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**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**

Circular to all trading and clearing members

Circular No : **NCDEX/SURVEILLANCE & INVESTIGATION-133/2024**  
Date : December 02, 2024  
Subject : Client Code Modification

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In terms of the provisions of the Rules, Bye-Laws and Business Rules of the Exchange and in continuation of the SEBI Circular No. SEBI/HO/CDMRD/DMP/CIR/P/2016/73 dated August 19, 2016 and Exchange Circulars No. NCDEX/TRADING-033/2016/072 dated April 06, 2016 & NCDEX/TRADING-041/2016/093 dated April 25, 2016 and the Exchange Master Circular Nos. NCDEX/SURVEILLANCE & INVESTIGATION-068/2024 dated April 16, 2024; the Members of the Exchange are notified as under:

In order to minimize order entry errors and deter client code modifications, a penalty framework has been established to address all aspects of Client Code Modifications (CCM). Accordingly, a structured penalty system has been implemented for specific aspects of CCM.

The updated framework for Client Code Modification penalty is as under:

**1. Penalty on Client Code Modification where either original code or modified client code is non-institutional client category:**

The Exchange shall levy a penalty from members and credit the same to its Investor Protection Fund as under:

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2

Where

'a' = Value (turnover) of non-institutional trades where client codes have been modified by a trading member in a segment during a calendar month.

'b' = Value (turnover) of non-institutional trades of the trading member in the segment during the calendar month.

The Exchange shall undertake stringent disciplinary actions against members who undertake frequent client code modifications. If 'a' as % of 'b', as defined above, exceeds 1% during a month, then the Exchange shall conduct a special inspection of the member to ascertain whether the modifications of client codes are being carried on as per the strict objective criteria set by the Exchange. The Exchange shall take appropriate disciplinary action, if any deficiency is observed.

## **2. Maintenance of Error Account**

Shifting of any trade to the “Error” account of the trading member shall not be treated as modification of client code, provided the positions arising out of trades in Error account are subsequently liquidated/closed out in the market within the time prescribed and not shifted to some other client code. In view of the previously mentioned all trading member with active clients are advised to create/maintain a designated “Error Account”. Members, before placing order for their clients, are required to ensure that designated “Error account” is uploaded in the UCC database of the Exchange with Client Code as ‘ERROR’.

## **3. Squaring off trades before transferring to ERROR account**

As mentioned above, shifting of any trade to the Error account of the trading member shall not be treated as modification of client code provided the positions arising out of trades in Error account are subsequently liquidated / closed out in the market and not shifted to some other client code.

Accordingly, Members are advised to ensure that if the erroneous trades from any client code is being shifted to “Error Account”, then the shifted positions shall be liquidated from the “Error account” itself. In cases, where the trading member has traded in the wrong client code and square off the erroneous trade in client account itself and modify both the legs of the trades to Error account a penalty of Rs. 10,000/- per day of violation will be imposed.

## **4. Penalty for modification of client code from ERROR account to another client Code**

In cases where the trading member modifies client code from Error account to other client code, a penalty at the rate of 2% of traded value (for options notional value will be considered as traded value) shall be levied. In case of such repeated instances, in addition to the penalty levied further disciplinary action as may deem fit would be initiated against the member.

## **5. Penalty for Keeping Open position for more than 3 working days in ERROR account:**

In case where the trading member keep the open position more than 3 working days\* in ERROR account, a penalty as per client code modification as defined for applicable regulatory guidelines/circulars of Exchange will be applicable & levied

The following penalty structure will be applicable:

<b>‘a’ as % of ‘b’</b>	<b>Penalty as % of ‘a’</b>
≤ 5	1
> 5	2

Where

‘a’ = Value (turnover) of non-institutional trades where client codes have been modified by a trading member in a segment during a calendar month.

‘b’ = Value (turnover) of non-institutional trades of the trading member in the segment during the calendar month.

\*-The timeline of 3 working days is subject to availability of liquidity in the contract. In case the liquidity is not sufficient, the Trading Member should approach the Exchange within one trading day if sufficient liquidity is not available at the Exchange. The decision of the Exchange on the question of “Availability of liquidity” will be final and binding.

## **6. Institutional Trade Modification Penalty**

As per circular, shifting of any trade (institutional or non-institutional) to ERROR account of the trading member shall not be treated as modification of client code provided the positions arising out of trades in Error account are liquidated / closed out in the market and not shifted to some other client code.

Modification between client codes of two entities, which are of the institutional category, will be allowed only if the modification from both client codes is from different schemes / sub-accounts of / managed by the same Institution. Such modification shall not be subject to penalty. Otherwise, a penalty as given below will be levied:

The following penalty structure will be applicable:

<b>'a' as % of 'b'</b>	<b>Penalty as % of 'a'</b>
≤ 5	1
> 5	2

Where

'a' = Value (turnover) of non-institutional trades where client codes have been modified by a trading member in a segment during a calendar month.

'b' = Value (turnover) of non-institutional trades of the trading member in the segment during the calendar month.

## **8. Procedure of waiver of penalty**

With reference to the above-mentioned Exchange Circulars, the following will be classified as genuine errors for the purpose of client code modification:

- Error due to communication and / or punching or typing such that the original client code / name and the modified client code / name are similar to each other.
- Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013).

Subject to the reasons mentioned above, Trading Members may kindly note that the request for waiver of penalty along with reasons and relevant supporting documents should be submitted to the Exchange within three (3) working day from the date modification failing which request for waiver shall not be accepted.

Not more than one such waiver per quarter may be given to a stock broker for modification in a client code. Explanation: If penalty waiver has been given with regard to a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the stock broker in the quarter for modifications related to client codes AB and BA.

The decision whether a client code modification is genuine or not would be of the Exchange, which would be final and binding.

Trading members are required to take note of the same and take adequate precautions while placing the orders.

The provisions of the circular shall be effective from December 05, 2024.

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

Ravindra Shetty  
Senior Vice President- Surveillance and Investigation

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For further information / clarifications, please contact

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