

**“PART-B”**

**UPDATED CONSOLIDATED CIRCULAR**

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## Item 1

### CLIENT REGISTRATION

#### 1.1 Account Opening Process

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

SEBI has devised the uniform documentation to be followed by all the stock brokers / trading members. Details of such documents are as follows:

- Index of documents giving details of various documents for client account opening,
- Client Account Opening Form in two parts:
  - a. Know Your Client (KYC) form capturing the basic information about the client and instruction/check list to fill up the form
  - b. Document capturing additional information about the client related to trading account
- Document stating the Rights & Obligations of stock broker, sub-broker and client for trading on exchanges (including additional rights & obligations in case of internet / wireless technology based trading)
- Uniform Risk Disclosure Documents (for all segments / exchanges)
- Guidance Note detailing Do's and Don'ts for trading on exchanges

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

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

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 on one document i.e. Account Opening Form. Further, in the same form, the client shall continue to put his signatures instead of saying 'yes' or 'tick mark' while indicating preferences for trading in different exchanges / segments, in accordance with existing requirements. However, in case the investor wants to

avail Running Account facility, execute Power of Attorney, etc., he would have to give specific authorization to the stock broker 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 as a result 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 UIDAI system.

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

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 time period of six months, effective from the date of the circular, is provided to bring about the aforementioned modifications in the KYC form.

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 of time and will facilitate in making the KYC uniform for the entire financial sector.

2. Document stating the Rights & Obligations of stock broker, 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 stock brokers (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 stock broker

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

1. Refusal of orders for penny stocks. (illiquid securities may be considered while defining penny stocks by TM)
  2. Setting up client's exposure limits
  3. Applicable brokerage rate
  4. Imposition of penalty / delayed payment charges by either party specifying the rate & the period. The same should not result in funding
  5. 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.
  6. Internal Shortage
  7. Conditions under which a client may not be allowed to take further position or the broker may close the existing position
  8. Temporarily suspending or closing a client's account at the client's request, and  
Deregistering a client
6. Tariff Sheet – Document detailing the rate/amount of brokerage and other charges levied on the client for trading on the stock exchange(s)

(b) Non-mandatory Documents

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

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

Trading members are further advised to ensure the following:

- (1) It may be noted that proper segregation of the mandatory and non-mandatory documents shall be made.
- (2) All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.
- (3) Additional documents shall state at the beginning in bold that the document is voluntary.
- (4) However, if such documents are required in order to ensure smooth functioning of special facility such as internet trading offered by the trading member, the client shall be informed

in writing clearly that such documents are voluntary and the client need not execute such documents if he / she does not wish to use that facility.

- (5) Such documents, if any shall also recognize specifically the right of the client to terminate the document. In such an eventuality, the trading member may terminate the special facility.
- (6) The docket or folder containing draft mandatory documents for signing and the checklist containing mandatory documents shall not include draft voluntary documents, if any.
- (7) No term in the client registration documents, other than those prescribed by SEBI, shall be changed without the consent of the client. Such change needs to be preceded by a notice of 15 days.
- (8) The Client shall indicate the stock exchange as well as the market segment where he intends his trades to be executed. He shall do so in the KYC form in his own hand and sign against these.
- (9) The stock broker shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment. In respect of other clients, the stock broker shall obtain the documents in accordance with its risk management system.

#### List of Illustrative documents

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



- (15) SEBI has clarified that the KYC (Account Opening Process) are applicable for all the clients of stock brokers/depository participants, without any exemption to any category of clients like institutions or FIIs.

**Clarification on Know Your Client Requirements in case of foreign investors:-**

Sr. No.	Relevant requirements on KYC Form as per SEBI Circulars dated August 22, 2011 and October 5, 2011	Clarifications for Foreign Investors viz. FIIs, Sub Accounts and QFIs
1	Authorized signatories list with specimen signatures to be submitted.	If the client has authorized the Global Custodian - an entity regulated by an appropriate foreign regulatory authority or Local Custodian registered with SEBI as a signatory by way of a Power of Attorney ('PoA') to sign on its behalf, such PoA may be accepted.
2	Intermediary has to get the KYC form filled from the clients.	The Global Custodian or the Local Custodian may fill the KYC form, if authorized through the PoA.
3	PAN to be taken for individual promoters holding control - either directly or indirectly, Partners/Trustees, whole time directors/two directors in charge of day to day operations and persons authorized to deal in securities on behalf of company/firm/others.	Not applicable.
4	For foreign nationals, (allowed to trade subject to RBI and FEMA guidelines), copy of passport/PIO Card/OCI Card is mandatory.	Proof of Identity document duly attested by the entities authorized for the same as per SEBI Circular dated October 5, 2011 or authorised signatories as mentioned at point 1 above may be adequate in lieu of the passport copy.
5	For foreign entities, CIN is optional; and in the absence of DIN no. for the directors their passport copy should be given.	CIN no. is provided as an example and requires the client's registration number in its respective country. If the foreign entity does not have CIN, the equivalent registration number of the entity may be mentioned. If it does not have any registration number, then SEBI Registration number may be mentioned. In case the directors (as per point 3 above), of the client do not have an equivalent of DIN in the client's respective jurisdiction, "Not Applicable" may be stated. Copy of the Passport may not be provided.
6	It shall be mandatory for all the intermediaries addressed in this circular to carry out In person verification of their clients.	In person verification is not applicable for a non-individual Client. In case of QFI – Individual Client, IPV shall be carried out by SEBI registered intermediary as per SEBI Circular dated August 22, 2011.
7	Copies of all the documents submitted by the applicant should be self-attested and accompanied by originals for verification. In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents, as per the list mentioned in the circular dated Aug 22, 2011.	In the absence of originals for verification, documents may be attested as per SEBI Circulars dated August 22, 2011 and October 5, 2011 or authorised signatories as mentioned at point 1 above.
8	<b>A.</b> Copy of the balance sheets for the last 2 financial years (to be submitted every year), annual gross income and net worth details. <b>B.</b> Copy of latest share holding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI	<b>A.</b> Though it is not mandatory, the intermediaries shall carry out due diligence as per the PMLA and SEBI Master Circular on AML about the financial position of the client. <b>B.</b> List of beneficial owners with shareholding or beneficial interest in the client equal to or above 25%

	takeover Regulations, duly certified by the company secretary/Whole time director/MD (to be submitted every year). POI and POA of individual promoters holding control - either directly or indirectly.	to be obtained. If Global Custodian /Local Custodian provides an undertaking to submit these details, then intermediary may take such undertaking only. Any change in the list to be obtained based on risk profile of the client.
9	Name, residential address, photograph, POI and POA of Partners/Trustees, whole time directors/two directors in charge of day to day operations and individual promoters holding control - either directly or indirectly.	<b>A.</b> Not required if Global Custodian /Local Custodian gives an undertaking to provide the following documents as and when requested for by intermediary: 1) A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf; and 2) An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. <b>B.</b> If Global Custodian/Local Custodian does not provide such undertaking as stated in A above, intermediary shall take required details from Foreign Investors.
10	Copy of SEBI registration certificate to be provided.	Custodian shall verify the SEBI registration certificate copy with the originals or with the details available on SEBI website and provide duly certified copy of such verified SEBI registration certificate to the intermediary.
11	Every client has to provide the trading account related details, as required by Annexure 3 to the SEBI circular dated August 22, 2011.	Annexure 3 to the circular dated August 22, 2012 pertaining to trading account related details is not applicable for FIIs and Sub Accounts. However, Intermediaries are required to update details of any action taken or proceedings initiated against the entity by the foreign regulators or SEBI/ Stock exchanges. For QFI, the intermediary shall collect the following details from Annexure 3: <input type="checkbox"/> Bank Account details <input type="checkbox"/> Depository account <input type="checkbox"/> Regulatory Actions as mentioned above
12	Intermediary shall provide a set of all the executed documents to the client, free of charge.	Intermediary shall display these standard documents prescribed by SEBI on its web site, intimate the clients regarding the link and email a copy of the same to the client.
13	Place of incorporation	If place of incorporation is not available, Intermediary should take Registered office address/ principal place of business of entity.
14	Date of commencement of business	Not applicable
15	Copies of the Memorandum and Articles of Association and certificate of incorporation	If FII or Sub Account does not have certificate of Incorporation or Memorandum and Articles of Association, then any reasonable equivalent legal document evidencing formation of entity may be allowed.
16	Copy of the Board Resolution for investment in securities market	Not applicable

### Exemptions -

In case of Sovereign Wealth Fund, Foreign Governmental Agency, Central bank, International or Multilateral organization and Central or State Government Pension Fund, the intermediary shall satisfy itself about their status and thereafter, only provisions at point 9 above shall be applicable. Further, these entities shall also be a part of KRA centralised system of KYCs.



Intermediaries dealing with Eligible Foreign Investors investing under Portfolio Investment Scheme may be guided by the clarifications issued vide SEBI circular CIR/MIRSD/07/2013 dated September 12, 2013.

SEBI vide Circular dated September 12, 2013 made partial modification to Clarification on Know Your Client Requirements in case of eligible foreign investors. Eligible foreign investors investing under Portfolio Investment Scheme ('PIS') route shall be classified as Category I, II and III as provided in Annexure A.

Category	Eligible Foreign Investors
I.	Government and Government related foreign investors such as Foreign Central Banks, Governmental Agencies, Sovereign Wealth Funds, International/ Multilateral Organizations/ Agencies
II.	a) Appropriately regulated broad based funds such as Mutual Funds, Investment Trusts, Insurance / Reinsurance Companies, Other Broad Based Funds etc. b) Appropriately regulated entities such as Banks, Asset Management Companies, Investment Managers/Advisors, Portfolio Managers etc. c) Broad based funds whose investment manager is appropriately regulated d) University Funds and Pension Funds e) University related Endowments already registered with SEBI as FII/Sub Account
III.	All other eligible foreign investors investing in India under PIS route not eligible under Category I and II such as Endowments, Charitable Societies/Trust, Foundations, Corporate Bodies, Trusts, Individuals, Family Offices, etc.

The intermediary shall follow risk based Know Your Client norms. Accordingly, certain clarifications are issued, as given in Annexure B, based on the category of these investors.

Document Type		Category - I	Category - II	Category - III
Entity Level	Constitutive Docs	Required	Required	Required
	Proof of Address	Required Power of Attorney, mentioning the address, is acceptable as address proof	Required Power of Attorney, mentioning the address, is acceptable as address proof	Required - Address proof other than Power of Attorney should be submitted.
	PAN Card	Required	Required	Required
	Financials	Exempt	Exempt	Risk based - Financial data sufficient
	SEBI Registration Certificate	Required	Required	Required
	Board Resolution	Exempt	Required	Required
	KYC Form	Required	Required	Required

<b>Senior Management (Whole Time Directors/ Partners/ Trustees/ etc.)</b>	List	Required	Required	Required
	Proof Of Identity	Exempt	Exempt	Entity declares on letterhead - full name, nationality and DoB OR Photo-identity proof
	Proof of Address	Exempt	Exempt	Declaration on letter head
	Photographs	Exempt	Exempt	Exempt
<b>Authorized Signatories</b>	List & Signatures	Required - List of Global Custodian ('GC') signatories can be given in case of POA to GC	Required - List of GC signatories can be given in case of POA to GC	Required
	Proof Of Identity	Not required	Not required	Required
	Proof of Address	Not required	Not required	Not required
	Photographs	Not required	Not required	Required
<b>Ultimate Beneficial Owner ('UBO')</b>	List	Exempt	Required - Can declare "no UBO over 25%"	Required
	Proof Of Identity	Exempt	Exempt	Required
	Proof of Address	Exempt	Exempt	Exempt
	Photographs	Exempt	Exempt	Exempt

# Note: Copies of all the documents, wherever applicable, to be submitted by the applicant should be self attested and accompanied by originals for verification. In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents, as per the SEBI circular no. MIRSD/SE/Cir-21/2011 dated October 5, 2011.

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

SEBI vide letter no. MIRSD/DPS-III/130466/2008 dated 2<sup>nd</sup> July 2008 has emphasized that it shall be the responsibility of the stock broker to satisfactorily identify his clients and to ensure in-person verification by his own staff while registering clients and keep complete audit trail for the same. SEBI has also mentioned that it would be stock brokers' responsibility to provide client details as and when required.

Accordingly, members are required to ensure 'in-person' verification by their own staff only while registering the clients. 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 stock brokers 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:

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

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

##### **1. In case of individuals:**

- a. Stock broker has an option of doing 'in-person' verification through web camera at the branch office of the stock broker/sub-broker's office.
- b. In case of non-resident clients, employees at the stock broker's local office, overseas can do 'in-person' verification. Further, considering the infeasibility of carrying out 'In-person' verification of the non-resident clients by the stock broker's staff, attestation of KYC documents by Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy / Consulate General in the country where the client resides may be permitted.

##### **2. In case of stock exchange subsidiaries**

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

#### **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 has to undergo the process of Know Your Client (KYC) again and again. Therefore, to avoid duplication of KYC process with every

intermediary, a mechanism for centralization of the KYC records in the securities market has been developed.

An intermediary shall perform the initial KYC of its clients and upload the details on the system of the KRA. When the client approaches another intermediary, the Intermediary can verify and download the client's details from the system of the KRA. As a result, once the client has done KYC with a SEBI registered intermediary, he 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) to act as the KYC Registration Agency (KRA).

<b>Guidelines for Intermediaries in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011</b>
<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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. MIRSD/SE/Cir-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.</li> <li>iv. The intermediary shall carry out KYC when the client chooses to trade/ invest / deal through it.</li> <li>v. The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.</li> <li>vi. The intermediary shall promptly provide KYC related information to KRA, as and when required.</li> <li>vii. The intermediary shall have adequate internal controls to ensure the security / authenticity of data uploaded by it.</li> </ul>

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

<b>Guidelines for uploading the KYC data of the existing clients in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011</b>
<ul style="list-style-type: none"> <li>i. For existing clients who trade / invest / deal with the intermediary anytime during the time 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 continuous basis and complete the process within the prescribed time limits. Intermediaries, may send print outs of scanned documents to the KRAs instead of original documents in accordance with the schedule, certifying that they have retained the originals. Intermediaries, must complete the process of sending the original documents to the KRA by March 31, 2013. 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 intermediaries shall maintain electronic records of the KYCs of their clients and keeping physical records</li> </ul>

would not be necessary.

**Schedule for implementation (For the year 2012-13):**

<b>Existing clients of intermediary who trade/ invest/ deal with it during the below mentioned time period</b>	<b>Timeline for intermediary to upload existing client's KYC data on KRA system &amp; send KYC documents to KRA</b>	<b>Timeline for KRA to update the record in their system &amp; send acknowledgement to the existing client</b>
April 16, 2012 – June 15, 2012	August 31, 2012	September 30, 2012
June 16, 2012 - August 31, 2012	October 31, 2012	November 30, 2012
September 1, 2012 - October 31, 2012	November 30, 2012	December 31, 2012
November 1, 2012 - December 31, 2012	January 31, 2013	February 28, 2013
January 1, 2013 - February 28, 2013	March 15, 2013	March 31, 2013

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

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



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

### **1.5 Allotment of two Trading Codes**

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

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

### **1.6 Execution of Power of Attorney (POA) by clients in favor of stock broker / stock brokers**

In order to standardize the norms to be followed by stock brokers / stock broker and depository participants while obtaining Power of Attorney from clients, following guidelines have been finalized by the SEBI vide the above mentioned circular.

<b>Guidelines for execution of Power of Attorney by Clients favouring Stock Brokers / Stock Broker</b>
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<b><u>PoA favouring Stock Brokers</u></b>
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PoA executed in favour of a Stock Broker by the client should be limited to the following:
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<b>1. Securities</b>
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- |  |
|--|
| <ol style="list-style-type: none"><li>i. Transfer of securities held in the beneficial owner account(s) of the client(s) towards stock exchange related margin / delivery obligations arising out of trades executed by the Client(s) on the stock exchange through the same Stock Broker.</li><li>ii. Pledge the securities in favour of Stock Broker for the limited purpose of meeting the margin requirements of the client(s) in connection with the trades executed by the clients on the stock exchange through the same Stock Broker. Necessary audit trail should be available with the Stock Broker for such transactions.</li><li>iii. To apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers etc. pursuant to the instructions of the Client(s). However, a</li></ol> |
|--|



proper audit trail should be maintained by the Stock Broker to prove that the necessary application/act was made/done pursuant to receipt of instruction from Client.

## **2. Funds**

- iv. Transfer of funds from the bank account(s) of the clients for the following:
- a. For meeting the settlement obligations of the client(s)/ margin requirements of the client(s) in connection with the trades executed by the clients on the stock exchange through the same Stock Broker.
  - b. For recovering any outstanding amount due from the client(s) arising out of clients trading activities on the stock exchanges through the same Stock Broker.
  - c. For meeting obligations arising out of the client subscribing to such other products/facilities/services through the Stock Broker like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares in etc.
  - d. Towards monies/fees/charges, etc. due to the Stock Broker/Depository Participant/ Principal payable by virtue of the client using/subscribing to any of the facilities/services availed by the Client at his/her instance.

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

### **POA favouring Stock Brokers**

PoA executed in favour of a Stock Broker by the client should:

1. Identify/provide the particulars of the beneficial owner account(s) and the bank account(s) of the client(s) that the Stock Broker is entitled to operate.
2. provide the list of clients' & brokers' Bank accounts & demat accounts where funds and securities can be moved. Such bank & demat accounts should be accounts of related party only.
3. be executed in the name of the concerned SEBI registered entity only and not in the name of any employee or representative of the Stock Broker.
4. not provide the authority to transfer the rights in favour of any assignees of the Stock Broker.
5. be executed and stamped as per the rules / law prevailing in the place where the PoA is executed or the place where the PoA is kept as a record, as applicable.
6. contain a clause by which the Stock Broker would return to the client(s), the securities or fund that may have been received by it erroneously or those securities or fund that it was not entitled to receive from the client(s).
7. be revocable at any time, without notice.
8. be executed by all the joint holders (in case of a demat account held jointly). If the constitution of the account is changed for whatever reason, a new PoA should be executed.
9. authorize the Stock Broker to send consolidated summary of Client's scrip-wise buy and sell positions taken with average rates to the client by way of SMS / email on a daily basis, notwithstanding any other document to be disseminated as specified by SEBI from time to time.

### **General Guidelines**

**The POA shall not facilitate the stock broker to do the following:**

10. Transfer of securities for off market trades.
11. Transfer of funds from the bank account(s) of the Clients for trades executed by the clients through another stock broker.
12. Open a broking / trading facility with any stock broker or for opening a Beneficial Owner account with any Depository Participant.
13. Execute trades in the name of the client(s) without the client(s) consent.
14. Prohibit issue of Delivery Instruction Slips (DIS) to beneficial owner (client).
15. Prohibit client(s) from operating the account.
16. Merging of balances (dues) under various accounts to nullify debit in any other account.
17. Open an email ID/ email account on behalf of the client(s) for receiving statement of transactions, bills, contract notes etc. from stock broker / Depository Participant.
18. Renounce liability for any loss or claim that may arise due to any blocking of funds that may be erroneously instructed by the Stock Broker to the designated bank.

**Stock Broker should ensure that:**

19. A duplicate/ certified true copy of the PoA is provided to the Client(s) after execution.
20. In case of merger/ demerger of the Stock Broker with another entity/ into another entity, the scheme of merger/ demerger should be approved by High Court and one month prior intimation given to the client about the corporate restructuring to facilitate investor/ client to continue or discontinue with the broker.

### **Clarification to Guidelines for execution of Power of Attorney by Clients favouring Stock Brokers / Stock Broker**

SEBI has issued circular no CIR/MRD/DMS/28/2010 dated August 31, 2010 regarding Clarifications on Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker / Stock Broker and Depository Participant.

<b>Sr. No.</b>	<b>Clauses/ Provisions of the PoA Circular</b>	<b>Clarifications</b>
1	Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-in/pay-out of funds etc. No stock broker or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour.	Only internet based trading exempted.
2	The Stock Brokers shall take necessary steps to implement this circular latest by May 31, 2010 for the new clients and ensure to take necessary steps latest by September 01, 2010 to revoke those authorizations given by the existing clients to the stock brokers/ stock broker and depository participants through PoA that are inconsistent with the present guidelines.	Stock Broker/ DP may revoke those authorizations that are inconsistent with the present guidelines by Communicating the inconsistent clauses to the existing clients. In the event, the deleted clauses are not accepted by the client, Stock Broker/ DP may be required to either obtain fresh PoA or close the account. In case of any addition to the existing PoA, Stock Broker / DP shall be required to obtain a new PoA from clients.
3	PoA executed in favour of a Stock Broker by the client should be limited to the following: “(i) Transfer of securities held in the beneficial owner account(s) of the client(s) towards stock exchange related margin / delivery obligations arising out of trades executed by the Client(s) on the stock exchange through the same Stock Broker.”	Margin / Delivery obligations shall also include settlement obligations, if any.
4	PoA executed in favour of a Stock Broker by the client should be limited to the following: “(iii) To apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers etc. pursuant to the instructions of the Client(s). However, a proper audit trail should be maintained by the Stock Broker to prove that the necessary application/act was made /done pursuant to receipt of instruction from Client.”	Redemptions are also included in PoA pursuant to client’s instructions.
5	PoA executed in favour of a Stock Broker and Depository Participant by the client should provide the	The list of clients’ & brokers’ Bank accounts & demat accounts may be updated / amended by

Sr. No.	Clauses/ Provisions of the PoA Circular	Clarifications
	list of clients' & brokers' Bank accounts & demat accounts where funds and securities can be moved. Such bank & demat accounts should be accounts of related party only.	proper communication without executing a new PoA every time. Copies of such communications may be preserved as annexure to the PoA.
6	PoA executed in favour of a Stock Broker and Depository Participant by the client should be revocable at any time, without notice.	PoA executed in favour of a Stock Broker / Stock Broker and Depository Participant by the client should be revocable at any time. However, such revocation shall not be applicable for any outstanding settlement obligation arising out of the trades carried out prior to receiving request for revocation of PoA. Further, the PoA revocation requests should be dated and time stamped by the brokers for ensuring proper audit trail.
7	The POA shall not facilitate the stock broker to do the following: "12. Transfer of securities for off market trades"	The PoA shall not facilitate off-market trades between parties other than the related parties as mentioned in the PoA.

### **1.7 Trading Account of NRIs**

Based on representations and queries received from members, Exchange has issued frequently asked questions ([FAQs](#)) for NRI- Trading account. Clarification in respect of trading by NRI's in the form of frequently asked questions is made available in [http://www.nseindia.com/content/members/faq\\_NRI\\_TA.pdf](http://www.nseindia.com/content/members/faq_NRI_TA.pdf).

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

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

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

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

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

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

- i. more than 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.

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

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

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

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

The intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

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

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

### **D. Applicability for foreign investors:**

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

### **REGULATORY REQUIREMENTS:**

1	Account Opening Process	(SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011 along with Annexures 1 to 6; Download Ref. No: NSE/INSP/18677; Circular No. NSE/INSP/2011/121 August 22, 2011; SEBI circular CIR/MIRSD/09/2012 dated August 13, 2012; Download Ref. No.: NSE/INSP/21465; Circular Ref. No.: 142/2012 dated August 13, 2012; SEBI circular CIR/MIRSD/11/2012 dated September 05, 2012; Download Ref. No.: NSE/INSP/21622; Circular Ref. No.: 143/2012 dated September 5, 2012; SEBI circular CIR/MIRSD/01/2013 dated January 04, 2013; Download Ref. No.: NSE/INSP/22490; Circular Ref. No.: 152/2013 dated January 7, 2013; SEBI circular CIR/MIRSD/07/2013 dated September 12, 2013; Download Ref. No.: NSE/INSP/24456; Circular Ref. No.: 166/2013 dated September 13, 2013; SEBI circular CIR/MIRSD/ 09/ 2013 dated October 8, 2013; Download Ref. No.: NSE/INSP/24676; Circular Ref. No.: 167/2013 dated October 8, 2013; SEBI circular CIR/MIRSD/13/2013 dated December 26, 2013; Download Ref. No.: NSE/INSP/25392; Circular Ref. No.: 176/2013 dated December 26, 2013)
2	In-person verification (IPV)	Circular no. NSE/INSP/2008/68, download reference no. NSE/INSP/10938 dated 4th July 2008, SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011 along with Annexures 1 to 6; Download Ref. No: NSE/INSP/18677; Circular No. NSE/INSP/2011/121 August 22, 2011, SEBI Circular No MIRSD/Cir- 26 /2011dated December 23, 2011 Circular Ref. No.: 128/2011, download Ref. No.: NSE/INSP/19654 dated December 26, 2011,
3	Uploading KYC information with KYC Registration Agency(KRA)	(SEBI Circular No. MIRSD/Cir-23/2011dated December 5, 2011, Circular Ref. No.: 125/2011 download Ref. No.: NSE/INSP/19511 dated December 6, 2011, SEBI Circular No MIRSD/Cir- 26 /2011dated December 23, 2011 Circular Ref. No.: 128/2011, download Ref. No.: NSE/INSP/19654 dated December 26, 2011, download Ref. No.: NSE/INSP/20162 dated February 29, 2012,SEBI circular MIRSD/ Cir-5 /2012 dated April 13, 2012; Download Ref. No.: NSE/INSP/20547; Circular Ref No.: 134/2012 dated April 13, 2012, SEBI notification no LAD-NRO/GN/2012-13/35/6998 dated March 22, 2013; SEBI circular CIR/MIRSD/4/2013 dated March 28, 2013 Download Ref. No.: NSE/INSP/23113, Circular Ref No.: 156/2013 dated April 2, 2013)

4	Delivery of copy of duly completed Client registration forms	(SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3 <sup>rd</sup> December, 2009); (Circular No. NSE/INSP/2008/67, download reference no. NSE/INSP/10872 dated June 23, 2008)
5	Allotment of two Trading Codes	(Circular No. NSE/INSP/2007/63, Download No. NSE/INSP/2007/9859 dated 4 <sup>th</sup> December 2007)
6	Execution of Power of Attorney (POA) by clients in favor of stock broker / stock brokers	(Download Ref. No: NSE/INSP/14646, Circular No. NSE/INSP/2010/97 dated 26 <sup>th</sup> April, 2010 and SEBI circular No. CIR/MRD/DMS/13/2010, dated April 23, 2010); (Download Ref. No: NSE/INSP/15598, Circular No. NSE/INSP/2010/104 dated August 31, 2010 and SEBI circular no CIR/MRD/DMS/28/2010 dated August 31, 2010)
7	Trading Account of NRIs	Download Ref. No.: NSE/INSP/16615, Exchange Circular No.: NSE/INSP/2010/110 dated December 24, 2010)
8	Guidelines on Identification of Beneficial Ownership	(SEBI circular No. CIR/MIRSD/2/2013 dated January 24, 2013; Download Ref. No.: NSE/INSP/22614; Circular Ref. No.: 154/2013 dated January 24, 2013)

## Item 2

### CONTRACT NOTES

#### 2.1 Issue of contract notes

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



- As per Regulations, the contract notes shall be numbered with unique running serial number commencing from one which shall be reset only at the beginning of every financial year. It is hereby clarified that financial year for the purpose of resetting the serial number of contract note is April to March.
- It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in contract notes issued to the clients.

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

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

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

- a) The authorization shall be in writing and be signed by the client only and not by any authorised person on his behalf or holder of the Power of Attorney.
- b) The email id shall not be created by the broker. The client desirous of receiving ECN shall create/provide his own email id to the stock broker.
- c) The authorization shall have a clause to the effect that that any change in the email-id shall be communicated by the client through a physical letter to the broker. In respect of internet clients, the request for change of email id may be made through the secured access by way of client specific user id and password.

### **Additional Conditions:**

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

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

### **2.1 Issuing ECNs when specifically consented**

The digitally signed ECNs may be sent only to those clients who have opted to receive the contract notes in an electronic form, either in the Client registration documents or by a separate letter. The mode of confirmation shall be as per the agreement entered into with the clients.

### **2.2 Where to send ECNs**

The usual mode of delivery of ECNs to the clients shall be through e-mail. For this purpose, the client shall provide an appropriate e-mail account to the member which shall be made available at all times for such receipts of ECNs.



### 2.3 Requirement of digital signature

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

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

#### 2.4.1 Acknowledgement

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

#### 2.4.2 Proof of delivery

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

ii. The member shall clearly communicate to the client / in client registration documents executed with the client for this purpose that non-receipt of bounced mail notification by the member shall amount to delivery of the contract note at the e-mail ID of the client.

#### 2.4.3 Log Report for rejected or bounced mails

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

ii. Also, the member shall take all possible steps (including settings of mail servers, etc) to ensure receipt of notification of bounced mails by the member at all times within the stipulated time period under the extant regulations of SEBI/stock exchanges.

### 2.5 When to issue or send in Physical mode

#### 2.5.1 Issue in Physical mode

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

#### 2.5.2 Send in Physical mode

Wherever the ECNs have not been delivered to the client or has been rejected (bouncing of mails) by the e-mail ID of the client, the member shall send a physical contract note to the client within the stipulated time under the extant regulations of SEBI/stock exchanges and maintain the proof of delivery of such physical contract notes.

### 2.6 General requirements

#### 2.6.1 ECNs through website

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

#### 2.6.2 Access to the website

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

#### 2.6.3 Preservation/Archive of electronic documents

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

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

The currently applicable formats of the contract note for the CM, F&O, CD and Debt segments (including negotiated trades in Debt segment) are attached as **(Exhibit-2:Annexure C)**

Further, based on the feedback received from the market participants the date of implementation of the Common contract note is extended till June 2, 2014.

#### **(a) Clarifications on certain matters related to capital market segment**

Following are the clarifications in respect of the revised format of the contract note (*CM Segment*)

1. In case of order modification, order time to be printed on the contract note shall be (i) the original order placement time for the trades executed, before such order is modified and (ii) the order modification time for the trades executed, arising out of such modified order.
2. The columns for Securities Transaction Tax (STT) and Service Tax (ST) are optional. However, trading members shall continue to give total STT amount on the contract note and statement of STT as per annexure prescribed vide the Exchange's circular no. NSE/CMO/0135/ 2004 (download reference no. NSE/CMTR/5459) dated 24<sup>th</sup> September 2004. Service Tax, other statutory and regulatory levies, if required, may be given under the head "Other levies, if any". Brokerage shall be given for every trade.
3. Trading members may merge the common columns on buy and sell sides, but each trade shall clearly be identified as 'buy' or 'sell'. Accordingly, after merging, the columns may be printed sequentially as follows: (i) Order No. (ii) Order Time (iii) Trade No. (iv) Trade Time (v) Security (vi) Buy / Sell (vii) Quantity (viii) Gross Rate per Security (ix) Total (x) Brokerage - Total (xi) Service Tax (Optional) (xii) Securities Transaction Tax (Optional).
4. The actual traded price per security shall be given under the column 'Gross Rate per Security'.
5. Trading members, apart from ensuring that all the prescribed details are provided in the contract note, may add any other information relevant to the trades in the contract note like brokerage per security, net amount due to / from client, etc.
6. The revised format is not applicable for those cases which are covered under Straight Through Processing (STP) and in such cases the earlier format will continue to apply.
7. **Limitation period** – The limitation period for filing an arbitration application shall be governed by the law of limitation i.e. The Limitation Act, 1963

#### **(b) Clarifications on certain matters related to F&O Segment**

Following are the clarifications in respect of the revised format of the contract note (*F&O Segment*)

1. In case of order modification, order time to be printed on the contract note shall be (i) the original order placement time for the trades executed, before such order is modified and

- (ii) the order modification time for the trades executed, arising out of such modified order.
2. The columns for Securities Transaction Tax (STT) and Service Tax (ST) are optional. However, trading members shall continue to give total STT amount on the contract note and statement of STT as per annexure prescribed vide the Exchange's circular no. NSE/F&O/0062/2004 (download reference no. NSE/FAOP/5458) dated 24<sup>th</sup> September 2004. Service Tax, other statutory and regulatory levies, if required, may be given under the head "Other levies, if any". Brokerage shall be given for every trade.
  3. Trading members may merge the common columns on buy and sell sides, but each trade shall clearly be identified as 'buy' or 'sell'. Accordingly, after merging, the columns may be printed sequentially as follows: (i) Order No. (ii) Order Time (iii) Trade No. (iv) Trade Time (v) Security (Contract Description) (vi) Buy / Sell (vii) Quantity (viii) Gross Rate per Security (ix) Total (x) Brokerage - Total (xi) Service Tax (Optional) (xii) Securities Transaction Tax (Optional).
  4. The actual traded price per security shall be given under the column 'Gross Rate per Security'. In case of Options Contract, it shall be the premium per security.
  5. 'Contract Description' shall have the details viz. instrument type, underlying (symbol), expiry date, strike price and option type in case of Options Contract and in case of Futures Contract, instrument name underlying (symbol) and expiry date in the manner as provided by the Exchange.  
e.g. (i) Contract description for a typical futures contract -  
FUTIDX NIFTY 30MAR06  
(ii) Contract description for a typical options contract -  
OPTSTK HINDLEVER 30MAR06 250 CA
  6. The words "Settlement no." and "Settlement date" need not be printed on the contract note for the F&O segment.
  7. Trading members, apart from ensuring that all the prescribed details are provided in the contract note, may add any other information relevant to the trades in the contract note like net amount due to / from client, etc.
  8. **Limitation period** – The limitation period for filing an arbitration application shall be governed by the law of limitation i.e. The Limitation Act, 1963

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

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

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

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

SEBI vide circular no. SEBI/DNPD/143542 /Cir-43/08 dated 6th November 2008, has extended the facility of issuance of ECNs as a legal document using STP to the equity derivatives segment and has provided a model contract note in electronic form (IFN 515 messaging format) and confirmation of electronic contract note (IFN 598 messaging format).

## **2.6 Brokerage**

### **In CM Segment**

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

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

### **On future contracts**

As per Regulation 3.7.2 of the Regulations (F&O segment) of the Exchange and Circular no. NSE/FOTRD/001 (download ref no. 1688) dated 08-Jun-2000 and Currency Derivative Circular dated 26-Aug-2008, NSE/INSP/11184 the maximum brokerage chargeable by a trading member in relation to trades executed on the Exchange shall be 2.5% of the contract value exclusive of statutory levies.

### **On option contracts**

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

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.

## **REGULATORY REQUIREMENTS:**

1	Issue of contract notes	(SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8 <sup>th</sup> November 2010 and Circular No: NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date: 17 <sup>th</sup> October, 2002); (SEBI circular No. CIR/MRD/DSA/24/2010 dated August 11, 2010 and exchange circular No. Circular No.: NSEIL/ARBN/2010/003, Download No. NSE/ARBN/2010/15609 dated August 31, 2010)
2	Electronic issuance of contract notes	(SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3 <sup>rd</sup> December, 2009)
3	Format of Contract Notes	(CM segment - Circular no. NSE/INSP/2006/50, DOWNLOAD REF.NO: NSE/INSP/7647, Dated: 3 <sup>rd</sup> July 2006 F&O segment - Circular no. NSE/INSP/2006/51, Download Ref. No: NSE/INSP/7648, Dated: 3 <sup>rd</sup> July 2006; Circular no. NSE/INSP/2008/69, DOWNLOAD REF.NO: NSE/INSP/11143, Dated: 19 <sup>th</sup> August 2008; Download Ref. No.: NSE/INSP/23739; Circular

		Ref. No.: 162/2013 dated June 24, 2013; Download Ref. No.: NSE/INSP/24937; Circular Ref. No.: 171/2013 dated November 8, 2013; Download Ref. No.: NSE/INSP/25030, Circular Ref. No.: 173/2013 dated November 18, 2013; Download Ref. No.: NSE/INSP/26233, Circular Ref. No.: 179/2014 dated March 20, 2014)
4	Statement of Securities Transaction Tax (STT)	(Circular no.NSE/INSP/2006/55, Download Ref. No.: NSE/INSP/8108 Dated: 16 <sup>th</sup> November 2006)
5	Issuance of Contract Notes through STP in the Equity Derivatives Segment	(SEBI circular no. SEBI/DNPD/143542 /Cir-43/08 dated 6th November 2008; Circular No. NSE/INSP/2008/75, download reference no. NSE/INSP/11611 dated November 7, 2008)
6	Brokerage	(Circular No: NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date : 17 <sup>th</sup> October, 2002; Circular no. NSE/INSP/2006/56, download reference no. NSE/INSP/8338 dated 5 <sup>th</sup> January 2007; Download Ref. No.: NSE/INSP/23739; Circular Ref. No.: 162/2013 dated June 24, 2013)

### Item 3

## MARGIN COLLECTION FROM CLIENTS

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

#### **1. Margins adequately collected from clients (Compliance):**

The scenarios under which margin collected are adequate have been detailed out below:

1. Unencumbered funds / securities in the account of the client for which the client has given POA in favor of the member client allowing the member to transfer the same for the purpose of margin, provided
  - i. Trading member or its associate company is a Depository Participant POA for considering securities towards margins is in favor of trading member
  - ii. Funds available in the bank account of client and actually moved to client bank account maintained by the member by T+1 day, using POA issued by the client in favor of the member.
2. Bank guarantees and fixed deposits received towards margin, issued by approved banks and discharged in favor of the member.
3. Units of mutual funds in dematerialized form, whose NAVs are available and which could be liquidated readily with appropriate hair cut as the case may be Government securities and Treasury bills in electronic form with appropriate hair cut as the case may be. Any other such collaterals, as may be specified by Clearing Corporation from time to time
4. Free and unencumbered Balances (funds and securities) available with the member of respective client in different segments of the Exchange
5. Free and unencumbered Balances (funds and securities) available with the member of respective client in different segments of any Stock Exchange subject to certification by independent Chartered Accountant with specific authorization from the client
6. Cheques received / recorded in the books of trading member on or before T day and deposited by member by T+1 day (excluding bank holiday, if any) and cleared subsequently



7. Securities given as margin which are sold in the capital market and the securities are in the pool account of the trading member but are not given as early pay in towards an obligation to deliver shares in the Capital Market Segment, benefit of margin be given to the client till T+1 day from the sale of securities
8. In case of clearing member, the amount of deposit of trading member with NSCCL on which NSCCL gives benefit to the clearing member
9. Value of securities (with appropriate haircut) in dematerialized form traded on the National Exchanges, which are specifically not declared as illiquid securities
10. Margin collected/available in approved form from entities related to the client as mentioned below and certified by independent professionals including Chartered Accountant with specific authorization/consent
- In case of individuals having relationship as spouse, dependent children and parents with clients
  - In case of HUF, any of the Co-parceners
  - In case of a Trust, any of the trustees or beneficiaries
  - In case of Partnership firm, the partners, their spouse, dependent children and parents
  - In case of Corporates, the promoters having controlling shareholdings, their spouse, dependent children and parents
11. As regards accounting entry for MTM in its books, the member may choose to give the effect on T day or T+1 day, subject to the member following the practice consistently for a minimum period of 1 year and the practice not being changed in the intermediate period.

It is further clarified that:

- In case a cheque is received from a client and the same is recorded in the books on or before T day and deposited by T+1 day, Member shall report the margin collected from such client after considering the effect of such cheque, if the same is cleared within T+5 days.
- Members should ensure that only cheques which are cleared should be considered and cheques dishonored or not cleared up to T+5 working days should not be reported as margin collected. If subsequent to the margin reporting by the Member, the cheque deposited by the Member is dishonored or not cleared within T+5 working days, then revised margin file shall be uploaded after factoring into the effect of such dishonored or non-cleared cheques ,with incremental batch number within the above mentioned five days.

## **2. False reporting of Margins (Non-compliance):**

Margin amount reported to the NSCCL/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/NSCCL.



### **3. Penalty structure in case of margin reporting:**

In case, false reporting of margins is observed, the following action as stipulated in SEBI Circular no. no. CIR/DNPD/7/2011 dated August 10, 2011 shall be initiated against the member

False reporting of Margins (Non-compliance)	100% of falsely reported amount + suspension of trading for 1 day in respective segment
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### **4. Penalty in case of short reporting of margin to be passed on to the clients:**

Where ever the penalty levied by the Clearing Corporation on the member for short reporting of client margin is attributable to failure on the part of the client to pay margins as required, member may pass on the actual penalty to the client, provided he has evidences to demonstrate that the client has not made payment of the margins as required. Wherever penalty for short reporting of margin is being passed on to the client, relevant supporting documents for the same should be provided to the client.

### **3.2 Daily Margin Statement**

A format of daily margin statement across all the segments which stipulates minimum information to be provided to clients is enclosed as **Exhibit 3; Annexure C**.

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

In continuation of earlier circulars and in order 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 17<sup>th</sup> 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 / clearing house 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 utilised 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 case of complaints against brokers related to misuse of collateral deposited by clients, exchanges should look into the allegations, conduct inspection of broker if required and based on its findings take necessary action.

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

### **3.4 FAQs on Margin Collection and Reporting**

Based on queries received from Members with respect to Client Margin collection and reporting, Exchange has issued clarifications in the form of frequently asked questions (FAQs) for Margin Collection and Reporting. The same is also made available at: [http://www.nseindia.com/content/members/faq\\_mrg\\_rep.pdf](http://www.nseindia.com/content/members/faq_mrg_rep.pdf)

### **REGULATORY REQUIREMENTS:**

1	Clarification regarding margin collection and reporting by members	(Circular Ref.No.: 126/2011, download Ref.No.: NSE/INSP/19583 dated December 14, 2011; Download Ref. No.: NSE/INSP/24805; Circular Ref No.: 168/2013 dated October 23, 2013)
2	Daily Margin Statement (Format)	(Circular Ref.No.: 126/2011, download Ref.No.: NSE/INSP/19583 dated December 14, 2011)
3	Collateral deposited by clients with members	(Circular no. NSE/INSP/2008/66, download reference no. NSE/INSP/10605 dated 21st April 2008)
4	FAQs on Margin Collection and Reporting	(Download Ref. No.: NSE/INSP/25612; Circular Ref No.: 177/2014 dated January 20, 2014)

## **Item 4**

### **DEALINGS WITH CLIENTS**

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

It is reiterated that brokers and sub-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients.

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

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

Trading Members are advised to take note of the above and also to bring this to the notice of their registered sub-brokers and clients, and to ensure strict adherence to the same.

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

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

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

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

- a. If the aggregate value of pre-funded instruments is ` 50,000/- or more, per day per client, the stock brokers may accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:
  - i. Certificate from the issuing bank on its letterhead or on a 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.
- b. Maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only.

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

The Exchange has received letters from National Securities Depository Ltd. (NSDL) and Central Depository Services Ltd. (CDSL) stating that they have made provision for tagging / flagging of the demat accounts of trading members / clearing members, generally referred to as 'client margin account' or 'client beneficiary account', in order to differentiate them from the regular own beneficiary accounts. For details, trading members / clearing members may refer to circular no. CDSL/OPS/DP/899 dated 16<sup>th</sup> May 2007 of CDSL and circular no. NSDL/POLICY/2007/0029 dated 15<sup>th</sup> June 2007 of NSDL from their respective web-sites and advise their depository participants accordingly.

#### **4.4 Running Account Authorization and Actual settlement for funds & securities on monthly / quarterly basis**

The settlement of funds / securities shall be done within 24 hours (1 working day) of the payout, unless specifically authorized by client to maintain running account subject to the following conditions:

- ❖ The authorisation shall be dated and shall contain a clause that the clients may revoke the authorisation at any time. The stock brokers, while sending periodical statement of accounts to the clients, shall mention therein that their running account authorisation would continue until it is revoked by the clients.
- ❖ Authorization shall be signed by the client only & not by any POA holder
- ❖ Actual settlement of funds and securities shall be done by the TM, at least once in a calendar quarter or month depending on preference of the client.

The trading member shall note the following points for the purpose of actual settlement of funds and securities on monthly / quarterly basis;

- While settling the account, the broker shall send to the client a ‘statement of accounts’ containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.
- The client shall bring to notice any dispute within 7 working days from the date of receipt of funds / securities or statement
- No inter-client adjustment for the purpose of settlement of the “running account”.
- For the purpose of quarterly/monthly settlement trading member may settle across segments and across Stock Exchanges for a particular client.
- Transfer funds / securities within 1 working day from the request if the same are lying with TM.
- In case the funds / securities are lying with Clearing Member/ Corporation, transfer the same within 3 working days from the request.
- Such periodic settlement may not be necessary:
  - a. In case of institutional clients settling trades through “custodians”
  - b. For clients availing margin trading facility
  - c. For margin received in the form of BGs and FDRs
- While settling the account the stock broker may retain the requisite securities/funds towards such obligations and may also retain the funds expected to be required to meet margin obligations for next 5 trading days, calculated in the manner specified by the exchanges.
  - In respect of derivative market transactions, apart from margin liability as on the date of settlement, additional margins (maximum up-to 125% of margin requirement on the day of settlement) to take care of any margin obligation arising in next 5 days may be retained.
  - In respect of capital market transactions, entire pay-in obligation of funds & securities due from clients as on date of settlement may be retained. Further, in the capital market segment, for next day’s business, member may retain funds/securities/margin to the extent of value of transactions executed on the day of such settlement in the capital market only.

- In case of settling the accounts of regular trading clients (active clients), the Member may retain an amount of up to Rs 10,000/- (net amount across segment and across stock exchanges), only after taking written consent of the client.
- The above threshold limit on retention of amount shall not be applicable in case of clients who have not traded even once during the last one month/quarter, as the case may be; i.e settlement shall be done as per the aforesaid SEBI circular, in such cases.

#### **4.5 FAQs on Actual Settlement of Funds and Securities**

Based on representations and queries received from members, Exchange has issued frequently asked questions (FAQs) on Actual Settlement of Funds and Securities. Clarification in respect of Actual Settlement of Funds and Securities in the form of frequently asked questions is made available in [http://www.nseindia.com/content/members/faq\\_ACT\\_SETT.pdf](http://www.nseindia.com/content/members/faq_ACT_SETT.pdf).

#### **4.6 Statement of Accounts**

##### **In respect of Capital Market Segment**

NSE Capital Market Trading Regulations have been amended by inserting the following new clause as clause (d) to Regulation 6.1.5 of Chapter 6:

Every Trading Member shall send a complete 'Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity not exceeding three months within a month of the expiry of the said period, The Statement shall also state that the client shall report errors, if any, in the Statement within 30 days of receipt thereof to the Trading Member.

##### **In respect of F&O Segment**

NSE (Futures & Options) Trading Regulations of the Exchange are amended to include the following as Regulation 6.1.6.1 clause (c) in Chapter 6 of NSE (Futures & Options) Trading Regulations:-

“Every Trading Member shall send a complete 'Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity not exceeding three months (Calendar quarter) within a month of the expiry of the said period. The Statement shall also state that the client shall report errors, if any, in the Statement within 30 days of receipt thereof to the Trading Member.”

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

- (i) In respect of Trading Members who offer trading facility to their clients through internet and provide to such clients an access to an on-line account viewing and print-out facility, it would be treated as sufficient compliance of Regulation 6.1.5 (d) of Part A Chapter 6 of Capital Market Regulations of the Exchange, if they send the 'Statement of Accounts' by email to such clients.

(ii) It would be treated as sufficient compliance of the said Regulation if Trading Members take periodic written confirmation at such periodicities not exceeding three months, from their clients to the effect that no securities and / or funds are due from the Trading Member to the client.

(iii) In respect of institutional clients, the requirement of the said Regulation is applicable if the Trading Members receive funds / securities from their institutional clients and / or pay funds / deliver securities to such institutional clients directly and not through custodians.

(iv) Statement of Accounts at the time of Settlement:-

Further, trading member is required to send statement of accounts for funds & securities monthly/quarterly as applicable, at the time of settlement. This is an adequate compliance for the purpose of sending quarterly statement of accounts for funds/securities.

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

(v) The stock brokers, while sending periodical statement of accounts to the clients, shall mention therein that their running account authorisation would continue until it is revoked by the clients.

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

#### **4.7 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 authorisation 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 into 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 recognise or act in accordance with any such agreement or arrangement entered into 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 authorisation 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 into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.

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

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

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

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

For the purpose of reckoning debit balance stated above, the debit balance in the client ledger consolidated across segments (not across Exchanges) after giving effect to the release of margin to be considered.

Further, if subsequently any complaint is received regarding selling of collaterals for recovery of debit balance, as per the Regulation 3.11 of Part A of the Capital Market Regulations of the Exchange quoted above, the securities shall be deemed to have been closed out at the closing price declared by the Exchange for fifth trading day reckoned from the date of pay-in.

##### **2. Collaterals as Margin**

In Equity Derivative Segment and Currency Derivative Segments Members are allowed to accept approved securities from clients for margin purposes. However, Members can lodge their own securities only to the Clearing Corporation and not the clients' securities. Where Member has accepted securities with appropriate hair cut for margin purpose, but has to deploy his funds for meeting margin requirements of the client at the Exchange, Members may levy interest or delayed payment charge on debit balance as per the terms consented by the client.

#### **4.9 Pre-paid Schemes**

Based on inspection of brokers and complaints received from clients/investors, it has been observed that some of the brokers are not properly documenting and disclosing to their clients

details of schemes where funds are being collected in advance from them towards brokerage and other allied services. This leads to disputes, complaints and litigation later on.

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

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

### **REGULATORY REQUIREMENTS;**

1	Mode of payment and delivery	(Circular No. NSE/INSP/2003/21, download Ref. No: NSE/INSP/4377 Dated: 1st September 2003)
2	Receipt of funds in the form of Pre-funded instruments / Electronic fund transfers	(SEBI circular CIR/MIRSD/03/2011 dated June 9, 2011; Download Ref. No: NSE/INSP/18024, Circular No. NSE/INSP/2011/118 June 09, 2011)
3	Tagging of demat accounts of trading / clearing members	(Circular no. NSE/INSP/2007/58, Download reference no. : NSE/INSP/9090 Dated: 28 <sup>th</sup> June 2007)
4	Running Account Authorization and Actual settlement for funds & securities on monthly / quarterly basis	(SEBI circular SEBI/MIRSD/Cir/01/2011 dated May 13, 2011; Circular No. NSE/INSP/2011/117 download Ref. No: NSE/INSP/17781 May 13, 2011; SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3 <sup>rd</sup> December, 2009, Download Ref. No: NSE/INSP/14048, Circular No. NSE/INSP/2010/91 dated 3 <sup>rd</sup> February, 2010 and Download Ref. No: NSE/INSP/15008, Exchange Circular No. NSE/INSP/2010/101 June 17, 2010; Download Ref. No.: NSE/INSP/21651; Circular Ref No.: 144/ 2012 dated September 07, 2012; Download Ref. No.: NSE/INSP/24849; Circular Ref No.: 169/2013 dated October 29, 2013)
5	FAQs on Actual Settlement of Funds and Securities	(Download Ref. No.: NSE/INSP/21651; Circular Ref No.: 144/ 2012 dated September 07, 2012)
6	Statement of Accounts (CM and F&O Segment)	(Circular no. NSEIL/LEGAL/3401, download reference no. NSE/LEGL/3401 dated May 22, 2002; Circular no. NSEIL/LEGAL/7410, download reference no. NSE/LEGL/7410 dated April 21, 2006; SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8th November 2010; SEBI circular SEBI/MIRSD/Cir/01/2011 dated May 13, 2011; Circular No. NSE/INSP/2011/117 download Ref. No: NSE/INSP/17781 May 13, 2011)
	Clarifications on Statement of Accounts	(Circular no. NSEIL/INSP/12, download reference no. NSE/INSP/3525 dated 29 <sup>th</sup> July 2002); (Download Ref. No: NSE/INSP/13606, Circular No. NSE/INSP/2009/85 dated December 03, 2009 and Download Ref. No: NSE/INSP/14048, Circular No. NSE/INSP/2010/91 dated February 03, 2010)
7	Financing of securities transactions and transfer of securities & funds	(Circular no. NSE/INSP/2005/42, Download reference no. NSE/INSP/6938 Dated 9 <sup>th</sup> December 2005)
8	Clarifications on funding in connection with / incidental to /consequential upon the securities business	(Download Ref. No.: NSE/INSP/20638; Circular Ref No.: 136/ 2012 dated April 26, 2012.)
9	Pre-paid Schemes	(Download Ref. No.: NSE/INSP/ NSE/INSP/26252; Circular Ref No.: 180/2014 dated March 24, 2014)

**Item 5**

**DEALINGS WITH INTERMEDIARIES**

**5.1 Dealings by branches, intermediaries, authorised persons etc**

Over the last few years, Trading Members have been significantly expanding their trading network. Many of these extended trading 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. The due diligence to be undertaken by the Trading Members may include,

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

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

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

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

Trading members were, inter alia, informed vide circular no. 163 ( Download reference no NSE/MEM/1591 ) dated 20/04/2000 that trading terminals shall be located only in the main / branch offices of the trading member or in the office of a registered sub-broker of the trading member for the operations of the trading member. It was also clarified vide circular no 282 (Download reference no NSE/MEM/3574) dated 29/08/2002 that CTCL terminals need to be located only in the office of the Trading Member or in the office of a registered sub-broker.

In spite of the above mentioned circulars, it appears that some trading members are allotting terminals to unregistered sub-brokers and other unauthorised persons, either directly or through CTCL arrangement, in gross violation of the requirement of these circulars.

Attention of the trading members is once again drawn to the above mentioned circulars and the trading members are advised to strictly comply with the requirements in this regard. Any violation thereof will be viewed seriously and strict action will be initiated.

### **5.3 Use of terminals, placing of notice boards**

In partial modification of Circular No.NSE/MEM/1591 (download reference 163) dated April 20, 2000 pertaining to use of terminals, placing of notice board etc., clause number 7 of the said circular is being replaced with the following clause with immediate effect:

Trading Members shall display, in all their offices / offices of their registered sub brokers where trading terminals are located, notice boards/plates at prominently visible locations, painted / printed in a permanent manner, in a font and colour which enables easy reading of the subject matter and containing details as prescribed in Annexure 1 or 2 of the circular as applicable.

### **5.4 Inspection of Sub Brokers / branches**

As per circular no 60 (Download Reference no NSE/MEM/275) dated 12/06/1997, it shall be the primary responsibility of the affiliated stock broker / Trading Member to inspect the registered sub-brokers. It is hereby clarified that every Trading Member is required to inspect every year at least 10% of its active sub-brokers and 10% of its active branches and also to ensure that each active sub-broker / branch is inspected at least once in every five years. For this purpose, an active sub-broker / branch means one whose turnover is above 1/10th of the turnover of the Trading Member during the previous financial year (viz. April to March).

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

- I. SEBI vide its notification no. LAD-NRO/GN/2010-11/12/10230 published in the Gazette of India on June 29<sup>th</sup>, 2010 regarding the above subject matter notified that the members are required to comply with the requirements of the notification.

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

**Provided that** the stock-broker/trading member/clearing member shall ensure that all its existing approved users and sales personnel associated with it and carrying on any activity specified above as on the date of this notification obtain valid certification within two years from the said date of notification.

**Provided further that** a stock-broker/trading member/clearing member who employs any approved users and sales personnel as specified above after the date of this notification shall ensure that the said approved users and sales personnel obtain valid certification within one year from the date of their employment.

Further, SEBI vide its notification no. LAD-NRO/GN/2013-14/41/118 published in the Gazette of India on January 20, 2014 extended the period for obtaining NISM- Series-IV: IRD Certification by such approved users and sales personnel, of the trading members who are registered in the currency derivatives segment of a recognized stock exchange and trading in interest rate derivatives, for a period of two years from the date of the notification. 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.

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

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

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



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

**Provided that** the stock-broker/trading member/clearing member shall ensure that all persons associated with it and carrying on any activity specified above as on the date of this notification obtain valid certification within two years from the said date of notification.

**Provided further that** a stock-broker/trading member/clearing member who employs any associated persons as specified above after the date of this notification shall ensure that the said associated persons obtain valid certification within one year from the date of their employment.

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

Accordingly, it is notified that with effect from the date of this notification the associated persons functioning as approved users and sales personnel of the trading members of an equity derivative exchange or equity derivative segment of a

recognized stock exchange shall obtain certification for the purpose of sub-regulation (2) of regulation 16C of the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 from the National Institute of Securities Market (hereafter referred to as “NISM”) by passing the NISM- Series-VIII: Equity Derivative Certification Examination (hereafter referred to as “EDCE”) as mentioned in the NISM communiqué No. NISM/Certification/Series – VIII:ED/2012/01 dated September 20, 2012.

The trading members shall ensure that all such associated persons obtain certification by passing EDCE within two years from the date of this notification.

Trading member, who engages or employs any such associated person 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:

Associated person, who is an 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.

IV. SEBI vide its notification no. LAD-NRO/GN/2012-13/33/1103 published in the Gazette of India on March 11, 2013 notified about requisite certifications for compliance officers.

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

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.

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

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

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

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

The Exchange has already undertaken a public awareness campaign to educate the investors in this regard. The trading members are advised to bring the contents of the circular to the notice of all their branches, sub-brokers, authorised persons, etc also and ensure that these extended arms of trading members do not indulge in such activities. The trading members are further requested to display a copy of the advertisement (copy enclosed as Exhibit-4) issued in this regard at their offices, branches and offices of their sub-brokers for additional publicity.

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

### **5.7 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 rumours. It is a well established fact that market rumours can do considerable damage to the normal functioning and behaviour of the market and distort the price discovery mechanisms.

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

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

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

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

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

#### **Principles for Outsourcing**

The risks associated with outsourcing may be operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk, counter party risk, concentration and systemic risk. In order to address the concerns arising from the outsourcing of activities by intermediaries,

the principles for outsourcing by intermediaries have been framed which shall be followed by all intermediaries registered with SEBI.

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

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

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

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

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

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

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

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

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

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

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

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

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

3.3 The facilities / premises / data that are involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the registered intermediary. The intermediary itself and Regulator or the

persons authorized by it shall have the right to access the same at any point of time.

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

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

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

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

- a. third party's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
- b. compatibility of the practices and systems of the third party with the intermediary's requirements and objectives;
- c. market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
- d. level of concentration of the outsourced arrangements with a single third party; and
- e. the environment of the foreign country where the third party is located.

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

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

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

- a. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
- b. provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties;
- c. provides for the liability of the third party to the intermediary for unsatisfactory performance/other breach of the contract
- d. provides for the continuous monitoring and assessment by the intermediary of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the intermediary to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
- e. includes, where necessary, conditions of sub-contracting by the third-party, i.e. the contract shall enable intermediary to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing;
- f. has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract;
- g. specifies the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- h. provides for preservation of the documents and data by third party ;
- i. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- j. provides for termination of the contract, termination rights, transfer of information and exit strategies;
- k. addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when intermediary outsources its activities to foreign third party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;
- l. neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- m. provides for the intermediary and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.

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

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



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

6.3 To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the intermediary to 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 party maintains appropriate IT security and robust disaster recovery capabilities.

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

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

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

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

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

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

### **Activities that shall not be Outsourced**

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

### **Other Obligations**

i. **Reporting To Financial Intelligence Unit (FIU)** - The intermediaries shall be responsible for reporting of any suspicious transactions / reports to FIU or any other competent authority in respect of activities carried out by the third parties.

ii. **Need for Self-Assessment of existing Outsourcing Arrangements** – In view of the changing business activities and complexities of various financial products, intermediaries shall conduct a self-assessment of their existing outsourcing arrangements within a time bound plan, not later than six months from the date of issuance of this circular and bring them in line with the requirements of the guidelines/principles.

**REGULATORY REQUIREMENTS;**

1	Dealings by branches, intermediaries, authorised persons etc	(Circular No.NSE/INSP/2005/39, Download No. NSE/INSP/6334 Dated 6 <sup>th</sup> July, 2005)
2	Guidelines for location of CTCL terminals and usage thereof	(Circular No. NSE/INSP/ 3800, download reference no. NSE/ INSP/ 2002/16 dated 13th December 2002)
3	Use of terminals, placing of notice boards	(Circular No. NSE/I&ID/2001/3, DOWNLOAD REF.NO: NSE/I&ID/2893 Dated: September 28, 2001)
4	Inspection of Sub Brokers / branches	(Circular No: NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date: 17 <sup>th</sup> October, 2002)
5	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 29th, 2010, SEBI notification no. LAD- NRO/GN/2010-11/21/29390 dated December 10, 2010, Exchange Circular No: NSE/INSP/2010/109, Exchange Download No: NSE/INSP/16536; Download Ref. No.: NSE/INSP/22096; Circular Ref. No.: 148/2012 dated November 8, 2012; SEBI notification no. LAD-NRO/GN/2012-13/30/5474 dated January 11, 2013; Download Ref. No.: NSE/INSP/22613; Circular Ref. No.: 153/2013 dated January 24, 2013; SEBI notification no. LAD-NRO/GN/202-13/33/1103 dated March 11, 2013; Download Ref. No.: NSE/INSP/22924; Circular Ref. No.: 155/2013 dated March 12, 2013; SEBI notification no. LAD-NRO/GN/2013-14/41/118 dated January 20, 2014; Download Ref. No.: NSE/INSP/25617; Circular Ref. No.: 178/2014 dated January 21, 2014)
6	Transactions outside the trading system of the Exchange	(Circular no. NSE/INSP/2003/18, download reference no. NSE/ INSP/4225 dated 26th June 2003)
7	Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication	(SEBI circular Cir/ISD/1/2011 dated March 23, 2011; Circular No. NSE/INSP/ 2010/113 Download Ref. No: NSE/INSP/ 17326 dated March 23, 2011 and SEBI Addendum circular no. Cir/ISD/2/2011 dated Mach 24, 2011; Download Ref. No: NSE/INSP/ 17338; Circular No. NSE/INSP/2011/114 dated March 24, 2011)
8	Guidelines on Outsourcing of Activities by Intermediaries	(SEBI Circular No. CIR/MIRSD/24/2011 dated December 15, 2011; Download Ref.No.: NSE/INSP/19603; Circular Ref.No.: 127/2011 dated December 15, 2011)

**Item 6**
**BOOKS OF ACCOUNTS AND OTHER DOCUMENTS**
**6.1 Maintenance of books of accounts and other documents / Preservation of records**

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

Further, as per regulation 18 of SEBI (Stock Brokers & Sub-brokers) Regulations, 1992 (hereinafter referred to as Stock Broker Regulations), every stock broker shall preserve the specified books of account and other records for a minimum period of five years. In case such documents are maintained in electronic form, provisions of Information Technology Act, 2000 in this regard shall be complied with.

It has been noticed that enforcement agencies like CBI, Police, Crime Branch etc. have been collecting copies of the various records/documents during the course of their investigation. The originals of such documents maintained either in physical or in electronic form or in both would

be required by such enforcement agencies during trial of the case also. In view of the above, it is clarified that if a copy is taken by such enforcement agency either from physical or electronic record then the respective original is to be maintained till the trial or investigation proceedings have concluded.

## **6.2 Maintenance of clientwise, scripwise Register of Securities**

Trading Members in CM and F & O segments are required to maintain a documents register (Register of Securities) including full particulars of shares and securities received and delivered, for a period of five years.

In this regard, the Regulation 6.1.3 (k) of NSE (Capital Market) Trading Regulations which prescribes the details to be included in the Register of Securities is reproduced below for quick reference.

“Every Trading Member shall maintain a Register or ledger account of Securities, clientwise and securitywise, giving inter alia, the following details viz. date of receipt of the security, quantity received, party from whom received, purpose of receipt, date of delivery of the security, quantity delivered, party to whom delivered and purpose of delivery”.

## **6.3 Format of Register of Securities**

To facilitate the Trading Members to maintain the register in proper format, a standard format containing the above details has been devised which is given below.

### **Register of Securities**

**Client** : .....

**Security** : .....

Date of receipt/ delivery	From whom received / to whom delivered	Purpose	Quantity received	Quantity delivered	Balance quantity	Remarks

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

## **REGULATORY REQUIREMENTS:**

1	Maintenance of books of accounts and other documents / Preservation of records	Circular No.:NSE/INSP/2005/43, Download Ref. No.: NSE/INSP/6991, Dated: 26th December 2005 and SEBI circular MRD/Dop/SE/CIR-21/2009 dated December 09, 2009, Exchange Download Ref. No: NSE/INSP/13701, Exchange Circular No. NSE/INSP/2009/87 dated 16th December 2009)
2	Maintenance of clientwise, scripwise Register of Securities	(Circular No. NSE/INSP/2004/28, DOWNLOAD REF.NO: NSE/INSP/4986 Dated: 16 <sup>th</sup> April 2004)
3	Format of Register of Securities	(Circular No. NSE/INSP/2004/28, DOWNLOAD REF.NO: NSE/INSP/4986 Dated: 16 <sup>th</sup> April 2004)

## 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 / NSCCL is made available at [http://www.nseindia.com/content/members/mem\\_compliance.htm](http://www.nseindia.com/content/members/mem_compliance.htm).

#### 7.2 Internal Audit of trading members / clearing members and submission of Internal Audit Report

All trading members / clearing members who have executed / cleared at least one trade during the previous audit period are required to carry out complete internal audit on a half yearly basis by independent qualified Chartered Accountants or Company Secretaries or Cost and Management Accountants who don't have any conflict of interest.

The Internal auditor would submit the audit report to the Proprietor / Partners / Board of respective trading/clearing member who would place the report before its proprietor / partners / Board of Directors and shall forward the same along with para-wise comments to respective stock exchange within 3 months of the end of half year period. The audit report may be combined across segments and activity (trading/clearing) for respective Exchange.

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.

Non-submission of internal audit report as per the guidelines in force shall be treated as non-compliance and appropriate action may be initiated against the concerned members. Where, in the opinion of the Exchange, the quality of the reporting is not satisfactory or the audit is not carried out in accordance with the aforesaid guidelines, the Exchange also reserves the right to advise the concerned members to change the auditors and / or submit revised reports.

#### Additional Areas added:

The additional areas as intimated vide our circular dated October 13, 2010 includes Execution of Power of Attorney (POA) , Provisions relating to December 3, 2009 SEBI circular, verification of provisions related to Prevention of Money Laundering Act, Investor Grievance handling mechanism, status of compliances of last internal audit/Inspection Reports etc.

*(Download ref.no: nse/insp/14644, circular no. nse/insp/2010/96 dated April 23, 2010)*

Based on scrutiny of earlier reports, specific attention of the Members is drawn to the following point's :( circular no. 14644 dated April 23, 2010)

1. Minimum sample size should be adhered to and mentioned in the audit report.
2. The Audit Report must contain Management comments.

3. The Audit Reports should come through Members of the Exchange only.
4. The Audit Report should contain observations pertaining to the respective Exchange to which the report is submitted.

Format of Internal Audit certificate, revised format of Internal Audit Report, revised sample size & points to be noted and detailed manual for submission of Audit Report is provided in **(Exhibit-5: Annexure C)**.

### **Submission of Internal Audit Report through ENIT**

Members are requested to upload the details of Internal Audit Report electronically through ENIT (Electronic NSE interface for Trading Members). The ENIT Internal Audit Report module is available to members for upload of Internal Audit details.

All members are required to mandatorily submit Internal Audit Report, along with all annexures and management comments, through ENIT only.

The Exchange has made the process of submission of Internal Audit reports paperless. Accordingly, a new facility has been introduced that enables the Internal Auditors to submit Internal audit reports electronically through ENIT as per the procedure given below :-

- i. Members to create a login id for their Internal auditor .
- ii. Internal Auditor to conduct the Audit and upload the digitally signed report to the ENIT
- iii. Once Internal audit report is uploaded on ENIT, Member shall provide their management comments and submit the Audit report to the Exchange .
- iv. Submission shall be considered final only when the final report along with the management comments is received by the Exchange through the above process .

Exchange also notified the detailed manual for uploading the Internal Audit details to the Exchange through ENIT.

### **7.3 FAQs for Internal Audit**

With effect from October 01,2008, half yearly Internal Audit of Stock Brokers/clearing members was stipulated by Exchange in line with requirements prescribed by SEBI vide their Circular dated August 22,2008. Based on representations and queries received from members, Exchange is pleased to issue frequently asked questions (FAQs) for Internal Audit. The same is made available at:

[http://www.nseindia.com/membership/resources/download/faq\\_internal\\_audit.pdf](http://www.nseindia.com/membership/resources/download/faq_internal_audit.pdf)

### **7.4 Display of details by stock brokers (including trading members)**

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



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

### **7.5 Execution of Orders**

In continuation of the Exchange circular reference no. NSE/CMTR/20616 dated April 24, 2012, regarding placement of all orders, members are required to review and define the following limits:

- Quantity limit for each order
- Value limit for each order
- User value limit for each user ID
- Branch value limit for each branch ID
- Security wise limit for each user ID- CM Segment only
- Spread order Quantity and Value Limit- FO & CD segment only

For Orders in the Capital Market segment - Setting of security wise limit for user id is made optional and members may set security wise limits for user ids based on their risk management policies and internal controls.

In addition to the above requirements, Compliance officer of the member shall submit a certificate on the above, to the Exchange on a quarterly basis and the said certificate shall include confirmation on the following :

- that the limits are setup after assessing the risks of the corresponding user ID and branch ID
- the limits are setup after taking into account the member's capital adequacy requirements
- all the limits are reviewed regularly and the limits in the system are up to date
- all the branch or user have got limits defined and that No user or branch in the system is having unlimited limits on the above stated parameters
- daily record of these limits is preserved and shall be produced before the Exchange as and when the information is called for.

Further, compliance with respect to the above requirements be monitored as a part of annual system audit and System Auditor shall verify the compliance officer's certificates and confirm that the systems and system records are maintained as prescribed by the Exchange.

**Regulatory Requirements**

1	Compliance Calendar	(Circular no. NSE/INSP/2004/32, download reference no. NSE/INSP/5496 dated 4th October 2004)
2	Internal Audit of trading members / clearing members and submission of Internal Audit Report	(Download Ref.No: NSE/INSP/15996, Circular No. NSE/INSP/2010/106 dated October 13, 2010; Download Ref.No: NSE/INSP/14644, Circular No. NSE/INSP/2010/96 dated April 23, 2010 and SEBI circular SEBI/MIRSD/Master Cir-04/2010 dated March 17, 2010, Exchange Download Ref. No: NSE/INSP/14340, Exchange Circular No. NSE/INSP/2010/93 dated 17th March 2010, Download Ref. No.: NSE/INSP/21998; Circular Ref. No.: 146/2012 dated October 25, 2012; Download Ref. No.: NSE/INSP/22076; Circular Ref. No.: 147/2012 dated November 6, 2012; Download Ref. No.: NSE/INSP/22294; Circular Ref. No.: 149/2012 dated December 12, 2012, Download Ref. No.: NSE/INSP/22359; Circular Ref. No.: 151/2012 dated December 21, 2012; Download Ref.No.: NSE/INSP/23196; Circular Ref.No.: 157/2013 dated April 11, 2013; Download Ref.No.: NSE/INSP/23345, Circular Ref.No.: 158/2013 dated May 7, 2013; Download Ref. No.: NSE/INSP/23638; Circular Ref. No.: 159/2013 dated June 7, 2013; Download Ref. No.: NSE/INSP/23728; Circular Ref. No.: 161/2013 dated June 21, 2013; Download Ref. No NSE/INSP/24872; Circular Ref. No.: 170/2013 dated October 31, 2013; Download Ref. No.: NSE/INSP/25018; Circular Ref. No.: 172/2013 dated November 15, 2013; Download Ref. No.: NSE/INSP/25168; Circular Ref. No.: 174/2013 dated December 5, 2013; Download Ref. No.: NSE/INSP/25319; Circular Ref. No.: 175/2013 dated December 20, 2013; Download Ref. No NSE/INSP/26582; Circular Ref. No.: 181/2014 dated April 30, 2014)
3	FAQs for Internal Audit	(Download Ref.No.: NSE/INSP/19176; Circular Ref.No.: 125/2011 dated October 19, 2011)
4	Display of details by stock brokers (including trading members)	(SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8 <sup>th</sup> November 2010).
5	Execution of Orders	(Download Ref.No.: NSE/COMP/21990; Circular Ref.No.: 79/2012 dated October 23, 2012; Download Ref.No.: NSE/COMP/21991, Circular Ref.No.: 80/2012 dated October 23, 2012, Download Ref.No.: NSE/COMP/21992, Circular Ref.No.: 81/2012 dated October 23, 2012; Download Ref.No.: NSE/COMP/23792; Circular Ref.No.: 96/2013 dated July 1, 2013; Download Ref.No.: NSE/COMP/23927, Circular Ref.No.: 100/2013 dated July 18, 2013; Download Ref.No.: NSE/COMP/24607, Circular Ref.No.: 111/2013 dated October 1, 2013; Download Ref.No.: NSE/COMP/25426, Circular Ref.No.: 120/2013 dated December 31, 2013; Download Ref.No.: NSE/COMP/26321, Circular Ref.No.: 137/2014 dated March 31, 2014)

### Item 8

#### APPLICABLE FINE STRUCTURE

##### 8.1 List of common violations and applicable penalties (CM, WDM, F&O and CD Segment)

Based on the findings during inspections conducted in the past and review of the commonly observed compliance issues, 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 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. **(Exhibit-6: Annexure C)**

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

To ensure strict compliance with SEBI orders debarring 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, Bye-laws & Regulations of the Exchange, notices / circulars issued by the Exchange in addition to the directions given by SEBI/Exchange, in this regard.

## **8.3 Observations made during Inspections/Reported in Internal Audit Reports**

With a view to increase awareness amongst the members and improve their compliance level, Exchange conducts inspections of the books and records of members. Based on the observations made during recent inspections and scrutiny of internal audit reports submitted by the member, Exchange has listed out commonly observed violations which require attention of members for strengthening their compliance levels.

## **8.4 Indicative list of penalties/actions to be initiated regarding audit observations in Internal Audit Reports to be submitted for the half year ending on 31st March 2011 and onwards**

Based on the findings arising out of Internal Audit reports for non compliances, Exchange in consultation with SEBI has decided that “Wherever the stock Exchanges receive the internal audit reports along with the management acceptance of findings of the internal auditors, the stock Exchanges shall initiate punitive action, wherever appropriate, immediately in accordance with their norms and the provisions of bye-laws”. Thus in view of the above penalties/ actions shall be initiated as decided by the relevant authority. Further, It may be noted that the penalties are indicative in nature and could undergo change in specific cases depending on frequency and gravity of violations. Further, if same violations/non compliances are observed by the internal auditor in the subsequent internal audit reports, the penalty/fine shall be escalated by 50% as may be decided by the relevant authority.

Members are advised to take note of the same and put in place systems and procedures so as to ensure adherence to the compliance requirements and avoid any penalty. **(Exhibit- 6: Annexure C)**

## **REGULATORY REQUIREMENTS:**

1	List of common violations and applicable penalties (CM, WDM, F&O and CD Segment)	(Download Ref.No.: NSE/INSP/19803; Circular Ref.No.: 130/2012; dated January 13, 2012, Download Ref. No.: NSE/INSP/20854; Circular Ref. No.: 139/2012 dated May 28, 2012; Download Ref. No.: NSE/INSP/23768; Circular Ref. No.: 163/2013 dated June 27, 2013),
2	Revision in Charges/Penalty norms	(Circular No. NSE/INSP/2009/79, download reference no. NSE/INSP/12882 dated August 12, 2009)
3	Observations made during Inspections/Reported in Internal Audit	(Download Ref.No.: NSE/INSP/19097; Circular Ref.No.: 123/2011 dated October 11, 2011; Download Ref. No.: NSE/INSP/21893; Circular Ref. No.: 145/2012 dated October

	Reports	10, 2012)
4	Indicative list of penalties/actions to be initiated regarding audit observations in Internal Audit Reports to be submitted for the half year ending on 31st March 2011 and onwards	(Download Ref. No: NSE/INSP/17356;Circular No. NSE/INSP/2011/115; Date:March 28, 2011)

## Item 9

### CONFLICTS OF INTEREST

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

SEBI has decided to put in place comprehensive guidelines to collectively cover Intermediaries, Recognised Stock Exchanges, Recognised 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 non published information;
- ix. not to communicate the material non published information while dealing in securities on behalf of others;

- x. not in any way contribute to manipulate the demand for or supply of securities in the market or to influence prices of securities;
- xi. not have an incentive structure that encourages sale of products not suiting the risk profile of their clients;
- xii. not share information received from clients or pertaining to them, obtained as a result of their dealings, for their personal interest;

The Boards of 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:**

1	General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognised Stock Exchanges, Recognised Clearing Corporations, Depositories and their Associated Persons in Securities Market.	(SEBI circular No. CIR/MIRSD/5/2013 dated August 27, 2013; Download Ref. No.: NSE/INSP/24301; Circular Ref. No.: 164/2013 dated August 29, 2013. )
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## **Item 10**

### **STAMP DUTY**

#### **10.1 Online payment of Stamp Duty by Trading Members**

Pursuant to the Exchange circular NSE/MEM/10958 dated July 9, 2008, letter dated August 22, 2013 was received from the office of Collector of Stamps Enforcement, Mumbai, bearing reference No. 1/2/360/13 regarding online payment of NSE turnover stamp duty by trading members. Pursuant to said letter General Stamp Office Sales Branch has, via notice, directed all branches of Stamp Office to stop collection of Stamp duty and penalty amount through DD and Pay Order from 16/08/2013 and use GRAS system for online collection of the same from trading members. List of Scheme codes and Banks for payment of Stamp Duty was provided in the letter.

### **REGULATORY REQUIREMENTS:**

1	Online payment of Stamp Duty by Trading Members	(Download Ref. No.: NSE/INSP/24423; Circular Ref. No.: 165/2013 dated September 11, 2013)
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