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**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**

Circular to all members of the Exchange

Circular No. : NCDEX/MEMBERSHIP-005/2023

Date : February 01, 2023

Subject : Clarification to Gazette Notification of SEBI (Stock Brokers) (Amendment) Regulations, 2022

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This is with reference to Exchange circular no NCDEX/MEMBERSHIP- 008/2022 dated March 08, 2022 regarding Gazette Notification of SEBI (Stock Brokers) (Amendment) Regulations, 2022.

As specified in the 'Table 1' of the said circular, the revised Variable Network and Base Network requirements as stated therein would be applicable to the members with effect from February 23, 2023 and February 23, 2024 respectively.

Members are requested to adhere and comply with the applicable Network (i.e., higher of the Base Network or Variable Network) as stated in the aforesaid SEBI gazette notification with effect from February 23, 2023.

Accordingly, Members are requested to note that the reporting requirement as per the above-mentioned SEBI gazette notification would be applicable from Half Yearly Network Submission for March 31, 2023 onwards. The period to be considered for ascertaining Variable Network as on March 31, 2023, would be the previous six months i.e., October 01, 2022 to March 31, 2023.

Further, the applicable formats for submission and FAQs are mentioned as per below annexures:

<b>Annexure</b>	<b>List of Documents</b>
Annexure I	Revised Network Requirement & Format for Network certificate
Annexure II	FAQs on clarification ascertaining Network as per said SEBI Gazette Notification

Members are requested to take note of and ensure compliance with the above regulatory requirements.

For and on behalf of  
**National Commodity & Derivatives Exchange Limited**

Bhavna Kariwala  
Assistant Vice President- Membership

**Encl. Annexures**

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For further information / clarifications, please contact

1. Customer Service Group on toll free number: 1800 26 62339
2. Customer Service Group by e-mail to : [askus@ncdex.com](mailto:askus@ncdex.com)

## Annexure I:-

### (A) Revised Base Network Requirement & Method of Computation

Trading members / Clearing members of the Exchange/NCCL are required to maintain network as prescribed by the Exchange/ NCCL at all points of time as per the continuing membership norms of the Exchange/NCCL. Revised Base Network for members according to the type of membership of the member entity as per SEBI Gazette Notification No. SEBI/LAD-NRO/GN/2022/73 dated February 23, 2022, is as under:

Segment	Type of Membership	Revised Base Network - Applicable from 23.02.2023 (Effective 31.03.2023 submissions)		Revised Base Network - Applicable from 23.02.2024 (Effective 31.03.2024 submissions)	
		Corporate	Individuals/PF /LLP/HUF	Corporate	Individuals/PF /LLP/HUF
Commodity Derivatives	TM	0.25 Crores	0.10 Crore	1 Crore	1 Crore
	TCM	3 Crores	3 Crores	5 Crores	5 Crores
	STCM	10 Crores	10 Crores	15 Crores	15 Crores
	PCM	25 Crores	NA	50 Crores	NA
TM = Registered Trading Membership.					
TCM = Registered Trading and Self Clearing Membership.					
STCM = Registered Trading and Clearing Membership.					
PCM = Registered Professional Clearing Membership.					

**Method of computation applicable is as prescribed by Schedule VI of Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2022.**

**(B) Format of Networth Certificate****Format: C-1 (Networth Certificate for Corporates, Firms & Individuals)**

*(To be provided on the Letterhead of the certifying Chartered Accountant/ Company Secretary)*

**CERTIFICATE**

Member Name: \_\_\_\_\_

Member Applicable Network **(Higher of 'Base Network' or 'Variable Network'):**

1. Base Network is Rs. \_\_\_\_\_/-
2. Variable Network is Rs. \_\_\_\_\_/-

This is to certify that the Networth of M/s./Mr./Ms. \_\_\_\_\_ (Name of Member) as on \_\_\_\_\_ as per the statement of computation of even date annexed to this report is Rs. \_\_\_\_\_ only).

We further certify that:

- M/s./Mr./Ms. \_\_\_\_\_ (Name of Trading Member) is not engaged in any fund-based activities or business other than that of securities or commodity derivatives. Existing fund based assets, if any, have been divested from the books of account and have not been included for the purpose of calculation of networth.
- The computation of networth based on my / our scrutiny of the books of accounts, records and documents is true and correct to the best of my / our knowledge and as per information provided to my / our satisfaction.
- The computation of Networth is in accordance with method of computation prescribed by Schedule VI of SEBI (Stock Brokers) (Amendment) Regulations, 2022.
- The computation of Variable Net worth is in accordance with the method of computation prescribed by SEBI as per Gazette Notification No. SEBI/LAD-NRO/GN/2022/73 dated February 23, 2022 on revised Networth requirement or as amended from time to time\*.
- We hereby confirm that we are not the related party to the aforesaid entity

Place:

For (Name of Certifying Firm)

Date:

UDIN:

Name of Partner/Proprietor  
Chartered Accountants / Company Secretaries  
Membership Number

\*Shall be read with amendments, circular, notification issued in this regard till date

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**Format C-1**  
**Method of computation of Networth as per Schedule VI of SEBI (Stock Brokers)**  
**(Amendment) Regulations, 2022**

The method of computation of Networth as prescribed by Schedule VI of SEBI (Stock Brokers) (Amendment) Regulations, 2022 is as follows:

Capital + Free Reserves

Less: Non-allowable assets viz.,

- (a) Fixed Assets
- (b) Pledged Securities
- (c) Member's Card
- (d) Non-allowable securities (unlisted securities)
- (e) Bad deliveries
- (f) Any Debts and Advances (except trade debtors of less than 3 months)
- (g) Prepaid expenses, losses
- (h) Intangible Assets
- (i) 30% of Marketable securities

## Annexure II:-

### Gazette Notification of SEBI (Stock Brokers) (Amendment) Regulations, 2022 – FAQs

#### 1. Net worth submissions are based on which guidelines?

SEBI circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and SEBI Gazette Notification No. SEBI/LAD-NRO/GN/2022/73 dated February 23, 2022.

#### 2. From when the revised net worth guidelines will be applicable?

Within 1 year of the date of notification of the Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2022 dated 23<sup>rd</sup> February 2022 i.e., February 23, 2023 and will be effective from March 31, 2023 (Half Yearly Net worth and Audited Annual Net worth) submissions onwards.

#### 3. What is the revised Base Network and Variable Network requirement as per the Gazette Notification of SEBI (Stock Brokers) (Amendment) Regulations, 2022?

Type of member	Base Net-worth # (effective within 1 year of the date of notification of the SEBI (Stock Brokers) (Amendment) Regulations, 2022} (in Rs.)	Base Net-worth # (effective within 2 years of the date of notification of the SEBI (Stock Brokers) (Amendment) Regulations, 2022} (in Rs.)	Variable Net-worth # (effective within 1 year of the date of notification of the SEBI (Stock Brokers) (Amendment) Regulations, 2022} (in Rs.)
TM	-	1 Crore	10% of average daily cash balance of clients retained with the member across segments / exchanges in the previous 6 months.
TCM	3 Crore	5 Crore	
ITCM	10 Crore	15 Crore	
PCM	25 Crore	50 Crore	

# The Member should ensure that its Base Network / Variable Network (whichever is higher) is maintained throughout the year.

#### 4. What is the Member's Base Network?

The Base Network is specified by SEBI as per the type of membership of the member entity. Wherever SEBI has not prescribed Base Network, the net worth specified by Exchange according to current Network guidelines would be applicable. The Revised Network requirements will be updated on the Exchange website.

**For Example-** As SEBI has not prescribed the base net worth for TM (within 1 year of the date of notification), the base net worth specified by Exchange would be applicable that is Rs.25 lakhs for corporates and Rs.10 lakhs for non-corporates

## 5. What is Variable Network?

Variable Network shall be calculated as specified in the SEBI Notification dated February 23, 2022. It is 10% of the average daily cash balance (including Cash/FDRs/BGs) of clients retained with the member across segments/exchanges in the previous 6 months.

Variable Network for March 31, 2023 Submission				
Details of cash/FDR/BG balance of all clients retained with member across segments/ exchanges for the previous six months period				
Date ( To be given for all days in previous 6 months)	A Cash Retained	B FDR Retained	C BG Retained	A+B+C Total Deposits retained by member
October 01, 2022	X	Y	Z	X+Y+Z
.	X	Y	Z	X+Y+Z
.	X	Y	Z	X+Y+Z
.	X	Y	Z	X+Y+Z
.	X	Y	Z	X+Y+Z
March 31, 2023	X	Y	Z	X+Y+Z
Total				<b>Total</b>
Average of 'Total Cash/FDR/BG'				<b>Total/ N*</b>
Variable Net worth				10% of Average

This given calculation is for an understanding of members

\*N - Number of total days during the period of submission.

**For Example –** Number of days to be considered to calculate **Average of 'Total of Cash/FDR/BG'-**

Period	Number of Days
October 01, 2022 to March 31, 2023	182 days
April 01, 2023 to September 30, 2023	183 days

In case of Leap Year, the number of calendar days will increase by 1 day.

**For Example –** Number of days to be considered to calculate **Average of 'Total of Cash/FDR/BG'-**

Period	Number of Days
October 01, 2023 to March 31, 2024	183 days

## 6. What does the Cash Balance Include? Which amount of Cash Balance to be considered to arrive at Variable Network?

Cash Balance Includes 'Client Cash / FDR / BG' retained by the member (across the Exchanges / segments) which will be a consolidation of daily reporting by the member to Clearing Corporations in Segregation and Monitoring of Collateral at Client Level.

As per the membership type (TM/TCM/STCM/PCM) the following fields submitted under Segregation and Monitoring of Collateral at Client Level are to be considered by the members while calculating their variable net worth:

22.	Cash Retained by TM	Number (20)	Value in Rs.  Decimals shall be allowed upto 3 digits. The details will pertain to collateral retained by the TM from client
23.	Bank Guarantee (BG) Retained by TM	Number (20)	Value in Rs.  Decimals shall be allowed upto 3 digits. The details will pertain to collateral received from client and retained with the TM
24.	Fixed Deposit Receipt (FDR) Retained by TM	Number (20)	Value in Rs.  Decimals shall be allowed upto 3 digits.  The details will pertain to collateral received from client and retained with the TM. It should not contain details of FDR passed on to the CM in any other form of collateral.
38.	Cash Retained with CM	Number (20)	Value in Rs.  Decimals shall be allowed upto 3 digits.  The details will pertain to collateral received from TM/CP and retained by the CM
39.	Bank Guarantee (BG) retained with CM	Number (20)	Value in Rs.  Decimals shall be allowed upto 3 digits.  The details will pertain to collateral received from TM/CP and retained by the CM.
40.	Fixed deposit receipt (FDR) retained with CM	Number (20)	Value in Rs.  Decimals shall be allowed upto 3 digits.  The details will pertain to collateral received from TM/CP and retained by the CM.  It should not contain details of FDR passed on to the CC in any other form of collateral.

## 7. What are the guidelines to be followed while ascertaining the Variable net worth of the member?

### For TM/ Self Clearing Member-

- Where the trading member/ self-clearing member deposits the fund with the clearing member/ professional clearing member/ clearing corporation, the maintenance of variable net worth would not be required by that trading member/ self-clearing member to the extent of client's funds deposited with clearing member/ professional clearing member/ clearing corporation.

**For example-** Suppose the client has deposited Rs. 10 crores with the trading member and that trading member further deposits 3 crores out of that 10 crores with clearing member/ professional clearing member/ clearing corporation then variable net worth would be required to be maintained to the extent clients fund retained by the trading member that is Rs. 7 crores.

### For Clearing Member/ PCM-

- Where the trading member deposits the client's funds with clearing member/ professional clearing member, the computation of variable net worth at the level of clearing member/ professional clearing member shall also include the funds of the clients of trading member deposited with the clearing member/ professional clearing member.

**For Example-** As mentioned in the above example, clearing member/ professional clearing member receives 3 crores from trading member/self clearing member, then the computation of variable net worth at the level of clearing member/ professional clearing member shall also include those 3 crores.

- Where the self-clearing member/ clearing member/ professional clearing member deposits the client's funds with the clearing corporation, the same shall be excluded while calculating the variable network at the level of the self-clearing member/ clearing member/ professional clearing member.

**For example-** In continuation to the above example, suppose clearing member/ professional clearing member deposits out of that 3 crores, 1 crore with the clearing corporation. The same shall be excluded while calculating the variable network at the level of the clearing member/ professional clearing member. In that case funds for calculating variable network at the level of the self-clearing member/ clearing member/ professional clearing member is (3 crores- 1 crores =2 crores).

Summary of cash balance of clients to be considered are as under –

For Trading Member	For Trading and Clearing Member	For Clearing Member
Cash Retained by TM + BG Retained by TM + Fixed Deposit Receipt (FDR) Retained by TM	Cash Retained by TM + BG Retained by TM + Fixed Deposit Receipt (FDR) Retained by TM+ Cash Retained with CM + Bank Guarantee (BG) Retained with CM + Fixed deposit receipt (FDR) Retained with CM	Cash Retained with CM + Bank Guarantee (BG) Retained with CM + Fixed deposit receipt (FDR) Retained with CM

**8. How many days are to be considered to take an average of daily cash balance (Cash/FDRs/BGs) of clients retained with the member across segments and across the exchanges?**

As the SEBI notification states previous six months to be taken for an average of daily cash balance (Cash/FDRs/BGs) of clients retained with the member across segments/exchanges therefore the number of calendar days in that six months are to be considered.

**For Example** – Number of days to be considered to calculate **Average of 'Total Cash/FDR/BG'**-

Period	Number of Days
October 01, 2022 to March 31, 2023	182 days
April 01, 2023 to September 30, 2023	183 days

**9. Which 6 months need to be considered for computation of variable net worth?**

The previous 6 months to be considered for computation of Variable Network as below-

Submissions	Period
Half Yearly Networth Submission as on March 31, 2023	October 01, 2022 to March 31, 2023
Half Yearly Networth Submission as on September 30, 2023	April 01, 2023 to September 30, 2023

**10. Which members do not need to report variable network?**

Members who do not have any registered clients and are engaged in proprietary trading only are not required to report variable network.

**11. Should the Network Certificate be CA/CS certified?**

Yes, the Network Certificate shall be duly certified by the practicing Chartered Accounts / Company Secretary.

**12. What will be the applicable Network requirement as per the revised Network guidelines?**

'Base Network' or 'Variable Network' whichever is higher.

**For Example-** If a member has a Base Network of Rs. 3 crores and if Variable Network of the member is Rs. 5 crores then the applicable Network for the member is Rs. 5 crores (Higher of 3 crores or 5 crores)

**13. Post understanding Base Network and Variable Network, how will a member compute their own Network?**

Post understanding the Base Network and ascertaining Variable Network, the Network whichever is higher is to be considered as applicable Network.

Further, the computation of network shall be in accordance with method of computation prescribed by Schedule VI of SEBI (Stock Brokers) (Amendment) Regulations, 2022.