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NSE

Stocks of the nation

National Stock Exchange of India Limited

Compliance Handbook

For NSE Trading Members

Preamble

Compliance requirements pertaining to members of the Exchange are given in byelaws, regulations and circulars of the Exchange and the Clearing Corporation. In order to facilitate quick reference to such requirements, an attempt has been made to collate them in a single handbook. This compliance handbook is presented as a guiding document for carrying out internal compliance checks by members in their head office, branch offices and offices of sub broker(s)/authorized person(s).

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I. Client Registration

- Client registration documents are to be executed with any new client before commencing transactions with the client.
- Client registration documents are to be segregated into mandatory and non-mandatory parts.
- Know your client (KYC) form, Member constituent agreement (MCA) and Risk Disclosure document (RDD) as per the SEBI prescribed formats, constitute the mandatory part of the registration documents. All additional and voluntary clauses should be taken in voluntary documents separated from the mandatory part.



Client Registration (contd.)

- In KYC ensure that
 - complete details of Client information / Status, Bank and Depository Account details, Financial details of the constituent, Investment/ Trading experience, References, Financial documents (for Non Individual Constituents) and Signature of client are provided.
 - Photograph, Proof of identity and address, Board Resolution from corporate clients permitting trading in derivative products are attached.
 - The segments in which a client wants to transact are selected and marked by the client clearly.



Client Registration (contd.)

- In MCA ensure that
 - In respect of clients registered in other exchange(s) also (if a member is attached to different exchange(s), separate exchange-wise agreement is executed.
 - agreement is printed on a non-judicial stamp paper of appropriate value and is dated.
 - agreement is signed by both the member and the client and is witnessed.
 - agreement contains clauses prescribed by SEBI / NSE from time to time.
 - in respect of clients introduced by sub-broker, tripartite agreement is to be executed



Client Registration (contd.)

- In RDD ensure that
 - client acknowledges the risk disclosure document and is aware that certain basic risks are involved in trading in equity and derivative products.
 - Client should be made aware that contracts cannot be rescinded on the ground of lack of awareness or any other ground.
- Conduct in person verification of individual and HUF clients.
- Collect PAN card copy of client, verify the same with the web site of Income tax Department and upload details of the client before placing orders for the client.
- Allot a unique client code to each client and maintain a file mapping the client codes and the PAN's.
- Provide copies of all the executed documents to the clients.
- Periodically update the clients' financial and other details.



II. Order Management System and Internal Controls

- Procedures to be put in place for receipt of orders, recording the same and placing the orders in the trading system of the Exchange.
- Client-wise and security-wise limits on exposure, open position, etc. to be set up.
- Risk mitigation measures to be documented and made accessible to clients.
- Documentation of internal controls on areas like order modification / cancellation, client code changes and post-trade activities.
- Ensure monitoring mechanism for client's debits / obligations and appropriate collection procedures.



III. Contract note

- Trading Member has to ensure that contract notes are issued in the prescribed format within 24 hours of execution of trades on the Exchange. Copies of contract notes and proof of Delivery / Despatch to be maintained.
- To be issued on pre-printed stationary and signed by an Authorised Signatory mentioning name.
- Unique Client Code and PAN of the Constituent to be printed.
- With running serial number (reset to one at the beginning of the Financial Year).
- Dealing office details and PAN of the Trading Member to be printed.
- Trade price and brokerage to be mentioned separately.
- For contract notes issued with weighted average price for multiple trades resulting from single order, annexure containing details of all the trades to be provided.



IV. Electronic Contract note (ECN)

- ECNs can be issued only if specifically consented by client.
- ECNs to be digitally signed, encrypted, non-tamperable and in compliance with provisions of IT Act, 2000.
- Delivery of ECNs to be made by sending e-mail to the mail id provided by client.
- Log reports for sent mails and rejected / bounced mails to be maintained. In case of non-delivery of ECNs, contract note should be sent in physical form.
- Client to consent that non-receipt of bounced back mail by trading member amounts to delivery of contract notes.
- ECNs are required to be simultaneously published on the web-site of trading member and clients are given secured access to the same by way of client specific logon and password.



V. Charging of Brokerage

- Brokerage rate is subject to a maximum of 2.5% of the transaction amount. However, in Capital Market segment, trading member can charge brokerage up to 25 paise per share if the market value of the scrip is less than Rs 10/-.
- In case of option contract, brokerage is to be charged on option premium amount and shall not exceed 2.5% of premium amount or Rs. 100/- per lot whichever is higher



VI. Quarterly statement of accounts

- Send statement of accounts for funds and securities to all the clients in such periodicity not exceeding three months (calendar quarter) within a month of the expiry of the said period.
- The statements should have an account of all receipts and deliveries / payments during the relevant period and not simply, the details of holdings as at the end of the period.
- Maintain proof of dispatch / delivery for the same.
- An error reporting clause giving 30 days time is to be incorporated



VII. Banking and Demat account operations

- Maintenance of separate client bank account and constituent beneficiary account for keeping clients' funds and securities respectively.
- Segregate own and clients' funds / securities in separate accounts.
- Funds / securities of clients not to be deposited in own accounts.
- No payments towards expenses / levies can be made from client bank account.
- Receipts from / transfer to third parties, of funds and securities should not be effected in client bank account and constituent beneficiary account



VIII. Dealing with clients' funds & securities

- Ensure that funds / securities are received from respective clients' accounts only.
- Ensure that pay-out of funds / securities is made to respective clients within one working day of pay-out by Exchange.
- Clients' funds / securities are not used for any purpose other than meeting the respective client's margin / pay in obligations.
- Authorisation should be obtained from clients for deposit of their collaterals with exchange / clearing corporation towards margin.



Dealing with clients' funds & securities (contd.)

- Clients' securities should not be pledged to bank / financier for raising funds.
- Funds are received from / paid to clients by way of crossed cheques / demand drafts or by way of direct credit into the bank account through EFT or any other modes allowed by RBI only.
- Ensure that no cash dealings are made with clients.



IX. Margin Requirements

- Ensure to collect initial margin and maintenance margin in the approved mode (funds / bank fixed deposits / bank guarantee / approved securities with appropriate hair cut) from the clients.
- Ensure to put in place risk management system regarding the amount of margin collection and the mode of collection from other clients in Capital Market segment.
- Ensure to collect initial margin in the approved mode from clients in F & O segment on an upfront basis.
- Trading member is required to report margin actually collected from clients, to NSCCL on a daily basis.
- In the computation of margin collection from the clients for the purpose of reporting to the Exchange.



Margin Requirements (contd.)

- Unencumbered funds received only from the respective clients on an upfront basis can be included. Any Debit balances in the F&O client ledger should first be set off by apportioning the free balances / value of securities and the only balance amount if any should be considered towards margins collected from clients.
- Any free balance of the same clients in other segments after considering the debit balances and margins (if any) applicable in the respective segments can be considered towards margins for the F&O segment.
- Margins taken in the form of securities in the approved list should be valued as per the closing rate on the previous trading day and not the trading day, with an appropriate hair-cut.
- Information related to margin applicable, utilised and required / balance in respect of each client is to be sent on a daily basis to the respective clients in both the segments. This information should show break up details in terms of funds, bank guarantee, bank deposits and securities.



X. Internet Trading

- Ensure reliability, security and confidentiality of internet trading system.
- Client specific user id and password to be used for execution of trades by the respective client.
- Password policy to be adhered (secrecy, periodic change and other aspects).
- Internet clients shall trade through internet trading system and only in case of connectivity problems, their orders can be entered through back up system (like call and trade facility) after proper identification of the client.
- Ensure that clients do not deal on behalf of others.
- Trading Members providing internet based trading facility are required to submit SSL certificate, for year ending June every year.



XI. Other dealings with clients

- Issue contract notes for all trades in respect of the constituents introduced by sub-brokers also.
- Have direct dealings with clients introduced by a sub-broker and ensure that the sub-broker does not issue any bills / notes to the clients nor deal with the clients' funds and securities in any manner.
- Reconcile dividend account periodically and ensure that dividend received on behalf of clients is credited to the respective clients within 30 days of receipt.
- Inform all the constituents if you are engaged in own trading.
- Provide exclusive e-mail id for registering investor complaints and display the id on your website and other materials, pamphlets and advertisement campaigns.



Other dealings with clients (contd.)

- Maintain confidentiality of all client related information.
- ‘Statement of Securities Transaction tax’ to be issued on an annual (financial year) basis within one month from the close of the financial year, unless required by the clients otherwise as to receive the STT statement on a daily basis.



XII. Dealing with intermediaries

- Deal directly with clients, registered sub broker in CM segment and authorised person in F&O segment.
- Inspect at least 10% of sub-brokers every year and ensure that each sub-broker is inspected at least once in every five years.
- Ensure that you do not act through or on behalf of another trading member / sub-broker of the Exchange either for proprietary trading or for trading on behalf of clients without prior approval of the Exchange.



Dealing with intermediaries (contd.)

- Ensure that you deal with only one broker of another stock exchange for own transactions with prior intimation to the Exchange.
- Ensure that dealings on behalf of constituents, through a broker of another stock exchange are done only after necessary registration as a sub-broker.
- In F&O segment, dealings with approved authorized persons may be done only if they are also registered as sub brokers in the Capital Market segment of the Exchange



XIII. Location and Operation of Terminals

- Ensure that trading terminals are not located at any place other than the main / branch office and the offices of registered sub brokers / authorised persons of the member.
- Ensure that trading terminal is not operated by a person other than an approved user / approved person.
- Ensure that all terminal operators in F & O segment are NCFM / BDCE qualified and that at least one of every 5 Capital Market terminal operators in a location is NCFM qualified.
- Ensure that no NEAT terminals are extended to another location without the approval of the Exchange.



Location and Operation of Terminals (contd.)

- Upload details of all CTCL terminals to the Exchange prior to their activation. Any change in the details viz. terminal id, user, location, etc. also needs to be uploaded prior to such change.
- Ensure that secrecy of terminal-wise logon and password is maintained.
- Trading Members are required to undertake system audit on annual basis, for period ending 30th June, of all the branches where CTCL or Internet Based Trading facility is provided and submit one consolidated report thereof to the Exchange within one month from end of the period.
- Ensure to place orders on own account using 'PRO' code only and through trading terminals authorised for such purpose.



XIV. Display of Notice Board / SEBI registration certificate

- 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 prescribed details.
- Display copy of SEBI registration certificate in the above said offices.



XV. Control over branches and sub brokers

- Ensure due diligence and credentials of entities proposed to be appointed as sub brokers/authorized persons.
- Ensure proper procedures while opening and closing branches.
- Ensure that clients are informed in advance in case of closure of branch.
- Ensure that branches, sub-brokers, authorised persons do not indulge in unauthorised trading activities.
- Monitor the activities of sub brokers/relationship managers /officials in-charge of branches to avoid unregistered intermediation, fraudulent activities, misuse of clients' accounts, etc.



Control over branches and sub brokers (contd.)

- Ensure proper procedure for accounting of demand drafts and pay orders received from clients in the respective clients' accounts.
- Obtain and analyse periodic reports and information from all branches/sub brokers, to address various risk areas.
- Take feedback from the clients of sub brokers and branches on their dealings with the sub brokers and branch officials.
- Inspect at least 10% of branches and sub brokers every year and ensure that each branch and sub broker is inspected at least once in every five years.



XVI. Issue of advertisement

- Before releasing any advertisement for business promotion, a copy of the advertisement has to be submitted to the Exchange at least seven days in advance and written permission of the Exchange is to be obtained before the advertisement is published.
- Ensure to abide by the code of advertisement given by the Exchange.
- The trading members may apply for approval of advertisement as per the prescribed format.



XVII. Maintenance of Records

- Maintain separate books of accounts and records for trades executed on each recognised stock exchange (in case of membership in different exchanges).
- Maintain records and registers relating to business for a period of five years either in hard form or non tamperable soft form, including the following:
 - Statements of funds and securities obligations received from NSCCL.
 - Client ledger, Margin register, Register of complaints.
 - Records in respect of brokerage collected separately from constituents.
 - Register of transactions.
 - Register or Ledger Account of Securities, client wise and security wise.



XVIII. Continued membership requirements

- Trading Member should obtain prior permission of Exchange and SEBI before effecting any change in shareholding / sharing pattern or change in directors / partners.
- Any change in name of the trading member must be intimated to the Exchange forthwith along with the necessary records, for the purpose of effecting the change in the SEBI registration certificate.
- Net worth of a trading member shall always be maintained above the prescribed minimum of Rs 1 crore in case of corporates and Rs 75 lakhs in case of non-corporates.
- Details of Compliance Officer and any changes thereof to be intimated to the Exchange



XIX. Due diligence in employee activities

- Trading Member shall establish and enforce procedures to supervise its business and the activities of its employees that are reasonably designed to achieve compliance with all the relevant regulatory requirements.
- Trading Member shall specifically authorise in writing persons, who may be authorised to transact on behalf of the member and do such acts which the member delegates to such persons.



XX. Compliance with Prevention of Money Laundering Act (PMLA), 2002

- Appointment of and change in Principal Officer to be intimated to the Financial Intelligence Unit, India (FIU).
- Written procedure for compliance with PMLA to be adopted.
- Adopt customer acceptance policies and procedures sensitive to the risk of money laundering or terrorist financing transactions.
- Strictly adhere to customer due diligence requirements from establishment of new account to transaction monitoring and report suspicious transactions, if any, to the FIU.
- Organise suitable training programmes for employees and ensure awareness



XXI. Compliance Calendar

A consolidated checklist of reports / statements / certificates / data / submissions to be made by members to the Exchange / NSCCL is available in our website – [Compliance Calendar](#).

