

**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**  
**Member Compliance Guide – Opening of Client Accounts**

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When establishing a relationship with a new client, Members must take reasonable steps to assess the background, genuineness, financial soundness of such person and his investment objectives.

Members should develop clear and sound customer acceptance policies and procedures, including a description of the types of customers who are likely to pose a higher than normal risk to them. In preparing such policies factors such as customers' background, origin, public position, related accounts, business activities or other risk indicators should be considered.

Members shall ensure that a Unique Client Code – UCC is assigned to every new client and that the same is mapped properly at the back office. No Member shall execute trades of clients before completing Know Your Client (KYC) formalities.

With the introduction of the prescribed uniform and common client registration documents, the client will be required to fill in only one set of documents while registering for trading on multiple National Commodity Exchanges. **Refer circular 136 of 2015.**

For the purpose of registration of new clients, the Member shall make available a folder / booklet containing following documents. Members will have to ensure that a copy of the whole set is provided by them to the clients:

- a. List of mandatory documents to be obtained from the clients.
  - i. Annexure 1 – Know Your Client application form
  - ii. Annexure 2 – Uniform Risk Disclosure Document
  - iii. Annexure 3 – Rights and Obligations of Members, Authorised Persons and Clients
  - iv. Annexure 4 – Do's and Don'ts for the clients

It is clarified that at certain places in the above prescribed uniform documents, the Regulations of the Exchange have been referred to as 'Business Rules'. Therefore, wherever the words 'Business Rules' appear in the prescribed uniform documents, the same may be read as 'Regulations' for the purpose of transactions on the Exchange.

- b. A tariff sheet specifying various charges, including brokerage, payable by the client, to avoid any dispute at a later date. List of documents which are voluntary/non-mandatory in nature.
- c. Information on contact details of senior officials and Investor grievance cell of the Member, so that the client can approach them in case of any grievance.
- d. The Client shall indicate the 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.
- e. The KYC form shall capture the identity and the address of the introducer instead of his MAPIN/UID. The KYC form shall be modified to this extent.

**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**  
**Member Compliance Guide – Opening of Client Accounts**

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- f. The member 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 member shall obtain the documents in accordance with its risk management system.
- g. The Member shall also capture details of action taken against a client by SEBI or other authorities during the last 3 years.
- h. There shall be a mandatory document dealing with policies and procedures for each of the following under appropriate headings:
  - i. refusal of orders for penny stocks,
  - ii. setting up client's exposure limits,
  - iii. applicable brokerage rate,
  - iv. imposition of penalty/delayed payment charges by either party, specifying the rate and the period (This must not result in funding by the member in contravention of the applicable laws),
  - v. the right to sell clients' securities/commodities or close client's' positions, without giving notice to the client, on account of non-payment of client's dues (This shall be limited to the extent of settlement/margin obligation),
  - vi. shortages in obligations arising out of internal netting of trades,
  - vii. conditions under which a client may not be allowed to take further position or the member may close the existing position of a client,
  - viii. temporarily suspending or closing a client's account at the client's request, and
  - ix. deregistering a client.
- i. The member shall obtain Additional Risk Disclosure documents for Options Trading from the existing clients, who wishes to trade in Options contracts on the Exchange platform. In case of new clients, it should be made a part of the KYC documents. **Refer circular no.266 of 2017.**

The Non - Mandatory documents (any other document concerned with any term(s) or condition(s), other than those covered in the Mandatory documents) obtained from clients, shall be subject to the following conditions:

- a. 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, and Bye-laws, circulars of the Exchange, directives and guidelines of the SEBI. Any such clause in contravention of the above shall be null and void.
- b. Any authorization sought in non-mandatory part shall not be in contravention of the provisions of Rules, Byelaws (including Regulations), circulars of the Exchange and directives and guidelines of the SEBI and Exchanges and has to be a separate document and shall require specific consent of the client.
- c. Authorization sought in non-mandatory part shall always be subject to the following conditions:-

**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**  
**Member Compliance Guide – Opening of Client Accounts**

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- i. The authorization shall contain a clause that the client may revoke the authorization at any time.
  - ii. The authorization shall be in writing and be signed by the client only and not by any person authorized on his behalf.
  - iii. The authorizations so obtained are not for any inter family / group company / related accounts adjustment.
3. All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.
  4. 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 member shall take client's acknowledgement for receipt of the same.
  5. The members 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. No term of the agreement, 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.
  7. The member 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.
  8. As on 31st March of every year, a statement of balance of Funds and Securities in hard form and signed by the member shall be sent to all the clients.

Thus the uniform KYC registration process in the financial markets would ensure centralized location and maintenance of KYC records of all the clients in the Commodity Derivatives Market which will also enable a single point KYC data management.

**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**  
**Member Compliance Guide – Opening of Client Accounts**

<b>Income Tax Permanent Account Number – PAN</b>	<p>PAN is compulsory for trading in commodity derivative contracts. Members are required to obtain PAN compulsorily along with the self certified photocopy of the document from clients as part of KYC documentation process.</p> <p>IT-PAN is not mandatory for individual residing in Sikkim – refer circular no. 203 of 2008</p>
<b>Trades should be done only after uploading UCC details</b>	<p>Members should ensure that trades should not be carried out for any client without uploading the UCC details.</p> <p>No Member shall execute trades of clients before completing KYC formalities</p>
<b>Inequitable, onerous or unreasonable conditions imposed on clients as a part of KYC</b>	<p>The Know Your Client (KYC) documents required to be signed by clients shall not contain inequitable, onerous or unreasonable conditions imposed on clients such as:-</p> <ul style="list-style-type: none"> <li>(i) Waiver to the Member from sending contract notes;</li> <li>(ii) Retaining the M-T-M (mark to market) gains by the Member with himself; and</li> <li>(iii) Any condition which gives the member the freedom to trade on behalf of the client without the explicit and specific order issued by the client</li> </ul>
<b>Electronic Contract Note - ECN</b>	<p>The Electronic Contract Note (ECN) declaration form will be obtained from the Client who opts to receive the contract note in electronic form in place of physical contract note. This declaration will remain valid till it is revoked by the client.</p>
<b>SMS and E-mail alerts to clients by the Exchange</b>	<p>The Exchange communicates the details of the trades executed on its platform to Clients at the end of each trading day, through SMS and E-mail alerts. The SMS and E-mail alerts are sent to those Clients who have registered their preference through their respective Members, to receive these alerts directly from the Exchange. Members are required to verify the mobile number and/or E-mail Id of their clients. Members shall upload the mobile number and E-mail Id only of the clients and not of any non clients such as employee of the Member etc.</p>

For further information / clarifications, please contact:

Customer Service Group by E-mail to: [askus@ncdex.com](mailto:askus@ncdex.com)

Customer Service Group on toll free number: 1800 26 62339, Website: [www.ncdex.com](http://www.ncdex.com)

**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**  
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<p><b>Dealing with KP Group</b></p>	<p>Members are cautioned to ensure not to deal with any of the entities/individuals associated with Ketan Parekh Group - refer circular no. 115 of 2006</p>
<p><b>Role of Authorised Persons – APs</b></p>	<p>Member shall be responsible for creating and uploading the UCC on the Exchange system and APs cannot create or allocate UCC. APs can provide administrative assistance in procurement of documents from the client but shall not issue any document to client in its own name. Members shall ensure that no orders are executed at the APs end before all required documents are obtained from the clients. No funds or commodities of the clients shall be transferred/deposited/credited into any a/c of APs</p>