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**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**

Circular to all members of the Exchange

Circular No : NCDEX/COMPLIANCE-031/2025

Date : June 17, 2025

Subject : Distribution of third party products by Trading Members

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In recent past, it has been observed that several Trading Members, or their holding/group entities, have developed applications or websites (online platforms) that not only provide stock broking services but also allow the distribution and offering of third-party products. In cases where the platforms are operated by holding or group entities, it has been observed that such platforms host a range of third-party products along with stock broking services.

With the objective of streamlining the process of distribution of third-party products, all the Exchanges jointly in consultation with SEBI have formulated the regulatory framework for distribution of third party products by Trading Members either on their own platform or through their group companies/associates' platforms (i.e. third party app/parent app).

The regulatory framework is as under: -

- a. Third party products (TPP) distributed/offered on the platform must be regulated, directly or indirectly, by appropriate financial sector regulators.
- b. Stock broker shall enter into an agreement with TPP provider or holding/group company (where platform is parent app) expressly stating that there shall not be any personal financial liability devolve upon the broker which is relating to any non-broking third party products offered on the (parent) app.
- c. Broker shall provide specific disclosures to the client that third party products are not Exchange traded products, and the broker is just acting as distributor and all disputes with respect to the distribution activity, would not have access to SCORES/ODR, Exchange investor redressal forum or Arbitration mechanism.
- d. TPP shall be offered under a different tab/link/page with specific display of the name and registration number of concerned regulator.
- e. Broker shall strictly maintain segregation, confidentiality and security of client data, ensuring that neither its parent company/ TPP Providers have access to the broker's data.
- f. Broker's app shall be under 2FA login or where the platform is parent app, access to the broking tab on Parent App shall be under 2FA login and shall be in compliance with 2FA norms prescribed by the stock exchanges/SEBI from time to time or any other norm stringent than that.
- g. There should not be any liasioning between stock broker and TPP provider. The client shall have a choice to avail which product they wish to avail. They shall not be mandated/forced to avail any third-party products available on the platform.
- h. The trading member must obtain express/explicit consent from the client for sharing their information, except trade, fund balance or settlement obligation data unless permitted to the respective entity under the respective SEBI regulations or the entity comes under the regulatory jurisdiction of SEBI (for limited purpose of displaying it to client only), with the Third-Party Product Provider. Further, express consent and/or explicit confirmation shall be

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obtained from the clients by providing an option to the clients to only select/opt in for sharing their information. Moreover, client should be given an option to withdraw the consent anytime.

- i. Broker shall not be responsible for compliance with client KYC for the third-party products. Each Third-Party Product provider shall be responsible to ensure compliance with its own KYC requirements applicable to its product.
- j. The agreement for availing third party products shall be between the client and the TPP provider. The broker shall not enter into any tripartite agreement whereby they will also become party to the agreement for availing third party products, including for performance guarantee etc.
- k. Payments for third party products should be made directly between the client and the Third-Party Product provider, without any routing of such payments/funds through the books of the trading member. However, exchanges may provide exemptions to brokers in case of certain products where broker is permitted to collect the amount on behalf of the Third-Party Product provider by respective regulatory body e.g. NPS (regulated by PFRDA) etc. However, in such cases, it may be stated that a separate non-withdrawable bank account shall be maintained by broker for the collection of amount and any amount collected on their behalf shall be credited to the bank account of the Third-Party Product Provider within such time period as may be permitted by the concerned regulator.
- l. The broker, where they are acting as distributor/referrer/lead generator, may carry out advertisement/marketing of the third-party products in compliance with code of advertisement as prescribed by the SEBI/stock exchanges/respective financial sector regulator from time to time.
- m. Brokers shall engage only in the lending products which are permitted by the SEBI from time to time, such as MTF and T+1+5 funding.

Trading Members are advised to take note of the above contents and ensure strict compliance.

For and on behalf of

**National Commodity & Derivatives Exchange Limited**

Pranesh Shetty

Senior Vice President – Inspection & Enforcement

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For further information/clarifications, please contact

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