

DEPARTMENT: CAPITAL MARKET

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Circular Ref. No: 179/2024

All Members/ PCMs,

Sub: Enhancement of operational efficiency and Risk Reduction – Operating guidelines for Pay-out of securities directly to client demat account

This has reference to SEBI circular 'Enhancement of operational efficiency and Risk Reduction - Pay-out of securities directly to client demat account' reference number SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2024/75 dated June 05, 2024, and NCL circular NCL/CMPT/62339 dated June 06, 2024.

- 1. Operating guidelines for Pay-out of securities directly to client demat account:**
The standard operating guidelines of 'Pay-out of securities directly to client demat account' is attached as **Annexure I**.
- 2. Mapping of demat account in UCC database of Exchange:** It shall be mandatory for trading members to update primary demat account in UCC database of Exchanges of all such clients that clear and settle trades with their clearing member. Clearing corporation shall credit pay-out of securities that is identified as primary in Exchange UCC and is verified by Depositories. Please refer exchange circular (NSE/ISC/62810 dated July 05, 2024, NSE/ISC/63535 dated August 23, 2024, BSE Notice No. - 20240705-37 dated 05 Jul 2024 and BSE Notice No. - 20240823-55 dated August 23, 2024) and any other circular issued by exchanges from time to time in this regard. The detailed guideline in this regard is provided in point 3 of Annexure 1.
- 3. Opening of TM pool accounts:** It shall be mandatory for Trading members of Capital market or F&O segment, clearing trades with other clearing member to open Trading member pool accounts in both depositories. The detailed guideline in this regard is provided in point 5(ii) of Annexure 1.
- 4. Opening of TM/CM CUSPA:** Trading/ Clearing members need to maintain Client Unpaid Security Pledge Account (CUSPA) in depository where their client has demat

account. The guidelines regarding maintenance of TM/CM CUSPA by Trading/ Clearing member are specified in point 6 of Annexure I. Accordingly,

- a. Trading members shall maintain only TM CUSPA a/c.
 - b. Self-Clearing Members shall maintain only TM CUSPA a/c and not maintain CM CUSPA a/c.
 - c. Trading member cum clearing member shall open maintain both TM CUSPA and CM CUSPA.
 - d. Professional clearing members shall open CM CUSPA only.
5. **Opening of TM CSMFA:** Trading members offering Margin trading Funding facility to their clients need to maintain Client Securities under Margin Funding Account (CSMFA) in depository where their client has demat account. The detailed guideline in this regard is provided in point 6 of Annexure 1.
6. **Reporting of Unpaid securities and funded stocks:** A facility shall be provided to members to report request to release payout with pledge in favour of CUSPA (Unpaid) / pledge in favour of CSMFA accounts (MTF). The operational procedure for same is provided as **Annexure 2**. Additionally detailed guideline in this regard is provided in point 8 of Annexure 1.
7. **Discontinuation of client direct pay-out facility:** In view of SEBI circular, the current facility of 'Direct payout to investor accounts' as specified in part C, point 6 of NCL consolidated circular NCL/CMPT/ CMPT61800 dated April 29, 2024, shall be discontinued. The guideline in this regard is provided in point 7 of Annexure 1.
8. **Auction for internal shortages:** It shall be mandatory for clearing members to use internal auction mechanism of clearing corporation to handle internal shortages. The detailed guideline in this regard is provided in point 14 of Annexure 1. Members shall use existing auction facility specified in item 6.4 of NCL consolidated circular NCL/CMPT/ CMPT61800 dated April 29, 2024, for auction of internal shortages. Additional guidelines with respect to auction for internal shortages shall be provided in subsequent circular.
9. **Reporting of demat account of Custodial participant client:** This reporting is required by Clearing members of F&O segment who are clearing trades for custodial participant clients not registered in capital market segment. The detailed guideline in this regard is provided in point 4 of Annexure 1. For existing/ new CP codes created hereafter clearing members shall provide details demat account to clearing corporation and mail to support@nsccl.co.in and securities_ops@nsccl.co.in in following format.

Mail subject: Demat details of non-custodian CP client in F&O

CP CODE	CP name	CP PAN	DP ID (8 char NSDL DP ID)	DP Client ID (8 char NSDL Client ID or 16 char CDSL BO ID)
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10. **Processing of pay-out:** The circular shall be implemented in 2 phases. Phase 1 shall be applicable from October 14, 2024, to January 13, 2025, and phase 2 shall be applicable from January 14, 2025, onwards. In phase I, CC shall credit pay-out to clearing member pool a/c for following cases:

- a. Verified demat account not found in UCC of Exchanges.
- b. Pay-out rejected by depositories for various reasons such as inactive client account, Member CUSPA/CSMFA not active in depository, ISIN not active in target depository etc.
- c. Where clients have disabled standing Instruction/ auto credit of securities in demat account and have not provided standing instructions during the day, such pay-out shall be provided by next day.
- d. Excess pay-in over gross pay-in obligation.
- e. Payout pertaining to proprietary obligations.

In phase 2 such payout shall be credited to client demat/ source account as given in Annexure 1.

11. **Delivery Report for Direct pay-out**

A separate delivery report shall be provided for direct pay-out information. The report shall provide client wise security wise quantity credited to client account. The format shall be same as existing delivery report and some of the reserved fields shall be used to provide additional information. The details of format of the shall be provided in subsequent circular.

**For and on behalf of
NSE Clearing Limited**

Rana Usman
Chief Operations officer – C&S

Telephone No	Email id
18002660050 (IVR Option 2)	securities_ops@nscl.co.in

Standard Operating Guidelines - Payout of securities directly to client demat accounts

1. Background

- i. SEBI vide circular reference number SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2024/75 dated June 5, 2024, has mandated that the payout of securities be credited directly to the client account by the clearing corporations w.e.f. October 14, 2024.
- ii. As prescribed in the above referred SEBI circular, the securities for pay-out shall be credited directly to the respective client's demat account by the Clearing Corporations. Further, CCs are required to provide a mechanism for Trading Member (TM)/Clearing Members (CM) to identify the unpaid securities and funded stocks under the margin trading facility.
- iii. Pursuant to the para 8 of the said circular, the detailed operational guidelines and implementation standards for the same shall be as follows.

2. Segment and market types

- i. To begin with, mandatory client direct payout will be implemented in the equity cash segment (including netted cash and F&O physical settlement) w.e.f. October 14, 2024 in 2 phases. Phase 1 shall be for a period of three months from October 14, 2024, to January 13, 2025 and phase 2 shall start from January 13, 2025 onwards.
- ii. The mandatory direct client payout of securities shall be applicable to following market types; Normal T+1, Trade for trade T+1, ITP-SME T+1 and Auction market.
- iii. The implementation of direct payout to clients in Offer for Sale, Tender offer and SLB scheme will be done after the implementation is streamlined in the Cash segment.
- iv. Considering the on-going discussions regarding implementation, of T+0 the implementation of direct pay-out in T+0 shall be done post finalization of the same.

3. Mapping of primary demat account

- i. Payouts shall be transferred to the demat accounts identified with Primary flag in the UCC database of the Exchanges and are verified by depositories.
- ii. All trading members are required to make relevant changes in the demat account details and update the Primary indicator for demat accounts for all existing UCC, in the UCC database, as per the procedure and within timelines prescribed by the Exchanges.

- iii. In case the primary indicators for demat accounts are not updated by the trading members by the timelines specified by the Exchange, records where demat account 1 is maintained then such account shall be considered as the primary account and the rest demat accounts if any, shall be considered as secondary demat account.
 - iv. The primary/ secondary demat account mapped in the UCC database will be sent to the depositories for verification by the Exchanges.
 - v. Only such accounts that are marked as verified primary demat accounts in UCC database by the specified cut-off shall be shared by exchange with clearing corporations for releasing the securities payout during settlement. Secondary verified demat accounts shall not be considered for direct pay-out of securities
 - vi. The primary and verified account shall be considered as valid if the PAN of the first holder of the demat account in depository matches with the PAN in the UCC database. In case of PAN exempt cases If the DP ID is PAN Exempt on Exchange and Depository and if name of the first holder of the demat account in depository matches exactly with the name in exchange, Depository shall provide a positive verification response else negative verification shall be sent by depository.
- 4. Demat accounts of clients clearing using custodial participant (CP) Codes and clearing through non-custodian clearing members in F&O segment**
- i. For clients clearing using CP codes through non custodian clearing members in F&O segment, the clearing members will have to provide the primary demat account details of such CP to the CC, at the time of activation of such CP. CC will in turn get these demat accounts verified by the depositories.
 - ii. In case of change in demat account of such CPs, clearing members shall intimate CCs.
- 5. Transfer of securities to client primary demat account by depositories**
- i. Based on the instructions received from the CCs, the depositories shall transfer the securities pay-out to the primary demat account of the client with hop/skip entries in the CM pool and TM pool account.
 - ii. In view of the same Trading members who are clearing their trades with other clearing members shall be required to maintain Trading member pool accounts with both the

depositories. Clearing members shall ensure that their Trading members have opened pool accounts in both depositories.

- iii. Some members registered with clearing corporation as clearing member but are using services of some other clearing members for clearing trades also need to open TM pool accounts.
- iv. Some members that are clearing member in Cash segment but are trading members in F&O segment also need to open TM pool account for processing of pay-out pertaining to F&O physical obligations.

6. Maintenance of client unpaid securities pledgee account (CUSPA) and Client Securities under Margin Funding Account (CSMFA) accounts in depositories

- i. Clearing corporation shall provide facility to clearing members to release pay-out to client with pledge in favor of CUSPA in case the client or TM is unpaid or to release pay-out with pledge in favor of CSMFA where TMs are offering Margin trading facility (MTF) to their clients.
- ii. Where CC releases pay-out to clients under Unpaid/ MTF pledge flag based on request from clearing members, depositories shall release the pay-out to client and mark a pledge in favor of CUSPA/ CSMFA account of clearing/trading member, as the case may be.
- iii. Trading Members (TM, SCM, TM-CM) who do trading for clients other than proprietary) need to maintain TM CUSPA accounts with depositories, to create pledge of securities of such clients in favor of the CUSPA a/c in event of shortages by such clients.
- iv. Clearing members (PCM and TM-CM) clearing for other TMs need to open CM CUSPA with depositories to create pledge of securities of such TM/clients in favor of the CUSPA a/c in event of shortages by such client/TMs.
- v. In case all clients of CM and TM are maintaining primary demat accounts with the same depository, then such CM/TM may maintain CUSPA account in such depository only. Otherwise, the CM/TM need to maintain CUSPA accounts in both depositories.
- vi. In case of securities indicated to be released with CUSPA pledge by CM or TM, the securities pay-out transferred to the client account shall be automatically pledged in

favour of the CUSPA account of the CM or TM, as the case may be. If TM/CM CUSPA account is not present in depository where client account is present, such pay-out shall be credited to clearing member pool account by CC in phase 1 and to client account without pledge in phase 2.

- vii. In case TMs are offering MTF to their clients, then such TMs are required to maintain designated TM CSMFA account in depository. In case all clients of a TM are maintaining primary demat accounts with the same depository, then the TM may maintain CSMFA account in such depository only. Otherwise, the TM shall need to maintain CSMFA accounts in both depositories.
- viii. In case of securities indicated as purchased under the MTF, the securities payout transferred to the client account shall be automatically pledged in favour of the TM's CSMFA account. If TM CSMFA account is not present in depository where client account is present, then such pay-out shall be credited to clearing member pool a/c by CC in phase 1 and to client account with-out pledge in phase 2.
- ix. OTP based authentication by clients to process the pay-out released with MTF (CSMFA) pledge shall be discontinued by depositories for pay-out credited directly by clearing corporation. OTP based authentication shall continue till phase 1 only for unsuccessful payout cases where securities payout could not be transferred by CC to the respective client and same has been transferred to pool account of the clearing member.

7. Discontinuation of existing direct client payout facility

- i. The current direct payout facility provided to the members shall be discontinued in view of implementation of mandatory direct payout of securities by CCs to client's demat account.

8. Identification of unpaid securities and funded stocks under the margin trading facility

- i. A facility shall be provided only to non- custodian clearing members i.e. Self-Clearing Members (SCM), Trading cum Clearing members (TM-CM) and Professional Clearing members (PCM) of cash and F&O segment to upload unpaid/MTF flag files for the identification of unpaid securities and funded stocks under margin trading facility.
- ii. Clearing member can specify following flags:

Flag	Action
C	Pay-out will be released to client account with a pledge in favor of clearing member CUSPA account.
T	Pay-out will be released to client account with a pledge in favor of trading member CUSPA account.
M	Pay-out will be released to client account with a pledge in favor of Trading member CSMFA account

- iii. Clearing members shall be required to report unpaid/MTF for a settlement type number till specified time on settlement day.
- iv. Following rules shall apply for intimation of unpaid/ MTF flag
 - a. This facility shall be applicable to settlement type Normal T+1, Trade for trade T+1 and ITP T+1.
 - b. Clearing members shall not report unpaid/MTF flag for Auction market. Flag reported for Normal T+1 shall be made applicable to payout under the respective auction.
 - c. Unpaid / MTF flags shall be reported separately for each settlement number for the above settlement types. These shall not be carried forward for subsequent settlements.
 - d. Clearing members shall not report unpaid/ MTF flag for their UPI clients or their own proprietary accounts as the case may be.
 - e. In case of non-payment by a client to their members such members can report either C or T flag to report unpaid for such clients depending on whether it has opened CM CUSPA or TM CUSPA account in depository.
 - f. In case of clients having margin trading facility arrangement with trading members (TMs, SCM, TM-CMs) such members can report M flag to release pay-out to such clients with pledge in favour of Margin Trading Funding account of the member.

- g. Member shall provide details of Settlement type, Settlement number, TM code, client code, symbol, series, quantity and unpaid/ MTF flag in request to CCs as per procedure specified by CCs.
- h. In case of non-payment by a trading member to its clearing member (CM-TMs or PCMs), such CMs shall provide request with flag C.
 - i. If clearing member wants all pay-out due to all clients of the TM be released in pledge it shall only provide TM details and keep client code, symbol series and quantity as null.
 - ii. Where clearing member wants all pay-out due to specific clients of the TM to be released in pledge it shall specify only TM code and client code but keep symbol series and quantity as null.
 - iii. Where clearing member wants pay-out to be released with pledge for specific client and security, it shall specify TM code, client code, symbol series and quantity.
- i. In case trading member clearing with other clearing member wants payout to be released to its client with pledge to TM CSMFA account / TM CUSPA, it shall provide request to its clearing member. Clearing members shall have process at its end to collect such request from its trading members and report the same to CC before deadline.
- j. Clearing Members can report one or more flag (C, M, T or combination thereof) for a client. The quantity in all such request should not exceed the total receivable obligation of client. In case the total quantities exceed the obligation, the request shall be processed to the extent of obligation.
- k. Where clearing member has reported multiple flag and short pay-out is provided due to pay-in shortage, CC shall release the available pay-out first with M flag followed by C flag and balance with T flag.
- l. In case of non-payment by a custodial participant client to its clearing member (PCM or CM-TMs) in F&O segment, such members shall report unpaid flag C only.

- m. Request received after closure of reporting window shall not be considered.
- n. Situations arising out of flood/ natural calamities etc would be handled on a case to case basis.

9. Payout of securities directly to client demat account

- i. Where the clients are registered with multiple exchanges, TMs need to ensure maintenance of same primary demat account details of such clients across the UCC databases of exchanges.
- ii. In case of clients is registered in both Cash and F&O segment and if the demat account is specified in UCC of both cash and F&O segment, the demat account mentioned in the Cash segment only would be used by the CC for effecting pay-out. Where a UCC for is registered in F&O segment only, the trading members would need to ensure that the correct demat details is entered into the F&O segment UCC database of exchanges.
- iii. As per point (6) Of aforementioned SEBI circular 'The processes specified at para 4 above, shall not be applicable to clients having arrangements with custodians registered with SEBI for clearing and settlement of trades'. Accordingly, the direct payout shall be applicable for all trades settled by clearing / trading member.
- iv. In phase 1, pay-out of proprietary account shall be provided in clearing member pool account in respect of members PROP transactions including devolvement on account of custodian rejections.

In Phase 2 the obligation shall be segregated. In case of rejection /non-confirmation of buy or sell CP trades by the custodian in cash segment where the obligation devolves on the clearing member such obligation shall be treated as distinct from the member PROP obligation. Pay-out with respect to such obligation shall be credited to the pool account of the clearing member.

The payout in case of proprietary trades shall be credited to demat account where UCC is same as member code (in NSE) and is OWN (in BSE/ MSEI).

10. Excess Pay-in from clearing member

- i. Post implementation of block mechanism it is expected that pay-in received by CC from clearing member is only to the extent of gross of net sell obligation of their selling clients.
- ii. In case any excess pay-in is received by CCs (e.g. due to pay-in validation being done by each depository against client obligation independently), the treatment of such excess pay-in will be as follows:
 - a. During phase 1 the excess pay-in received by CC will be returned to the pool accounts of the clearing members, as is the current practice.
 - b. The scenarios of excess pay-in shall be examined by CC and Depositories during phase 1. CCs will issue detailed guidelines for handling of such excess pay-in before commencement of phase 2.
- iii. Auto DO facility may be continued to be provided in the first phase and the need for continuance thereafter in the second phase shall be examined.

11. Handling of cases where demat account is not found and/or payout rejected by depositories:

- i. In case, there is no verified primary demat account available in exchange UCC, the payout will be released to the clearing member pool account in phase 1.
 - a. If at the end of phase 1 primary demat account is not specified for any UCC (except proprietary UCC) such UCC shall be removed from 'Permitted to trade category' by Exchanges. On updation and verification of demat account of such UCC's by trading members, exchange shall restore 'Permitted to trade' status of the UCC.
- ii. In case demat account is available but pay-out is rejected by depositories such pay-out shall be released by CC to clearing member pool account in phase 1.
 - a. In case of rejection of pay-out by depositories/ demat not found/ excess pay-in cases, a report shall be downloaded to trading and clearing members for such demat not found or rejected pay-out. Clearing members shall transfer the pay-out to such clients. Member shall refer same for taking necessary measures to avoid such instances in future.

- b. In case the standing instruction is not present in the demat account of the UCC for receiving the credit of the securities then depositories reject the credit of security at the end of day if the required receipt in instruction is not provided by the respective client. In such cases where the information of such rejections is received late by CC, the pay-out to clearing member pool account in phase 1 shall be provided by next day.
- iii. Thereafter, in phase 2 all pay-out rejected by depository shall be withheld by clearing corporation and shall be handled in following manner:
 - a. Members shall be provided a time window to update the demat account and CC shall attempt to re-release to updated client demat account.
 - b. Where the client was unpaid and the attempt of re-release of the securities in client account was not successful the same will be handled by way of sale of the security by member. Clearing corporation shall specify procedure for handling such cases.
 - c. Where the pay-out to client is failing on account of ISIN not available in depository where client demat account is available, member shall get the demat account of client opened in the respective depository. Members shall update the demat account and CC shall attempt to re-release such pay-out to updated client demat account. To avoid such instances members to put in place mechanism to prevent client from buying such securities that are not available in depository where client demat account exist.
 - iv. In event any securities still remain with CC after the window for re-release/ sale of security is over, Exchange/ CCs shall devise a mechanism for handling unsuccessful release of payout beyond specified number of days.

12. Withhold request from Exchanges/ Regulatory/ law enforcement agencies

- i. Where request is received from Exchanges/ regulatory / law enforcement agencies for withhold of pay-out such pay-out shall be withheld by clearing corporation and shall be released on receipt of go ahead for release from such authorities. Exchanges shall provide details of withhold at TM-Client-security level for a trade date.

13. Handing of Corporate action of withheld client pay-out

- i. Till the time the rejected payout / excess pay-in received by CC, is withheld at the CCs end, all corporate benefits will be tracked at the CC's end and will be released to client demat, as and when they arise. Corporate actions such and Right/ Tender offer etc. where client enjoys a right or facility to subscribe to the corporate action shall not be provided by CC to clients, if the CC held the securities on record date specified for the corporate action.
- ii. Corporate actions benefit such as dividend received by CC on account of client pay-out withheld by it, shall be transferred to clearing member of such client. Clearing member shall transfer the same to recipient client.

14. Auction for internal shortages:

- i. It shall be mandatory for CM/TM to handle internal shortages through the process of auction as specified by CCs
- ii. Clearing members shall upload self-auction requests by specified timelines.
- iii. The Clearing member shall be allowed to request for self-auction to the extent of gross sell obligation in a security.
- iv. It shall be mandatory for clearing members to apply for auction for their internal shortages. Where a clearing member has not applied for auction for internal shortages, such instances shall be penalized. Exchanges/ CC shall provide detailed guidelines for levy of such penalty. Clearing / Trading members shall not recover such penalty from their clients.
- v. For the instances of internal shortages where member has not provided internal auction request or where internal shortage was reported but auction was not successful, such shortages shall be closed out as per close out price published by CC. For instances where member has not reported the internal shortage for auction to CC the cost differential on account of close out shall be borne by clearing member and not passed to the client. Exchanges/ CC shall provide detailed guidelines for the same.

15. Timelines for various activities linked to client direct payout

In view of direct pay-out to clients the timelines linked to client direct payout is as below:

Activity	Time
Update and verification of primary demat account	5:00 PM on S-1 day
Pay-in cut off at depositories	10:30 AM
Pay-in files from depositories	11:00 AM
Reporting of unpaid/MTF securities*	10:00 AM
Internal auction files from members*	11:45 AM
Funds Payout	1:30 PM
Final Payout of securities	3:30 PM

* Any changes in timelines shall be published by CC from time to time.