skill, and diligence in the selection of the third party to ensure that the third party has the ability and capacity to undertake the provision of the service effectively.

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

a. third party's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;

b. compatibility of the practices and systems of the third party with the intermediary's requirements and objectives;



- c. market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
- d. level of concentration of the outsourced arrangements with a single third party; and
- e. the environment of the foreign country where the third party is located.

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

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

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

- a. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
- b. provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties;
- c. provides for the liability of the third party to the intermediary for unsatisfactory performance/other breach of the contract
- d. provides for the continuous monitoring and assessment by the intermediary of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the intermediary to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
- e. includes, where necessary, conditions of sub-contracting by the third-party, i.e. the contract shall enable intermediary to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing;
- f. has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract;
- g. specifies the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- h. provides for preservation of the documents and data by third party ;



- i. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- j. provides for termination of the contract, termination rights, transfer of information and exit strategies; k. addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when intermediary outsources its activities to foreign third party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;
- k. neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- l. provides for the intermediary and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.

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

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

6.2 An intermediary shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the third party level. Notably, it shall consider contingency plans at the third party; co-ordination of contingency plans at both the intermediary and the third party; and contingency plans of the intermediary in the event of non-performance by the third party.

6.3 To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the intermediary to fulfil its obligations to other market participants/clients/regulators and could undermine the privacy interests of its customers, harm the intermediary's reputation, and may ultimately impact on its overall operational risk profile. Intermediaries shall, therefore, seek to ensure that third party maintains appropriate IT security and robust disaster recovery capabilities.

6.4 Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by the intermediary to confirm the adequacy of the third party system.

**7 The intermediary shall take appropriate steps to require that third parties protect confidential information of both the intermediary and its customers from intentional or inadvertent disclosure to unauthorised persons.**

7.1 An intermediary that engages in outsourcing is expected to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.

7.2 The intermediary shall prevail upon the third party to ensure that the employees of the third party have limited access to the data handled and only on a “need to know” basis and the third party shall have adequate checks and balances to ensure the same.

7.3 In cases where the third party is providing similar services to multiple entities, the intermediary shall ensure that adequate care is taken by the third party to build safeguards for data security and confidentiality.

**8 Potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties.**

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

**Other Obligations**

- i. **Reporting To Financial Intelligence Unit FIU** - The intermediaries shall be responsible for reporting of any suspicious transactions / reports to FIU or any other competent authority in respect of activities carried out by the third parties.
- ii. **Need for Self-Assessment of existing Outsourcing Arrangements** – In view of the changing business activities and complexities of various financial products, intermediaries shall conduct a self-assessment of their existing outsourcing arrangements within a time bound plan, in line with the requirements of the guidelines/principles.
- iii. **Reliance on third party for carrying out Client Due Diligence** - Registered intermediaries may rely on a third party for the purpose of a identification and verification of the identity of a client and b determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act. However, shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

**REGULATORY REQUIREMENTS/ REFERENCES**

1	Dealings by branches, intermediaries, authorised persons etc	Circular No. NSE/INSP/2005/39, Download No. NSE/INSP/6334 Dated 6 <sup>th</sup> July, 2005;
2	Framework for Supervision of Authorised Persons (APs) & branches by Members	Circular No. NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date: 17 <sup>th</sup> October, 2002 Circular Ref. No: 71/2018, Download Ref No: NSE/COMP/39739 dated December 21, 2018 Circular Ref. No: 06/2019, Download Ref No: NSE/INSP/40627, dated April 01, 2019 Circular Ref. No: 37/2019, Download Ref No: NSE/INSP/42448 dated October 18, 2019
3	Notification under regulation 3 of the Securities and Exchange board of India Certification of Associated Persons in the Securities Markets Regulations, 2007	SEBI notification no. LAD-NRO/GN/2010-11/12/10230 dated June 29 <sup>th</sup> , 2010, SEBI notification no. LAD- NRO/GN/2010-11/21/29390 dated December 10, 2010, Exchange Circular No. NSE/INSP/2010/109, Exchange Download No: NSE/INSP/16536; Download Ref. No.: NSE/INSP/22096; Circular Ref. No.: 148/2012 dated November 8, 2012; SEBI notification no. LAD- NRO/GN/2012-13/30/5474 dated January 11, 2013; Download Ref. No.: NSE/INSP/22613; Circular Ref. No.: 153/2013 dated January 24, 2013; SEBI notification no. LAD-NRO/GN/202-13/33/1103 dated March 11, 2013; Download Ref. No.: NSE/INSP/22924; Circular Ref. No.: 155/2013 dated March 12, 2013; SEBI notification no. LAD-NRO/GN/2013-14/41/118 dated January 20, 2014; Download Ref. No.: NSE/INSP/25617; Circular Ref. No.: 178/2014 dated January 21, 2014 Download Ref. No.: NSE/INSP/27495; Circular Ref. No.: 198/2014 dated September 2, 2014 Download Ref. No.: NSE/INSP/28472; Circular Ref. No.: 214/2014 dated December 29, 2014, SEBI Notification No. LAD-NRO/GN/2014-15/23 dated 10 <sup>th</sup> March, 2015 Download Ref. No.: NSE/INSP/29304; Circular Ref. No.: 225/2015 dated March 30, 2015 Download Ref. No.: NSE/INSP/30549; Circular Ref. No.: 247/2015 dated August 20, 2015; Circular Ref. No: 47/2019, Download Ref No: NSE/INSP/42842 dated December 05, 2019
4	Transactions outside the trading system of the Exchange	Circular no. NSE/INSP/2003/18, download reference no. NSE/INSP/4225 dated 26 <sup>th</sup> June 2003
5	Unauthenticated news circulated by SEBI Registered Intermediary modes communication Market es through various of ion	SEBI Circular Cir/ISD/1/2011 dated March 23, 2011; Circular No. NSE/INSP/ 2010/113 Download Ref. No: NSE/INSP/ 17326 dated March 23, 2011 and SEBI Addendum Circular No. Cir/ISD/2/2011 dated Mach 24, 2011; Download Ref. No: NSE/INSP/ 17338; Circular No. NSE/INSP/2011/114 dated March 24, 2011
6	Guidelines on	SEBI Circular No. CIR/MIRSD/24/2011 dated December 15, 2011;

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	Outsourcing Activities Intermediaries	of by	Download Ref. No.: NSE/INSP/19603; Circular Ref. No.: 127/2011 dated December 15, 2011
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**ITEM 7****BOOKS OF ACCOUNTS AND OTHER DOCUMENTS****7.1 Maintenance of books of accounts and other documents / Preservation of records**

In terms of Rules 14 and 15 of Securities Contracts Regulation Rules, 1957 (“**SCRR, 1957**”) every recognized stock exchange and its members are required to maintain and preserve the specified books of account and documents for a period ranging from two years to five years.

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

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

**7.2 Maintenance of client wise, scrip-wise Register of Securities**

Member’s attention is drawn to Exchange Circulars no. NSE/INSP/39393 dated November 13, 2018, and NSE/INSP/40743 dated April 12, 2019, NSE/INSP/41711 dated July 25, 2019 and NSE/INSP/45193 dated July 31, 2020, NSE/INSP/51277 dated February 08, 2022 on the maintenance of Register of Securities (ROS) and submission of Holding Statement.

Based on the submissions made by the Members till date, it has come to the notice of the Exchange that certain Members are not following uniform practices, as previously clarified by our aforesaid circulars, while recording the transactions in the Register of Securities and Holding Statement.

In view of the same, the following guidelines are being re-iterated for the immediate attention and due compliance by all Members: -

- The register of securities (“**ROS**”) shall be maintained as per the format specified in NSE Circular no. NSE/INSP/39393 dated November 13, 2018 & NSE/INSP/41498 dated July 03, 2019, and shall mandatory contain the “execution date” which shall be the date of actual movement (Receipt/Delivery) of securities.
- SEBI vide Circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/595 dated July 16, 2021, has introduced "Block Mechanism in demat account of clients undertaking sale transactions", which facilitated the clients' undertaking sale transactions to avail Early Pay-In (EPI) benefit by blocking the shares in favour of the Clearing Corporation. Further, the said mechanism has done away with the movement of shares from the

client's demat account for availing EPI benefit. Based on the submissions made by the Members who have availed block mechanism facility for early pay-in of securities, it has been observed that certain members are incorrectly reporting weekly Holding Statement to Exchange by including securities available in the clients' demat account under the block mechanism also in their weekly Holding Statement. In view of the above, it is clarified that Members shall not include the securities lying in the clients' demat accounts under the block mechanism at the end of the day in the weekly Holding Statement uploaded to Exchange.

### **7.3 Format of Register of Securities, Holding Statement, Bank Book, & Client Ledger**

To facilitate the Trading Members to maintain the books of accounts in proper format, a standard format for below submissions are issued in Exchange Circulars. The following formats are updated from time to time and applicable formats are enclosed as **Exhibit 31**.

- Register of Securities (ROS)
- Holding Statement submission (HS)
- Bank Book
- Client Fund Ledger

Trading members may note that non-maintenance of **client-wise, security-wise** Register of Securities in the prescribed format is a violation of the provisions of the Securities Contracts Regulation Rules 1957 and the Regulations of the Exchange and will be viewed seriously.

**REGULATORY REQUIREMENTS/ REFERENCES**

1	Maintenance of books of accounts and other documents / Preservation of records	Circular No. NSE/INSP/2005/43, Download Ref. No.: NSE/INSP/6991, Dated: 26th December 2005 and SEBI Circular MRD/Dop/SE/CIR-21/2009 dated December 09, 2009, Exchange Download Ref. No: NSE/INSP/13701, Exchange Circular No. NSE/INSP/2009/87 dated 16th December 2009
2	Maintenance of client-wise, scrip-wise Register of Securities	Circular No. NSE/INSP/2004/28, DOWNLOAD REF.NO: NSE/INSP/4986 Dated: 16 <sup>th</sup> April 2004
3	Format of Register of Securities, Holding Statement, Bank Book and Client Ledger	Circular No. NSE/INSP/2004/28, DOWNLOAD REF.NO: NSE/INSP/4986 Dated: 16 <sup>th</sup> April 2004. Circular No. 337/2018, Download Ref. No.: NSE/INSP/38743 dated August 30, 2018 NSE/INSP/39393 dated November 13, 2018, Circular Ref. No. NSE/INSP/39855 dated January 03, 2019; Circular Ref. No. NSE/INSP/40743 dated April 12, 2019; Circular Ref. No: 08/2019, Download Ref No: NSE/INSP/41017 dated May 16, 2019; Circular Ref. No: 20/2019, Download Ref No: NSE/INSP/41498 dated July 03, 2019; Circular Ref. No. NSE/INSP/41711 dated July 25, 2019 and NSE/INSP/43213 dated January 14, 2020; Download Ref No: NSE/INSP/45193, Circular Ref. No: 48/2020 dated July 31, 2020; Download Ref No: NSE/INSP/47227, Circular Ref. No: 05/2021 dated February 03, 2021, NSE/INSP/51277 dated February 08, 2022, Download Ref No: NSE/INSP/53531 dated September 02, 2022.



**ITEM 8****COMPLIANCE SUBMISSIONS AND REQUIREMENTS****8.1 Compliance Calendar**

The Exchange vide Circular No. NSE/INSP/59543 dated November 29, 2023 has introduced the Compliance Calendar as an additional functionality in the Penalty Dashboard. The calendar will include compliances applicable to Trading Members for the current month and the same will be updated on a monthly basis for subsequent month. This includes submission timelines for various periodic compliances along with due date for each compliance submission.

**8.2 Enhanced Supervision of stockbrokers**

SEBI has issued Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, and Exchange has issued circulars NSE/INSP/35412 dated July 20, 2017, NSE/INSP/37580 dated April 20, 2018 & NSE/INSP/44459 dated May 26, 2020 and NSE/INSP/50012 dated October 19, 2021, NSE/INSP/50901 dated January 04, 2022, NSE/INSP/51056 dated January 18, 2022 and NSE/INSP/52724 dated June 24, 2022 on Enhanced Supervision of Stock Brokers. All trading members are required to submit the data towards monitoring of client's funds as on last trading day of week on or before the next three trading days.

**Discontinuation of Submission of data towards Monitoring of client funds under Enhanced Supervision**

Vide Circular no. NSE/INSP/60283 dated January 16, 2024, Exchange has, in accordance with the said SEBI Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/03 dated January 12, 2024 on Subject "Ease of doing business-Changes in reporting", decided that weekly reporting requirement of data towards Monitoring of Clients' Funds lying with the Stock Broker under Enhanced Supervision as prescribed under Exchange Circular No. NSE/INSP/37395 dated April 02, 2018 is discontinued with immediate effect. Accordingly, period of the last applicable submission was week ended January 05, 2024, due date of which was January 10, 2024.

**Obligations of the Members under Margin Pledge Mechanism**

SEBI vide its Circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, has provided a framework on "Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System". The said circular also states that, for the purpose of providing collateral in the form of securities as margin, a client shall pledge securities with Trading Member, and Trading Member shall re-pledge the same with Clearing Member and Clearing Member, in turn, shall repledge the same to Clearing Corporation (CC).

Exchange has been initiating disciplinary action in instances where funds of the clients having credit balance have been used towards the margin obligation of the clients having debit balance. Some of the instances include members holding client securities as margin pledge but have not repledged securities with the Clearing member/Clearing corporation as per the guidelines mentioned above for giving exposure limit to the respective clients and have instead utilised

funds of the other clients having a credit balance.

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

One of the requirements of the Enhanced Supervision of Stock Brokers circular is the reporting by all the Members of their existing as well as their new bank & demat accounts to the Exchange.

A facility has been provided by the Exchange whereby Members can report details of their bank & demat accounts to the Exchange, electronically through the Inspection module in the Member portal. The procedure for submitting the information through the Inspection module in the Member portal is given in the circular issued by Exchange. The Members may note that all new bank & demat accounts shall be informed to the Exchanges within one week of the opening of the account through the same module.

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

Further, members are advised to keep the Bank/s appropriately notified of the said authorisation to enable them to honour the instructions received from Exchange. Trading members shall submit updated/ fresh undertaking/authorisation to the Exchange within seven working days of opening of any new bank account.

Exchange has also issued Circulars no. NSE/INSP/46280, NSE/INSP/46469 and NSE/INSP/46729 dated November 06, 2020, November 27, 2020 and December 18, 2020 on Guidelines for maintaining client bank accounts. As per the guidelines, Trading Members can maintain maximum of 30 bank accounts named as "Name of Stock Broker - Client Account" across all segments and Exchanges at a time. The Trading Members were advised to close the excess bank accounts named as "Name of Stock Broker - Client Account" by December 31, 2020.

Exchange vide Circulars no. NSE/INSP/51235 dated February 03, 2022, NSE/INSP/51639 dated March 15, 2022, NSE/INSP/51985 dated April 12, 2022, has prescribed that members shall maintain client bank accounts with followings banks only:

- i. Banks designated as Clearing Banks by any of the Clearing Corporations from time to time.
- ii. Banks which are not designated as Clearing Banks however empanelled for the purpose of issuance of BGs and FDRs by any of the Clearing Corporations from time to time.
- iii. Payment Banks licensed under Banking Regulation Act, 1949.

However, members can maintain the client banks accounts with banks stated above in point (ii) & (iii) only if member has obtained written confirmation from such bank(s) that Bank shall submit day wise account number wise end of day clear running balances and/or information/statement of all bank accounts maintained with such bank(s) to Exchange on daily/weekly basis as may be required by the Exchange. Members shall submit updated/ fresh confirmation to the Exchange within seven working days of opening of any new client bank account. The format of the confirmation is enclosed as **Exhibit 32.**

Further, member shall maintain own/proprietary account with Scheduled Banks or Payment Banks licensed under Banking Regulation Act, 1949 only.

Members are also requested to note that, as per the requirement of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 “In case of closure of any of the reported bank accounts, the same shall be communicated to the Stock Exchanges within one week of its closure.”

Further, the Exchange, in order to enable members to submit confirmation, has provided an online facility to members for submission of such confirmation through the inspection module of the member portal. The user manual for submission of the bank confirmation is provided as Annexure -A of the Circular no. NSE/INSP/51985 dated April 12, 2022. Further, members shall submit updated/ fresh confirmation to the Exchange within seven working days of opening of any new client bank account.

As per clause 2.4.2 of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, “Transfer of funds between "Name of Stock Broker - Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker - Client Account" to "Name of Stock Broker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.”. Members shall maintain the reconciliation statement on a daily basis as prescribed in the aforesaid circular and provide the same as and when sought by the relevant authority.

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

In consultation with Stock Exchanges and Depositories, SEBI vide Circular no. SEBI/HO/MIRSD/ MIRSD\_DPIEA/P/CIR/2022/83 dated June 20, 2022, has decided that all demat accounts maintained by stock brokers should be appropriately tagged. Further, it is prescribed that:

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

Vide Exchange Circular no. NSE/INSP/33409 dated October 14, 2016, members were required to report details of all bank accounts and demat accounts to the Exchange, through inspection module in member portal. As per the requirement, members are required to maintain designated client bank account(s) ("Name of SB/CM - Client Account") to receive/pay funds from/to their constituents.

In accordance with the SEBI Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023, and Exchange circular NSE/INSP/57041 dated June 09, 2023, on "Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)", members are required to change the nomenclature of all these designated client bank account(s) ("Name of SB/CM - Client Account") to either of the following categories of Bank Account:

- a. **Up Streaming Client Nodal Bank Account (USCNBA):** The nomenclature for such accounts shall be "Name of the SB/CM – USCNB account".
- b. **Down Streaming Client Nodal Bank Account (DSCNBA):** The nomenclature for such accounts shall be "Name of the SB/CM – DSCNB account".

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

Further, as per aforesaid SEBI circular, members shall have to maintain a dedicated demat account for subscription/ redemption of MFOS units. The nomenclature for the dedicated demat account shall be "Client Nodal MFOS Account".

In view of the above, the Exchange, vide Circular no. NSE/INSP/57266 dated June 23, 2023, directed the members to note that a separate column in the existing Bank account reporting structure under Inspection module of the Member portal has been made available to members to input "Up Streaming Client Nodal Bank Account (USCNBA)" or "Down streaming Client Nodal Bank Account (DSCNBA)" or "CM –TM prop account" for all existing client bank accounts as well as any new bank account opened by member. Accordingly, members were advised to update nomenclature for all the existing client bank accounts from the aforesaid three categories in accordance with said SEBI Circular dated June 08, 2023 by June 30, 2023.

Similarly, one more category i.e., “Client Nodal MFOS Account”, for reporting of demat account has been made available in the existing DP account reporting structure through the Inspection module of the Member portal.

The procedure for submitting the aforesaid information through the Inspection module in the Member portal is given in Annexure to the above-mentioned Circular.

#### **8.4 Submission of data for monitoring of clients’ funds lying with the stock broker – Cash and Cash Equivalent Submission**

Members’ attention is drawn to Exchange Circular no. NSE/INSP/46704 dated December 17, 2020 regarding changes in the reporting format of data towards ‘Client Level Cash & Cash Equivalent Balances’

Vide circular no. NSE/INSP/43488 dated February 10, 2020 Members were directed to set aside the funds and securities in separate Client Bank/Client collateral Demat account for those clients for whom member is unable to settle their accounts due to nonavailability of client’s bank account & demat account details and non-traceability of client. Further, members in this regard were also required to submit UCC wise fund balance information to the Exchange along with details of client bank account where these unclaimed / untraced clients funds are parked.

Exchange, in order to enable members to upload details of such accounts has introduced two columns in the reporting formats of existing submission ‘Cash & Cash Equivalent balances’ as provided in NSE Circulars no. NSE/INSP/46704 dated December 17, 2020, and NSE/INSP/46960 dated January 08, 2021. Further, in order to capture the details of cash collateral collected from client for MTF positions, one column has also been added. Revised format provided in Circular No. NSE/INSP/50592 dated December 13, 2021 has been made applicable for the week ending on February 12, 2022, and onwards.

#### **8.5 Application Programming Interface (API) for submission of Holding Statement, Cash and Cash Equivalent Balances and Bank Balances**

Exchange vide Circulars Download Ref No. NSE/INSP/51191 dated January 31, 2022, NSE/INSP/51599 dated March 10, 2022, NSE/INSP/51938 dated April 06, 2022, NSE/INSP/52509 dated June 03, 2022, and NSE/INSP/52829 dated June 30, 2022 has introduced Application Programming Interface (API) for submission of Holding Statement, Cash and Cash Equivalent Balances and Bank Balances and the same has been mandatorily made applicable from week ended July 02, 2022 and onwards. Please refer to paragraph 8.4 above for modifications to the extent that reporting of Cash, Cash Equivalent Balances and Bank Balances.

With a view to enhance monitoring of client assets on continuous basis, it has been decided to revise the frequency of submission of Holding statement from weekly to daily and accordingly, members shall be mandatorily required to report daily submissions of Holding Statement through API from day ended January 30, 2023 and onwards, on T+1 basis.

As per the existing functionality, in case of submission of nil holding of clients' securities, Members are required to submit a declaration "No client securities held during the day" to the Exchange through Member portal on a daily basis.

In order to ease out the compliance of the Members, Exchange has decided vide Circular no. NSE/INSP/60046 dated December 29, 2023 to replace the aforesaid daily declaration requirement with One Time Nil Holding declaration for which new functionality has been introduced in the Member portal.

Accordingly, in case of submission of nil holding of clients' securities, Members shall be required to submit a One-time Nil Holding declaration on T+1, which shall stand valid until next holding statement submission. However, non-submission of One Time Nil Holding Declaration within due date shall be treated as non-submission of Holding Statement.

It may be noted that once the submission of Holding Statement becomes applicable again (i.e. Client securities are held by the Member), Member shall be first required to make Bulk Nil Holding submission through Member portal for all the earlier dates for which there were no client securities holdings with Member and then proceed with the submission of Holding Statement through API as per the prescribed timeline of T+1.

Detailed User Manual for submission of NIL Holding Declaration and Bulk Nil Holding is attached as **Exhibit 33**.

#### **8.6 Discontinuation of Reporting of Client Level Cash and Cash Equivalent Balances**

Vide Exchange Circulars no. NSE/INSP/43486 dated February 10, 2020 and NSE/INSP/52509 dated June 03, 2022 reporting of day wise Client Level Cash and Cash Equivalent Balances by members to Exchange through Application Programming Interface (API) on weekly basis have been prescribed.

In accordance with SEBI Circular no. SEBI/HO/MRD2\_DCAP/CIR/2021/0598 dated July 20, 2021, Exchange Circulars no. NSE/INSP/49691 dated September 22, 2021, and NSE/INSP/50069 dated October 22, 2021 on segregation and monitoring of collateral at client level, members are required to submit the relevant details, as sought, to their respective Clearing Members in order to enable them to submit the same to Clearing Corporations. The trading members who are self-clearing members are required to report said data to Clearing Corporations.

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

Further, Exchange vide Circular no. NSE/INSP/57639 dated July 20, 2023 informed members that data reported by them towards segregation and monitoring of collateral at client level



submission to clearing member or clearing corporations as case may be, is used by the Exchange also for undertaking supervisory activities and accordingly, members have been advised to report correct data. Some of the common reasons of incorrect reporting observed by Exchange in the said submission to Clearing Member /Clearing Corporation have also been listed out in **Exhibit 34**.

As Exchange has started using the said submission for the supervisory activities and in order to ease out the compliance burden of the members, Exchange has decided to discontinue the requirements of reporting of day wise Client Level Cash and Cash Equivalent Balances by members.

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

Members attention is also drawn to Exchange Circular no. NSE/ISC/47479 dated February 26, 2021 wherein it was mentioned that the financial ledger balance (Clear) in Cash & Cash Equivalent and securities/ commodities holding in Holding Statement as of Saturday reported by the members on weekly basis shall be disseminated by Exchange to the clients via SMS/Emails on as is basis.

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

Further, it has been observed that certain members are not making submission of segregation and monitoring of collateral at client level to Clearing Members /Clearing Corporations of Saturday.

In view of the same, members are advised to ensure that submission of segregation and monitoring of collateral at client level of Saturday is also made to Clearing Members /Clearing Corporations.

## **8.7 Discontinuation of Reporting of Bank Account Balances and Bank Statements**

Exchange Circulars no. NSE/INSP/43486 dated February 10, 2020 and NSE/INSP/55380 January 25, 2023 prescribed reporting of day wise Bank balances by members to Exchange through Application Programming Interface (API) on daily basis. Further, Exchange also advised Members to submit Bank Statements to Exchange on weekly basis for all bank accounts maintained with Banks other than listed out in Annexure A of the Exchange circular NSE/INSP/48396 dated May 25, 2021.

Exchange vide Circulars no. NSE/INSP/46822 dated December 28, 2020 and NSE/INSP/46930 dated January 06, 2021 advised members to submit Undertaking/Authorization to Exchange to



access the information/statements pertaining to all bank accounts, maintained by members, opened/reported to the Exchange from time to time, from Banks or through a financial technology solution provider authorized by the Exchange. Further, Exchange also advised members to submit written confirmation to be obtained from certain Banks as specified in point (ii) & (iii) of the Exchange Circular no. NSE/INSP/51639 dated March 15, 2022 that Bank shall submit day wise account number wise end of day clear running balances and/or information/statement of all bank accounts maintained with such bank(s) to Exchange on daily/weekly basis as may be required by the Exchange.

In this regard, Exchange has now started receiving information pertaining to bank accounts maintained by the trading members from the Banks as specified in the aforesaid circular dated March 15, 2022. In view of the same and in order to ease out the compliance burden of the members, Exchange has decided, vide Circular no. NSE/INSP/59044 dated October 20, 2023, to discontinue the aforesaid requirements of reporting of Bank Account Balances and Bank Statements by Members from October 30, 2023 and accordingly, period of last submission which would be applicable to member for daily Bank Balance and weekly Bank Statements reporting shall be October 28, 2023/week ending October 28, 2023 due date of the same shall be October 30, 2023 and November 02, 2023 respectively.

The requirement of reporting aforesaid day wise Bank Balances and weekly Bank Statements were introduced with an objective to monitor the availability of client assets with member in accordance with SEBI guidelines on Enhanced Supervision of Stock Broker. Hence, Members are requested to note that it shall be their responsibility to ensure that their Banks submit daily Bank balances on T+1 basis to Exchange.

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

SEBI had directed the members to appoint a person as a 'Designated Director' in addition to Principal Officer to comply with AML/CFT requirements. 'Designated Director' includes -

- i. the Managing Director or a Whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,
- ii. the managing partner if the reporting entity is a partnership firm,
- iii. the proprietor if the reporting entity is a proprietorship concern,
- iv. the managing trustee if the reporting entity is a trust,
- v. a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals vi. such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above."

The members are required to provide details of the Designated Director, such as, name, designation and address to the office of the Director to FIU-IND.

FIU has informed the Exchange that FIU-INDIA has initiated the fresh registration of the Reporting Entities (REs) in FINnet 2.0 system from January 19,2022. As part of the envisaged FINnet 2.0 system, all Reporting Entities (REs) registered in FINnet 1.0 are required to re-register themselves in FINnet 2.0 module. It may please be noted that as part of the re-registration exercise, REs are required not only to register Principal Officer but the details of Designated Director also need to be provided. Further, any new RE who wishes to register afresh with FIU-IND needs to get registered both on FINnet 1.0 and FINnet 2.0 as report filing is still to be done on FINnet 1.0 portal till the time FINnet 2.0 becomes fully functional.

### **8.9 Submission of Internal Audit Report**

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

All stock brokers/clearing members are required to carry out complete internal audit on a half yearly basis by independent qualified Chartered Accountants or Company Secretaries or Cost & Management Accountants who are in practice and do not have any interest in or relation with the Member other than the Internal Audit assignment. As per the relevant circulars issued by the Exchange, all the members are required to submit the report within 2 months from the end of the half-year. Members are advised to refer to the circulars issued by Exchange from time to time for the formats applicable for the respective half-year.

Further, members are advised to adhere to the norms prescribed under clause 4.2 of SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, w.r.t Appointment and Rotation of Internal auditors. Accordingly, members shall not appoint or re-appoint the internal auditor who has completed its term as specified under clause 4.2.1.2 (a) and 4.2.1.2 (b) of aforesaid circular.

With an objective to further strengthen the internal audit process/mechanism, NSE has put in place a framework for empanelment of auditors, who are desirous of taking up assignments relating to internal audit of Trading Members. The Exchange shall accept the internal audit report certified by empanelled auditor only with effect from the half year ending March 31, 2024 onwards.

Further, as advised by SEBI, and to enhance the ease of doing compliance and reduce operational difficulties faced by Members/Audit Firms, the auditors empanelled with any of the Exchange(s), shall be eligible to conduct internal audit of the Trading Members of any of the Exchange(s). The Trading Members may choose any of the empanelled auditors at any of the Exchange(s).

In this regard, the eligibility criteria and detailed procedure for empanelment of the auditors as prescribed in the Exchange Circular No. NSE/INSP/ 60986 dated March 04, 2024, is enclosed as **Exhibit 35**.

As mentioned in the aforementioned Circular, the Audit Firms who meet the prescribed eligibility criteria may submit an online application for empanelment for undertaking

assignments relating to internal audit of Trading Members of the Exchange by using the following URL on the Exchange website – <https://www.nseindia.com/>

Further the format of Undertaking-cum-Affidavit to the Exchange to be submitted by the Audit Firm is also again enclosed as **Exhibit 36**.

#### **8.10 Cyber Security & Cyber Resilience Framework for Stock Brokers**

SEBI vide its Circular No. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 prescribed the Cyber Security & Cyber Resilience Framework for Stock Brokers & Depository Participants.

As per para 58 of Annexure – 1 of abovementioned SEBI Circular dated December 03, 2018, & para 5 of the SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019, periodicity of audit for the purpose of compliance with Cyber Security and Cyber Resilience provisions for different type of Stock Brokers is as specified in SEBI Circular CIR/MRD/DMS/34/2013 dated November 06, 2013 has been prescribed.

To simplify the submission process and ensure uniform formats across Exchanges, the formats for Cyber Security and Cyber Resilience Audit reports submissions have been revised, under the guidance of SEBI and in consultation with other Exchanges. Members are advised to refer the circulars issued by Exchange from time to time for the TOR applicable for the respective audit period.

All Trading members are requested to take note that, for each non-compliance reported by auditor, trading members are required to submit corrective action taken report as per regulatory guidelines. On review of details of corrective action submitted by trading member, the auditor shall submit the status of compliance as Compliant or Non-Compliant on ENIT.

Submission of system audit report shall be considered complete only after trading member submits the report to the Exchange after providing management comments. Further, auditor must provide compliance status for each TOR item as Compliant/Non-Compliant and Not Applicable and in case of any TOR item which is not applicable, auditor is required to provide justification for the non-applicability of said TOR.

As per SEBI's directive, and as per Exchange Circular no. NSE/INSP/48163 dated May 03, 2021 and NSE/INSP/53387 dated August 23, 2022, all Members shall prepare and maintain a Standard Operating Procedure (SOP) with respect to handling of Cyber Security incidents as indicated below:

1. Members shall have a well-documented Cyber Security incident handling process document (Standard Operating Procedure - SOP) in place. Such policy shall be approved by Board of the Member (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be and shall be reviewed annually by the "Internal Technology Committee" as constituted under SEBI Circular no. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, for review of Security and Cyber Resilience policy.

2. Members shall examine the Cyber Security incident and classify the Cyber Security incidents into High/ Medium/ Low as per their Cyber Security incident handling process document. The Cyber Security incident handling process document shall define decision on Action/ Response for the Cyber Security incident based on severity.
3. Members shall report the Cyber Security incident to Indian Computer Emergency Response Team (CERT-In) in accordance with the guidelines / directions issued by CERT-In from time to time. Additionally, the Members, whose systems have been identified as “Protected system” by National Critical Information Infrastructure Protection Centre (NCIIPC) shall also report the incident to NCIIPC.
4. Members shall provide the reference details of the reported Cyber Security incident with Certain to the Exchange and SEBI. Members shall also provide details, regarding whether CERT-In team is in touch with the Member for any assistance on the reported Cyber Security incident. If the Cyber Security incident is not reported to CERT-In, members shall submit the reasons for the same to the Exchange and SEBI. Members shall communicate with CERT-In/ Ministry of Home Affairs (MHA)/ Cyber Security Cell of Police for further assistance on the reported Cyber Security incident.
5. Members shall submit details whether Cyber Security incident has been registered as a complaint with law enforcement agencies such as Police or its Cyber Security cell. If yes, details need to be provided to Exchange and SEBI. If no, then the reason for not registering complaint shall also be provided to Exchange and SEBI.
6. The details of the reported Cyber Security incident and submission to various agencies by the Members shall also be submitted to Division Chiefs (in-charge of divisions at the time of submission) of DOS-MIRSD and CISO of SEBI.
7. The Designated Officer of the Member (appointed in terms of para 6 of the aforementioned SEBI Circular dated December 03, 2018) shall continue to report any unusual activities and events, all Cyber-attacks, threats, cyber-incidents and breaches experienced by Members to NSE (in manner specified by NSE) & SEBI (on the dedicated email ID sbdp- cyberincidents@sebi.gov.in) within 6 hours of noticing / detecting such incidents or being brought to the notice about such incidents as well as submit the quarterly reports containing the information on cyber-attacks, threats, cyber-incidents and breaches experienced by Stock Brokers and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities, threats that may be useful for other Stock Brokers / Depository Participants / Exchanges / Depositories and SEBI shall be submitted to Stock Exchanges within 15 days after the end of the respective quarter in the manner as specified by NSE from time to time.

Further, SEBI vide circular No. SEBI/HO/ITD/ITD\_VAPT/P/CIR/2023/032 dated February 22, 2023 has issued “Advisory for SEBI Regulated Entities (REs) regarding Cyber Security best practices”.

The penalties/ disciplinary action(s)/charges for Cyber Security & Cyber Resilience Audit Report related submissions are provided in Exchange Circular no. NSE/INSP/58755 dated October 05, 2023.

**8.11 Advisory for Stockbroker- Member onboarding for CERT-In Cyber Swachhta Kendra (CSK)**

In recent times, there has been a surge in cyber-attacks in organizations across the globe impacting the continuity of their business operations and causing sensitive data leakage through malware infections at end point computing devices. To mitigate such malware and botnet infections, CERT-In has launched an initiative named 'Cyber Swachhta Kendra' (CSK), which provides information and enables organizations to disinfect the computing devices using free-of-cost malware and botnet cleaning tools.

In view of the above and to create a secure cyber eco-system, Stockbrokers having more than 50,000 active traded clients and also providing Internet Based Trading platform are required to onboard themselves on 'Cyber Swachhta Kendra' Platform. Other members (not part of the above criteria) can also voluntarily subscribe to the services and avail actionable information intelligence from CSK. For receiving the reports/alerts from Cyber Swachhta Kendra on daily basis, Stockbrokers are required to follow the guidelines as given in **Exhibit 37** for onboarding Stockbroker on Cyber Swachhta Kendra Portal.

**8.12 VAPT Audit Report Submission**

SEBI vide its Circular No. SEBI/HO/MIRSD/TDP/P/CIR/2022/80 dated June 07, 2022, have provided partial modification to Annexure – 1 of SEBI Circular dated December 03, 2018 (paragraph 11, 41, 42 and 44). As per modified paragraph 42 & 44, Stock Brokers shall conduct the VAPT at least once in a financial year by engaging only CERT-In empanelled organizations for conducting VAPT and submit the VAPT report to the Stock Exchanges after approval from Technology Committee of respective Stock Brokers, within 1 month of completion of VAPT activity as per the scope defined in modified para 11 & 41 of Annexure – 1 of SEBI Circular dated December 03, 2018. Stock Exchanges in consultation with SEBI, clarified that the VAPT shall be carried out and completed during the period September to November of every financial year and the final report on said VAPT shall be required to be submitted to the Stock Exchanges within one month from the date of completion of VAPT after approval from Technology Committee of respective Stock Brokers vide Exchange Circular NSE/INSP/53387 dated August 23, 2022.

In addition, Stockbrokers shall perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system which is a critical system or part of an existing critical system. Further, any gaps / vulnerabilities detected shall be remedied on immediate basis and compliance of closure of findings identified during VAPT shall be submitted to the Stock Exchanges within 3 months post the submission of final VAPT report.

**8.13 Penalties/Disciplinary action(s) for Non-Submission of VAPT Report and/or Compliance Report and/or non-closure of open vulnerabilities**

In order to ensure strict adherence to the regulatory requirements by Members with the prescribed framework applicable for VAPT submission and timely closure of vulnerabilities, NSE vide Circular No. NSE/INSP/57935 dated August 11, 2023, has prescribed the following penalty with effect from submissions of FY 2023-24 (Including Half yearly for QSB's) and onwards.

**Table – A – Non-submission of VAPT report and/or compliance report within below specified dates by Members (other than QSB's):**

<b>Details of Violation</b>	<b>Penalty/ Disciplinary actions</b>	<b>Penalty/ disciplinary action in case of repeated violation</b>
Non-submission of VAPT report on or before December 31 and/or Compliance report on or before March 31.	<p>1.Charges Rs. 1,500/- per day till first 7 calendar days or submission of report, whichever is earlier.</p> <p>2.Charges of Rs. 2,500/- per day from 8th calendar day to 21st calendar day or submission of report, whichever is earlier</p> <p>3.In case of non-submission of report till 21st calendar days, new client registration shall be prohibited and notice of 7 calendar days for disablement of trading facility till submission of report, shall be issued.</p> <p>4.The disablement notice issued to the member will be shared with all the Exchanges for information.</p> <p>5.In case of non-submission of report by 28th calendar day, Member shall be disabled in all segments till submission of report.</p>	<p>In case of a repeat instance by the Member, levy of applicable monetary penalty along with an escalation of 50%.</p> <p>In case of non-submission of report till 21st calendar days, new client registration shall be prohibited and notice of 7 calendar days for disablement of trading facility till submission of report, shall be issued. The disablement notice issued to the member will be shared with all the Exchanges for information. In case of non-submission of report by 28th calendar day, Member shall be disabled in all segments till submission of report.</p>

**Table – B – Non-submission of VAPT report and/or compliance report within below specified dates by QSB's Members:**

<b>Details of violation</b>	<b>Penalty/ disciplinary actions</b>	<b>Penalty/ disciplinary action in case of repeated violation</b>
Non-submission of VAPT	1.Charges Rs. 3,000/- per day till	In case of a repeat



Details of violation	Penalty/ disciplinary actions	Penalty/ disciplinary action in case of repeated violation
report on or before June 30/December 31 and/or Compliance report on or before September 30/ March 31.	first 7 calendar days or submission of report, whichever is earlier 2.Charges of Rs. 5,000/- per day from 8th calendar day to 21st calendar day or submission of report, whichever is earlier 3.In case of non-submission of report till 21st calendar days, new client registration shall be prohibited and notice of 7 calendar days for disablement of trading facility till submission of report, shall be issued. 4.The disablement notice issued to the member will be shared with all the Exchanges for information. 5.In case of non-submission of report by 28th calendar day, Member shall be disabled in all segments till submission of report.	instance by the Member, levy of applicable monetary penalty along with an escalation of 50%. In case of non-submission of report till 21st calendar days, new client registration shall be prohibited and notice of 7 calendar days for disablement of trading facility till submission of report, shall be issued. The disablement notice issued to the member will be shared with all the Exchanges for information. In case of non-submission of report by 28th calendar day, Member shall be disabled in all segments till submission of report.

**Table C - Penalty/Disciplinary actions applicable in case of non-closure of per open vulnerabilities as reported in VAPT report within period of 3 months as specified hereunder:**

Categories of Risks	For All Members (other than QSBs)	For QSB Members
	Non closure of open vulnerabilities by March 31	Non closure of open vulnerabilities by March 31 (for HY September 30) and by September 30 (for HY March 31)
High/critical Risk	Rs. 50,000/-	Rs. 1,00,000/-
Medium Risk	Rs. 25,000/-	Rs. 50,000/-
Low Risk	Rs. 10,000/-	Rs. 20,000/-



Apart from the monetary penalty mentioned above, if High/Critical/Medium vulnerability is not closed by member within 21 days from the due date of submission of compliance report, new client registration shall be prohibited and notice of 7 days for disablement of trading facility shall be issued. If the vulnerability is not closed during this notice period, then member shall be disabled in all segments till closure of the vulnerability. The disablement notice issued to the member will be shared with all the Exchanges for information.

The penalty/disciplinary action as mentioned above shall come into effect from submissions of FY 2023-24 (Including Half yearly for QSB's) and onwards.

#### 8.14 System Audit of Trading Members

In accordance with SEBI Circular No. CIR/MRD/DMS/34/2013 dated November 6, 2013 and Exchange Circular No. NSE/CMTR/26285, NSE/FAOP/26283 and NSE/CD/26284 dated March 25, 2014 in relation to systems audit requirement, trading members are required to carry out system audit of their trading facility as per the following applicability criteria and timelines:

##### Applicability criteria

		Members using the trading software							
Sr. No.	Category of Member	Only NEAT		Both NEAT and NNF and presence in ≤ 10 have ≤ 50 terminals		Both NEAT and NNF and presence in > 10 locations or have > 50 terminals		NEAT, NNF and ALGO (irrespective of location and terminals)	
		Terms of Reference (ToR)	Frequency of audit	Terms of Reference (ToR)	Frequency of audit	Terms of Reference (ToR)	Frequency of audit	Terms of Reference (ToR)	Frequency of audit
1	Stock Brokers /Trading Members			Type - II	Once in 2 years	Type - II	Annual	Type - III	Half yearly
2	Stock Broker/Trading Members who are also depository participants or are involved in offering any other financial	Type - I	Annual	Type - II	Annual	Type - II	Annual	Type - III	Half yearly

services								
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**Note:** Trading software provided by the Exchange (NEAT / NEAT+) and software provided by Application Service Provider (ASP) shall not be covered in the system audit.

All Trading members are requested to take note that, for each non-compliance reported by auditor, trading members are required to submit corrective action taken report as per regulatory guidelines. On review of details of corrective action submitted by trading member, the auditor shall submit the status of compliance as Compliant or Non-Compliant on ENIT.

Submission of system audit report shall be considered complete only after trading member submits the report to the Exchange after providing management comments. Further, auditor must provide compliance status for each TOR item as Compliant/Non-Compliant and Not Applicable and in case of any TOR item which is not applicable, auditor is required to provide justification for the non-applicability of said TOR.

As part of system audit requirement auditor submits the compliance status of System audit ToR along with the compliance of section/clause 4 related to algorithmic trading for all Algo IDs used by trading members. Further, auditors will be provided Algo MIS Link under Auditor MIS Tab (ENIT Portal) which will be a screen-based submission where a list of all the Registered / Approved Algo IDs of trading member shall be provided for ease of reference. In case if any Algo ID is not complying with 38 checks of Section 4, auditor shall provide the details of non-compliant ToR point(s) along with their observations. The system audit report can be submitted only after submission of Algo MIS Report with digital signature of auditor.

Further, Members are advised to refer the circulars issued by Exchange from time to time for the ToR applicable for the respective audit period.

The penalties/ disciplinary action(s)/charges for Cyber Security & Cyber Resilience Audit Report related submissions are provided in Exchange Circular no. NSE/INSP/58755 dated October 05, 2023.

**8.15 Penalties/ disciplinary action(s)/ charges for System Audit Report and Cyber Security & Cyber Resilience Audit Report related submissions**

This is with reference to and partial modification of NSE Circular Ref No-NSE/INSP/53530 dated September 02, 2022, NSE/INSP/54386 dated November 11, 2022, & NSE Circular No. NSE/INSP/56308 dated April 10, 2023, regarding penalties/disciplinary action(s)/charges for Delayed/Non submission of preliminary audit report, Action Taken Report (ATR) and non-closure of observations reported in System Audit Report and Cyber Security & Cyber Resilience Audit Report of Trading Members.

Accordingly, members are requested to take note of the revised framework of penalties/disciplinary action(s)/charges related to Delayed/Non submission of preliminary audit report, Action Taken Report (ATR), and non-closure of reported observations.

The revised penalty/disciplinary action(s) with respect to any delay or non-submission of Preliminary Audit Report and Action Taken Report (ATR) are stipulated in Table- A below:

**Table-A: Penalty/Disciplinary action for Delayed / Non-submission of Preliminary audit / ATR**

Details of Violation	Periods of violation	Penalty/ disciplinary actions	Penalty/ disciplinary action in case of repeated violation
Delay / Non-submission of Preliminary audit/ATR in case of System audit report / cyber security and cyber resilience audit report.	From 1st day to 7th day:	Charges Rs. 1,500/- per day for Non QSB & Rs. 3,000/- per day for QSB from the due date till first 7 calendar days or submission of	In case of a repeat instance by the Member, levy of applicable monetary penalty along with an escalation of 50%.
	From 8th day to 21st day:	Charges of Rs. 2,500/- per day for Non QSB & Rs. 5,000/- per day for QSB from 8th calendar day after the due date to 21st calendar day or submission of report, whichever is earlier.	Levy of applicable monetary penalty along with an escalation of 50%.
	From 22 <sup>nd</sup> day onwards:	In case of non-submission of report till 21st calendar days, new client registration shall be prohibited and notice of 7 calendar days for disablement of trading facility till submission of report, shall be issued. The disablement notice issued to the member will be shared with all the Exchanges for information.	
	After 28 <sup>th</sup> day:	In case of non-submission of report by 28th calendar day, Member shall be disabled in all segments till submission of report.	

Further, members are required to submit closure status of all the non-compliances reported in System Audit and Cyber Security and Cyber Resilience Audit by submitting Action Taken Report (ATR) within the prescribed timelines. To ensure strict adherence for closure of non-compliances within the prescribed timelines, the following penalty as provided in Table-B shall be applicable for non-closure of observations reported in ATR submissions.

**Table-B: Penalty/Disciplinary action for Non- closure of observations reported in System Audit Report & Cyber Security and Cyber Resilience Audit Report**

Risk rating reported by auditor	Applicable penalties for each High/Medium/Low risk non-closure of non-Compliances, which have not been closed in ATR (i.e., within prescribed timelines of submission of due date of preliminary audit report)			
	Non QSB Members		QSB Members	
	System Audit Report	Cyber Audit Report	System Audit Report	Cyber Audit Report

High Risk	Rs. 15,000/-	Rs. 50,000/-	Rs. 30,000/-	Rs. 1,00,000/-
Medium Risk	Rs. 7,500/-	Rs. 25,000/-	Rs. 15,000/-	Rs. 50,000/-
Low Risk	Rs. 2,500/-	Rs. 5,000/-	Rs. 5,000/-	Rs. 10,000/-

- In case observations are not closed by members within three weeks from the due date for submission of Action Taken Report (ATR), new client registration to be prohibited and notice of 7 days for disablement of trading facility till closure of observation(s).
- The disablement notice issued to the member shall be shared with all the Exchanges for information. In case of non-closure of observation(s) within four weeks from the due date of submission of ATR, Member shall be disabled in all segments until closure of observations(s).

#### **8.16 Risk Based Supervision**

As communicated vide Exchange Circular no: NSE/INSP/28288 dated December 8, 2014, SEBI/Exchanges had put in place a system of “Risk Based Supervision” of Members in order to regulate the marketplace effectively and strengthen its regulatory framework.

##### **Risk Based Supervision Model follows four distinct steps:**

- Assessing the risk posed by a market entity,
- Assigning ‘risk and impact rating’ to it,
- Determine the supervisory risk rating score
- Adopt a suitable supervisory approach.

In this regard, SEBI has formulated a Risk Assessment template in consultation with Stock Exchanges and various Member Associations, Member risk is calculated based on the information available with Exchange and details submitted by members to Exchange. The submission is to be made electronically through ENIT only and no physical copies need to be submitted to the Exchange.

The submission of RBS data is mandatory for all active Members of the Exchange (i.e. those who have executed even a single trade during the submission period (respective Half Year/ Financial Year)) and in case of any non-submission by a member, appropriate disciplinary action may be initiated. Members are also requested to preserve and maintain the working of the data submitted for Risk Based Supervision as the same may be verified during the inspections.

#### **8.17 Submission of data with respect to Onsite/Offsite inspection and Enforcement through ENIT.**

In our continuous endeavour to deliver superior customer experience, we have released “Inspection Data Communication” module on ENIT for submission of data/ clarifications to the Exchange with respect to onsite/offsite inspection and Enforcement. The members would be able to access the said module through: ENIT>My Inspection> Inspection Data Communication.

Key features of the module are as follow:

- Members can view all the queries/ data requirements for each onsite/offsite inspection and Enforcement under a unique case id on the module and submit their response against respective query.
- Members shall receive a mail intimation for each new query/ data requirement.
- Members can track their previous submissions to the Exchange queries along with timelines.
- Navigation made easy and simple.

Detailed process manual on the operations of above module is enclosed as **Exhibit 38**.

Members may kindly note that all queries/ data requirements related to onsite/offsite inspections commenced with effect from February 15, 2023 shall be communicated through “Inspection Data Communication” and members are advised to submit relevant data/clarifications through said ENIT module only.

#### **8.18 Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs).**

SEBI, vide Gazette Notification dated January 17, 2023, amended the SEBI (Stock Brokers) Regulations, 1992 for designating certain stock brokers as QSBs. Subsequently, SEBI vide Circular No. SEBI/HO/MIRSD/MIRSDPoD-1/P/CIR/2023/24 dated February 06, 2023, on “Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs)” enumerated the parameters for designating certain stock brokers, having regard to their size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, as Qualified Stock Brokers (QSBs), on the basis of certain parameters and appropriate weightages thereon.

The following four parameters were considered for designating a stock broker as QSB, on an annual basis:

- 1.1 the total number of active clients of the stock broker;
- 1.2 the available total assets of clients with the stock broker;
- 1.3 the trading volumes of the stock broker (excluding the proprietary trading volume of the stock broker);

1.4 the end of day margin obligations of all clients of a stock broker (excluding the proprietary margin obligation).

Exchange, vide Circular No. NSE/INSP/55875 dated March 03, 2023, released the list of stock brokers designated as Qualified Stock Brokers (QSBs). Further, vide Circular no. NSE/INSP/56927, dated June 01, 2023, the Exchange in consultation with SEBI and other Exchanges has formulated comprehensive operating guidelines applicable to designated QSBs along with timelines for adherence to said compliance requirements.

Please find enclosed the following Exhibits in this regard:

- 1 Comprehensive operating guidelines- **Exhibit 39\***
- 2 Formats for reporting of compliances with operating guidelines to Exchange- **Exhibit 40.**

***Measures to instil trust in the securities market – Expanding the Framework of Qualified Stock Brokers (QSBs) to more brokers***

SEBI vide Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024, on “Measures to instil trust in securities market – Expanding the framework of Qualified Stock Brokers (QSBs) to more stock brokers” has extended the framework of QSBs to more stock brokers and enumerated the following parameters, in addition to the aforementioned four parameters:

1.5 the proprietary trading volumes of the stock broker who are engaged in clients’ trading;

1.6 compliance score of the stock broker, derived by assigning highest score to stock brokers with highest penalties levied across Exchanges; and

1.7 grievance redressal score of the stock broker, derived by assigning highest score to stock brokers with highest count of investor complaints received across Exchanges.

Accordingly, on the basis of the parameters defined in the aforesaid Circular, the revised list of designated Qualified Stock Brokers (QSBs) is enclosed as **Annexure** of the said circular (list is in alphabetical order and is not indicative of ranking).

\* Item 1 (Column E) of Annexure A of the Exchange circular ref. no.: NSE/INSP/56927, dated June 01, 2023, states that “A minimum number of 4 meetings of its Board of Directors /Committee of the Board is required to be held every financial year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board”.

Exchange has received the representations from QSBs on frequency of meetings of Nomination and Remuneration Committee (NRC). Based on these representations, the Exchange, in joint consultation with Other Exchanges and SEBI, clarified vide Circular No. NSE/INSP/61134 dated March 14, 2024 that “The Nomination and Remuneration Committee shall meet at least once a year or as and when events as specified in the aforesaid Exchange Circular occur which mandate the conduct of the meeting.”

These QSBs shall be required to meet enhanced obligations and discharge additional responsibilities as specified in Comprehensive Operating Guidelines issued vide Exchange Circular no. NSE/INSP/56927 dated June 01, 2023.

The effective date of implementation for different QSBs based on parameters by which they are designated as QSBs has been prescribed in the Table below:

<b>Parameters based on which a Stockbroker is designated as QSB</b>	<b>Applicability of the Circular*</b>
Parameters mentioned at para 1.1 to 1.5 above (i.e. para 4.1.1 to 4.1.5 of the SEBI Circular dated March 11, 2024)	June 01, 2024
Parameters mentioned at para 1.6 and 1.7 above (i.e. para 4.1.6 to 4.1.7 of the SEBI Circular dated March 11, 2024)	September 01, 2024

\*For QSBs which are common between the lists in Annexure A, the date of applicability of the Circular shall be June 01, 2024.

Stock Brokers designated as QSBs vide Exchange Circular no. NSE/INSP/55875 dated March 03, 2023, and not included in Annexure of Circular No. NSE/ INSP/56927, dated June 01, 2023, shall continue to comply with the enhanced obligations and responsibilities, for an additional period of 3 financial years or such time, as may be specified by the Exchange, in consultation with SEBI.

#### **8.19 Framework for Adoption of Cloud Services by SEBI Regulated Entities (REs).**

SEBI vide Circular no. SEBI/HO/ITD/ITD\_VAPT/P/CIR/2023/033 dated March 06, 2023 has issued “Framework for Adoption of Cloud Services by SEBI Regulated Entities (REs)”. The objective of the framework is to highlight the key risks, and mandatory control measures which REs need to put in place before adopting cloud computing. The document also sets out the regulatory and legal compliances by REs if they adopt such solutions.



**REGULATORY REQUIREMENTS/ REFERENCES:**

1	Compliance Calendar	Circular no. NSE/INSP/2004/32, download reference no. NSE/INSP/5496 dated 4th October 2004
2	Enhanced Supervision of Stockbrokers	<p>SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016</p> <p>Download Ref. No.: NSE/INSP/33276; dated September 27, 2016 ; NSE/INSP/33861 dated December 21, 2016</p> <p>NSE/INSP/35184 dated June 23, 2017; NSE/INSP/35412 dated July 20, 2017</p> <p>SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2018/153 dated December 17, 2018,</p> <p>Download Ref No: NSE/INSP/39731, Circular Ref. No: 352/2018 dated December 21, 2018</p> <p>Download Ref No: NSE/INSP/43486, Circular Ref. No: 05/2020 dated February 10, 2020</p> <p>Download Ref No: NSE/INSP/43926, Circular Ref. No: 19/2020 dated March 23, 2020</p> <p>Circular Ref. No. NSE/INSP/46704 dated December 17, 2020; Download Ref No: NSE/INSP/46960, Circular Ref. No: 02/2021 dated January 08, 2021</p> <p>Download Ref No: NSE/INSP/48109, Circular Ref. No: 22/2021 dated April 28, 2021</p> <p>Download Ref no: NSE/INSP/50012, Circular Ref. No: 49/2021 Dated: October 19, 2021</p> <p>Download Ref No: NSE/INSP/50592, Circular Ref. No. 61/2021 dated December 13, 2021</p> <p>Download Ref No: NSE/INSP/50901, Circular Ref. No: 02/2022 dated January 04, 2022</p> <p>Download Ref No: NSE/INSP/51056, Circular Ref. No: 06/2022 dated January 18, 2022</p> <p>Download Ref No: NSE/INSP/52724, Circular Ref. No: 47/2022 dated June 24, 2022; Circular NSE/INSP/60283 dated January 16, 2024</p>
3	Guidelines for maintaining bank accounts and Reporting of Bank & Demat Accounts	<p>Download Ref. No.: NSE/INSP/2016/33409 dated October 14, 2016 and NSE/INSP/2016/33502 dated October 26, 2016;</p> <p>Download Ref No: NSE/INSP/46822, Circular Ref. No: 80/2020 dated December 28, 2020; Download Ref No: NSE/INSP/46930, Circular Ref. No: 1/2021 dated January 06, 2021</p>

		<p>SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/653 dated October 28, 2021, Download Ref No: NSE/INSP/50164, Circular Ref. No: 54/2021 dated October 29, 2021</p> <p>Download Ref. No.:</p> <p>NSE/INSP/46729 dated December 18,2020</p> <p>NSE/INSP/46280 dated November 06, 2020</p> <p>NSE/INSP/46469 dated November 27, 2020</p> <p>NSE/INSP/47277 dated February 08,2021</p> <p>NSE/INSP/51235 dated February 03, 2022</p> <p>NSE/INSP/51639 dated March 15, 2022</p> <p>NSE/INSP/51985 dated April 12, 2022</p> <p>SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Download Ref. No.: NSE/INSP/33276; dated September 27, 2016 SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017,</p> <p>Download Ref. No.: NSE/INSP/35184 dt June 23, 2017. SEBI Circular SEBI/HO/MIRSD/MIRSD_DPIEA/P/CIR/2022/83 dated June 20, 2022, Download Ref. No.: NSE/INSP/ 52677; dated June 20, 2022 and NSE/INSP/55904 dated March 09, 2023; SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023; Exchange Circular NSE/INSP/57041 dated June 09, 2023,</p>
4	Submission of data for monitoring of clients' funds lying with the stock broker – Cash & Cash Equivalent Submission	<p>Download Ref. No.:</p> <p>NSE/INSP/34379 dated March 15, 2017;</p> <p>NSE/INSP/35412 dated July 20, 2017;</p> <p>NSE/INSP/37395 dated April 02, 2018;</p> <p>NSE/INSP/37580 dated April 20, 2018</p> <p>NSE/INSP/46704 dated December 17,2020</p> <p>NSE/INSP/46960 dated January 08,2021</p> <p>NSE/INSP/50592 dated December 13,2021</p> <p>NSE/INSP/53531 dated September 02, 2022</p>
5	Application Programming Interface (API) for Weekly submission of Holding Statement, Cash and Cash Equivalent Balances and Bank	<p>Download Ref. Nos:</p> <p>NSE/INSP/51191 dated January 31, 2022, NSE/INSP/51599 dated March 10, 2022, NSE/INSP/51938 dated April 06, 2022, , and NSE/INSP/52829 dated June 30, 2022, NSE/INSP/55039 dated December 28, 2022, NSE/INSP/55250 dated January 13, 2023 and</p>

	Balances	
6	Discontinuation of Reporting of Client Level Cash and Cash Equivalent Balances	Download Ref. No.: Exchange Circulars NSE/INSP/43486 dated February 10, 2020 and NSE/INSP/52509 dated June 03, 2022; SEBI Circular SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021, Exchange Circulars NSE/INSP/49691 dated September 22, 2021; NSE/INSP/ 57639 dated July 20, 2023; Exchange Circular NSE/ISC/47479 dated February 26, 2021
7	Discontinuation of Reporting of Bank Account Balances and Bank Statements	Download ref. no.: Exchange Circulars NSE/INSP/43486 dated February 10, 2020 and NSE/INSP/55380 January 25, 2023; NSE/INSP/46822 dated December 28, 2020 and NSE/INSP/46930 dated January 06, 2021; NSE/INSP/59044 dated October 20, 2023
8	Submission of Designated Director details to FIU-IND	Download Ref. No.: NSE/INSP/27039; Circular Ref. No.: 189/2014 dated June 30, 2014; Download Ref. No.: NSE/INSP/27404; Circular Ref. No.: 195/2014 dated August 22, 2014.
9	Submission of Internal Audit Report	SEBI Circular MIRSD/DPSIII/Cir-26/08 dated August 22, 2008; Download Ref. No. NSE/INSP/11537 dated October 23, 2008; NSE/INSP/12174 dated March 25, 2009; NSE/INSP/19176 dated October 19, 2011; SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; Download Ref. No.: NSE/INSP/33276; dated September 27, 2016  Download Ref. No.: NSE/INSP/36239 dated November 03,2017  Download Ref. No.: NSE/INSP/51110 dated January 24, 2022  Download Ref. No.: NSE/INSP/ 51939 dated April 06, 2022; the Exchange Circular No. NSE/INSP/59789 dated December 15, 2023; Exchange Circular No. NSE/INSP/61585 dated April 12, 2024;
10	Cyber Security & Cyber Resilience Framework for Stockbrokers	Download ref. no.: SEBI Circular no. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019, SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022, SEBI/HO/MIRSD/TPD/P/CIR/2022/93 dated June 30, 2022 and Exchange Circular no. NSE/ITRC/40081 dated January 30, 2019, NSE/INSP/42422 dated October 16, 2019, NSE/INSP/52605 dated June 10, 2022 and NSE/INSP/53387 dated August 23, 2022 and NSE/INSP/61769 dated April 26, 2024
11	Advisory for Stockbroker- Member onboarding for CERT-In Cyber Swachhta Kendra (CSK)	NSE/INSP/58951 dated October 16, 2023

12	VAPT Audit Report Submission	Download Ref. No.: SEBI Circular No. SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022, Exchange Circular no. NSE/INSP/53387 dated August 23, NSE/INSP/58471 dated September 20, 2023
13	Penalties/Disciplinary action(s) for Non-Submission of VAPT Report and/or Compliance Report and/or non-closure of open vulnerabilities	Download Ref. No.: Exchange Circular no. NSE/INSP/57935 dated August 11, 2023
14	System Audit of Trading Members	Download Ref No: SEBI Circular CIR/MRD/DMS/ 34 /2013 dated November 6, 2013, Exchange Circular no. NSE/CMTR/26285 dated March 25, 2014; NSE/FAOP/26283 dated March 25, 2014; NSE/CD/26284 dated March 25, 2014; NSE/INSP/61770 dated April 26, 2024.
15	Penalties/Disciplinary action(s) for Non-Submission of Preliminary Audit Report and/or Corrective Action taken Report and/or non-closure of non-Compliances reported in System Audit Report and Cyber Security and Cyber Resilience Audit Report	Download Ref. No.: NSE Circular no - NSE/INSP/58755 October 05, 2023.
16	Risk Based Supervision	Download Ref No: NSE/INSP/28288 dated December 8, 2014, Download Ref No: NSE/INSP/28389 dated December 18, 2014 Download Ref No: NSE/INSP/61572, dated April 12, 2024
17	Submission of data with respect to Onsite/ Offsite inspection and Enforcement through ENIT	Download Ref No: NSE/INSP/55042 dated December 29, 2022
18	Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs).	Download Ref No: NSE/INSP/55532 dated February 07, 2023 and : NSE/INSP/55875 dated March 03, 2023; NSE/ INSP/56927, dated June 01, 2023; SEBI Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024; Exchange Circular no. NSE/INSP/56927 dated June 01, 2023; Exchange Circular no.

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		NSE/ISNP/61134 dated March 14, 2024.
19	Framework for Adoption of Cloud Services by Regulated Entities (REs)	SEBI Circular No. SEBI/HO/ITD/ITD_VAPT/P/CIR/2023/033 dated March 06, 2023 (Download ref no: NSE/INSP/55895 dated March 08, 2023)

**ITEM 9****ENFORCEMENT ACTIONS****9.1 Enforcement actions against the Trading Members**

Trading Members are requested to note that all the circulars related to penalty/disciplinary actions have been reviewed and consolidated into a common penalty structure and is enclosed as Schedule I of aforesaid Circular Download Ref. No: NSE/INSP/53530 dated September 2, 2022. This circular is not applicable to any non-compliances/actions related to surveillance /investigation except to the extent covered therein. Revisions in penalty as mentioned in Schedule I including penalties prescribed for repeat violations as mentioned shall be effective for all LOs issued with effect from September 8, 2022. Further, it may also be noted that where the discretion for levy of monetary penalty was available in the above circulars the same stands modified to the extent that all such discretion stands withdrawn. The **Schedule I** additionally covers penalties which are as under:

- The Penalties /disciplinary action(s)/charges for delay or non-submission of various periodic submissions as per **Annexure 1**.
- The Penalties /disciplinary action(s) for non-adherence to membership/ compliance requirements are per **Annexure 2**.
- The Penalties /disciplinary action(s) for non-compliances by the Market Maker in SME Segment and penalty for abnormal and non-genuine trade are as per **Annexure 3**.
- Disciplinary action in case of Net worth shortfall and non-submission of Net worth are as per **Annexure 4**.
- Penalties for non-adherence to the Guidelines on Technical Glitches to prevent business disruptions as per **Annexure 5**.

Upon receipt of Trading Members' response to Exchange Communications, including the LO, the Exchange shall consider the same as final, and complete the enforcement actions by issuing an Action Letter.

Failure to submit a response to the LO within the prescribed timelines would be construed as "No additional information is available", and the Exchange shall proceed to complete the enforcement action based on the available documents.

It is brought to the notice of the Trading Members that any failure to adhere to the timelines unless extended by the Exchange as specified in the Exchange Communications, including the LO, shall be treated as non-cooperation, and appropriate disciplinary proceedings shall be initiated under Chapter IV of NSEIL Rules.

Attention in this regard is also drawn to Rule 17 under Chapter IV of NSEIL Rules which clearly stipulates that Reconsideration/Review of any order passed by the Exchange is only at the suo-moto discretion of the Committee.

The existing process of placing the matters before Member and Core Settlement Guarantee Fund Committee ("MCSGFC") will continue to be followed for observations involving disciplinary action like the prohibition of onboarding of new clients, restriction on the onboarding of Authorized Persons or any action like disablement, suspension, expulsion, and declaration of default. In such cases, the Exchange shall issue a show cause notice and provide an opportunity of personal hearing before MCSGFC. However, the disablement of terminals shall continue to be applicable as per existing provisions/process for the following:

- Violations mentioned in Annexure 1 & 4 of Schedule I.
- Under SEBI SOP Circular SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020 regarding Trading Member / Clearing Member leading to default.

These provisions of the circular have come into effect from September 8, 2022.

## 9.2 **Penalty Dashboard**

The Exchange vide Circular no. NSE/INSP/58613 dated September 27, 2023 has introduced a new functionality viz. 'Penalty Dashboard' in the Inspection tab of Member Portal. Penalty Dashboard provides information regarding penalties imposed, along with specific violations associated with each penal action on an on-line basis. Penalty dashboard is designed to provide information to members on observed non-compliances and associated penal actions. It is a centralized platform where the data is consolidated from various regulatory functions and the information is made available at one place.

Salient features of the Penalty Dashboard are as follows:

1. Members will have access to information about function-wise penalties levied by the Exchange, enabling them to monitor their compliance status and take timely corrective actions.
2. A separate tab where Member can view the last 10 penalties imposed by the Exchange.
3. Members will have access to financial year wise historical penalty data facilitating detailed analysis to enhance overall compliance.
4. All members having access to Member Portal > Inspection will have access to Penalty Dashboard functionality.

Members may kindly refer to the process manual enclosed herewith as **Exhibit 41 for** detailed instructions on how to access and use the dashboard.

The Exchange introduced additional functionalities in the Penalty Dashboard vide its Circular dated November 29, 2023.

Additional functionalities in the Penalty Dashboard are:

- Expected / Indicative penalty.
- Directions given by Relevant Authority for specific compliance.



- IGRP orders / Arbitration awards
- Compliance Calendar and
- Know Your Penalties

These features are developed to assist members in understanding and adhering to various compliance requirements of the Exchange.

A brief note on:

1. Expected / Indicative penalty: The Expected penalty will include the indicative penalties as per Exchange Circular No. NSE/INSP/53530 dated September 02, 2022, pursuant to the Letter of Observations issued by the Exchange post November 27, 2023. The penalties mentioned are only indicative in nature and subject to revision, if any. The Relevant Authority of the Exchange shall take the final decision on the penalty actions after considering your submissions.
2. Directions given by Relevant Authority for specific compliance: The specific compliances to be adhered to by Trading Member as directed by the Relevant Authority shall be displayed under this tab along with status of compliance and due date. This will assist the Trading Member to track the compliance status more effectively.
3. IGRP orders / Arbitration awards: The details of IGRP orders / Arbitration awards will be displayed under this tab. The details include the IGRP / Arbitration / Appellate Arbitration ref. no., date, amount and collection details pursuant to the IGRP orders / Arbitration / Appellate awards.
4. Compliance Calendar: The calendar will include compliances applicable to Trading Members for the current month and the same will be updated on a monthly basis for subsequent month. This includes submission timelines for various periodic compliances along with due date for each compliance submission.
5. Know Your Penalties (KYP): The Know Your Penalties (KYP) contains those penalty provisions where the Exchange has observed maximum non-compliances committed by Trading Members. All such identified penalties are collated and explained in a concise manner in KYP so that the Trading Member can use it as a ready reckoner and take required corrective measures to avoid penalties.

For ease of reference, snapshots of location of new functionalities is given in **Exhibit 41**

While Penalty dashboard endeavours to provide correct and latest information about the penal actions taken by various regulatory functions, the same is provided for quick reference and for general purposes only and may not be considered as final penalty. The Trading Members are advised to refer official communication received from the National Stock Exchange of India Limited for authenticity of the penal actions. National Stock Exchange of India Limited is not responsible for any errors or omissions, or any losses caused due to the usage of this information in dashboard.

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The Exchange is in the process of incorporating more features in the Penalty Dashboard in subsequent releases to provide additional information to Members. The same will be intimated to all Members as and when it is implemented in the dashboard. For any queries pertaining to the dashboard, please reach out to us at [dl-insp-enforcement@nse.co.in](mailto:dl-insp-enforcement@nse.co.in) mentioning the subject line as 'Penalty Dashboard'.

Compliance Calendar includes compliances which have specific due dates and does not include routine/ongoing/event-based compliances like client code modification, error account etc.

All Members are requested to note that the amount collected in the form of penalty does not constitute any part of the revenue of NSE. The entire amount of penalty collected is credited to Investor Protection Fund (IPF) account.

**REGULATORY REQUIREMENTS/ REFERENCES:**

1	Enforcement actions against the Trading Members	Circular Download Ref. No: NSE/INSP/53530 dated September 2, 2022, Download Ref No: NSE/INSP/54386 dated November 11, 2022, NSE/INSP/56053 dated March 20, 2023.
2	Penalty Dashboard	NSE/INSP/58613 dated September 27, 2023 NSE/INSP/59543 dated November 29, 2023