

<b>Department: Inspection</b>	<b>Segment: All</b>
<b>Circular No: MSE/INSP/15274/2024</b>	<b>Date: April 30, 2024</b>

**Subject: Master Circular – Inspection**

To All Members,

Exchange to facilitate members to comply with the regulatory requirements, has further consolidated regulatory requirements prescribed through various circulars issued by the Inspection Department of the Exchange till March 31, 2024, and attached herewith as **Annexure A**.

This Master circular is a compilation of relevant circulars issued by the Exchange which are operational as on date of this circular. Efforts have been made to incorporate applicable provisions of existing circulars issued by SEBI.

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- a) Anything done or any action taken or purported to have been done or contemplated under the rescinded guidelines before the commencement of this Master Circular shall be deemed to have been done or taken or commenced or contemplated under the corresponding provisions of the Master Circular or rescinded guidelines whichever is applicable.
- b) The previous operation of the rescinded guidelines or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded guidelines, any penalty, incurred in respect of any violation committed against the rescinded guidelines, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded guidelines have never been rescinded.”

Please note that for detailed specific requirements, members are advised to refer respective circulars.

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

**Praveenkumar Acharya**  
**AVP – Inspection and Membership Department**

In case of any query kindly contact Inspection Department on (022) 6112 9000 or mail on [compliancemsx@msei.in](mailto:compliancemsx@msei.in)

**Metropolitan Stock Exchange of India Limited**



# **MASTER CIRCULAR INSPECTION - 2024**

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## **ITEM 1- CLIENT REGISTRATION**

### **1.1 Account Opening Process**

The stockbroker shall make available a folder /book containing all the documents required for the registration of a client. The folder/book shall have an index page listing all the documents contained in it and indicating briefly the significance of each document.

SEBI has devised uniform documentation to be followed by all the stockbrokers/ trading members. The client account opening Form in two parts:

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

#### (a) 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 will now be required to sign only one document i.e., Account Opening Form. Further, in the same form, the client shall continue to put his signatures instead of saying "yes" or "tick mark" while indicating preferences for trading in different exchanges / segments, in accordance with existing requirements. However, in case the investor wants to avail the Running Account facility, execute Power of Attorney, etc., he would have to give specific authorization to the stockbroker in order to avoid any dispute in the future.

Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to its presently being recognized as Proof of Identity.

In consultation with Unique Identification Authority of India (UIDAI) and the market participants, e-KYC service launched by UIDAI can also be accepted as a valid process for KYC verification. The information containing relevant client details and photograph made available from UIDAI because of e-KYC process shall be treated as sufficient proof of Identity and Address of the client. However, the client shall have to authorize the intermediary to access his data through the UIDAI system.

SEBI vide circular dated October 8, 2013 and Exchange Circular No. MSEI/INSP/3788/2016 dated January 25, 2016 enabled Aadhaar based e-KYC service offered by UIDAI for KYC verification. Intermediaries have sought clarifications from SEBI on certain operational aspects of the same. It is clarified that for accessing the details enabling client identification and authentication from UIDAI based on



client authorization, on voluntary basis, intermediaries who utilize the services of KYC Service Agencies (KSAs) would be registered as KYC User Agencies (KUA) with UIDAI.

1. For entering account-based relationship, the client may provide the following information to the intermediary:
  - i. Name
  - ii. Aadhaar number
  - iii. Permanent Account Number (PAN)
2. The above information can be provided by the client electronically including through any web enabled device.
3. The intermediary shall perform verification of the client with UIDAI through biometric authentication (fingerprint or iris scanning).
4. The PAN of such client is to be verified from the income tax website.
5. After due validation of Aadhaar number provided by the client, the intermediary (acting as KUA) shall receive the KYC information about the client from UIDAI through KSA.
6. The information downloaded from UIDAI shall be considered as sufficient information for the purpose of KYC verification. The intermediary shall upload this KYC information on the KRA system in terms of KRA Regulations.
7. In case material difference is observed either in the name (as observed in the PAN vis-a-vis Aadhaar) or photograph in Aadhaar is not clear, the intermediary shall carry out additional due diligence and maintain a record of the additional documents sought pursuant to such due diligence.
8. The records of KYC information so received shall be maintained by the intermediary as per the SEBI Act, Regulations and various circular thereunder.

The Stockbroker 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.

SEBI, in consultation with various market participants, decided to shift 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 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. However, in view of existing pre-printed forms

available with the intermediaries, a period of six months, effective from the date of the circular, is provided to bring about the modifications in the KYC form. Refer to SEBI circular No. CIR/M I RSD/ 13 /2013 dated December 26, 2013.

The above modifications would assist in avoiding repeated modifications in the KRA system as information provided by the clients in Section C changes over a period and will facilitate making the KYC uniform for the entire financial sector.

**2. Document stating the Rights & Obligations of stockbroker, sub-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. Uniform Risk Disclosure Documents (for all segments / exchanges)**

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

**5. Policies and Procedures**

Document describing significant policies and procedures of the stockbroker.

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

- Refusal of orders for penny stocks. (Illiquid securities may be considered while defining penny stocks by TM).
- Setting up client's exposure limits.
- Applicable brokerage rate.
- Imposition of penalty / delayed payment charges by either party specifying the rate & the period. The same should not result in funding.
- 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.
- Internal Shortage.
- Conditions under which a client may not be allowed to take further position, or the broker may close the existing position.
- Temporarily suspending or closing a client's account at the client's request, and
- Deregistering a client.
- Tariff Sheet – Document detailing the rate/amount of brokerage and other charges levied on the client for trading on the stock exchange(s).

The framework applicable to trading members is given in the Exchange Circular no: MSE/MEM/12246/2022 dated September 02, 2022.

#### **6. SARAL Account Opening Form: -**

The majority of new investors in the securities market begin with participation in the cash segment without obtaining various other facilities such as internet trading, margin trading, derivative trading and use of power of attorney. The account opening process has been simplified for such individual investors. With a view to encouraging their participation, it is, therefore, decided that such individual investors can open a trading account and demat account by filling in a simplified Account Opening Form ('AOF') termed as 'SARAL AOF'. Refer Exchange Circular No: MCX-SX/INSP/2723/2015 dated March 09, 2015.

#### **(a) Accessing Securities Market by Visually Challenged Investors: -**

Trading members are advised that there shall not be any restrictions for visually challenged person in getting registered as a client for trading/investing in the securities market including online facilities to the visually challenged persons without any discrimination. Trading members are requested to render all possible assistance to the visually challenged persons for registering as clients. Refer to Exchange Circular No. MSXI/INSP/2997/2015 dated May 13, 2015.

#### **(b) Non-mandatory Documents**

It may be noted that any voluntary clause / document added by the stockbroker 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, Byelaws, 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.

- Any term or condition other than those stated in the mandatory part shall form part of non- mandatory documents.
- The clauses in the non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents, as also the Rules, Regulations, Articles, Byelaws, circulars, directives and guidelines of SEBI and Exchanges. Any such contravening clause shall be null and void.
- Any authorization sought in the non-mandatory part shall be a separate document and shall have specific consent of the client. Moreover, the trading member may also seek additional information to satisfy himself about the antecedents of the client.

Trading members are further advised to ensure the following:

- a) It may be noted that proper segregation of the mandatory and non-mandatory documents shall be made.
- b) All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.
- c) Additional documents shall state at the beginning in bold that the document is voluntary.
- d) However, if such documents are required 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.
- e) 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.
- f) The docket or folder containing draft mandatory documents for signing and the checklist containing mandatory documents shall not include draft voluntary documents, if any.
- g) No term in the client registration documents, other than those prescribed by SEBI, shall be changed without the consent of the client. Such a change needs to be preceded by a notice of 15 days.
- h) 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.
- i) 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 as below:

**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 support.
- j) 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.
  - k) No documentation shall give any exclusive right or control to the trading member or third party over the DP 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 upfront margin) by the trading member on behalf of the client on the Exchange.

- l) The stockbroker shall frame the policy regarding treatment of inactive accounts which should, inter-alia, cover aspects of time, return of client assets and procedure for reactivation of the same. It shall display the same on its web site, if any.
- m) 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 the case of internet clients, TM may provide the same electronically in a secured manner.
- n) It has been decided that while a stockbroker may use the brand name / logo of its group companies, it must display more prominently: (a) its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers on account opening documents.
- o) SEBI has clarified that the KYC (Account Opening Process) is applicable for all the clients of stockbrokers/depository participants, without any exemption to any category of clients like institutions or FPIs/ EFEs.

#### **Acceptance of e-PAN card for KYC purpose**

Central Board of Direct Taxes (CBDT) has recently introduced a facility of E-PAN (electronic PAN card) vide press release dated April 11, 2017. Accordingly, it is clarified that E-PAN issued by CBDT can also be produced by FPI for KYC compliance. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market. Refer SEBI has issued circular-SEBI/HO/FIIC/CIR/P/2017/068 dated June 30, 2017, and Exchange Circular No: MSE/INSP/5327/2017 dated July 06, 2017.

#### **Aadhaar seeding with PAN.**

Trading Members are requested to guide their clients to get their PAN mapped with Aadhaar before June 30, 2023, and update the status in Exchange record. Refer Exchange circular no. MSE/ID/13257/2023 dated March 29, 2023, subject Aadhaar seeding with PAN. Accordingly, all Members are advised to ensure that their existing and new clients comply with the requirement of linking the Aadhaar with PAN by March 31, 2023.

#### **1.2 In-person verification (IPV)**

SEBI vide letter no. MIRSD/DPS-111/130466/2008 dated 2nd July 2008 has emphasized that it shall be the responsibility of the stockbroker to satisfactorily identify his clients and to ensure in-person verification by his own staff while registering clients and keep complete audit trail for the same. SEBI has also mentioned that it would be

stockbrokers" responsibility to provide client details as and when required.

Accordingly, members are required to ensure "in-person" verification by their own staff only while registering the clients. The name and signature of the official who has done in-person verification and the stamp of the member should be incorporated in the client registration form.

With regard to the requirement of "in-person" verification (IPV), SEBI has issued guidelines to the stockbrokers and depository participants (DPs). However, in line with the uniformity brought out in the KYC procedure across intermediaries, the IPV requirements for all the intermediaries have now been streamlined and harmonized, as follows:

- It shall be mandatory for all the intermediaries addressed in the SEBI Circular No MIRSD/Cir- 26 /2011 dated December 23, 2011, to carry out IPV of their clients.
- 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.
- The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.
- In the case of Stockbrokers, their sub-brokers or Authorized Persons (appointed by the stockbrokers after getting approval from the concerned Stock Exchanges in terms of SEBI Circular No. M I RSD/DR-1/Cir-16/09 dated November 06, 2009) can perform the IPV.

**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 stockbroker/sub-broker's office.
- b. In the 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 nonresident 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 sub-brokers (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.

### **1.3 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 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 must 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 need not undergo the same process again with another intermediary. Accordingly, SEBI has formulated the KYC Registration Agency (KRA) Regulations 2011.

SEBI has notified M/s. CDSL Ventures Ltd. (CVL), M/s. NSDL Database Management Limited (NDML) and M/s. Dotex International Limited (a wholly owned subsidiary of National Stock Exchange of India Limited), CAMS Investor Services Private Limited and Karvy Data Management Services Limited to act as the KYC Registration Agency (KRA).

### **Guidelines for Intermediaries in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011.**

- i. 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.
- ii. 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.

- iii. For existing clients, the KYC data may be uploaded by the intermediary provided they are in conformity with details sought in the uniform KYC form prescribed vide SEBI circular no. M I RSD/SE/Ci r- 21/2011 dated October 05, 2011. While uploading these clients" data the intermediary shall ensure that there is no duplication of data in the KRA system.
- iv. The intermediary shall carry out KYC when the client chooses to trade/ invest / deal through it.
- v. The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.
- vi. The intermediary shall promptly provide KYC related information to KRA, as and when required.
- vii. 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". 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 current KRA system in a phased manner.

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

- i. For existing clients who trade / invest / deal with the intermediary anytime during the period specified in the table given below starting from April 16, 2012, the intermediaries shall forthwith upload their KYC details in the KRA system. They shall also send original KYC documents to the KRA on a continuous basis and complete the process within the prescribed time limits. 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 above-mentioned schedule, shall be uploaded on a continuous basis.
- ii. 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.



- iii. The intermediary shall highlight the KYC details about the existing client which is missing / not available, as per the KYC requirements specified vide circular dated October 5, 2011, 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.
- iv. 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.

#### **1.4. Delivery of copy of duly completed Client registration forms.**

The Exchange is in receipt of complaints from investors regarding the 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. 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:

- a) 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 stockbroker shall take client's acknowledgement for receipt of the same.
- b) The timeline of 7 days should start from the day of upload of UCC to the Exchange by the trading member.
- c) 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.
- d) 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.
- e) 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 web- site and allow secured access by way of client-specific user id and password.
- f) It is clarified that the Trading members having their own website shall display the set of standard documents on the website for information.

### **1.5 Allotment of Unique Client code (UCC) And Modification of Client Code**

Trading members are requested to refer Exchange Circular no. MSE/ID/10286/2021 dated April 05, 2021, and MSE/ID/10386/2021 dated May 04, 2021, regarding file formats/ batch upload facility.

All trading members are strictly required to ensure that new client details with all mandatory fields are updated and approved in the Unique Client Code system of the Exchange. Further trading members are required to ensure that client details in the UCC system of the Exchange for new and existing clients should be complete and correct.

Members are required to send the identity and address proof of all the newly on-boarded clients (irrespective of whether PAN has been submitted by account holder or not) to the Exchange, where the correspondence or permanent address of the client is 'Sikkim'. The aforesaid documents should be sent vide email to [ucc@msei.in](mailto:ucc@msei.in). In case of any deviations observed by the Exchange during the scrutiny of records, the same shall be informed to the trading member for necessary corrective actions. However, in absence of corrective action by the trading member within 10 days from the date of intimation of the discrepancy, then trading member shall mark such account as closed with immediate effect and discrepant UCCs shall be considered as non-compliant and not permitted to trade. (Refer Exchange circular no. MSE/ID/12155/2022 dated August 8, 2022.)

### **REGULATORY REQUIREMENTS/REFERENCES:**

1	Account Opening Process	SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011 along with Annexures 1 to 6; Exchange circular no. MCX-SX/INSP/628/2011 dated August 24, 2011; SEBI circular CIR/MIRSD/09/2012 dated August 13, 2012; Exchange circular no. MCX-SX/INSP/826/2012 dated August 14, 2012; SEBI circular CIR/MIRSD/11/2012 dated September 05, 2012; Exchange circular no. MCX-SX/INSP/982/2013 dated January 31, 2013; SEBI circular CIR/MIRSD/01/2013 dated January 04, 2013; Exchange circular no. MCX-SX/INSP/933/2013 dated January 08, 2013; SEBI circular CIR/MIRSD/07/2013 dated September 12, 2013; Exchange circular no. MCX-SX/INSP/1454/2013 dated September 17, 2013; SEBI circular CIR/MIRSD/ 09/ 2013 dated October 8, 2013; SEBI circular CIR/MIRSD/13/2013 dated December 26, 2013; Exchange circular no. MCX-SX/INSP/1672/2013 dated December 27, 2013; SEBI/HO/FIIC/CIR/P/2017/068 dated June 30, 2017 and Exchange circular No. MSE/INSP/5327/2017 dated July 06, 2017.
2	In-person verification (IPV)	Exchange circular no: MCX-SX/COMP/56/2009 dated January 27, 2009; SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011, along with Annexures 1 to 6; Exchange circular no: MCX SX/INSP/628/2011 dated August 24, 2011; SEBI Circular No MIRSD/Cir-26 /2011dated December 23, 2011; Exchange circular No. MCX-SX/INSP/670/2011dated December 26, 2011.

3	Uploading KYC information with KYC Registration Agency (KRA)	(SEBI Circular No. MIRSD/Cir-23/2011 dated December 5, 2011; Exchange circular no: MCX-SX/INSP/661/2011 dated December 13, 2011; SEBI Circular No MIRSD/Cir- 26 /2011 dated December 23, 2011; Exchange circular no. MCX-SX/INSP/670/2011 dated December 26, 2011; SEBI circular MIRSD/ Cir-52012 dated April 13, 2012; Exchange circular no: MCX-SX/INSP/756/2012 dated April 16, 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; Exchange circular no: MCX-SX/INSP/1094/2013 dated April 03, 2013).
4	Delivery of copy of duly completed Client registration forms.	SEBI circular MIRSD/SE/Cir-19/2009 dated December 3, 2009; Exchange circular no. MCX-SX/COMP/53/2009 dated January 27, 2009; Exchange circular no. MCX-SX/MEM/4/2008/ dated October 04, 2008.
5	Allotment of Unique Client code (UCC) And Modification of Client Code	(SEBI circular no. SMDRP/Policy/CIR-39/2001 dated July 18, 2001, SEBI vide Regulation no. LAD-NRO/GN/2013-14/12 notified on January 7, 2014, SEBI circular no. CIR/IMD/FIIC/6/2014 dated March 28, 2014, SEBI letter no. ISD/SP/11595/2012 dated May 23, 2012, SEBI Circular no. CIR/DNPD/6/2011 dated July 5, 2011, SEBI circular no. CIR/M RD/DP/29/2014 dated October 21, 2014).  (Exchange circular no. MCX-SX/SRV/121/2009 dated May 18, 2009, MCX-SX/SRV/216/2009 dated October 28, 2009, MCX-SX/TRD/283/2010 dated February 3, 2010, MCX-SX/SRV/284/2010 dated February 03, 2010, MCX-SX/ID/443/2010 dated September 23, 2010, MCX-SX/ID/870/2012 dated October 29, 2012, MCX-SX/IT/1103/2013 dated April 05, 2013, MCX-SX/IT/1104/2013 dated April 05, 2013, MCX-SX/IT/1105/2013 dated April 05, 2013, MCX-SX/INSP/1454/2013 dated September 17, 2013, MCX-SX/C&S/1937/2014 dated May 16, 2014, MCX-SX/ID/2013/2014 dated June 26, 2014, MCX-SX/ID/787/2012 dated May 31, 2012, MCX-SX/ID/537/2011 dated March 17, 2011, MCX-SX/ID/597/2011 dated July 06, 2011, MCX-SX/ID/613/2011 dated July 29, 2011, MCX-SX/ID/629/2011 dated August 26, 2011, MCX-SX/ID/2302/2014 dated October 21, 2014.
6	Execution of Power of Attorney (POA) by clients in favor of stockbroker / stockbrokers	Exchange circular no. MSE/INSP/9411/2020 dated August 28, 2020, regarding Execution of Power of Attorney (PoA) by the Client in favor of the Stockbroker /Stockbroker and Depository Participant.
7	Guidelines on Identification of Beneficial Ownership	SEBI circular No. CIR/MIRSD/2/2013 dated January 24, 2013; Exchange circular no. MCX-SX/INSP/966/2013 dated January 25, 2013

**Corporate Identity Number (CIN) for Bodies Corporate:**

Members are mandatorily required to upload Corporate Identity Number (CIN) of bodies corporate acting as clients in the UCC database of the Exchange. Refer to SEBI letter no. ISD/SP/11595/2012 dated May 23, 2012, and Exchange circular no. MCX-SX/ID/787/2012 dated May 31, 2012.

Further, Member are also advised to ensure that correct and complete details including correct pin codes of the clients is mentioned in the UCC database of the Exchange. (Refer Exchange Circular No. MCX-SX/ID/629/2011 dated August 26, 2011) Members are required to ensure that the Client type is entered correctly at the time of placing the orders on the trading system and in case non-institutional trades are erroneously entered as institutional trades, the same should be rectified during the post-closing session.

Modifications of client codes of non-institutional trades may be allowed only to rectify a genuine error in entry of client code at the time of placing / modifying the related order. Refer to SEBI Circular CIR/DNPD/6/2011 dated July 5, 2011, and Exchange circular no. MCX-SX/ID/597/2011 dated July 6, 2011, MCX-SX/ID/629/2011 dated August 26, 2011

Accordingly, the objective criteria for identifying genuine errors for client code modification of non-institutional trades are as given below:

- i. Error due to communication and/or punching or typing such that the original client's code/name and the modified client code/name are like each other.
- ii. Modification within relatives (Relative for this purpose would mean 'Relative' as defined under sec. 6 the Companies Act, 1956).

The members are required to inform the Exchange by 12 Noon on T+1 day, the reasons for modification of client codes of non-institutional trades based on the objective criteria. The member has to select any one of the mentioned objective criteria for each of the modified trades.

Members are required to have a well-documented error policy approved by their board / management.

Refer to Exchange circular no. MCX-SX/ID/629/2011 dated August 26, 2011

The guidelines for the implementation of the above SEBI circular dated July 05, 2011, is given below:

- Members are strictly advised to modify client codes of non-institutional trades only to rectify genuine errors in entry of client code at the time of placing / modifying the related order. All cases of modification of client codes of non-institutional trades executed on the Exchange and not transferred to broker error account, shall be liable for a penalty of 1% of value of non-institutional trades modified if value of non-institutional trades modified as a percentage of total value of non-institutional trades executed is less than or equal to 5% and penalty of 2% if modification exceeds 5%, in a segment during a month.

- Members are required to inform the Exchange, daily by end of day, the reasons for modification of client codes of non-institutional trades based on the aforesaid objective criteria, which shall be taken into consideration at the time of inspection.
- Members are strictly advised not to modify any client code in their back-office system.
- Any shifting/ transfer of trades (institutional or non-institutional) to error account of the broker would not be treated as modification of client and would not attract any amount of penalty, provided the trades in error account are subsequently liquidated in the market and not shifted to some other client code.
- For easy identification of error account, members are required to register a fresh client code as “ERROR” in the UCC database of the Exchange for the account which is classified by them as error account. Further, members are required to have a well-documented error policy approved by their Board/Management.
- If modification exceeds 1% of the value of trades executed during a month, the Exchange shall conduct a special inspection of the trading members and take appropriate disciplinary action, if any deficiency is observed.

Refer to SEBI Circular CIR/DNPD/6/2011 dated July 5, 2011, and Exchange Circular No. MCX-SX/ID/597/2011 dated July 6, 2011, MCX-SX/ID/613/2011 dated July 29, 2011 and MCX-SX/ID/629/2011 dated August 26, 2011.

In continuation to the above, SEBI has issued circular regarding modification of client codes of non-institutional trades executed on stock exchanges (All Segments) wherein it is mentioned that stock exchanges may waive penalty for a client code modification where stockbroker is able to produce evidence to the satisfaction of the stock exchange to establish that the modification was on account of a genuine error. Not more than one such waiver per quarter may be given to a stockbroker for modification in a client code. Explanation: If penalty waiver has been given regarding a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the stockbroker in the quarter for modifications related to client codes AB and BA.

Proprietary trades shall not be allowed to be modified as client trade and vice versa and Stock exchanges shall submit a report to SEBI every quarter regarding all such client code modifications where penalties have been waived. Additionally, stock exchanges shall undertake stringent disciplinary actions against stockbrokers who undertake frequent client code modifications.

Refer to SEBI circular no. CIR/MRD/DP/29/2014 dated October 21, 2014, and Exchange circular no. MCX-SX/ID/2302/2014 dated October 21, 2014.

SEBI vide its letter dated February 8, 2016 has communicated that stockbrokers on whom penalty has been levied for client code modifications during the period from August 1, 2011 to October 20, 2014, can now make a representation to the Exchange seeking reversal/ waiver of penalty levied for client code modifications for genuine errors and that the Exchange shall review the requests for reversal/ waiver as per the guidelines laid down by SEBI in its circular dated October 21, 2014.

SEBI vide circulars SMDRP/Policy/Cir-39/2001 dated July 18, 2001, and MRD/DoP/Cir-05/2007 dated April 27, 2007, has directed that it shall be mandatory for all the members to use Unique Client Codes (UCC) for all the clients and that the Permanent Account Number (PAN) will be the sole identification number for all the participants in the securities market.

In light of the aforesaid, it is mandatory for all the members to use the Unique Client Code for all their clients. The members shall collect and maintain in their back office the Permanent Account Number (PAN) allotted by Income Tax Department for all their clients and members are also required to verify the documents submitted by clients with respect to the unique client code and retain copies of the documents. Members are advised to maintain necessary documents / information / agreements at their respective offices and inform the details of clients, including their PAN, to the Exchange through the UCC application software.

As and when new clients are registered, members must upload the details of such clients to comply with the requirement of the Exchange. Further, in respect of any change in the client details already submitted through the Unique Client Code application, revised information must be uploaded by the members immediately.

Members are advised to ensure that no trades are put on behalf of their clients, before allotting the Unique Client Codes (UCC) and uploading the client details to the Exchange. In case a member is observed to execute trades on behalf of a client before successfully uploading the details and PAN of the client, Exchanges to levy charges as per the Exchange circular no: MCX-SX/ID/870/2012 dated October 29, 2012, per day per client code for execution of trade without registration of client code along with PAN till the date of registration of such code.

List of Circulars issued with regards to UCC

<b>Circular No</b>	<b>Subject</b>
MSE/ID/10482/2021	Updating of new UCC with all mandatory fields in UCC system of Exchange
MSE/ID/10467/2021	Extension for Mandatory fields in Unique Client Code (UCC) information provided to Exchange
MSE/ID/10386/2021	Mandatory fields in Unique Client Code (UCC) information provided to Exchange
MSE/ID/10467/2021	Extension for Mandatory fields in Unique Client Code (UCC) information provided to Exchange
MCX-SX/ID/870/2012	Unique Client Code - Non-Submission Charges

#### **1.6 Execution of Power of Attorney (POA) by clients in favor of stockbroker / stockbrokers**

Exchange circular no	Subject
MSE/INSP/12414/2022	Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / re-pledging of securities - Clarification
MSE/INSP/12016/2022	Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / re-pledging of securities – Extension
MSE/INSP/11687/2022	Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries / settlement obligations and pledging / re-pledging of securities

Refer Exchange circular no: MSE/INSP/9411/2020 dated August 28, 2020, regarding Execution of Power of Attorney (PoA) by the Client in favor of the Stockbroker / Stockbroker and Depository Participant.

### **1.7 Guidelines on Identification of Ultimate Beneficial Ownership (UBO)**

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

In accordance with the provisions of Prevention of Money Laundering Act (PMLA) and SEBI circular CIR/MIRSD/2/2013 dated January 24, 2013, the beneficial owner shall be identified as per below criteria:

- i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company.
- ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership;  
or
- iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.
- iv. In the case of a trust, the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust.

In the case of non-individuals except listed entities, the immediate promoter / partner and the Ultimate Beneficial Owner should be provided.

**Exceptions where UBO is/are not to be identified:**

- i. 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 the ultimate beneficial owner of such companies.
- ii. In case the identification of promoters/promoter group is not practically possible in terms of the aforesaid norms, then the Exchange, at its sole discretion, reserves the right on deciding on identification of promoters/promoter group by adding certain conditions, if required.
- iii. Where all the promoters in a Scheduled Bank or any Financial Institution registered with or regulated by any regulatory authority such as RBI, SEBI, IRDA, PFRDA or as decided by the Exchange from time to time.
- iv. Where all the promoters are central/state government owned financial institutions.

Refer Exchange Circular no. MSE/MEM/10757/2021 dated August 6, 2021.

**Applicability for foreign investors:**

Intermediaries dealing with foreign investors" viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, may be guided by the clarifications issued vide SEBI circular CIR/MIRSD/11/2012 dated September 5, 2012. Refer Exchange circular no. MSEI/INSP/3788/2016 dated January 25, 2016, MSEI/INSP/3960/2016 dated March 16, 2016, and 20160405-14 April 5, 2016.

**1.8 Operationalization of Central KYC Records Registry (CKYCR)**

Central KYC Registry is a centralized repository of KYC records of customers in the financial sector with uniform KYC norms and inter-usability of the KYC records across the sector with an objective to reduce the burden of producing KYC documents and getting those verified every time when the customer creates a new relationship with a financial entity. Registered intermediaries were directed to upload the KYC data with CKYCR, in respect of all individual accounts opened on or after August 01, 2016. In this regard, SEBI has issued a circular on Operationalization of Central KYC Records Registry (CKYCR) vide circular no. CIR/MIRSD/66/2016 dated July 21, 2016, Exchange circular no. dated MSEI/INSP/4373/2016 July 26, 2016. "Uploading of the existing clients' KYC details with Central KYC Records Registry (CKYCR) System by the Registered Intermediaries" vide circular no. CIR/MIRSD/120/2016 dated November 10, 2016, and Exchange circular no. MSEI/INSP/4705/2016 dated November 16, 2016. Further, to strengthen the process in securities market and for ease of onboarding of clients for dealing in securities market, the provisions of SEBI circular SEBI/HO/MIRSD/FATF/P/CIR/2023/0144 dated August 11, 2023, and Exchange circular no. MSE/ID/13966/2023 to simplify the KYC process and rationalize the risk management framework. The systems of intermediaries and the KRAs shall be integrated to facilitate seamless movement of documents/information to and from the intermediary to the KRAs for verification/validation of attributes under risk management framework. Wherein, if the Clients attributes



(Name, PAN, Address, Mobile No. and Email-ids.) of client records cannot be verified by KRA's. The same shall not be allowed to transact further in securities market until the attributes are verified..

<b>Circular No.</b>	<b>Subject</b>
MSE/ID/13966/2023	Simplification of KYC process and rationalization of Risk Management Framework at KYC (Know Your Client) Registration Agencies (KRAs)
MSE/INSP/10201/2021	Rollout of Legal Entity Template
MSEI/INSP/4705/2016	Uploading of the existing clients' KYC details with Central KYC Records Registry (CKYCR) System by the registered intermediaries
MSEI/INSP/4757/2016	Uploading of the existing clients' KYC details with Central KYC Records Registry (CKYCR) System by the Registered Intermediaries
MSEI/INSP/4373/2016	Operationalization of Central KYC Records Registry (CKYCR)

### **1.9 Use of Technology for Client Registration**

SEBI has decided to permit 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.

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 investors 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 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 license,

- 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 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 Digi Locker by the issuing authority.

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

- i. IPV/ VIPV would not be required when the KYC of the investor is completed using the Aadhaar authentication / verification of UIDAI.

ii. IPV/ VIPV shall not be required by the RI when the KYC form has been submitted online, documents have been provided through Digi Locker or any other source which could be verified online.

For details, please go through the Exchange circular (SEBI Circular: - SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020).

Circular No	Subject
MSE/INSP/8962/2020	Clarification on Know Your Client (KYC) Process and Use of Technology for KYC

### **1.10 Nomination for Eligible Trading and Demat Account**

1. SEBI, vide circular no. SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021 had mandated providing choice of nomination details, i.e., either furnishing of nomination or declaration for opting out of nomination for investors opening new trading and or demat account(s) on or after October 01, 2021 and for all existing eligible trading and demat account holders latest by March 31, 2022 failing which the trading accounts shall be frozen for trading and demat account shall be frozen for debits.
2. Thereafter, based on representations received from various stakeholders, vide SEBI circular SEBI/HO/MIRSD/MIRSD\_RTAMB/P/CIR/2022/23 dated February 24, 2022, the timeline for mandatory submission of 'choice of nomination' for existing trading and demat accounts was extended to March 31, 2023.
3. Based on the assessment of the trading as well as demat accounts in which choice of nomination details (i.e. furnishing of nomination or declaration for opting out of nomination) has not been updated and on the basis of representations received from the stakeholders, SEBI has decided that the provisions mentioned at para 7 of SEBI circular dated July 23, 2021 read with para 3 (a) of SEBI circular dated February 24, 2022 with regard to freezing of accounts shall come into force with effect from September 30, 2023 instead of March 31, 2023.
4. Exchange vide its notice no. MSE/ISC/13256/2023 dated March 29, 2023 requires all trading members to encourage their clients to update 'choice of nomination' by sending a communication on fortnightly basis by way of emails and SMS to all such UCCs/ demat accounts wherein the 'choice of nomination' is not captured. The communication shall provide guidance through which the client can provide his/her 'choice of nomination'.
5. In furtherance to the SEBI circular SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021 stipulating that trading accounts and demat account which do not have 'choice of nomination' by September 30, 2023, shall be frozen. Thereby, based on the various representations received by SEBI from the Exchanges, Depositories, Brokers' Associations and various other stakeholders being taken into consideration.

6. SEBI vide its circular SEBI/HO/MIRSD/POD-1/P/CIR/2023/158 dated September 26, 2023, and Exchange circular no. MSE/ISC/14211/2023 dated September 27, 2023. Have stated the below that:
- a) Submission of ‘choice of nomination’ for trading accounts has been made voluntary as a step towards ease of doing business.
  - b) With respect to demat accounts, it has been decided to extend the last date for submission of ‘choice of nomination’ to December 31, 2023.
7. Whereas, based on various representation received, SEBI vide its circular SEBI/HO/MIRSD/POD-1/P/CIR/2023/193 dated December 27, 2023, and Exchange Circular no. MSE/ISC/14683/2024 dated January 02, 2024. It has been decided to extend the last date for submission of ‘choice of nomination’ for demat accounts and mutual fund folios to June 30, 2024.

**Nomination Form**

***[Annexure A to SEBI circular No. SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021, on Mandatory Nomination for Eligible Trading and Demat Accounts]***

TM / DP Name and Address							FORM FOR NOMINATION (To be filled in by individual applying singly or jointly)																				
Date	D	D	M	M	Y	Y	Y	UCC/DP ID	I	N																	Client ID

I/We wish to make a nomination. <i>[As per details given below]</i>									
<b>Nomination Details</b>									
I/We wish to make a nomination and do hereby nominate the following person(s) who shall receive all the assets held in my / our account in the event of my/ our death.									
<b>Nomination can be made upto three nominees in the account.</b>			<b>Details of 1<sup>st</sup> Nominee</b>		<b>Details of 2<sup>nd</sup> Nominee</b>		<b>Details of 3<sup>rd</sup> Nominee</b>		
<b>1</b>	<b>Name of the nominee(s) (Mr./Ms.)</b>								
<b>2</b>	<b>Share of each Nominee</b>	Equally [If not equally, please specify percentage]	%		%		%		
			<i>Any odd lot after division shall be transferred to the first nominee mentioned in the form.</i>						
<b>3</b>	<b>Relationship With the Applicant (If Any)</b>								
<b>4</b>	<b>Address of Nominee(s)</b>								
			City/ Place:						
			State & Country:						
			PIN Code						
<b>5</b>	<b>Mobile/ Telephone No.of nominee(s)</b>								
<b>6</b>	<b>Email ID of nominee(s)</b>								
<b>7</b>	<b>Nominee Identification details</b> — [Please tick any one of following and provide details of same]								
			<input checked="" type="checkbox"/> Photograph & Signature						
			<input checked="" type="checkbox"/> PAN						
			<input checked="" type="checkbox"/> Aadhaar						
			<input checked="" type="checkbox"/> Saving Bank Account No						
			<input checked="" type="checkbox"/> Proof of Identity						
			<input checked="" type="checkbox"/> Demat Account ID						
<b>Sr. Nos. 8-14 should be filled only if nominee(s) is a minor:</b>									

8	Date of Birth {in case of minor nominee(s)}				
9	Name of Guardian (Mr./Ms.) {in case of minor nominee(s)}				
10	Address of Guardian(s)				
	City / Place:				
	State & Country:				
	Pin Code				
11	Mobile / Telephone no. of Guardian				
12	Email ID of Guardian				
13	Relationship of Guardian with nominee				
14	Guardian Identification details – [Please tick any one of following and provide details of same]  <input checked="" type="checkbox"/> Photograph & Signature <input checked="" type="checkbox"/> PAN <input checked="" type="checkbox"/> Aadhaar <input checked="" type="checkbox"/> Saving Bank Account no. <input checked="" type="checkbox"/> Proof of Identity <input checked="" type="checkbox"/> Demat Account ID				
	Name(s) of holder(s)				Signature(s) of holder*
	Sole / First Holder (Mr./Ms.)				
	Second Holder (Mr./Ms.)				
	Third Holder (Mr./Ms.)				

\* Signature of witness, along with name and address are required, if the account holder affixes thumb impression, instead of signature.

**Note:** This nomination shall supersede any prior nomination made by the account holder(s), if any.

The Trading Member / Depository Participant shall provide acknowledgement of the nomination form to the account holder(s).

**Declaration Form for opting out of nomination.**

**[Annexure B to SERI circular No. SEBI/HO/MIRSD/RTAMB/CIR/P/2021/601 dated July 23, 2021, on Mandatory Nomination for Eligible Trading and Demat Accounts]**

To	Date	D	D	M	M	Y	Y	Y	Y
Trading Member/Participant's Name									
Trading Member/Participant's Address									
UCC/DP ID	I	N							
Client ID (only for Demat account)									
Sole/First Holder Name									
Second Holder Name									
Third Holder Name									
I / We hereby confirm that I / We do not wish to appoint any nominee(s) in my / our trading / demat account and understand the issues involved in non-appointment of nominee(s) and further are aware that in case of death of all the account holder(s), my / our legal heirs would need to submit all the requisite documents / information for claiming of assets held in my / our trading / demat account, which may also include documents issued by Court or other such competent authority, based on the value of assets held in the trading / demat account.									
Name and Signature of Holder(s)*									
1. _____ 2. _____ 3. _____									

**\* Signature of witness, along with name and address are required, if the account holder affixes thumb impression, instead of signature**





### **1.11 Client Registration Documents in Vernacular Languages**

Exchange vide circular no. MSEI/INSP/4355/2016 dated July 15, 2016. This has reference to the SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011, on client registration documents. To facilitate better understanding of the registration documents by the investors, Exchange is pleased to provide the following documents in 15 regional vernacular languages:

1. Document stating the Rights & Obligations of stockbroker, sub-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 Exchange website at <http://www.msei.in/members/compliance/kyc.aspx> and can be downloaded. Members are advised to make available the documents to their clients on demand and display them on their own website.

It may be noted that the documents are a translated version of the documents in English and for reference purpose only. In case of any ambiguity the contents of the English Version would prevail.

### **1.12 Simplification of Account Opening Kit**

In order to keep the smooth process of client registration, SEBI has issued a circular no. CIR/MIRSD/64/2016 dated July 12, 2016, it has been decided that stockbroker/ depository participant shall make available these standard documents to the clients, either in electronic or physical form, depending upon the preference of the client as part of account opening kit. The preference of the client shall be sought as part of the account opening form. In case the documents are made available in electronic form, stockbroker/ depository participant shall maintain logs of the same.

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

SEBI in its circular SEBI/HO/MIRSD/SECFATF/P/CIR/2024/17 dated March 19, 2024, and Exchange vide its circular MSE/ID/15064/2024 dated March 20, 2024. the adaptation of Aadhaar based e-KYC process and e-KYC Authentication facility for Resident Investors under section 11A of the Prevention of Money Laundering Act, 2002, entities permitted to undertake e-KYC Aadhaar Authentication service of UIDAI in Securities Market as sub-KUA, and on-boarding process of sub-KUA by UIDAI.

The entities so mentioned in the said SEBI circular shall follow the process as detailed in SEBI circular dated Oct 12, 2023, and as may be prescribed by UIDAI from time to time. The KUAs shall facilitate the on-boarding of these entities as sub-KUAs to provide the services of Aadhaar authentication with respect to KYC.

**1.14 Centralized mechanism for reporting the demise of an investor through KRAs** To introduce 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. The SEBI circular SEBI/HO/OIAE/OIAE\_IAD- 1/P/CIR/2023/0000000163 dated October 03, 2023, and Exchange Circular



METROPOLITAN STOCK EXCHANGE

MSE/ISC/14270/2023 dated October 09, 2023 spells out the operational norms including the obligations of regulated entities, including registered intermediaries that have interface with 'investors' / 'account holders' (used interchangeably) who are natural persons.

The Circular enumerates various operational aspects, which are essential for incorporating the necessary changes:

- Verification of the death certificate
- Updation of records in the KRA system by the Intermediary
- Obligations of the KRA
- Intimation on Transmission of assets of the deceased investor
- Transaction request in accounts/folios flagged off as "On Hold."
- Other obligation of Intermediaries

The entities are required to follow the process as detailed in SEBI circular; the provisions of the abovementioned circular shall come into effect from January 01, 2024.

## **ITEM 2 - CONTRACT NOTES**

### **2.1 Issue of contract notes**

The Contract note is a document through which a contractual obligation is established between a member-broker and his client. This is the prime document based on which all the disputes between the member-broker and his clients are settled.

Every member-broker is required to issue contract notes to all his clients for the securities sold and purchased by him on their behalf within one working day of execution of trade and obtain acknowledgement of the clients along with the date of receipt on the duplicates/counterfoils of the contract notes and preserve the same for future reference. The member-brokers shall maintain a proper record for dispatch of contract notes to the clients if the same are dispatched by post, courier etc.

When a member-broker is acting as an agent for his client, they are advised to ensure that the contract notes are issued strictly in accordance with the format prescribed by the MSE. (Refer Exchange circular no. MCX-SX/INSP/2054/2014 July 17, 2014).

The member-brokers are required to issue contract notes to clients, which are serially numbered. The contract notes are required to be signed either by the member-broker himself or his constituted attorney. Further, a copy of Board resolution / Power of Attorney, authorizing the person to sign the contract notes on behalf of the member, is required to be filed with the MSE and maintain MSE acknowledged copy for the same. In case a sole proprietor/partnership firm wishes to authorize another person to sign the contract notes, then the member-broker is required to execute a power of attorney authorizing another person(s) to sign the contract notes. In the



case of corporate members, a board resolution is required to be passed to authorize a person(s) including Directors to sign the contract notes. The power of attorney / board resolution(s) together with specimen signatures of authorized signatories are required to be filed with the Membership Department of the MSE.

Stockbrokers may affix facsimile signatures (scanned signature) on the physical contract notes issued to their clients after ensuring that adequate controls and procedures are put in place regarding the use of facsimile/scanned signature.

Stockbroker opting to use this facility should have a well-documented policy regarding its use which shall be implemented after appropriate board approval (in case of corporates), partners (in case of partnership firms) or proprietor (in case of sole proprietorship firm) as the case may be. Further, the authorized signatories should necessarily be approved by the Board/Partners/Proprietor for use on the contract notes. 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.

In the case of an authorized signatory whose signature was used for the above purpose, no longer holds the position, then the use of his signature should not be continued afterwards under any circumstances.

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 Stockbroker. Refer Exchange circular no. MSE/INSP/4281/2016 dated June 21, 2016.

## **2.2 Format of Common Contract Note**

1. The Member's attention is drawn to Exchange circular no. MSE/INSP/9545/2020 dated 30 Sep 2020 wherein the format of Contract Note has been prescribed in accordance with the Goods & Service Tax (GST) rules.
2. In the case of Institutional clients, the current practice may be continued.
3. Members who do not opt for the issuance of consolidated common contract notes may issue different contract notes for different segments/Exchanges.
4. The following clarifications may be noted for issuance of revised format of common contract notes cum bill:
  - a. 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.
  - b. Where column for Brought Forward Position is not shown, column for "closing rate per unit (only for derivatives)" may be removed from the common contract note format.
  - c. The contract note shall be printed and issued in a readable font.



- d. For mentioning settlement number and date, additional columns can be incorporated in case the client has dealt with multiple Exchanges and segments.
- e. Securities Transaction Tax (STT) and Service tax 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 basis to clients if the same is not provided in the contract note or along with the contract note.
- f. 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.
- g. Where the 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.
- h. In case a client has different UCC, Exchange wise and segment wise, the same can be mentioned by inserting an additional row in the table for capturing the trading and back-office code.
- i. In case of multiple Exchanges, all SEBI registration numbers are required to be mentioned.
- j. Serial Number for each series of contract notes issued from August 01st 2014 onwards shall commence from the first trade executed on that date and need not be on a pre-printed stationery. In case the member does not opt for consolidated contract note, he may continue with the current serial numbers.
- k. Additional details in the contract notes may be provided, however the same should not be in contravention to Rules, Regulations and Circulars issued by the Exchange from time to time.

**2.3 Brokerage, Statutory Levies and Regulatory Levies & Charges (Refer Exchange circular nos. MCX-SX/INSP/2054/2014 dated July 17, 2014, and MSEI/INSP/3025/2015 dated May 21, 2015)**

“Members have been advised to prominently display the details of brokerage/charges to be levied for each order on the “Order placement window/screen” to the investor on their Internet Based Trading (IBT) / Wireless Trading (WT) applications prior to placement of order. (Refer Exchange circular no. MSE/INSP/12390/2022 dated October 03, 2022, and MSE/INSP/12715/2022 dated December 09, 2022)

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



- **Brokerage** can be charged as may be mutually agreed between member and client subject to the maximum permissible by the Exchange and brokerage rates should be mentioned in a tariff sheet.

**Statutory levies:** These are charges levied by Central/ State governments e.g., Service Tax, Security Transaction Tax (STT), Stamp Duty, etc. and may be recovered from client only at actuals paid/ payable.

- **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 the 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 by the client only at actuals paid/ payable.

**b.** Brokerage can be charged as under:

#### **i. Capital Market Segment**

As per circulars no MCX-SX/INSP/1004/2013 dated February 08, 2013, 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.

#### **ii. Futures contracts**

As per Regulation 3.7.2 of the Regulations (F&O segment) of the Exchange and MCX-SX/INSP/1005/2013 dated February 08, 2013, 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.

#### **iii. Option contracts**

As per circular no MCX-SX/INSP/1005/2013 dated February 08, 2013, 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.

**iv.** In the derivatives segment "Brokerage" can only be charged in respect of trades executed on the Exchange, hence "Brokerage" cannot be levied on Expiry / Exercise / Assignment of contracts.

**c.** As per circular no MCX-SX/F&O/TRD/1001/2013 dated February 07, 2013, contract description' shall have the details viz. instrument type, underlying (symbol), expiry date, strike price and option type in case of Options



Contact 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 - FUTSTK
- (ii) Contract description for a typical options contract- OPTSTK

**d. Issue of Contract Note at weighted average price:**

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 a 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.

$$\begin{aligned} \text{WAP (Four Decimals-Rounded off)} \\ = \frac{\text{Total value of the shares traded for an order}}{\text{Total number of shares traded for an order}} \end{aligned}$$

- 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.

**e. Members may give additional details in the contract notes without compromising with the minimum details as prescribed in the format.**

Inclusion of "ISIN" details: -

SEBI has directed that "ISIN" details are required to be included in Bills/Contract Notes/Statements issued by the Stockbrokers to their clients for securities traded in the Cash Segment w.e.f. June 30, 2015 (Refer to Exchange circular no. MCX-SX/INSP/2715/2015 dated March 5, 2015.)

**Pre-paid brokerage schemes: -**

It is hereby clarified that.

- a) 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.



- b) 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.
- c) Any non-compliance with the above will be viewed very seriously and the broker may be liable for disciplinary action. (Refer Exchange circular no. MCX-SX/INSP/1840/2014 dated March 27, 2014)

#### **2.4 Electronic issuance of contract notes**

The stockbroker may issue electronic contract notes (ECN) only 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 authorized 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 stockbroker. Thus, e-mail id should be created / provided by the investor only.
- c.** The authorization shall have a clause to the effect that any change to 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 (Refer to Exchange circular no. MCX-SX/INSP/238/2009 dated December 04, 2009).

All ECNs sent by e-mail are to be digitally signed, encrypted, non - tamper able and complying with the provisions of the IT Act, 2000. Whenever ECN is sent, proof of delivery i.e., sent log report generated by the system at the time of sending the contract notes is to be maintained by the member broker for the specified period, in a soft and non-tamper able form. Further, a log report to provide the details of contract notes that are not delivered to the client/ rejected or bounced e-mails.

Proper communication is to be made in the agreement executed with the client for issuing Electronic Contract Notes that non-receipt of bounced mail notification shall amount to delivery of the contract note at the e-mail ID of the client.

A physical contract note is to be sent to the clients, wherever an Electronic Contract Note has bounced back from the e-mail ID of the client. Further, proof of delivery of such physical contract notes is to be maintained by the member.



In addition to the e-mail communication of the ECN to the client, it must be simultaneously published on the website of the member in a secure way and enable easy access to the clients through client specific user ID & password.

The existing guidelines for ECN like access to ECN through website login, delivery proof (ECN log), sending physical in case of non-delivery, etc. are mentioned in SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011.

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

SEBI Circular no. DNP/Cir-9/04 dated February 3, 2004, has facility of issuance of ECNs as a legal document using STP to the equity 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).

### **2.6 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 recognized Stock Exchange or recognized Clearing Corporation unless he is a fit and proper person in terms of Regulation 19 and 20 of the said SECC Regulations.

SEBI circular 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 the post listing of Stock Exchanges, the text of Regulation 19 & 20 of SECC Regulations regarding 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.

### **2.7 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.





### **ITEM 3 - MARGIN COLLECTION FROM CLIENTS**

#### **3.1 Clarification regarding margin collection and reporting by members.**

With effect from April 1, 2020, the margin of clients will not include related person/entities and all margin should be of respective clients only.

As per SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, a separate pledge type viz. 'margin pledge', for pledging client's securities as margin to the TM / CM. The TM / CM shall open a separate demat account for accepting such margin pledge, which shall be tagged as 'Client Securities Margin Pledge Account'.

- For 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 pledge or. 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 re-pledge of securities on the approved list to CC only out of 'Client Securities Margin Pledge Account'.

Please refer to the applicable guidelines and requirements for Margin Collection and reporting issued from time to time and ensure compliance.

<b>Circular No</b>	<b>Subject</b>
MSE/INSP/9778/2020	Guidelines/clarifications on Peak Margin collection and reporting
MSE/INSP/9535/2020	Guidelines/clarifications on Margin collection & reporting
MSE/INSP/9442/2020	Investor Awareness regarding the revised guidelines on margin collection
MSE/INSP/9420/2020	Guidelines/clarifications on Margin Collection & Reporting
MSE/INSP/9304/2020	Guidelines / clarifications on Margin collection & reporting
MSE/C&S/9269/2020	Margin obligations to be given by way of Pledge/Re-pledge in the Depository System
MSE/INSP/9061/2020	Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System.

**False reporting of Margins:**

Margin amount reported to the ICCL/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/ICCL.

Penalty structure in case of False reporting of Margins:

Circular No	Subject
MSE/INSP/9419/2020	Imposition of fines for false reporting of margins by Trading Member in Cash Segment
MSE/INSP/8445/2019	Rationalization of imposition of fines for false reporting of margins by Clearing Members in all segments.

**3.2 Daily Margin Statement**

SEBI vide its letter dated January 18, 2018, has clarified that in terms of SEBI circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008, the margin statement is required to be issued by Members to clients daily at the end of the trade day (T-day) itself. The format of daily margin statement across all segments which stipulates minimum information to be provided to clients should be as per Annexure A (Refer Exchange circular no: MSE/INSP/5963/2018 dated January 22, 2018).

**3.3 Collateral deposited by clients with members.**

In continuation of earlier circulars and to reiterate the need for brokers to maintain proper records of client collateral and to prevent misuse of client collateral, SEBI vide circular MRD/DoP/SE/Cir-11/2008 dated 17th April 2008 has advised that:

- a) Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral.
- b) Brokers should further be able to produce the aforesaid records during inspection. The records should include details of.
  - Receipt of collateral from client and acknowledgement issued to client on receipt of collateral.
  - Client authorization for deposit of collateral with the exchange / clearing corporation / clearinghouse towards margin.
  - Record of deposit of collateral with exchange / clearing corporation / clearing house.



- Record of return of collateral to client.
- Credit of corporate action benefits to clients

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

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

e) In the event of complaints against brokers related to misuse of collateral deposited by clients, exchanges should investigate the allegations, conduct an inspection of broker if require and based on its findings take necessary action.

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

**Use of Client collateral by Broker**

SEBI circular no. MRD/DOP/SE/Cir-11/2018 dated April 17, 2008 and the Exchange circular no. MCX-SX/INSP/34/2008 dated November 24, 2008 and MCX-SX/INSP/995/2013 dated February 7, 2013 and circular no. CIR/MRD/DP/54/2017 dated June 13, 2017 which inter-alia, provide that client collateral/securities shall not be used for purposes other than meeting clients margin requirements/pay-in or as may be stipulated in "Rights & Obligation Document".

Further, the aforesaid SEBI circular dated June 13, 2017, and Circular no. CIR/MRD/DP/86/2017 dated August 01, 2017, contain provision regarding source of funds for the purpose of margin trading facility by the stockbroker.

In view of the above, it reiterated that strict compliance with the provisions relating to the use of client collateral is ensured by the stockbroker.

<b>Circular No</b>	<b>Subject</b>
MSE/INSP/7572/2019	Use of Client collateral by Broker



## **Peak Margin**

Refer SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020:

The client wise margin file provided by the CCs to TMs/CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.

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.

### **3.4 Guidelines/clarifications on Margin collection & reporting**

This has reference to Exchange Circular no: MSE/INSP/9304/2020 dated July 31, 2020, with respect to "Guidelines/clarifications on Margin collection & reporting" wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margins to client. However, Exchange has observed that certain members are passing on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" to respective clients.

In view of the above, it is reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to clients under any circumstances. Further, Exchange Notice MSE/INSP/9304/2020 dated July 31, 2020, has been partially modified as below:

*"In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?"*

Members 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



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the 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.

Reference:

<b>Circular No.</b>	<b>Subject</b>
MSE/INSP/10996/2021	Guidelines/Clarification on Margin collection & reporting.



## **ITEM 4 - DEALINGS WITH CLIENTS**

### **4.1 Mode of payment and delivery**

All transactions relating to clients are to be routed through the client bank account. A member -broker may open a single client bank account or multiple client bank accounts. Whenever a member-broker trades as a principal, he cannot use the client's account for payment.

No money shall be withdrawn from clients account other than money in respect of which there is a liability of clients to the member-broker, provided that the money so drawn should not exceed the total of the money so held for the time being for each such client. Member-brokers should not use clients' accounts for making payment for office expenses such as, salary, telephone bills, TDS payments, purchase of office equipment, etc.

It is compulsory for all member brokers to keep separate accounts for clients' securities and to keep such books of accounts, as may be necessary, to distinguish his securities from those of the clients' securities. Member-brokers should ensure payment of money/delivery of securities to the clients within one working day of the declaration of payout by the Exchange in respect of the concerned settlement. At times payment may be delayed on specific instructions of the client. In such cases, the member-broker should obtain written confirmation from the clients. The member-brokers may be allowed to maintain running account of the clients, if in respect of such accounts, the member-broker is having specific authority from clients to maintain running account without any obligation to receive payment/ delivery of securities strictly within one working day of declaration of pay-out by the BSE in respect of the concerned settlement. Also, the corporate benefits such as interest, dividend, Bonus / Right shares received on behalf of the clients should be passed on to the clients immediately.

Pursuant to provisions contained in SEBI circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003, it is to be noted that member-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash to the clients against sale of securities. All payments should be strictly received / made by the member-brokers from / to the clients strictly by account payee crossed cheque / demand drafts or by way of direct credit into the bank accounts of the clients concerned through EFT, or any other mode allowed by RBI.



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

While receiving funds from the clients through pre-funded instruments, such as, Pay Order, Demand Draft Banker's cheque, etc., if the aggregate value of pre-funded instruments is 50,000/- or more, per day per client, the stockbrokers 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:

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

Further, maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only. Refer to SEBI Circular No. CIR/MIRSD/03/2011 dated June 9, 2011, and Exchange Circular No. MCX-SX/INSP/584/2011 dated June 10, 2011.

The member-brokers should accept cheques drawn only by the clients and issue cheques in favor of the clients only, for their transactions. However, in exceptional circumstances the member-broker may receive the amount in cash, to the extent permitted by the Income Tax department / authorities from time to time.

Similarly, receipt/delivery of securities in "demat mode" should also be directly to / from the "demat account" of the respective client except delivery of securities to a recognized entity such as approved intermediaries under the approved scheme of the stock exchange and / or SEBI.

#### **4.3 Tagging of demat and bank accounts of trading / clearing members**

Refer SEBI Circular for Tagging of Demat and Bank Account SEBI/HO/MIRSD/MI RSD2/CI R/P/2016/95 dated September 26, 2016

- Demat account(s), which hold own securities of the stockbroker, shall be named as "Name of Stockbroker-Proprietary Account".
- Demat account(s) held for the purpose of settlement would be named as " Name of Stockbroker Pool account".
- Bank account(s) which hold clients' funds shall be named as "Name of Stockbroker - Client Account".



- Bank account(s) which hold own funds of the stockbroker shall be named as "Name of Stockbroker Proprietary Account".
- Bank account(s) held for the purpose of settlement would be named as " Name of Stockbroker - Settlement Account".

Refer CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, for CUSA Account

- The securities are required to be kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed of in the market by TM/CM within five trading days after the pay-out.
- The unpaid securities shall be sold from 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.

Refer the requirement to open separate pledge account as under as per SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, as per which:

- 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 open a separate demat account for accepting such margin pledge, which shall be tagged as 'Client Securities Margin Pledge Account'.
- To provide 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 re-pledge of securities on the approved list to CC only out of 'Client Securities Margin Pledge Account'.

#### **4.4 Running Account Authorization and Actual settlement.**

As per SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 & Exchange circular no. MSE/INSP/12113/2022 dated July 28, 2022, regarding "Settlement of Running Account of Clients' Funds lying with Trading Member (TM)" and subsequent FAQs notified vide Exchange circular no. MSE/INSP/12350/2022 dated September 26, 2022. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges on





first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan–Mar) for all the clients i.e. the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

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

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:

Reporting formats are given in the Exchange circular no. MSE/INSP/12823/2022 dated December 30, 2022.

Sr. No.	Reporting Requirement	Reporting Format	Timelines
1.	Submission of summary of settlement of clients’ funds	Annexure - I	Within 2 Trading Day post settlement date
2.	Submission of UCC wise settlement details	Annexure - II	Within 10 trading days post settlement date

In case of client having any outstanding trade position on first Friday of the Month / Quarter on which settlement of running account of funds is scheduled, a Trading member may retain funds calculated in the manner specified below:

- Entire pay-in obligation of funds outstanding at the end of day on date of settlement, across all segments.
- Members may retain 50% of end of the day (EOD) margin requirement as cash margin, excluding the margin on consolidated crystallized obligation/ MTM.
- 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.



(For Computation for arriving at retention of excess client funds based on above points, Members may refer Exchange circular no. MSE/INSP/12350/2022 dated September 26, 2022 “FAQ on Settlement of Running Account of Client’s Funds lying with Trading Member (TM)”

#### **4.5 Statement of Accounts**

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

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

- Members shall send a complete 'Statement of Accounts' for both funds and securities/commodities in respect of each of its clients on a weekly basis from Monday to Saturday for each week.
- 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.
- The members shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and 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.
- In respect of custodian participants clients, the requirement of the 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 Members, while sending periodical statements of accounts to the clients, shall mention therein that their running account authorization will continue until it is revoked by the clients.
- In view of the recent changes in the guidelines on margin collection from clients by way of pledge-repledge mechanism of client securities and revised POA guidelines, the format of register of securities (ROS) prescribed in the Exchange circular MSE/INSP/6758/2018 dated September 4, 2018, has been revised. Accordingly, ROS format prescribed in the Exchange circular MSE/INSP/10081/2021 dated February 5, 2021, shall be superseded by format in MSE/INSP/10081/2021 dated February 5, 2021. Further, 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, un-cleared 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.
- 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.
- 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.
- 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 Cash & Cash Equivalent submissions and securities/commodities holding in Holding Statement uploaded to the Exchange of the same date.



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.

Members are requested to note that the aforementioned requirement shall be applicable from the week ending on March 06, 2021, due date of which will be March 12, 2021 and for each week thereafter.

Circular No	Subject
MSE/INSP/10081/2021	Guidelines for 'Statement of Accounts' for Funds, Securities and Commodities

#### **4.6 Financing of securities transactions and transfer of securities & funds**

Trading members are required to refrain from arrangements by which, the securities and funds of a client are received/ transferred by trading members routinely from / to the accounts of different entities or the joint accounts of the client with the financier or its agents, or the trading member operates the client's bank account and / or depository account, under a financing arrangement with a general authorization by the clients.

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 between their clients and any person including their subsidiary / holding company or group company, to fund the transactions executed by the trading members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered by the 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.
- c) Trading members shall not obtain any authorization or power of attorney, for operating the depository and / or bank accounts of clients who avail financing facility for securities trading, conferring rights for operation of such accounts exclusively by the trading member.
- d) Trading members shall not also otherwise finance or act as a conduit or front for financing any secondary market transactions entered by their clients, directly or indirectly.

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

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

As per point 2.6 of SEBI Circular having number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

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

Delayed Payment Charges or interest charge for the funds deployed by the member may be charged at the rate/s consented by the client.

##### **4.8 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.

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.

##### **4.9 Prevention of Unauthorized Trading by Stockbrokers**

SEBI vide its circular No. CIR/HO/MIRSD2/CIR/P/2017/108 dated September 26, 2017, has directed all members to execute trades of clients only after keeping evidence of the client placing the order which could be, inter alia, in the form of:

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



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

Further, wherever the order instruction from clients is received through telephone, the stockbrokers are required to mandatorily use the telephone recording system to record the instructions and maintain telephone recordings as part of their records.

This provision is effective from January 01, 2018

#### **4.10 Handling of client Securities by Trading Members/Clearing Members**

Stock-Broker's need to segregate securities or moneys of client or clients or shall not use client securities or moneys for self or any other client as given below:

1. Pool account (TM/CM - Pool account).
2. Own Beneficiary Account (Stock-Broker-Proprietary Account).
3. Client Unpaid Securities Account (CUSA).

The Broker should have adequate systems and procedures in place with proper audit trail to ensure that client collateral is not used for any purpose other than meeting the respective client's margin requirements/pay-ins.

Members need to transfer securities from pool account to the respective beneficiary account of their client within one working day after the pay-out day. If client does not pay for the securities, the broker is entitled to retain those securities up to five trading days after payout in "CUSA" giving notice for payment to client and in case of non-payment broker should dispose respective client's securities and adjust in their account.

The Broker should not grant new exposure to client debit balance arising due to failure to pay the required amount carried on till the fifth trading day. (Except margin trading facility provided as per SEBI regulations).

If "CUSA" has securities beyond seven trading days after pay-outs penalty shall be levied upon TM/CM as per depositories byelaws.

W.e.f. September 1, 2019, clients' securities cannot be pledged to the Banks/NBFCs for raising funds even with client authorization.

Stockbroker cannot use the funds of one client for providing margin facility of other client (even if client's approval is taken).



**4.11 Treatment of Inactive Trading Account**

The requirement for flagging the client as inactive in the UCC database of the Exchanges and the exemption for reporting (weekly submission of securities holding and monthly upload of client funds and securities balances) shall continue to be applicable if no trades are carried out by the client in the last 12 (Twelve) months across all Exchanges.

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/M IRSD/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.

Circular No	Subject
MSE/INSP/9795/2020	Treatment of Inactive Trading Account

**4.12 Clarification on incentives/referral schemes:**

Below are guidelines for incentives/ referral schemes?

1. The incentive rate should only be a flat rate and a single rate applicable for all referring person.
2. The referring person should not undertake any selling/advisory activities nor should manage portfolio of person being referred and limit role to referral only.
3. The referred client should not be subjected to any kind of inducement by the referring person.
4. All client details will be kept confidential and disclosed only if required by law/regulation or with client's permission.

5. None of client transaction details/documents should be sent to referring person.
6. Referring person cannot conduct IPV/OSV.
7. Incentive amount should not be recovered from respective client.
8. The above incentive is between the referring person and broker and will not be covered in investor protection or grievance redressal measures of the exchange.

#### **4.13 Clarifications on Running Account settlement of funds.**

Stockbrokers are required to mandatorily settle the client accounts on a monthly / quarterly basis, as per the client preference, after ensuring a gap of maximum 30/90 days (as per the client mandate) between two running account settlements. Client balance needs to be credited in their bank and not invested directly in any scheme with/without client consent.

It is clarified apart from retention of 125% of the margin liability in derivatives segment as on date of settlement trading member may additionally retain margin liability in capital market segment as on the date of settlement (additional margin up to 125% of the margin requirement as on date of settlement).

A stockbroker shall not retain the value of funds and securities to the extent of the value of turnover (gross turnover) executed on the date of settlement in the cash market segment.

For the purpose of streamlining the existing process and due to multiple activities undertaken by the Stockbrokers on the day of settlement leading to chances of errors, missing out on payment timings of banks due to late finalization, delayed instructions, etc. SEBI in its circular SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated December 28, 2023, and Exchange Circular no. MSE/INSP/14682/2024 dated January 02, 2024. Trading Members may be allowed to settle the running accounts of clients on Friday and/or Saturday to address these operational difficulties.

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

#### **Broker may retain funds/securities at the time of settlement as given below.**

1. Entire pay-in obligation of funds and securities outstanding at the end of day on date of settlement.
2. A part of the margin given above the margin liability will also include margin collected by broker as per risk management policy and inform the client.
3. One-time amount of Rs 10,000/- net amount across segment and across exchange after taking onetime client consent.

#### **4.14 Use of client collateral by Broker**

SEBI circular no. MRD/DOP/SE/Cir-11/2018 dated April 17, 2008 and the Exchange circular no. MCX-SX/INSP/34/2008 dated November 24, 2008 and MCX-SX/INSP/995/2013 dated February 7, 2013 and circular no. CIR/MRD/DP/54/2017 dated



June 13, 2017 which inter-alia, provide that client collateral/securities shall not be used for purposes other than meeting clients margin requirements/pay-in or as may be stipulated in "Rights & Obligation Document".

SEBI circular dated June 13, 2017, and Circular no. CIR/MRD/DP/86/2017 dated August 01, 2017, contain provision regarding source of funds for the purpose of margin trading facility by the stockbroker.

In view of the above, it reiterated that strict compliance with the provisions relating to the use of client collateral is ensured by the stockbroker.

Circular No	Subject
MSE/INSP/7572/2019	Use of Client collateral by Stockbrokers

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

Exchange vide circular no. MSE/INSP/9201/2020 dated July 03, 2020. Member's attention is drawn to SEBI circular SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 1, 2020, on the subject "Standard Operating Procedure in the cases of Trading Member / Clearing Member leading to default". Members are requested to take note of the contents of the circular.

This has reference to SEBI circular no. SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020, and Exchange notice no. MSE/INSP/9201/2020 dated July 03, 2020, on "Standard Operating Procedure in the cases of Trading Member /Clearing Member leading to default".

In accordance with the point no.9 of the above-mentioned circulars, all members are advised to provide:

1. A list of all its bank accounts.
2. An undertaking enabling the Exchange/CC to instruct the bank(s) of the members to freeze the bank account(s) for debits in the cases of Trading Member/Clearing Member leading to default.

Further, members are requested to note that for all new bank accounts, members are required to submit the additional undertaking within seven days of the opening of the account to Exchange on email id: [compliancemsx@msei.in](mailto:compliancemsx@msei.in).



#### 4.16 Issuance of Annual Global Statement

As per SEBI, letter dated November 27, 2017, all the stockbrokers are required to issue an Annual Global Statement to their clients. Further, the statement is required to be issued within 30 days from the end of financial year and should cover all transactions executed by the client during the financial year. An indicative format of the Annual Global Statement issued by the Exchange vide circular no. MSE/INSP/5937/2018 dated January 12, 2018.

Name of the client	
UCC(s) of the client	
PAN of the client	
Basis	Trade/ Settlement
Date of Issue of AGTS	
Financial Year	

Security/ Commodity Description	Exchange	Segment	Purchase Quantity	Purchase Value	Sale Quantity	Sale Value

The above is minimum information and model format. The Stockbroker may provide any additional data like ISIN, average rate, net position, etc.

1. Consolidated report to be given for entire financial year.
2. Each distinct security/ commodity should be mentioned as a separate line item.
3. The AGTS may be given on a trade day basis or settlement day basis.
4. 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.
5. Effect of close out/ settlement / auction transactions should be mentioned in the purchase/ sale column, as appropriate.
6. AGTS must be provided to all the clients within 30 days from the end of the financial year.
7. Regulatory directives as applicable from time to time regarding communication to clients should be adhered to.
8. 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.
9. If the client desires any further information/ details regarding AGTS, the same should be provided by the Stockbroker.



#### **4.17 Client Unpaid Securities Pledgee Account (CUSPA)**

Exchange Vide Circular no. MSE/INSP/12573/2022 dated November 14, 2022. We draw your attention to SEBI circular ref. no: SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022, regarding Handling of Clients' Securities by Trading Members (TM) / Clearing Members (CM).

1. To protect clients' funds and securities and to ensure that the Stockbroker segregates securities or moneys of the client or clients and does not use the securities or moneys of a client or clients for self or for any other client, SEBI has issued various circulars from time to time.
2. SEBI, vide circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, introduced the "client unpaid securities account" and inter-alia specified the following:
  - a. Regarding securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled — "client unpaid securities account" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account" from the pool account of the concerned TM/CM.
  - b. The securities kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed of in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from 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.
  - c. In case the clients' securities are kept in the 'client unpaid securities account' beyond seven trading days after the pay-out, the depositories shall under their byelaws levy appropriate penalties upon such TM/CM which shall not be permitted to be recovered from the client.
3. In order to further streamline the process of handling of unpaid securities by TM/CM and to prevent any kind of misuse of such unpaid securities, after extensive consultations with Exchanges.

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

The Securities and Exchange Board of India SEBI vide circular ref 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 the following circulars have been issued by the Exchange: - SEBI circular CIR/MIRSD/15/2011 dated August 02, 2011, Exchange Circular No. MCX-SX/INSP/2180/2014 dated September 3, 2014, and MCX-SX/INSP/2202/2014 dated September 12, 2014.

1. This is in continuation to Exchange Circular No MCX-SX/INSP/2180/2014 dated September 3, 2014, and MCX-SX/INSP/2202/2014 dated September 12, 2014, related to generation and downloading data of clients whose mobile numbers/email-ids are not available in the UCC database of the Exchange.
2. Some of the members have expressed operational difficulties in mentioning different dummy email ids/ mobile nos. for clients who either do not have mobile number/email id or do not wish to provide the same, since they have a single client database.
3. Accordingly, for all such clients, the trading members shall now enter "[notprovided@notprovided.com](mailto:notprovided@notprovided.com)" in the email ID field and "6666666666" in the mobile number field.
4. All other provisions of the MCX-SX/INSP/2180/2014 dated September 3, 2014, and MCX-SX/INSP/2202/2014 dated September 12, 2014, will remain the same.
5. Members are requested to take note of the above and comply with the same.

#### **4.19 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 1st July 2014 to 31st August 2015. Such self-certification and documentation were required to be obtained by the financial institutions by 31st 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.

#### **4.20 Discontinuation of acceptance of cash by Stockbrokers**

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

#### **4.21 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.

#### **4.22 Creating investor awareness and safeguarding clients' assets.**

This is with reference to Exchange circular no. MSE/INSP/8547/2020 dated January 17, 2020, with respect to actual settlement of client accounts. As per the existing requirements, members are required to mandatorily settle the client accounts at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client. Further, SEBI has issued circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, revising the guidelines on settlement of running account of client's funds lying with the trading members and also mandated to return the credit balances of clients within three working days in case client has not done any transaction within 30 calendar days w.e.f. August 1, 2021.

All members are advised to strictly adhere to the requirements and put in place systems and procedures to ensure strict adherence to the timelines prescribed for settlement of running account of clients' funds. Further, members should ensure to credit the settlement amount to the client bank account directly and not run any schemes to invest the actual settlement amount with the consent/without consent of the client.

Further, in the recent past, it has come to the notice of the Exchange that certain members were engaging into 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 unauthorized collective investments/portfolio management, promising indicative/ guaranteed/fixed returns/payments etc.

Members are advised to regularly caution and create awareness amongst their clients/investors to abstain them from dealing in any schemes of unauthorized collective investments/portfolio management, indicative/ guaranteed/fixed returns / payments etc. Members are also advised to display the following messages on their respective websites under a separate banner "Advisory for investors".

#### **4.23 Unauthorized Market Practices by Trading Members**



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Exchange vide circular no. MSE/INSP/11631/2022 dated March 28, 2022. Members' attention is drawn to Exchange circular no. MSE/INSP/10825/2021 dated August 28, 2021, wherein it was 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.

However, despite various guidelines/ clarifications issued by the Exchange from time to time, 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. MSE/INSP/8797/2020 dated March 12, 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. 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. MSE/INSP/10941/2021 dated September 30, 2021, Members are required to flag the client account as "inactive" if there are no transactions 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 the satisfactory financial position of the client before allowing them to trade in derivatives segment.



- e) Assured Return Schemes/ Unauthorized 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 unauthorized collective investments/portfolio management, promising indicative/ guaranteed/fixed returns/payments etc.
- f) Sharing of trading credentials (login id & password):** It has been observed that clients trading in derivatives were lured to share trading credentials — (login id & passwords) with the individuals/persons who had promised assured returns and traded on behalf of these clients. In view of the same, members are hereby advised to carry out surveillance of trading activities of clients, particularly in derivatives. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment is in proportion to their income / net worth. Refer to Exchange circular no. MSE/SURV/10627/2021 dated July 1, 2021, on 'Surveillance Obligations for Trading Members', for indicative themes on which trading members may formulate their alerts.

In view of the above, members are also advised to regularly caution and create awareness amongst their clients/investors to abstain them from dealing in any schemes of unauthorized collective investments/portfolio management, indicative/ guaranteed/fixed returns / payments etc. and sensitise their clients to avoid practices like:

- a) Sharing
  - i. Trading credentials— login id & passwords,
  - ii. Trading strategies,
  - iii. Position details,
- b) Trading in leveraged products /derivatives without proper understanding, which could lead to losses.
- c) Writing/ selling options or trading in option strategies based on tips, without basic knowledge & understanding of the product and its risks.
- d) Dealing in unsolicited tips through WhatsApp, Telegram, YouTube, Facebook, SMS, calls, etc.
- e) Trading based on recommendations from unauthorized / unregistered investment advisors.

Members are advised to look out for various unsolicited messages being circulated in the market and take appropriate action against the individual/person/entity in case the details such as names, phone numbers, email ids appearing in the said messages are matching with the records of their employees, authorized persons and clients.

Members are advised to refrain from engaging in any practice that is against the spirit of the guidelines issued by SEBI/Exchange. Further, Members are advised to put in place adequate mechanisms to have oversight on the activities of their associates, authorized 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 unauthorized market practices either directly or through its Authorized person(s) and/or their Directors/Partners, employees etc.

#### **4.24 Precautions for clients dealing in Options.**



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This is with reference to Exchange circular no. MSE/INSP/11631/2022 dated March 28, 2022, wherein it was highlighted that certain practices followed by members are not in compliance with the relevant guidelines issued by the Exchange.

Further, members' attention is drawn to Exchange circular no. MCX-SX/INSP/238/2009 dated December 4, 2009, and MCX-SX/INSP/296/2010 dated February 25, 2010, wherein the guidelines for "Dealings between a client and a stockbroker" have been prescribed. Subsequently, SEBI vide circular no: CIR/MIRSD/16/2011 dated August 22, 2011, has simplified and rationalized the trading account opening process. In accordance with the aforesaid circulars, clients who wish to trade in derivatives segments shall mandatorily sign the "trading preference" in the client registration form. Trading members shall also collect documentary evidence of financial details provided by the clients who opt to deal in the derivatives segment.

However, it has been observed that trading members are not performing adequate due diligence to ensure that documentary evidence for income submitted by the client reflects the satisfactory financial position of the client before allowing them to trade in derivatives. It has also been observed that certain members are availing the services of influencers to promote "Options" trading, thereby inducing the clients to trade in "Options" without considering the product suitability/knowledge and trading experience of the clients.

In view of the same, members are hereby advised to carry out due diligence to ensure that evidence of financial information / income details reflecting the satisfactory financial position of the client are collected before onboarding the clients for trading in derivatives. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment, particularly in Options, is in proportion to their income / 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 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 unauthorized / unregistered investment advisors and influencers.

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

#### **4.25 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 1st July 2014 to 31st August 2015. Such self-certification and documentation were required to be



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obtained by the financial institutions by 31st 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 are 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 April 30, 2017. Refer Exchange circular no: MSE/INSP/5082/2017 dated April 20, 2017.

#### **4.26 Centralization of certifications under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) at KYC Registration Agencies (KRAs)**

SEBI in its circulars CIR/MIRSD/2/2015 dated August 26, 2015 and CIR/MIRSD/3/2015 dated September 10, 2015, and Exchange circular no. MSE/INSP/15051/2024 dated March, 18, 2024 guidance note on FATCA and CRS norms issued by the Department of Revenue, Ministry of Finance state that the reporting financial institution (RFI) [as defined under rule 114F (7) of Income Tax Rules, 1962] shall obtain a self-certification from the client, as part of the account opening documentation, to determine the client's residence for tax purpose.

The intermediaries, who are RFI, shall upload the FATCA and CRS certifications obtained from the clients onto the system of KRAs with effect from July 01, 2024.

The existing certifications obtained from clients prior to July 01, 2024, shall be uploaded by the intermediaries onto the systems of KRAs within a period of 90 days of implementation of SEBI circular.

The onus of obtaining and reporting the FATCA and CRS certification and related compliances shall lie with the respective intermediaries.

The intermediary shall confirm the reasonableness of such certification based on the information obtained in respect of account opening, including any documentation obtained in accordance with Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and shall update the self-certification, as and when, there is a change reported by the client.

#### **4.27 Risk Disclosure with respect to trading by individual traders in Equity Futures & Options Segment**

As per the circular issued by SEBI SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/73 dated May 19, 2023, and Exchange Circular No. MSE/INSP/13508/2023 dated May 23, 2023 and Circular No. MSE/INSP/13648/2023 June 15, 2023. All stockbrokers shall display the 'Risk disclosures' on their websites and to all their clients in the manner as specified below:

<b><u>RISK DISCLOSURES ON DERIVATIVES</u></b>
<ul style="list-style-type: none"><li>• 9 out of 10 individual traders in the equity Futures and Options Segment, incurred net losses.</li><li>• On an average, loss makers registered net trading loss close to ₹ 50,000.</li><li>• Over and above the net trading losses incurred, loss makers expended an additional 28% of net trading losses as transaction costs.</li></ul>



- Those making net trading profits, incurred between 15% to 50% of such profits as transaction cost.

1. Upon login into their trading accounts with brokers, the clients may be prompted to read the ‘Risk disclosures’ (which may appear as a pop-up window upon login) and shall be allowed to proceed ahead only after acknowledging the same.

2. The ‘Risk disclosures’ shall be displayed prominently, covering at least 50 percent of the area of the screen.

3. All Qualified Stockbrokers(QSBs) shall maintain the Profit and Loss (P&L) data of their clients on continuous basis as per the format given in the above mentioned circular SEBI SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/73 dated May 19, 2023 and MSE/INSP/13508/2023 dated May 23, 2023 .The P&L data of the clients shall be retained for at least 5 years.

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

With a view to safeguard clients’ funds placed with SBs/CMs the need of upstreaming of all client funds received by SBs/CMs to the Clearing Corporations (CCs) had been comprehensively stipulated by SEBI vide circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023 SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 on Implementation of circular on upstreaming of clients’ funds by Stockbrokers(SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Exchange Circular no. MSE/INSP/13613/2023 dated June 12, 2023, MSE/INSP/13700/2023 dated June 23, 2023, MSE/INSP/13746/2023 dated July 03, 2023, MSE/INSP/13967/2023 dated August 14, 2023, MSE/INSP/14048/2023 dated August 30, 2023, MSE/INSP/14067/2023 dated September 01, 2023 on Penalty Structure related to provisions of Upstreaming of clients’ funds by Stockbrokers(SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Bank Guarantees (BGs) created out of clients' funds and SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 and MSE/INSP/14584/2023 dated December 13, 2023.

As per the framework, no clients’ funds shall be retained by SBs/ CMs on End of Day (EoD) basis. The clients’ funds shall all be upstreamed by SB/ CMs to CCs only in the form of either cash, lien on FDR, or pledge of units of Mutual Fund Overnight Schemes (MFOS).

Upstreaming of funds: Funds received on a given day by SBs shall be transferred to CMs, and by CMs to the CC any time during the day, but not later than the respective cutoff times. The respective cutoff times for upstreaming are as follow:

Sr. No.	Particular	Cutoff time
1	CM upstreaming cutoff time	To be decided by CC – not earlier than 6:00 PM
2	SB upstreaming cutoff time	To be decided by CM – not earlier than 1 hour prior to CM upstreaming cutoff time

Downstreaming of funds: The clients may request release of funds to SBs/CMs at any time during the day. The processing of such release requests shall be as per the respective risk management practices of SB/CMs. Subject to



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such validations, the SBs/CMs shall provide the requested funds to the client by requesting for release of cash collateral from the CCs. The respective cutoff times for down-streaming are as under:

<b>Sr. No.</b>	<b>Particular</b>	<b>Cutoff time</b>
1	CM release request cutoff time	To be decided by CC – not earlier than 3:00 PM
2	SB release request cutoff time	To be decided by CM – not earlier than 30 minutes prior to CM release request cutoff time
3	Client release request cutoff time	To be decided by SB – not earlier than 30 minutes prior to SB release request cutoff time

For release requests received beyond this cutoff time by CCs/CMs/SBs, the payments shall be made on the next settlement day.

The SBs/CMs may seek withdrawal of client funds from CCs only under following scenarios:

- a) Client unpaid securities obligations / MTF Obligations
- b) Loss due to sale of unpaid securities
- c) Penalties
- d) Statutory levies (STT / Stamp Duty / SEBI Turnover Fee)
- e) Brokerage (including exchange transaction fee)
- f) other charges (DP charges, etc.)
- g) Funds to be released to client on account of regulatory requirements such as running account settlement
- h) Funds withdrawal request from client.

SBs/CMs shall provide reconciliation statements to stock exchanges/CCs, as may be required by stock exchanges and CCs.

<b>Circular no.</b>	<b>Subject</b>
MSE/INSP/13613/2023	Upstreaming of clients' funds by Stockbrokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
MSE/INSP/13700/2023 MSE/INSP/13967/2023 MSE/INSP/14048/2023	FAQ on Upstreaming of clients' funds by Stockbrokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
MSE/INSP/13746/2023	Implementation of circular on upstreaming of clients' funds by Stockbrokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)
MSE/INSP/14067/2023	Penalty Structure related to provisions of Upstreaming of clients' funds by Stockbrokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Bank Guarantees (BGs) created out of clients' funds
MSE/INSP/14584/2023	Upstreaming of clients' funds by Stockbrokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)

#### **4.29 Trading supported by Blocked Amount in Secondary Market**

SEBI vide its circular SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/99 dated June 23, 2023, and Exchange Circular no. MSE/INSP/13736/2023 dated June 30, 2023 have comprehensively provided the features and framework for Trading supported by Blocked Amount in Secondary Market.

A 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 and hereinafter referred as 'UPI block facility'.

The proposed framework, funds shall remain in the account of client but will be blocked in favour of the clearing corporation ('CC') till the expiry date of the block mandate or till block is released by the CC, or debit of the block towards obligations arising out of the trading activity of the client, whichever is earlier. Further, settlement for funds and securities will be done by the CC without the need for handling of client funds and securities by the member.

Further, while a UPI block upon creation shall be considered towards collateral, the same shall also be available for settlement purposes. For the clients who prefer to block lump sum amount, their block can be debited multiple times, subject to available balance, for settlement obligations across days.



Since the framework requires certain changes to be made in the systems and processes of clearing corporations, stock exchanges, depositories, stockbrokers and NPCI, the concerned entities are expected to make requisite changes and test the systems and processes for robustness thereafter to make the facility live by January 01, 2024

**4.30 Trading Preferences by Clients**

Currently, clients need to give separate authorization / letter in case they want to trade on different stock exchange for the same segment or on different segment. SEBI vide its circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023, and Exchange Circular No. MSE/INSP/13701/2023 June 23, 2023, MSE/INSP/13762/2023 dated July 06, 2023 on trading preferences by clients and MSE/INSP/13847/2023 July 21, 2023 on FAQ on Trading Preferences by Clients.

Therefore, to standardize the format of “Trading Preferences” to ensure that clients are permitted to access all the stock exchanges in which the stockbrokers are registered for the same segment. Accordingly, the format stands modified as below.

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

The provisions of this circular shall come into force with effect from August 01, 2023.



**4.31 Online Resolution of Disputes in the Indian Securities Market**

SEBI Circular no. SEBI/HO/OIAE/OIAE\_IAD-1/P/CIR/2023/131 dated July 31, 2023, Circular no. SEBI/HO/OIAE/OIAE\_IAD- 1/P/CIR/2023/135 dated August 04, 2023 and Master Circular No. SEBI/HO/OIAE/OIAE\_IAD1/P/CIR/2023/145 dated August 11, 2023 and Circular No. SEBI/HO/OIAE/OIAE\_IAD-3/P/CIR/2023/191 dated December 20, 2023 provided clarity on certain aspects on aforesaid Circulars. Accordingly, Exchange has also issued circular to the market MSE/ISC/13905/2023 dated August 02, 2023, MSE/ISC/13935/2023 dated August 07, 2023, MSE/ISC/14081/2023 dated September 05, 2023, on Master circular for Online Resolution of Disputes in the Indian Securities Market and MSE/ISC/14628/2023 dated December 22, 2023 on Amendment regarding SEBI Circular SEBI/HO/OIAE/OIAE\_IAD-1/P/CIR/2023/131 dated July 31, 2023.

The existing dispute resolution mechanism in the Indian securities market is being streamlined under the aegis of Stock Exchanges and Depositories (collectively referred to as Market Infrastructure Institutions (MIIs) by expanding their scope and by establishing a common Online Dispute Resolution Portal (“ODR Portal”) which harnesses online conciliation and online arbitration for resolution of disputes arising in the Indian Securities Market.

Disputes between institutional or corporate clients and specified intermediaries/regulated entities in securities market as can be resolved, at the option of the institutional or corporate clients:

- a. In accordance with this circular and by harnessing online conciliation and/or online arbitration as specified in this circular, OR
- b. by harnessing any independent institutional mediation, conciliation and/or online arbitration institution in India.

All agreements, contractual frameworks or relationships entered by Market Participants with investors/clients in the Indian Securities market presently existing or entered into hereafter shall stand amended or be deemed to incorporate provision to the effect that the parties agree to undertake online conciliation and/or online arbitration by participating in the ODR Portal and/or undertaking dispute resolution in the manner specified in the above-mentioned circulars.

The Market Participants shall promptly attend to all complaints or disputes raised by its investors/corporate clients in accordance with applicable SEBI rules, regulations and circulars. The communications shall clearly specify, the availability of the SCOREs portal and the ODR Portal to the investor/client and that the same could be accessed by such investor/client if unsatisfied with the response (or the lack thereof) of the Market Participant.

The Market Participants shall duly train their staff in attending to complaints/disputes and in handling the references arising from the SCOREs portal or the ODR Portal, and in participating in online conciliation and arbitration. Due cooperation and coordination with the MIIs and with the ODR Institutions shall be ensured by the Market Participants.

Circular	Subject
MSE/ISC/13905/2023	Online Resolution of Disputes in the Indian Securities Market
MSE/ISC/13935/2023	Corrigendum cum Amendment to Circular dated July 31, 2023, on Online Resolution of Disputes in the Indian Securities Market



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MSE/ISC/14081/2023	Master circular for Online Resolution of Disputes in the Indian Securities Market
MSE/ISC/14628/2023	Amendment regarding SEBI Circular SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/131

#### **4.32 Redressal of investor grievances through the SEBI Complaint Redressal (SCORES) Platform and linking it to Online Dispute Resolution platform**

In order to strengthen the existing investor grievance handling mechanism through SCORES by making the entire redressal process of grievances in the securities market comprehensive by providing a solution that makes the process more efficient by reducing timelines and by introducing auto-routing and auto-escalation of complaint, SEBI notified the Securities and Exchange Board of India (Facilitation of Grievance Redressal Mechanism) (Amendment) Regulations, 2023.

SEBI vide its Circular SEBI/HO/OIAE/IGRD/CIR/P/2023/156 dated September 20, 2023, and SEBI/HO/OIAE/IGRD/CIR/P/2023/183 dated December 01, 2023. Also, shedding light on Exchange Circular no. MSE/ISC/14188/2023 dated September 22, 2023 on Redressal of investor grievances through the SEBI Complaint Redressal (SCORES) Platform and linking it to Online Dispute Resolution platform and Circular no. MSE/ISC/14537/2023 Extension of timeline for implementation of provisions of circular SEBI/HO/OIAE/IGRD/CIR/P/2023/156 dated September 20, 2023 on Redressal of investor grievances through the SEBI Complaint Redressal (SCORES) Platform and linking it to ODR.

Notwithstanding anything contained in this circular or any other circular, the Entities shall, submit the Action Taken Report (“ATR”) on SCORES within 21 calendar days from the date of receipt of the complaint.

The provisions of this circular related to work flow of processing of investor grievances by Entities and framework for monitoring and handling of investor complaints by the Designated Bodies shall come into force with effect from December 04, 2023.

Further, in SEBI/HO/OIAE/IGRD/CIR/P/2023/183 dated December 01, 2023, it has been decided to grant an extension towards effective date of implementation of above said provisions from December 04, 2023, to April 01, 2024.

The Entities however, shall continue to submit the Action Taken Report (“ATR”) on SCORES within 21 calendar days from the date of receipt of the complaint as directed in circular SEBI/HO/OIAE/IGRD/CIR/P/2023/156 dated September 20, 2023 and Exchange Circular no. MSE/ISC/14188/2023 dated September 22, 2023.

#### **4.33 Most Important Terms and Conditions (MITC)**

To bring into focus the critical aspects of the broker-client relationship and for ease of understanding of the clients, it has been decided that brokers shall inform a standard Most Important Terms and Conditions (MITC) which shall be acknowledged by the client.

SEBI vide its Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023, and Exchange Circular no. MSE/ISC/14451/2023 dated November 16, 2023, on Most Important Terms and Conditions (MITC)



The uniform documents for formalizing the broker-client relationship, as per clause 20 of “Master Circular on stockbrokers” dated May 17, 2023:

- i. Account opening form
- ii. Rights and obligations
- iii. Risk disclosure documents.
- iv. Guidance notes.
- v. Policies and procedures
- vi. Tariff sheet.

It is aimed that the implementation of the above-mentioned circulars shall be as under:

For onboarding of new clients, the date of the implementation and compliance by the market participants shall be April 01, 2024.

For existing clients, the MITC shall be informed to clients via email or any other suitable mode of communication (which can be preserved) by June 01, 2024.

#### **4.34 Ease of doing business-Changes in reporting**

To tackle the inefficiencies due to duplication of monitoring mechanisms and difficulties in uploading data to exchanges. Industry associations to consult with MIIs under the aegis of Broker’s Industry Standards Forum (ISF) and submit a proposal to SEBI. The ISF has recommended that some of the reports be discontinued.

SEBI in its circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/03 dated January 12, 2024 and Exchange circular no. MSE/INSP/14766/2024 dated January 12, 2024 had directed, changes in reports shall continue to allow the stock exchanges and clearing corporations to retain the supervision over client collateral, in order to bring in efficiencies in reporting and a step towards ease of doing business, certain reports are being discontinued.

Based on the Circular issued by SEBI, Exchange had issued a circular no. MSE/INSP/15037/2024 dated March 15, 2024, on Discontinuation of Reporting of Client Level Cash and Cash Equivalent Balances. Wherein, 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 MSE/INSP/13848/2023 dated July 21, 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.

To ease out the compliance burden of the members, Exchange had decided to discontinue the requirements of reporting of day wise Client Level Cash and Cash Equivalent Balances by members from March 18, 2024 and accordingly, period of last submission which would be applicable to members for weekly Client Level Cash and Cash Equivalent Balances reporting shall be week ending March 16, 2024 due date of the same shall be March 21, 2024.



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.

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

It has been observed that at times, suspicious activities are noticed by investors, but the facility of freezing/blocking of accounts is not available with the majority of Trading Members.

Many a times, investors raise issues of suspicious activities in their trading accounts and thus, there is an urgent need to address the situation of having a facility for blocking trading accounts.

SEBI vide its circular SEBI/HO/MIRSD/POD-1/P/CIR/2024/4 dated January 12, 2024 and Exchange circular no. MSE/INSP/14767/2024 dated January 12, 2024 on Ease of Doing Investments by Investors - Facility of voluntary freezing/ blocking of Trading Accounts by Clients 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 accordingly, in a detailed manner, consisting of the below:

Detailed policy for voluntary freezing/ blocking the online access of the trading account of the client including the following:

- Modes through which a client can request/communicate to the Trading Member for voluntarily blocking the trading accounts.
- Issuing acknowledgement to the clients on receipt of message.
- Time period within which the request shall be processed, and the trading account shall be frozen/blocked.
- Action to be taken by the Trading Member pursuant to the receipt of request for freezing/blocking of the trading account.
- Process for re-enabling the client for trading/transfers.
- Intimation to be provided by the trading member to the client's w.r.t. introduction of the facility to block the trading accounts.

### **ITEM 5 - DEALINGS WITH INTERMEDIARIES**

#### **5.1 Dealings by branches, intermediaries, authorized persons**

Over the last few years, Trading Members have been significantly expanding their trading network. Many of these extended trading centers are being manned by the Trading Members' branch officials, registered sub-brokers, 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 unregistered sub-broking, 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.





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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 another person (including sub-broker, branch official, authorized person, dealer, etc.,)
- (ii) ensuring that the person 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 sub-brokers, authorized 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 sub-broker, branch official, authorized 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 authorization from it.
- (vii) if the Trading Member is also a Depository Participant for the client, sub-broker, authorized 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 or their sub-brokers etc.,
- (ix) undertaking surprise inspections of such places to ensure prevention of any activity in violation of the Regulations.
- (x) 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, sub-brokers, authorized 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, Byelaws 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.

## **5.2 Guidelines for location of terminals and usage thereof**

As per SEBI Circular No. SMDRP/Policy/CIR-49/2001 dated October 22, 2001, the member-brokers should install trading terminals only at their registered offices, branch offices and their registered sub-brokers' offices. An office is considered as member -brokers' office only if it is /owned or taken on rent or lease, by a member-broker of the Exchange. In fact, member-brokers should have effective control over the functioning of those offices.



In case of Authorized Person (AP), if any trading terminal is provided by the stockbroker to AP, the place where such trading terminal is located shall be treated as branch office of the stockbroker (MSE circular no. MCX-SX/MEM/299/2010 dated February 26, 2010). A Trading Member shall not allow operation of its trading terminal at any office other than its registered office, branch offices and the offices of its registered Authorized Person.

In case of Direct Market Access (DMA) facility, members are allowed to offer their clients, direct access to the MSE trading system through their infrastructure without manual intervention by the brokers (MSE circular no. MCX-SX/CTCL/305/2010 dated March 9, 2010).

### **TERMINAL REGISTRATION**

Refer Master Circular issued by Exchange under ref. no. MSE/MEM/13737/2023 dated June 30, 2023.

#### **5.3 Placing of notice boards.**

Trading members should place a permanent notice board, as per the prescribed format, at all their offices including the offices of sub-brokers, or any other offices where the trading terminals are located which should prominently display the following information: -

#### **Details to be included in name board in Main office:**

1. Name of the Trading Member.
2. Address & Tel. No. of the main office of the trading member (also Name & Tel. No of the contact person in the main office).
3. SEBI Registration No. of the trading member.
4. Name, Designation & Telephone No. of contact person in the Main office.

#### **Additional details to be included in name board in Branch offices:**

1. Address and Telephone No. of branch office.
2. Name & Designation of the person in-charge of / managing the branch office.
3. MSE Investor Service Tel. No.

#### **Information to be included in notice board in all offices:**

- Please deal only through a SEBI registered trading member and ensure to carry out due diligence before registering as a constituent of any trading member.



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- Please read carefully and then execute registration documents viz. Know Your Client form, Member- Constituent Agreement and Risk Disclosure Document, before starting dealing with trading member.
- Insist on a contract note of the trading member for all trades done by you, within 24 hours and bring any discrepancies to the notice of trading member immediately.
- Please make payments by account payee cheque / DD in favour of trading member or funds transfer through banking channel and do not involve in cash dealings.
- For further details on the rights and obligations of investors and other related issues, kindly contact the trading member or the Investor Service Centers of Metropolitan Stock Exchange of India Limited (Exchange circular no. MCX-SX/COMP/55/2009 dated January 27, 2009).

Members must display prominently their name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers on its portal /web site, if any, notice / display boards. (Refer SEBI circular Cir/MIRSD/9/2010 dated November 4, 2010, and Exchange circular no: MCX-SX/INSP/471/2010 dated November 10, 2010).

SEBI has been taking various measures to create awareness among investors about grievance mechanisms available to them through workshops as well as through print and electronic media. As an additional measure and for information of all investors who deal/ invest/ transact in the market, it has now been decided that offices of all Stockbrokers (its

registered Sub-Broker(s) and Authorized Person(s)) shall prominently display basic information, as provided as mentioned below (in Annexure-A), about the grievance redressal mechanism available to investors. The intermediaries shall take necessary steps to implement the provisions of this circular and ensure its full compliance in respect of all its offices on or before 60 days from the date of this circular.

#### **Annexure-A - FOR STOCKBROKERS**

Dear Investor,

In case of any grievance /complaint against the Stockbroker:

- Please contact Compliance Officer of the Stockbroker (Name)/ email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- You may also approach CEO/ Partner/Proprietor (Name) / email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- If not satisfied with the response of the Stockbroker, you may contact the concerned Stock Exchange.
- You can also lodge your grievances with SEBI at <http://scores.gov.in>. For any queries, feedback or assistance, please contact SEBI Office on Toll Free Helpline at 1800 22 7575 / 1800 266 7575.

Refer SEBI circular No. CIR/MIRSD/3/2014 dated 28th August 2014 and Exchange circular no: MCX-SX/IG&ARBN/2189/2014 dated September 05, 2014, regarding display of information regarding Grievance Redressal Mechanism.

#### **5.4 Inspection of APs**

It shall be the primary responsibility of the affiliated stockbroker to inspect the registered Aps and Branches. It is hereby clarified that every stockbroker is required to inspect every year at least 20% of its registered sub-brokers.

Member's attention is drawn to SEBI circular MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009, and Exchange circular no. MCX-SX/MEM/226/2009 dated November 10, 2009 & MCX-SX/MEM/942/2013 dated January 14, 2013, on the supervisory framework with respect to Member's branches and Authorized Persons (AP) network.

To enhance the effectiveness of the supervision and ensure uniformity & standardization across all Members, following guidelines, framed in joint consultation with SEBI & other Exchanges, are being issued:

i. Every Trading Member shall be required to inspect every year at least 30% of its active Authorized Persons/ Branches and ensure that each active AP/ Branch is inspected at least once in every three years. For this purpose, an active AP/ Branch would mean one who has executed even a single transaction during financial year and is engaged in servicing the clients.

ii. APs/Branches meeting any of the below criteria shall be inspected annually, irrespective of when the last inspection was carried out:

- a) APs/Branches with more than 500 registered clients across Exchanges.



- b) APs with more than 20 trading terminals and Branches with more than 50 trading terminals, across all segments/Exchanges.
- c) APs/Branches against which more than 3 complaints have been received during the previous year.

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

iii. The indicative scope of the Inspection to be carried out is outlined in the Exchange circular no: MSE/INSP/8252/2019 dated October 22, 2019.

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.

Circular No	Subject
MSE/INSP/8252/2019	Framework for Supervision of Authorized Persons (APs) & Branches by Members

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

**Series VII — Associated persons**

SEBI vide Regulation 3 of the Securities and Exchange Board of India (certification of Associated Persons in the Securities Market) Regulations, 2007, has notified in the Gazette of India that, Associated Persons i.e. persons associated with a registered stockbroker/trading member/clearing member in recognized stock exchanges, who are involved in, or deal with any of the following, namely.

1. Assets or funds of investors or clients.
2. Redressal of investor grievances.
3. Internal control or risk management.
4. Activities having a bearing on operational risk.

Shall be required to have a valid certification from the National Institute of Securities Market (NISM).



Accordingly, the Associated Persons, associated with a registered stockbroker/trading member/ clearing member shall have to pass the NISM-Series-VII: Securities Operations and Risk Management Certification Examination within two years from the date of notification i.e. December 10, 2010. Further if a stockbroker/trading member/ clearing member who employs any associated persons after the date of notification shall ensure that the said associated persons shall obtain valid certification within one year from the date of their employment (Refer to Exchange circular no. MCX-SX/INSP/491/2010 dated December 16, 2010).

Further, 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 provided their 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 enclosed as Annexure-A of Exchange Circular no. MCX-SX/INSP/2181/2014 dated September 3, 2014. Trading members are advised to take note of the same and ensure compliance by December 31, 2014.

#### **Series-I-Currency Derivatives certification**

Under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007, SEBI has notified on May 13, 2009, that trading member of the Currency Derivatives Segment of a recognized stock exchange shall ensure that all its approved users and sales personnel obtain Series-I: CD certification. (Refer Exchange circular no. MCX-SX/MEM/123/2009 dated May 21, 2009).

From the date of the notification, a trading member of the Currency Derivatives Segment of a recognized stock exchange shall not engage or employ any approved user or sales personnel who does not have valid Series-I: CD certification.

#### **Series IIIA — Compliance officers**

Under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007, SEBI has notified vide notice dated March 11, 2013 that the associated persons functioning as compliance officers of intermediaries registered with the Board as stockbrokers, 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 ("NISM") by passing the NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination ("SICCE"). (Refer Exchange circular no. MCX-SX/INSP/1057/2013 dated March 13, 2013).

All such intermediaries shall ensure that associated persons functioning as compliance officers as on the date of this notification obtain certification by passing SICCE within two years from the date of this notification i.e. March 11, 2013.



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.

### **Series VIII - Equity Derivatives Segment**

Under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007, SEBI has notified vide notification dated January 11, 2013 that 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 and Sub-Brokers) Regulations, 1992 from the National Institute of Securities Market ("NISM") by passing the NISM- Series- VIII: Equity Derivative Certification Examination ("EDCE"). (Refer to Exchange circular no. MCX-SX/INSP/967/2013 dated January 25, 2013).

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 certification by passing EDCE within two years from the date of this notification i.e. January 11, 2013.

A trading member, who engages or employs any such associated person who is an approved user or sales personnel, after the date of this notification, shall ensure that such person obtains certification by passing EDCE within one year from the date of his employment:

Further an associated person, who is approved user or sales personnel, has obtained any of the following certifications as on the date of this notification —

- a) BSE's Certificate on Derivatives Exchange of Bombay Stock Exchange Limited.
- b) NCFM- Derivative Market (Dealers) Module of National Stock Exchange of India Limited

Shall be exempted from the requirement of obtaining certification by passing EDCE till the validity of the said certification.

### **Series-IV: IRD certification Examination**

The Securities and Exchange Board of India had specified that approved users and sales personnel of the trading members who are registered as such in the currency derivatives segment of a recognized stock exchange and trading in interest rate derivatives, as on June 29, 2010, shall obtain Series-IV: IRD certification, as required in the notification, within two years from the date of the said notification.

WHEREAS in view of the fresh launch of interest rate futures and difficulties expressed by the industry, it has been decided to extend the period for obtaining certification by such approved users and sales personnel for a period of two years from the date of the notification, as per SEBI Notification No. LAD-NRO/GN/2013-14/41/118 dated January 20, 2014.



Accordingly, a trading member who is registered as such in the currency derivatives segment of a recognized stock exchange and trading in interest rate derivatives shall ensure that all its approved users and sales personnel shall obtain Series-IV: IRD certification within a period of two years from the date of this notification. Further, all approved users and sales personnel employed by the trading member after the date of this notification shall obtain Series-IV: IRD certification within a period of one year from the date of employment. (Refer to SEBI Notification No. LAD-NRO/GN/2010-11/12/10230 on June 29, 2010, Notification No. LAD-NRO/GN/2013-14/41/118 dated January 20, 2014, and Exchange circular no. MCX-SX/INSP/1721/2014 January 23, 2014)

### **NISM Series- XIII Certification (CDCE)**

The National Institute of Securities Markets (NISM) vide its press release dated December 09, 2014 has launched the NISM-Series-XIII: Common Derivatives Certificate Examination.

- NISM Series - I: Currency Derivatives Certification Examination
- NISM Series - IV: Interest Rate Derivatives Certification Examination
- NISM Series - VIII: Equity Derivatives Certification Examination

Candidates who have passed NISM-Series-XIII: Common Derivatives Certificate Examination shall be deemed to have obtained the requisite standard as specified in the above three exams.

(Refer to Exchange circular no. MCX-SX/MEM/2576 dated January 21, 2015)

### **5.6. 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 Stock brokers 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 rumors. It is a well-established fact that market rumors can do considerable damage to the normal functioning and behavior of the market and distort the price discovery mechanisms.

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

- A proper internal code of conduct and controls should be put in place.





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- Employees/temporary staff/voluntary workers etc. employed/working in the Offices of market intermediaries do not encourage or circulate rumors 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.

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

SEBI Circular no. CIR/MIRSD/24/2011 dated December 15, 2011, wherein SEBI has issued guidelines on Outsourcing of Activities by Intermediaries.

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.

The intermediaries desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. A few examples of core business activities may be —execution of orders and monitoring of trading activities of clients in case of stockbrokers; dematerialization of securities in case of depository participants; investment related activities in case of Mutual Funds and Portfolio Managers. Regarding Know Your Client (KYC) requirements, the intermediaries shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued there under from time to time.

Other Obligations

- a) Reporting To Financial Intelligence Unit (FIU)
- b) Need for Self-Assessment of existing Outsourcing Arrangements

#### **1) 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 impairs 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 the 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.

An intermediary shall assess 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 the 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.
  - I. 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.
  - II. Regulatory status of the third party, including its fitness and probity status.
  - III. Situations involving conflict of interest between the intermediary and the third party and measures put in place by the intermediary to address such potential conflicts, etc.
- b. 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.
- c. 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.

- d. 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 to assess its ability to continue to meet its outsourcing obligations.

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

- a. 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.
- b. 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 be responsible for redressal of the grievances received from investors arising out of activities rendered by the third party.
- c. 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.
- d. Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision/inspection of the intermediary.

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

- a. 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.
- b. The due diligence undertaken by an intermediary shall include assessment of:
  - I. The third party's resources and capabilities, including financial soundness, to perform the II outsourcing work within the timelines fixed.
  - II. Compatibility of the practices and systems of the third party with the intermediary's requirements and objectives.



- III.** Market feedback of the prospective third party's business reputation and track record of their services rendered in the past.
- IV.** Level of concentration of the outsourced arrangements with a single third party; and 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.

- a.** 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.
- b.** Care shall be taken to ensure that the outsourcing contract:
  - i.** clearly defines what activities are going to be outsourced, including appropriate service and performance levels.
  - ii.** provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties.
  - iii.** provides for the liability of the third party to the intermediary for unsatisfactory performance/other breach of the contract.
  - iv.** 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.
  - v.** 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.
  - vi.** 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.
  - vii.** 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.
  - viii.** provides for preservation of the documents and data by third party;
  - ix.** provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract.
  - x.** provides for termination of the contract, termination rights, transfer of information and exit strategies.



- xi.** 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.
- xii.** neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- xiii.** 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.

- a. Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.
- b. 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.
- c. 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 fulfill 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 parties maintain appropriate IT security and robust disaster recovery capabilities.
- d. Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by the intermediary to confirm the adequacy of the third party's systems.

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

- a. 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.
- b. 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.



- c. 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.

**Activities that shall not be outsourced**

The intermediaries desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. A few examples of core business activities may be —execution of orders and monitoring of trading activities of clients in case of stockbrokers; dematerialization of securities in case of depository participants; investment related activities in case of Portfolio Managers. Regarding Know Your Client (KYC) requirements, the intermediaries shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued there under from time to time.

**REGULATORY REQUIREMENTS.**

Sr. No.	Subject	Circular Reference no.
1.	Guidelines for location of CTCL terminals and usage thereof	Exchange circular no. MCX-SX/CTCL/15/2008 dated October 14, 2008, MCX-SX/MEM/31/ 2008 dated November 21, 2008, MCX-SX/MEM/123/2009 dated May 21, 2009, MCX-SX/MEM/299/2010 dated February 26, 2010, MCX-SX/CTCL/305/2010 dated March 9, 2010, MCX-SX/INSP/491/2010 dated December 16, 2010, MCX-SX/CTCL/925/2012 dated December 31, 2012, MCX-SX/INSP/967/2013 dated January 25, 2013, MCX-SX/CSQ/972/2013 dated January 28, 2013, MCX-SX/INSP/1721/2014 January 23, 2014, MCX-SX/MEM/2245/2014 dated September 26, 2014, MCX-SX/MEM/2576 dated January 21, 2015.
2.	Placing of Notice Board	Exchange circular no. MCX-SX/COMP/55/2009 dated January 27, 2009, MCX-SX/INSP/471/2010 dated November 10, 2010, MCX-SX/IG&ARBN/2189/2014 dated September 05, 2014.
3.	Inspection of Authorized Person	SEBI circular MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009, and Exchange circular no. MCX-SX/MEM/226/2009



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		dated November 10, 2009, MCX-SX/MEM/942/2013 dated January 14, 2013, MSE/INSP/8252/2019 dated October 22, 2019.
4.	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, 2010, SEBI notification no. LAD-NRO/GN/2010-11/21/29390 dated December 10, 2010, SEBI notification no. LAD-NRO/GN/2012-13/30/5474 dated January 11, 2013; SEBI notification no. LAD-NRO/GN/202-13/33/1103 dated March 11, 2013; SEBI notification no. LAD-NRO/GN/2013-14/41/118 dated January 20, 2014; Exchange circular no. MCX-SX/MEM/123/2009 dated May 21, 2009, MCX-SX/INSP/491/2010 dated December 16, 2010, MCX-SX/INSP/967/2013 dated January 25, 2013, MCX-SX/CERT/974/2013 dated January 29, 2013, MCX-SX/INSP/1057/2013 dated March 13, 2013, MCX-SX/INSP/1411/2013 dated August 29, 2013, MCX-SX/INSP/1721/2014 January 23, 2014, MCX-SX/INSP/2181/2014 dated September 3, 2014, MCX-SX/MEM/2576 dated January 21, 2015.
5.	Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication	SEBI circular Cir/ISD/1/2011 dated March 23, 2011; SEBI Addendum circular no. Cir/ISD/2/2011 dated March 24, 2011, Exchange circular no. MCX-SX/INSP/540/2011 dated March 25, 2011
6.	Guidelines on Outsourcing of Activities by Intermediaries	SEBI Circular No. CIR/MIRSD/24/2011 dated December 15, 2011; Exchange circular no. MCX-SX/INSP/665/2011 dated December 20, 2011

### **5.8 Framework for Supervision of Authorized Persons (APs) & branches by Members**

It shall be the primary responsibility of the affiliated stockbroker to inspect the registered APs and Branches. Member's attention is drawn to SEBI circular MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009, and Exchange Circular no. MCX-SX/MEM/942/2013, dated January 14, 2013, on framework with respect to Member's branches and Authorized Persons (AP) network. To enhance the effectiveness of the supervision and ensure uniformity & standardization across all Members, following guidelines, framed in joint consultation with SEBI & other Exchanges, are being issued:

A) Every Trading Member shall be required to inspect every year at least 30% of its active Authorized Persons/ Branches and ensure that each active AP/ Branch is inspected at least once in every three years. For this purpose, an active AP/ Branch would mean one who has executed even a single transaction during the financial year and is engaged in servicing the clients.

B) APs/Branches meeting any of the below criteria shall be inspected annually, irrespective of when the last inspection was carried out:

I) APs/Branches with more than 500 registered clients across Exchanges.

II) APs with more than 20 trading terminals and Branches with more than 50 trading terminals, across all segments/Exchanges.



III) APs/Branches against which more than 3 complaints have been received during the previous year.

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

Members are advised to put in place adequate mechanisms to review the inspection reports and take suitable actions to ensure non-recurrence of any irregularities observed. Members shall on an annual basis place an MIS before their Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of inspections undertaken, irregularities observed, and action taken.

## **ITEM 6 - BOOKS OF ACCOUNTS AND OTHER DOCUMENTS**

### **6.1 Maintenance of books of accounts and other documents / Preservation of records**

The member-brokers of the Exchange are required to maintain the following books of accounts and records as per Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 of the SEBI (Stock brokers and Sub-Brokers) Regulations, 1992. These books and records are to be preserved for a minimum period of five years as per the requirements of Regulation 18 of SEBI (Stock brokers and Sub-Brokers) Regulations, 1992.

It may, however, be noted that, in cases where copies of books of accounts have been taken by any of the enforcement agencies during the course of any investigation, it is necessary to preserve the original documents, both in electronic and physical form till the trial is completed. Members may refer to Exchange circular no. MCX-SX/COMP/55/2009 dated January 27, 2009, in this regard.

As per Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 of the SEBI (Stock brokers and Sub-Brokers) Regulations, 1992 following books of accounts & documents are required to be maintained by the members.

- a) Register of transactions (Sauda Book).
- b) Clients' ledger.
- c) General ledger.
- d) Journal.
- e) Cash book.
- f) Bank passbook.
- g) Documents register containing, inter alia, particulars of securities received and delivered in physical form and the statement of account and other records relating to receipt and delivery of securities provided by the depository participants in respect of dematerialized securities.





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- h) Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members.
- i) Counterfoils or duplicates of contract notes issued to clients.
- j) Written consent of clients in respect of contracts entered into as principals.
- k) Margin deposit book.
- l) Register of accounts of sub-brokers.
- m) An agreement with a sub-broker specifying the scope of authority, and Responsibilities of the Stockbroker and such Sub-broker.
- n) Client account opening form in the format as may be specified by the Board.

In addition to the above statutory requirements, member-brokers of the Exchange are inter-alia, required to maintain the following records/documents at the time of inspection by the MSE officials:

Sr. No.	Document Required
1	Action letter received from the Exchange of previous Inspection.
2	Action letter received from the SEBI of two previous Inspections.
3	Findings of two half yearly Internal Audit Reports of last calendar year.
4	BOOKS OF ACCOUNTS
a	Trial Balance
b	General Ledger (Including Dividend ledger & Brokerage ledger)
c	Client Ledgers (Notice Number: MSE/INSP/10081/2021 dated February 5 ,2021)
d	All the Bank Books & Cash Book
e	Bank Statements
f	Contract notes sent to the clients along with acknowledgement proof
g	Client Registration Documents
h	Sauda Book (Should contain details such as UCC, Back Office Code, Client Name, Scrip Code, Scrip Name, Bought, Sold, Net Rate, Value, Brokerage, Order ID, Order Time, Trade ID, Trade Time)
i	AP's Inspection Report
J	Securities Register (Scrip wise — Client wise register)

k	Securities Register (Client wise — Scrip wise register)
5	CERTIFICATES & APPROVALS
a	Authorized Persons Registration.
b	Exchange approval for Own Trading from Multiple locations
c	Intimation Letter to Exchange for Own trading from default location
d	Digital Signature Certificate for ECN
e	Certifications authorizing Terminal Operators.
f	In case you deal with any other stockbroker MSE as a client, copy of the MSE approval for the same
g	In case you deal with any non MSE stockbroker as a client, copy of intimation of the same to MSE
h	Approval received from MSE for Internet Trading (SOR/Wireless trading/Mobile trading)
i	Approval received from MSE for DMA
j	Approval received from MSE for Algorithmic trading
k	Whether system audit for algorithmic trading has been carried out?
6	DOWNLOADABLES & SYSTEM REQUIREMENTS
a	Order Book (Order Log)
b	Margin Deposit Book / Ledger (Clearing Corporation files)
c	ECN Log Report (If applicable)
d	Terminal details uploaded to MSE
7	AUTHORITY & UNDERTAKINGS
a	Acknowledged copy of Board Resolution for Signing Contract Notes
b	Acknowledged letter of appointment of Compliance Officer
c	POD & Intimation letter sent to FIU regarding appointment of Principal Officer under PM LA
d	POD & intimation letter sent to FIU regarding appointment of designated director under PM LA
8	DOCUMENTS & REGISTERS
a	Pool A/c and CUSA A/c Statements (Transaction as well as Holding Statements of client beneficiary)
b	Client wise segregation of securities

c	Statement of Account & Proof of sending to the clients
d	Register of Securities (Notice Number: MSE/INSP/10081/2021)
e	Daily Margin Statement & Proof of sending to the clients
f	Lease Agreement/Rent Receipt or any other documentary evidence for Branch Offices.
g	Proof of Designation for all Client Bank Accounts
h	Proof of investor grievance ID printed on any printed material
i	Investor Grievance Register
j	Copy of the contract note no.1
9	POLICIES AND PROCEDURE DOCUMENTS (SEBI Circular: MIRSD/SE/Cir-19/2009 dated December 3, 2009 — mandatory to give to clients with standard documents)
a	Policy for Prevention of Anti Money Laundering including Customer identification policy, Customer due
b	Risk Management System/Policy
c	Internal Control System
d	Code of Internal Procedures and Conduct for prevention of Insider Trading
e	Policy for unauthentic news circulation
f	Redressal mechanism for Investor Grievance
g	Documented Error Account Policy

Members are required to maintain separate set of books for each Exchange in which they operate. Further, for a particular Exchange a separate set of books is required to be maintained for each segment of the Exchange in which the member is operating.

From the above list of books and documents, a few terms are explained herein below.

#### a) Order Book

SEBI vide Circular no. SMD/POLICY/IECG/1-97 dated February 11, 1997 has provided that the member-brokers should maintain a record of time when a client has placed the order. This information is required to be maintained by the member-broker in his Order Book. Order book should generally contain the following information:

- Identity of the person placing the order.
- Date and time of order received.



- Name of the person receiving the order.
- Name of the client, description and value of the securities to be bought or sold.
- Terms and conditions of the order stating price/rate limit or price/trade related instructions and time limit (if any).
- Details of any modification or cancellation, if any.
- Reference number of the contract note issued.
- Serially numbered orders.

#### b) Register of Transactions (Sauda Book)

All member-brokers are required to maintain a 'Sauda Book', which contains details of all trades transacted by them on a day-to-day basis. This is a basic record, which each member-broker is required to maintain regularly on a day-to-day basis. It contains the details regarding the name of the scrip, name of the client on whose behalf the deals have been done, rate and quantity of scrip bought or sold. These details are to be maintained date-wise. This register contains all the transactions, which may be of any of the kind mentioned below:

- Member-broker's own business on the Exchange.
- Member-broker's business on the Exchange on behalf of clients.
- Member-broker's business with the clients on a principal-to-principal basis.
- Member-broker's business with the members of other Stock Exchanges.
- Member-broker's business on behalf of his clients with the members of other Stock Exchanges.
- Spot transactions, etc.

Register of Securities (Refer Exchange Circular No: MCX-SX/INSP/949/2013 dated January 16, 2013, MSE/INSP/8538/2020 dated January 14, 2020, and MSE/INSP/10081/2021 dated Feb 5, 2021)

#### c) Margin Deposit Book

The member-brokers are required to maintain a margin deposit book wherein details of all the margins deposited with the Exchange are to be recorded as per Regulation 17(1) of SEBI (Stock- brokers and Sub-brokers) Regulations, 1992.

#### d) Investor Grievance Register and designated e-mail ID.



SEBI vide its circular No. MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006 advised all the members to designate e-mail IDs of their respective grievance redressal division and/or of their compliance officers exclusively for the purpose of registering complaints by investors and display such e-mail IDs and other relevant details prominently on their websites and in the various materials/ pamphlets / advertisement campaigns initiated by them for creating investor awareness. (Exchange circular no. MCX-SX/IG&ARBN/1535/2013 dated October 22, 2013).

e) Clients Ledger

Every member-broker is required to maintain a clients' ledger in respect of all the clients registered with him. This ledger contains the details of the bills raised by the member-broker to the clients and the payment received from or made to them. Inspection of this ledger can bring out the cases of delay by a member-broker in making payment to the clients.

f) Dematerialized Securities

All member-brokers are required to open demat accounts with their Depository Participants (DPs) for handling the receipt and delivery of client shares. In case a member is also doing his own trading then, a separate demat account is required to be opened for own shares.

One account is 'Own Beneficiary Account' wherein the demat securities belonging to the member- broker for his own account are held and the other is 'Client Beneficiary Account' wherein the demat securities of the clients are temporarily held. In case of sale of securities by clients, the clients transfer the securities to the member-broker's beneficiary account (Pool Account in case of NSDL and Principal Account in case of CDSL) before the pay-in and the member-broker transfers the same from the from his account to the Clearing House on the Pay-in day. In case of purchase of securities by the clients, the Clearing House transfers the securities to the Pool Account (in case of both NSDL & CDSL) of the member-broker and the member-broker then transfers the same to the Demat Account of the respective clients. The member-brokers are required to maintain a proper record of all shares received and delivered from their demat account as well as preserve acknowledged copies of the delivery instructions given to their DP for transferring the securities from their Pool Account to the Client's Account after the Pay-Out.

In case of clients' shares lying with the member, they must be kept in a separate Beneficiary Account and the member is required to maintain client wise segregation of the securities lying with him (7.18(f) of Capital Market Regulation and 7.1.6.2(v) of Future & Options Regulation of Exchange)

Nevertheless, securities of clients are to be received and delivered from/to the respective beneficiary account of the client only.

g) Bank Book and Cash Book.



The member-brokers are required to maintain separate bank accounts for own funds and clients' funds. Funds received from the clients and payments made to the clients should be reflected in the Client Bank Account. Client Account should be designated as Client Bank Account and the word "Client" should appear in the title of the account. For format of Bank Book refer Exchange circular no. MSE/INSP/6758/2018 dated September 4, 2018.

SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, provide the guidelines for implementation of Enhanced Supervision of Stockbrokers covering the uniform nomenclature to be followed by stockbrokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Stock Exchanges/Depositories.

All fund transactions relating to members' own trading and relating to own/office expenses should be routed through Own Bank Account. Transactions other than those of clients should not be routed through Client Bank Account. Further, no overdraft facility should be availed on the Client Bank Account

Members should not accept any cash from clients, whether against settlement obligation or as margin for purchase of securities.

Members are to refrain from fund lending and borrowing activities, except those in connection with or incidental to the securities business. [Rule 8(1)(f) And 8(3)(f) of Securities Contract (Regulations) Rules, 1957 and SEBI circular no. SMD/POLICY/C1R-6/97 dated May 07, 1997].

No further Exposure to the client:

Point 2.6 of SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, inter alia provides that Stockbrokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in

## **6.2 Maintenance of client wise, scrip wise register of Securities**

### REGULATORY REQUIREMENTS.

<b>Sr. No.</b>	<b>Subject</b>	<b>Circular reference no</b>
1.	Maintenance of books of accounts and other documents / preservation of records	Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 of the SEBI (Stock brokers and Sub-Brokers) Regulations, 1992, Regulation 18 of SEBI (Stock brokers and Sub-Brokers) Regulations, 1992, , Rule 8(1)(f) and 8(3)(f) of Securities Contract (Regulations) Rules, 1957, SEBI vide Circular no. SMD/POLICY/IECG/1-97 dated February 11, 1997 and SEBI circular no. SMD/POLICY/CIR6/97 dated May 07, 1997.



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		Exchange circular no. MCX-SX/COMP/53/2009 dated January 29, 2009, MCX-SX/COMP/55/2009 dated January 27, 2009, MCX-SX/IG&ARBN/1535/2013 dated October 22, 2013, MSEI/ISC/3675/2015 dated December 22, 2015, MSE/INSP/6565/2018 dated July 16, 2018,
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## **ITEM 7 - COMPLIANCE REQUIREMENTS**

### **7.1 Compliance Calendar**

A consolidated checklist of reports / statements / certificates / data / submissions to be made by members to the Exchange is made available at.

<https://www.msei.in/members/compliance/compliance-calendar>

### **7.2 Enhanced Supervision of stockbrokers**

SEBI vide circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, provide the guidelines for implementation of Enhanced Supervision of Stockbrokers covering the following board areas: -

1. Uniform nomenclature to be followed by stockbrokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Stock Exchanges/Depositories.
2. Monitoring of Clients' Funds lying with the Stockbroker by the Stock Exchanges, through a sophisticated alerting and reconciliation mechanism, to detect any misutilization of clients' fund.
3. Changes in the existing system of internal audit for stockbrokers/depository participant's viz. appointment, rotation of Internal Auditors, formulation of objective sample criteria, monitoring of quality of Internal Audit Reports, timeline for submissions of Internal Audit Reports, etc.
4. Monitoring of Financial Strength of Stockbrokers by Stock Exchanges to detect any signs of deteriorating financial health of stockbrokers and serve as an early warning system to take preemptive and remedial measures.
5. Imposition of uniform penal action on stockbrokers/depository participants by the Stock Exchanges/Depositories in the event of non-compliance with specified requirements.
6. Other Requirements:
  - a. Uploading client's funds and securities balances by Stockbrokers to Stock Exchange System and onwards transmission of the same to the clients for better transparency.
  - b. Clarification on Running Account Settlement
  - c. Providing PAN details of Directors, Key Management Personnel and Dealers, to Stock Exchanges and any change thereof.

“Trading Members are not able to promptly furnish daily reconciliation statement indicating the purpose of such transfers, when the same is sought by the Exchange during inspections or offsite supervision. In view of this, it is reiterated that the members shall maintain the reconciliation statement on a daily basis as prescribed and provide the same as and when sought by the relevant authority.” (Reference Exchange circular no. MSE/INSP/4554/2016 dated September 28, 2016 and MSE/INSP/13168/2023 dated March 10, 2023.)



Further clarification on reporting of securities balance under the Enhanced Supervision Framework has been provided vide Exchange notice no. MSE/INSP/5466/2017 dated August 31, 2017 whereby it has been clarified that securities in the demat account(s) of the clients, opened with the Trading Members in their capacity as a Depository Participants or with any other Depository Participant for facilitating online trading by client is not required to be reported.

➤ **Weekly Clients' Funds lying with the Stockbroker—**

Members are required to submit the data on client's funds lying with stockbrokers on weekly basis i.e., stockbrokers shall submit the data as on last trading day of every week on or before the next three trading days.

Exchange has provided mechanism to submit the said details/data through MSE Connect portal. The Process for uploading above details is provided in Exchange circular.

After members submits above return exchange tracking if there is any misuse of funds of credit balance clients for debit balance clients or for own purpose.

➤ **Submission of Holding Statement —**

Members are required to submit, Holding Statement data for all dates (Monday to Saturday) on daily from January 30, 2023 due date of which shall be January 31, 2023 and each day thereafter.

Sr. No.	Circular No	Subject
1.	MSE/INSP/13033/2023	Application Programming Interface (API) for daily submissions of Holding Statement and Bank Balances
2.	MSE/INSP/9983/2021	Changes in the reporting format of data towards 'Client Level Cash & Cash Equivalent Balances' and 'Holding Statement'
3.	MSE/INSP/9885/2020	Changes in the reporting format of data towards 'Client Level Cash & Cash Equivalent Balances' and 'Holding Statement'
4.	MSE/INSP/9547/2020	Disciplinary actions for Incorrect/ Wrong submission of data towards Holding Statement
5.	MSE/INSP/9305/2020	Clarifications on submission of Holding Statement

➤ Reporting of Client Level Cash & Cash Equivalent and Bank account Balances

SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 on Enhanced supervision of Stockbrokers requires Stockbrokers to report client fund and securities balances on monthly basis.

With a view to enhance the level of monitoring and considering the prohibition on pledging of client securities for raising funds, the format & the mode of submission was revised.

Members are required to Bank Balances for each day of the week (except Sunday) daily from January 30, 2023 due date of which shall be January 31, 2023 and each day thereafter.

The relevant circulars issued by the Exchange in this regard are as under:

Sr. No	Circular No	Subject
1.	MSE/INSP/13033/2023	Application Programming Interface (API) for daily submissions of Holding Statement and Bank Balances
2.	MSE/INSP/9983/2021	Changes in the reporting format of data towards 'Client Level Cash & Cash Equivalent Balances' and 'Holding Statement'
3.	MSE/INSP/9885/2020	Changes in the reporting format of data towards 'Client Level Cash & Cash Equivalent Balances' and 'Holding Statement'

➤ Submission by stockbrokers with proper naming and tagging of Bank and Demat Accounts and the reporting of such accounts to the Exchange is required to be done.

➤ Financial Indicators data submission as per Enhanced Supervision Document (ESD)

This data is to be submitted every year and it is to be submitted to Exchange on its email id: [membership@msei.in](mailto:membership@msei.in).

➤ Miscellaneous

Further SEBI has issued a circular No. CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107, dated September 25, 2017 and Exchange notice no. MSE/INSP/5584/2017 dated September 26, 2017 on Clarification to Enhanced Supervision Circular wherein it is stated that:



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Sr. No.	Particular	Circular No.
1	Enhanced supervision of stockbrokers	Exchange circular nos. MSEI/INSP/4554/2016 dated September 28, 2016, MSEI/INSP/4799/2016 dated December 22, 2016, MSE/INSP/5279/2017 dated June 27, 2017 and MSE/INSP/5584/2017 dated September 26, 2017.
2	Details of Bank and Demat Account	Exchange circular no. MSE/INSP/5382/2017 dated July 27, 2017.
3	Monitoring of Clients' Funds lying With the Stockbroker	Exchange circular no. MSE/INSP/5279/2017 dated June 27, 2017, MSE/INSP/9042/2020 dated May 27, 2020, MSE/INSP/5584/2017 dated September 26, 2017, MSE/INSP/5813/2017 dated December 01, 2017, and MSE/INSP/11018/2021 dated October 20, 2021.
4	Uploading client's funds and securities balances	Exchange circular no. MSE/INSP/5382/2017 dated July 27, 2017, MSE/INSP/5466/2017 dated August 31, 2017, MSE/INSP/5584/2017 dated September 26, 2017 and MSE/INSP/5961/2018 dated January 22, 2018.
5	Updating of PAN details of dealers	Exchange circular no. MSE/ID/6311/2018 dated May 11, 2018

- 1) Stockbrokers are required to upload the data pertaining to "Monitoring of Clients' Funds lying with the Stockbroker by the Stock Exchanges" on a monthly basis before the next three trading days of the preceding month.
- 2) The Stockbroker shall not be required to upload data with respect to custodian settled clients and clients with zero funds and securities zero balances and also not traded in the last 12 month.

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

One of the requirements of the Enhanced Supervision of Stockbrokers 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 MSE Inspection portal.

The procedure for submitting the information 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 portal.



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 authorized by the Exchange. Hence, all members are advised to provide an undertaking authorizing 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 authorized by the Exchange. Further, members are advised to keep the Bank/s appropriately notified of the said authorization to enable them to honor the instructions received from Exchange. Trading members shall submit updated/ fresh undertaking/authorization to the Exchange within seven working days of opening of any new bank account.

This has reference to Exchange notice nos. MSE/INSP/9715/2020 dated November 9, 2020, MSE/INSP/9777/2020 dated November 27, 2020, and MSE/INSP/9892/2020 December 21, 2020, on Guidelines for maintaining client bank accounts by the Trading Members wherein trading members were advised to close the excess bank accounts named as "Name of Stockbroker - Client Account" by December 31, 2020.

Members can maintain a maximum of 30 bank accounts named as "Name of Stockbroker - Client Account" across all segments and Exchanges at a time.

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

Exchange vide notice nos. MSE/INSP/11451/2022 dated February 04, 2022, MSE/INSP/11591/2022 dated March 17, 2022, MSE/INSP/11719/2022 dated April 13, 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 empaneled for the purpose of issuance of BGs and FDRs by any of the Clearing Corporations from time to time.
- iii. Payment Banks licensed under the Banking Regulation Act, 1949.

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



Further, members 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, members shall submit updated/ fresh confirmation to the Exchange within seven working days of opening of any new client bank account. SEBI vide circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, had mandated uniform nomenclature to be followed by stockbrokers 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 stockbroker as 'Stockbroker — 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 SEBI/HO/MIRSD/MIRSD\_DPIEA/P/CIR/2022/83 dated June 20, 2022, has decided that all demat accounts maintained by stockbrokers should be appropriately tagged. Further, it is prescribed that:

- I.** All demat accounts of stockbrokers 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.** Stockbroker 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.

Members are advised to display details of all their active client bank accounts on their website which are reported to Exchange in accordance with Exchange circular no. MSEI/INSP/4554/2016 dated September 28, 2016, on Enhanced Supervision of Stockbrokers. Details of client banks accounts 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 Stockbroker (name of stockbroker) is permitted to receive/pay money from/to investor through designated banks accounts only named as client bank accounts. Stockbroker (name of stockbroker) is also required to disclose these client bank accounts to the Stock Exchange. Hence, you are requested to use the following client bank accounts only for the purpose of dealings in your trading account with us. The details of these client bank accounts are also displayed by Stock Exchanges on their website under "Know/ Locate your Stockbroker" Members were advised to implement the provisions of the notice by March 15, 2023. (Refer Exchange circular no. MSE/INSP/12954/2023 dated January 30, 2023, subject "Display of Details of Client Bank Accounts on Website").



#### **7.4 Submission of data for monitoring of clients' funds lying with the stockbroker — Cash and Cash Equivalent Submission**

Members' attention is drawn to Exchange circular no. MSE/INSP/9885/2020 dated December 18, 2020, regarding Changes in the reporting format of data towards 'Client Level Cash & Cash Equivalent Balances' and 'Holding Statement'

This has reference to the Exchange circular no. MSE/INSP/8653/2020 dated February 10, 2020, wherein 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 non-availability 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 the client bank account where these unclaimed / untraced clients funds are parked.

Exchange, to enable members to upload details of such accounts has introduced two column ns in the reporting formats of existing submission 'Cash & Cash Equivalent balances' as provided in Exchange circular no. MSE/INSP/9885/2020 dated December 18, 2020, and MSE/INSP/9983/2021 dated January 12, 2021. Further, to capture the details of cash collateral collected from client for MTF positions, one column has also been added. Revised format provided in Exchange circular no. MSE/INSP/11228/2021 dated December 14, 2021, has been made applicable for the week ending on January 15, 2022, and onwards.

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

Exchange vide circular no. MSE/INSP/11897/2022 dated June 03 2022, and MSE/INSP/12048/2022 dated July 11 2022 has introduced Application Programming Interface (API) for Weekly submission of Holding Statement, Cash and Cash Equivalent Balances and Bank Balances and the same has been mandatorily made applicable from week July 09, 2022 and onwards, the due date of which will be July 14, 2022, and for each week thereafter.

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 and Bank balances from weekly to daily and accordingly, member shall make the submission of Holding Statement and Bank Balances for each day of the week (except Sunday) daily from February 13, 2023, due date of which shall be February 14, 2023 and each day thereafter (Refer Exchange circular no. MSE/INSP/13033/2023 dated February 10, 2023).



### **7.6 Submission of Designated Director details to FIU-IND and Registration on FIU-IND's FIN net Gateway.**

SEBI had directed the members to appoint a person as a 'Designated Director' in addition to Principal Officer to comply with AM L/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 Fine 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.

### **7.7 Internal Audit of trading members.**

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

All the stockbrokers/trading members are required to carry out complete internal audit on a half yearly basis by Internal Audit can be conducted by Independent qualified Chartered Accountants or Company Secretaries or Cost and Management Accountants who are in practice and who do not have any conflict of interest.



Further, members are advised to adhere to the norms prescribed under clause 4.2 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, w.r.t Appointment and Rotation of Internal auditors. Accordingly, members shall not appoint or re-appoint the internal auditor who has completed his term as specified under clause 4.2.1.2 (a) and 4.2.1.2 (b) of aforesaid circular.

Members are required to submit the internal audit report and internal audit certificate along with management comments for negative observations, if any with the MSE within two months from the end of the relevant half yearly period i.e the half yearly internal audit is required to be carried out for the period from April to September & October to March. Internal Audit report to Stock Exchanges for half year ending September 30th must be submitted by November 30th and half year ending March 31st to be submitted by May 31st. The internal audit report is required to be submitted to the MSE in electronic form through MSE Inspection portal as per the format prescribed by the MSE.

The minimum sample size required to be verified for the internal audit is prescribed by the MSE and it needs to be adhered to. Whenever any negative observation is reported by the auditor, the management of the members is required to give their comments on the negative observation. The audit report is required to be submitted by the auditor to the member, who will place it before the board for its consideration and then shall forward it to the MSE. Further, the quality of internal audit reports received from members shall be monitored and appropriate steps shall be taken if the reports do not meet minimum expected quality levels. In case where internal audit report submitted is incomplete and not as per the guidelines like only certificate submitted without report or management comments not given etc., same would be treated as non-submission of internal audit report. Members are strictly advised to submit the report in the format prescribed by the Exchange.

Refer to the Exchange circular no. MSE/INSP/12474/2022 dated October 21, 2022, MSE/INSP/14614 and Circular No. MSE/INSP/15011/2024 dated March 08, 2024, wherein the Exchange had prescribed the Framework for Empanelment of Auditors for conducting Internal Audit of Trading Members. In this regard, the eligibility criteria and detailed procedure for empanelment of the auditors is prescribed in Annexure 1 of Exchange Circular MSE/INSP/15011/2024 dated March 08, 2024.

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://inspection-os.msei.in/Empanelment\\_Auditor/AuditorRegistration.aspx](https://inspection-os.msei.in/Empanelment_Auditor/AuditorRegistration.aspx)

Whereas it is further required by the auditors to submit an Undertaking-cum-Affidavit to the Exchange in **Annexure 2** of Exchange Circular MSE/INSP/15011/2024 dated March 08, 2024. Thereby, to continue undertaking assignments relating to the internal audit of Trading Members of the Exchange. It is reiterated that the Exchange shall accept the internal audit report certified by empaneled auditor only with effect from the half year ending March 31, 2024, onwards.





Members may note that non/delay in submission of Internal Audit shall be treated as non-compliance and under mentioned charges shall be levied:

Due time for submission: 2 Months

7.7.1) For 1st month after due date, Fine of Rs. 2500/- per day

7.7.2) Charges of Rs. 5000/ per day from 2nd week after due date.

7.7.3) In case of non-submission within three weeks from the due date of submission, new client registration to be prohibited and notice of 7 days for disablement of trading facility till submission of data/report. The disablement notice issued to the member shall be shared with all the Exchanges for information. In case of non-submission within four weeks from the due date of submission, Member shall be disabled in all segments till submission of data/report.

Revision in penalty for adverse observations in the Internal Audit Report:

In order to bring parity between the action of adverse observations reported by Internal Auditor during the half yearly submission and observation during the course of inspection, the Penalty Framework as provided in Exchange circular no. MSE/INSP/5753/2017 dated November 13, 2017 and MSE/INSP/6204/2018 dated April 04, 2018, and other relevant circulars issued from time to time shall be applicable for such adverse observations in the Internal Audit Report.

### **7.8 System Audit of Stockbrokers/ Trading members**

Pursuant to SEBI circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013, and Exchange circular no. MCX-SX/CTCL/1570/2013 dated November 8, 2013, and MSEI/INSP/5053/2017 dated April 07, 2017 on the Annual System Audit of Stockbrokers/ Trading members.

The Trading Members are required to note the following:

#### **I. PERIODICITY OF SUBMISSION OF SYSTEM AUDIT REPORT**

System Audit of stock brokers should be conducted with the following periodicity:

a. Annual system audit is prescribed for stockbrokers who satisfy any of the following criteria:

- i. Stock brokers who use Intermediate Messaging Layer (IML) / Internet Based Trading (IBT)/ Direct Market Access (DMA)/ Securities Trading using Wireless Technology (STWT) / Smart Order Routing (SOR) and have presence in more than 10 locations or number of terminals are more than 50.
- ii. Stockbrokers who are depository participants or are involved in offering any other financial services.

b. Half yearly system audit has been prescribed for stockbrokers who use Algorithmic Trading or provide their clients with the facility of Algorithmic Trading as per SEBI Circular CIR/M RD/16/2013 dated May 21, 2013.

c. For all other stockbrokers, a system audit shall be conducted once in two years.

## II. TERMS OF REFERENCE (ToR)

The audit shall be conducted in accordance with the Norms, Terms of Reference (ToR) and Guidelines issued by SEBI and BSE Ltd. Separate ToRs are specified for the following categories of brokers:

- a.** Type I Broker: Brokers who trade only through exchange provided terminals (ToR as per Annexure I)
- b.** Type II Broker: Brokers who trade through API based trading terminals like [IML] or IBT/DMA/STWT or SOR facility and who may also be TYPE I Brokers. (TOR as per Annexure II).
- c.** Type III Broker: Brokers who use Algorithmic Trading facility to trade and who may also be TYPE II Brokers. (TOR as per Annexure III).

The broker type, terms of reference and periodicity of submission is given below in tabular form for easy reference of members and for members to determine their broker type and periodicity of submission of report which is required:

S. No.	Particulars	Broker Type	Terms of Reference (ToR)	Presence of broker Periodicity of	Submission of report
1.	Members using Exchange trading platform	I	Annexure 1	NA	Once in two years
2	IML / IBT / DMA / STWT / SOR users and who may also be type I brokers.	II	Annexure II	Presence in not more than 10 locations and number of terminals are not more than 50.	Once in two years. *
				Presence in more than 10 locations or number of terminals are more than 50.	Annual
3	Algo users and who may also be type II brokers	III	Annexure III		NA



#### AUDITOR SELECTION NORMS:

The System Audit should be carried out by auditor as per the norms prescribed below:

- i. The Auditor shall have a minimum of 3 years of experience in IT audit of securities market participants e.g. stock exchanges, clearing corporations, depositories, stockbrokers, depository participants etc. The audit experience should cover all the major areas mentioned under Terms of Reference (ToR) of the system audit specified by SEBI / stock exchange.
- ii. It is recommended that resources employed shall have relevant industry recognized certifications e.g. D.I.S.A. (ICAI) Qualification, CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
- iii. The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.
- iv. The Auditor shall not have any conflict of interest in conducting a fair, objective and independent audit of the Stockbroker. Further, the directors / partners of Auditor firm shall not be related to any stockbroker including its directors or promoters either directly or indirectly.
- v. The Auditor shall not have any cases pending against its previous audited companies/firms, which fall under SEBI's jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.
- vi. A declaration stating that the auditor is in compliance with the requirements prescribed by SEBI vide circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013, and clarifications/ guidelines issued by SEBI / MSE must be included in all the audit reports.
- vii. Further to sensitize the members about the revised penalty/disciplinary action(s) with respect to any delay or non-submission of Preliminary Audit Report, Action Taken Report (ATR) and/or Follow-on audit report 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), Follow on Audit Report and non-closure of reported observations, in Exchange circular no. MSE/INSP/14262/2023 dated October 06, 2023.



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Details of Violation	Period of violation	Penalty/disciplinary actions	Penalty/disciplinary action in case of repeated violation
Delay / Non submission of Preliminary audit/ATR / Follow on audit report as recommended by the auditor in case of System audit report / cyber security and cyber resilience audit report.	From 1 <sup>st</sup> day to 7 <sup>th</sup> 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 report, whichever is earlier.	In case of a repeat instance by the Member, levy of applicable monetary penalty along with an escalation of 50%.
	From 8 <sup>th</sup> day to 21 <sup>st</sup> 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 21 <sup>st</sup> 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 21 <sup>st</sup> 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 28 <sup>th</sup> calendar day, Member shall be disabled in all segments till submission of report.	

Additionally, 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.

Risk rating reported by auditor	Applicable penalties for each High/Medium/Low risk non-closure of non-compliances, which has not been closed in ATR (i.e., within prescribed timelines of submission of due date of preliminary audit report)			
	<u>Non QSB Members</u>		<u>QSB Members</u>	
	System Audit Report	Cyber Audit Report	System Audit Report	Cyber Audit Report
High Risk	₹ 15,000	₹ 50,000	₹ 30,000	₹ 100,000
Medium Risk	₹ 7,500	₹ 25,000	₹ 15,000	₹ 50,000



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Low Risk	₹ 2,500	₹ 5,000	₹ 5,000	₹ 10,000
<ul style="list-style-type: none"><li>• 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).</li><li>• 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).</li></ul>				

viii. The Auditor may perform a maximum of 3 successive audits of the stockbroker. Follow-on audits conducted by the auditor shall not be considered in the successive audits. The count of such audits will commence from audits conducted for the period ended March 31, 2014.

The following penalty/disciplinary actions would be initiated against the Member for late/non- submission of System Audit Report.

After submission of preliminary system audit report, members are required to submit the corrective action report (if applicable) and follow on report (if applicable) as per above mentioned circulars.

“Members who are providing algorithmic trading services/strategies as well as Members who feature in any of the unregulated platforms offering such services are advised to refrain from undertaking the following:

- Directly or indirectly make any reference to the past or expected future return/performance of the algorithm; and / or
- Directly or indirectly associate with any platform providing any reference to the past or expected future return/performance of the algorithm.
- Members who are directly/indirectly referring to any past or expected future return/performance of an algorithm or are associated with any platform providing such reference, shall remove the same from their website and / or disassociate themselves from the platforms providing such references, as the case may be, within seven days i.e. by September 09, 2022.

(Refer circular no. MSE/INSP/12266/2022 dated September 7, 2022, subject Performance/return claimed by unregulated platforms offering algorithmic strategies for trading.)

### 7.9 Cyber Security & Cyber Resilience framework for Stockbrokers.

Pursuant to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 and SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019 on Cyber Security & Cyber Resilience framework for Stockbrokers/ Depository Participants and Exchange circular no. MSE/TECH/8248/2019 dated October 24, 2019 and MSE/INSP/9800/2020 dated December 2, 2020, members are required to submit the Cyber Security and Cyber Resilience to the Exchange.

As per SEBI Circular SEBI Circular dated October 15, 2019, the periodicity of audit for the compliance with the provisions of Cyber Security and Cyber Resilience provisions for stockbrokers, irrespective of number of terminals and location presence, shall be as under:

Type of stockbroker as specified in SEBI circular CIR/MRD/DMS/34/2013 dated November 06, 2013	Periodicity
Type I	Annual
Type II Using IML / IBT / DMA /STWT / SOR	Annual
Type III Using ALGO	Half-yearly

Submission of Cyber Security & Cyber Resilience Audit Report shall be considered completed only after trading member submits the report to the Exchange after providing management comments.

The following penalty/disciplinary actions would be initiated against the Member for late/non- submission of Cyber Security and Cyber Resilience Audit Report. Kindly, refer to the Exchange circular no. MSE/INSP/14262/2023 dated October 06, 2023, on Revised Penalties/disciplinary action(s)/charges for System Audit Report and Cyber Security & Cyber Resilience Audit Report related submissions.

Details of Violation	Period of violation	Penalty/disciplinary actions	Penalty/disciplinary action in case of repeated violation
Delay / Non submission of Preliminary audit/ATR / Follow on audit report as	From 1 <sup>st</sup> day to 7 <sup>th</sup> 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 report, whichever is earlier.	In case of a repeat instance by the Member, levy of applicable monetary penalty along with an escalation of 50%.



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recommended by the auditor in case of System audit report / cyber security and cyber resilience audit report.	From 8 <sup>th</sup> day to 21 <sup>st</sup> 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 21 <sup>st</sup> 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 21 <sup>st</sup> 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 28 <sup>th</sup> calendar day, Member shall be disabled in all segments till submission of report.	

Additionally, 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.

<b>Risk rating reported by auditor</b>	Applicable penalties for each High/Medium/Low risk non-closure of non-compliances, which has not been closed in ATR (i.e., within prescribed timelines of submission of due date of preliminary audit report)			
	<b><u>Non QSB Members</u></b>		<b><u>QSB Members</u></b>	
	<b>System Audit Report</b>	<b>Cyber Audit Report</b>	<b>System Audit Report</b>	<b>Cyber Audit Report</b>
High Risk	₹ 15,000	₹ 50,000	₹ 30,000	₹ 100,000
Medium Risk	₹ 7,500	₹ 25,000	₹ 15,000	₹ 50,000
Low Risk	₹ 2,500	₹ 5,000	₹ 5,000	₹ 10,000
<ul style="list-style-type: none"> <li>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).</li> <li>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).</li> </ul>				







**Quarterly reporting:**

SEBI circular's SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, para 52 in Annexure I states that -

"Quarterly reports containing information on cyber-attacks and threats experienced by Stockbrokers/ Depository Participants and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities / threats that may be useful for other Stockbrokers/ Depository Participants should be submitted to Stock Exchanges/ Depositories. "

In view of the above, members are required to submit the quarterly incident reporting as per the format provided by SEBI in its circular no. SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019 by sending email at [compliancemsx@msei.in](mailto:compliancemsx@msei.in) within 15 days of the end of quarter.

As per SEBI's directive, and as per Exchange circular no. MSE/TECH/10393/2021 dated May 5, 2021, MSE/IT/12226/2022 dated August 30, 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) and shall be reviewed annually by the "Internal Technology Committee" as constituted under SEBI circular 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 CERT-In 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 Exchange (in manner specified by MSE) & SEBI (on the dedicated email ID [sbdp-cyberincidents@sebi.gov.in](mailto: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 Stockbrokers and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities, threats that may be useful for other Stockbrokers/ 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 MSE from time to time.

SEBI vide its circular No. SEBI/HO/MIRSD/TDP/P/CIR/2022/80 dated June 07, 2022, wherein they 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, Stockbrokers shall conduct the VAPT at least once in a financial year by engaging only CERT-In empaneled organizations for conducting VAPT and submit the VAPT report to the Stock Exchanges after approval from Technology Committee of respective Stockbrokers, 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 Stockbrokers vide Exchange circular no. MSE/IT/12226/2022 dated August 30, 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 an 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.

Members are requested to take note of the following for submission of VAPT report: -

- i. The detailed VAPT report along with summary of report (as per format specified in Annexure — 1 of aforesaid SEBI circular) needs to be submitted to the Exchange via email at [compliancemsx@msei.in](mailto:compliancemsx@msei.in). The VAPT report shall be digitally signed by CERT-In empaneled entity as appointed by the Member for conducting the VAPT.

- ii. Further, as per para 44 of SEBI Circular No. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 amended vide SEBI Circular No. SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022, requires that 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.
- iii. For any open vulnerabilities as reported & submitted in VAPT report, members are required to submit. Compliance Report in the format attached as Annexure — 3 of aforesaid circular digitally signed by the CERT-In empaneled entity as appointed by the Member (on the letter head of the CERT-In empaneled entity).
- iv. In view of the above, Members are advised as under:
  - a) Adherence with the reporting timelines for submission of VAPT report and Compliance report to the Exchange.
  - b) Ensure that all open gaps / vulnerabilities are closed within prescribed timelines and are accordingly confirmed in the Compliance report.

#### **7.10 Software as a service (SAAS)**

This is with reference to SEBI circular dated November 03,2020 (attached) on Advisory for Financial Sector Organizations Regarding Software as a Service (SaaS) based solutions. In this context, SEBI has sought the Members who are using such SaaS based solutions.

#### **7.11 Adoption of Cloud Services**

This circular is a stand-alone framework for adoption of cloud services, applicable to all the Regulated Entities (REs).

#### **The principles included in the framework are:**

- a. Governance, Risk and Compliance Sub-Framework
- b. Selection of Cloud Service Providers
- c. Data Ownership and Data Localization
- d. Responsibility of the Regulated Entity
- e. Due Diligence by the Regulated Entity
- f. Security Controls
- g. Contractual and Regulatory Obligations
- h. BCP, Disaster Recovery & Cyber Resilience
- i. Vendor Lock-in and Concentration Risk Management

**The major points to consider:**

- 1 Applicable for Public and Community cloud services.
  - 2 For the cloud services in use, compliance to the circular should be achieved within 12 months from the date of issuance of the circular based on the milestones set by SEBI.
  - 3 Data Ownership and Data Localization - The data should reside/be processed within the legal boundaries of India.
  - 4 Cloud services shall be taken only from the Ministry of Electronics and Information Technology (MeitY) empanelled CSPs and holding a valid Standardisation Testing and Quality Control [STQC] (or any other equivalent agency appointed by Government of India) audit status.
  - 5 The reporting of compliance shall be done in the systems audit, cybersecurity audit and VAPT reports, and it shall be done in the standardized format notified by SEBI.
  - 6 Whenever required (by RE/ SEBI), the CSP shall provide visibility to RE as well as SEBI into CSP's infrastructure and processes, and its compliance to applicable policies and regulations issued by SEBI/ Government of India/ respective state government.
  - 7 Since a CSP is not a RE, the RE shall continue to have ultimate responsibility and liability for any violation of the laws, rules, regulations, circulars, etc. issued by SEBI or any other authority under any law, regardless of any delineation/ demarcation of responsibilities envisaged.
  - 8 A proper due diligence process should be established to assess the capabilities and suitability of a cloud service provider before the engagement.
  - 9 A new approach for secure software development shall be implemented by RE for dealing with cloud native development concepts.
  - 10 Session encryption or data object encryption in addition to the encryption provided at the platform level (Ex. TLS encryption) shall be used wherever any sensitive data is in transit.
  - 11 The backup and recovery processes shall be checked at least twice in a year to ensure the adequacy of the backups.
  - 12 The backup shall be logically segregated from production/dev/UAT environment to ensure that the malware infection in such systems does not percolate to backup environment.
  - 13 The contractual/agreement terms between RE and CSP shall include the provisions for audit, and information access rights to the RE as well as SEBI for the purpose of performing due diligence and conducting supervisory reviews.
  - 14 RE shall also include provisions (in the contract/ agreement with CSP) mandating that CSP extends full cooperation to SEBI.
  - 15 In the event of any CSP deployed by an RE losing its empanelment status with MeitY/ commits a passive breach of contract/ agreement in any way, the RE shall ensure that it becomes compliant with this framework within 6 (six) months of being notified of/ discovering the breach.
  - 16 RE shall develop a viable and effective contingency plan to cope with situations involving a disruption/ shutdown of cloud services.
- 
- 17 REs are solely accountable for all aspects related to the cloud services adopted by them including but not limited to availability of cloud applications, confidentiality, integrity and security of their data and logs, and ensuring RE's compliance with respect to the applicable laws, rules, regulations, circulars, etc.



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- 18 The contractual/agreement terms between RE and CSP shall include the provisions for audit, and information access rights to the RE as well as SEBI, for the purpose of performing due diligence and conducting supervisory reviews.
- 19 Managed Service Provider (MSP) or System Integrator (SI) being involved in procurement of cloud services, an explicit and unambiguous delineation/ demarcation of responsibilities shall also be done with respect to MSP/ SI, and the same shall be included in the agreement.
- 20 The RE shall ensure that availability of records to the RE and the supervising authority are not affected under any circumstances, even in case of liquidation of the CSP.
- 21 The RE shall have a robust grievance redressal mechanism, which in no way shall be compromised on account of cloud adoption i.e., responsibility and accountability for redressal of investors'/ members' grievances related to cloud on boarded services shall rest with the RE.

### **7.12 Cybersecurity Regulated Entities**

This circular is a stand-alone advisory related to the best practices for Cyber Security recommended by Computer Security Incident Response Team-Finance Sector (CSIRT-Fin). The circular is applicable to all the Regulated Entities (REs) of SEBI from the finance sector.

- A. Compliance of the advisory along with the cybersecurity audit report to SEBI needs to be submitted as per the existing reporting mechanism and frequency of the respective cybersecurity audit.
- B. SEBI advises the REs to implement the recommendations published in the circular. The advisory covers points such as:
  1. Reporting of Phishing websites detected in the cyberspace of the organization to CSIRT-Fin/CERT-In.
  2. Practices for Patch management and adherence to SEBI regulations for Vulnerability Assessment and Penetration Testing.
  3. Log collection of all systems and its retention as per SEBI regulations, guidelines issued by CERT-In and IT Act 2000.
  4. Controls for user enumeration and authentication using strong password policy and using multifactor authentication for all internet facing facilities.
  5. Adoption of 'least privilege' approach to restrict privilege escalation.
  6. Evaluation of concentration risk while outsourcing multiple critical services to the same small non-financial organization.
  7. Encryption of data while in transit and at rest as an effective measure for data protection, backup, and restoration.
  8. Strengthening the security of the cloud services and avoid leakage of data from the same.
  9. Cyber security controls for securing the network and infrastructure of the organization.

### **7.13 Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries.**



SEBI has issued a circular no. SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 dated January 4, 2019, regarding "Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries"

With effect from quarter ending March 2019, all registered Stockbrokers/ Depository Participant are required to submit the details as per form (Annexure A) of the above mentioned SEBI circular and make submissions on quarterly basis within 15 calendar days of the expiry of the quarter, via email to Exchange at [membership@msei.in](mailto:membership@msei.in).

**7.14 Risk Based Supervision**

As communicated vide Exchange circular no. MSE/INSP/6131/2018 dated March 21, 2018, MSE/INSP/6199/2018 dated April 03, 2018, SEBI/Exchanges had put in place a system of "Risk Based Supervision" of Members 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 MSE Connect 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/cleared even a single trade during the submission period (respective Half Year/ Financial Year)) and in case of any non-submission by a member, appropriate disciplinary action may be initiated. Members are also requested to preserve and maintain the working of the data submitted for Risk Based Supervision as the same may be verified during the inspections.

Regulatory Reference/ Requirements:

S. No	Particular	Circulars and other details
1	Compliance Calendar	<a href="https://www.msei.in/members/compliance/compliance-calendar">https://www.msei.in/members/compliance/compliance-calendar</a>



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2	Enhanced Supervision of stock brokers	Exchange circular nos. MSEI/INSP/4554/2016 dated September 28, 2016, MSEI/INSP/4799/2016 dated December 22, 2016, MSE/INSP/5279/2017 dated June 27,2017, MSE/INSP/5584/2017 dated September 26, 2017,
3	Guidelines for maintaining bank accounts and Reporting of Bank & Demat Accounts	MSE/INSP/9715/2020 dated November 09, 2020, MSE/INSP/9777/2020 dated November 27, 2020, MSE/INSP/9892/2020 dated December 21, 2020, MSE/INSP/11451/2022 dated February 04, 2022, MSE/INSP/11591/2022 dated March 17, 2022, and MSE/INSP/11719/2022 dated April 13, 2022.
4.	Submission of data for monitoring of clients' funds lying with the stockbroker – Cash and Cash Equivalent Submission	MSE/INSP/8653/2020 dated February 10, 2020, MSE/INSP/8652/2020 dated February 10, 2020, MSE/INSP/9983/2021 dated January 12, 2021, MSE/INSP/11228/2021 dated December 14, 2021
5.	Application Programming Interface (API) for Weekly submission of Holding Statement, Cash and Cash Equivalent Balances and Bank Balances	MSE/INSP/11655/2022 dated March 31, 2022, MSE/INSP/11702/2022 dated April 08, 2022, MSE/INSP/11897/2022 dated June 03, 2022, MSE/INSP/12048/2022 dated July 11, 2022, and MSE/INSP/13033/2023 dated February 10, 2023
6.	Submission of Designated Director details to FIU-IND and Registration on FIU-IND's FINnet Gateway.	MCX-SX/INSP/1824/2014 dated March 21, 2014, MSEI/INSP/3437/2015 dated October 12, 2015, MSE/INSP/11878/2022 dated May 30, 2022, MSE/INSP/12290/2022 dated September 13, 2022, MSE/INSP/12561/2022 dated November 11, 2022.
7.	Internal Audit of Trading members	MSE/INSP/IAR-20-21(1)/9651/2020 dated October 26, 2020.
8.	System Audit of Trading members	SEBI circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013, and Exchange circular no. MSE/INSP/9662/2020 dated October 28, 2020.
9.	Cyber Security Audit and Resilience Report	SEBI circular no. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, and SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019 and Exchange circular no. MSE/INSP/9800/2020 dated December 02, 2020.
10.	Risk Based Supervision	Exchange circular no. MSE/INSP/6131/2018 dated March 21, 2018, MSE/INSP/6199/2018 dated April 03, 2019,
11.	Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries	SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 dated January 4, 2019, and Exchange circular no. MSE/MEM/7285/2019 dated February 4, 2019.

### **7.15 Maintenance of a website by stockbrokers.**

Exchange vide its circular no. MSE/INSP/13083/2023 dated February 21, 2023, we draw your attention to SEBI circular ref. no: SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/30 dated February 15, 2023, regarding Maintenance of a website by stock brokers and depository participants.

1. SEBI, through various circulars, has mandated certain information to be published by stockbrokers (SB) /depository participants (DP) on their respective websites.
2. A designated website brings in transparency and helps the investors to keep themselves well informed about the various activities of the SB/DP. In view of the same, considering the advancement in technology and need to provide better services to the investors, all SBs and DPs are hereby mandated to maintain a designated website.
3. Such website shall mandatorily display the following information, in addition to all such information, which have been mandated by SEBI/stock exchanges/depositories from time to time.
  - i. Basic details of the SB/DP such as registration number, registered address of Head Office and branches, if any.
  - ii. Names and contact details such as email ids etc. of all key managerial personnel (KMPs) including compliance officer.
  - iii. Step-by-step procedures for opening an account, filing a complaint on a designated email id, and finding out the status of the complaint, etc.
  - iv. Details of Authorized Persons.
4. The URL to the website of a SB/ DP shall be reported to the stock exchanges/depositories within a week of this circular coming into effect. Any modification in the URL shall be reported to stock exchanges/depositories within 3 days of such changes.
5. The provisions of this circular shall come into effect from August 16, 2023.
6. The stock exchanges and depositories are directed to:
  - a. Bring the provisions of this circular to the notice of stock brokers and depository participants, as the case may be, and also disseminate the same on their websites;
  - b. Make amendments to the relevant byelaws, rules, and regulations for the implementation of the above provisions.
  - c. Communicate to SEBI, the status of the implementation of the provisions of this circular in their monthly development report and
  - d. Monitor compliance of this circular and submit a compliance report to SEBI in this regard by August 31, 2023.





7. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

**7.16 Responsibilities on Qualified Stockbrokers (OSB)**

Exchange vide its circular no. MSE/INSP/13152/2023 dated March 06, 2023. SEBI, vide Gazette Notification dated January 17, 2023, amended the SEBI (Stockbrokers) Regulations, 1992 for designating certain stockbrokers QSBs. Subsequently, SEBI vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 06, 2023, on "Enhanced obligations and responsibilities on Qualified Stockbrokers(QSBs)" enumerated the parameters for designating certain stockbrokers, 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 Stockbrokers(QSBs), on the basis of certain parameters and appropriate weightages thereon.

Accordingly, based on the parameters defined in the aforesaid circular, the list of designated Qualified Stockbrokers (QSBs) is enclosed herewith as Annexure A (list is in alphabetical order and is not indicative of ranking). These QSBs shall be required to meet enhanced obligations and discharge additional responsibilities. Enhanced monitoring of QSBs shall be carried out by all Exchanges w.e.f. July 01, 2023.

Further, SEBI Vide its circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024, on "Measures to instill trust in securities market – Expanding the framework of Qualified Stockbrokers (QSBs) to more stockbrokers" has extended the framework of QSBs to more stockbrokers and enumerated the following parameters, in addition to the four parameters enumerated in SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 06, 2023:

1. The proprietary trading volumes of the stockbroker who are engaged in clients' trading.
2. Compliance score of the stockbroker, derived by assigning highest score to stock brokers with highest penalties levied across Exchanges; and
3. Grievance redressal score of the stockbroker, derived by assigning highest score to stock brokers with highest count of investor complaints received across Exchanges.

<b>Circular No</b>	<b>Subject</b>
MSE/INSP/13012/2023	Enhanced obligations and responsibilities on Qualified Stockbrokers (QSBs)
MSE/INSP/13152/2023	Enhanced obligations and responsibilities on Qualified Stockbrokers (QSBs)
MSE/INSP/15069/2024	Measures to instill trust in securities market –Expanding the framework of Qualified Stockbrokers(QSBs) to more stockbrokers



List of Stockbrokers designated as Qualified Stockbrokers in alphabetical order and is not indicative of ranking.

S. No.	Name of the Stockbrokers
1	ANGEL ONE LIMITED
2	GLOBE CAPITAL MARKET LIMITED
3	HDFC SECURITIES LTD.
4	ICICI SECURITIES LIMITED
5	KOTAK SECURITIES LTD
6	MOTILAL OSWAL FINANCIAL SERVICES LIMITED
7	NEXTBILLION TECHNOLOGY PRIVATE LIMITED
8	NJ India Invest Private Ltd.
9	Rajvi Stock Broking Private Limited
10	RKSV SECURITIES INDIA PRIVATE LIMITED
11	ZERODHA BROKING LIMITED

List of QSBs based on the parameter mentioned at para 1.6 above and para 4.1.6 of SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024, and Exchange Circular No. MSE/INSP/15069/2024 March 21, 2024

S. No.	Name of the Stockbroker
1	5 PAISA CAPITAL LIMITED
2	ANGEL ONE LIMITED
3	ICICI SECURITIES LIMITED
4	IIFL SECURITIES LIMITED
5	MOTILAL OSWAL FINANCIAL SERVICES LIMITED

List of QSBs based on the parameter mentioned at para 1.7 above and para 4.1.7 of SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024, and Exchange Circular No. MSE/INSP/15069/2024 March 21, 2024

S. No.	Name of the Stockbroker
1	ANGEL ONE LIMITED
2	FINVASIA SECURITIES PRIVATE LIMITED
3	ICICI SECURITIES LIMITED
4	MOTILAL OSWAL FINANCIAL SERVICES LIMITED
5	ZERODHA BROKING LIMITED

### **7.17 Bank Guarantees (BGs) created out of clients' funds.**

SEBI vide its circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023, on Bank Guarantees (BGs) created out of clients' funds and Exchange vide its circular MSE/INSP/13383/2023 dated April 26, 2023, MSE/INSP/13530/2023 dated May 29, 2023, MSE/INSP/14261/2023 dated October 06, 2023 on Reporting requirement



on Bank Guarantees (BGs) created out of clients’ funds and circular no. MSE/INSP/14412/2023 dated November 07, 2023, on Bank Guarantees (BGs) created out of clients’ funds.

Stockbrokers (SBs)/ Clearing Members (CMs) pledge client's funds with Banks which in turn issue Bank Guarantees (BGs) to clearing corporations for higher amounts. This implicit leverage exposes the market and especially the client's funds to risks safeguarding the interests of the investors:

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

SBs/CMs shall be required to provide a certificate by its statutory auditor confirming the implementation of this circular. Such a certificate shall be submitted to stock exchanges/clearing corporations by October 16, 2023.

Additionally, as per the Exchange circular no. MSE/INSP/13530/2023 dated May 29, 2023, 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 shall be as under:

Member Code	Member Name	As on Saturday of the applicable week	Total BG amount (out of clients’ funds) as Collateral (A)	Total BG amount (out of Prop funds) as Collateral (B)	Total BG amount as Collateral (C) = (A) + (B) in favor of Clearing member
		DD-MM-YYYY			

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.



## **8. Applicable fine structure**

### **8.1 List of common violations and applicable penalties (All Segments)**

Based on the findings during inspections conducted in the past and review of the commonly observed compliance issues, the grouping of violations and the penalties thereof have been revised. Penalties are indicative in nature and could undergo change in specific cases depending on frequency and gravity of the violations. Actions in respect of violations having high impact would be dealt with on case to case basis depending on seriousness and gravity of such violations.

Further to the above, details include:

- I)** list of common violations and the applicable penalties as decided by the relevant authority.
- II)** Details of escalation of penalties in case of repeat violations observed (during inspections conducted in last three financial years)

Members are hereby required to take preventive steps to avoid the violations and to put systems and procedures in place so as to ensure compliance with the applicable requirements.

### **8.2 Revision in Charges/Penalty norms**

To ensure strict compliance with SEBI orders debaring entity / entities from accessing securities market, members may note that for the violation observed in case of members dealing on behalf of SEBI debarred entity / entities, Exchange has decided to levy an indicative penalty of 0.25% of gross traded value of the transactions entered into by a member on behalf of debarred entity / entities subject to a minimum of Rs 50,000/-

Members are hereby advised to take preventive steps to avoid the violation of dealing with SEBI debarred entity/entities and to put systems and procedures in place so as to ensure compliance with various Rules, Byelaws & Regulations of the Exchange, notices / circulars issued by the Exchange in addition to the directions given by SEBI/Exchange, in this regard.

### **8.3 Indicative list of penalties/actions**

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

REGULATORY REQUIREMENTS.

S. No.	Particular	Circular Nos.
1	List of common violations and applicable penalties (All Segments)	Exchange circular no. MSE/INSP/5753/2017 dated November 13, 2017, and MSE/INSP/6204/2018 dated April 04, 2018.
2	Revised Penalty Structure for Cash Dealings by Stockbrokers	Exchange circular no. MSE/INSP/7007/2018 dated November 20, 2018
3	Penalty structure related to the provisions of Handling of Clients' Securities by Trading Members	Exchange circular no. MSE/INSP/8749/2020 dated March 02, 2020
4	Penalty Structure for Cyber Security and Cyber Resilience Audit of Trading Members	Exchange Notice No. MSE/INSP/8950/2020 dated April 22, 2020
5	Disciplinary actions for incorrect/wrong submission of data towards Holding Statement	Exchange Notice No. MSE/INSP/9547/2020 dated September 30, 2020
6	Penalty structures for Late/Non submission of data towards undertaking to freeze the bank account	Exchange Notice No. MSE/INSP/9879/2020 dated December 17, 2020
7	Penalty structures for Non-closure of Client Collateral / Client Margin Trading Securities demat accounts	Exchange Notice No.: MSE/INSP/9900/2020 dated December 22, 2020
8	Penalty structure for Non-issuance of 'Statement of Accounts' for funds, securities and commodities on weekly basis to clients	Exchange circular No. MSE/INSP/10933/2021 dated September 28, 2021
9	Penalty structure for incorrect submission of Client Level Holding Statement, Cash & Cash Equivalent Balances and Bank Account Balances by members	Exchange circular No. MSE/INSP/11472/2022 dated February 10, 2022
10	Penalty/Disciplinary action for delay in submission of Internal Audit Report and adverse observations in the Internal Audit Report	Exchange circular No. MSE/INSP/12474/2022 dated October 21, 2022.



## **ITEM 9 - CONFLICTS OF INTEREST**

### **9.1 General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognized Stock Exchanges, Recognized Clearing Corporations, Depositories and their Associated Persons in Securities Market.**

SEBI has decided to put in place comprehensive guidelines to collectively cover Intermediaries, Recognized Stock Exchanges, Recognized Clearing Corporations, Depositories (hereinafter collectively referred to as "such entities") and their associated persons, for elimination of their conflict of interest. Such entities shall adhere to these guidelines for avoiding or dealing with or managing conflict of interest.

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

Such entities and their associated persons shall,

- i. lay down, with active involvement of senior management, policies and internal procedures to identify and avoid or to deal or manage actual or potential conflict of interest, develop an internal code of conduct governing operations and formulate standards of appropriate conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned.
- ii. at all times maintain high standards of integrity in the conduct of their business.
- iii. ensure fair treatment of their clients and not discriminate amongst them.
- iv. ensure that their personal interest does not, at any time conflict with their duty to their clients and client's interest always takes primacy in their advice, investment decisions and transactions.
- v. make appropriate disclosure to the clients of possible source or potential areas of conflict of interest which would impair their ability to render fair, objective and unbiased services.
- vi. endeavor to reduce opportunities for conflict through prescriptive measures such as through information barriers to block or hinder the flow of information from one department/ unit to another, etc.,
- vii. place appropriate restrictions on transactions in securities while handling a mandate of issuer or client in respect of such security so as to avoid any conflict.
- viii. not deal in securities while in possession of material nonpublished information;
- ix. not to communicate the material nonpublished information while dealing in securities on behalf of others;
- x. not in any way contribute to manipulate the demand for or supply of securities in the market or to influence prices of securities.
- xi. not have an incentive structure that encourages sale of products not suiting the risk profile of their clients.
- xii. not share information received from clients or pertaining to them, obtained as a result of their dealings, for their personal interest.



The Boards of such entities shall put in place systems for implementation of the guidelines and provide necessary guidance enabling identification, elimination or management of conflict-of-interest situations.

Such entities shall conduct assessment of their existing policies on conflict of interest in a time bound manner, not later than 6 months from the date of the circular and bring them in line with the requirements of these guidelines.

**REGULATORY REQUIREMENTS:**

<b>S. No.</b>	<b>Particular</b>	<b>Circular</b>
1	General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognized Stock Exchanges, Recognized Clearing Corporations, Depositories and their Associated Persons in Securities Market.	SEBI circular No. CIR/MIRSD/5/2013 dated August 27, 2013; Exchange circular no. MCX-SX/INSP/1411/2013 dated August 29, 2013



## **ITEM 10 — ANTI MONEY LAUNDERING PROVISIONS (PMLA)**

SEBI has directed members as a part of requirement of Member registration with SEBI to ensure compliance with the provisions of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) circulars issued by SEBI from time to time. Further, an amendment to the existing circular has been issued to the market by SEBI in its circular SEBI/HO/MIRSD/SEC-FATF/P/CIR/2023/0170 dated October 13, 2023. The Government of India has notified Prevention of Money-laundering (Maintenance of Records) (Second Amendment) Rules, 2023, which is published in the Official Gazette on September 4, 2023 ([Notification G.S.R. 652\(E\)](#)) and Exchange Circular no. MSE/INSP/14317/2023 dated October 17, 2023.

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

### **10.1 Guidelines on Prevention of Money Laundering Standards**

Prevention of Money Laundering Act, 2002 (PM LA) has been brought into force w.e.f. July 01, 2005. The Guidelines on Prevention of Money Laundering Standards, inter-alia requires the members to:

- Appoint Principal Officer & informed to FIU-India.
- Appointment of Designated Director and submit a copy of intimation letter to Exchange via email [membership@msei.in](mailto:membership@msei.in). The Designated Director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under PM LA.
- Have documented procedures to implement the Anti Money Laundering provisions as envisaged under Prevention of Money Laundering Act, 2002.
- Ensure Client Due Diligence Process
- Policy for acceptance of clients.
- Procedure for identifying the clients.
- Risk Management.
- Monitoring of Transactions.
- Classify clients into high, medium & low risk categories as per the risk perceived.
- Documentation and regular updating of risk assessment. Should be made available to competent authorities and self-regulating bodies.
- Have a system in place for generation of alerts for identifying suspicious transactions.





- Monitor and report Suspicious Transactions (strs) to FIU-India.
- Impart training to staff & educate clients about objectives of PM LA.
- Record keeping requirement revised for a period of five years pertaining to following:
  - Transaction of clients
  - Identity of clients
  - Monitoring of transactions
  - Record of information related to transactions, whether attempted or executed which are reported to Director, FIU-IND
  - Appointment of a Principal Officer

As per PMLA guidelines, members will have to comply with the following requirements.

Policy for acceptance of clients

### **10.2 Know Your Client (KYC)**

The Know Your Client (KYC) policy should clearly spell out the client identification procedure to be carried out at different stages i.e. while establishing the member-client relationship, while carrying out transactions for the client or when the member has doubts regarding the veracity or the adequacy of previously obtained client identification data.

Members should ensure that an account is not opened where they are unable to apply appropriate clients due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the intermediary is suspected to be non-genuine, perceived non co-operation of the client in providing full and complete information. No account is opened in a fictitious / benami name or on an anonymous basis.

Members should develop customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing. By establishing such policies and procedures, they will be in a better position to apply customer due diligence on a risk sensitive basis depending on the type of customer business relationship or transaction.

### **10.3 Funds**

Apart from the routine requirements of obtaining bank proof & receipt/payment of funds from the respective client's account, the members shall have to maintain records pertaining to the transactions of the value and nature prescribed as under:

- (a) all cash transactions of the value of more than Rs.10 lakhs or its equivalent in foreign currency, (b) all series of cash transactions integrally connected to each other which have been valued below Rs.10 lakhs or its equivalent in foreign



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currency where such series of transactions take place within one calendar month and ( c ) all suspicious transactions whether or not made in cash.

#### **10.4 Securities**

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

#### **10.5 Risk Based Approach**

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

#### **10.6 No of STR reporting to Exchange**

Trading members are informed that as a part of PMLA compliance, the trading members shall be henceforth required to report the number of Suspicious Transaction Reports (STRs) filed by them with FIU-IND to the Exchange on a monthly basis. (Refer Exchange circular no. MSE/INSP/5786/2017 dated November 23, 2017).

- 1) The members are required to fill details of Registration with FIU such as FIUREID, Date of registration, Principal Officer details & Designated Director details. Further, in case of change in the details submitted, members are required to update the relevant fields.
- 2) The members are required to report the no. of STR filed with FIU-IND on a monthly basis.
- 3) Further as per Exchange circular no. MSE/INSP/13681/2023 dated June 21, 2023, in terms of the PM L Rules, stockbrokers are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND).

### **10.7 List of Designated Individuals/Entities**

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

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

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

- i. The "ISIL (Da'esh) & Al-Qaida Sanctions List", which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & Al-Qaida Sanctions List is available at: <https://www.un.org/securitycouncil/sanctions/1267/press-releases>.
- ii. The list issued by United Security Council Resolutions 1718 of designated Individuals and Entities linked to Democratic People's Republic of Korea [www.un.org/securitycouncil/sanctions/1718/press-releases](http://www.un.org/securitycouncil/sanctions/1718/press-releases).

### **10.8 Jurisdictions that do not or insufficiently apply the FATF Recommendations**

FATF Secretariat after conclusion of each of its plenary, releases public statements and places jurisdictions under increased monitoring to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing risks. In this regard, FATF Statements circulated by SEBI from time to time, and publicly available information, for identifying countries, which do not or insufficiently apply the FATF Recommendations, shall be considered by the registered intermediaries.

The registered intermediaries shall consider the risks arising from the deficiencies in AML/CFT regime of the jurisdictions included in the FATF Statements. However, it should be noted that the regulated entities are not precluded from having legitimate trade and business transactions with the countries and jurisdictions mentioned in the FATF statements.



**10.9 Procedure for freezing of funds, financial assets or economic resources or related Services Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (UAPA), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated February 02, 2021, detailing the procedure for the implementation of Section 51A of the UAPA.**

Under the Section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. These guidelines have been further amended vide a Gazette Notification dated June 08, 2021.

**10.10 Reporting to Financial Intelligence Unit-India** in terms of the PML Rules, intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIUIND) at the following address:

Director, FIU-IND,  
Financial Intelligence Unit - India  
6th Floor, Tower-2, Jeevan Bharati Building,  
Connaught Place, New Delhi-110001, INDIA  
Telephone: 91-11-23314429, 23314459  
91-11-23319793(Helpdesk) [Email: helpdesk@fiuindia.gov.in](mailto:helpdesk@fiuindia.gov.in)  
(For FINnet and general queries)  
[ctrcell@fiuindia.gov.in](mailto:ctrcell@fiuindia.gov.in)  
(For Reporting Entity / Principal Officer registration related queries)  
[complaints@fiuindia.gov.in](mailto:complaints@fiuindia.gov.in)  
Website: <http://fiuindia.gov.in>



### **10.11 Designation of officers for ensuring compliance with provisions of PMLA**

Appointment of a Principal Officer: To ensure that the registered intermediaries properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. The names, designation and addresses (including email addresses) of 'Principal Officer' including any changes therein shall also be intimated to the Office of the Director-FIU-IND. As a matter of principle, it is advisable that the 'Principal Officer' is in a sufficiently senior position and can discharge the function with independence and authority. Appointment of a Designated Director: In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under: "Designated director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes —

- a) the Managing Director or a Whole-Time Director duly authorized by the Board of Directors if the reporting entity is a company,
- b) the managing partner if the reporting entity is a partnership firm,
- c) the proprietor if the reporting entity is a proprietorship firm,
- d) the managing trustee if the reporting entity is a trust,
- e) a person or individual who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and
- f) Such another 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".

### **10.12 Hiring and Training of Employees and Investor Education**

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

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

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

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

The Government of India, Ministry of Finance has issued an order dated January 30, 2023 vide F.No.P-12011/14/2022-ES Cell-DOR (“the Order”) detailing the procedure for implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (“WMD Act”). The Order may be accessed by clicking on [DoR Section 12A WMD.pdf.2](#).

In terms of Section 12A of the WMD Act, the Central Government is empowered as under:

“(2) For prevention of financing by any person of any activity which is prohibited under the WMD Act, or under the United Nations (Security Council) Act, 1947 or any other relevant Act for the time being in force, or by an order issued under any such Act, in relation to weapons of mass destruction and their delivery systems, the Central Government shall have power to—

- a) Freeze, seize or attach funds or other financial assets or economic resources—
  - i. Owned or controlled, wholly or jointly, directly or indirectly, by such person; or
  - ii. Held by or on behalf of, or at the direction of, such person; or
  - iii. Derived or generated from the funds or other assets owned or controlled, directly or indirectly, by such person.
  
- b) Prohibit any person from making funds, financial assets or economic resources or related services available for the benefit of persons related to any activity which is prohibited under the WMD Act, or under the United



Nations (Security Council) Act, 1947 or any other relevant Act for the time being in force, or by an order issued under any such Act, in relation to weapons of mass destruction and their delivery systems.

Registered intermediaries are directed to comply with the procedure laid down in the said Order.

4. Registered intermediaries shall:

(i) Maintain the list of individuals/entities (“Designated List”) and update it, without delay, in terms of paragraph 2.1 of the Order.

(ii) verify if the particulars of the entities/individual, party to the financial transactions, match with the particulars of the Designated List and in case of match, stock exchanges and registered intermediaries shall not carry out such transaction and shall immediately inform the transaction details with full particulars of the funds, financial assets or economic resources involved to the Chief Nodal Officer (“CNO”), without delay. The details of the CNO are as under:

The Director FIU-INDIA

Tel.No. 011-23314458, 011-23314459 (FAX)

Email: [dir@fiuindia.gov.in](mailto:dir@fiuindia.gov.in)

**10.14 Amendment to Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money-laundering Act, 2002 and Rules framed thereunder.**

The Government of India through gazette notification S.O. 1074(E) dated March 07, 2023 ([PML gazette dated March 07, 2023](#)) has amended the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 with immediate effect. SEBI vide its circular SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2023/091 dated June 16, 2023 and Exchange circular no. MSE/INSP/13681/2023 dated June 21, 2023 on Amendment to Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under the Prevention of Money-laundering Act, 2002 and Rules framed there under.

It is imperative for the registered intermediaries to take a note of the amendments of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and should leverage latest technological innovations and tools for effective implementation of name screening to meet the requirements of the abovementioned circulars with immediate effect.



**ITEM 11— INDICATIVE LIST OF SOME OF THE PENALTIES APPLICABLE AS PER EXCHANGE CIRCULAR:**

MSE Exchange circular no. Exchange circular no. MSE/INSP/5753/2017 dated November 13, 2017, and MSE/INSP/6204/2018 dated April 04, 2018, on penalty structure applicable as per exchange circular.

Further Exchange has issued various circulars to inform about the penalty structure to the market wide following circulars.

<b>Circular No</b>	<b>Subject</b>
MCX-SX/INSP/92/2009	Penalty Structure
MCX-SX/INSP/IA-0910(1)/266/2010	Internal Audit for Stockbrokers/ Trading Members / Clearing Members - levy of penalty
MCX-SX/INSP/424/2010	Penalty Structure in respect of non-compliance
MCX-SX/INSP/528/2011	Penalty Structure
MCX-SX/ID/537/2011	Penalty structure for modifications to Client Code
MCX-SX/SURV/550/2011	Penalty structure for TM position Limit Violation
MCX-SX/INSP/734/2012	Penalty Structure
MCX-SX/C&S/CDS/1314/2013	Exemption from levy of penalty for shortfall of client margin reporting
MSEI/ISC/4085/2016	Penalty to be levied on Members against Non redressal of Investor Grievance & Arbitration Matter
MSE/INSP/IAR-17-18(1)/5739 /2017	Internal Audit for Trading Members / Clearing Members for the period April 1, 2017, to September 30, 2017 (Penalty)
MSE/INSP/5753/2017 dated November 13, 2017,	List of violations and applicable penalties (CM, F&O and CD Segment)
MSE/INSP/6204/2018	Amendment to Indicative Penalty Structure
MSE/INSP/7007/2018	Amendment to indicative penalty structure – Cash Dealing
MSE/INSP/8749/2020	Penalty structure related to the provisions of Handling of Clients' Securities by Trading Members
MSE/INSP/9444/2020	Levy of penalty for short/ non collection of margins from clients in cash and derivative segments



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MSE/INSP/9879 /2020	Penalty structure for Late/Non submission of undertaking to freeze the bank account pursuant to SOP in the cases of Trading Member leading to default
<b>Circular No</b>	<b>Subject</b>
MSE/INSP/9900 /2020	Penalty structures for Non closure of Client Collateral / Client Margin Trading Securities demat accounts
MSE/INSP/10933/2021	Penalty structure for Non-issuance of 'Statement of Accounts' for funds & securities on weekly basis to clients
MSE/INSP/11472/2022	Penalty structure for incorrect submission of Client Level Holding Statement, Cash &Cash Equivalent Balances and Bank Account Balances by members
MSE/INSP/13217/2023	Penalty Structure for Non-display of Brokerage, Statutory & Regulatory Levies to the investors
MSE/INSP/13296/2023	Penalty Structure for Late/Non-submission of Reporting requirement on Settlement of Running Account of Clients' Funds

**ITEM 12 – GUIDELINES / COMPLIANCE REQUIREMENTS**

- Guidelines

<b>Circular Nos</b>	<b>Subject</b>
MSE/INSP/13681/2023	Amendment to Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under the Prevention of Money-laundering Act, 2002 and Rules framed there under
MSE/INSP/8294/2019	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
MSE/INSP/12255/2022	Guidelines/clarifications on Margin collection & reporting
MSE/INSP/12118/2022	Implementation of Circular on 'Guidelines in pursuance of amendment to SEBI KYC (Know Your client) Registration Agency (KRA) Regulations, 2011'
MSE/INSP/11982/2022	Guidelines/clarifications on Margin collection & reporting
MSE/INSP/11719/2022	Guidelines for maintaining bank accounts by the Trading Members
MSE/ISC/13371/2023	Guidelines in pursuance of amendment to SEBI KYC Registration Agency (KRA) Regulations, 2011
MSE/INSP/11591/2022	Guidelines for maintaining bank accounts by the Trading Members
MSE/INSP/11451/2022	Guidelines for maintaining bank accounts by the Trading Members
MSE/INSP/10996/2021	Guidelines/Clarifications on Margin collection & reporting
MSE/INSP/10081/2021	Guidelines for 'Statement of Accounts' for Funds, Securities and Commodities
MSE/INSP/9892/2020	Guidelines for maintaining client bank accounts by the Trading Members
MSE/INSP/9777/2020	Guidelines for maintaining client & settlement bank accounts by the Trading Members
MSE/INSP/9778/2020	Guidelines/clarifications on Peak Margin collection and reporting
MSE/INSP/9715/2020	Guidelines for maintaining client & settlement bank accounts by the Trading Members
<b>Circular Nos</b>	<b>Subject</b>
MSE/INSP/9535/2020	Guidelines/clarifications on Margin collection & reporting



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MSE/INSP/9442/2020	Investor Awareness regarding the revised guidelines on margin collection
MSE/INSP/9420/2020	Guidelines/clarifications on Margin Collection & Reporting
MSE/INSP/9304/2020	Guidelines / clarifications on Margin collection & reporting

- Some other regulatory requirements for compliance:

1	Mode of payment and delivery **	Exchange circular no. MCX-SX/COMP/53/2009 dated January 29, 2009
2	Receipt of funds in the form of pre-funded instruments / Electronic fund transfers	SEBI circular: CIR/MIRSD/03/2011 dated June 9, 2011; Exchange circular no. MCX-SX/INSP/584/2011 dated June 10, 2011
3	Pre-paid Schemes	Exchange circular no. MCX-SX/INSP/1840/2014 dated March 24, 2014
4	Prevention of Unauthorized Trading by Stockbrokers	Exchange circular no. MSE/INSP/5592/2017 dated September 27, 2017.

- SEBI has issued a circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003, and SMD/SED/CIR/93/23321 and letter No. SMD-1/23341 dated November 18, 1993, regarding regulation of transactions between clients and brokers.

MSE/INSP/9017/2020	Entities permitted to undertake e-KYC Aadhaar Authentication service of UIDAI in Securities Market
MSE/ID/9288/2020	Mobile Number Revocation list (MNRL) published on Telecom Regulatory Authority of India (TRAI)
MSE/INSP/9795/2020	Treatment of Inactive Trading account

(Please note that Circulars issued from time to time by the Exchange as per MSE Ltd website and by SEBI on its website from time to time shall supersede the Circulars mentioned in the Master Circular for the applicable compliances required to be complied from time to time).