
NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange

Circular No. : NCDEX/COMPLIANCE-034/2024

Date : April 30, 2024

Subject : Master Circular - Member Inspection

Exchange has been issuing various circulars/ directions to its Members from time to time. In order to enable the users to have access to the applicable circulars at one place. This Master Circular is a compilation of relevant circulars pertaining to "Member-Inspection" issued by the exchanges which are operational as on date of this circular. Applicable provisions of the existing circulars issued till March 31, 2024 are consolidated in this master circular.

It is hereby clarified that in case of any inconsistency between this Master Circular and the original applicable circular, the content of the original circular shall prevail.

Notwithstanding any revision in the processes or formats, if any -

- a) anything done or any action taken or purported to have been done or taken under such revised/ rescinded process including but not limited to any regulatory inspection/ investigation or enquiry commenced or any disciplinary proceeding initiated or to be initiated under such rescinded/ revised process or rescission, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular;
- b) the previous operation of the rescinded process or circular or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred thereunder, any penalty incurred in respect of any violation of such rescinded process or circulars, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded process or circulars have never been rescinded.

All Members and the market participants are requested to take note of the same.

For and on behalf of

National Commodity & Derivatives Exchange Limited

Pranesh Shetty

Vice President – Inspection & Enforcement

For further information, /clarifications, please contact

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TABLE OF CONTENTS

1. UNIQUE CLIENT CODE (UCC)	5
2. MOST IMPORTANT TERMS AND CONDITIONS (MITC)	7
3. MASTER CIRCULAR ON KNOW YOUR CLIENT (KYC) NORMS FOR THE SECURITIES MARKET	10
4. SETTLEMENT OF RUNNING ACCOUNT OF CLIENT'S FUNDS LYING WITH TRADING MEMBER (TM).....	45
5. ANNUAL CALENDAR AND OPERATIONAL GUIDELINES ON SETTLEMENT OF RUNNING ACCOUNT OF CLIENTS' FUNDS LYING WITH THE TRADING MEMBERS.....	47
6. AUTHORIZATION FOR ELECTRONIC CONTRACT NOTES.....	53
7. GUIDELINES ON COMMON/ UNIFORM CLIENT REGISTRATION THROUGH KYC REGISTRATION AGENCIES (KRAS)	53
8. NOMINATION FOR ELIGIBLE TRADING AND DEMAT ACCOUNT.....	62
9. DISCLOSURE OF PROPRIETARY TRADING TO CLIENTS.....	63
10. REGULATION OF TRANSACTIONS BETWEEN CLIENTS AND BROKERS	63
11. NAMING/ TAGGING OF BANK AND DEMAT ACCOUNTS BY MEMBERS	67
12. REPORTING OF BANK AND DEMAT ACCOUNTS MAINTAINED BY STOCK BROKER ...	69
13. STANDARDIZATION OF BANK BOOK AND CLIENT LEDGER	75
14. MONITORING OF CLIENTS' FUNDS LYING WITH THE STOCK BROKER BY THE STOCK EXCHANGES.....	76
15. SEGREGATION AND MONITORING OF COLLATERAL AT CLIENT LEVEL.....	77
16. BANK GAURANTEES (BG'S) CREATED OUT OF CLIENT FUNDS	78
17. INTERNAL AUDIT OF STOCK BROKER	83

18. MONITORING OF FINANCIAL STRENGTH OF MEMBERS	90
19. STANDARD OPERATING PROCEDURES FOR STOCK BROKERS/DEPOSITORY PARTICIPANTS - ACTIONS TO BE CONTEMPLATED BY STOCK EXCHANGES/DEPOSITORIES FOR ANY EVENT BASED DISCREPANCIES	91
20. UPLOADING CLIENTS' FUND BALANCE AND SECURITIES BALANCE BY THE STOCK BROKERS ON STOCK EXCHANGE SYSTEM	92
21. PROVIDING PAN	94
22. SYSTEM AUDIT OF MEMBERS.....	94
23. SUBMISSION OF BANK ACCOUNT BALANCES	101
24. DISPLAY OF BROKERAGE, STATUTORY & REGULATORY LEVIES.....	102
25. ENHANCED OBLIGATIONS AND RESPONSIBILITIES ON QUALIFIED STOCK BROKERS (QSBS).....	103
26. CONTRACT NOTE.....	118
27. SMS AND EMAIL ALERTS TO CLIENTS BY THE EXCHANGE.....	125
28. GUIDELINES FOR "STATEMENT OF ACCOUNT" FOR FUNDS, SECURITIES AND COMMODITIES	127
29. FRAMEWORK FOR SUPERVISION OF AUTHORIZED PERSONS (APs) & BRANCHES BY MEMBERS	129
30. REPORTING FOR INSPECTION OF AUTHORISED PERSON	130
31. UNAUTHORISED MARKET PRACTICES BY THE MEMBERS.....	132
32. REPORTING FOR ARTIFICIAL INTELLIGENCE (AI) AND MACHINE LEARNING (ML) APPLICATIONS AND SYSTEMS OFFERED AND USED BY MARKET INTERMEDIARIES. ...	134
33. DISPLAY OF DETAILS AT MEMBER'S OFFICE	139
34. HANDLING OF CLIENTS' SECURITIES BY TRADING MEMBERS.....	140
35. MARGIN OBLIGATIONS TO BE GIVEN BY WAY OF PLEDGE/ RE-PLEDGE IN THE DEPOSITORY SYSTEM.....	141

36. INACTIVE CLIENT'S ACCOUNT	148
37. DESIGN OF COMMODITY INDICES AND PRODUCT DESIGN FOR FUTURES ON COMMODITY INDICES	150
38. PARTICIPATION OF MUTUAL FUNDS IN COMMODITY DERIVATIVES MARKET IN INDIA.....	150
39. PARTICIPATION OF MUTUAL FUNDS IN COMMODITY INDEX	150
40. EXCLUSIVE EMAIL ID FOR REDRESSAL FOR INVESTOR GRIEVANCE	150
41. GUIDELINES ON PRE-FUNDED INSTRUMENTS (PAY ORDERS AND DEMAND DRAFTS)/ ELECTRONIC FUND TRANSFER	151
42. GUIDELINES FOR OUTSOURCING OF ACTIVITIES	151
43. MAINTENANCE AND PRESERVATION OF DOCUMENTS	158
44. CLARIFICATION ON MARGIN COLLECTION & REPORTING	158
45. GUIDELINES ON ANTI-MONEY LAUNDERING (AML) STANDARDS AND COMBATING THE FINANCING OF TERRORISM (CFT) /OBLIGATIONS OF SECURITIES MARKET INTERMEDIARIES UNDER THE PREVENTION OF MONEY LAUNDERING ACT, 2002 AND RULES FRAMED THERE UNDER.....	160
46. SUBMISSION OF DATA TOWARDS 'CLIENT LEVEL CASH & CASH EQUIVALENT BALANCES' AND 'HOLDING STATEMENT'	185
47. CHANGES TO THE FRAMEWORK TO ENABLE VERIFICATION OF UPFRONT COLLECTION OF MARGINS FROM CLIENTS IN CASH AND DERIVATIVES SEGMENTS ..	187
48. UPSTREAMING OF CLIENTS' FUNDS BY STOCK BROKERS (SBS) / CLEARING MEMBERS (CMS) TO CLEARING CORPORATIONS (CCS)	188
49. TRADING PREFERENCES BY CLIENTS – APPLICABILITY FOR COMMODITY DERIVATIVES	218
50. SUBMISSION OF RISK BASED SUPERVISION.....	223
51. EASE OF DOING INVESTMENTS BY INVESTORS- FACILITY OF VOLUNTARY FREEZING BLOCKING OF TRADING ACCOUNTS BY CLIENTS.....	223
52. REVISED PENALTY STRUCTURE	225

1. UNIQUE CLIENT CODE (UCC)

As per the extant guidelines of the Exchange/ SEBI, every participant on Exchange trading platform should have a unique identity number i.e. Unique Client Code (UCC). The Exchange/ SEBI has issued circulars/ guidelines from time to time for the members and their constituents in regards of client database which specifies that the members are required to update the client details on the Unique Client Code Interface i.e NCFE software. Members shall collect, verify the authenticity of PAN or e-PAN with the details on the website of IT Department and maintain the copy(Physical/Soft) of PAN in their records.” and record the same in their back office and retain a copy of the Permanent Account Number (PAN) allotted by the Income Tax Department for all their clients.

However, the investors residing in the State of Sikkim are exempted from the mandatory requirement of PAN. The exchanges should, however, ensure a system of proper verification to verify that such members/ investors are residents of the State of Sikkim.

Further, PAN may not be insisted in the case of Central Government, State Government, and the officials appointed by the courts e.g. Official liquidator, Court receiver etc. (under the category of Government) for transacting in the securities market. The intermediary shall verify the veracity of the claim of the specified organizations, by collecting sufficient documentary evidence in support of their claim for such an exemption.

The Member shall also be required to furnish the above particulars of their clients to the commodity derivatives exchanges and the same would be updated on a monthly basis. Such information for a specific month should reach the exchange within 7 working days of the following month.

The Exchanges shall impose penalty on the member at the rate of 1% of the value of every trade that has been carried out by the member without uploading the UCC details of the clients. The penalty so collected by the Commodity Derivatives Exchanges shall be transferred to the Investor Protection Fund (IPF). Further, if the client details are not uploaded within a month of the trade, the member is liable to be suspended.

The Exchanges shall be required to maintain a database of client details submitted by members. Historical records of all such submissions shall be maintained for a period of 7 years by the Exchanges.

1.1 Updation of Unique Client Codes

The members are required to upload their Client Details i.e. UCC details to the Exchange through their Web based Portal “NCFE”. Member can upload a single record as well as multiple records using Bulk Upload facility through this system.

1.2 Mapping of Unique Client Code(UCC) with demat account of clients

The SEBI/ Exchange has issued circulars for mapping of UCC with the demat account of the clients, following mechanism shall be implemented:

- 1.2.1 UCC allotted by the trading member (TM) to the client shall be mapped with the demat account of the client.
- 1.2.2 A client may trade through multiple TMs in which case each such UCC shall be mapped with one or more demat account(s).
- 1.2.3 Stock Exchanges shall share the UCC data with the Depositories which shall include the PAN, Segment, TM/CM code and UCC allotted. Such UCC data shall be shared with the Depositories on a daily basis.
- 1.2.4 Depositories shall map the UCC data in the demat account based on the PAN provided in the UCC database.
- 1.2.5 Clients may make a request to their depository participants to delink or add UCC details which shall be processed by the Depository through depository participants. Before any addition of UCC in the demat account, the Depositories shall validate the same with the Stock Exchanges/ Client.
- 1.2.6 Stock Exchanges and Depositories shall have a mechanism in place to address clients' complaints with regard to UCC mapping with their demat accounts.
- 1.2.7 Stock Exchanges and Depositories shall have a mechanism in place to ensure that inactive, non-operational UCCs are not misused and also a mechanism to ensure that inactive, non-operational UCCs are weeded out in the process of mapping clients.

1.3 UCC details of clients – Linking of PAN with Aadhaar

Exchange has updated the NCFE screen to Update Pan Aadhaar Details' *instead of* 'Update Pan details'. Further, the file format of bulk upload facility has been updated

Members are advised to get necessary changes done at their end to incorporate the changes as mentioned above.

Further, all members are once again advised to ensure that their existing as well as new clients comply with the requirement of linking their PAN with Aadhaar in accordance with the guidelines as issued by the Government of India.

Members are advised to take a note of the above and ensure compliance.

Circular References:

- Circular No. NCDEX/TRADING-094/2016/226 dated September 21, 2016.
- Circular No. NCDEX/TRADING-094/2016/226 dated September 21, 2016
- Circular No. NCDEX/MEMBERSHIP-54/2019 dated November 18, 2019
- Circular No. NCDEX/MEMBERSHIP-011/2021 dated March 09, 2021
- Circular No. NCDEX/MEMBERSHIP- 006/2022 dated February 28, 2022

2. MOST IMPORTANT TERMS AND CONDITIONS (MITC)

SEBI has issued circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/180 dated November 13, 2023, on the captioned subject. The copy of the said SEBI circular is enclosed for your reference.

1. SEBI has prescribed the following uniform documents for formalizing the broker- client relationship, as per clause 20 of “Master Circular on stock brokers” dated May 17, 2023:
 - i. Account opening form
 - ii. Rights and obligations
 - iii. Risk disclosure documents
 - iv. Guidance note
 - v. Policies and procedures
 - vi. Tariff sheet

A copy of these documents is required to be provided by the broker to the clients free of charge.

2. Typically, these documents are voluminous and investors may lose focus on critical aspects of the relationship with the broker.
3. In order to bring into focus the critical aspects of the broker-client relationship and for ease of understanding of the clients, it has been decided that brokers shall inform a standard Most Important Terms and Conditions (MITC) which shall be acknowledged by the client.
4. The form, nature of communication, documentation and detailed standards for implementation of MITC shall be published on or before January 01, 2024, by the Brokers’ Industry Standards Forum (ISF), under the aegis of stock exchanges, in consultation with SEBI.

The standard Most Important Terms and Conditions as finalized in accordance with point no. 4 of the aforesaid SEBI Circular is enclosed herewith as Annexure A.

With respect to new clients on boarded from April 01, 2024 onwards, the MITC shall required to be acknowledged i.e. duly signed by the client.

Further, in accordance with aforesaid SEBI circular dated November 13, 2023, members are also requested to note that the MITC shall be informed by members to their existing clients by June 01, 2024 via email or any other suitable mechanism which can be preserved. In case if communication gets bounced/undelivered, the same shall be communicated through alternate channels to such clients. Other suitable mechanism may include physical delivery/SMS/electronic instant messaging services after adhering with the safeguards prescribed under Exchange Circular NCDEX/COMPLIANCE-036/2022 dated June 06, 2022 on Issuance of Electronic Contract Notes (ECN) through SMS/electronic instant messaging services.

5. In the event that the ISF is unable to publish the same, as above, in whole or in part, then SEBI, may, at its discretion, publish standards in respect of the same.
6. In view of the above, additional clause 20.1.6 may be incorporated in the master circular and 20.4 of the master circular stands amended as under.

“20.1.6. Most Important Terms and Conditions”

“20.4..... in the future. The client would also be required to give acknowledgement of Most Important Terms and Conditions (MITC)”

7. For onboarding of new clients, the date of the implementation and compliance by the market participants shall be April 01, 2024.
8. For existing clients, the MITC shall be informed to clients via email or any other suitable mode of communication (which can be preserved) by June 01, 2024.
9. The stock exchanges are directed to:
 - a. bring the provisions of this circular to the notice of stock brokers, and also disseminate the same on their websites;
 - b. make amendments to the relevant bye-laws, rules and regulations for the implementation of the above provisions;
 - c. publish the implementation standards on their websites; and

- d. communicate to SEBI, the status of the implementation of the provisions of this circular in their monthly development report.

Annexure A

Most Important Terms and Conditions (MITC)

(For non-custodial settled trading accounts)

1. Your trading account has a “Unique Client Code” (UCC), different from your demat account number. Do not allow anyone (including your own stock broker, their representatives and dealers) to trade in your trading account on their own without taking specific instruction from you for your trades. Do not share your internet/ mobile trading login credentials with anyone else.
2. You are required to place collaterals as margins with the stock broker before you trade. The collateral can either be in the form of funds transfer into specified stock broker bank accounts or margin pledge of securities from your demat account. The bank accounts are listed on the stock broker website. Please do not transfer funds into any other account. The stock broker is not permitted to accept any cash from you.
3. The stock broker’s Risk Management Policy provides details about how the trading limits will be given to you, and the tariff sheet provides the charges that the stock broker will levy on you.
4. All securities purchased by you will be transferred to your demat account within one working day of the payout. In case of securities purchased but not fully paid by you, the transfer of the same may be subject to limited period pledge i.e. seven trading days after the pay-out (CUSPA pledge) created in favor of the stock broker. You can view your demat account balances directly at the website of the Depositories after creating a login.
5. The stock broker is obligated to deposit all funds received from you with any of the Clearing Corporations duly allocated in your name. The stock broker is further mandated to return excess funds as per applicable norms to you at the time of quarterly/ monthly settlement. You can view the amounts allocated to you directly at the website of the Clearing Corporation(s).
6. You will get a contract note from the stock broker within 24 hours of the trade.
7. You may give a one-time Demat Debit and Pledge Instruction (DDPI) authority to your stock broker for limited access to your demat account, including transferring securities, which are

sold in your account for pay-in.

8. The stock broker is expected to know your financial status and monitor your accounts accordingly. Do share all financial information (e.g. income, networth, etc.) with the stock broker as and when requested for. Kindly also keep your email Id and mobile phone details with the stock broker always updated.
9. In case of disputes with the stock broker, you can raise a grievance on the dedicated investor grievance ID of the stock broker. You can also approach the stock exchanges and/or SEBI directly.
10. Any assured/guaranteed/fixed returns schemes or any other schemes of similar nature are prohibited by law. You will not have any protection/recourse from SEBI/stock exchanges for participation in such schemes.

Circular References:

- Circular No. NCDEX/COMPLIANCE-125/2023 dated November 15, 2023
- Circular No. NCDEX/COMPLIANCE-002/2024 dated January 08, 2024

3. MASTER CIRCULAR ON KNOW YOUR CLIENT (KYC) NORMS FOR THE SECURITIES MARKET

- 3.1 The Securities and Exchange Board of India (SEBI) has been issuing various circulars/directions from time to time on Know Your Client (KYC) norms to be followed by intermediaries in the securities market. In order to enable the users to have access to all the applicable circulars/directions at one place, this Master Circular on the captioned subject is being issued.
- 3.2 This Master Circular is a compilation of the circulars/directions issued by SEBI up to September 30, 2023 on the captioned subject and includes certain modifications to align such circulars/directions with the provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and the Securities and Exchange Board of India [KYC (Know Your Client) Registration Agency] Regulations, 2011. The provisions of this Master Circular shall come into force from the date of its issue.
- 3.3 Any modifications/updation in existing KYC records, shall be effected in line with the provisions of this Circular by December 31, 2023.
- 3.4 On and from the date of issue of this Circular, all circulars for the purpose of KYC as listed in Appendix shall stand rescinded/modified as indicated therein.

3.5 Notwithstanding such rescission,

- a) Anything done or any action taken or purported to have been done or taken under the rescinded circulars, prior to such rescission, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular;
- b) Any application made to the Board under the rescinded circulars, prior to such rescission, and pending before it shall be deemed to have been made under the corresponding provisions of this Master Circular;
- c) The previous operation of the rescinded circulars or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded circulars, any penalty, incurred in respect of any violation committed against the rescinded circulars, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded circulars had never been rescinded.

3.6 This Master Circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Section 1: Know Your Client (KYC) Requirements for the Securities Market

Definition

1. In this Circular, unless the context otherwise requires, the terms used herein shall bear the meanings as assigned to them below:
 - a. "Aadhaar number" shall have the same meaning as assigned to it under sub-section (a) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 and includes any alternative virtual identity generated under sub-section (4) of section 3 of that Act.
 - b. "Act", "Regulations", "Circulars" and "Guidelines" mean the Securities and Exchange Board of India Act, 1992 and the Regulations, Circulars and Guidelines made thereunder and amendments thereto.
 - c. "Authentication", in the context of Aadhaar authentication, shall have the same meaning as defined under sub-section (c) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016.
 - d. "Beneficial owner" shall have the same meaning as assigned to it under sub section 1 clause (fa) of section 2 of the Prevention of Money Laundering Act, 2002.
 - e. "Central KYC Records Registry" (CKYCR) shall have the same meaning as assigned to it under Rule 2 (1) (ac) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

- f. "Client" shall have the same meaning as assigned to it under Section 2(ha) of the Prevention of Money Laundering Act, 2002.
- g. "Client Due Diligence" shall have the same meaning as assigned to it under Rule 2 (1) (b) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.
- h. "Designated Director" shall have the same meaning as assigned to it under Rule 2 (1) (ba) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.
- i. "Digital KYC" shall have the same meaning as assigned to it under Rule 2 (1) (bba) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.
- j. "Digital Signature" shall have the same meaning as assigned to it under clause (p) of subsection (1) of section (2) of the Information Technology Act, 2000 (21 of 2000).
- k. "e-KYC authentication facility" shall have the same meaning as assigned to it under clause (j) of sub section (1) of section (2) of Aadhaar (Authentication and Offline Verification) Regulations, 2021.
- l. "Electronic Signature" shall have the same meaning assigned to it under clause (ta) of subsection (1) of section (2) of the Information Technology Act, 2000 (21 of 2000).
- m. "Equivalent e-document" shall have the same meaning as assigned to it under Rule 2 (1) (cb) of Prevention of Money Laundering (Maintenance of Records) Rules, 2005.
- n. "e-Sign" is an online electronic signature service which can be integrated with service delivery applications via an API to facilitate an e-Sign user to digitally sign a document.
- o. "Intermediary" shall have the same meaning as assigned to it under sub section 1 clause (g) of section (2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.
- p. "Know Your Client (KYC)" means the procedure specified by the Board for identifying and verifying the Proof of Address, Proof of Identity and compliance with rules, regulations, guidelines and circulars issued by the Board or any other authority for Prevention of Money Laundering from time to time.
- q. "Person" shall have the same meaning as assigned to it under sub section 1 clause (s) of section 2 of the Prevention of Money laundering Act, 2002.
- r. "PMLA" means The Prevention of Money Laundering Act, 2002 (Act No. 15 of 2003) and includes the amendments thereto.
- s. "PML Rules" means The Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and includes the amendments thereto.

Background

2. KYC and Client Due Diligence (CDD) policies as part of KYC are the foundation of an effective Anti-Money Laundering process. The KYC process requires every SEBI registered intermediary to obtain and verify the Proof of Identity (PoI) and Proof of

Address (PoA) from the client at the time of commencement of an account-based relationship.

3. The registered intermediaries shall not open or keep any anonymous account or account in fictitious names or account on behalf of other persons whose identity has not been disclosed or cannot be verified. The intermediaries shall also continue to abide by circulars issued by SEBI from time to time for prevention of money laundering.

Uniform KYC Format

4. SEBI registered intermediaries shall perform KYC in securities market through physical mode/ digital (online or app based) mode. To bring about uniformity in securities market, all SEBI registered intermediaries shall use the same KYC form and supporting documents. Foreign Portfolio Investors and Eligible Foreign Investors shall be guided as per provisions of SEBI Circular SEBI/HO/AFD-2/CIR/P/2022/175 December 19, 2022 and amendments thereto.
5. The account opening form (AOF) for client shall be divided into two parts. Part I of the AOF shall be the KYC form which shall capture the basic details about the client. For this purpose, all registered intermediaries shall use the KYC templates provided by Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) for individuals and for legal entities for capturing the KYC information. The CKYCR templates - Individual and Legal Entity provided by CERSAI is available at <https://www.ckycindia.in/ckyc/?r=download>.
6. Part II of the form shall obtain the additional information specific to the area of activity of the intermediary, as considered appropriate by them. The instant Master Circular deals with the provisions of Part I -KYC form. Requirement of Permanent Account Number (PAN).
7. In order to strengthen the KYC norms and identify every participant in the securities market with their respective PAN thereby ensuring sound audit trail of all the transactions, PAN shall be the unique identification number for all participants transacting in the securities market, irrespective of the amount of transaction.
8. The registered intermediaries shall verify the PAN of their clients online at the Income Tax website without insisting on the original or copy of PAN card.
9. As per the provisions of Income-tax Act, 1961 (Income Tax Act), the PAN allotted to a person shall become inoperative if it is not linked with Aadhaar. Since PAN is the key identification number and part of KYC requirements for all transactions in the securities market, all registered intermediaries shall ensure valid PAN in the KYC documentation for all clients.

10. Status of Aadhaar and PAN linkage shall be flagged at the system of KRA.

Exemptions/Clarifications to PAN requirements

11. The following are exempted from the mandatory requirement of PAN:

- i. Transactions undertaken on behalf of Central Government and/or State Government and by officials appointed by Courts e.g. Official liquidator, Court receiver etc. (under the category of Government) for transacting in the securities market.
- ii. Investors residing in the state of Sikkim.
- iii. UN entities/multilateral agencies exempt from paying taxes/filing tax returns in India.
- iv. SIP of Mutual Funds upto ₹50,000/- per year.

In case there is change in the name subsequent to issuance of PAN of the client, registered intermediaries can collect the PAN card proof as submitted by the client provided it is supported by a marriage certificate issued by the State Government or gazette notification, indicating such a change of name.

The e-PAN issued by Central Board of Direct Taxes (CBDT) can also be produced by client for KYC compliance. e-PAN is a digitally signed PAN card issued in electronic format by the Income-tax department.

List of documents admissible as Proof of Identity (POI)

12. Registered intermediaries at the time of commencement of an account-based relationship shall identify their clients, verify their identity and obtain information on the purpose and intended nature of the business relationship.

13. The name as mentioned in the KYC form shall match the name as mentioned in the Proof of Identity (PoI) submitted.

14. The following documents shall be accepted as PoI:

- a. Officially valid document (OVD) defined as per Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules):
 - i. the passport;
 - ii. the driving licence;
 - iii. proof of possession of Aadhaar number;
 - iv. the Voter's Identity Card issued by Election Commission of India;

- v. job card issued by NREGA duly signed by an officer of the State Government;
 - vi. the letter issued by the National Population Register containing details of name address; or
 - vii. any other document as notified by the Central Government in consultation with the Regulator.
- b. Further, in terms of proviso to the above Rule, where simplified measures are applied for verifying the identity of the clients, the following documents shall also be deemed to be officially valid document:
- i. Identity card/ document with applicant's photo, issued by the Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks and Public Financial Institutions;
 - ii. Letter issued by a gazetted officer, with a duly attested photograph of the person.
15. The registered intermediaries shall not store/ save the Aadhaar number of client in their system. Further, in terms of PML Rule 9(16), every registered intermediary shall, where the client submits his Aadhaar number, ensure that such client redacts or blacks out his Aadhaar number by appropriate means where the authentication of Aadhaar number is not required under sub rule (15) of PML Rule 9.

Proof of Address (PoA)

16. At the time of commencement of an account-based relationship, the registered intermediaries shall along with the Pol, obtain documents as proof of address.
17. The following documents shall be accepted as PoA:
- a. "officially valid document" defined as per Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules):
 - i. the passport;
 - ii. the driving licence;
 - iii. proof of possession of Aadhaar number;
 - iv. the Voter's Identity Card issued by Election Commission of India;
 - v. job card issued by NREGA duly signed by an officer of the State Government;
 - vi. the letter issued by the National Population Register containing details of name, address; or
 - vii. any other document as notified by the Central Government in consultation with the Regulator.

- b. Further, in terms of Rule 9(18) of PML rules, 2005, in case the officially valid document furnished by the client does not contain updated address, the following documents (or their equivalent edocuments thereof) shall be as deemed to be officially valid document for the limited purpose of proof of address, provided that the client shall submit updated officially valid document (or their equivalent e-documents thereof) with current address within a period of three months of submitting the following documents:
- i. utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
 - ii. property or municipal tax receipt;
 - iii. pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
 - iv. letter of allotment of accommodation from employer issued by state or central government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and licence agreements with such employers allotting official accommodation.
18. In terms of the PML Rules, cases where the client submits his proof of possession of Aadhaar number as an officially valid document, he may submit it in such form as is issued by the UIDAI.
19. A document shall be deemed to an officially valid document even if there is a change in the name subsequent to its issuance provided it is supported by a Marriage Certificate issued by the State Government or a gazette notification, indicating such change of name.
20. For non-residents and foreign nationals, (allowed to trade subject to RBI and FEMA guidelines), copy of passport/Persons of Indian Origin (PIO) Card/Overseas Citizenship of India (OCI) Card and overseas address proof is mandatory.
21. In case the officially valid document presented by a foreign national does not contain the details of address, the documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India shall be accepted as proof of address.
22. If any proof of address is in a foreign language, then translation into English shall be required.

23. If correspondence and permanent address is different, then proof for both shall be submitted.

Acceptance of third party address as correspondence address

24. A client can authorize to capture address of a third party as a correspondence address, provided that all prescribed 'Know Your Client' norms are also fulfilled for the third party. The intermediary shall obtain proof of identity and proof of address for the third party. The intermediary shall also ensure that client due diligence norms as specified in Rule 9 of PML Rules are complied with in respect of the third party.
25. Registered intermediaries at the time of commencement of an account based relationship shall determine whether the client purports to act on behalf of juridical person or individual or trust and the registered intermediary shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person.

Identification of Beneficial Ownership

26. SEBI Master Circular SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023 on Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed there under has prescribed the approach to be followed towards identification of beneficial ownership at Para 11 (iii) therein. Accordingly, the registered intermediaries may be guided by the provisions of the said Master Circular and amendments thereto for the purpose of identification of beneficial ownership of the client.
27. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures.
28. The registered intermediaries shall conduct ongoing CDD where inconsistencies are noticed in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, PML Rules, SEBI Act and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.
29. The registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.
30. The stock exchanges and depositories shall monitor the compliance of the aforementioned provision on identification of beneficial ownership through half yearly

internal audits. In case of mutual funds, compliance of the same shall be monitored by the Boards of the Asset Management Companies and the Trustees and in case of other registered intermediaries, by their Board of Directors.

Requirement of additional documents for non-individuals (Legal Entities)

31. In case of non-individuals, additional documents (certified copies of equivalent e-documents) to be obtained are mentioned below:

- i. Corporate body:
 - a. Certificate of incorporation.
 - b. Memorandum and Articles of Association.
 - c. Board Resolution for investment in securities market.
 - d. Power of Attorney granted to its managers, officers or employees, as the case may be, to transact on its behalf.
 - e. Authorised signatories list with specimen signatures.
 - f. Copy of the balance sheet for the last financial year (initially for the last two financial years and subsequently for every last financial year).
 - g. Latest share holding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI takeover Regulations, duly certified by the company secretary/whole time director/ MD (to be submitted every year).
 - h. Photograph, POI, POA, PAN and DIN numbers of whole time directors/two directors in charge of day to day operations.
 - i. Photograph, POI, POA, PAN of individual promoters holding control - either directly or indirectly.
- ii. Partnership Firm:
 - a. Certificate of registration (for registered partnership firms only).
 - b. Copy of partnership deed.
 - c. Copy of the balance sheet for the last financial year (initially for the last two financial years and subsequently for every last financial year).
 - d. Authorised signatories list with specimen signatures.
 - e. Photograph, POI, POA, PAN of Partners.
- iii. Trust:
 - a. Certificate of registration (for registered trust only).
 - b. Copy of Trust deed.
 - c. Copy of the balance sheet for the last financial year (initially for the last two financial years and subsequently for every last financial year).
 - d. List of trustees certified by managing trustees/CA.
 - e. Photograph, POI, POA, PAN of Trustees.

- iv. HUF:
 - a. Deed of declaration of HUF/List of coparceners.
 - b. Bank pass-book/bank statement in the name of HUF.
 - c. Photograph, POI, POA, PAN of Karta.
- v. Unincorporated association or a body of individuals:
 - a. Proof of Existence/Constitution document.
 - b. Resolution of the managing body & Power of Attorney granted to transact business on its behalf.
 - c. Authorized signatories list with specimen signatures.
- vi. Banks/Institutional Investors:
 - a. Copy of the constitution/registration or annual report/balance sheet for last financial year (initially for the last two financial years and subsequently for every last financial year).
 - b. Authorized signatories list with specimen signatures.
- vii. Army/Government Bodies:
 - a. Self-certification on letterhead.
 - b. Authorized signatories list with specimen signatures.
- viii. Registered Society:
 - a. Copy of Registration Certificate under Societies Registration Act.
 - b. List of Managing Committee members.
 - c. Committee resolution for persons authorised to act as authorized signatories with specimen signatures.
 - d. True copy of Society Rules and Bye Laws certified by the Chairman/Secretary.

Requirement of Mobile Number and Email ID

32. The registered intermediaries shall upload the details of mobile number and email address on the KRA system. It shall be ensured that the mobile number/email addresses of their employees/authorized persons, distributors etc. are not uploaded on behalf of clients.

Digital KYC

33. In order to enable the online KYC process for establishing account based relationship with the registered intermediary, client's KYC shall be completed through digital (online / Application (App) based) KYC, inperson verification through video, online submission of officially valid document / other documents, using electronic/digital signature, including Aadhaar e-Sign.

34. The client shall visit the website/App/digital platform of the registered intermediary and fill up the online KYC form and submit requisite documents.
35. SEBI registered intermediaries shall obtain the express consent of the client before undertaking online KYC.
36. The PAN, name, photograph, address, mobile number and email ID of the client shall be captured digitally and officially valid document shall be provided as a photo / scan of the original under electronic/digital signature, including Aadhaar e-Sign and the same shall be verified.
37. Any officially valid document other than Aadhaar shall be submitted through DigiLocker / using electronic/digital signature, including Aadhaar eSign.
38. The mobile number of client accepted as part of KYC should preferably be the one seeded with Aadhaar.
39. Mobile and email shall be verified through One Time Password (OTP) or other verifiable mechanism.
40. Aadhaar shall be verified through UIDAI's authentication/ verification mechanism. Further, in terms of PML Rule 9(16), every intermediary shall, where the client submits his Aadhaar number, ensure that such client redacts or blackouts his Aadhaar number through appropriate means where the authentication of Aadhaar number is not required under sub-rule (15) under PML Rule.
41. e-KYC through Aadhaar Authentication service of UIDAI (e-KYC) or offline verification through Aadhaar QR Code/ XML file can be undertaken, provided the XML file or Aadhaar Secure QR Code generation date is not older than 3 days from the date of carrying out KYC.
42. The usage of Aadhaar shall be optional and purely on a voluntary basis by the client.
43. Any document, except for the documents mentioned in the First Schedule of the Information Technology Act, 2000, shall be authenticated by a client by way of electronic/digital signature including Aadhaar e-Sign. Accordingly, the process of performing KYC shall be completed by using electronic/digital signature including Aadhaar e-Sign.
44. A client can use the electronic/digital signature, including Aadhaar e-Sign service to submit the document to the registered intermediary.

45. In case of non-individual clients, intermediaries shall exercise caution and satisfy themselves regarding the genuineness of the authorization and identity of the authorized signatories.
46. The electronic/digital signature, including Aadhaar e-Sign shall be accepted in lieu of wet signature on the documents provided by the client. The cropped signature affixed on the online KYC form under electronic/digital signature, including Aadhaar e-Sign shall also be accepted as valid signature.
47. Bank details of the client shall be captured online and signed cancelled cheque shall be provided as a photo / scan of the original under electronic/digital signature including Aadhaar e-Sign. Bank account details shall be verified by Penny Drop mechanism or any other mechanism using API of the Bank. The name and bank details as obtained shall be verified with the information provided by client.
48. Once all the required information as per the online KYC form is filled up by the investor, KYC process shall be completed as under:
 - a. The client shall take a print out of the completed KYC form and after affixing their wet signature, send the scanned copy / photograph of the same to the registered intermediary under electronic/digital signature including Aadhaar e-Sign or
 - b. Affix online the cropped signature on the filled KYC form and submit the same to the registered intermediary under electronic/digital signature including Aadhaar e-Sign.
 - c. The “original seen and verified” requirement for officially valid document would be met where the investor provides the officially valid document in the following manner:
 - i. As a clear photograph or scanned copy of the original officially valid document, through the electronic/digital signature including Aadhaar e-Sign, or;
 - ii. As digitally signed document of the officially valid document, issued through the DigiLocker by the issuing authority.

Features for online KYC App of the Intermediary

49. SEBI registered intermediary can implement its own App for undertaking online KYC of clients.
50. The App shall facilitate taking photograph, scanning, acceptance of officially valid document through Digilocker, video capturing in live environment and usage of the App only by authorized person of the intermediary.
51. The App shall also have features of random action initiation for client response to establish that the interactions are not pre-recorded along with time stamping and geo-location tagging to ensure the requirement like physical location being in India etc are also implemented.

52. Registered intermediaries shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audio-visual interaction with the client and the quality of the communication is adequate to allow identification of the client beyond doubt. Registered intermediaries shall carry out the liveness check in order to guard against spoofing and such other fraudulent manipulations.
53. The intermediaries shall, before rolling out and periodically, carry out software and security audit and validation of their App. The intermediaries can have additional safety and security features other than as prescribed above.

Requirement of In-Person Verification (IPV)

54. It shall be mandatory for all the registered intermediaries to carry out IPV of their clients.
55. The intermediaries shall ensure that the details like name of the person doing IPV, his designation, organization with his signatures and date are recorded on the KYC form at the time of IPV.
56. The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.
57. In case of Stock brokers, their Authorised Persons (appointed by the stock brokers after getting approval from the concerned Stock Exchanges) can perform the IPV.
58. In case of Mutual Funds, their Asset Management Companies (AMCs) and the distributors who comply with the certification process of National Institute of Securities Market (NISM) or Association of Mutual Funds (AMFI) and have undergone the process of 'Know Your Distributor (KYD)', can perform the IPV. Additionally, entities registered as Category 1 Execution Only Platform (EOP) can perform the IPV.
59. In case of applications received by the mutual funds directly from the clients (i.e. not through any distributor), they may also rely upon the IPV performed by the scheduled commercial banks.
60. To enable ease of completing IPV of an investor, intermediary may undertake the Video in Person Verification (VIPV) of an individual investor through their App. The following process shall be adopted in this regard:
 - a. Intermediary through their authorised official, specifically trained for this purpose, may undertake live VIPV of an individual client, after obtaining his/her informed consent. The activity log along with the credentials of the person performing the VIPV shall be stored for easy retrieval.
 - b. The VIPV shall be in a live environment.

- c. The VIPV shall be clear and still, the client in the video shall be easily recognisable and shall not be covering their face in any manner.
- d. The VIPV process shall include random question and response from the investor including displaying the officially valid document, KYC form and signature or could also be confirmed by an OTP.
- e. The intermediary shall ensure that photograph of the client downloaded through the Aadhaar authentication / verification process matches with the investor in the VIPV.
- f. The VIPV shall be digitally saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.
- g. The intermediary may have additional safety and security features other than as prescribed above.

61. IPV shall not be required in the cases where:

- a. the KYC of the client has been completed using the Aadhaar authentication/ verification of UIDAI.
- b. the KYC form has been submitted online, documents have been provided through Digilocker or any other source which could be verified online.

Adaptation of Aadhaar based e-KYC process and e-KYC Authentication facility for Resident Investors under section 11A of the Prevention of Money Laundering Act, 2002: KUA and Sub KUA mechanism

62. Registered intermediaries for reasons such as online on-boarding of clients, client convenience, increased efficiency and reduced time for client onboarding would prefer to use Aadhaar based e-KYC facility to complete KYC of the client.

63. The e-KYC service launched by UIDAI shall be accepted as a valid process for KYC verification.

64. As per the process outlined by Department of Revenue (DoR), Ministry of Finance (MoF) vide circular dated May 09, 2019 for use of Aadhaar authentication services by entities other than the banking companies, entities in the securities market as may be notified by the Central Government shall be allowed to undertake Aadhaar Authentication under section 11A of the PMLA.

65. These entities would be registered with UIDAI as KYC user agency (KUA)/sub KYC user Agency (sub-KUA).The KUAs shall allow the SEBI registered intermediaries as sub-KUA to undertake Aadhaar Authentication of their clients for the purpose of KYC.

66. The following entities shall get registered with UIDAI as KYC user agency (“KUA”) and shall allow SEBI registered intermediaries to undertake Aadhaar Authentication in respect of their clients for the purpose of KYC.

- i. Bombay Stock Exchange Limited
- ii. National Securities Depository Limited
- iii. Central Depository Services (India) Limited
- iv. CDSL Ventures Limited
- v. NSDL Database Management Limited
- vi. NSE Data and Analytics Limited
- vii. CAMS Investor Services Private Limited
- viii. Computer Age Management Services Private Limited
- ix. National Stock Exchange of India Limited (NSE).

67. SEBI registered intermediaries who want to undertake Aadhaar authentication services through KUAs, shall enter into an agreement with any one KUA and get themselves registered with UIDAI as Sub-KUAs. The agreement in this regard shall be as prescribed by UIDAI.

Entities permitted to undertake e-KYC Aadhaar Authentication service of UIDAI in Securities Market as sub-KUA

68. Department of Revenue (DoR), Ministry of Finance (MoF), Government of India, vide Gazette Notification Nos. S.O. 3187(E) dated July 13, 2022, S.O. 446 (E) dated January 30, 2023 and S.O. 1339(E) dated March 14, 2024 has notified reporting entities to use Aadhaar authentication services of UIDAI under section 11A of the Prevention of Money-laundering Act, 2002. The notifications can be accessed at the links ([Govt. Notification dated July 13, 2022.pdf](#) , [Govt. Notification dated Jan 30, 2023.pdf](#) and [Govt. Notification dated March, 14, 2024.pdf](#)). These entities shall act as Sub-KUA.

69. The KUAs shall facilitate the onboarding of these entities as Sub-KUAs to provide the services of Aadhaar authentication with respect to KYC.

Onboarding process of Sub-KUA by UIDAI

70. As provided in the DoR circular dated May 09, 2019, SEBI after scrutiny of the application forms of KUAs shall forward the applications along with its recommendation to UIDAI.

71. For appointment of SEBI registered intermediary as Sub-KUAs, KUA shall send list of proposed Sub-KUAs to SEBI and SEBI would forward the list of recommended Sub-KUAs to UIDAI for onboarding.

72. An agreement shall be signed between KUA and Sub-KUA, as prescribed by UIDAI. Sub-KUA shall also comply with the Aadhaar Act, 2016, regulations, circulars, guidelines etc. issued by UIDAI from time to time.
73. Each sub-KUA shall be assigned a separate Sub-KUA code by UIDAI.
74. The KUA/sub-KUA shall be guided by the above for use of Aadhaar authentication services of UIDAI for e-KYC.
75. The KUAs and sub KUAs shall adopt the following process for Aadhaar eKYC of investors (resident) in the securities market:

A. Online Portal based Investor (Resident) e-KYC Process (Aadhaar as an officially valid document)

- i. Client visits portal of KUA or the SEBI registered intermediary which is also a Sub-KUA to open account/invest through intermediary.
- ii. For Aadhaar e-KYC, client is redirected to KUA portal. Client enters the Aadhaar Number or Virtual Id and provides consent on KUA portal. Adequate controls shall be in place to ensure that Aadhaar Number is not stored anywhere by the Sub-KUA or KUA.
- iii. Client shall receive OTP in mobile number registered with Aadhaar. Client enters the OTP sent by UIDAI on KUA portal for Aadhaar eKYC.
- iv. KUA shall receive the e-KYC details from UIDAI upon successful Aadhaar authentication which shall be further forwarded to Sub-KUA in encrypted format (using KUAs own encryption key) and shall be displayed to the client on portal.
- v. Sharing of e-KYC data by the KUA with Sub-KUA shall be allowed under Regulation 16(2) of Aadhaar (Authentication) Regulations, 2016. Sub KUA shall clearly specify the name of the KUA and SubKUA, and details of sharing of data among KUA and Sub-KUA while capturing client consent.
- vi. Client shall fill the additional detail as required under KYC format.

B. Assisted Investor (Resident) e-KYC process (Aadhaar as an officially valid document):

- i. Client approaches any of the SEBI Registered Entity/ Sub-KUA for e-KYC through Aadhaar.
- ii. SEBI registered entities (Sub-KUAs) shall perform e-KYC using registered / whitelisted devices with KUAs.
- iii. KUA shall ensure that all devices and device operators of Sub-KUA are registered / whitelisted devices with KUA.
- iv. Client shall enter Aadhaar No. or Virtual Id and provide consent on the registered device.

- v. Client provides biometric on the registered device.
 - vi. SEBI registered intermediary (Sub-KUA) fetches the e-KYC details through the KUA from UIDAI which shall be displayed to the client on the registered device.
 - vii. Client shall also provide the additional detail as required.
76. The KUA/ sub-KUA while performing the Aadhaar authentication shall comply with the following:
- i. For sharing of e-KYC data with Sub-KUA under Regulation 16(2) of Aadhaar (Authentication) Regulations, 2016, KUA shall obtain special permission from UIDAI by submitting an application in this regard. Such permissible sharing of e-KYC details by KUA can be allowed with their associated Sub-KUAs only.
 - ii. KUA shall not share UIDAI digitally signed e-KYC data with other KUAs. However, KUAs may share data after digitally signing it using their own signature for internal working of the system.
 - iii. e-KYC data received as response upon successful Aadhaar authentication from UIDAI shall be stored by KUA and Sub-KUA in the manner prescribed by Aadhaar Act/Regulations and circulars issued by UIDAI time to time.
 - iv. KUA/Sub-KUA shall not store Aadhaar number in their database under any circumstances. It shall be ensured that Aadhaar number is captured only using UIDAI's Aadhaar Number Capture Services (ANCS).
 - v. The KUA shall maintain auditable logs of all such transactions where eKYC data has been shared with sub-KUA, for a period specified by the Authority.
 - vi. It shall be ensured that full Aadhaar number is not stored and displayed anywhere in the system and wherever required only last 4 digits of Aadhaar number may be displayed.
 - vii. As per Regulation 14(i) of the Aadhaar (Authentication) Regulation, 2016, requesting entity shall implement exception-handling mechanisms and backup identity authentication mechanism to ensure seamless provision of authentication services to Aadhaar number holders.
 - viii. UIDAI may conduct audit of all KUAs and Sub KUAs as per the Aadhaar Act, Aadhaar Regulations, AUA/KUA Agreement, Guidelines, circulars etc. issued by UIDAI from time to time.
 - ix. Monitoring of irregular transactions - KUAs shall develop appropriate monitoring mechanism to record irregular transactions and their reporting to UIDAI.
 - x. Investor Grievance Handling Mechanism - Investor may approach KUA for their grievance redressal. KUA shall ensure that the grievance is redressed within the timeframe as prescribed by UIDAI. KUA shall also submit report on grievance redressal to UIDAI as per timelines prescribed by UIDAI.
77. For non-compliances if any observed on the part of the reporting entities (KUAs/ Sub KUAs), SEBI shall take necessary action under the applicable laws and also bring the same to the notice of DoR / FIU/UIDAI for further necessary action, if any.

78. The registered intermediary (KUAs/Sub-KUAs) shall also adhere to the continuing compliances and standards of privacy and security prescribed by UIDAI to carry out Aadhaar Authentication Services under section 11A of PMLA.
79. Based on a report from SEBI / UIDAI or otherwise, if it is found that the reporting entity no longer fulfils the requirements for performing authentication under clause (a) of section 11A(1) of PMLA, the Central Government may withdraw the notification after giving an opportunity to the reporting entity.

KYC for SARAL Account Opening Form for resident individuals

80. For individual clients participating in the cash segment without obtaining various other facilities such as internet trading, margin trading, derivative trading and use of power of attorney, the requirement of submission of 'proof of address' shall be as follows:
 - a. Individual client may submit only one documentary proof of address (either residence/correspondence or permanent) while opening a trading account and / or demat account or while undergoing updation.
 - b. In case the proof of address furnished by the said client is not the address where the client is currently residing, the intermediary may take a declaration of the residence/correspondence address on which all correspondence shall be made by the intermediary with the client. No proof is required to be submitted for such correspondence/residence address. In the event of change in this address due to relocation or any other reason, client may intimate the new address for correspondence to the intermediary within two weeks of such a change. The residence/correspondence address and any such change thereof may be verified by the intermediary through 'positive confirmation' such as (i) acknowledgment of receipt Welcome Kit/ dispatch of contract notes / any periodical statement, etc. (ii) telephonic conversation; (iii) visits, etc.
 - c. The registered intermediaries shall forward the KYC completion intimation letter through registered post/ speed post or courier, to the address of the client in cases where the client has given address other than as given in the officially valid document. In such cases of return of the intimation letter for wrong / incorrect address, addressee not available etc, no transactions shall be allowed in such account and intimation shall also sent to the Stock Exchange and Depository.
 - d. The registered intermediaries and KRAs shall flag such accounts in their records/systems.

Confidentiality of client information

81. Registered intermediaries shall keep confidential every information maintained, furnished or verified, save as otherwise provided under any law for the time being in force.

Section 2: Know Your Client (KYC) Registration Agency

82. A mechanism of Know Your Client Registration Agency (KRAs) in the securities market has been developed for centralization of the KYC records. The KRAs shall be administered under SEBI KYC Registration Agency (KRA) Regulations, 2011.

Guidelines for Intermediaries:

83. The client shall be allowed to open an account with intermediaries and transact in securities market as soon as the KYC process is completed.
84. After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA within 3 working days from the date of completion of KYC process.
85. In case a client's KYC documents sent by the intermediary to KRA are not complete, the KRA shall inform the same to the intermediary who shall forward the required information / documents promptly to KRA.
86. For existing clients, the KYC data shall be uploaded by the intermediary provided they are in conformity with details sought in the uniform KYC format. While uploading these clients' data the intermediary shall ensure that there is no duplication of data in the KRA system.
87. The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.
88. The intermediary shall promptly provide KYC related information to KRA, as and when required.
89. The intermediary shall have adequate internal controls to ensure the security / authenticity of data uploaded by it.

Guidelines for KRAs:

90. KRA system shall provide KYC information in data and image form to the intermediary.

91. KRA shall send a letter to the client within 2 working days of the receipt of the initial/updated KYC documents from intermediary, confirming the details thereof and maintain the proof of dispatch.
92. KRA(s) shall develop systems, in co-ordination with each other, to prevent duplication of entry of KYC details of a client and to ensure uniformity in formats of uploading / modification / downloading of KYC data by the intermediary.
93. KRA shall maintain an audit trail of the upload / modifications / downloads made in the KYC data, by the intermediary in its system.
94. KRA shall ensure that a comprehensive audit of its systems, controls, procedures, safeguards and security of information and documents is carried out annually by an independent auditor. The Audit Report along with the steps taken to rectify the deficiencies, if any, shall be placed before its Board of Directors. Thereafter, the KRA shall send the Action Taken Report to SEBI within 3 months.
95. KRA systems shall clearly indicate the status of clients falling under PAN exempt categories viz. investors residing in the state of Sikkim, UN entities / multilateral agencies exempt from paying taxes / filing tax returns in India, etc.

Rationalisation of Risk Management Framework at KRAs

96. As a part of risk management framework, the KRAs shall verify the following attributes of records of all clients within 2 days of receipt of KYC records:
 - a. PAN (including PAN Aadhaar linkage, as referred to in rule 114 AAA of the Income-tax Rules, 1962)
 - b. Name
 - c. Address
97. Additionally, the KRAs shall verify the client's mobile number and email id.
98. In case of PAN exempt records, the other attributes i.e. name, address, mobile number and email id shall be verified by the KRAs.
99. Clients in whose case, attributes of records as mentioned in para 96/97 above cannot be verified, shall not be allowed to transact further in securities market until the attributes are verified.
100. The records of those clients in respect of which all attributes mentioned in para 96/97 above are verified by KRAs with official databases (such as Income Tax Department

database on PAN, Aadhaar XML/Digilocker/ MAadhaar) shall be considered as Validated Records.

101. The validated records shall be allowed portability i.e. the client need not undergo the KYC process again when the client approaches different intermediary in securities market and the intermediary shall fetch the validated records from the KRA database.
102. The KRAs shall follow uniform internal guidelines/standards detailing aspects of identification of attributes and procedures for verification/ validation, in consultation with SEBI.
103. The systems of intermediaries and the KRAs shall be integrated to facilitate seamless movement of documents/information to and from the intermediary to the KRAs for verification/validation of attributes under risk management framework.
104. The records of all existing clients whose KYC has been completed based on OVDs other than Aadhaar, shall be verified by December 31, 2023.

Processing of Investor complaints against KRA {KYC (Know Your Client) Registration Agency} in SEBI Complaints Redress System (SCORES)

105. All complaints pertaining to KRAs will be electronically sent through SCORES at <http://scores.gov.in/Admin>. KRAs are directed to view the pending complaints and submit the ATR along with supporting documents electronically in SCORES. Updation of action taken would not be possible with physical ATRs. Hence, submission of physical ATR will not be accepted for complaints lodged in SCORES.
106. KRAs shall take adequate steps for redressal of grievances within one month from the date of receipt of the complaint and keep the investor and SEBI duly informed on the action taken thereon. Failure to comply with the said requirement will render the KRA liable for penal action.
107. KRAs are advised to:
 - a. develop the monitoring mechanism through internal audit and inspections.
 - b. encourage investor to use SCORES for lodging their grievances.

Cyber Security & Cyber Resilience framework for KYC Registration Agencies (KRAs)

108. Rapid technological developments in securities market have highlighted the need for maintaining robust Cyber Security and Cyber Resilience framework to protect the integrity of data and guard against breaches of privacy.

109. A robust Cyber Security and Cyber Resilience framework should identify the plausible sources of operational risk, both internal and external, and mitigate the impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of its obligation in the event of cyber-attack.
110. Since KRAs perform important function of maintaining KYC records of the clients in the securities market, the KRAs shall have robust Cyber Security and Cyber Resilience framework in order to provide essential facilities and perform systemically critical functions relating to securities market.
111. The framework placed at Annexure A shall be complied by the KRAs with regard to Cyber Security and Cyber Resilience.
112. The KRAs shall conduct comprehensive cyber audit at least twice in a financial year. All KRAs shall submit a declaration from the MD/ CEO certifying compliance by the KRAs with all SEBI Circulars and advisories related to Cyber security from time to time, along with the cyber audit report.

Central KYC Records Registry (CKYCR)

113. Government of India has authorized the Central Registry of Securitization Asset Reconstruction and Security interest of India (CERSAI), set up under sub-section (1) of Section 20 of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, to act as, and to perform the functions of, the Central KYC Records Registry under the PML Rules, 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a “client”, as defined in clause (ha) sub-section (1) of Section 2 of the PMLA, 2002.
114. As required under the PML Rules, registered intermediaries shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the PML Rules, as per the KYC template finalized by CERSAI.
115. Registered intermediaries shall within ten days after the commencement of an account-based relationship with a client, file the electronic copy of the client’s KYC records with the CKYCR.
116. Registered intermediaries shall ensure that all existing KYC records of legal entities and of individual clients are uploaded on to CKYCR when the updated information is obtained/received from the client.

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117. The Central KYC Records Registry User Manual for uploading KYC records on CKYCR finalised by CERSAI is available at https://www.ckycindia.in/ckyc/assets/doc/User_Manual_1.12.1.pdf.
118. Registered intermediaries shall ensure compliance with requirements contained in the PML Rules in this regard.
119. For addressing any difficulty in uploading KYC records to CKYCR, CERSAI has operationalised a help desk. Contact details of the CKYCR Helpdesk: Phone: 022-61102592 /022 50623300 Email: helpdesk@ckycindia.in

Annexure A: Framework with regard to Cyber Security and Cyber Resilience for KRAs

1. Cyber-attacks and threats attempt to compromise the confidentiality, integrity and availability (CIA) of the computer systems, networks and databases (Confidentiality refers to limiting access of systems and information to authorized users, Integrity is the assurance that the information is reliable and accurate, and Availability refers to guarantee of reliable access to the systems and information by authorized users). Cyber security framework includes measures, tools and processes that are intended to prevent cyber-attacks and improve cyber resilience. Cyber Resilience is an organisation's ability to prepare and respond to a cyber-attack and to continue operation during, and recover from, a cyber-attack.

Governance

2. As part of the operational risk management framework to manage risk to systems, networks and databases from cyber-attacks and threats, KRAs shall formulate a comprehensive Cyber Security and Cyber Resilience policy document encompassing the framework mentioned hereunder. The policy document shall be approved by the Board of KRAs, and in case of deviations from the suggested framework, reasons for such deviations shall also be provided in the policy document. The policy document shall be reviewed by the Board of KRAs at least annually with the view to strengthen and improve its Cyber Security and Cyber Resilience framework.
3. The Cyber Security and Cyber Resilience policy shall include the following process to identify, assess, and manage cyber security risk associated with processes, information, networks and systems
 - 3.1 'Identify' critical IT assets and risks associated with such assets,
 - 3.2 'Protect' assets by deploying suitable controls, tools and measures,
 - 3.3 'Detect' incidents, anomalies and attacks through appropriate monitoring tools/processes,

- 3.4 'Respond' by taking immediate steps after identification of the incident, anomaly or attack,
 - 3.5 'Recover' from incident through incident management, disaster recovery and business continuity framework.
4. The Cyber security policy shall encompass the principles prescribed by National Critical Information Infrastructure Protection Centre (NCIIPC) of National Technical Research Organisation (NTRO), Government of India, in the report titled 'Guidelines for Protection of National Critical Information Infrastructure' and subsequent revisions, if any, from time to time.
 5. KRAs shall also incorporate best practices from standards such as ISO 27001, ISO 27002, COBIT 5, etc., or their subsequent revisions, if any, from time to time.
 6. KRAs shall designate a senior official as Chief Information Security Officer (CISO) whose function would be to assess, identify and reduce cyber security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the cyber security and resilience policy approved by the Board of the KRAs.
 7. The Board of the KRAs shall constitute a Technology Committee comprising experts proficient in technology. This Technology Committee shall on a quarterly basis review the implementation of the Cyber Security and Cyber Resilience policy approved by their Board, and such review shall include review of their current IT and Cyber Security and Cyber Resilience capabilities, set goals for a target level of cyber resilience, and establish a plan to improve and strengthen Cyber Security and Cyber Resilience. The review shall be placed before the Board of the KRAs for appropriate action.
 8. KRAs shall establish a reporting procedure to facilitate communication of unusual activities and events to CISO or to the senior management in a timely manner.
 9. The aforementioned committee and the senior management of the KRAs, including the CISO, shall periodically review instances of cyber attacks, if any, domestically and globally, and take steps to strengthen Cyber Security and Cyber Resilience framework.
 10. KRAs shall define responsibilities of its employees, outsourced staff, and employees of vendors, members or participants and other entities, who may have access or use KRA's systems / networks, towards ensuring the goal of cyber security.

Identification

11. KRAs shall identify and classify critical assets based on their sensitivity and criticality for business operations, services and data management. The critical assets shall include business critical systems, internet facing applications /systems, systems that contain sensitive data, sensitive personal data, sensitive financial data, Personally Identifiable Information (PII) data, etc. All the ancillary systems used for accessing/communicating with critical systems either for operations or maintenance shall also be classified as critical system. The Board of the KRAs shall approve the list of critical systems.

To this end, KRAs shall maintain up-to-date inventory of its hardware and systems, software and information assets (internal and external), details of its network resources, connections to its network and data flows.

12. KRAs shall accordingly identify cyber risks (threats and vulnerabilities) that it may face, along with the likelihood of such threats and impact on the business and thereby, deploy controls commensurate to the criticality.
13. KRAs shall also encourage its third-party providers, if any, to have similar standards of Information Security.

Protection

Access Control

14. No person by virtue of rank or position shall have any intrinsic right to access confidential data, applications, system resources or facilities.
15. Any access to KRA's systems, applications, networks, databases, etc., shall be for a defined purpose and for a defined period. KRAs shall grant access to IT systems, applications, databases and networks on a need-to-use basis and based on the principle of least privilege. Such access shall be for the period when the access is required and shall be authorized using strong authentication mechanisms.
16. KRAs shall implement strong password controls for users' access to systems, applications, networks and databases. Password controls shall include a change of password upon first log-on, minimum password length and history, password complexity as well as maximum validity period. The user credential data shall be stored using strong and latest hashing algorithms.
17. KRAs shall ensure that records of user access are uniquely identified and logged for audit and review purposes. Such logs shall be maintained and stored in encrypted form for a time period not less than two (2) years.

18. KRAs shall deploy additional controls and security measures to supervise staff with elevated system access entitlements (such as admin or privileged users). Such controls and measures shall inter-alia include restricting the number of privileged users, periodic review of privileged users' activities, disallow privileged users from accessing systems logs in which their activities are being captured, strong controls over remote access by privileged users, etc.
19. Account access lock policies after failure attempts shall be implemented for all accounts.
20. Employees and outsourced staff such as employees of vendors or service providers, who may be given authorised access to the KRA's critical systems, networks and other computer resources, shall be subject to stringent supervision, monitoring and access restrictions.
21. Two-factor authentication at log-in shall be implemented for all users that connect using online/internet facility.
22. KRAs shall formulate an Internet access policy to monitor and regulate the use of internet and internet based services such as social media sites, cloud-based internet storage sites, etc.
23. Proper 'end of life' mechanism shall be adopted to deactivate access privileges of users who are leaving the organization or whose access privileges have been withdrawn.

Physical Security

24. Physical access to the critical systems shall be restricted to minimum. Physical access of outsourced staff/visitors shall be properly supervised by ensuring at the minimum that outsourced staff/visitors are accompanied at all times by authorised employees.
25. Physical access to the critical systems shall be revoked immediately if the same is no longer required.
26. KRAs shall ensure that the perimeter of the critical equipment room are physically secured and monitored by employing physical, human and procedural controls such as the use of security guards, CCTVs, card access systems, mantraps, bollards, etc. where appropriate.

Network Security Management

27. KRAs shall establish baseline standards to facilitate consistent application of security configurations to operating systems, databases, network devices and enterprise mobile devices within the IT environment. The KRAs shall conduct regular enforcement checks to ensure that the baseline standards are applied uniformly.

28. KRAs shall install network security devices, such as firewalls as well as intrusion detection and prevention systems, to protect their IT infrastructure from security exposures originating from internal and external sources.
29. Anti-virus software shall be installed on servers and other computer systems. Updation of anti-virus definition files and automatic anti-virus scanning shall be done on a regular basis.

Security of Data

30. Data-in-motion and Data-at-rest shall be in encrypted form by using strong encryption methods such as Advanced Encryption Standard (AES), RSA, SHA2, etc.
31. KRAs shall implement measures to prevent unauthorised access or copying or transmission of data / information held in contractual or fiduciary capacity. It shall be ensured that confidentiality of information is not compromised during the process of exchanging and transferring information with external parties.
32. The information security policy shall also cover use of devices such as mobile phone, faxes, photocopiers, scanners, etc. that can be used for capturing and transmission of data.
33. KRAs shall allow only authorized data storage devices through appropriate validation processes.

Hardening of Hardware and Software

34. Only a hardened and vetted hardware / software shall be deployed by the KRAs. During the hardening process, KRAs shall inter-alia ensure that default passwords are replaced with strong passwords and all unnecessary services are removed or disabled in equipment / software.
35. All open ports which are not in use or can potentially be used for exploitation of data shall be blocked. Other open ports shall be monitored and appropriate measures shall be taken to secure the ports.

Application Security and Testing

36. KRAs shall ensure that regression testing is undertaken before new or modified system is implemented. The scope of tests shall cover business logic, security controls and system performance under various stress-load scenarios and recovery conditions.

Patch Management

37. KRAs shall establish and ensure that the patch management procedures include the identification, categorisation and prioritisation of security patches. An implementation

timeframe for each category of security patches shall be established to implement security patches in a timely manner.

38. KRAs shall perform rigorous testing of security patches before deployment into the production environment so as to ensure that the application of patches do not impact other systems.

Disposal of systems and storage devices

39. KRAs shall frame suitable policy for disposals of the storage media and systems. The data / information on such devices and systems shall be removed by using methods viz. wiping / cleaning / overwrite, degauss and physical destruction, as applicable.

Vulnerability Assessment and Penetration Testing (VAPT)

40. KRAs shall carry out periodic vulnerability assessment and penetration tests(VAPT) which inter-alia include critical assets and infrastructure components like Servers, Networking systems, Security devices, load balancers, other IT systems pertaining to the activities done as KRAs etc., in order to detect security vulnerabilities in the IT environment and in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks.

KRAs shall conduct VAPT at least once in a financial year. However, for the KRAs, whose systems have been identified as “protected system” by NCIIPC under the Information Technology (IT) Act, 2000, VAPT shall be conducted at least twice in a financial year. Further, all KRAs are required to engage only CERT-In empanelled organizations for conducting VAPT. The final report on said VAPT shall be submitted to SEBI after approval from Technology Committee of respective KRAs, within one month of completion of VAPT activity.

41. Any gaps/vulnerabilities detected shall be remedied on immediate basis and compliance of closure of findings identified during VAPT shall be submitted to SEBI within 3 months post the submission of final VAPT report.
42. In addition, KRAs shall perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system which is a critical system or part of an existing critical system.

Monitoring and Detection

43. KRAs shall establish appropriate security monitoring systems and processes to facilitate continuous monitoring of security events and timely detection of unauthorised or malicious activities, unauthorised changes, unauthorised access and unauthorized copying or

transmission of data / information held in contractual or fiduciary capacity, by internal and external parties. The security logs of systems, applications and network devices shall also be monitored for anomalies.

44. Further, to ensure high resilience, high availability and timely detection of attacks on systems and networks, KRAs shall implement suitable mechanism to monitor capacity utilization of its critical systems and networks.
45. Suitable alerts shall be generated in the event of detection of unauthorized or abnormal system activities, transmission errors or unusual online transactions.

Response and Recovery

46. Alerts generated from monitoring and detection systems shall be suitably investigated, including impact and forensic analysis of such alerts, in order to determine activities that are to be performed to prevent expansion of such incident of cyber attack or breach, mitigate its effect and eradicate the incident.
47. The response and recovery plan of the KRAs shall aim at timely restoration of systems affected by incidents of cyber attacks or breaches. KRAs shall have the same Recovery Time Objective (RTO) and Recovery Point Objective (RPO) as specified by SEBI for Market Infrastructure Institutions vide SEBI circular CIR/MRD/DMS/17/20 dated June 22, 2012 as amended from time to time.
48. The response plan shall define responsibilities and actions to be performed by its employees and support / outsourced staff in the event of cyber attacks or breach of cyber security mechanism.
49. Any incident of loss or destruction of data or systems shall be thoroughly analysed and lessons learned from such incidents shall be incorporated to strengthen the security mechanism and improve recovery planning and processes.
50. KRAs shall also conduct suitable periodic drills to test the adequacy and effectiveness of response and recovery plan.

Sharing of Information

51. All Cyber-attacks, threats, cyber-incidents and breaches experienced by KRAs shall be reported to SEBI within 6 hours of noticing / detecting such incidents or being brought to notice about such incidents.

The incident shall also be reported to Indian Computer Emergency Response team (CERT-In) in accordance with the guidelines / directions issued by CERT-In from time to time. Additionally, the KRAs, whose systems have been identified as "Protected system" by

National Critical Information Infrastructure Protection Centre (NCIIPC) shall also report the incident to NCIIPC.

The quarterly reports containing information on cyber-attacks, threats, cyber incidents and breaches experienced by KRAs and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs/vulnerabilities/threats that may be useful for other KRAs shall be submitted to SEBI within 15 days from the quarter ended June, September, December and March of every year. The above information shall be shared through the dedicated e-mail id: kra@sebi.gov.in. The format for submitting the quarterly reports is attached as Annexure C.

52. Such details as are felt useful for sharing with other KRAs in masked and anonymous manner shall be shared using mechanism to be specified by SEBI from time to time.

Training

53. KRAs shall conduct periodic training programs to enhance awareness level among the employees and outsourced staff, vendors, etc. on IT / Cyber security policy and standards. Special focus shall be given to build awareness levels and skills of staff from non-technical disciplines.
54. The training program shall be reviewed and updated to ensure that the contents of the program remain current and relevant.

Periodic Audit

55. KRAs shall arrange to have its systems audited on an annual basis by an CERT-IN empanelled auditor, an independent DISA (ICAI) Qualification, CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium (commonly known as (ISC)2), to check compliance with the above areas and shall submit the report to SEBI along with the comments of the Board of KRAs within three months of the end of the financial year.
56. Further, the KRAs shall conduct comprehensive cyber audit at least twice a financial year. All KRAs shall submit a declaration from the MD/ CEO certifying compliance by the KRAs with all SEBI Circulars and advisories related to Cyber security from time to time, along with the cyber audit report.
57. KRAs shall take necessary steps to put in place systems for implementation of this framework.

Annexure B: Incident Reporting Form by KRA

Incident Reporting Form		
1. Letter / Report Subject -		
Name of the intermediary - SEBI Registration no. - Type of intermediary -		
2. Reporting Periodicity Year-		
<input type="checkbox"/> Quarter 1 (Apr-Jun)	<input type="checkbox"/> Quarter 3 (Oct-Dec)	
<input type="checkbox"/> Quarter 2 (Jul-Sep)	<input type="checkbox"/> Quarter 4 (Jan-Mar)	
3. Designated Officer (Reporting Officer details) -		
Name:	Organization:	Title:
Phone / Fax No:	Mobile:	Email:
Address:		
Cyber-attack / breach observed in Quarter:(If yes, please fill Annexure C) (If no, please submit the NIL report)		
Date & Time	Brief information on the Cyber-attack / breached observed	
Annexure C: Form for reporting Cyber attack/breach by KRA		
1. Physical location of affected computer / network and name of ISP -		

2. Date and time incident occurred -				
Date:		Time:		
3. Information of affected system -				
IP Address:	Computer / Host Name:	Operating System (incl. Ver. / release No.):	Last Patched/ Updated:	Hardware Vendor/ Model:
4. Type of incident -				
<input type="checkbox"/> Phishing <input type="checkbox"/> Network scanning / Probing Break-in/Root Compromise <input type="checkbox"/> Virus/Malicious Code <input type="checkbox"/> Website Defacement <input type="checkbox"/> System Misuse	<input type="checkbox"/> Spam <input type="checkbox"/> Bot/Botnet <input type="checkbox"/> Email Spoofing <input type="checkbox"/> Denial of Service(DoS) <input type="checkbox"/> Distributed Denial of Service(DDoS) <input type="checkbox"/> User Account Compromise	<input type="checkbox"/> Website Intrusion <input type="checkbox"/> Social Engineering <input type="checkbox"/> Technical Vulnerability <input type="checkbox"/> IP Spoofing <input type="checkbox"/> Ransomware <input type="checkbox"/> Other _____		
5. Description of incident -				
6. Unusual behaviour/symptoms (Tick the symptoms) -				

<input type="checkbox"/> System crashes <input type="checkbox"/> New user accounts/ Accounting discrepancies <input type="checkbox"/> Failed or successful social engineering attempts <input type="checkbox"/> Unexplained, poor system performance <input type="checkbox"/> Unaccounted for changes in the DNS tables, router rules, or firewall rules <input type="checkbox"/> Unexplained elevation or use of privileges Operation of a program or sniffer device to capture network traffic; <input type="checkbox"/> An indicated last time of usage of a user account that does not correspond to the actual last time of usage for that user <input type="checkbox"/> A system alarm or similar indication from an intrusion detection tool <input type="checkbox"/> Altered home pages, which are usually the intentional target for visibility, or other	<input type="checkbox"/> Anomalies <input type="checkbox"/> Suspicious probes <input type="checkbox"/> Suspicious browsing Newfiles <input type="checkbox"/> Changes in file lengths or dates <input type="checkbox"/> Attempts to write to system <input type="checkbox"/> Data modification or deletion <input type="checkbox"/> Denial of service <input type="checkbox"/> Door knob rattling <input type="checkbox"/> Unusual time of usage <input type="checkbox"/> Unusual usage patterns <input type="checkbox"/> Unusual log file entries <input type="checkbox"/> Presence of new setuid or setgid files Changes in system directories and files <input type="checkbox"/> Presence of cracking utilities		
pages on the Web server	<input type="checkbox"/> Activity during non-working hours or holidays <input type="checkbox"/> Other (Please specify)		
7. Details of unusual behaviour/symptoms -			
8. Has this problem been experienced earlier? If yes, details -			
9. Agencies notified -			
Law Enforcement	Private Agency	Affected Product Vendor	Other __

10. IP Address of apparent or suspected source -		
Source IP address:	Other information available:	
11. How many host(s) are affected -		
1 to 10	10 to 100	More than 100
12. Details of actions taken for mitigation and any preventive measure applied -		

Appendix: List of Circulars rescinded

Sr. No.	Circular No. and date	Subject
1.	SEBI/MIRSD/Cir.No.02/2010 dated 18-Jan-10	Mandatory Requirement of "In-Person" Verification of clients
2.	CIR/MIRSD/22/2011 dated 25-Oct-11	In-person verification (IPV) of clients by subsidiaries of Stock Exchanges, acting as Stock Brokers
3.	MIRSD/Cir-23/2011 dated 02-Dec-11	The Securities And Exchange Board of India (KYC Registration Agency) Regulations, 2011
4.	MIRSD/Cir-26/2011 Dated 23-Dec-11	Guidelines In Pursuance of The SEBI KYC Registration Agency (KRA) Regulations, 2011 And For In-Person Verification (IPV)
5.	MIRSD/CIR-5/2012 dated 13-Apr-12	Uploading of The Existing Clients' KYC Details In The KYC Registration Agency (KRA) System by TheIntermediaries
6.	CIR/MIRSD/09/2012 dated 13-Aug-12	Aadhaar Letter As Proof of Address For Know YourClient (KYC) Norms
7.	CIR/MIRSD/12/2012 dated21-Sep-12	Processing of investor complaints against KRA {KYC(Know Your Client) Registration Agency} in SEBI Complaints Redress System (SCORES)
8.	CIR/MIRSD/01/2013 dated 04-Jan-13	Rationalisation Process For Obtaining PAN byInvestors
9.	CIR/MIRSD/2/2013 dated 24-Jan-13	Guidelines On Identification of Beneficial Ownership
10.	CIR/MIRSD/ 4 /2013 dated 28-Mar-13	Amendment to SEBI {(Know Your Client) RegistrationAgency} Regulations, 2011 and relevant circulars

Sr. No.	Circular No. and date	Subject
11.	CIR/MIRSD/09/2013 dated 08-Oct-13	For Know Your Client Requirements
12.	CIR/MIRSD/13/2013 dated 26-Dec-13	For Know Your Client Requirements
13.	CIR/MIRSD/1/2015 dated 04-Mar-15	Saral Account Opening Form For Resident Individuals
14.	CIR/MIRSD/29/2016 dated 22-Jan-16	Know Your Client Requirements - Clarification On Voluntary Adaptation of Aadhaar Based E-KYC Process
15.	CIR/MIRSD/66/2016 dated 21-Jul-16	Operationalisation of Central KYC Records Registry (CKYCR)
16.	CIR/MIRSD/120/2016 dated 10-Nov-16	Uploading of The Existing Clients' KYC Details With Central KYC Records Registry (CKYCR) System by The Registered Intermediaries
17.	SEBI/HO/MIRSD/DOP/CIR/P/2019/111 dated 15-Oct-19	Cyber Security & Cyber Resilience framework for KYC Registration Agencies
18.	SEBI/HO/MIRSD/DOP/CIR/P/2019/123 dated 05-Nov-19	E-KYC Authentication Facility Under Section 11A of The Prevention of Money Laundering Act, 2002 by Entities In The Securities Market For Residents Investor
19.	SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated 24-Apr-20	Clarification On Know Your Client (KYC) Process And Use of Technology For KYC
20.	SEBI/HO/MIRSD/DOP/CIR/P/2020/80 dated 12-May-20	Entities Permitted To Undertake E-KYC Aadhaar Authentication Service of UIDAI In Securities Market
21.	SEBI/HO/MIRSD/DOP/CIR/P/2020/167 dated 08-Sep-20	Entities Permitted To Undertake E-KYC Aadhaar Authentication Service of UIDAI In Securities Market – Addition of NSE To The List
22.	SEBI/HO/MIRSD/DOP/CIR/P/2021/31 dated 10-Mar-21	Rollout of Legal Entity Template
23.	SEBI/HO/MIRSD/DoP/P/CIR/2022/74 dated 30-May-22	Modification in Cyber Security and Cyber resilience framework of KYC Registration Agencies (KRAs)
24.	SEBI/HO/MIRSD/DoP/P/Cir/2022/89 dated 24-Jun-22	Implementation of Circular on 'Guidelines in pursuance of amendment to SEBI KYC (Know Your Client) Registration Agency (KRA) Regulations 2011
25.	SEBI/HO/MIRSD/TPD/P/CIR/2022/95 dated 05-Jul-2022	Modification in Cyber Security and Cyber resilience framework of KYC Registration Agencies (KRAs)
26.	SEBI/HO/MIRSD/DoP/P/Cir/2022/89 dated 20-Jul-22	Entities allowed to use e-KYC Aadhaar Authentication Services of UIDAI in Securities Market as Sub KUA
27.	SEBI/HO/MIRSD/SEC-5/0/CIR/2022/100 dated 27-Jul-22	Implementation of Circular on 'Guidelines in pursuance of amendment to SEBI KYC (Know Your Client) Registration Agency (KRA) Regulations 2011'
28.	SEBI/HO/MIRSD/SEC-5/P/CIR/2023/0026 dated 08-Feb-2023	Entities allowed to use e-KYC Aadhaar Authentication Services of UIDAI in Securities Market as Sub KUA

Sr. No.	Circular No. and date	Subject
29.	SEBI/HO/MIRSD/FATF/P/CI R/2023/0144 dated 11-Aug-2023	Simplification of KYC process and rationalisation of Risk Management Framework at KYC (Know Your Client) Registration Agencies (KRAs)

Appendix: List of Circulars modified

Sr. No.	Circular No. and date	Subject
1.	CIR/MIRSD/16/2011 dated 22-Aug-2011	Simplification and Rationalization of Trading Account Opening Process.
2.	MIRSD/SE/CIR-21/2011 dated 05-Oct-11	Uniform Know Your Client (KYC) Requirements For The Securities Markets

Circular References:

- Circular No. NCDEX/COMPLIANCE-108/2023 dated October 13, 2023
- Circular No. NCDEX/COMPLIANCE-020/2024 dated March 21, 2024

4. SETTLEMENT OF RUNNING ACCOUNT OF CLIENT'S FUNDS LYING WITH TRADING MEMBER (TM)

Unless otherwise specifically agreed to by a Client, the settlement of funds shall be done within 24 hours of the payout.

However, a client may specifically authorize the stock broker to maintain a running account subject to the following conditions:

- i. The authorization shall be in writing and be signed by the client only and not by any person authorized on his behalf or any holder of the Power of Attorney.
- ii. The authorization shall be dated and shall contain a clause that the client may revoke the said authorization at any time. The stock brokers, while sending periodical statement of accounts to the clients, shall mention therein that their running account authorisation would continue until it is revoked by the clients.
- iii. The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month as prescribed by the SEBI/ Exchanges from time to time, depending on the preference of the client. While settling the account, the broker shall send

to the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

- iv. The settlement of running account of funds of the client shall be done by *"The TM, after considering the End of the Day (EOD) obligation of funds across all the Exchanges, shall settle the running accounts at the Page 2 of 3 choice of the clients on quarterly and monthly basis, on the dates stipulated by the Stock Exchanges."*

To ensure uniformity and clarity on dates of such monthly and quarterly settlement of client accounts, clause 47.1.2 is modified as follows:

"Stock exchanges shall, jointly, issue the annual calendar for the settlement of running account (quarterly and monthly) at the beginning of the financial year."

Further, to safeguard against any possibility of misuse of one client's funds to settle another clients' running account, it is stipulated that any funds received from clients shall remain in the upstreaming account. To incorporate this safeguard, clause is inserted as follows:

"TM shall ensure that funds, if any, received from clients, whose running account has been settled, remain in the "Up Streaming Client Nodal Bank Account" and no such funds shall be used for settlement of running account of other clients. Stock Exchanges shall evolve a monitoring mechanism for this purpose."

The provisions of this circular shall be applicable with effect from the quarterly settlement of Jan-Mar 2024 and monthly settlement of January 2024.

First Friday and/ or Saturday - shall be applicable from the quarterly & monthly settlement date of January 05 & 06, 2024 (Quarter Jan-March 2024 & first Friday & Saturday of the month January 2024) & onwards and so on for all the clients. If First Friday and/ or Saturday - the dates stipulated by the Stock Exchanges is a trading holiday, then such settlement shall happen on the previous trading day. The stock broker may retain the requisite funds towards such obligations and may also retain the funds expected to be required to meet margin obligations for next 5 trading days, calculated in the manner specified by the SEBI/ Exchanges from time to time.

- v. For clients, who have opted for Monthly settlement, running account shall be settled on *First Friday and/ or Saturday - the dates stipulated by the Stock Exchanges* of every month. If *First Friday and/ or Saturday - the dates stipulated by the Stock Exchanges* is a trading holiday, then such settlement shall happen on the previous trading day.

- vi. Once the TM settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date). TM shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions within five working days.
- vii. The client shall bring any dispute arising from the statement of account or settlement so made to the notice of the broker preferably within 30 working days from the date of receipt of statement.
- viii. Such periodic settlement of running account may not be necessary:
 - a. for clients availing margin trading facility as per SEBI circular
 - b. for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG)/Fixed Deposit receipts (FDR).
- ix. The stock broker shall transfer the funds lying in the credit of the client within one working day of the request if the same are lying with the member and within three working days from the request if the same are lying with the Clearing Member/Clearing Corporation.
- x. There shall be no inter-client adjustments for the purpose of settlement of the 'running account'.
- xi. These conditions shall not apply to institutional clients settling trades through custodians. The existing practice may continue for them.
- xii. The authorizations so obtained are not for any adjustment of funds among securities exchange and commodities exchange.

5. ANNUAL CALENDAR AND OPERATIONAL GUIDELINES ON SETTLEMENT OF RUNNING ACCOUNT OF CLIENTS' FUNDS LYING WITH THE TRADING MEMBERS

In accordance with para 3.2 and 6.3 of aforesaid SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/197 dated December 28, 2023 and Exchange Circular NCDEX/COMPLIANCE-155/2023 dated December 29, 2023, on "Settlement of Running account of clients' funds lying with the Trading Members (TM)", Exchanges have jointly prescribed the *annual calendar for the settlement of running account (quarterly and monthly) for the financial year 2024-25 enclosed herewith as Annexure A.*

Further, in accordance with para 6.4 of aforesaid SEBI Circular, *Exchanges have jointly framed operational guidelines enclosed herewith as Annexure B.*

Annexure A

Annual calendar for the settlement of running account (Quarterly and Monthly)

Dates for Quarterly Settlement (FY 2024-25):

Quarter	Period	Date's	Day
Q1	April-June	5th &/or 6th April 2024	Friday &/or Saturday
Q2	July-September	5th &/or 6th July 2024	Friday &/or Saturday
Q3	October-December	4th &/or 5th October 2024	Friday &/or Saturday
Q4	January-March	3rd &/or 4th January 2025	Friday &/or Saturday

Dates for Monthly Settlement (FY 2024-25):

Quarter	Month	Date's	Day
Q1	April	5th &/or 6th April 2024	Friday &/or Saturday
Q1	May	3rd &/or 4th May 2024	Friday &/or Saturday
Q1	June	7th &/or 8th June 2024	Friday &/or Saturday
Q2	July	5th &/or 6th July 2024	Friday &/or Saturday
Q2	August	2nd &/or 3rd August 2024	Friday &/or Saturday
Q2	September	6th &/or 7th September 2024	Friday &/or Saturday
Q3	October	4th &/or 5th October 2024	Friday &/or Saturday
Q3	November	8th &/or 9th November 2024	Friday &/or Saturday
Q3	December	6th &/or 7th December 2024	Friday &/or Saturday
Q4	January	3rd &/or 4th January 2025	Friday &/or Saturday
Q4	February	7th &/or 8th February 2025	Friday &/or Saturday
Q4	March	7th &/or 8th March 2025	Friday &/or Saturday

Annexure B

Operational Guidelines with respect to Settlement of Running Account of Client's Fundraising with Trading Member

Guidelines as stipulated with respect to running account settlement in SEBI Circulars SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023,

SEBI/HO/MIRSD/MIRSD - PoD1/P/CIR/2023/197 dated December 28, 2023, Exchange FAQ issued on 'Periodic Settlement of Funds' dated September 26, 2022 and Exchange Circular NCDEX/COMPLIANCE-001/2024 dated January 01, 2024 shall continue to be followed by members, with following amendments.

1. Members are required to carry out settlement on the dates as stipulated by the Stock Exchanges in Annual Calendar issued by them for the settlement of running account of client's funds (Quarterly/Monthly).
2. Following points with respect to computation stipulated in point number 5 of Exchange FAQ issued on 'Periodic Settlement of Funds' dated September 26, 2022, are clarified for the purpose of settlement of the clients carried out on Saturday (non-trading day):
 - The outstanding pay in and margin obligation data of the last trading day shall be considered in the computation specified in the point number 5 of FAQ e.g. the EOD outstanding pay in and margin obligation of last trading day i.e. Friday shall be considered for the purpose of settlement to be carried out on Saturday assuming Friday is not a trading holiday.
 - Margin pledged securities as on settlement date i.e. Saturday shall be considered.
 - Client Funds Balance as on settlement date i.e. Saturday shall be considered.
 - While computing the value of margin pledged securities, the closing rate for T-1 trading day should be considered after appropriate hair-cut viz. VaR margin rate applicable for the security in the Capital Market segment. e.g. Closing rate of T-1 trading day i.e. Thursday shall be considered for settlement to be carried out on Saturday assuming Friday and Thursday are not a trading holiday.
3. Members are requested to note that clarifications provided in point number 2 mentioned above are only applicable to settlement carried out on Saturday i.e. non-trading day. There is no change for the settlement carried out on Friday i.e. trading day.
4. Members shall ensure that funds if any, received by Members from clients, whose running account has been settled, shall remain in the "Up Streaming Client Nodal Bank Account" and such funds shall not be used for settlement of running account of other clients.
5. In accordance with SEBI guidelines on upstreaming of client's funds, with

respect to Question number 11 of FAQ issued on 'Periodic Settlement of Funds' dated September 26, 2022, on circumstances wherein the settlement need not be done by a member, sub point 11(b) of the same stands modified as under:

"Margin received in the form of Bank Guarantees in accordance with SEBI guidelines onupstreaming of clients funds which are created by clients."

Reporting of Running Account Settlement details:

Members' attention is drawn to Exchange Circulars NCDEX/COMPLIANCE-076/2022 dated December 29, 2022 on reporting running account settlement details wherein members have been advised to report the summary of settlement of client's funds and UCC wise settlement details to the Exchange within the prescribed timelines.

In order to comprehensively monitor the compliance with regard to settlement of running account of clients' funds by trading members, it has been decided in joint consultation with other Exchanges to revise the format of 'Submission of UCC wise settlement details' to include additional fields pertaining to settlement of running account of clients' funds. The revised format is enclosed as Annexure A. The format for "Submission of summary of settlement of clients' funds" remains same.

Members are advised to note that the submission of details as per revised format shall be applicable from **First Friday and/ or Saturday - the dates stipulated by the Stock Exchanges** of the quarter October – December 2023 (i.e., October 6, 2023) and the prescribed timelines for submission is as specified below:

Sr. No.	Reporting Requirement	Timelines
1.	Submission of summary of settlement of clients' funds	Within 2 Trading Day post settlement date i.e. Oct 10, 2023
2.	Submission of UCC wise settlement details	Within 10 trading days post settlement date i.e. Oct 20, 2023

The members are required to submit the aforesaid details through NCFE portal of the Exchange in below mentioned module: Compliance → Quarterly Settlement.

To upload Summary of Settlement, members are advised to use "TMID_Ann1_DDMMYYYY" (DDMMYYYY as the date of settlement) and to upload UCC wise Settlement details, members are advised to use "TMID_Ann2_DDMMYYYY" (DDMMYYYY as the date of settlement) as file nomenclature.

Kindly refer to the Exchange circular no. NCDEX/COMPLIANCE-042/2023 dated April 05, 2023 on penalty structure for late/non-submission of reporting requirement on settlement of running account of clients' funds.

Annexure A – Submission of UCC wise settlement details

Sr. No	Particulars	Description
1.	Date of Settlement	DD-MM-YYYY
2.	TM Code	Numeric trading member Code
3.	TM PAN	Alpha-numeric trading member PAN
4.	Client UCC	Alpha-numeric client code
5.	Value of amount retained	Numeric (in Rs.)
6.	Value of amount paid	Numeric (in Rs.)
7.	TM Bank account number	Bank account numbers which are reported as Down Streaming Client Nodal Bank Account (DSCNBA) under enhanced supervision are to be considered for making payments to clients and same must be reported here. Append Double Quotes ("") at the start and end of Bank account number to avoid the auto rounding off e.g. "00123456789012"
8.	TM Bank IFSC	IFSC of bank from which settlement is done.
9.	Client Bank Account Number	Client bank account number Append Double Quotes ("") at the start and end of Bank account number to avoid the auto rounding off e.g. "00123456789012"
10.	Client Bank IFSC	Client bank account IFSC
11.	Whether funds transferred through electronic mode	Yes/No
12.	If no, reasons for other than electronic Mode	Free text
13.	Whether Statement of accounts along with retention statement (if any) is sent to the clients at the time of Settlement	Yes/No
14.	Statement of accounts – Sent Date	DD-MM-YYYY
15.	Whether intimation including the details about the transfer of funds sent to clients by SMS & email.	Yes/No ("Yes" if sent by both or either of the modes i.e., "Email" or "SMS." "No" if not sent through "Email" and "SMS" both)
16.	Email – Sent Date	DD-MM-YYYY or Blank if not sent

Sr. No	Particulars	Description
17.	SMS – Sent Date	DD-MM-YYYY or Blank if not sent

Summary of settlement of clients' funds

Sr. No	Particulars	Description
1	Settlement Date	Format: DD-MM-YYYY
2	No. of Client Settled	Count of clients settled either by way of retention of funds against obligation and/or actual transfer of funds to client. Count shall not include debit / nil balance clients.
3	Value of Funds Retained (Amt. in Rs.)	Amount should only include client funds that have been retained by the Member as on settlement date and should exclude debit/ nil balance clients' fund balances.
4	Value of Funds Settled (Amt. in Rs.)	Amount should only include value of funds transferred to clients after retention of funds, if any for settlement.
5	Bank account No.	TM Bank Account Number from where funds as reported in point number 4 mentioned above have been transferred to the clients for settlement needs to be mentioned and such account numbers should be from the list of Bank accounts as submitted under Enhanced Supervision by the Member to the Exchange.
6	No. of Clients	Number of clients to whom funds have been transferred for settlement purpose.
7	Value of Transfer (Amt. in Rs.)	Amount should only include client funds that have been transferred for settlement to the said client through the stated TM Bank account number. Total Amount transferred to a client from all bank accounts should be equal to the amount reported in the point number 4 mentioned above.

UCC wise Settlement Details submission

While submitting UCC wise settlement details, members are advised to note following points

- A. Clients where funds have neither been retained nor transferred for settlement shall be excluded.
- B. Clients where funds have been retained but no funds have been transferred for settlement, Bank account details of TM/client (viz; TM Bank Account No., IFSC details, Client Bank Account Number & Client Bank Account IFSC) shall be mentioned as NA. Further, aggregate

value of such funds should match with the amount reported for “value of funds retained” in the point 3 mentioned above of Summary of Settlement of clients’ funds submission.

- C. Clients where funds have been transferred, Bank account details of TM and client needs to be mentioned and cannot be mentioned as “NA”. Further, aggregate value of such funds of all clients should match with the amount reported for “value of funds settled” in the point 4 mentioned above of Summary of Settlement of clients’ funds submission.

Circular References:

- SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022
- Circular No. NCDEX/COMPLIANCE- 051/2022 dated July 28, 2022
- Circular No. NCDEX/COMPLIANCE- 076/2022 dated December 29, 2022
- Circular No. NCDEX/COMPLIANCE- 032/2023 dated March 28, 2023
- Circular No. NCDEX/COMPLIANCE- 042/2023 dated April 05, 2023
- Circular No. NCDEX/COMPLIANCE-100/2023 dated September 29, 2023
- Circular No. NCDEX/COMPLIANCE-155/2023 dated December 29, 2023
- Circular No. NCDEX/COMPLIANCE-001/2024 dated January 01, 2024
- Circular No. NCDEX/COMPLIANCE-018/2024 dated March 18, 2024

6. AUTHORIZATION FOR ELECTRONIC CONTRACT NOTES

The stock broker may issue electronic contract notes (ECN) if specifically, authorized by the client subject to the following conditions:

- 6.1. The authorization shall be in writing and be signed by the client only and not by any authorised person on his behalf or holder of the Power of Attorney.
- 6.2. The email id shall not be created by the broker. The client desirous of receiving ECN shall create/provide his own email-id to the stock broker.
- 6.3. The authorization shall have a clause to the effect that that any change in the email-id shall be communicated by the client through a physical letter to the broker. In respect of internet clients, the request for change of email id may be made through the secured access by way of client specific user id and password.

7. GUIDELINES ON COMMON/ UNIFORM CLIENT REGISTRATION THROUGH KYC REGISTRATION AGENCIES (KRAS)

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.

- 7.1. The registration of clients from July 1, 2015 onwards can be done only through the KRA system. It shall be mandatory for all members to upload the KYC details and documents on the KRA system/server for all the new client accounts opened, if the KYC does not already exist in the KRA system. In case of Non – resident Indians and Foreign Nationals, self-attested copies of statutory approval must be attached with KYC.
- 7.2. SEBI has permitted other financial regulators to avail the services of KYC Registering Agencies (KRAs) registered with SEBI. The requirement for members to carry out In-Person Verification (IPV) and the process is mentioned under point no 'D' below.
- 7.3. The member shall not use the KYC data of a client obtained from the KRA for purposes other than it is meant for; nor shall it make any commercial gain by sharing the same with any third party including its affiliates or associates.
- 7.4. The Member shall have the ultimate responsibility for the KYC of its clients, by undertaking enhanced KYC measures commensurate with the risk profile of its clients.
- 7.5. The member shall, at all times, have adequate internal controls to ensure the security/ authenticity of data uploaded.
- 7.6. All members of commodity derivatives markets shall be registered with any one or more KRAs registered by SEBI as per the Board's KRA Regulations 2011.
- 7.7. The List of the KRA's registered with SEBI is available on the website of SEBI.

A. Guidelines for Intermediaries:

- i. After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents i.e. KYC application form and supporting documents of the clients to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch.
- ii. In case a client's KYC documents sent by the intermediary to KRA are not complete, the KRA shall inform the same to the intermediary who shall forward the required information/ documents promptly to KRA.
- iii. For existing clients, the KYC data may be uploaded by the intermediary provided they are in conformity with details sought in the uniform KYC form prescribed vide SEBI circular no. MIRSD/SE/Cir-21/2011 dated October 05, 2011. While uploading these clients' data the intermediary shall ensure that there is no duplication of data in the KRA system.

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- iv. The intermediary shall carry out KYC when the client chooses to trade/ invest/ deal through it.
 - v. The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.
 - vi. The intermediary shall promptly provide KYC related information to KRA, as and when required.
 - vii. The intermediary shall have adequate internal controls to ensure the security/ authenticity of data uploaded by it.
 - viii. With a view to bring about operational flexibility and in order to ease the PAN verification process, the intermediaries may verify the PAN of their clients online at the Income Tax website without insisting on the original PAN card, provided that the client has presented a document for Proof of Identity other than the PAN card.

B. KYC for New Clients:

- i). The Member shall perform the initial due diligence of the new client whose KYC data is not available with the KRAs, upload the KYC information as contained in Annexure 1 – Part I of NCDEX/LEGAL-003/2015/136 dated April 21, 2015 for both individuals and non-individuals with proper authentication on the system of the KRA, furnish the scanned images of the KYC documents to the KRA, and retain the physical KYC documents.
- ii). The Member shall furnish the physical KYC documents or authenticated copies thereof to the KRA, whenever so desired by the KRA.
- iii). A new client can be allowed to start trading/dealing in commodity futures on the Exchange platforms through the member as soon as the client is registered by completing the necessary KYC documentation process. However, the Member shall be under obligation to upload KYC details with proper authentication on the system of the KRA, within 10 days of receipt of the KYC documents from the client.

C. KYC for existing Clients:

- i). With respect to the existing clients, who are presently registered with the members but whose KYC data are not available with any of the KRAs, the member shall upload the KYC information as contained in Annexure 1 – Part I of NCDEX/LEGAL-003/2015/136

dated April 21, 2015 with proper authentication on the system of the KRA, furnish the scanned images of the documents to the KRA and retain the physical KYC documents.

- ii). With respect to the existing clients, who are presently registered with any of the members and whose KYC data are already uploaded on the system of any of the KRAs, the member to whom such client approaches, shall download the client's details from the system of KRA. Provided that upon receipt of information by the member for any change in KYC details and status of the clients or when it comes to the knowledge of the member, at any stage, the member shall be responsible for uploading the updated information on the system of KRA with proper authentication, furnish the scanned images of the additional KYC documents to the KRA, and retain the physical KYC documents.
- iii). The members shall also upload the KYC details about their existing clients which are missing/not available with them by calling for the same from their clients.

D. In-Person Verification (IPV):

With regard to the requirement of in-person' verification (IPV), SEBI has issued guidelines to the members and depository participants (DPs). However, in line with the uniformity brought out in the KYC procedure across intermediaries, the IPV requirements for all the intermediaries have now been streamlined and harmonized, as follows:

- i. It shall be mandatory for all the intermediaries addressed in this circular to carry out IPV of their clients.
- ii. The intermediary shall ensure that the details like name of the person doing IPV, his designation, organization with his signatures and date are recorded on the KYC form at the time of IPV.
- iii. The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.
- iv. In case of members, their sub-brokers or Authorized Persons (appointed by the members after getting approval from the concerned Stock Exchanges in terms of SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 06, 2009) can perform the IPV.
- v. For individuals
 - a. Member has an option of doing 'in-person' verification through web camera at the branch office of the member/member's office.

- b. In case of non-resident clients, employees at the member's local office, overseas can do in-person' verification. Further, considering the infeasibility of carrying out 'In-person' verification of the non-resident clients by the member's staff, attestation of KYC documents by Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy/ Consulate General in the country where the client resides may be permitted.

E. Applicability:

- i. In order to enable members to familiarize themselves with the new KYC process, the KRA system shall be made available to the members for uploading/ downloading details for all the new client accounts.
- ii. Members shall upload the KYC details and documents of all their existing clients on the KRA system/server latest by December 1, 2015. Till then such clients can continue to trade/deal with their members as per their existing KYC.
- iii. In case of Non – resident Indians and Foreign Nationals, self - attested copies of statutory approval must be attached with KYC.

F. Mode of Payment:

All payments shall be received/ made by the stock brokers from/ to the clients strictly by account payee crossed cheques/ demand drafts or by way of direct credit into the bank account through electronic fund transfer, or any other mode permitted by the Reserve Bank of India. The stock brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker

Circular References:

- Circular No. NCDEX/LEGAL-003/2015/136 dated April 21, 2015
- Circular No. NCDEX/LEGAL-004/2015/142 dated April 24, 2015
- Circular No. NCDEX/MEMBERSHIP-008/2016/221 dated September 19, 2016
- Circular No. NCDEX/COMPLIANCE-015/2016/238 dated September 27, 2016
- SEBI circular No. SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 12, 2018
- Circular no. NCDEX/COMPLIANCE-050/2020 dated August 28, 2020
- Circular no. NCDEX/COMPLIANCE-007/2021 dated February 09, 2021
- Circular no. NCDEX/COMPLIANCE-026/2022 dated April 13, 2022
- Circular no. NCDEX/COMPLIANCE-041/2022 dated June 27, 2022

Clarification on Know Your Client (KYC) Process and Use of Technology for KYC

1. Know Your Customer (KYC) and Customer Due Diligence (CDD) policies as part of KYC are the foundation of an effective Anti-Money Laundering process. The KYC process requires every SEBI registered intermediary (hereinafter referred to as 'RI') to collect and verify the Proof of Identity (PoI) and Proof of Address (PoA) from the investor.
2. The provisions as laid down under the Prevention of Money-Laundering Act, 2002, Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, SEBI Master Circular on Anti Money Laundering (AML) dated October 15, 2019 and relevant KYC/ AML circulars issued from time to time shall continue to remain applicable. Further, the SEBI registered intermediary shall continue to ensure to obtain the express consent of the investor before undertaking online KYC.
3. SEBI, from time to time has issued various circulars to simplify, harmonize the process of KYC by investors/ RI. Constant technology evolution has taken place in the market and innovative platforms are being created to allow investors to complete KYC process online. SEBI held discussions with various market participants and based on their feedback and with a view to allow ease of doing business in the securities market, it has been decided to make use of following technological innovations which can facilitate online KYC:
 - i. eSign service is an online electronic signature service that can facilitate an Aadhaar holder to forward the document after digitally signing the same provided the eSign signature framework is operated under the provisions of Second schedule of the Information Technology Act and guidelines issued by the controller.
 - ii. In terms of PML Rule 2 (1) (cb) "equivalent e-document" means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature, including documents issued to the Digital Locker account of the investor as per Rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.
 - iii. Section 5 of the Information Technology Act, 2000 recognizes electronic signatures (which includes digital signature) and states that where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person then such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of a digital signature affixed in such manner as prescribed by the Central Government. Therefore, the eSign mechanism of Aadhaar shall be accepted in lieu of wet signature on the documents provided by the investor. Even the cropped signature affixed on the online KYC form under eSign shall also be accepted as valid signature.
4. In order to enable the Online KYC process for establishing account based relationship with the RI, Investor's KYC can be completed through online/ App based KYC, in-person verification

through video, online submission of Officially Valid Document (OVD)/ other documents under eSign, in the following manner:

- i. The investor visits the website/App/digital platform of the RI and fills up the online KYC form and submits requisite documents online.
- ii. The name, photograph, address, mobile number, email ID, Bank details of the investor shall be captured online and OVD/ PAN/ signed cancelled cheque shall be provided as a photo/ scan of the original under eSign and the same shall be verified as under:
 - a. Mobile and email is verified through One Time Password (OTP) or other verifiable mechanism. The mobile number/s of investor accepted as part of KYC should preferably be the one seeded with Aadhaar. (the RI shall ensure to meet the requirements of the mobile number and email as detailed under SEBI circular no. CIR/MIRSD/15/2011 dated August 02, 2011)
 - b. Aadhaar is verified through UIDAIs authentication/ verification mechanism. Further, in terms of PML Rule 9 (16), every RI shall, where the investor submits his Aadhaar number, ensure that such investor to redact or blackout his Aadhaar number through appropriate means where the authentication of Aadhaar number is not required under sub-rule (15). RI shall not store/ save the Aadhaar number of investor in their system. e-KYC through Aadhaar Authentication service of UIDAI or offline verification through Aadhaar QR Code/ XML file can be undertaken, provided the XML file or Aadhaar Secure QR Code generation date is not older than 3 days from the date of carrying out KYC. In terms of SEBI circular No. CIR/MIRSD/29/2016 dated January 22, 2016 the usage of Aadhaar is optional and purely on a voluntary basis by the investor.
 - c. PAN is verified online using the Income Tax Database.
 - d. Bank account details are verified by Penny Drop mechanism or any other mechanism using API of the Bank. (Explanation: based on bank details in the copy of the cancelled cheque provided by the investor, the money is deposited into the bank account of the investors to fetch the bank account details and name.) The name and bank details as obtained shall be verified with the information provided by investor.
 - e. Any OVD other than Aadhaar shall be submitted through DigiLocker/ under eSign mechanism.
- iii. In terms of Rule 2 (d) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules) "Officially Valid Documents" means the following:
 - a. the passport,
 - b. the driving licence,
 - c. proof of possession of Aadhaar number,
 - d. the Voter's Identity Card issued by Election Commission of India,
 - e. job card issued by NREGA duly signed by an officer of the State Government and

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- f. the letter issued by the National Population Register containing details of name, address, or any other document as notified by the Central Government in consultation with the Regulator.
 - iv. Further, Rule 9(18) of PML Rules states that in case OVD furnished by the investor does not contain updated address, the document as prescribed therein in the above stated Rule shall be deemed to be the OVD for the limited purpose of proof of address.
 - v. PML Rules allows an investor to submit other OVD instead of PAN, however, in terms of SEBI circular No. MRD/DoP/Cir- 05/2007 dated April 27, 2007 the requirement of mandatory submission of PAN by the investors for transaction in the securities market shall continue to apply.
 - vi. Once all the information as required as per the online KYC form is filled up by the investor, KYC process could be completed as under:
 - a. The investor would take a print out of the completed KYC form and after affixing their wet signature, send the scanned copy/ photograph of the same to the RI under eSign, or
 - b. Affix online the cropped signature on the filled KYC form and submit the same to the RI under eSign.
 - vii. The RI shall forward the KYC completion intimation letter through registered post/ speed post or courier, to the address of the investor in cases where the investor has given address other than as given in the OVD. In such cases of return of the intimation letter for wrong/ incorrect address, addressee not available etc, no transactions shall be allowed in such account and intimation shall also sent to the Stock Exchange and Depository.
 - viii. The original seen and verified requirement under SEBI circular no. MIRSD/SE/Cir-21/2011 dated October, 5 2011 for OVD would be met where the investor provides the OVD in the following manner:
 - a. As a clear photograph or scanned copy of the original OVD, through the eSign mechanism, or;
 - b. As digitally signed document of the OVD, issued to the Digi Locker by the issuing authority.
 - ix. SEBI vide circular no. MIRSD/Cir- 26/2011 dated December 23, 2011 had harmonized the IPV requirements for the intermediaries. In order to ease the IPV process for KYC, the said SEBI circular pertaining to IPV stands modified as under:
 - a. IPV/ VIPV would not be required when the KYC of the investor is completed using the Aadhaar authentication/ verification of UIDAI.

- b. IPV/ VIPV shall not be required by the RI when the KYC form has been submitted online, documents have been provided through Digi Locker or any other source which could be verified online.
5. Features for online KYC App of the RI - SEBI registered intermediary may implement their own Application (App) for undertaking online KYC of investors. The App shall facilitate taking photograph, scanning, acceptance of OVD through Digi locker, video capturing in live environment, usage of the App only by authorized person of the RI. The App shall also have features of random action initiation for investor response to establish that the interactions not pre-recorded, time stamping, geo-location tagging to ensure physical location in India etc is also implemented. RI shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RI shall carry out the liveness check in order to guard against spoofing and such other fraudulent manipulations. The RI shall before rolling out and periodically, carry out software and security audit and validation of their App. The RI may have additional safety and security features other than as prescribed above.
6. Feature for Video in Person Verification (VIPV) for Individuals – To enable ease of completing IPV of an investor, intermediary may undertake the VIPV of an individual investor through their App. The following process shall be adopted in this regard:
 - i. Intermediary through their authorised official, specifically trained for this purpose, may undertake live VIPV of an individual customer, after obtaining his/her informed consent. The activity log along with the credentials of the person performing the VIPV shall be stored for easy retrieval.
 - ii. The VIPV shall be in a live environment.
 - iii. The VIPV shall be clear and still, the investor in the video shall be easily recognizable and shall not be covering their face in any manner.
 - iv. The VIPV process shall include random question and response from the investor including displaying the OVD, KYC form and signature or could also be confirmed by an OTP.
 - v. The RI shall ensure that photograph of the customer downloaded through the Aadhaar authentication/ verification process matches with the investor in the VIPV.
 - vi. The VIPV shall be digitally saved in a safe, secure and tamper-proof, easily retrievable manner and shall bear date and time stamping.
 - vii. The RI may have additional safety and security features other than as prescribed above.

Circular Reference:

- Circular no. NCDEX/COMPLIANCE-030/2020 dated April 27, 2020

8. NOMINATION FOR ELIGIBLE TRADING AND DEMAT ACCOUNT

- 8.1 Section 73 of Companies Act, 2013 provides for nomination by a holder of securities, investors opening new trading and or demat account(s) on or after October 01, 2021, shall have the choice of providing nomination or opting out nomination, as follows;
- a. The format for nomination form is given in **Annexure - A** to this circular
 - b. Opt out of nomination through 'Declaration Form', as provided in **Annexure - B** to this circular
- 8.2 In this regard, Trading Members, shall activate new Trading accounts, only upon receipt of above formats.
- 8.3 The nomination and Declaration form shall be signed under wet signature of the account holder(s) and witness shall not be required. However, if the account holder(s) affixes thumb impression (instead of wet signature), then witness signature shall be required in the forms.
- 8.4 The on-line nomination and Declaration form may also be signed using e-Sign facility and in that case witness will not be required.
- 8.5 Intermediaries shall ensure that adequate systems are in place including for providing for eSign facility and also take all necessary steps to maintain confidentiality and safety of client records.
- 8.6 Further, all existing eligible trading and demat account holders **shall provide choice of nomination** as per the option given in paragraph 2 above, on or before *September 30, 2023*, failing which the trading accounts shall be frozen for trading.
- 8.7 Stock Brokers and Depository Participants shall encourage their clients to update 'choice of nomination' by sending a communication on fortnightly basis by way of emails and SMS to all such UCCs/ demat accounts wherein the 'choice of nomination' is not captured. The communication shall provide guidance through which the client can provide his/her 'choice of nomination'.
- 8.8 Re-submission of nomination details shall be optional for the existing investors who have already provided the nomination details prior to issuance of the aforesaid circular.
- 8.9 Existing investors who have not submitted nomination details till date and intend to submit their nomination or opt out of nomination (not to nominate any one) may also be allowed to do so by way of two factor authentication (2FA) login on the internet trading platform for Stock Brokers providing such services.

8.10 The details required in the form at Annexure A of the circular viz. mobile number, e-mail ID and identification details of the nominee(s)/ guardian(s) of the minor nominee(s) have been made optional.

Circular References:

- Circular no. NCDEX/COMPLIANCE-034/2021 dated July 26, 2021
- Circular no. NCDEX/COMPLIANCE-012/2022 dated February 25, 2022
- Circular no. NCDEX/MEMBERSHIP-007/2023 dated February 06, 2023
- Circular no. NCDEX/COMPLIANCE-030/2023 dated March 27, 2023
- Circular no. NCDEX/MEMBERSHIP- 016/2023 dated March 28, 2023

9. DISCLOSURE OF PROPRIETARY TRADING TO CLIENTS

In order to increase the transparency in the dealings between the stock broker and the clients in commodity derivatives market, it has been decided to align the provisions relating to the proprietary trading carried out by the stock brokers of commodity derivatives exchanges in line with the securities market.

9.1 Disclose the information of proprietary trading, if any, to all their existing clients. This may be done through the following modes:

- a) Emails to all your existing clients.
- b) Update the information on your website (if any)
- c) Mention the same on the Contract Notes issued to the clients.

9.2 Disclose the information of proprietary trading, if any, upfront to new clients at the time of entering into the Know Your Client agreement.

9.3 If a member does not trade on proprietary account presently, but chooses to do so at a later date, the same shall be disclosed to the clients before commencement of any proprietary trading.

Circular References:

- Circular no. NCDEX/TRADING-042/2016/095 dated April 26, 2016
- Circular no. NCDEX/TRADING-052/2016/108 dated May 12, 2016

10. REGULATION OF TRANSACTIONS BETWEEN CLIENTS AND BROKERS

10.1 It shall be compulsory for all Member brokers to keep the money of the clients in a separate account and their own money in a separate account. No payment for transactions in which

the Member broker is taking a position as a principal will be allowed to be made from the client's account. The above principles and the circumstances under which transfer from client's account to Member broker's account would be allowed are enumerated below.

- 10.1.1 Member Broker to keep accounts: Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member –
- 10.1.1.1 the money received from or on account of each of his clients and
 - 10.1.1.2 the money received and money paid on Member's own account.
- 10.1.2 Obligation to pay money into "clients' accounts". Every member broker who holds or receives money on account of a client shall forthwith pay such money to current or deposit account at bank to be kept in the name of the member in the title of which the word "clients" shall appear (hereinafter referred to as "clients account"). Member broker may keep one consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit: Provided that when a Member broker receives a cheque or draft representing in part money belonging to the client and in part money due to the Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down below in para 8.1.4 (ii).
- 10.1.3 What money to be paid into "clients account". No money shall be paid into clients account other than –
- 10.1.3.1 money held or received on account of clients;
 - 10.1.3.2 such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;
 - 10.1.3.3 money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para 8.1.4 given below;
 - 10.1.3.4 a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.
- 10.1.4 What money to be withdrawn from "clients account". No money shall be drawn from clients account other than –
- i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;
 - ii. such money belonging to the Member as may have been paid into the client account under para 8.1.3 (ii) or 8.1.3 (iv) given above;

- iii. money which may by mistake or accident have been paid into such account in contravention of para 8.1.3 above.
- 10.1.5 Right to lien, set-off etc., not affected. Nothing in this para 1 shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counter-claim charge or otherwise against money standing to the credit of clients account.
- 10.2 It shall be compulsory for all Member brokers to keep separate accounts for client's securities/commodities and to keep such books of accounts, as may be necessary, to distinguish such securities/commodities from his/their own securities. Such accounts for client's securities shall, inter-alia provide for the following: -
- 10.2.1 Securities received for sale or kept pending delivery in the market;
 - 10.2.2 Securities fully paid for, pending delivery to clients;
 - 10.2.3 Securities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s);
 - 10.2.4 Securities that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;
 - 10.2.5 Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.;
- 10.3 Member Brokers shall make payment to their clients or deliver the securities purchased within 2 days of pay-out unless the client has requested otherwise.
- 10.4 Member brokers shall issue the contract note for purchase/sale of securities to a client within 24 hours of the execution of the contract.
- 10.5 In case of purchases on behalf of clients, member brokers shall be at liberty to close out the transactions by selling the securities, in case the client fails to make the full payment to the Member Broker for the execution of the contract within 24 hours to two days of contract note having been delivered for cash shares, unless the client already has an equivalent credit with the Member. The loss incurred in this regard, if any, will be met from the margin money of that client.
- 10.6 In case of sales on behalf of clients, member broker shall be at liberty to close out the contract by effecting purchases if the client fails to deliver the securities sold with valid transfer documents within 48 hours of the contract note having been delivered or before

delivery day (as fixed by Stock Exchange authorities for the concerned settlement period), whichever is earlier. Loss on the transaction, if any, will be deductible from the margin money of that client.

10.7 Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral.

10.8 Brokers should further be able to produce the aforesaid records during inspection. The records should include details of: -

10.8.1 Receipt of collateral from client and acknowledgement issued to client on receipt of collateral

10.8.2 Client authorization for deposit of collateral with the exchange / clearing corporation / clearing house towards margin

10.8.3 Record of deposit of collateral with exchange / clearing corporation / clearing house

10.8.4 Record of return of collateral to client

10.8.5 Credit of corporate action benefits to clients

The records should be periodically reconciled with the actual collateral deposited with the broker.

10.9 Brokers should issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance / due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities.

10.10 In case of complaints against brokers related to misuse of collateral deposited by clients, exchanges should look into the allegations, conduct inspection of broker if required and based on its findings take necessary action.

10.11 In case client collateral is found to be mis-utilised, the broker would attract appropriate deterrent penalty for violation of norms provided under Securities Contract Regulation Act, SEBI Act, SEBI Regulations and circulars, Exchange Byelaws, Rules, Regulations and circulars.

11. NAMING/ TAGGING OF BANK AND DEMAT ACCOUNTS BY MEMBERS

11.1 Member shall ensure all the Bank accounts maintained by them have appropriate nomenclature as under to reflect the purpose for which such bank accounts are being maintained and communicate to the Exchange on or before October 01, 2017.

11.2 The nomenclature for bank accounts to be followed is given as under:

- Bank account(s) which hold clients' funds shall be named as
 - a) Up Streaming Client Nodal Bank Account (USCNBA): The nomenclature for such accounts shall be **"Name of the SB/CM – USCNB account"**.
 - b) Down streaming Client Nodal Bank Account (DSCNBA): The nomenclature for such accounts shall be **"Name of the SB/CM – DSCNB account"**.

In addition, clearing members, who clear trades for other Stockbroker, shall only use the designated bank account(s) maintained with the nomenclature "Name of the CM –TM prop account" to receive/pay proprietary funds from/to stockbrokers. In view of the above, members are requested to submit the details of bank accounts to the Exchange through NCFE portal in the below mentioned module: Compliance > Enhanced Supervision > Bank Details Reporting The file format (with revised nomenclature) and User manual & FAQs for submission are available as Annexure 1 and Annexure 2 respectively in the downloads section on the Exchange website https://ncdex.com/quick_links/download under 'User Manual for Submission of Bank Account Details'. Members are requested to upload the latest details of all its bank accounts as per prescribed format on NCFE by October 20, 2023.

- Bank account(s) which hold own funds of the stock broker shall be named as **"Name of Stock Member - Proprietary Account"**
- Bank account(s) held for the purpose of settlement would be named as **" Name of Stock Member - Settlement Account"**
- Bank account(s) held for the purpose of Exchange Dues would be named as **" Name of Stock Member – Exchange Dues"**

11.3 Member shall ensure all the Demat accounts maintained by them have appropriate nomenclature as under to reflect the purpose for which such Demat accounts are being maintained and communicate to the Exchange.

Stock brokers are required to maintain demat accounts only under the following 5 categories:

S No.	Demat Account Category	Purpose of Demat Account
1	Proprietary Account	Hold Own Securities
2	Pool account	Settlement Purpose
3	Client Unpaid Securities Account	Hold Unpaid Securities of Clients
4	Client Securities Margin Pledge Account	For Margin obligations to be given by way of Pledge/ Re-pledge
5	Client Securities under Margin Funding Account	Hold funded securities in respect of margin funding

Vide circular no. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, it was also decided that naming proprietary demat accounts of the stock broker as 'Stock Broker – Proprietary Account' is voluntary and accounts which are not tagged would be deemed to be proprietary.

In consultation with Stock Exchanges and Depositories, it has been decided that all demat accounts maintained by stock brokers should be appropriately tagged. Further, it is prescribed that:

1. All demat accounts of stock brokers which are untagged need to be appropriately tagged by June 30, 2022.
2. Credit of securities shall not be allowed in any demat account left untagged from July 01, 2022 onwards. Credits on account of corporate actions shall be permitted.
3. Debit of securities shall also not be allowed in any demat account left untagged from August 01, 2022.
4. Stock Broker shall obtain permission from Stock Exchanges to allow tagging of such demat accounts from August 01, 2022 onwards. Stock Exchange shall grant such approval within two working days after imposing penalty as per their internal policy.

This circular shall not be applicable for the demat accounts which are used exclusively for banking activities by stock brokers which are also banks.

Stock Broker which is also Bank, may be required to report to the Stock Exchanges only those bank accounts that are used for their stock broking activities”.

Circular References:

- Circular No. NCDEX/COMPLIANCE-101/2023 dated September 29, 2023.
- Circular No. NCDEX/COMPLIANCE-106/2023 dated October 09, 2023.

12. REPORTING OF BANK AND DEMAT ACCOUNTS MAINTAINED BY STOCK BROKER

12.1 The stock brokers shall inform the Stock Exchanges of existing and new bank account(s) in the following format:

Name and address of Bank	Name of the Branch	Account Number	IFSC Code	Name of Account	Purpose of Account (Own/Client/Settlement)	Date of Opening

12.2 The stock brokers shall inform the Stock Exchanges of existing and new demat account(s) in the following format:

Name of DP	Account Number/ Client ID	DP ID	Name of Account Holder	PAN	Sub-type/ tag of Demat Account (Proprietary/ Client/ Pool/ Collateral)	Date of Opening

12.3 Members are further advised to:

- Communicate any bank account, which has previously not been communicated to the Exchange as per the Exchange circular no. NCDEX/MEMBERSHIP-007/2017/139 dated June 12, 2017.
- Take stock of their bank accounts and close those accounts that are not required.

12.4 Stock Exchanges and/or Depositories, as the case may be, shall ensure the following:

- 12.4.1 All new bank and demat accounts opened by the stock brokers shall be named as per the above given nomenclature and the details shall be communicated to the Stock Exchanges within **one week** of the opening of the account.
- 12.4.2 In case of closure of any of the reported bank and demat accounts, the same shall be communicated to the Stock Exchanges within **one week** of its closure.

12.5 In line with the prevalent regulatory requirement, it is reiterated that;

- 12.5.1 Stock Broker shall not use client funds and securities for proprietary purposes including settlement of proprietary obligations.

12.5.2 Transfer of funds between "Up Streaming Client Nodal Bank Account (USCNBA) or Down streaming Client Nodal Bank Account (DSCNBA)" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Up Streaming Client Nodal Bank Account (USCNBA) or Down streaming Client Nodal Bank Account (DSCNBA)" to "Name of Stock Broker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

In view of this, it is reiterated that the members shall maintain the reconciliation statement on a daily basis as prescribed in the aforesaid circular and provide the same as and when sought by the relevant authority.

12.5.3 Transfer of securities between "Name of the Stock Broker - Client Account" and individual client's BO account, "Name of the Stock Broker – Pool Account" and "Name of the Stock Broker – Collateral Account" is permitted. Transfer of securities between "Name of the Stock Broker - Client Account" to "Name of the Stock Broker - Proprietary Account" is permitted only for legitimate purposes such as, implementation of any Government/Regulatory directions or orders, in case of erroneous transfers pertaining to client's securities, for meeting legitimate dues of the stock broker, etc. For such transfer of securities, stock broker shall maintain a stock transfer register clearly indicating the day-wise details of securities transferred.

12.5.4 The Stock Exchanges shall monitor compliance with the above requirements, during inspections and the same shall be reviewed by the internal auditor of the broker during the half yearly internal audits.

12.6 As per existing norms, a stock broker is entitled to have a lien on client's securities to the extent of the client's indebtedness to the stock broker and the stock broker may pledge those securities. This pledge can occur only with the explicit authorization of the client and the stock broker needs to maintain records of such authorisation. Pledge of such securities is permitted, only if, the same is done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996. To strengthen the existing mechanism, the stock brokers shall ensure the following:

12.6.1 Securities of only those clients can be pledged who have a debit balance in their ledger.

12.6.2 Funds raised against such pledged securities for a client shall not exceed the debit balance in the ledger of that particular client.

12.6.3 Funds raised against such pledged securities shall be credited only to the bank account named as "Name of the Stock Broker - Client Account".

12.6.4 The securities to be pledged shall be pledged from BO account tagged as "Name of the Stock Broker - Client Account".

12.6.5 Stock Brokers shall send a statement reflecting the pledge and funding to the clients as and when their securities are pledged/unpledged as given below:

A	B	C	D				E	F	G	H
Date	Client Code	Ledger debit at the end of trade day*	Collateral of client available with Broker				Pledged Quantity	Pledged Value	Borrowing	Details of Pledgee
			ISIN/ Security Name	Previous day's closing price	Total quantity	Total value (Total Quantity* Previous day closing price)				

*Ledger debit would be after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients

12.7 Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in.

12.8 The above requirements mentioned under paras 10.3 to 10.6 are applicable from July 01, 2017.

The Exchange has observed that some of the Members are maintaining large number of bank accounts named as "Up Streaming Client Nodal Bank Account (USCNBA) or Down streaming Client Nodal Bank Account (DSCNBA)". For the purpose of ease of monitoring of such bank accounts, there is a need for restriction in the maximum number of client bank accounts to be maintained by the members. Further, the restriction on maintenance of such bank accounts will also ease the reporting requirement of the members.

Accordingly, it has been decided that a member can maintain maximum of 30 bank accounts named as "Up Streaming Client Nodal Bank Account (USCNBA) or Down streaming Client Nodal Bank Account (DSCNBA)" across all segments and Exchanges at a time.

Further, in case, member has more than 30 such bank accounts, then members are directed to close the excess bank accounts named as “Up Streaming Client Nodal Bank Account (USCNBA) or Down streaming Client Nodal Bank Account (DSCNBA)” by December 31, 2020.

In the recent past, it has been observed that certain members who had maintained their bank accounts with cooperative banks, were not able to withdraw the funds from such banks due to restrictions imposed by the regulator on account of regulatory concerns observed. In view of the same, members are hereby advised to maintain client bank accounts with the banks designated as Clearing Banks by the Clearing Corporations from time to time. Further, in order to ensure safety of member’s own assets, members shall follow the same practice for own/proprietary bank accounts as well.

In case, members have maintained client bank accounts and/or own bank account with other than clearing banks or scheduled banks respectively, then members shall close such accounts by March 15, 2022.

In view of the representations received from members, Exchange has decided to allow members to maintain client bank accounts with banks empaneled by any of the clearing corporations for issuance of BGs and FDRs and Payment banks as well.

Thus, the provision stands revised and accordingly, members shall maintain client bank accounts with followings banks only:

- i. Banks designated as Clearing Banks by any of the Clearing Corporations from time to time.
- ii. Banks which are not designated as Clearing Banks, however empaneled for the purpose of issuance of BGs and FDRs by any of the Clearing Corporations from time to time
- iii. Payment Banks licensed under Banking Regulation Act, 1949.

However, members can maintain the client banks accounts with banks stated above in point (ii) & (iii) only if member has obtained written confirmation from such bank(s) that Bank shall submit day wise account number wise end of day clear running balances and/or information/statement of all bank accounts maintained with such bank(s) to Exchange on daily/ weekly/ need basis as may be required by the Exchange. Members shall take confirmation from such bank(s) by May 31, 2022, for the existing bank accounts maintained by them and shall submit the same to the Exchange.

Further, members shall submit updated/ fresh confirmation to the Exchange within seven working days of opening of any new client bank account. The format of the confirmation is attached as Annexure-A.

Scanned copy of the said confirmation can be mailed to auditinspection@ncdex.com and physical copy of the same to be sent to the registered office of the Exchange.

Further, member shall maintain own/proprietary account with Scheduled Banks or Payment Banks licensed under Banking Regulation Act, 1949 only.

In case, members have maintained client bank accounts with banks other than the banks mentioned above in point (i), (ii), (iii) and/or have not taken confirmation from banks stated above in point (ii),(iii) for the bank accounts maintained with them and/or have maintained own bank accounts with banks other than scheduled banks or payment banks licensed under Banking Regulation Act, 1949, then members shall close such accounts by April 15, 2022.

Annexure A

CONFIRMATION TO BE SUBMITTED BY BANK

To,

Date:

National Commodity and Derivatives Exchange Limited (NCDEX)
Ackruti Corporate Park, 1st Floor, LBS Road, Kanjurmarg (W.),
Mumbai-400078.

We (Name of Bank) having office at
..... hereby confirm that:

1. The National Commodity and Derivatives Exchange Limited (NCDEX) has issued circular dated March 16,2022 on confirmation to be provided by banks to submit day wise; account number wise; end of day clear running balances and information/statement of all bank accounts maintained by (name of the trading member) with the bank.
2. The said trading member has requested us that we provide the aforesaid details to the NCDEX directly.
3. We will submit day wise; account number wise; end of day clear running balances and information/statement of all bank accounts maintained by said trading member with us to NCDEX on daily/weekly/need basis as per the requirement of NCDEX. The details of the bank accounts held by trading member are as follows:

Thanking You,

Yours Sincerely,

Name of Authorized Signatory

Designation

Contact details and email id

rubber stamp of bank

With a view to bring more transparency in the dealings between the clients and the stock brokers and for the purpose of investor awareness, members are advised to display details of all their active client bank accounts on their website which are reported to the Exchange in accordance with Enhanced Supervision of Stock Brokers.

Details of client bank accounts to be displayed on website shall include Name of Bank Account, Bank Account number and IFSC code along with following note;

“Investors are requested to note that Stock broker (name of stock broker) is permitted to receive/pay money from/to investor through designated bank accounts only named as client bank accounts. Stock broker (name of stock broker) is also required to disclose these client bank accounts to Stock Exchange. Hence, you are requested to use following client bank accounts only for the purpose of dealings in your trading account with us. The details of these client bank accounts are also displayed by the Stock Exchange on their website.”

Further, based on the details of Bank accounts provided by member under Enhanced Supervision, Exchange shall also display the details of Client Bank accounts of member on it's website under “Membership→Disclosures”.

Members are advised to take note of the above and implement the provisions of the circular by March 27, 2023.

Circular References:

- Circular No. NCDEX/COMPLIANCE-016/2016/239 dated September 27, 2016.
- Circular No. NCDEX/MEMBERSHIP-007/2017/139 dated June 12, 2017
- Circular No. NCDEX/COMPLIANCE-006/2020 dated February 10, 2020
- Circular No. NCDEX/COMPLIANCE-072/2020 dated November 09, 2020
- Circular No. NCDEX/COMPLIANCE-075/2020 dated December 01, 2020
- Circular No. NCDEX/COMPLIANCE-080/2020 dated December 21, 2020
- Circular No. NCDEX/COMPLIANCE-008/2022 dated February 09, 2022
- Circular No. NCDEX/COMPLIANCE-016/2022 dated March 16, 2022
- Circular No. NCDEX/COMPLIANCE-025/2022 dated April 13, 2022
- Circular No. NCDEX/COMPLIANCE-039/2022 dated June 21, 2022

- Circular No. NCDEX/COMPLIANCE-024/2023 dated March 08, 2023.
- Circular No. NCDEX/COMPLIANCE-101/2023 dated September 29, 2023.
- Circular No. NCDEX/COMPLIANCE-106/2023 dated October 09, 2023.

13. STANDARDIZATION OF BANK BOOK AND CLIENT LEDGER

As per exchange Bye-laws 1 Clause 2A and 3 clauses 2(m), all members of the exchange shall be required to maintain properly and preserve Books of Accounts, Registers, Statement and Other records, in physical or electronic form, as may be specified, for a period prescribed by the Exchange or SEBI from time to time.

In order to standardize the maintenance of books of accounts / records and ensure uniformity across all Members, a standard format for Bank Book and Client Ledger is prescribed herewith. The following annexures are made available in the “Downloads” section on the Exchange website titled as “Format of Bank Book and Client Fund Ledger” (https://ncdex.com/quick_links/download).

- 13.1 Annexure A – Format for maintenance of Bank Book Ledger.
- 13.2 Annexure B – Format for maintenance of Client Fund Ledger.
- 13.3 Annexure C – Guidelines with respect to standardization of Bank Book & Client Ledger.

The above format shall be applicable with effect from October 01, 2023 and members are advised to make necessary changes in their back office to comply with the above requirements.

Further, members are requested to note that, post implementation of standard formats, Exchange may seek periodic submission of data related to funds of clients in the manner prescribed in the above referred format.

Members are requested to take note of the contents of the circular and comply.

Circular Reference:

- Circular No. NCDEX/COMPLIANCE-058/2023 dated June 09, 2023.

14. MONITORING OF CLIENTS' FUNDS LYING WITH THE STOCK BROKER BY THE STOCK EXCHANGES

This is with reference to SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD 1/P/CIR/2024/03 dated January 12, 2024 and Exchange Circular NCDEX/COMPLIANCE-007/2024 dated January 15, 2024 on 'Ease of doing business - Changes in reporting'.

1. Stock exchanges shall put in place a mechanism for monitoring of clients' funds ('G' principle) lying with the stock brokers on the principle enumerated below:

G Principle: The total available funds i.e. cash and cash equivalent with the stock broker and with the clearing corporation/clearing member should always be equal to or greater than clients' funds as per the ledger balance.

2. In accordance with the aforesaid SEBI circular, the weekly reporting requirement of data towards Monitoring of Clients' Funds lying with the Stock Broker under Enhanced Supervision as prescribed under Exchange Circular NCDEX/COMPLIANCE-009/2018/087 dated April 02, 2018 on Clarification on Enhanced Supervision of Stock Brokers / Depository Participants, is discontinued with immediate effect, i.e. the trading members are not required to submit the aforementioned data for the week ended January 12, 2024 and onwards. Accordingly, the last applicable submission was for week ended January 05, 2024, the due date for which was January 10, 2024.
3. Based on the alerts generated, Stock Exchange shall, inter-alia, seek clarifications, carry out inspections and initiate appropriate actions to protect the clients' funds from being misused. Stock Exchanges shall also maintain records of such clarifications sought and details of such inspections. The aforesaid calculations are illustrated in tabular format in SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023.
4. Stock Exchanges will carry out the monitoring of clients' funds for all stock brokers, except for those who are carrying out only proprietary trading and/or only trading for institutional clients.
5. Stock Brokers shall ensure due compliance in submitting the information to the Exchanges within the stipulated time.

Circular References:

- SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023.
- SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/03 dated January 12, 2024
- Circular No. NCDEX/COMPLIANCE-006/2024 dated January 15, 2024
- Circular No. NCDEX/COMPLIANCE-008/2024 dated January 17, 2024

15. SEGREGATION AND MONITORING OF COLLATERAL AT CLIENT LEVEL

15.1 This is with reference to SEBI circular no. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021, Exchange circulars no. NCDEX/COMPLIANCE-042/2021 dated September 23, 2021 and NCDEX/COMPLIANCE-049/2021 dated October 27, 2021 on segregation and monitoring of collateral at client level wherein members were advised to submit the relevant details, as sought, to their respective Clearing Members (CM) in order to enable them to submit the same to Clearing Corporations (CC). The trading members who are self-clearing members are required to report said data to Clearing Corporations.

15.2 Members are requested to note that the data reported by them towards said submission to Clearing Members or Clearing Corporations as case may be, is used by the Exchange also for undertaking various supervisory activities. Based on the submissions made by the members, it is observed that certain members are not reporting correct data. In view of the same, members are strictly advised to report correct data to their Clearing Members or Clearing Corporations as case may be, in accordance with the guidelines issued by Clearing Corporations from time to time.

15.3 Some of the common reasons of incorrect reporting observed in the aforementioned submission to Clearing Member /Clearing Corporation are listed out in enclosed Annexure A.

Annexure A

Sr. No.	Common reasons of incorrect reporting of data towards submission made for Segregation and Monitoring of Collateral at Client level
1.	Duplicate records are uploaded in the segregation submission.
2.	Multiple files with same records are uploaded by member to CM/CC
3.	Same ledger balance for a client is reported to all clearing corporations for each segment instead of reporting respective segment wise ledger balance to respective CC.
4.	Same ledger balance of commodity segment of client is reported to all commodity clearing corporations e.g. same and combined ledger balance of NCDEX and MCX commodity segment is reported to clearing corporation NCCL and MCXCCL.
5.	Data is not reported for certain clients by member.
6.	Data is reported incorrectly under various columns named as "Financial Ledger balance - A", "Financial Ledger balance (clear)-B", "Peak Financial Ledger, Balance (Clear)-C", "Value of CC approved Commodities", "Credit entry in ledger in lieu of EPI for clients /TM Pro", "Pool Account for clients / TM Pro", "Cash Collateral for MTF positions". Please refer column number 10, 11, 12, 18, 20, 21 and 65 of circular NCCL/COMPLIANCE005/2022 dated October 27, 2022 while reporting data.

7.	Data is reported incorrectly under various columns named as “Financial Ledger balance - A”, “Financial Ledger balance (clear)-B”, “Peak Financial Ledger, Balance (Clear)-C”, “Value of CC approved Commodities”, “Credit entry in ledger in lieu of EPI for clients/ TM Pro”, “Pool Account for clients / TM Pro”, “Cash Collateral for MTF positions”. Please refer column number 10, 11, 12, 18, 20, 21 and 65 of circular NCCL/COMPLIANCE005/2022 dated October 27, 2022 while reporting data.
8.	The amount of funds released on account of running account settlement of client on settlement date as per the Exchange circular no. NCDEX/COMPLIANCE-051/2022 dated July 28, 2022 and debited from bank account on next day of settlement date is not reported by member in the segregation submission under column number 63 ‘Settlement Amount’. Further, as per the guidelines of clearing corporations, values are required to be reported under column ‘Settlement Amount’ in the submission made for the next working day immediate after running account settlement date. However same is reported by member in the segregation submission made for running account settlement date.
9.	Funded value of BG is reported under non funded value column or vice-versa.

Circular Reference:

- Circular No. NCDEX/COMPLIANCE-087/2023 dated August 17, 2023

16. BANK GAURANTEES (BG’S) CREATED OUT OF CLIENT FUNDS

This is with reference to the SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023 and Exchange circular no. NCDEX/COMPLIANCE-047/2023 dated April 26, 2023 on “Bank Guarantees (BGs) created out of clients’ funds”.

As per point number 3 of above-mentioned SEBI Circular, Trading Members are required to report breakup of BGs on a periodic basis. In view of the same, for reporting of BGs details to the Exchange, it is clarified as under:

- 16.1. Members shall be required to report details of Bank guarantee breakup on weekly basis.
- 16.2. Reporting requirement shall be effective from June 03, 2023 and first submission of this data shall be for the week ended June 03, 2023 to be submitted by next trading day of following week i.e. by June 05, 2023 and for every week thereafter. Data shall be reported for Saturday of each week.
- 16.3. The reporting requirement shall apply to those trading members who have created BG(s). The trading member shall not report BG created in favor of Clearing Corporation.
- 16.4. The reporting requirement is not applicable to trading members who are self-clearing member as they are required to report to their respective Clearing Corporation as per the applicable guidelines of the respective Clearing Corporation.

16.5. The reporting requirement shall not apply to members who do not have Bank Guarantees. However, such members shall provide one time declaration to Exchange.

Reporting requirement for submitting the BG breakup to the Exchange shall include, Total BG amount (out of clients' funds) as Collateral (A), Total BG amount (out of Prop funds) as Collateral (B) and Total BG amount as Collateral (C) = (A) + (B).

The members are required to submit the aforesaid details through NCFE portal of the Exchange in below mentioned module: Compliance ◇ BG details.

One time declaration as per point (e) mentioned above, shall be provided to the Exchange through the same NCFE link mentioned above, by the trading members, that requirement of circular is not applicable as no Bank Guarantee has been created.

Members are requested to take note of the contents of the circular and comply.

Reporting requirement on Bank Guarantees (BGs) created out of clients' funds - October 06, 2023

This is with reference to SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023, and Exchange Circular No. NCDEX/COMPLIANCE-047/2023 dated April 26, 2023 on "Bank Guarantees (BGs) created out of clients' funds".

In accordance with the aforesaid SEBI Circular, the following provisions were required to be implemented:

- a. No new Bank Guarantees (BGs) shall be created out of clients' funds by Members w.e.f. May 01, 2023.
- b. Existing Bank Guarantees (BGs) created out of clients' funds shall be wound down by September 30, 2023.

Further, as per Para 5 of the aforementioned SEBI Circular, members are required to submit a certificate to the Stock Exchange by October 16, 2023, confirming the implementation of provisions of SEBI Circular duly certified by their Statutory Auditor.

Accordingly, Members are advised to submit the aforesaid certificate in the prescribed format enclosed as Annexure A. Members who are carrying out only proprietary trading without any clients since the date of above SEBI Circular, shall submit a one-time declaration.

The members are required to submit the aforesaid details through NCFE portal of the Exchange in below mentioned module: Compliance → BG Certificate

Members are requested to take note of the contents of the circular and comply.

Annexure A: Certificate Format**Certificate from Statutory Auditor on Bank Guarantees (BGs) created out of clients' funds.**

We have examined the relevant books of accounts, records and documents maintained by M/s. _____, bearing SEBI registration number ____, a member of the _____ and obtained all the information and explanations to fulfill the requirements as prescribed by SEBI vide Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023.

Based on the scrutiny of relevant books of accounts, records and documents, we hereby certify as under:

- a) No new BGs have been created by the M/s. _____ out of clients' funds from May 01, 2023 onwards.
- b) M/s. _____ has no existing / open BGs created out of client funds as on September 30, 2023 and on the date of execution of this certificate.

Further, we declare that we do not have any direct / indirect interest in or relationship with the member or its shareholders / directors / partners / proprietors / management, and also confirm that we do not perceive any conflict of interest in such relationship / interest with the said member.

(Seal & Signature)

(Name of the Proprietor / Partner / Person
Signing) (Auditor Designation)

Membership no. / CP. No.:

For (Name of Firm)

Firm Registration Number:

Unique Document Identification Number

(UDIN): Place:

Date:

Bank Guarantees (BGs) created out of client's funds - November 08, 2023

This is with reference to SEBI Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023 and Exchange Circular no. NCDEX/COMPLIANCE-047/2023 dated April 26, 2023 wherein creation of BG out of clients' funds has been prohibited as under:

- a. Beginning May 01, 2023, no new BGs to be created out of clients' funds by SBs/CMs.
- b. Existing BGs created out of clients' funds to be wound down by September 30, 2023.

In view of the aforesaid circulars, members cannot create BG out of clients' funds and accordingly, value of any BG including BG created out of members' own funds cannot be considered for the computation of availability of client payables effective from October 01, 2023.

However, it has been observed by the Exchange that certain members are still considering the funded value of BG while reporting data towards the weekly monitoring of client funds (Enhanced Supervision of Stock Brokers) under data point numbered as 2, "Aggregate value of collateral deposited with Clearing Corporations in form of Cash and Cash Equivalents (Rs.)" and data point numbered as 3, "Aggregate value of collateral deposited with clearing member in form of Cash and Cash Equivalents (Rs.)" of Annexure A of the Exchange circular no. NCDEX/COMPLIANCE- 047/2021 dated October 21, 2021.

In view of the same, members are advised not to consider BG for the computation of availability of client payables and accordingly, member should not include the value of BG while reporting data towards the weekly monitoring of client funds (Enhanced Supervision of Stock Brokers) under aforesaid data points of Annexure A of the Exchange circular no. NCDEX/COMPLIANCE- 047/2021 dated October 21, 2021.

Further, based on representations received from Members, clarifications/guidelines on the subject in the form of frequently asked questions (FAQs) are attached as **Annexure A**.

Members are requested to take note of the contents of the circular and comply.

Annexure A - FAQ on Bank Guarantees (BGs) created out of clients' funds**1. Can Bank Guarantees (BGs) be created out of clients' funds?**

No, SEBI vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023 has prohibited creation of BG out of clients' funds as under:

- a) Beginning May 01, 2023, no new BGs to be created out of clients' funds by SBs/CMs.
- b) Existing BGs created out of clients' funds to be wound down by September 30, 2023.

2. Can Bank Guarantees (BGs) be created out of own funds of member?

Yes, Bank Guarantees can be created from own funds of member.

3. Since Bank Guarantees (BGs) cannot be created out of clients' funds, can BG created out of own funds of member be considered towards availability of clients' funds as per Enhanced Supervision Guidelines?

In light of SEBI circular dated April 25, 2023 and Exchange circular dated April 26, 2023 issued on prohibition of creation of BG from clients' funds effective from October 01, 2023, member cannot consider the value of any BG including BG created from own funds of member for the purpose of availability of clients' funds.

4. What is the impact on reporting of BG value by member under weekly submission of data towards monitoring of client funds (Enhanced Supervision of Stock Brokers) and weekly cash & cash equivalent submission by member to Exchange?

As member cannot consider the value of any BG including BG created from own funds for the purpose of availability of clients' funds, member should not include value of any BG including BG created from own funds while reporting values under data point numbered as 2, "Aggregate value of collateral deposited with Clearing Corporations in form of Cash and Cash Equivalents (Rs.)" and data point numbered as 3, "Aggregate value of collateral deposited with clearing member in form of Cash and Cash Equivalents (Rs.)" of Annexure A of the Exchange circular no. NCDEX/COMPLIANCE-047/2021 dated October 21, 2021.

Further, full value of BG should be reported under data point numbered as 8 of Enhanced Supervision guidelines.

It may also be noted that point no 25 and 26 (ES Information Type) of weekly submission of Client Level Cash & Cash Equivalent Balances as prescribed by Exchange circular NCDEX/COMPLIANCE-063/2021 dated December 17, 2021 should also be reported in accordance with aforesaid guidelines i.e. full value of BG to be reported under row item "NON FUNDED BG".

Circular References:

- Circular No. NCDEX/COMPLIANCE-055/2023 dated May 30, 2023.
- Circular No. NCDEX/COMPLIANCE-047/2023 dated April 26, 2023.
- SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023.
- Circular No. NCDEX/COMPLIANCE-102/2023 dated October 06, 2023.
- Circular No. NCDEX/COMPLIANCE-123/2023 dated November 08, 2023.

17. INTERNAL AUDIT OF STOCK BROKER

17.1. SEBI vide Circular MIRSD/DPSIII/Cir-26/08 dated August 22, 2008 has mandated half yearly internal audit for stock brokers/clearing members. The following additional requirements in relation to internal auditors shall become applicable:

The Exchanges have jointly reviewed and revised the eligibility criteria for conducting Internal Audit of the Trading Members. The revised eligibility criteria is enclosed as Annexure A.

The revised eligibility criteria shall be applicable with effect from the half year ended March 31, 2024, and onwards.

Further, the Members may note that the eligibility criteria as prescribed by Exchange circular nos. NCDEX/COMPLIANCE-010/2022 dated February 17, 2022 and NCDEX/COMPLIANCE-045/2023 dated April 11, 2023 is reiterated at Annexure B for reference, and shall continue to be applicable for the half year ended September 30, 2023.

All Members are advised to take note of the above and bring the provisions of this notice to the attention of their respective internal auditors and ensure compliance with the above requirement.

Annexure A

Revised eligibility criteria for the auditors qualified to conduct the internal audit of trading members – Applicable from the half year ended March 2024 and onwards:

1. Auditor in the Audit Firm should be an independent qualified Chartered Accountant or Company Secretary or Cost and Management Accountant who is in practice and who does not have any conflict of interest.
2. The Audit Firm should have a minimum of 5 years' experience in carrying out audits, preferably in securities markets.
3. The Audit Firm should have at least two partners at all times.
4. The Audit Firm is not debarred or restrained from issuing any certificate by ICAI, ICSI, ICMAI, RBI, SEBI or by other regulator/law enforcement agency.
5. Any partner/employee of the Audit Firm shall have a valid NISM Series III-A: Securities Intermediaries Compliance Certification or certification of "Financial Market & Securities Laws" as provided by ICAI or equivalent certification offered by any other

institution. Further, any partner/employee of the Audit Firm having valid certification of NISM-Series-XIV: Internal Auditors for Stockbrokers is also eligible till the expiry of the Certification.

6. In addition to the above, the Audit Firm which undertakes the Internal Audit of Qualified Stock Brokers ("QSBs") should have at least five partners at all times; of which at least two partners should be full time partners.

Further, the Exchange has issued Circular NCDEX/COMPLIANCE-103/2-23 dated October 06, 2023 on 'Internal Audit of Members', wherein the Exchange has defined the revised eligibility criteria for the auditors qualified to conduct the internal audit of members.

National Stock Exchange of India Limited (NSE) and BSE Ltd. (BSE) have issued the eligibility criteria and detailed procedure for the empanelment of auditors for conducting Internal Audit of trading members vide NSE Circulars NSE/INSP/59789 dated December 15, 2023 and NSE/INSP/60986 dated March 04, 2024, and BSE Notices 20231215-55 dated December 15, 2023 and 20240304-60 dated March 04, 2024 respectively.

Accordingly, as advised by SEBI and jointly discussed between the Exchanges, the audit firms meeting the prescribed eligibility criteria and who are empaneled with either NSE or BSE would be eligible to conduct the Internal Audit of Trading Members registered with NCDEX, from the half year ending March 31, 2024, onwards. The process for disciplinary actions including dis-empanelment, wherever necessary, will be informed through a separate circular in consultation with other Exchanges.

Annexure B

Eligibility criteria for the auditors qualified to conduct the internal audit of trading members – Applicable for the half year ended September 2023:

1. The Audit shall be conducted only by independent qualified Chartered Accountant or Company Secretary or Cost & Management Accountant who is in practice and does not have any interest in or relation with the Member other than the Internal Audit assignment.
2. The Auditor/ Audit firm or at least one of the partners should have a minimum of 5 years' experience in carrying out audits.
3. The Auditor/ Audit firm is not debarred or restrained from issuing any certificate by ICAI, ICSI, ICMAI, RBI, SEBI or by other regulator/law enforcement agency.

4. Auditors and/or its employees or partners signing the Internal Audit Report shall have a valid NISM-Series-XIV: Internal Auditors for Stockbrokers Certification or NISM Series III-A: Securities Intermediaries Compliance Certification or ICAI Certificate Course on Financial Markets and Securities Laws or any other equivalent examination.

The internal audit report is required to be submitted to the Exchange in digitally signed soft copy on or before November 30, 2023 by way of sending the same as an attachment only to email ID: iar_submission@ncdex.com. Please note that actions for late/non-submission of the internal audit report shall be applicable as per the Exchange circular NCDEX/COMPLIANCE111/2023 dated October 19, 2023.

The internal auditor shall submit a digitally signed Internal Audit Certificate i.e. Annexure I, Internal Audit checklist i.e. Annexure II and Samples selected i.e. Annexure IV (A to S) to the member including comments of the management with regard to audit observations. The Internal Audit Certificate shall mandatorily contain Unique Document Identification Number (UDIN). Member shall place it before its Board of Directors/Proprietor/Partners and shall forward the same to the Exchange within the timelines specified above, along with an undertaking i.e. Annexure VI confirming that the penalty levied by clearing corporations on account of “short/non-collection of upfront margins from clients” is not being passed on to respective clients under any circumstances in accordance with the Exchange circular no. NCDEX/COMPLIANCE-40/2022 dated June 24, 2022. The undertaking submitted by the member shall be digitally signed by the proprietor or partner or the designated director of the company. Kindly refer process manual available in the downloads section on the Exchange website https://ncdex.com/quick_links/download as “User manual - Internal Audit Submission”.

Auditors are requested to mandatorily adhere to the sample selection guidelines specified in the Annexure III of the circular and the data required for the same can be sourced from the member. Mention the details of actual sample in Annexure IV (A to S). There are certain changes in the sampling criterion and methodology for sample selection compared to previous half year submission. Auditors are advised to refer Annexure III carefully before initiating the audit. Auditors are also required to give the details of the instances of non-compliance (if any) against each of the checklist points in Annexure II. Auditors are requested to submit Annexure I, II and IV to the Member.

For each “Not Applicable” Points, Auditors should mandatorily provide appropriate remarks. In case of non-compliance(s) reported, Auditors should give instance wise details of such noncompliance along with amount and also attach the relevant supporting documents for the said non-compliance. The auditor shall mandatorily provide the “no. of instances verified”, “% of instances where non-compliance is observed” and “Amount/value involved where noncompliance is observed”. All the workings and records with respect to the Audit should be retained by the Auditors for verification by the Exchange as and when required.

Internal auditor shall report directly to the Exchange in the event of non-cooperation by the member by sending an email at iar_submission@ncdex.com. In case of resignation by the auditor from Internal Audit Assignment, Internal auditor shall communicate the reason for such resignation to the Exchange.

Further, the penalty for violations/observations in the internal audit report shall also be levied as following:

The heads of compliance requirements as defined in Internal Audit Report (IAR) were categorized based on its impact and gravity into Low, Medium and High categories and then the quantum of penalty for such violations were decided as Rs.5,000/-, Rs.10,000/- Rs.25,000/-, respectively for non-compliances / violations observed in Internal Audit Reports submitted by Members on half yearly basis.

Escalated penalty @ 50% of applicable penalty for respective heads shall apply in case of repeated violations observed in the IAR submitted. To identify the repeated instances, violations shall be compared with its previous / last submission. The highest penalty applicable for the violations observed under the same head will be levied along with Advice, if any. The total penalty for all the violations observed in IAR shall be the sum of the highest penalties levied under each head along with Advice, if any.

Members are advised to adhere to the norms prescribed under clause 4.2 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, w.r.t Appointment and Rotation of Internal auditors. Accordingly, members shall not appoint or re-appoint the internal auditor who has completed its term as specified under clause 4.2.1.2 (a) and 4.2.1.2 (b) of aforesaid circular.

The Exchange shall initiate appropriate action against the members where deficiencies are noticed in audit reports. Please note that incomplete submission will be treated as non submission. Members are required to send Annexure I, II, IV and VI to the Exchange at iar_submission@ncdex.com.

The following annexures for the internal audit report for the half year ended March 31, 2023 are available in the downloads section on the Exchange website. https://ncdex.com/quick_links/download as "Internal Audit Annexure for Half Year ended Sep 2023".

- Internal Audit Certificate – Annexure I (PDF format with Digital signature & UDIN)
- Format of Internal Audit Report – Annexure II (Excel File)
- Guidelines on sample selection and other points to be noted – Annexure III
- Actual Sample selected by Auditor – Annexure IV A to S (Excel File)
- List of Indicative Processes & reference of Exchange & SEBI Circulars – Annexure V

- Undertaking on Margin collection & reporting - Annexure VI (PDF format with Digital signature)

It may be noted that submission of Internal Audit Report shall be considered complete only after Member submits digitally signed soft copy of Annexure I, II, IV and VI to the Exchange.

17.2. Appointment and Rotation of Internal auditors

17.2.1 Stock Exchanges shall ensure that;

17.2.1.1 Stock Broker obtains from the internal auditor the following details and shares the same with the Stock Exchange:

- a) Declaration stating that the internal auditor or its directors/partners have no interest in or relation with the stock broker concerned other than the proposed internal audit assignment, and
- b) Details of the internal auditor viz., Name, Address, PAN, Designation of Auditor, Name & Address of the Audit Firm, registration number of the Auditor and the Audit firm, any regulatory action taken against internal auditor/ partner/ director, if any, etc.

17.2.1.2 No stock broker shall appoint or re-appoint—

- a) an individual as internal auditor for more than one term of five consecutive years; and
- b) an audit firm as internal auditor for more than two terms of five consecutive years.

Provided that—

- An individual internal auditor who has completed his term under para 17.2.1.2 (a) above shall not be eligible for re-appointment as internal auditor for the same stock broker for five years from the completion of his term.
- An audit firm which has completed its term under para 17.2.1.2 (b) above, shall not be eligible for re-appointment as internal auditor for the same stock broker for five years from the completion of such term; Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a stock broker immediately preceding the financial year, shall be appointed as internal auditor for the same stock broker for a period of five years.

- The block of five years shall start from FY 2016-17.

17.3. Formulation of objective sample criteria for Internal Audit

The Stock Exchanges shall, in consultation with each other, develop for each theme/area of the internal audit, pre-defined objective sample criteria, which shall mention not only the sample size but also the method used for arriving at the sample size. For example, with respect to verification of compliance with KYC norms, instead of the current practice of selecting a minimum number of KYCs, the sample selected may be a certain percentage of the top clients' in each client category (Corporate, Partnership, Individual, Trust, Others) based on total turnover on the Stock Exchange and whose account has been opened during the audit period. For each theme/area of audit, internal audit report shall clearly specify the sample size verified, number of instances where adverse observations have been made as also the details of the adverse observations.

17.4. Monitoring of quality of Internal Audit Reports

17.4.1 The Stock Exchange shall every year identify a certain number of internal auditors based on criteria, such as, number and size of stock brokers audited, discrepancy in findings of auditor vis-à-vis Stock Exchange inspection, regulatory actions taken against the auditor/partners/directors, etc. A certain number of stock brokers who have been audited by these identified internal auditors shall be selected for inspection by the Stock Exchanges. The selection of these stock brokers shall be on the basis of the Supervisory Risk Rating Score derived from the Risk Based Supervisory System. Further, the sample and period of inspection shall be the same as that used for internal audit.

17.4.2 In cases where material deviations are observed between the findings of the internal audit report and the Stock Exchange inspection report, the Stock Exchanges shall caution the stock broker to reconsider the appointment of that particular internal auditor. The same shall also be brought to notice of all the stock brokers who are audited by that particular internal auditor. The Stock Exchange shall also bring the deviations to the notice of the internal auditor. The Stock Exchange inspections shall be so planned that at least one client (i.e. stock broker) of each internal auditor is covered at least once in three years.

17.5. Submissions of Internal Audit Report

Stock Brokers shall ensure that the internal audit reports are submitted to the Exchanges within two months of the end of respective half years for which the audit is being conducted. The due date for submissions shall be as under:

Table – Internal Audit

S. No.	Period of Audit	Due date for submission
1	For half year ending September 30 th	November 30 th
2	For half year ending March 31 st	May 31 st

As per SEBI Directives, Members are required to submit the submissions for period ended September 30, 2023 on or before due date November 30, 2023 via Email to iar_submission@ncdex.com.

Members are reminded to submit the aforesaid submissions (if not submitted) on or before due date to avoid any disciplinary action. Non-submission / delayed submission shall attract penalty / disciplinary actions as per Exchange Circular no. NCDEX/COMPLIANCE-111/2023 dated October 19, 2023 or aforesaid circulars, as applicable.

17.6. Other requirements

- 17.6.1 The Stock Exchanges shall provide a mechanism to enable the internal auditor to report directly to the Stock Exchanges in the event of non-cooperation by the stock broker.
- 17.6.2 Stock Exchanges shall ensure that, the Internal Auditors also monitor the corrective steps taken by the stock brokers to rectify the deficiencies observed in the inspection carried out by SEBI/Stock Exchanges and the compliance thereof. The compliance status shall be made as part of the internal audit report.

Circular Reference:

- SEBI Circular no. SEBI/MIRSD/Master Cir-04/2010 dated March 17, 2010
- SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
- Circular no. NCDEX/COMPLIANCE-016/2016/239 dated September 27, 2016
- Circular no. NCDEX/COMPLIANCE-024/2016/342 dated December 22, 2016
- Circular no. NCDEX/COMPLIANCE-103/2023 dated October 06, 2023
- Circular no. NCDEX/COMPLIANCE-114/2023 dated October 23, 2023
- Circular no. NCDEX/COMPLIANCE-127/2023 dated November 17, 2023
- Circular no. NCDEX/COMPLIANCE-023/2024 dated March 26, 2024

18. MONITORING OF FINANCIAL STRENGTH OF MEMBERS

18.1 The Stock Exchanges shall monitor the following financial indicators and ratios of stock brokers.

18.1.1 Financial Indicators:

- a) Percentage change in net worth over last year/last submission.
- b) Percentage change in reserves and surplus or in accumulated losses over last year.
- c) Percentage change in advance/ margin/ collaterals from customers over last year/submission.
- d) Percentage change in inter corporate deposits given over last year/submission.

18.1.2 Financial Ratios:

- a) (Total outside liabilities i.e. all liabilities of a broker except those owed to his shareholders)/ (Net worth).
- b) (Value of Investments or advances or loans to group companies or associates or firms or entities)/ (Net worth).
- c) (Value of maximum outstanding inter corporate debt during the year)/ (Net worth).
- d) (Value of maximum outstanding inter corporate debt during the year)/ (Share capital).

18.2 Stock brokers shall submit financial statements to Stock Exchanges in the same format as prescribed under Companies Act, 2013 irrespective of whether they fall under the purview of Companies Act, 2013 or not. The due date for submission of the aforesaid financial statements to Stock Exchanges shall be the same as prescribed under Companies Act, 2013 for submission to Registrar of Companies.

18.2.1 No stock broker shall appoint or re-appoint-

18.2.1.1 an individual as statutory auditor for more than one term of five consecutive years; and

18.2.1.2 an audit firm as statutory auditor for more than two terms of five consecutive years

Provided that—

- An individual statutory auditor who has completed his term under clause 18.2.1.1 above shall not be eligible for re-appointment as statutory auditor in the same stock broker for five years from the completion of his term.
- A statutory audit firm which has completed its term under clause 18.2.1.2 above, shall not be eligible for re-appointment as statutory auditor in the same stock broker for five years from the completion of such term.
- Provided further that as on the date of appointment no statutory audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a stock broker immediately preceding the financial year, shall be appointed as statutory auditor of the same stock broker for a period of five years.

The above provisions shall be applicable from April 01, 2017

19. STANDARD OPERATING PROCEDURES FOR STOCK BROKERS/DEPOSITORY PARTICIPANTS - ACTIONS TO BE CONTEMPLATED BY STOCK EXCHANGES/DEPOSITORIES FOR ANY EVENT BASED DISCREPANCIES

As per existing norms, Stock Exchanges are required to monitor their members. It has been decided that the Stock Exchanges shall frame various event based monitoring criteria based on market dynamics and market intelligence. An illustrative list of such monitoring criterias are given below:

- i. Failure to furnish Networth certificate to Stock Exchange within 60 days for half year ending September 30th and half year ending March 31st.
- ii. Failure to furnish Internal Audit report to Stock Exchanges for half year ending September 30th by November 30th and half year ending March 31st by May 31st.
- iii. Failure to furnish Annual Audited Accounts by September 30th of the relevant year.
- iv. Failure to co-operate with the Stock Exchange for conducting inspection by not submitting all the information/records sought within 45 days from the due date specified in the letter of intimation.
- v. Failure to submit data for the half yearly Risk Based Supervision within the time specified by Stock Exchange.
- vi. Failure to assign appropriate Bank and Demat nomenclature within the time specified and to report the same to the Stock Exchanges.
- vii. Failure to report new bank and demat accounts opened by the stock broker to exchanges within the time specified for reporting of such accounts.
- viii. Complaints pending for more than 30 days and total value of which is more than 50 per cent of the Networth of the Broker.
- ix. If, at any point of time, Networth of the Broker is negative or lower than 75 per cent of the requirement.
- x. In case stock broker shares incomplete/wrong data or fails to submit data on time.

- xi. Failure to submit financial statements as per timeline prescribed under Companies Act, 2013.

The Stock Exchanges shall with other MII's (depository participants) jointly frame uniform penal action on stock brokers and MII's respectively, in the event of non-compliance with the illustrative criteria listed above. Provided further that Stock Exchanges and Other MII's may also frame more stringent criteria than as mentioned above.

20. UPLOADING CLIENTS' FUND BALANCE AND SECURITIES BALANCE BY THE STOCK BROKERS ON STOCK EXCHANGE SYSTEM

Based on directions issued by SEBI, the Exchange has introduced weekly submission of 'Client's Fund and Security Balances'. The said submission will be made in the same format as being used for submission of Monthly Client's Fund and Security Balances details. The referred format is enclosed as Annexure A below for ready reference.

The Exchange shall seek weekly upload of day-wise balance in the specified format within the next four trading days of the subsequent week. Members will have to submit the said data for all calendar days of that week except Sunday.

The stock broker shall not be required to upload the data for the following clients onto the stock exchange system:

- a. Custodian settled clients
- b. Client with zero funds and securities zero balances and also not traded in the last 12 months.

The circular shall be applicable with effect from June 01, 2020.

Each Stock Exchange will in turn forward the information to the clients as submitted by the members w.r.t funds and security balances via Email and/or SMS on the email IDs and mobile numbers uploaded by the stock broker to the Exchange.

Annexure A

- Client's Fund and Security Balances details file

Column no.	Column Name	Description
1	Client Name	Alphanumeric, 100 characters

Column no.	Column Name	Description
2	Unique Client Code	Alphanumeric, 10 characters
3	Client PAN	PAN
4	End of day Fund balance as per client ledger (NCDEX) (Rs.)	Numeric, Negative allowed, Upto 20 digits with up to 2 decimal places
5	End of day Net funds receivable/ payable (Rs.)	Numeric, Negative allowed, Upto 20 digits with up to 2 decimal places
6	End of day security balance-Total number of ISINs	Numeric, >=0, up to 7 digits
7	End of day security balance- Total quantity of securities	Numeric, >=0, up to 10 digits
8	Total number of ISINs pledged	Numeric, >=0, up to 4 digits
9	Total Quantity of securities pledged	Numeric, >=0, up to 10 digits
10	Funds raised from pledging of securities (Rs.)	Numeric, >=0, up to 20 digits with up to 2 decimal places
11	End of day Commodity balance-No. of commodities	Numeric, >=0, up to 3 digits
12	No. of commodities pledged	Numeric, >=0, up to 3 digits
13	Funds raised from pledging of commodities (Rs.)	Numeric, >=0, up to 20 digits with up to 2 decimal places
14	Last Balance Settlement Date	DD/MM/YYYY

➤ ISIN-Wise securities details file

Column no.	Column Name	Description
1	Client Name	Alphanumeric, 100 characters

2	Client ID	Alphanumeric, 10 characters
3	Client PAN	PAN
4	ISIN of the security	ISIN of the security
5	Security Name	Alphanumeric, 100 characters
6	Quantity of securities	Numeric, >=0, up to 10 digits
7	Quantity of securities pledged	Numeric, >=0, up to 10 digits
8	Funds raised from pledging of securities (Rs.)	Numeric, Upto 20 digits with up to 2 decimal places

Circular Reference:

- Circular no. NCDEX/COMPLIANCE-007/2020 dated February 10, 2020
- Circular no. NCDEX/COMPLIANCE-035/2020 dated May 28, 2020

21. PROVIDING PAN

The stock brokers shall provide Permanent Account Numbers of all their Directors, Key Management Personnel and dealers to the Stock Exchanges. Any change in the aforesaid details/information shall be intimated to the Stock Exchanges within seven days of such change.

22. SYSTEM AUDIT OF MEMBERS

This is with reference to the Exchange circular no. NCDEX/COMPLIANCE-009/2016/184 dated August 04, 2016, NCDEX/COMPLIANCE-010/2016/191 dated August 16, 2016 and NCDEX/COMPLIANCE-044/2021 dated October 06, 2021, on "System Audit by the members of the Exchange", the members using trading software / having exchange approved Algo Trading Software (ATS) shall be required to carry out System audit of their trading facility as per applicability criteria:

Periodicity of System Audit (Audit Period)	Criteria	Type of Broker	Due date for Submission of Reports		
			Preliminary Audit & Executive Summary	Action taken Report (ATR)	Follow-on Audit Report (if applicable)

			Report (Annexure – A & B)	(if applicable)	(Annexure - C)
Half Yearly (October to March)	All Members using ATS Facility	Type of broker – III	May 31 st	June 30 th	August 31 st
Annually (April to March)	Members having CTCL/ IBT/ STWT and presence in > 10 locations or have > 50 terminals	Type of broker – II	June 30 th	August 31 st	December 31 st
Bi-Annual (April to March) i.e 2 financial years	Members having CTCL/ IBT/ STWT and presence in < 10 locations and have < 50 terminals	Type of broker – II	June 30 th	August 31 st	December 31 st
Half Yearly (April to September)	All Members using ATS Facility	Type of broker – III	November 30 th	December 31 st	February 28 th or 29 th

- 1) The System audit report is required to be submitted to the Exchange in digitally signed soft copy within the timeline as mentioned in the table given above by way of sending the same as an attachment only to email ID: sar_submission@ncdex.com
- 2) Preliminary audit will be conducted as per the Terms of reference (ToR) specified for Type II Broker as given in Annexure – A1 and Type III Broker as given in Annexure – A2. The same is available in the downloads section on the Exchange website under System Audit Annexures. (https://ncdex.com/quick_links/download)
- 3) For findings / observations during the preliminary audit, the auditor must also report such findings in 'EXECUTIVE SUMMARY REPORT' as per format given in Annexure - B highlighting the major findings of the preliminary audit. The same is available in the downloads section on the Exchange website under System Audit Annexures. (https://ncdex.com/quick_links/download)
- 4) The audit report should be submitted to the Exchange with management comments on noncompliance / non-conformities (NCs) and observations mentioned in the report and take corrective action for the observations made by the system auditor on each non-compliance / non-conformities (NCs) and submit Action Taken Report (ATR).
- 5) If the Follow-on audit has been recommended by the auditor in System audit report, then schedule the same after taking necessary corrective actions and submit the Follow-on Audit Report as per Annexure - C to the Exchange. The same is available in the "Downloads section" on the Exchange website under System Audit Annexures (https://ncdex.com/quick_links/download)

Annexure – B

Auditor Selection Norms

1. The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. Exchanges, clearing corporations, depositories, stock brokers, depository participants etc. The audit experience should cover all the major areas mentioned under Terms of Reference (ToR) of the system audit specified by SEBI / stock exchange from time to time.
2. Resources employed for the purpose of system audit shall have relevant industry recognized certifications e.g. D.I.S.A. (ICAI) Qualification, CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
3. The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.
4. The Auditor shall not have any conflict of interest in conducting fair, objective and independent audit of the Member. Further, the directors / partners of Auditor firm shall not be related to any Member including its directors or promoters either directly or indirectly.
5. The Auditor shall not have any cases pending against its previous audited companies/firms, which fall under SEBI's jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.
6. **Auditor has not conducted more than 3 successive audits of the member.** Follow-on audits conducted by the auditor shall not be considered in the successive audits.

The members are advised to submit the following documents **digitally signed soft copy in PDF** format to the Exchange

- System Audit Report along with Executive summary
- Action Taken Report, if applicable.
- Follow-on report with management comments if applicable, as per the time line provided

Non/late submission of System audit report shall attract penal charges as mentioned below:

- Penalty of Rs. 200/- per day on members failing to submit the said reports within 1 month from the end of due date of submission,
- Penalty of Rs. 500/- per day after 1 month but within 3 months from the end of the due date for submission and

- Disabling of trading facility across segments after giving 2 weeks' notice for non-submission within 3 months from the end of due date for submission.

System Audit by the members of the Exchange – ATS (ALGO Trading)

Further to the Exchange circular no. NCDEX/COMPLIANCE-009/2016/184 dated August 04, 2016, NCDEX/COMPLIANCE-010/2016/191 dated August 16, 2016, on “System Audit by the members of the Exchange”, the members having Exchange Approved Algo Trading Software (ATS) are required to carry out System audit of their trading facility for the period April 2023 to September 2023 and submit system audit report to the Exchange with in the timeline as mentioned in the table given below

Audit Period	Criteria	Type of Broker	Preliminary Audit & Executive Summary Report (Annexure – A & B)	Action taken Report (ATR) (if applicable)	Follow-on Audit Report (if applicable) (Annexure - C)
Half Yearly (April 2023 to September 2023)	All Members using ATS Facility	Type of broker – III	November 30, 2023	February 29, 2024	May 31, 2024

The System audit report is now required to be submitted to the Exchange in digitally signed soft copy within the timeline as mentioned in the table given below by way of sending the same as an attachment only to email ID: **sar_submission@ncdex.com**

Preliminary audit will be conducted as per the Terms of reference (ToR) specified for Type III Broker as given in **Annexure – A**. The same is available in the “Downloads section” on the Exchange website under ALGO System Audit Annexures September 2023. (https://ncdex.com/quick_links/download).

For findings / observations during the preliminary audit, the auditor must also report such findings in ‘EXECUTIVE SUMMARY REPORT’ as per format given in **Annexure – B** highlighting the major findings of the preliminary audit. The same is available in the “Downloads section” on the Exchange website under ALGO System Audit Annexures September 2023. (https://ncdex.com/quick_links/download)

The audit report should be submitted to the Exchange with management comments on non-compliance/ non-conformities (NCs) and observations mentioned in the report and take corrective action for the observations made by the system auditor on each non-compliance/ non-

conformities (NCs) and submit Action Taken Report (ATR).

If the follow-on audit has been recommended by the auditor in System audit report, then schedule the same after taking necessary corrective actions and submit the Follow-on Audit Report as per **Annexure - C** to the Exchange. The same is available in the “Downloads section” on the Exchange website under ALGO System Audit Annexures September 2023.

https://ncdex.com/quick_links/download

Auditor Selection Norms – for Type III Brokers (Member using ATF Facility):

1. The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. stock exchanges, clearing corporations, depositories, stock brokers, depository participant etc. The audit experience should cover all the major areas mentioned under Terms of Reference (ToR) of the system audit specified by SEBI / stock exchange from time to time.
2. Resources employed for the purpose of system audit shall have relevant industry recognized certifications e.g. D.I.S.A. (ICAI) Qualification, CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
3. The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.
4. The Auditor shall not have any conflict of interest in conducting fair, objective and independent audit of the Stock Broker. Further, the directors / partners of Audit firm shall not be related to any stock broker including its directors or promoters either directly or indirectly.
5. The Auditor shall not have any cases pending against its previous audited companies/firms, which fall under SEBI's jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.
6. **Auditor has not conducted more than 3 successive audits of the member.** Follow-on audits conducted by the auditor shall not be considered in the successive audits.

The members are advised to submit the following documents **digitally signed soft copy in PDF format** to the Exchange

- System Audit Report (Annexure A) along with Executive summary (Annexure B)
- Action Taken Report, if applicable.

- Follow-on report with management comments (Annexure C) if applicable, as per the timeline provided

Penalty/ disciplinary action for Delay/Non-submission of Preliminary Audit Report/ Corrective Action Taken Report/ Follow on audit report and non-Closure of observations.

The following penalty/disciplinary actions as provided in Table A would be initiated against the Trading Member for Delay/Non-submission of Preliminary Audit Report/ Corrective Action Taken Report and Follow-on audit report.

Table A

Details of Violation	Period of violation	Penalty/disciplinary actions	Penalty/disciplinary action in case of repeated violation
Delay/ Non Submission of Preliminary audit/ ATR/ Follow-on audit report as recommended by the auditor in case of System audit report	From 1st day to 7th day:	Charges Rs. 1,500/- per day for Non QSB & Rs. 3,000/- per day for QSB from the due date till first 7 calendar days or submission of report, whichever is earlier.	In case of a repeat instance by the Member, levy of applicable monetary penalty along with an escalation of 50%.
	From 8th day to 21st day:	Charges of Rs. 2,500/- per day for Non QSB & Rs. 5,000/- per day for QSB from 8th calendar day after the due date to 21st calendar day or submission of report, whichever is earlier.	Levy of applicable monetary penalty along with an escalation of 50%.
	From 22 nd day onwards:	In case of non-submission of report till 21st calendar days, new client registration shall be prohibited and notice of 7 calendar days for disablement of trading facility till submission of report, shall be issued. The disablement notice issued to the trading member will be shared with all the Exchanges for information.	
	After 28th day:	In case of non-submission of report by 28th calendar day, Trading member shall be disabled in all segments till submission of report.	

Further, trading members are also required to submit closure status of all the non-Compliances reported in System Audit by submitting Corrective Action Taken Report (ATR) i.e., within 3 months from the due date of submission of Preliminary Audit Report. In order to ensure strict

adherence for closure of non-Compliances within the prescribed timelines, following penalty as provided in Table - B shall be Applicable for each High/Medium/Low risk non-compliance, which has not been closed in ATR as per prescribed timelines.

Table – B

Risk rating reported by auditor	Applicable penalties for each High/Medium/Low risk non-closure of non-Compliances, which have not been closed in ATR (i.e., within prescribed timelines of submission of due date of preliminary audit report)	
	Non QSB Trading Members	QSB Trading Members
High Risk	₹ 15,000	₹ 30,000
Medium Risk	₹ 7,500	₹ 15,000
Low Risk	₹ 2,500	₹ 5,000

- In case observations are not closed by trading members within three weeks from the due date for submission of Action Taken Report (ATR), new client registration to be prohibited and notice of 7 days for disablement of trading facility till closure of observation(s).
- The disablement notice issued to the trading member shall be shared with all the Exchanges for information. In case of non-closure of observation(s) within four weeks from the due date of submission of ATR, Trading member shall be disabled in all segments until closure of observations(s).

It may be noted that submission of Systems Audit Report shall be considered complete only after Member submits the report to the Exchange with **digitally signed soft copy by the auditor in PDF format.**

Circular References:

- Circular No. NCDEX/TECHNOLOGY-021/2013/279 dated September 6, 2013
- Circular No. NCDEX/TECHNOLOGY-015/2016/125 dated May 31, 2016
- Circular No. NCDEX/COMPLIANCE-009/2016/184 dated August 04, 2016
- Circular No. NCDEX/COMPLIANCE-010/2016/191 dated August 16, 2016
- Circular No. NCDEX/COMPLIANCE-021/2016/270 dated October 05, 2016
- Circular No. NCDEX/COMPLIANCE-005/2017/119 dated May 26, 2017
- Circular No. NCDEX/COMPLIANCE-016/2017/254 dated September 29, 2017
- Circular No. NCDEX/COMPLIANCE-008/2018/076 dated March 27, 2018
- Circular No. NCDEX/TECHNOLOGY-024/2018/090 dated April 05, 2018
- Circular No. NCDEX/COMPLIANCE-017/2018 dated October 09, 2018
- Circular No. NCDEX/COMPLIANCE-014/2019 dated March 29, 2019

- Circular No. NCDEX/COMPLIANCE-038/2019 dated October 11, 2019
- Circular No. NCDEX/COMPLIANCE-019/2020 dated March 23, 2020
- Circular No. NCDEX/COMPLIANCE-058/2020 dated October 01, 2020
- Circular No. NCDEX/COMPLIANCE-015/2021 dated March 24, 2021
- Circular No. NCDEX/COMPLIANCE-044/2021 dated October 06, 2021
- Circular No. NCDEX/COMPLIANCE-023/2022 dated April 08, 2022.
- Circular No. NCDEX/COMPLIANCE-054/2023 dated May 19, 2023.
- Circular No. NCDEX/COMPLIANCE-127/2023 dated November 17, 2023
- Circular No. NCDEX/COMPLIANCE- 119/2023 dated October 27, 2023

23. SUBMISSION OF BANK ACCOUNT BALANCES

This has reference to the Exchange circulars no. NCDEX/COMPLIANCE-006/2020 dated February 10, 2020 NCDEX/COMPLIANCE-035/2020 dated May 28, 2020 and NCDEX/COMPLIANCE007/2023 dated February 02, 2023 on reporting of day wise Bank balances by members to the Exchange on daily basis.

The Exchange vide circular no. NCDEX/COMPLIANCE-003/2021 dated January 08, 2021 advised members to submit Undertaking/Authorization to the Exchange to access the information/statements pertaining to all bank accounts, maintained by members, opened/reported to the Exchange from time to time, from Banks or through a financial technology solution provider authorized by the Exchange. Further, the Exchange also advised the members to submit written confirmation to be obtained from certain Banks as specified in point (ii) & (iii) of the Exchange circular NCDEX/COMPLIANCE-016/2022 dated March 16, 2022, that Bank shall submit day wise, account number wise end of day clear running balances and/or information/statement of all bank accounts maintained with such bank(s) to Exchange on daily/weekly basis as may be required by the Exchange.

In this regard, the Exchange has now started receiving information pertaining to bank accounts maintained by the trading members from the Banks as specified in the aforesaid circular dated March 16, 2022. In view of the same and in order to ease out the compliance burden of the members, the Exchange has decided to discontinue the aforesaid requirements of reporting of Bank Account Balances by Members from October 30, 2023 and accordingly, period of last submission which would be applicable to member for daily Bank Balance shall be October 28, 2023 due date of the same shall be October 30, 2023.

The requirement of reporting aforesaid day wise Bank Balances was introduced with an objective to monitor the availability of client assets with the member in accordance with SEBI guidelines on Enhanced Supervision of Stock Broker. Hence, the Members are requested to note that it shall be their responsibility to ensure that their Banks submit daily Bank balances on T+1 basis to the Exchange.

Members are requested to take note of the contents of the circular and comply.

Circular References:

- Circular no. NCDEX/COMPLIANCE-006/2020 dated February 10, 2020
- Circular no. NCDEX/COMPLIANCE-035/2020 dated May 28, 2020
- Circular no. NCDEX/COMPLIANCE-003/2021 dated January 08, 2021
- Circular No. NCDEX/COMPLIANCE-007/2023 dated February 02, 2023
- Circular No. NCDEX/COMPLIANCE-014/2023 dated February 23, 2023
- Circular no. NCDEX/COMPLIANCE-117/2023 dated October 26, 2023

24. DISPLAY OF BROKERAGE, STATUTORY & REGULATORY LEVIES

This has reference to the Exchange circular no. NCDEX/COMPLIANCE-015/2016/238 dated September 27, 2016 on Regulatory Framework applicable to Commodity Derivative Brokers and Account Opening Process prescribed therein. Reference is also invited to FAQs – Membership (available on the Exchange Website) for clarification on the Brokerage, Statutory & Regulatory Levies to be charged by the Members.

Exchanges have been receiving complaints from various investors alleging that the members are levying brokerage and other charges more than what has been mutually agreed and specified in the tariff sheet. Hence, members are advised to ensure that the client should not be charged in excess of the agreed rates. Further, members shall ensure that statutory and regulatory levies recovered from the client are only at actuals.

Further, to bring more transparency to investors on the brokerage and other charges being levied by the members, it has been decided in consultation with SEBI and other Stock Exchanges that, the details of the brokerage and charges applicable for the order to be placed shall be prominently displayed on the “Order placement window/screen” under the separate tab called “Charges” on their IBT/STWT applications.

All members are advised to take note of the above and ensure compliance in this regard by January 31, 2023.

In this regard, the Exchange in consultation with SEBI and other Exchanges has formulated a penalty structure for any non-compliance of the provisions of the Exchange circulars mentioned above. The penalty structure is enclosed at Annexure A and will be applicable from March 31, 2023.

Annexure A:

Details of contravention	of	Penalty/Disciplinary Action
Non-display of Brokerage, Statutory & Regulatory Levies on Internet Based Trading (IBT) / Wireless Trading (WT) applications		<p>Monetary penalty of Rs. 50,000/- and Direction to comply with the requirement of displaying the Brokerage, Statutory & Regulatory Levies within 7 days from the date of communication.</p> <p>In case of non-submission of compliance within 7 days of such direction, new client registration to be prohibited and notice of 7 days for disablement of trading facility till submission of compliance report.</p> <p>In case of non-submission of compliance report within 7 days of the date of the notice, the Trading Member shall be disabled in all segments till submission of compliance report.</p>

Circular References:

- Circular No. NCDEX/COMPLIANCE-060/2022 dated September 30, 2022
- Circular No. NCDEX/COMPLIANCE-072/2022 dated December 08, 2022
- Circular No. NCDEX/COMPLIANCE-075/2022 dated December 29, 2022
- Circular No. NCDEX/COMPLIANCE-029/2023 dated March 20, 2023

25. ENHANCED OBLIGATIONS AND RESPONSIBILITIES ON QUALIFIED STOCK BROKERS (QSBS)

SEBI has issued circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 06, 2023, on the subject “Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBS)”. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, and Section 19 of the Depositories Act, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

1. SEBI, through various circulars issued from time to time, has given necessary directions/guidelines to stock brokers, to ensure orderly functioning of the securities market and to protect the interest of investors in securities market.
2. Over time, there have been significant developments in the securities markets such as advancement in technology, investor penetration and awareness, concentration of activity among few stock brokers and increase in risk including, on account of possibility of cyber-attacks.

3. Certain stock brokers, due to various factors like their size, trading volumes and amount of clients' funds handled by them, have come to occupy a significant position in the Indian securities market which is leading to concentration of activity among few stock brokers. Such stock brokers cater to the needs of large number of investors and therefore, it is imperative for such stock brokers, inter-alia, to adhere to the regulatory guidelines, provide satisfactory services to investors and resolve investor complaints. The failure of such stock brokers has the potential to cause disruption in the services they provide to large number of investors causing widespread impact in the securities market.
4. Hence, in order to further strengthen the compliance and monitoring requirements relating to stock brokers and to ensure efficient functioning of securities market, SEBI, vide Gazette Notification dated January 17, 2023, amended the SEBI (Stock Broker) Regulations, 1992 for designating certain stock brokers, having regard to their size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, as Qualified Stock Brokers (QSBs), on the basis of certain parameters and appropriate weightages thereon.
5. The stock broker designated as a QSB shall be required to meet enhanced obligations and discharge responsibilities to ensure appropriate governance structure, appropriate risk management policy and processes, scalable infrastructure and appropriate technical capacity, framework for orderly winding down, robust cyber security framework, and investor services including online compliant redressal mechanism.
6. This circular details the parameters which shall be considered for designating a stock broker as QSB, enhanced obligations and responsibilities which shall be cast on such QSBs and guidelines on enhanced monitoring of QSBs which shall be carried out by Market Infrastructure Institutions (MIIs).
7. Parameters for designating a stock broker as QSB:
 - 7.1 Initially, the following parameters shall be considered for designating a stock broker as QSB:
 - a. the total number of active clients of the stock broker;
 - b. the available total assets of clients with the stock broker;
 - c. the trading volumes of the stock broker (excluding the proprietary trading volume of the stock broker); and

- d. the end of day margin obligations of all clients of a stock broker (excluding the proprietary margin obligation of the stock broker in all segments)

Procedure for assigning score to a stock broker:

- 7.2 The following procedure shall be followed to assign score to a stock broker, based on the parameters enumerated at para 7.1 above:
 - a) For each stock broker, individual score for a particular parameter shall be calculated by dividing the individual parameter by the aggregate of the respective parameter summed across all stock brokers, i.e., a stock broker's count of active clients will be divided by the aggregate count of active clients of all stock brokers and similarly individual scores shall be calculated for other parameters as well.
 - b) Then, total score shall be calculated by adding individual score of all the parameters. For calculating the scores for a particular financial year, parameters as on December 31st of such financial year shall be considered.

Identification of QSBs:

- 7.3 Initially, stock brokers with a total score greater than or equal to five based on the parameters enumerated at para 7.1 above, shall be identified as QSBs. The first such list of QSBs shall be prepared on the basis of parameters as on December 31, 2022.
- 7.4 The framework may be extended to more stock brokers in due course, if necessary, including, by considering the following additional parameters:
 - a) compliance score of the stock broker;
 - b) grievance redressal score of the stock broker; and
 - c) the proprietary trading volumes of the stock broker.
- 7.5 The scores shall be calculated on annual basis (financial year) and the revised list of QSBs shall be released jointly by stock exchanges, in consultation with SEBI.
- 7.6 The QSBs which no longer belong to the revised list, shall continue to comply with the enhanced obligations and responsibilities, for an additional period of 3 financial years or such time, as may be specified by SEBI/stock exchanges.

8. **Enhanced obligations and responsibilities for QSBs:**

8.1 Governance structure and processes:

- 8.1.1 The Board of Directors (BoD) or analogous body of QSBs shall exercise oversight over incidents/vulnerabilities having an impact on functioning of the QSB in the securities market and investor protection including data security breaches that can affect investor data.
- 8.1.2 Further, QSBs shall have committees of the Board of Directors (BoD) or analogous body such as Audit Committee (for listed QSBs), Nomination and Remuneration Committee, Risk Management Committee, Information Technology (IT) Committee, Cybersecurity Committee and any other committee as mandated by SEBI from time to time.
- a) The Chief Financial Officer (CFO) or analogous person of the QSB shall submit to the audit committee, details in respect of financial status of the entity, disclosure of any related party transactions, inter-corporate loans and investments, internal financial controls and risk management systems, compliance with listing and other legal requirements relating to financial statements, adherence to regulatory provisions etc.
 - b) QSBs shall, before appointing directors, Key Managerial Personnel (KMP) and other employees, consult the nomination and remuneration committee with regard to their appointment, tenure and remuneration.
 - c) QSBs shall seek inputs from various committees such as risk management committee and cybersecurity committee while framing policies relating to respective areas such as risk management of the organization and, establishing a robust cyber security framework and augmenting IT infrastructure and scalability of operations.
- 8.1.3 QSBs shall submit an annual report to the stock exchanges regarding the observations of the committees of BOD or analogous body, corrective action taken by the QSB and measures taken to prevent recurrence of such incidents.

8.2 Risk Management Policy and Processes:

- 8.2.1 QSBs shall devise a clear and a well-documented risk management policy which encompasses the following:

-
- a) List of all relevant risks which may have to be borne by the QSBs such as:
- i. risks which can arise during KYC and account opening process such as submission of incomplete KYC forms by the clients, submission of fake information with an intention to commit frauds and non-updation of information submitted as and when there is any change in the information submitted during KYC;
 - ii. operational risks such as faulty systems which can cause erroneous execution of orders from clients' account and/or unauthorized trading on behalf of the client and misutilization of client's sensitive information by any employee of the QSBs;
 - iii. technology risks which include technical glitches and cyber-attacks; and
 - iv. general risks such as fraud risk, credit risk, market risk, legal risk, reputation risk and risk due to outsourcing of activities to third parties.

8.2.2 Such risk management policy shall:

- a) strive to address the root cause of the risks and try to prevent recurrence of such risks;
- b) enable early identification and prevention of risk;
- c) assess the likely impact of a probable risk event on various aspects of the functioning of the QSB such as impact on investors, financial loss to the QSB, impact on other stakeholders in the market, reputational loss etc. and lay down measures to minimize the impact of such event and
- d) assign accountability and responsibility of Key Managerial Personnel (KMP) in the organization.

Surveillance of client behaviour:

- 8.2.3 The risk management framework shall have measures for carrying out surveillance of client behaviour through analyzing the pattern of trading done by clients, detection of any unusual activity being done by such clients, reporting the same to stock exchanges and taking necessary measures to prevent any kind of fraudulent activity in the market in terms of the regulatory requirements prescribed by SEBI and MIs.

Ensuring Integrity of Operations:

- 8.2.4 QSBs shall maintain adequate human resources, systems, processes and procedures for seamless running of operations and protection of investor data.
 - 8.2.5 The staff of the QSBs shall be given the necessary resources and support to carry out their duties effectively and efficiently. The QSBs shall train their employees at regular intervals in matters relating to the activities being handled by them.
 - 8.2.6 A CXO level officer shall be designated as responsible for managing key risks, i.e., Chief Compliance Officer (responsible for all regulatory compliance related activities), Chief Information Security Officer (responsible for all cyber security related activities), Chief Risk Officer (responsible for overall risk management associated with functioning of the QSB).
 - 8.2.7 QSBs shall employ adequate tools to automate process of risk management, reporting and compliance.
 - 8.2.8 The risk management policy shall be reviewed on half yearly basis by the QSB and a report in this regard shall be submitted by the risk management committee of the QSB to the stock exchange.
 - 8.2.9 The BoD/senior management shall view any recurrence of a particular incident seriously and take prompt and appropriate action including fixation of accountability.
- 8.3 Scalable infrastructure and appropriate technical capacity:
- 8.3.1 The QSBs shall put in place a policy framework, approved by its IT committee, for upgradation of infrastructure and technology from time to time to ensure smooth functioning and scalability for delivering services to investors at all times. Such framework should be reviewed on half-yearly basis.
 - 8.3.2 QSBs shall, at all times, maintain adequate technical capacity to process 2 times the peak transaction load encountered during the preceding half year and shall also fulfill all other requirements as specified by SEBI/MIIIs from time to time, in this regard.

8.4 Framework for orderly winding down:

- 8.4.1 QSB shall put in place, a framework for orderly wind down of its business to ensure continuity of services to its clients in case of closure of business by the QSB due to its inability to provide services to its clients or meet the prescribed regulatory requirements or any other reason. Such wind-down framework shall encompass the following:
- a) Seamless portability of its clients to other SEBI registered stock brokers while protecting the funds and securities of such clients;
 - b) Providing all necessary support to the clients to ensure a smooth and secure transfer process;
 - c) Providing adequate notice to the clients before winding down of the operations after taking approval of the stock exchanges; and
 - d) Preventing any significant impact on the market and inconvenience to the investors.
- 8.4.2 In case of wind down which may happen due to regulatory action, erosion of networth of the QSB etc., such wind down of operations of the QSB will be implemented under the supervision of the stock exchange.

8.5 Robust cyber security framework and processes:

- 8.5.1 Digitalization and online platforms have given rise to need for effective mitigation of information and cyber risks. SEBI, has specified the framework on cybersecurity and cyber resilience to be followed by all stock brokers.
- 8.5.2 However, QSBs handle sensitive data of a large number of the investors in the securities market and any cyber-attack on the systems of a QSB can compromise the confidentiality and integrity of such data.
- 8.5.3 Hence, QSBs shall have additional features in their cyber security framework which would be commensurate with the amount of data handled by them. The cyber security committee of the QSB shall review the framework on half-yearly basis and review the instances of cyber-attacks, if any, and take steps to strengthen the cyber security framework of the QSB.

- 8.5.4 The QSBs shall have a dedicated team of security analysts, which may include domain experts in the field of cyber security and resilience, network security and data security which shall carry out the following activities:
- a) Prevention of cyber security incidents through continuous threat analysis, network and host scanning for vulnerabilities and breaches, deploying adequate and appropriate technology to prevent attacks originating from external environment and internal controls to manage insider threats etc.
 - b) Monitoring, detection and analysis of potential intrusions/security incidents in real time and through historical trending on security-relevant data sources.
 - c) Operating network defence technologies such as Intrusion Detection Systems (IDSes) and data collection/analysis systems.
 - d) Conducting cyber-attack simulation on quarterly basis to aid in developing cyber resiliency measures and test the adequacy and effectiveness of the framework adopted.
 - e) Conducting awareness and training programs for its employees with regard to cyber security and situational awareness on quarterly basis.
 - f) Prevention of attacks similar to those already faced.
- 8.5.5 Such dedicated team shall submit a quarterly report to the BoD of QSB, on above mentioned activities carried out by them along with details of cybersecurity incidents which occurred and details of incidents which were prevented from occurring.
- 8.5.6 The dedicated team of security analysts shall report to Chief Information Security Officer (CISO) of the QSB and such CISO shall be designated as a Key Managerial Personnel (KMP) and shall directly report to the MD &CEO of the QSB.
- 8.5.7 The QSB should have well-defined and documented processes for monitoring of its systems and networks, analysis of cyber security threats and potential intrusions/security incidents, usage of appropriate technology tools, classification of threats and attacks, escalation hierarchy of incidents, response to threats and breaches, and reporting of the incidents.

Vulnerability Assessment and Penetration Testing (VAPT)

- 8.5.8 QSBs shall carry out continuous assessment of the threat landscape faced by them and on half yearly basis, conduct vulnerability assessment to detect security vulnerabilities in their IT environments exposed to internet.
- 8.5.9 QSB shall also carry out penetration tests on half-yearly basis, in order to conduct an in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks that are exposed to the internet.

Business Continuity Plan:

- 8.5.10 QSB shall put in place a comprehensive Business Continuity Plan (BCP) and such policy shall be reviewed on half-yearly basis to minimize the incidents affecting the business continuity.
- 8.5.11 QSB shall develop and document mechanisms and standard operating procedures to recover from the cyber-attacks within the stipulated Recovery Time Objective (RTO) of the QSB, various scenarios and standard operating procedures for resuming operations from Disaster Recovery (DR) site of QSB.
- 8.5.12 The CISO of the QSB shall review the implementation of the BCP and SOP on DR on monthly basis and submit a report to the board of QSBs.
- 8.5.13 All the provisions applicable to specified stock brokers (as stated in SEBI circular SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022 regarding Framework to address the 'technical glitches' in Stock Brokers' Electronic Trading Systems) shall also be applicable to the QSBs.

Periodic Audit

- 8.5.14 QSBs shall arrange to have their systems audited on half-yearly basis by a CERT-IN empanelled auditor to check compliance with the above mentioned requirements related to cyber security and other circulars of SEBI on cybersecurity and technical glitches, to the extent they are relevant to them and shall submit the report to stock exchanges along with the comments of the cybersecurity committee within one month of completion of the half year.

8.6 Investor Services including online complaint redressal mechanism:

- 8.6.1 QSBs must have investor service centers in all cities where they have branches.

- 8.6.2 QSBs shall have online capabilities for engaging with clients, responding to investor queries and seamless facility for filing complaints by investors and clearly defined escalation procedures.
- 8.6.3 The complaints redressal mechanism should be investor friendly and convenient. The same should have capabilities of being retrieved easily by the complainant online through complaint reference number, e-mail id, mobile no. etc.
- 8.7 Comprehensive operating guidelines:
- 8.7.1 SEBI vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 06, 2023, on “Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs)” enumerated the parameters for designating certain stock brokers, having regard to their size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, as Qualified Stock Brokers (QSBs), on the basis of certain parameters and appropriate weightages thereon.
- 8.7.2 Based on the parameters defined in the aforesaid circular, the list of stock brokers designated as Qualified Stockbrokers (QSBs) was released vide Exchange circular no. NCDEX/COMPLIANCE023/2023 dated March 06, 2023. Exchanges in consultation with SEBI have formulated comprehensive operating guidelines applicable to designated QSBs along with timelines for adherence to said compliance requirements.
- 8.7.3 The following Annexures in this regard are made available in the “Downloads” section on the Exchange website titled as “QSB – Enhanced Obligation” (https://ncdex.com/quick_links/download):
- (a) Comprehensive operating guidelines - Annexure A.
 - (b) Formats for reporting of compliances with operating guidelines to Exchange – **Annexure B**

Stock Brokers designated as QSBs shall be required to comply with enhanced obligations as specified in aforesaid guidelines and discharge additional responsibilities w.e.f. July 01, 2023.

Members are requested to take note of the contents of the circular and comply.

8.8 Nomination and Remuneration Committee:

- 8.8.1 This has reference to Exchange Circular NCDEX/COMPLIANCE-056/2023 dated June 02, 2023, on Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs) – Comprehensive Operating Guidelines.
- 8.8.2 Clause 8.1.1 to 8.1.3 of Annexure A of the aforesaid Circular states that “A minimum number of 4 meetings of its Board of Directors /Committee of the Board is required to be held every financial year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board”.
- 8.8.3 Exchange has received the representations from QSBs on frequency of meetings of Nomination and Remuneration Committee (NRC). Based on these representations, the Exchange, in joint consultation with Other Exchanges and SEBI, hereby clarifies that “The Nomination and Remuneration Committee shall meet at least once a year or as and when events as specified in the aforesaid Exchange Circular occur which mandate the conduct of the meeting”.

Members are requested to take note of the contents of the circular and comply.

9. Enhanced Monitoring of QSBs:

- 9.1 QSBs shall be subjected to enhanced monitoring and surveillance including additional submissions to be made to MIIs/SEBI, as and when sought.
- 9.2 Stock Exchanges, in consultation with SEBI, shall carry out annual inspection of QSBs and communicate the findings of such inspection along with action taken report to SEBI.
- 9.3 Stock Exchanges shall devise a comprehensive framework to carry out enhanced monitoring of such QSBs. An illustrative list of areas is as follows:
- i. Funds and securities of clients which are handled by the QSB;
 - ii. Significant changes in net-worth of the QSB;
 - iii. Significant changes in profits/losses, as compared to previous financial year;
 - iv. Adverse findings in audit reports;
 - v. Adherence to prescribed timelines in case of various periodic submissions to be made by QSB;

- vi. Timely submission of any information sought by SEBI/MIs;
 - vii. Adherence to enhanced obligations and responsibilities stated in this circular; and
 - viii. Quality of services being provided to investors.
- 9.4 In case of any deviation/violation observed, Stock Exchanges shall take necessary steps to ensure that the same is corrected by QSBs including initiating disciplinary action, wherever found necessary, in accordance with the relevant regulatory provisions/bye-laws.
10. The provisions of this circular (excluding para 7.4) shall come into effect from July 01, 2023.
11. Stock Exchanges and QSBs shall put in place appropriate systems and procedures to ensure compliance of the provisions of this circular.
12. Stock Exchanges are directed to:
- 12.1 bring the provisions of this circular to the notice of their members / participants and also disseminate the same on their websites;
 - 12.2 make necessary amendments to the relevant Bye-laws, Rules and Regulations for the implementation of the above provisions;
 - 12.3 issue the first list of QSBs within 15 days from the date of issuance of this circular; and
 - 12.4 seek confirmation from QSBs that necessary systems required to comply with the enhanced obligations and responsibilities for QSBs, stated in this circular, are in place and shall submit a compliance report to SEBI within 7 days of implementation.

SEBI, vide Gazette Notification dated January 17, 2023, amended the SEBI (Stock Brokers) Regulations, 1992 for designating certain stock brokers as QSBs. Subsequently, SEBI vide circular no. SEBI/HO/MIRSD/MIRSDPoD-1/P/CIR/2023/24 dated February 06, 2023, on “Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs)” enumerated the parameters and appropriate weightages for designating certain stock brokers, having regard to their size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, as Qualified Stock Brokers (QSBs).

Accordingly, based on the parameters defined in the aforesaid circular, the list of designated Qualified Stock brokers (QSBs) is enclosed herewith as Annexure A (list consists of members across Exchanges, is in alphabetical order and is not indicative of ranking). These QSBs shall be required to meet enhanced obligations and discharge additional responsibilities as stipulated in the above SEBI circular dated February 06, 2023 and as notified to them from time to time. Enhanced monitoring of QSBs shall be carried out amongst all exchanges w.e.f. July 01, 2023.

The Exchange will issue a separate circular on 'Operating guidelines/comprehensive framework' for carrying out enhanced monitoring of Qualified Stock Brokers (QSBs).

Members are requested to take note of the contents of the circular and comply.

Annexure A

List of Stock Brokers designated as Qualified Stock Brokers (QSBs) across all Exchanges

Sr.No.	Name of the Stock Brokers
1	5PAISA CAPITAL LIMITED
2	ANAND RATHI SHARE AND STOCK BROKERS LIMITED
3	ANGEL ONE LIMITED
4	GLOBE CAPITAL MARKET LIMITED
5	HDFC SECURITIES LTD.
6	ICICI SECURITIES LIMITED
7	IIFL SECURITIES LIMITED
8	JAINAM BROKING LIMITED
9	KOTAK SECURITIES LTD.
10	MOTILAL OSWAL FINANCIAL SERVICES LIMITED
11	NEXTBILLION TECHNOLOGY PRIVATE LIMITED
12	NUVAMA WEALTH AND INVESTMENT LIMITED
13	RKSV SECURITIES INDIA PRIVATE LIMITED
14	SHAREKHAN LTD.
15	ZERODHA BROKING LIMITED

Note: Above list is in alphabetical order and is not indicative of ranking.

This is with reference to SEBI Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 06, 2023, on "Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs)", wherein SEBI enumerated the parameters for designating certain stock brokers, having regard to their size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, as Qualified Stock Brokers

(QSBs).

The following four parameters were considered for designating a stock broker as QSB, on an annual basis:

- 1.1 the total number of active clients of the stock broker;
- 1.2 the available total assets of clients with the stock broker;
- 1.3 the trading volumes of the stock broker (excluding the proprietary trading volume of the stock broker);
- 1.4 the end of day margin obligations of all clients of a stock broker (excluding the proprietary margin obligation).

Based on the aforementioned parameters, the first list of QSBs was issued by Exchange vide Circular no. NCDEX/COMPLIANCE-023/2023 dated March 06, 2023, on “Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs).”

SEBI vide Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024, on “Measures to instill trust in securities market – Expanding the framework of Qualified Stock Brokers (QSBs) to more stock brokers” has extended the framework of QSBs to more stock brokers and enumerated the following parameters, in addition to the aforementioned four parameters:

- 1.5 the proprietary trading volumes of the stock broker who are engaged in clients’ trading;
- 1.6 compliance score of the stock broker, derived by assigning highest score to stock brokers with highest penalties levied across Exchanges; and
- 1.7 grievance redressal score of the stock broker, derived by assigning highest score to stock brokers with highest count of investor complaints received across Exchanges.

Accordingly, on the basis of the parameters defined in the aforesaid Circulars, the revised list of designated Qualified Stock Brokers (QSBs) is enclosed herewith as Annexure A (list is in alphabetical order and is not indicative of ranking).

These QSBs shall be required to meet enhanced obligations and discharge additional responsibilities as specified in Comprehensive Operating Guidelines issued vide Exchange Circular no. NCDEX/COMPLIANCE-056/2023 dated June 02, 2023.

The effective date of implementation for different QSBs based on parameters by which they are designated as QSBs has been prescribed in the table below:

Parameters based on which a Stock Broker is designated as QSB	Applicability of the Circular*
Parameters mentioned at para 1.1 to 1.5 above (i.e. para 4.1.1 to 4.1.5 of the SEBI Circular dated March 11, 2024)	June 01, 2024
Parameters mentioned at para 1.6 and 1.7 above (i.e. para 4.1.6 to 4.1.7 of the SEBI Circular dated March 11, 2024)	September 01, 2024

*For QSBs which are common between the lists in Annexure A, the date of applicability of the circular shall be June 01, 2024.

Stock Brokers designated as QSBs vide Exchange Circular no. NCDEX/COMPLIANCE-023/2023 dated March 06, 2023 and not included in Annexure A, shall continue to comply with the enhanced obligations and responsibilities, for an additional period of 3 financial years or such time, as may be specified by the Exchange, in consultation with SEBI. Members are requested to take note of the contents of the Circular and comply.

Annexure A

List of QSBs based on the parameters mentioned at para 1.1 to 1.5 above and para 4.1.1 to 4.1.5 of SEBI Circular dated March 11, 2024

S. No.	Name of the Stock Broker
1	Angel One Limited
2	Globe Capital Market Limited
3	HDFC Securities Ltd.
4	ICICI Securities Limited
5	Kotak Securities Ltd.
6	Motilal Oswal Financial Services Limited
7	Nextbillion Technology Private Limited
8	NJ India Invest Private Limited
9	Rajvi Stock Broking Private Limited
10	RKSV Securities India Private Limited
11	Zerodha Broking Limited

List of QSBs based on the parameter mentioned at para 1.6 above and para 4.1.6 of SEBI Circular dated March 11, 2024

S. No.	Name of the Stock Broker
1	5Paisa Capital Limited
2	Angel One Limited
3	ICICI Securities Limited
4	IIFL Securities Limited
5	Motilal Oswal Financial Services Limited

List of QSBs based on the parameter mentioned at para 1.7 above and para 4.1.7 of SEBI Circular dated March 11, 2024

S. No.	Name of the Stock Broker
1	Angel One Limited
2	Finvasia Securities Private Limited
3	ICICI Securities Limited
4	Motilal Oswal Financial Services Limited
5	Zerodha Broking Limited

Circular References:

- Circular No. NCDEX/COMPLIANCE-010/2023 dated February 07, 2023
- Circular No. NCDEX/COMPLIANCE-023/2023 dated March 06, 2023
- Circular No. NCDEX/COMPLIANCE-014/2024 dated March 12, 2024
- Circular No. NCDEX/COMPLIANCE-019/2024 dated March 19, 2024

26. CONTRACT NOTE

Contract Notes must be issued within 24 hours of the transactions made by or on behalf of the client and the proof of delivery of the same needs to be preserved by the Member.

Electronic Note

I. Use of Digital Signature on Contract Notes

Pursuant to the provisions of the Information Technology (IT) Act, 2000, it is clarified that the Members are allowed to issue contract notes authenticated by means of digital signatures provided that the member has obtained digital signature certificate from Certifying Authority under the IT Act, 2000. Mode of confirmation by the client may be as specified in the Uniform Client Registration Form/agreement between the Member and the client.

II. Issuing ECNs when specifically, consented

The digitally signed ECNs may be sent only to those clients who have opted to receive the contract notes in an electronic form, either in the Member – Client agreement/ Tripartite agreement or by a separate letter. The mode of confirmation shall be as per the agreement entered into with the clients.

III. Where to send ECNs

The usual mode of delivery of ECNs to the clients shall be through e-mail. For this purpose, the client shall provide an appropriate e-mail account to the member which shall be made available at all times for such receipt of ECNs.

IV. Requirement of digital signature

All ECNs sent through the e-mail shall be digitally signed, encrypted, non-tamperable and shall comply with the provisions of the IT Act, 2000. In case the ECN is sent through e-mail as an attachment, the attached file shall also be secured with the digital signature, encrypted and non-tamperable.

V. Requirements for acknowledgement

The acknowledgement of the e-mail, shall be retained by the member in a soft and non-tamperable form.

VI. Proof of delivery

- i. The proof of delivery i.e., log report generated by the system at the time of sending the contract notes shall be maintained by the member for the specified period under the extant regulations of SEBI/Stock Exchanges and shall be made available during inspection, audit, etc.
- ii. The member shall clearly communicate to the client in the agreement executed with the client for this purpose that non-receipt of bounced mail notification by the member shall amount to delivery of the contract note at the e-mail ID of the client.

VII. Log Report for rejected or bounced mails

- i. The log report shall also provide the details of the contract notes that are not delivered to the client/e-mails rejected or bounced back.

- ii. Also, the member shall take all possible steps (including settings of mail servers, etc.) to ensure receipt of notification of bounced mails by the member at all times within the stipulated time period under the extant regulations of SEBI/Stock Exchanges.

VIII. When to issue or send in Physical form

- i. Issue in Physical form- In the case of those clients who do not opt to receive the contract notes in the electronic form, the member shall continue to send contract notes in the physical form to such clients.
- ii. Send in Physical form-Wherever the ECNs have not been delivered to the client or has been rejected (bouncing of mails) by the e-mail ID of the client, the member shall send a physical contract note to the client within the stipulated time under the extant regulations of SEBI/Stock Exchanges and maintain the proof of delivery of such physical contract notes.

IX. General Requirements:

- i. ECNs through website: In addition to the e-mail communication of the ECNs in the manner stated above, in order to further strengthen the electronic communication channel, the member shall simultaneously publish the ECN on his designated web-site in a secured way and enable relevant access to the clients.
- ii. Access to the website: In order to enable clients to access the ECNs posted in the designated website in a secured way, the member shall allot a unique username and password for the purpose, with an option to the client to access the same and save the contract note electronically or take a print out of the same.
- iii. Preservation/ Archive of electronic documents

The member shall retain/ archive such electronic documents as per the extant rules/Regulations/ circulars/ guidelines issued by SEBI/ Stock Exchanges from time to time.

X. Authorization for Electronic Contract Notes

The stock broker may issue electronic contract notes (ECN) if specifically authorized by the client subject to the following conditions:

- i. The authorization shall be in writing and be signed by the client only and not by any authorised person on his behalf or holder of the Power of Attorney.
- ii. The email id shall not be created by the broker. The client desirous of receiving ECN shall create/provide his own email id to the stock broker.
- iii. The authorization shall have a clause to the effect that that any change in the email-id shall be communicated by the client through a physical letter to the broker. In respect of internet

clients, the request for change of email id may be made through the secured access by way of client specific user id and password.

Circular Reference:

- Circular no. NCDEX/COMPLIANCE-015/2016/238 dated September 27, 2016

CONTRACT NOTE

Name of the member, logo of the member SEBI registration no. address, telephone no, fax no and website
Name of compliance officer his/ her email & telephone no., email id for investor complaint
Dealing offices address, telephone no, fax no,

CONTRACT NOTE NO.			Name Of Exchange	Name Of Exchange	Name Of Exchange
TRADE DATE		SETTLEMENT NO.			
		SETTLEMENT DATE			
Name of the Client Address of the Client State/State Code (Place of supply) PAN of Client UCC of Client Trading Back office code* GST Identification No of client (if available)		GIVE EXCHANGE-WISE SETTLEMENT NO. & DATES			

	Name Of Exchange	Name Of Exchange	Name Of Exchange
*Trading/ Back Office Code (If Different from UCC)			

Sir/ Madam,

I/ We have this day done by your order and on your account the following transactions:

Order No.	Order Time	Trade No.	Trade Time	Security/ Contract description	Buy (B)/ Sell (S)	Quantity	Gross Rate/ Trade Price Per unit (Rs)	Broke rage per Unit (Rs)	Net Rate per Unit (Rs)	Net Total (Before Levies) (Rs)	Remarks
1	2	3	4	5	6	7	8	9	10	11	12
Name of Exchange											
Only Trade details of the trading day to be given and not the details of position brought forward											
Trade 1											
Trade 2											
Trade N											
Name of Exchange											
Only Trade details of the trading day to be given and not the details of position brought forward											
Trade 1											
Trade 2											
Trade N											
Name of Exchange											
Only Trade details of the trading day to be given and not the details of position brought forward											
Trade 1											
Trade 2											
Trade N											

	Name Of Exchange	Name Of Exchange	Name Of Exchange	TOTAL (Net)
Aggregate of Net Total of Column (11)				
Brokerage Total				
Commodities Transaction Tax				
Taxable Value of supply (TV)				
CGST ^{**} (Rate@___% of TV)				
SGST ^{**} (Rate@___% of TV)				
IGST ^{**} (Rate@___% of TV)				
UTT ^{**} (Rate@___% of TV)				
Exchange Transaction Charges				
SEBI turnover Fees.				
Stamp Duty				
Other Statutory Levies if any				

**** CGST:-Central GST; SGST: - State GST; IGST:-Integrated GST; UTT: - Union Territory Tax.**
Details of trade-wise levies shall be provided on request.

For Buy Transactions: You will be liable to pay to the seller GST and all other applicable taxes & levies along with any other charges as may be applicable and payable under the relevant provisions of the Central & State laws and for payment of other taxes and levies as may be applicable for the contract and for complying with the Rules, Bye-laws and Regulations of the Exchange, for issuance of valid tax invoices/certificates/declarations/ forms and also fulfil any other requirements as may be applicable and also for compliance under the Food Safety Standards Acts(FSSAI), Rules & Regulations, and any other Central & State legislations upon purchase of commodities covered by the contract. Please pay the amount shown for purchase of contracts/commodities as the case may be.

For Sale Transactions: You will be responsible for complying with GST laws, Commodities Transaction Tax (CTT) and all applicable taxes & levies along with any other charges as may be applicable and payable under the relevant provisions of the Central & State laws as may be applicable for the contract and for complying with the Rules, Bye-laws and Regulations of the Exchange including the Income Tax laws and any Central & State levies & taxes as applicable for the contract and comply with the Rules, Bye-laws and Regulations of the Exchange, for issuance of invoices, to provide valid tax certificates/declaration forms and also fulfil any other requirements as may be applicable and also for compliance under the Food Safety Standards Acts(FSSAI), Rules & Regulations, and any other Central & State legislations upon sale of commodities covered by the contract. Please initiate necessary electronic transfer of Commodities immediately as per the process prescribed by the Exchange for the sale transaction/s in case of delivery based transactions as the case may be.

Other Levies if any: Buy/Sale Rate excludes/includes as the case may be the applicable GST, CTT and other levies and charges as applicable, recoverable by/from you as the case may be, separately on the final settlement price of the contract.

This contract constitutes and shall be deemed to constitute as an agreement between you and me/us, and in the event of any claim (whether admitted or not), difference or dispute in respect of any dealings, and contracts of a date prior or subsequent to the date of this contract (including any question whether such dealings, transactions or contracts have been entered in to or not) shall be referred to arbitration as provided in the Rules, Bye-laws, Regulations and or any Business Rules of the Exchanges and other relevant applicable regulatory guidelines and directives issued by Securities and Exchange Board of India (SEBI) from time to time.

Transactions mentioned in this Contract Note shall be governed by the Rules, Bye-laws, Regulations, and any Business Rules of the respective Exchanges and also subject to the relevant Acts, Rules, Regulations, Directives, Notifications, Guidelines (including GST Laws) & Circulars issued by SEBI / Government of India/ State Governments and Union Territory Governments from time to time. The Exchanges provides for dedicated Investor Grievance Redressal Mechanism and Alternate Dispute Resolution Mechanism (Arbitration) at regions where they have set up Investor Service Centre (ISC). The Arbitration facility is provided at the Regional Arbitration Centres. The details of Investor Service Centres & Regional Arbitration Centres are available on the respective Exchange's Website (www.mcxindia.com, www.ncdex.com, www.nmce.com). The Client may approach Investor Service Centre of the respective Exchange nearest to the address provided by the client in the KYC form for any dispute redressal. In matters where the Exchange is made a party to any dispute, the Civil Courts as mentioned in the Bye-laws and Regulations of the Exchange shall have the exclusive Jurisdiction over the matter. In all other matters, proper courts within the area covered under the Regional Arbitration Centres as notified by the Exchange from time to time shall have the Jurisdiction over the matter.

Date:

Yours faithfully,

Place:

For _____ (Name of Trading Member)

PAN of Trading Member	
GSTIN of Trading Member	
Description of Service	
Accounting code of services	

Name & Signature/Digital Signature of Partner/ Proprietor/ Authorized Signatory

27. SMS AND EMAIL ALERTS TO CLIENTS BY THE EXCHANGE

Uploading of mobile number and E-mail address by stock brokers

Members shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.

Members shall ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.

Members shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the member may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

Verification by the stock exchanges

After uploading of details by the members, the Exchange shall take necessary steps to verify the details by any mode as considered appropriate by them which may include the following:

- a. By way of sending SMS and E-mail directly to the investors at the numbers/E-mail address uploaded by the members.
- b. By way of sending letters to the address of the investors uploaded by the members.

Sending of alerts by the stock exchanges

Upon receipt of confirmation from the investors, the Exchange shall commence sending the transaction details generated based on investors' Permanent Account Number, directly to them.

Handling of discrepancies, if any.

If any discrepancy is observed by the Exchanges in the details uploaded by the members including non-confirmation by investors, bounced E-mails, undelivered SMS/letters, etc., the Exchange shall inform the respective member.

Circular Reference:

- SEBI Circular no.CIR/MIRSD/15/2011 dated August 02, 2011

Annexure – 1
ANNUAL GLOBAL TRANSACTION STATEMENT (AGTS)

Name of the client	
UCC(s) of the client	
PAN of the client	
Basis	Trade/ Settlement
Date of Issue of AGTS	
Financial Year	

Security/ Commodity Description	Exchange	Segment	Purchase Quantity	Purchase Value	Sale Quantity	Sale Value

The above is minimum information and model format. The Stock Broker may provide any additional data like ISIN, average rate, net position, etc.

1. Consolidated report to be given for entire financial year
2. Each distinct security/ commodity should be mentioned as a separate line item
3. The AGTS may be given on trade day basis or settlement day basis
4. AGTS should be generated PAN wise. However, a single PAN has been issued for multiple UCCs (eg. NRI clients, different UCCs allotted across different segments/ exchanges), then UCC wise AGTS may be provided
5. Effect of close out/ settlement/ auction transactions should be mentioned in the purchase/ sale column, as appropriate
6. AGTS has to be provided to all the clients within 30 days from the end of the financial year
7. Regulatory directives as applicable from time to time regarding communication to clients should be adhered to
8. All charges mentioned in the contract notes like Securities/ Commodities Transaction Tax, Stamp Duty, Exchange Transaction Charges, SEBI turnover fees, etc. should be provided in the report appropriately

If the client desires any further information/ details regarding the AGTS, the same should be provided by the Stock Broker

Annexure – 2

Frequently Asked Questions (FAQ)

1. Can Stock Broker provide details of corporate benefits like bonus/ stock split and other nonmarket transactions like public issues, tender offers, etc. in the AGTS?
Ans: Yes, the circular permits providing additional information to the client
2. Does the AGTS need to be issued to institutional clients?
Ans: Since the settlement of institutional trades is through custodians, AGTS need not be issued to institutional clients.
3. How is Securities Lending and Borrowing (SLB) transaction to be reflected in the AGTS?
Ans SLB is not a purchase/ sale and therefore is not to be included in the AGTS. However, details of the SLB trades may be provided separately.
4. Can transaction details of same security traded in different exchanges be merged in a single line?
Ans Yes, the same may be merged in a single line. However, the exchange column should mention all the relevant exchanges.

28. GUIDELINES FOR “STATEMENT OF ACCOUNT” FOR FUNDS, SECURITIES AND COMMODITIES

Members’ attention is drawn to the SEBI circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009, which was made applicable to Commodity Derivatives Brokers vide SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016.

With an objective to increase the transparency and safeguard clients assets lying with the members, the periodicity of ‘Statement of Accounts’ which is currently sent by members to clients on monthly basis is revised to weekly basis.

Further all members will continue to send monthly/quarterly ‘statement of accounts’ containing an extract from the client ledger for funds, an extract from the register of securities/commodities displaying all receipts and deliveries of securities/commodities and a statement explaining the retention of funds/commodities within 5 days from the date of settlement.

Accordingly, every member shall send a complete ‘Statement of Accounts’ for funds, securities and commodities in respect of each of its clients on weekly basis. Members are advised to send the ‘Statement of Accounts’ on or before the next four trading days of subsequent week.

Clarifications on Statement of Accounts

- i. Member shall send a complete 'Statement of Accounts' for funds and securities/commodities in respect of each of its clients on weekly basis for transactions from Monday to Saturday of each week.
- ii. The client shall bring any dispute arising from the statement of account to the notice of the member preferably within 7 working days from the date of receipt of statement.
- iii. The members, shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and also has been flagged as 'Inactive' (i.e. if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange.
- iv. In respect of custodian participant clients, the requirement of the aforementioned Circulars/Regulations are applicable if the members receive funds / securities / commodities from their custodian participants clients and / or pay funds / deliver securities/ commodities to such custodian participants clients directly and not through the custodians/clearing members.
- v. The Members, while sending periodic statement of accounts to the clients, shall mention therein that their running account authorization would continue until it is revoked by the clients.
- vi. In view of the recent changes in the guidelines on margin collection from clients by way of pledge-repledge mechanism of client securities and revised POA guidelines, the format of register of securities / commodities is prescribed and enclosed as Annexure A. Further, Members shall send the statement of accounts for funds/securities commodities reflecting the balances of funds/securities/commodities after adjusting/reversal for open bills of the client, un-cleared cheques deposited or cheques received from / issued to clients and the margin obligations posted in the client ledger, if any as on the last date of the statement i.e. Saturday of every week.

The formats of the statement of accounts for securities/commodities and funds to be send to the clients are enclosed as Annexure A & B.

- vii. Further, member shall also disclose the details of pending settlement pay in / pay out obligations of all segments and uncleared cheques in respect to the funds / securities / commodities of the client as on last date of the statement i.e. Saturday of every week to the client in the weekly statement of accounts separately.
- viii. The weekly statement of accounts sent to the clients, shall necessarily contain a clause intimating the client that the client needs to refer to the daily margin statement for any pending/outstanding margin obligation of the trades executed by the client in case the margin obligations are posted in the client ledger.
- ix. Member shall ensure that the statement of account of fund/securities/commodities reflecting the balance as on the last date of the statement matches with the financial ledger balance (Clear) in Cash & Cash Equivalent submissions and securities/commodities holding in Holding Statement uploaded to the Exchange of the same date.

Notwithstanding anything contained above, Member shall issue the statement of accounts for funds, securities and commodities for such period as may be requested by the client from time to time.

Members are requested to note that, the aforementioned requirement shall be applicable from the week ending on March 06, 2021 and for each week thereafter due date of which will be on or before the next four trading days of subsequent week.

Members are requested to take note of the contents of the circular and comply with the same.

Circular References:

- SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December 03, 2009 (Clause 12 of Annexure A)
- SEBI Circular no. MIRSD/Cir/01/2011 dated May 13, 2011
- Circular no. NCDEX/COMPLIANCE-016/2016/239 dated September 27, 2016
- Circular no. NCDEX/COMPLIANCE-024/2016/342 dated December 22, 2016
- Circular no. NCDEX/COMPLIANCE-046/2019 dated November 11, 2019
- Circular no. NCDEX/COMPLIANCE-003/2020 dated January 16, 2020
- Circular no. NCDEX/COMPLIANCE-007/2021 dated February 09, 2021

29. FRAMEWORK FOR SUPERVISION OF AUTHORIZED PERSONS (APs) & BRANCHES BY MEMBERS

This is with reference to SEBI circulars MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009 and SEBI/Cir/MIRSD/AP/8/2010 dated July 23, 2010 and the Exchange Circular NCDEX/COMPLIANCE-017/2019 dated April 15, 2019, regarding Market Access through Authorized Persons.

Members are expected to review the trading activities of the APs and branches including periodic inspection of branches assigned to APs and records of the operations carried out by them. There has been an increase in the number of registered APs in the recent past stipulating a need for a structured risk based supervisory framework.

In order to enhance the effectiveness of the supervision and ensure uniformity & standardisation across all Members, the following guidelines, framed in joint consultation with SEBI & other Exchanges, are being issued:

- i. Every Trading Member shall be required to inspect every year at least 30% of its active Authorized Persons/ Branches and also ensure that each active AP/ Branch is inspected at least once in every three years. For this purpose, an active AP/ Branch would mean one who

have executed even a single transaction during financial year and is engaged in servicing the clients.

- ii. APs/Branches meeting any of the below criteria shall be inspected annually, irrespective of when the last inspection was carried out:
 - APs/Branches with more than 500 registered clients across Exchanges
 - APs with more than 20 trading terminals and Branches with more than 50 trading terminals, across all segments/Exchanges.
 - APs/Branches against which more than 3 complaints have been received during the previous year.

In case of any inputs/alerts about any suspicious transactions/dealing/assured returns etc. by an AP or a Branch, the Member shall carry out an immediate inspection, irrespective of when the last inspection was carried out and initiate appropriate action.

- iii. The indicative scope of the Inspection to be carried out is outlined in Annexure to Exchange circular no. NCDEX/COMPLIANCE-041/2019 dated October 23, 2019.

Circular Reference:

- Circular no. NCDEX/COMPLIANCE-041/2019 dated October 23, 2019.

30. REPORTING FOR INSPECTION OF AUTHORISED PERSON

This is with reference to the Exchange circular no. NCDEX/COMPLIANCE-041/2019 dated October 23, 2019 issued on 'Framework for Supervision of Authorized Persons (APs) & Branches by Members'

In this regard, Exchange has provided a provision to the Members to report the AP's inspection details. The details are to be submitted through NCFE portal of the Exchange in below mentioned module: Compliance ◊ Inspection of AP.

Further, members are requested to note the following with respect to submission of Reporting for Inspection of Authorised Person

1. The guidelines for referred submission are detailed in Annexure-1 below.
2. A separate form is required to be submitted for each inspection undertaken during a financial year.
3. It is hereby notified that the referred link is activated and will remain open for submission. Members are, therefore, requested to submit AP inspection report undertaken for the FY 2021-22, i.e April 01, 2021 to March 31, 2022 and for subsequent financial years.

Members are also hereby notified that they shall be mandatorily required to report any incidence, observed by them, involving assured returns or any unauthorised schemes operated by the AP, to the Exchange, within 2 working days. Such reporting should be sent by email to askus@ncdex.com. Members, additionally, shall also take necessary measures, including filing of a police complaint upon noticing such incidence. Exchange may also require Members to obtain confirmation from their clients that there are no claims against such AP. Further, Members are also requested to comply with SEBI Circular No. MIRSD/DR-1/Cir-16-09 dated November 06, 2009.

Members should undertake necessary due diligence & background screening of the applicants at the time of their onboarding as an AP. Members should restrict entities with names which may mislead clients/investors, including names with “Portfolio/Wealth management/advisory” without a valid SEBI registration. The Exchange shall reject any AP application, where it is of the opinion that the name of the applicant is misleading or does not reflect the activities permitted to be undertaken by an AP.

Further, kindly note that APs are not permitted to undertake activities such as providing assured/guaranteed return schemes, unauthorized portfolio management & investment schemes etc. as well as directly accepting or paying/delivering any funds and securities from/to the clients/investors. It is the responsibility of the members to ensure that all APs registered with them are complying with the regulatory requirements and do not undertake any non-permitted activities. Members shall be liable for all such acts of its APs and/or their Directors/Partners, employees etc., including liabilities arising therefrom.

Members are advised to ensure compliance with the above requirements.

Annexure 1

Guidelines for submission

- A. Login to NCFE
- B. Go to menu Compliance-Inspection of AP
- C. Fill in basic membership details and verify email id (based on OTP that will be received on the email id filled)
- D. Once email id is verified, submit the details for Inspection of Authorised Person on the screen directly against each head and click on “Submit” button.
- E. Repeat the process in case of multiple submission.
- F. All fields are mandatory. Data once submitted cannot be edited again. Please check the details before finally submitting the data.

- Circular no. NCDEX/COMPLIANCE-041/2019 dated October 23, 2019.
- Circular no. NCDEX/COMPLIANCE-028/2022 dated May 06, 2022.

31. UNAUTHORISED MARKET PRACTICES BY THE MEMBERS

Members' attention is drawn to the Exchange Regulation 6: Conduct of Business by Members and other provisions of the Exchange Bye-Laws, Rules & Regulation, wherein it is stated that members are not permitted to undertake some business/activities.

Members are advised to refrain from engaging in below mentioned practices.

- a. Incentives/referral schemes: Members are advised not to engage in running schemes such as sponsoring/funding ETF units for opening of trading account. Members are also advised not to offer cashback to clients acquired through referral by partnering with the third-party digital payment applications as an incentive for opening a trading account with them. Members are hereby advised to refrain from such practices and trading account opened through client referral should strictly comply with the Exchange/SEBI circulars/guidelines.

Client shall not be subjected to any kind of trade inducement (including by way of generating trade calls through Interactive Voice Response (IVR) system) and it shall be ensured that all instructions for placement of orders are obtained from the respective client only.

- b. Issue of advertisements: Members are advised not to use celebrities to promote their business, products/services/brokerage plans etc., including undertaking brand promotion. Members are hereby advised to refer Exchange circular no. NCDEX/ENFORCEMENT002/2017/146 dated June 19, 2017 regarding Games/Leagues/Schemes/Competition launched by Registered Stock Brokers and Code of Advertisement for Stock Broker. Further, advertisements/promotional campaigns issued by the members should not promote or incentivize trading in specific securities/contracts which will have the effect of inducement to the clients.
- c. Inactive accounts: As per Exchange circular no. NCDEX/COMPLIANCE-077/2020 dated December 03, 2020, Members are required to flag the client account as 'inactive' in case there are no transaction in the client account for a period of 12 months. Members shall not urge clients to execute trades in their account to prevent accounts from being flagged as inactive. Also, members should refrain from undertaking any activity including sending oral or written business communications to clients, inducing the clients to execute trades in their account for the sole purpose of keeping the account active.
- d. Client registration documents: The current regulatory requirements stipulate mandatory collection of additional documents related to financial details of the clients in case of trading in derivative segments, which includes copy of the demat account holding statement of the client. In this regard, members are required to ensure adequate due diligence to ensure that

the demat account holding statement reflect a satisfactory financial position of the client before allowing them to trade in the derivative segment.

- e. Assured Return Schemes/ Unauthorised Portfolio Management Service: Members are advised not to get involved in activities/schemes of fixed / periodic payments, which are not permitted under the Bye-Laws, Rules & Regulations and circulars of SEBI/Exchanges. It is reiterated that members are not permitted to undertake any business/activity that is not allowed under the Bye-Laws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/ guaranteed/fixed returns/payments etc.
- f. Sharing of trading credentials (login id & password): Members are advised that clients trading in derivatives should not be lured to share trading credentials – (login id & passwords) with the individuals/persons who promise assured returns and trade on behalf of these clients. In view of the same, members are hereby advised to carry out surveillance of the trading activities of clients. Members are also advised to monitor whether the trading activity of their clients in the derivatives segment is in proportion to their income / networth.

In view of the above, members are also advised to regularly caution and create awareness amongst their clients/investors to abstain them from dealing in any schemes of unauthorised collective investments/portfolio management, indicative/ guaranteed/fixed returns / payments etc. and sensitize their clients to avoid practices like:

- Sharing of
 - i. trading credentials – login id & passwords,
 - ii. trading strategies
 - iii. position details
- Trading in leveraged products /derivatives without proper understanding, which could lead to losses
- Writing/ selling options or trading in option strategies based on tips, without basic knowledge & understanding of the product and its risks
- Dealing in unsolicited tips through Whatsapp, Telegram, YouTube, Facebook, SMS, calls, etc.
- Trading based on recommendations from unauthorised / unregistered investment advisor

Members are advised to lookout for various unsolicited messages being circulated in the market and take appropriate action against the individual/person/entity in case the details such as names, phone numbers, email ids appearing in the said messages are matching with the records of their employees, authorised persons and clients.

Members are advised to refrain from engaging in any practice that is against the spirit of the guidelines issued by SEBI/Exchange. Further, Members are advised to put in place adequate mechanisms to have oversight on the activities of their associates, authorised persons and take

necessary action if any irregularity is observed. Non-adherence to the Bye-Laws, Rules & Business Rules and circulars of SEBI/Exchanges will be viewed very seriously. The member will be liable for strict disciplinary action, if the member is observed to be engaging in unauthorised market practices either directly or through its Authorised person(s) and/or their Directors/Partners, employees etc.

Members are requested to take note of the contents of the circular and comply.

Circular Reference:

- Circular No. NCDEX/COMPLIANCE-019/2022 dated April 1, 2022

32. REPORTING FOR ARTIFICIAL INTELLIGENCE (AI) AND MACHINE LEARNING (ML) APPLICATIONS AND SYSTEMS OFFERED AND USED BY MARKET INTERMEDIARIES.

This is with reference to SEBI circular SEBI/MIRSD/DOS2/2019/10 dated January 04, 2019 regarding reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries.

As per communication received from SEBI, members are hereby informed that the timeline for reporting of Artificial Intelligence (AI) and Machine Learning (ML) applications and systems shall be revised and the below mentioned timelines will be followed with immediate effect:

Intermediary	Current timelines for reporting of AI/ ML applications	Revised Timeline for reporting AI/ML applications
Trading members using Algorithm software	Quarterly basis within 15 calendar days of the expiry of the quarter	Half yearly basis within 15 calendar days of the expiry of the half year
Other Trading members		Annually within 15 calendar days of the expiry of a year.

Kindly note that requirement of reporting of AI/ML based application or system is defined in Annexure B and reporting format is provided in Annexure A of SEBI circular SEBI/MIRSD/DOS2/2019/10 dated January 04, 2019, and continues to remain the same.

The submission of AI/ML applications is mandatory for all active Trading Members of the Exchange (i.e. those who have executed even a single trade during the half year/annual period as mentioned above) irrespective of whether they are using AI/ML systems or not. The Trading Members who are not using AI/ML systems are also required to report NIL submission. Kindly

note that the next submission will be applicable for half year/annual period March 31, 2024 to the Exchange latest by **April 15, 2024**.

Further, members are requested to note the following with respect to submission of AI and ML details:

1. A separate form is required to be submitted for each of the AI / ML application and system in case of multiple AI / ML applications and systems are deployed.
2. The guidelines for referred submission are detailed in Annexure-1 and FAQs' for the same are given in Annexure-2.
3. It is hereby notified that the referred link will be activated on April 01, 2024 and will remain open for next 15 days only. Members are, therefore, requested to submit details on or before due date i.e. **April 15, 2024**.

Members are advised to ensure compliance with the above requirements.

Annexure A - Form to report on AI and ML technologies – To be submitted as mentioned above

Intimation to Stock Exchange/ Depository for the use of the AI and ML application and systems.

SNo.	Head	Value
1	Entity SEBI registration number	
2	Registered entity category	
3	Entity name	
4	Entity PAN no.	
5	Application/ System name	
6	Date from when the Application/ System was Used	
7	Type of area where AI or ML is used	<order execution/ Advisory services/ KYC / AML / Surveillance / compliance/others (please specify in 256 characters)>
7.a	Does the system involve order initiation, routing and execution?	<Yes/ NO>
7.b	Does the system fall under discretionary investment or Portfolio management activities?	<Yes/ NO>
7.c	Does the system disseminate investment or trading advice or strategies?	<Yes/ NO>
7.d	Is the application/system used in area of Cyber Security to detect attacks	<Yes/ NO>

7.e	What claims have been made regarding AI and ML Application/ System – if any?	<free text field>
8	What is the name of the Tool/ Technology that is categorized as AI and ML system/ Application and submissions are declared vide this response	<free text field>
9	How was the AI or ML project implemented	<Internally / through solution provider/ Jointly with a solution provider or third party>
10	Are the key controls and control points in your AI or ML application or systems in accordance to circular of SEBI that mandate cyber security control requirements	<free text field>
11	Is the AI/ ML system included in the system audit, if applicable?	<Yes/ NO/ NA>
12	Describe the application/ system and how it uses AI/ ML as portrayed in the product offering	<free text field>
13	What safeguards are in place to prevent abnormal behavior of the AI or ML application/ System	<free text field>

Annexure B – Systems deemed to be based on AI and ML technology

Applications and Systems belonging but not limited to following categories or a combination of these:

1. Natural Language Processing (NLP), sentiment analysis or text mining systems that gather intelligence from unstructured data. – In this case, Voice to text, text to intelligence systems in any natural language will be considered in scope. Eg: robo chat bots, big data intelligence gathering systems.
2. Neural Networks or a modified form of it. – In this case, any systems that uses a number of nodes (physical or software simulated nodes) mimicking natural neural networks of

- any scale, so as to carry out learning from previous firing of the nodes will be considered in scope. Eg: Recurrent Neural networks and Deep Learning Neural Networks
3. Machine learning through supervised, unsupervised learning or a combination of both.
– In this case, any application or systems that carry out knowledge representation to form a knowledge base of domain, by learning and creating its outputs with real world input data and deciding future outputs based upon the knowledge base. Eg: System based on Decision tree, random forest, K mean, Markov decision process, Gradient boosting Algorithms.
 4. A system that uses statistical heuristics method instead of procedural algorithms or the system/ application applies clustering or categorization algorithms to categorize data without a predefined set of categories
 5. A system that uses a feedback mechanism to improve its parameters and bases it subsequent execution steps on these parameters.
 6. A system that does knowledge representation and maintains a knowledge base.

Annexure 1

Guidelines for submission

- A. Login to NCFE
- B. Go to menu Compliance ->AI/ML
- C. Fill in basic membership details and verify email id (based on OTP that will be received on the email id filled)
- D. Once email id is verified, submit the AI/ML application/system details on the screen directly against each head and click on “Submit” button.
- E. Repeat the process in case of multiple AI/ML applications/systems used.
- F. All fields are mandatory. Data once submitted cannot be edited again. Please check the details before finally submitting the data.

Annexure 2

FAQs for submission

- Q1. What is the due date for the Submissions under AI/ML?

Ans. Due date for the submission is 15 calendar days from the end of the reporting quarter.

Q2. Which application/system are considered as AI/ML technologies?

Ans. Refer Annexure B of the Exchange Circular no. NCDEX/COMPLIANCE-001/2019 dated January 07, 2019.

Q3. We do not use AI/ML applications/systems. Do we need to submit the details?

Ans. Yes, you will have to inform the same to Exchange by selecting “No” as your answer to the question “Do you use any AI or ML in any area/software/application”.

Q4. We use multiple applications/systems with AI/ML technology. How do we submit the details using a single form?

Ans. You will have to make multiple submissions. The details of only one software/system/application can be submitted through the screen at one time.

Q5. We do only pro trading. Do we need to submit the details?

Ans. Yes.

Circular References:

- Circular no. NCDEX/COMPLIANCE-009/2016/184 dated August 04, 2016
- Circular no. NCDEX/COMPLIANCE-010/2016/191 dated August 16, 2016
- Circular no. NCDEX/TECHNOLOGY-065/2018 dated December 4, 2018
- Circular no. NCDEX/COMPLIANCE-001/2019 dated January 7, 2019
- Circular no. NCDEX/RISK- 002/2019 dated October 18, 2019
- Circular no. NCDEX/RISK-001/2019 dated July 18, 2019
- Circular no. NCDEX/COMPLIANCE-062/2023 dated June 16, 2023
- Circular no. NCDEX/COMPLIANCE-072/2023 dated July 11, 2023
- Circular no. NCDEX/COMPLIANCE-098/2023 dated September 18, 2023
- Circular no. NCDEX/COMPLIANCE-107/2023 dated October 10, 2023
- Circular no. NCDEX/COMPLIANCE-140/2023 dated December 13, 2023
- Circular no. NCDEX/COMPLIANCE-021/2024 dated March 26, 2024

33. DISPLAY OF DETAILS AT MEMBER'S OFFICE

Members are hereby informed that they have to ensure that the details prescribed below are displayed at a prominently visible location at their main/branch offices and also at the offices of the authorised person/franchisee.

(a) its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers in its portal/web site, if any, notice/ display boards, advertisements, publications, know your client forms, and member client agreements;

(b) its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in contract notes, statement of funds and securities, and correspondences with the clients.

Further, all the offices of the Members and its Authorised Persons shall prominently display basic information, as given below about the grievance redressal mechanism available to investors.

Dear Investor,

In case of any grievance/ complaint against the Members:

Please contact Compliance Officer of the Member (Name)/ email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.

You may also approach CEO/ Partner/Proprietor (Name)/ email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.

If not satisfied with the response of the Member, you may contact the concerned Stock/Commodity Exchange at the following –

	Web Address	Contact No	Email-id
NCDEX	www.ncdex.com	022 - 66406789	ig@ncdex.com

You can also lodge your grievances with SEBI at <http://scores.gov.in>. For any queries, feedback or assistance, please contact SEBI Office on Toll Free Helpline at 1800 22 7575/ 1800 266 7575.

Circular References:

- SEBI Circular no. Cir/MIRSD/ 9/2010 dated November 4, 2010
- SEBI Circular no. CIR/MIRSD/3/2014 dated August 28, 2014

34. HANDLING OF CLIENTS' SECURITIES BY TRADING MEMBERS

1. The securities received in pay-out against which payment has been made by clients, shall be transferred to the demat account of the respective clients within one working day of the pay-out. Such securities shall be transferred directly from the pool account of the TM/CM to the demat account of the respective client.
2. With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – “client unpaid securities account” shall be opened by the TM/CM. Unpaid securities shall be transferred to such “client unpaid securities account” from the pool account of the concerned TM/CM.
3. The securities kept in the ‘client unpaid securities account’ shall either be transferred to the demat account of the respective client upon fulfilment of client’s funds obligation or shall be disposed off in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account
4. In case the clients’ securities are kept in the ‘client unpaid securities account’ beyond seven trading days after the pay-out, the depositories shall under their bye-laws levy appropriate penalties upon such TM/CM which shall not be permitted to be recovered from the client.
5. SEBI circular (on Comprehensive Review of Margin Trading Facility) dated June 13, 2017 specifies that TM/CM shall maintain separate client wise ledger for funds and securities of clients availing margin trading facility. Accordingly, the securities that are bought under Margin Trading Facility, shall be kept in a separate account titled as – ‘Client Margin Trading Securities Account’
6. With effect from September 01, 2019, clients’ securities lying with the TM/CM in “client collateral account”, “Client Margin Trading Securities account” and “client unpaid securities account” cannot be pledged to the Banks/NBFCs for raising funds, even with authorization by client as the same would amount to fund based activity by TM/CM which is in contravention of Rule 8(1)(f) & 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.
7. Further, the client’s securities already pledged in terms of clause 2.5 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 2 (c) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 shall, by August 31, 2019, either be unpledged and returned to the clients upon fulfilment of pay-in obligation or disposed off after giving notice of 5 days to the client.
8. All the existing client securities accounts opened by the TM/CM other than ‘Pool account’(including ‘Early Pay-in’), ‘Client Margin Trading Securities account’ and ‘Client collateral account’ should have been wound up on or before August 31, 2019. The TM/CM shall within one week of closure of existing client accounts, inform the Stock Exchange/s the details in the following format:

Name of DP	Account Number/ Client ID	DP ID	Name of Account	PAN	Date of Closing

9. TM/CM shall inform the details of the unpaid securities account to the respective Stock Exchanges/ Clearing Corporations within one week of opening of the unpaid securities account in the following format:

Name of DP	Account Number/ Client ID	DP ID	Name of Account	PAN	Date of Opening

10. Exchange may initiate appropriate disciplinary actions for non-compliance of the aforesaid circulars as may be decided by the Relevant Authority of the Exchange.

Circular References:

- Circular no. NCDEX/COMPLIANCE-025/2019 dated June 21, 2019
- Circular no. NCDEX/COMPLIANCE-033/2019 dated August 30, 2019
- Circular no. NCDEX/COMPLIANCE-002/2020 dated January 13, 2020

35. MARGIN OBLIGATIONS TO BE GIVEN BY WAY OF PLEDGE/ RE-PLEDGE IN THE DEPOSITORY SYSTEM

1. SEBI had extensive consultations with Stock Exchanges, Clearing Corporation and Depositories and industry representatives of Trading Members (the “TM”)/ Clearing Members (the “CM”)/ Depository Participants (the “DP”), to devise a framework that mitigates the risk of misappropriation or misuse of client’s securities available with the TM/ CM/ DP. The misappropriation or misuse would include use of one client’s securities to meet the exposure, margin or settlement obligations of another client or of the TM/ CM. The matter was also discussed in the Secondary Market Advisory Committee meeting.
2. With effect from June 01, 2020, TM/ CM shall, inter alia, accept collateral from clients in the form of securities, only by way of ‘margin pledge’, created in the Depository system in accordance with Section 12 of the Depositories Act, 1996 read with Regulation 79 of the

SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories.

3. Section 12 of the Depositories Act, 1996 read with Regulation 79 of the SEBI (Depositories and Participants) Regulations, 2018 and the relevant Bye Laws of the Depositories clearly enumerate the manner of creating pledge of the dematerialized securities. Any procedure followed other than as specified under the aforesaid provisions of law for creating pledge of the dematerialised securities is prohibited. It is clarified that an off-market transfer of securities leads to change in ownership and shall not be treated as pledge.
4. Transfer of securities to the demat account of the TM/ CM for margin purposes (i.e. title transfer collateral arrangements) shall be prohibited. In case, a client has given a power of attorney in favour of a TM/ CM, such holding of power of attorney shall not be considered as equivalent to the collection of margin by the TM/ CM in respect of securities held in the demat account of the client.

The TM/ CM shall also be allowed to accept client securities as collateral by way of title transfer into the Client Collateral Account as per the present system. The system of parallel acceptance of the client securities by way of title transfer shall be available only upto August 31, 2020 and no further extension shall be granted.

5. Depositories shall provide a separate pledge type viz. 'margin pledge', for pledging client's securities as margin to the TM/ CM. The TM/ CM shall open a separate demat account for accepting such margin pledge, which shall be tagged as 'Client Securities Margin Pledge Account'.
6. For the purpose of providing collateral in form of securities as margin, a client shall pledge securities with TM, and TM shall re-pledge the same with CM, and CM in turn shall re-pledge the same to Clearing Corporation (CC). The complete trail of such re-pledge shall be reflected in the de-mat account of the pledgor.
7. The TM shall re-pledge securities to the CM's 'Client Securities Margin Pledge Account' only from the TM's 'Client Securities Margin Pledge Account'. The CM shall create a re-pledge of securities on the approved list to CC only out of 'Client Securities Margin Pledge Account'.
8. In this context, re-pledge would mean endorsement of pledge by TM/ CM in favour of CM/CC, as per procedure laid down by the Depositories.
9. The TM and CM shall ensure that the client's securities re-pledged to the CC shall be available to give exposure limit to that client only. Dispute, if any, between the client, TM/ CM with respect to pledge, re-pledge, invocation and release of pledge shall be settled inter-se

amongst client and TM/ CM through arbitration as per the bye-laws of the Depository. CC and Depositories shall not be held liable for the same.

10. Securities that are not on the approved list of a CC may be pledged in favour of the TM/ CM. Each TM/ CM may have their own list of acceptable securities that may be accepted as collateral from client.
11. Funded stocks held by the TM/ CM under the margin trading facility shall be held by the TM/ CM only by way of pledge. For this purpose, the TM/ CM shall be required to open a separate demat account tagged 'Client Securities under Margin Funding Account' in which only funded stocks in respect of margin funding shall be kept/ transferred, and no other transactions shall be permitted. The securities lying in 'Client Securities under Margin Funding Account' shall not be available for pledge with any other Bank/ NBFC.

Funded stocks held by the TM/ CM under the margin trading facility shall preferably be held by the TM/ CM by way of pledge with effect from August 01, 2020. TM/ CM may continue to hold funded stocks in respect of margin funding in 'Client Margin Trading Securities Account' till August 31, 2020 by which date all such accounts shall be closed.

12. The TM/ CM shall be required to close all existing demat accounts tagged as 'Client Margin/ Collateral' by August 31, 2020. The TM/ CM shall be required to transfer all client's securities lying in such accounts to the respective clients' demat accounts. Thereafter, TM/ CM are prohibited from holding any client securities in any beneficial owner accounts of TM/CM, other than specifically tagged accounts as indicated above, and in pool account(s), unpaid securities account, as provided in SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.
13. Clients having arrangements with custodians registered with SEBI for clearing and settlement of trades shall continue to operate as per the extant guidelines.
14. The operational mechanism for margin pledge is provided in Annexure A below. The framework for utilization of pledged clients' securities for exposure and margin is provided in Annexure B below.
15. This circular is applicable for all securities in dematerialized form and which are given as collateral/ margin by the client to TM/ CM/ CC by way of pledge and repledge.

Annexure A- Operational mechanism for margin pledge

INITIATION OF MARGIN PLEDGE

1. For the purpose of providing collateral in form of dematerialised securities as margin, a client shall initiate the margin pledge only in favour of the TM/ CM's separate client securities margin account tagged as 'Client Securities Margin Pledge Account' through physical instruction or electronic instruction mechanism provided by the Depositories. Such instructions shall have details of client UCC, TM, CM and Default Segment.
2. In cases where a client has given a Power of Attorney (the "POA") to the TM/ CM, the TM/ CM may be allowed to execute the margin pledge on behalf of such client to the demat account of the TM/ CM tagged as 'Client Securities Margin Pledge Account'.
3. The 'pledge request form' shall have a clause regarding express consent by the client for re-pledge of the securities by the TM to CM and further by the CM to CC.
4. On receipt of the margin pledge instruction either from the client or by TM/ CM as per the POA, DP of a client shall initiate a margin pledge in the client's account and the status of instruction will remain pending till confirmation is received from client/ pledgor. The client will submit acceptance by way of One Time Password (the "OTP") confirmation on mobile number/ registered e-mail id of the client or other verifiable mechanism. Such OTP confirmation from client shall also be required, if securities of such client are being re-pledged. The Depositories shall develop a verifiable mechanism for confirmation of the pledge by the client.

It is clarified that such confirmation shall be required only once from the client/ pledgor at the time of initial creation of pledge in favour of TM/ CM and subsequent repledging by TM/ CM shall not require any further confirmation from the client/ pledgor

5. In client account, margin pledge or re-pledge shall be reflected against each security, if it is pledged/ re-pledged and in whose favour i.e. TM/ CM/ CC.
6. The TM can re-pledge only in favour of CM's demat account tagged as 'Client Securities Margin Pledge Account'. The CM shall create a re-pledge of securities on the approved list only to the CC out of 'Client Securities Margin Pledge Account'. While re-pledging the securities to the CC, CM/TM shall fully disclose the details of the client wise pledge to the CC/CM. CM would need to have visibility of client level position and client collateral so that CM shall allow exposure and/ or margin credit in respect of such securities to that client to whom such securities belong.

RELEASE OF MARGIN PLEDGE

7. In case of a client creating pledge of the securities in favour of the TM/ CM against margin, the TM/ CM may release the 'margin pledge' after their internal exposure and risk management checks. The request for release of pledge can be made by the client to its DP or to the TM/ CM, who shall release the pledge in the Depository system.
8. For release of client securities given to TM/CM as margin pledge and which are re-pledged in favour of the CC, the CM shall make a request to the CC. The client through TM, or the TM on his own, may request the CM to make an application to the CC for the release of margin pledge. CC shall do margin utilisation check at the CM level before releasing the re-pledge of securities to the CM. The CC will release the re-pledged client securities to CM after blocking other available free collateral of CM. The CM/TM in turn after doing their risk management shall release the securities to TM/ client, as the case may be.

INVOCATION OF MARGIN PLEDGE

9. In case of default by a client of TM where the clients securities are re-pledged with the CM/ CC, the invocation request shall be made by the TM to CM and CM in turn will make request to CC as per the procedure laid down by the Depositories under their bye-laws.
10. In case of default by a client of TM who has pledged securities with TM, The TM shall invoke the pledge.
11. In case of default by a client of TM whose securities are re-pledged by TM with CM, the invocation request shall be made by TM to the CM. The CM, after doing its internal exposure and risk management, shall release the re-pledged securities to the 'Client Securities Margin Pledge Account' of the TM. The TM in turn will invoke the pledge of client's securities.
12. In the event of default by a client of a TM, whose securities are re-pledged by TM with CM and CM in turn has re-pledged with CC, the TM shall make a request for invocation of pledge with CM and CM in turn shall file a request with CC to release the re-pledged securities for invocation. The CC shall block equivalent available free collateral provided by CM and shall release the re-pledged securities of that defaulting client of TM to CM in "Client Securities Margin Pledge Account" of CM. The CM shall do his own risk assessment of TM and would release re-pledged securities of the defaulting client of TM in "Client Securities Margin Pledge Account" of TM and TM shall invoke the pledge in Demat account of the client.
13. In case of default by a client/ TM of CM whose securities are re-pledged with CC, CM shall file a request with CC for invocation of the pledged/ re-pledged securities of that client/TM. CC shall block the equivalent available free collateral provided by CM and shall release the re-pledged

securities of that defaulting client/TM in “Client Securities Margin Pledge Account” of CM and the CM shall invoke the pledge in Demat account of the client/ TM.

14. In case of default by TM or client of TM, CM shall be entitled to invoke pledged/ re-pledged securities of the TM. CM shall also be entitled to invoke directly the repledged securities of client of TM having open position with CM to close out such positions.
15. In case of default by the CM, CC shall invoke securities pledged by the CM. After exhausting the CM own collateral, CC may also invoke re-pledge securities of that client who has open position and their re-pledged securities are blocked by CC to close out their open positions. The re-pledge securities of other clients who did not have any open position with CC, their securities shall not be available to CC for invocation to meet settlement default of the CM.

Annexure B-Framework for utilisation of client’s pledged securities for exposure and margin

1. At present, the margin requirement is computed in real time at client level by the CC and is aggregated at the level of CMs to arrive at the total margin requirement. The CC maintains and monitor the collateral at the level of CM. The CM is required to provide the collateral in various acceptable forms such as Cash, Bank Guarantee, Govt. Securities, pledge of acceptable shares, etc.
2. The day to day real time risk management with respect to client/ TM exposure, and the margin requirement shall continue to be the responsibility of the CM, and CC shall not monitor the client level exposure against the available client level collateral in real time.
3. In order to provide exposure to CM and/or to the clients/ TM of a CM, CC shall aggregate margin requirement at CM level that shall be compared against the available collateral in real time as aggregate of;
 - a. cash and cash equivalent deposited by CM,
 - b. own securities pledged by CM with CC,
 - c. CC requires minimum 50% of the collateral to be deposited in cash and cash equivalent, if the total securities pledged by CM with CC exceed the total cash and cash equivalent, the value of securities will be restricted to amount of cash and cash equivalent.
 - d. The TM’s proprietary margin requirement will be treated as a client of CM and aggregated along with other clients.
4. CM shall be allowed to re-pledge acceptable/approved client securities with the CC by furnishing the UCC wise client details. CC shall not allow any exposure to the CM on re-pledged securities of the client/ TM. In case of a trade by a client/ TM whose securities are re-pledged with CC, the CC shall first block the available collateral provided by CM as mentioned in point 3 above. However, at periodical interval (latest by end of day), CC shall release the blocked securities

collateral of CM to the extent of re-pledged securities collateral of that client/ TM available with the CC.

5. In the event of default by a client of TM, the TM shall make good the default to CM. In the event of default by a client or TM on its proprietary position, the CM shall make good the default to CC. However, in the event of default by client/s leading to default of TM and also the CM, the following process shall be applied by TM/CM/CC for invocation of pledged and re-pledged securities of client/TM/CM:
 - a. In case of default by a client of TM/CM or default of TM leading to the default of CM, CC shall:
 - i. encash the available collateral including cash, cash equivalent collateral, CM's own pledged securities.
 - ii. After encashing the available collateral of CM, also be entitled to directly invoke the re-pledged securities of client/ TM who has any open position so as to close out the open positions of that client.
 - iii. not be entitled to invoke re-pledged securities of those clients who did not have any open position to meet settlement obligation of the defaulting CM.
 - b. In case of default by a client of TM or default of TM, CM Shall:
 - i. be entitled to liquidate available cash, cash equivalent collateral and TM's own pledged/or re-pledged securities with CM/ CC to meet settlement/margin obligations of defaulting TM or client(s) of that TM.
 - ii. After encashing the available collateral of TM, also be entitled to directly invoke re-pledged securities of the client of defaulting TM who has open position through CM so as to close out his position.
 - iii. not be entitled to invoke re-pledged securities of those clients of defaulting TM who did not have any open position,
 - iv. ensure that the client securities of TM/ CM re-pledged with the CC are not utilized for meeting the margin requirement/ settlement obligation of a TM's/CM's own proprietary position or margin requirement/ settlement obligation of any other client of TM/ CM.

Circular References:

- Circular no. NCDEX/COMPLIANCE-011/2020 dated February 26, 2020
- Circular no. NCDEX/COMPLIANCE-034/2020 dated May 26, 2020
- Circular no. NCDEX/COMPLIANCE-036/2020 dated June 01, 2020
- Circular no. NCDEX/COMPLIANCE-047/2020 dated July 30, 2020

36. INACTIVE CLIENT'S ACCOUNT

In order to further enhance the guidelines regarding treatment of inactive account and ensure uniformity across all the members, the following guidelines, framed in joint consultation with other Exchanges, have been issued:

1. Definition of Inactive Trading accounts: The term inactive account refers to such accounts wherein no trades have been carried out since the last 12 (Twelve) months across all exchanges.
2. Transaction in Inactive Trading accounts: The inactive accounts identified based on the above criteria shall be flagged as 'inactive' by the member in the UCC database of all the Exchanges. In respect of NCDEX, the same shall be indicated by flagging such records as 'S' (Suspended). It is reiterated that the members are required to ensure that any further trading by such client shall be allowed only after undertaking sufficient due diligence and obtaining the updated information related to KYC from the concerned client.
3. Return of Clients assets: Members are required to ensure that all client accounts are settled as per Exchange circular no. NCDEX/COMPLIANCE-046/2019 dated November 11, 2019 on Periodic Settlement of Client Account.
4. In case of inability to settle the client accounts due to non-traceability of client and non-availability of client's bank account and/or demat account details, members are advised to maintain an audit trail for such efforts made for tracing and settling funds and securities of such clients.
5. Further in cases where they are unable to trace such clients in spite of all efforts taken, members are directed to take the following steps:
 - i. Open a separate Client Bank/ Client Demat account and immediately set aside the funds and securities of these clients in such an account.
 - ii. Maintain audit trail of UCC wise client funds transferred to/from such bank account and UCC wise/ BO ID wise securities transferred to/from such demat account (as the case may be).
 - iii. Submit UCC wise/BO ID wise and fund/securities information of such accounts to the Exchange on quarterly basis. Submission process will be shared in due course.
 - iv. In case of receipt of any claims from these clients, members are advised to settle the accounts immediately after proper due diligence to ensure that the payment/delivery is made to the respective clients only.
6. Reporting of Client Funds & Securities: Further, members are not required to upload the details of such Inactive clients having NIL balances in their submission of client funds and securities balances to Exchange under Enhanced Supervision prescribed in the Exchange circular nos. Exchange circular nos. NCDEX/COMPLIANCE-016/2016/239 dated

September 27, 2016, NCDEX/COMPLIANCE-014/2017/241 dated September 25, 2017, NCDEX/COMPLIANCE-22/2017/326 dated November 30, 2017. However, details of clients having funds or securities balances shall be reported even if their UCC has been marked as 'Inactive' by flagging off as 'S' (Suspended).

7. The requirement for flagging the client as inactive in the UCC database of the Exchange and the exemption for reporting (weekly and monthly upload of client funds and securities balances) shall continue to be applicable if no trades are carried out by the client in the last 12 (Twelve) months across all Exchanges.
8. Members shall be required to undertake the fresh documentation, due diligence and In Person Verification (IPV) if and when a client requests for reactivation after a period of 1 year of being flagged as inactive. However, in case a client has undertaken transaction through the Member, with respect to IPO/Mutual Fund subscription and DP operations (if the Member is a DP) during this period, the same can be considered and the requirement for fresh documentation, due diligence and IPV may not be required. Further, in the below mentioned conditions, as stipulated in SEBI circular dated April 24, 2020 bearing reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/73, the requirement for undertaking an IPV shall not be required:
 - Where the KYC of the investor is completed using the Aadhaar authentication/ verification of UIDAI.
 - When the KYC form has been submitted online, documents have been provided through DigiLocker or any other source which could be verified online.

However, the requirement of fresh documentation and due diligence shall be applicable as mentioned in point (ii) above.

9. Notwithstanding anything contained above, in case a client seeks re-activation before a period of 1 year of being flagged as inactive, member shall, while reactivating the client, ensure that the basic details of such client like Address, Mobile number, Email ID, Bank/DP account are updated in its records as well in the UCC records of the Exchange. In case of any changes, necessary documents shall be collected.
10. Members shall also ensure that appropriate due diligence of the client is conducted on an ongoing basis in compliance with the provisions of the PMLA guidelines issued from time to time and in accordance with their respective KYC policies.

Circular References:

- Circular no. NCDEX/COMPLIANCE-008/2020 dated February 10, 2020
- Circular no. NCDEX/COMPLIANCE-077/2020 dated December 03, 2020

37. DESIGN OF COMMODITY INDICES AND PRODUCT DESIGN FOR FUTURES ON COMMODITY INDICES

SEBI has permitted recognized stock exchanges with commodity derivative segment to introduce futures on commodity indices. Construction of commodity indices shall conform to the guidelines prescribed in Annexure I and futures on commodity indices shall conform to the product design given in Annexure II of the circular.

Circular Reference:

- Circular No. NCDEX/TRADING-018/2019 dated June 21, 2019

38. PARTICIPATION OF MUTUAL FUNDS IN COMMODITY DERIVATIVES MARKET IN INDIA

Mutual Funds can participate in Commodity Derivatives except in 'Sensitive Commodities' subject to certain conditions as laid down in the given circulars.

Circular References:

- Circular No. NCDEX/SURVEILLANCE & INVESTIGATION-065/2020 dated August 05, 2020
- Circular No. NCDEX/TRADING-014/2019 dated May 22, 2019
- Circular No. NCDEX/TRADING- 030/2020 dated June 17, 2020

39. PARTICIPATION OF MUTUAL FUNDS IN COMMODITY INDEX

Mutual Funds can participate in Futures contract on Indices irrespective of whether the underlying index has sensitive commodities as its constituents.

Circular Reference:

- Circular no. NCDEX/TRADING-034/2020 dated July 08, 2020

40. EXCLUSIVE EMAIL ID FOR REDRESSAL FOR INVESTOR GRIEVANCE

Registered Members/ Registered Authorised Persons are advised to designate an e-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints by investors. The above entities shall also display the email ID and other relevant details prominently on their websites and in the various materials/pamphlets/advertisement campaigns initiated by them for creating investor awareness.

Circular Reference:

- SEBI Circular no. MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006

**41. GUIDELINES ON PRE-FUNDED INSTRUMENTS (PAY ORDERS AND DEMAND DRAFTS)/
ELECTRONIC FUND TRANSFER**

The Members of the Exchange are required to comply with the following procedure while accepting from their clients, pre-funded instruments like pay-orders/demand drafts/ Banker's cheque, etc.

1. If the aggregate value of the pre-funded instruments is Rs 50,000 (Rs. Fifty Thousand) or more per client per day, the Member may accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:
 - (a) Certificate form the issuing bank on its letter-head or on plain paper with the seal of the issuing bank;
 - (b) Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument;
 - (c) Certified copy of the pass book/ bank statement for the account debited to issue the instrument;
 - (d) Authentication of the bank account number debited and name of the account holder by the issuing bank on the reverse of the instrument.
2. Members shall maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only.
3. Members are also directed to develop monitoring mechanism through internal audit and inspections to ensure compliance of the aforesaid directions.

Circular Reference:

- SEBI circular no.CIR/MIRSD/03/2011 dated June 09, 2011

42. GUIDELINES FOR OUTSOURCING OF ACTIVITIES

- 42.1 SEBI Regulations for various intermediaries require that they shall render at all times high standards of service and exercise due diligence and ensure proper care in their operations.

42.2 It has been observed that often the intermediaries resort to outsourcing with a view to reduce costs, and at times, for strategic reasons.

42.3 Outsourcing may be defined as the use of one or more than one third party – either within or outside the group - by a registered intermediary to perform the activities associated with services which the intermediary offers.

42.4 Principles for Outsourcing

The risks associated with outsourcing may be operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk, counter party risk, concentration and systemic risk. In order to address the concerns arising from the outsourcing of activities by intermediaries based on the principles advocated by the IOSCO and the experience of Indian markets, SEBI had prepared a concept paper on outsourcing of activities related to services offered by intermediaries.

Based on the feedback received on the discussion paper and also discussion held with various intermediaries, stock exchanges and depositories, the principles for outsourcing by intermediaries have been framed (given below). These principles shall be followed by all intermediaries registered with SEBI.

42.5 Activities that shall not be Outsourced

The intermediaries desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. A few examples of core business activities may be – execution of orders and monitoring of trading activities of clients in case of member; dematerialization of securities in case of depository participants; investment related activities in case of Mutual Funds and Portfolio Managers. Regarding Know Your Client (KYC) requirements, the intermediaries shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued thereunder from time to time.

42.6 Other Obligations

Reporting to Financial Intelligence Unit (FIU) - The intermediaries shall be responsible for reporting of any suspicious transactions/ reports to FIU or any other competent authority in respect of activities carried out by the third parties.

PRINCIPLES FOR OUTSOURCING FOR INTERMEDIARIES

1. An intermediary seeking to outsource activities shall have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced.

The Board/ partners (as the case may be) {hereinafter referred to as the “the Board”} of the intermediary shall have the responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy.

- 1.1 The policy shall cover activities or the nature of activities that can be outsourced, the authorities who can approve outsourcing of such activities, and the selection of third party to whom it can be outsourced. For example, an activity shall not be outsourced if it would impair the supervisory authority’s right to assess, or its ability to supervise the business of the intermediary. The policy shall be based on an evaluation of risk concentrations, limits on the acceptable overall level of outsourced activities, risks arising from outsourcing multiple activities to the same entity, etc.
- 1.2 The Board shall mandate a regular review of outsourcing policy for such activities in the wake of changing business environment. It shall also have overall responsibility for ensuring that all ongoing outsourcing decisions taken by the intermediary and the activities undertaken by the third-party, are in keeping with its outsourcing policy.
2. The intermediary shall establish a comprehensive outsourcing risk management program to address the outsourced activities and the relationship with the third party.
 - 2.1 An intermediary shall make an assessment of outsourcing risk which depends on several factors, including the scope and materiality of the outsourced activity, etc. The factors that could help in considering materiality in a risk management program include
 - a. The impact of failure of a third party to adequately perform the activity on the financial, reputational and operational performance of the intermediary and on the investors/ clients;
 - b. Ability of the intermediary to cope up with the work, in case of non-performance or failure by a third party by having suitable back-up arrangements;
 - c. Regulatory status of the third party, including its fitness and probity status;
 - d. Situations involving conflict of interest between the intermediary and the third party and the measures put in place by the intermediary to address such potential conflicts, etc.
 - 2.2 While there shall not be any prohibition on a group entity/ associate of the intermediary to act as the third party, systems shall be put in place to have an arm’s length distance between the intermediary and the third party in terms of infrastructure, manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures in this regard shall be made as part of the contractual agreement. It shall be kept in mind that the risk management practices expected to be adopted by an intermediary while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.

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- 2.3 The records relating to all activities outsourced shall be preserved centrally so that the same is readily accessible for review by the Board of the intermediary and/ or its senior management, as and when needed. Such records shall be regularly updated and may also form part of the corporate governance review by the management of the intermediary.
 - 2.4 Regular reviews by internal or external auditors of the outsourcing policies, risk management system and requirements of the regulator shall be mandated by the Board wherever felt necessary. The intermediary shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations.
 3. The intermediary shall ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and regulators, nor impede effective supervision by the regulators.
 - 3.1 The intermediary shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.
 - 3.2 Outsourcing arrangements shall not affect the rights of an investor or client against the intermediary in any manner. The intermediary shall be liable to the investors for the loss incurred by them due to the failure of the third party and also be responsible for redressal of the grievances received from investors arising out of activities rendered by the third party.
 - 3.3 The facilities/ premises/ data that are involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the registered intermediary. The intermediary itself and Regulator or the persons authorized by it shall have the right to access the same at any point of time.
 - 3.4 Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision/inspection of the intermediary.
 4. The intermediary shall conduct appropriate due diligence in selecting the third party and in monitoring of its performance.
 - 4.1 It is important that the intermediary exercises due care, skill, and diligence in the selection of the third party to ensure that the third party has the ability and capacity to undertake the provision of the service effectively.
 - 4.2 The due diligence undertaken by an intermediary shall include assessment of:
 - a. third party's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;

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- b. compatibility of the practices and systems of the third party with the intermediary's requirements and objectives;
 - c. market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
 - d. level of concentration of the outsourced arrangements with a single third party; and
 - e. the environment of the foreign country where the third party is located.
5. Outsourcing relationships shall be governed by written contracts/ agreements/ terms and conditions (as deemed appropriate) {hereinafter referred to as "contract"} that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.
- 5.1 Outsourcing arrangements shall be governed by a clearly defined and legally binding written contract between the intermediary and each of the third parties, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the intermediary.
- 5.2 Care shall be taken to ensure that the outsourcing contract:
- a. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
 - b. provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties;
 - c. provides for the liability of the third party to the intermediary for unsatisfactory performance/other breach of the contract
 - d. provides for the continuous monitoring and assessment by the intermediary of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the intermediary to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
 - e. includes, where necessary, conditions of sub-contracting by the third-party, i.e. the contract shall enable intermediary to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing;

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- f. has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract;
 - g. specifies the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
 - h. provides for preservation of the documents and data by third party;
 - i. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
 - j. provides for termination of the contract, termination rights, transfer of information and exit strategies;
 - k. addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when intermediary outsources its activities to foreign third party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;
 - l. neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
 - m. provides for the intermediary and/or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.
6. The intermediary and its third parties shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
- 6.1 Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.
- 6.2 An intermediary shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the third party level. Notably, it shall consider contingency plans at the third party; co-ordination of contingency plans at both the intermediary and the third party; and contingency plans of the intermediary in the event of non-performance by the third party.

- 6.3 To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the intermediary to fulfill its obligations to other market participants/clients/regulators and could undermine the privacy interests of its customers, harm the intermediary's reputation, and may ultimately impact on its overall operational risk profile. Intermediaries shall, therefore, seek to ensure that third party maintains appropriate IT security and robust disaster recovery capabilities.
- 6.4 Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by the intermediary to confirm the adequacy of the third party's systems.
7. The intermediary shall take appropriate steps to require that third parties protect confidential information of both the intermediary and its customers from intentional or inadvertent disclosure to unauthorised persons.
- 7.1 An intermediary that engages in outsourcing is expected to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.
- 7.2 The intermediary shall prevail upon the third party to ensure that the employees of the third party have limited access to the data handled and only on a "need to know" basis and the third party shall have adequate checks and balances to ensure the same.
- 7.3 In cases where the third party is providing similar services to multiple entities, the intermediary shall ensure that adequate care is taken by the third party to build safeguards for data security and confidentiality.
8. Potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties.

In instances, where the third party acts as an outsourcing agent for multiple intermediaries, it is the duty of the third party and the intermediary to ensure that strong safeguards are put in place so that there is no co-mingling of information/documents, records and assets.

Circular Reference:

- SEBI Circular no.CIR/MIRSD/24/2011 dated December 15, 2011

43. MAINTENANCE AND PRESERVATION OF DOCUMENTS

Members are required to maintain and preserve the specified books of account and documents for a period ranging from two years to five years in terms of Rule 15 of SCRR. Further, as per regulation 18 of SEBI (Stock Brokers & Sub-brokers) Regulations, 1992, every member shall preserve the specified books of account and other records for a minimum period of five years.

In case such documents are maintained in electronic form, provisions of Information Technology Act, 2000 in this regard shall be complied with.

Further, it has been noticed that enforcement agencies like CBI, Police, Crime Branch etc. have been collecting copies of the various records/documents during the course of their investigation. The originals of such documents maintained either in physical or in electronic form or in both would be required by such enforcement agencies during trial of the case also.

In view of the above, it is clarified that if a copy is taken by such enforcement agency either from physical or electronic record then the respective original is to be maintained till the trial or investigation proceedings have concluded.

Circular Reference:

- Circular no. NCDEX/COMPLIANCE-011/2016/205 dated September 1, 2016

44. CLARIFICATION ON MARGIN COLLECTION & REPORTING

This has reference to Exchange circular no. NCDEX/COMPLIANCE-055/2020 dated September 21, 2020 wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. Further, it has been reiterated vide Exchange circular no. NCDEX/COMPLIANCE-046/2021 dated October 14, 2021 and circular no. NCDEX/COMPLIANCE-037/2022 dated June 14, 2022 that members are not permitted to pass on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to clients under any circumstances.

In accordance with the above mentioned circulars and in consultation with SEBI, member shall submit an undertaking to the Exchange on half yearly basis (i.e. April-September and October-March) confirming that penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" is not being passed on to respective clients under any circumstances. Further, members are requested to note that submission of said undertaking shall be made part of periodic internal audit report and henceforth same shall be provided by member for the applicable period along with internal audit report of said periods to the Exchange.

Members are requested to take note of the contents of the circular and comply.

Rationalization of imposition of fines for false/incorrect reporting of margins or non-reporting of margins by Trading Member/Clearing Member in all segments

This is with reference to the Exchange Circular number NCDEX/COMPLIANCE-030/2019 dated August 05, 2019 on “Rationalization of imposition of fines for false/incorrect reporting of margins or non-reporting of margins by Trading Member/Clearing Member in all segments”.

As directed by SEBI, the existing penalty structure for disciplinary action in case of false/incorrect reporting of margin collection has been reviewed and revised in consultation with all the stock exchanges and SEBI. The revised penalty structure is enclosed at Annexure A for reference.

The revised penalty structure will be applicable for all instances of false/incorrect reporting of margin from September 01, 2019 onwards. For all prior instances of false/incorrect reporting up to August 31, 2019, the penalty structure as prescribed under SEBI Circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 07, 2016 and corresponding Exchange circular no. NCDEX/CLEARING-017/2016/212 dated September 08, 2016 shall continue to be applicable.

The aforementioned structure is indicative in nature and the relevant authority of the Exchange may, based on the gravity of the violation on case to case basis, take appropriate action as deemed fit.

Members are requested to take note of the same.

Annexure A

% of the violation in the current inspection (Proportion of the number of instances with false/incorrect reporting to the total number of sample instances verified)	PENALTY AS A PERCENTAGE (%) OF THE FALSE/INCORRECT REPORTING			
	Observed only in current Inspection	Observed only in 1 out of 3 previous Inspections in addition to the current Inspection	Observed only in 2 out of 3 previous Inspections in addition to the current Inspection	Observed in all the previous 3 Inspections in addition to the current Inspection
Above 50%	50%	60%	75%	100%
25%-50%	25%	50%	60%	75%

10%-25%	10%	25%	50%	60%
Less than 10%	5%	10%	25%	50%

Based on the above slabs, the penalty amount for the false/incorrect reporting of margin, shall be capped as under:

1. Rs.15,00,000/- in case of violation by a Trading Member
2. Rs.25,00,000/- in case of violation by a Clearing Member.

Along with the monetary penalty, the Member may also be subjected to suspension for one day in the respective segment in case of material instances. The false/incorrect reporting shall be treated as material for the purpose of suspension, if it meets all the following broad criteria:

1. Instances of false/incorrect reporting is more than 5% of the instances verified (minimum 3 instances) during inspection, and
2. Percentage of value of false/incorrect reporting is more than 5% of total margin required to be collected for the instances verified during inspection, and
3. Value of false/incorrect reporting of margin is more than Rs. 15 lakhs

Circular References:

- Circular no. NCDEX/COMPLIANCE-046/2021 dated October 14, 2021.
- Circular no. NCDEX/COMPLIANCE-037/2022 dated June14, 2022.
- Circular no. NCDEX/COMPLIANCE-051/2019 dated December 19, 2019.

45. GUIDELINES ON ANTI-MONEY LAUNDERING (AML) STANDARDS AND COMBATING THE FINANCING OF TERRORISM (CFT) /OBLIGATIONS OF SECURITIES MARKET INTERMEDIARIES UNDER THE PREVENTION OF MONEY LAUNDERING ACT, 2002 AND RULES FRAMED THERE UNDER

The Prevention of Money Laundering Act, 2002 ("PMLA") and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (Maintenance of Records Rules), as amended from time to time and notified by the Government of India, mandate every reporting entity [which includes intermediaries registered under section 12 of the Securities and Exchange Board of India Act, 1992 (SEBI Act) and stock exchanges], to adhere to client account opening procedures, maintain records and report such transactions as prescribed therein to the relevant authorities. The Maintenance of Records Rules, inter alia, empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and the form in which such information is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by regulator for detecting the transactions specified in the Maintenance of Records Rules and for furnishing information thereof, in such form as may be directed by the regulator.

The enclosed guidelines stipulate the essential principles for combating Money Laundering (ML) and Terrorist Financing (TF) and provides detailed procedures and obligations to be followed and complied with by all the registered intermediaries.

These guidelines shall also apply to the branches of the Stock Exchanges, registered intermediaries, and their subsidiaries situated abroad, especially, in countries which do not apply or insufficiently apply the recommendations made by the Financial Action Task Force (FATF), to the extent local laws and regulations permit. When the local applicable laws and regulations prohibit implementation of these requirements, the same shall be brought to the notice of SEBI.

SEBI has from time to time issued circulars/directives with regard to Know Your Client (KYC), Client Due Diligence (CDD), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) specifying the minimum requirements. It is emphasized that the registered intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address concerns of money laundering and suspicious transactions undertaken by clients.

On and from the issue of this Circular, the earlier circulars issued by SEBI on the subject of Anti-Money Laundering and Combating the Financing of Terrorism, listed out in the Appendix, shall stand rescinded. Notwithstanding such rescission, anything done or any action taken or purported to have been done or taken under the circulars specified in Appendix, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular.

This Circular is available at www.sebi.gov.in under the link “Legal Master Circulars”.

Overview

1. The Directives as outlined below provide a general background and summary of the main provisions of the applicable anti-money laundering and anti-terrorist financing legislations in India. They also provide guidance on the practical implications of the Prevention of Money Laundering Act, 2002 (PMLA). The Directives also set out the steps that a registered intermediary or its representatives shall implement to discourage and to identify any money laundering or terrorist financing activities.
2. These Directives are intended for use primarily by intermediaries registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (SEBI Act), Stock Exchanges, Depositories and other recognised entities under the SEBI Act and Regulations and rules thereunder. While it is recognized that a “one- size-fits-all” approach may not be appropriate for the securities industry in India, each registered intermediary shall consider the specific nature of its business, organizational structure, type of clients and transactions, etc. when implementing the suggested measures and procedures to ensure that they are effectively applied. The overriding principle is that they shall be

able to satisfy themselves that the measures taken by them are adequate, appropriate and abide by the spirit of such measures and the requirements as enshrined in the PMLA.

Background

3. As per the provisions of PMLA and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (Maintenance of Records Rules), as amended from time to time and notified by the Government of India, every reporting entity (which includes intermediaries registered under section 12 of the SEBI Act, i.e. a stock-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, asset management company, depository participant, merchant banker, portfolio manager, investment adviser and any other intermediary associated with the securities market and registered under Section 12 of the SEBI Act and stock exchanges), shall have to adhere to the client account opening procedures, maintenance records and reporting of such transactions as prescribed by the PMLA and rules notified there under.

The Maintenance of Records Rules empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and form in which it is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by the regulator for detecting the transactions specified in the Maintenance of Records Rules and for furnishing information thereof, in such form as may be directed by SEBI.

4. The PMLA inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as provided in Section 12A read with Section 24 of the SEBI Act will be treated as a scheduled offence under schedule B of the PMLA.

Policies and Procedures to Combat Money Laundering and Terrorist Financing

Essential Principles:

5. These Directives have taken into account the requirements of the PMLA as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed Directives have outlined relevant measures and procedures to guide the registered intermediaries in preventing ML and TF. Some of these suggested measures and procedures may not be applicable in every circumstance. Each intermediary shall consider carefully the specific nature of its business, organizational structure, type of client and transaction, etc. to satisfy itself that the measures taken by it are adequate and appropriate and follow the spirit of the suggested measures and the requirements as laid down in the PMLA and guidelines issued by the Government of India from time to time.

6. In case there is a variance in Client Due Diligence (CDD)/ Anti Money Laundering (AML) standards specified by SEBI and the regulators of the host country, branches/overseas subsidiaries of registered intermediaries are required to adopt the more stringent requirements of the two. If the

host country does not permit the proper implementation of AML/CFT measures consistent with the home country requirements, financial groups shall be required to apply appropriate additional measures to manage the ML/TF risks, and inform SEBI.

Obligation to establish policies and procedures

7. Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing. The PMLA is in line with these measures and mandates that all registered intermediaries ensure the fulfilment of the aforementioned obligations.

7A. "group" shall have the same meaning assigned to it in clause (cba) of sub-rule (1) of rule 2 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 as amended from time to time."

7B. Financial groups shall be required to implement group wide programmes for dealing with ML/TF, which shall be applicable, and appropriate to, all branches and majority owned subsidiaries of the financial group as under:

- a) policies and procedures for sharing information required for the purposes of CDD and ML/TF risk management;
- b) the provision, at group level compliance, audit, and/or AML/CFT functions, of customer, account, and transaction information from branches and subsidiaries when necessary for AML/CFT purposes. This shall include information and analysis of transactions or activities which appear unusual (if such analysis was done); provisions for receipt of such information by branches and subsidiaries from these group level functions when relevant and appropriate to risk management; and
- c) adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off.

8. To be in compliance with these obligations, the senior management of a registered intermediary shall be fully committed to establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The registered intermediaries shall:

- i. Issue a statement of policies and procedures and implement, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
- ii. Ensure that the content of these Directives are understood by all staff members;

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- iii. Regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures;
 - iv. Adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF;
 - v. Undertake CDD measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction;
 - vi. Have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and
 - vii. Develop staff members' awareness and vigilance to guard against ML and TF.

9. Policies and procedures to combat ML and TF shall cover:

- i. Communication of group policies relating to prevention of ML and TF to all management and relevant staff that handle account information, securities transactions, money and client records etc. whether in branches, departments or subsidiaries;
- ii. Client acceptance policy and client due diligence measures, including requirements for proper identification;
- iii. Maintenance of records;
- iv. Compliance with relevant statutory and regulatory requirements;
- v. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and
- vi. Role of internal audit or compliance function to ensure compliance with the policies, procedures, and controls relating to the prevention of ML and TF, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff, of their responsibilities in this regard; and,
- vii. The internal audit function shall be independent, adequately resourced and commensurate with the size of the business and operations, organization structure, number of clients and other such factors.

Written Anti Money Laundering Procedures

10. Each registered intermediary shall adopt written procedures to implement the anti-money laundering provisions as envisaged under the PMLA. Such procedures shall include inter alia, the following four specific parameters which are related to the overall 'Client Due Diligence Process':

- i. Policy for acceptance of clients;
- ii. Procedure for identifying the clients;
- iii. Risk Management;
- iv. Monitoring of Transactions.

Client Due Diligence (CDD)

11. The CDD measures comprise the following:

- i. Obtaining sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement;
 - ii. Verify the client's identity using reliable, independent source documents, data or information. Where the client purports to act on behalf of juridical person or individual or trust, the registered intermediary shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person." provided that in case of a Trust, the reporting entity shall ensure that trustees disclose their status at the time of commencement of an account based relationship.
 - iii. Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted - The beneficial owner shall be determined as under-
- a) **where the client is a company**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.

Explanation:- For the purpose of this sub-clause:-

- i. "Controlling ownership interest" means ownership of or entitlement to more than ten per cent of shares or capital or profits of the company;
 - ii. "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements;
- b) **where the client is a partnership firm**, the beneficial owner is the natural person(s) who, whether acting alone or together, or through one or more juridical person, has ownership of/ entitlement to more than ten percent of capital or profits of the partnership or who exercises control through other means.

Explanation:- For the purpose of this clause:-

"Control" shall include the right to control the management or policy decision;

- c) **where the client is an unincorporated association or body of individuals**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen per cent of the property or capital or profits of such association or body of individuals;
- d) where no natural person is identified under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official;
- e) **Where the client is a trust**, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with ten per cent or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and
- f) where the client or the owner of the controlling interest is an entity listed on a stock exchange in India, or it is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions notified by the Central Government, or it is a subsidiary of such listed entities, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such entities.
- g) **Applicability for foreign investors:** Registered intermediaries dealing with foreign investors' may be guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19,2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;
- h) The Stock Exchanges and Depositories shall monitor the compliance of the aforementioned provision on identification of beneficial ownership through half yearly internal audits. In case of

mutual funds, compliance of the same shall be monitored by the Boards of the Asset Management Companies and the Trustees and in case of other registered intermediaries, by their Board of Directors.

- i) For clients other than individuals or trusts: Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:
- j) The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest;

Explanation: Controlling ownership interest means owner-ship of/ entitlement to:

- i. more than 10% of shares or capital or profits of the juridical person, where the juridical person is a company;
- ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
- iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.

bb) In cases where there exists doubt under clause (aa) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means;

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

cc) Where no natural person is identified under clauses (aa) or (bb) above, the identity of the relevant natural person who holds the position of senior managing official.

b) For client which is a trust: Where the client is a trust, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the author of the trust, the trustee, the protector, the beneficiaries with 10% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership;

c) Exemption in case of listed companies: Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies;

d) Applicability for foreign investors: Registered intermediaries dealing with foreign investors' may be guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;

e) The Stock Exchanges and Depositories shall monitor the compliance of the aforementioned provision on identification of beneficial ownership through half yearly internal audits. In case of mutual funds, compliance of the same shall be monitored by the Boards of the Asset Management Companies and the Trustees and in case of other registered intermediaries, by their Board of Directors.

iv. Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (iii);

v. Understand the ownership and control structure of the client;

vi. Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds;

vii. Registered intermediaries shall review the due diligence measures including verifying again the identity of the client and obtaining information on the purpose and intended nature of the business relationship, as the case may be, when there are suspicions of money laundering or financing of the activities relating to terrorism or where there are doubts about the adequacy or veracity of previously obtained client identification data; and

viii. Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process such that the information or data collected under client due diligence is kept up-to-date and relevant, particularly for high risk clients.

ix. Every registered intermediary shall register the details of a client, in case of client being a non-profit organization, on the DARPAN Portal of NITI Aayog, if not already registered, and maintain such registration records for a period of five years after the business relationship between a client and the registered intermediary has ended or the account has been closed, whichever is later.

x. Where registered intermediary is suspicious that transactions relate to money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the client,

the registered intermediary shall not pursue the CDD process, and shall instead file a STR with FIU- IND.”

11A. No transaction or account-based relationship shall be undertaken without following the CDD procedure.

Policy for acceptance of clients

12. All registered intermediaries shall develop client acceptance policies and procedures that aim to identify the types of clients that are likely to pose a higher than average risk of ML or TF. By establishing such policies and procedures, they will be in a better position to apply client due diligence on a risk sensitive basis depending on the type of client business relationship or transaction. In a nutshell, the following safeguards are to be followed while accepting the clients:

i. No registered intermediary shall allow the opening of or keep any anonymous account or account in fictitious names or account on behalf of other persons whose identity has not been disclosed or cannot be verified;

ii. Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters shall enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher; Such clients require higher degree of due diligence and regular update of Know Your Client (KYC) profile;

iii. The registered intermediaries shall undertake enhanced due diligence measures as applicable for Clients of Special Category (CSC). CSC shall include the following:

a) Non - resident clients;

b) High net-worth clients;

c) Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations;

d) Companies having close family shareholdings or beneficial ownership;

e) "Politically Exposed Persons" (PEPs). PEP shall have the same meaning as given in clause (db) of sub-rule (1) of rule 2 of the Prevention of Money- Laundering (Maintenance of Records) Rules, 2005. The additional norms applicable to PEP as contained in the subsequent paragraph 14 of the

master circular shall also be applied to the accounts of the family members or close relatives / associates of PEPs;

f) Clients in high risk countries. While dealing with clients from or situate in high risk countries or geographic areas or when providing delivery of services to clients through high risk countries or geographic areas i.e. places where existence or effectiveness of action against money laundering or terror financing is suspect, registered intermediaries apart from being guided by the FATF statements that inter alia identify such countries or geographic areas that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf-gafi.org) from time to time, shall also independently access and consider other publicly available information along with any other information which they may have access to. However, this shall not preclude registered intermediaries from entering into legitimate transactions with clients from or situate in such high risk countries and geographic areas or delivery of services through such high risk countries or geographic areas; the intermediary shall specifically apply EDD measures, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF.

g) Non face to face clients. Non face to face clients means clients who open accounts without visiting the branch/offices of the registered intermediaries or meeting the officials of the registered intermediaries. Video based customer identification process is treated as face-to-face onboarding of clients;

h) Clients with dubious reputation as per public information available etc;

The above mentioned list is only illustrative and the intermediary shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

iv. Documentation requirements and other information to be collected in respect of different classes of clients depending on the perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.

v. Ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures. This shall apply in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non - genuine, or there is perceived non - co-operation of the client in providing full and complete information. The registered intermediary shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The registered intermediary shall be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, the registered intermediary shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.

vi. The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity/value and other appropriate details. Further the rights and responsibilities of both the persons i.e. the agent- client registered with the intermediary, as well as the person on whose behalf the agent is acting shall be clearly laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.

vii. Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

viii. The CDD process shall necessarily be revisited when there are suspicions of ML/TF.
Client identification procedure

13. The KYC policy shall clearly spell out the client identification procedure (CIP) to be carried out at different stages i.e. while establishing the intermediary – client relationship, while carrying out transactions for the client or when the intermediary has doubts regarding the veracity or the adequacy of previously obtained client identification data.

14. Registered intermediaries shall be in compliance with the following requirements while putting in place a CIP:

i. All registered intermediaries shall proactively put in place appropriate risk management systems to determine whether their client or potential client or the beneficial owner of such client is a politically exposed person. Such procedures shall include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPs.

ii. All registered intermediaries are required to obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, registered intermediaries shall obtain senior management approval to continue the business relationship.

iii. Registered intermediaries shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.

iv. The client shall be identified by the intermediary by using reliable sources including documents/information. The intermediary shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

v. The information must be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the directives. Each original document shall be seen prior to acceptance of a copy.

vi. Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority within the intermediary.

15. SEBI has specified the minimum requirements relating to KYC for certain classes of registered intermediaries from time to time. Taking into account the basic principles enshrined in the KYC norms which have already been specified or which may be specified by SEBI from time to time, all registered intermediaries shall frame their own internal directives based on their experience in dealing with their clients and legal requirements as per the established practices.

16. Further, the intermediary shall conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.

17. Every intermediary shall formulate and implement a CIP which shall incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients.

It may be noted that irrespective of the amount of investment made by clients, no minimum threshold or exemption is available to registered intermediaries (brokers, depository participants, AMCs etc.) from obtaining the minimum information/documents from clients as stipulated in the PML Rules/ SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures by registered intermediaries. This shall be strictly implemented by all registered intermediaries and non-compliance shall attract appropriate sanctions.

Reliance on third party for carrying out Client Due Diligence (CDD)

18. Registered intermediaries may rely on a third party for the purpose of -

i. identification and verification of the identity of a client and

ii. Determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.

19. Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. In terms of Rule 9(2) of PML Rules:

i. The registered intermediary shall immediately obtain necessary information of such client due diligence carried out by the third party;

ii. The registered intermediary shall take adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;

iii. The registered intermediary shall be satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with client due diligence and record-keeping requirements in line with the requirements and obligations under the Act;

iv. The third party is not based in a country or jurisdiction assessed as high risk;

The registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable

Risk Management

Risk-based Approach

20. Registered intermediaries shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have policies approved by their senior management, controls and procedures in this regard. Further, the registered intermediaries shall monitor the implementation of the controls and enhance them if necessary.

21. It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of business relationship or transaction etc. As such, the registered intermediaries shall apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the registered intermediaries shall adopt an enhanced client due diligence process for higher risk categories of clients. Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents that registered intermediaries shall obtain necessarily depend on the risk category of a particular client.

22. Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.

Risk Assessment

23. Registered intermediaries shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc.

24. The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self-regulating bodies, as and when required.

24A. The Stock Exchanges and registered intermediary shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and existing products. The Stock Exchanges and registered intermediaries shall ensure:

- a. To undertake the ML/TF risk assessments prior to the launch or use of such products, practices, services, technologies; and
- b. Adoption of a risk based approach to manage and mitigate the risks”.

25. The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions.

Monitoring of Transactions

26. Regular monitoring of transactions is vital for ensuring effectiveness of the AML procedures. This is possible only if the intermediary has an understanding of the normal activity of the client so that it can identify deviations in transactions / activities.

27. The intermediary shall pay special attention to all complex unusually large transactions/ patterns which appear to have no economic purpose. The intermediary may specify internal threshold limits for each class of client accounts and pay special attention to transactions which exceeds these limits. The background including all documents/office records/memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further such findings, records and

related documents shall be made available to auditors and also to SEBI/stock exchanges/FIU-IND/ other relevant Authorities, during audit, inspection or as and when required.

28. The registered intermediaries shall apply client due diligence measures also to existing clients on the basis of materiality and risk, and conduct due diligence on such existing relationships appropriately. The extent of monitoring shall be aligned with the risk category of the client.

29. The intermediary shall ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND. Suspicious transactions shall also be regularly reported to the higher authorities within the intermediary.

30. Further, the compliance cell of the intermediary shall randomly examine a selection of transactions undertaken by clients to comment on their nature i.e. whether they are in the nature of suspicious transactions or not.

Suspicious Transaction Monitoring and Reporting

31. Registered Intermediaries shall ensure that appropriate steps are taken to enable suspicious transactions to be recognized and have appropriate procedures for reporting suspicious transactions. While determining suspicious transactions, registered intermediaries shall be guided by the definition of a suspicious transaction contained in PML Rules as amended from time to time.

32. A list of circumstances which may be in the nature of suspicious transactions is given below. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:

- i Clients whose identity verification seems difficult or clients that appear not to cooperate;
- ii Asset management services for clients where the source of the funds is not clear or not in keeping with clients' apparent standing /business activity;
- iii Clients based in high risk jurisdictions;
- iv Substantial increases in business without apparent cause;
- v Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- vi Attempted transfer of investment proceeds to apparently unrelated third parties;
- vii Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services.

33. Any suspicious transaction shall be immediately notified to the Designated/Principal Officer within the intermediary. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall not be told of the report/ suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken. The Designated/ Principal Officer and other appropriate compliance, risk management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information.

34. It is likely that in some cases transactions are abandoned or aborted by clients on being asked to give some details or to provide documents. It is clarified that registered intermediaries shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction

35. Paragraph 12 (iii) (f) of this Circular categorizes clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'CSC'. Registered intermediaries are directed that such clients shall also be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.

Record Management Information to be maintained

36. Registered Intermediaries are required to maintain and preserve the following information in respect of transactions referred to in Rule 3 of PML Rules:

- i. the nature of the transactions;
- ii. the amount of the transaction and the currency in which it is denominated;
- iii. the date on which the transaction was conducted; and
- iv. the parties to the transaction.

Record Keeping

37. Registered intermediaries shall ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made thereunder, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Byelaws and Circulars.

38. Registered Intermediaries shall maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour.

39. In case of any suspected laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, registered intermediaries shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:

- i. the beneficial owner of the account;
- ii. the volume of the funds flowing through the account; and
- iii. for selected transactions:
 - a. the origin of the funds
 - b. the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
 - c. the identity of the person undertaking the transaction;
 - d. the destination of the funds;
 - e. the form of instruction and authority.

40. Registered Intermediaries shall ensure that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed thereunder PMLA, other relevant legislations, Rules and Regulations or Exchange byelaws or circulars.

41. More specifically, all the registered intermediaries shall put in place a system of maintaining proper record of the nature and value of transactions which has been prescribed under Rule 3 of PML Rules as mentioned below:

- i. all cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency;
- ii. all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency;

It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.

iii. all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;

iv. all suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into or from any non-monetary account such as demat account, security account maintained by the registered intermediary.

41A. Where the registered entity does not have records of the identity of its existing clients, it shall obtain the records forthwith, failing which the registered intermediary shall close the account of the clients after giving due notice to the client.

Explanation: For this purpose, the expression "records of the identity of clients" shall include updated records of the identification date, account files and business correspondence and result of any analysis undertaken under rules 3 and 9 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005.

Retention of Records

42. Registered intermediaries shall take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a period of five years from the date of transactions between the client and intermediary.

43. As stated in paragraph 13 and 14, registered intermediaries are required to formulate and implement the CIP containing the requirements as laid down in Rule 9 of the PML Rules and such other additional requirements that it considers appropriate. Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

44. In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they shall be retained until it is confirmed that the case has been closed.

45. Registered Intermediaries shall maintain and preserve the records of information related to transactions, whether attempted or executed, which are reported to the Director, FIU – IND, as

required under Rules 7 and 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

Procedure for freezing of funds, financial assets or economic resources or related services

46. The Stock exchanges and the registered intermediaries shall ensure that in terms of Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA) and amendments thereto, they do not have any accounts in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC).

47. "In order to ensure expeditious and effective implementation of the provisions of Section 51A of UAPA, Government of India has outlined a procedure through an order dated February 02, 2021 (Annexure 1) for strict compliance. These guidelines have been further amended vide a Gazette Notification dated June 08, 2021 (Annexure 2). A corrigendum dated March 15, 2023 has also been issued in this regard (Annexure 3). The list of Nodal Officers for UAPA is available on the website of MHA".

48. The Ministry of Home Affairs, in pursuance of Section 35(1) of UAPA 1967, declares the list of individuals/entities, from time to time, who are designated as 'Terrorists'. The registered intermediaries shall take note of such lists of designated individuals/terrorists, as and when communicated by SEBI.

49. All orders under section 35 (1) and 51A of UAPA relating to funds, financial assets or economic resources or related services, circulated by SEBI from time to time shall be taken note of for compliance.

50. An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at <https://press.un.org/en/content/press-release>. The details of the lists are as under:

i. The "ISIL (Da'esh) & Al-Qaida Sanctions List", which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & Al-Qaida Sanctions List is available at: <https://www.un.org/securitycouncil/sanctions/1267/press-releases>.

ii. The list issued by United Security Council Resolutions 1718 of designated Individuals and Entities linked to Democratic People's Republic of Korea www.un.org/securitycouncil/sanctions/1718/press-releases.

51. Registered intermediaries are directed to ensure that accounts are not opened in the name of anyone whose name appears in said list. Registered intermediaries shall continuously scan all

existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list.

52. The Stock Exchanges and the registered intermediaries shall maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis to verify whether the designated individuals/entities are holding any funds, financial assets or economic resources or related services held in the form of securities with them.

52A. The Stock Exchanges and the registered intermediaries shall leverage latest technological innovations and tools for effective implementation of name screening to meet the sanctions requirements.

53. The Stock exchanges and the registered intermediaries shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions carried through or attempted in the accounts covered under the list of designated individuals/entities under Section 35 (1) and 51A of UAPA.

54. Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to the Central [designated] Nodal Officer for the UAPA, at Fax No.011-23092551 and also conveyed over telephone No. 011-23092548. The particulars apart from being sent by post shall necessarily be conveyed on email id: jsctcr-mha@gov.in.

55. The Stock exchanges and the registered intermediaries shall also send a copy of the communication mentioned above to the UAPA Nodal Officer of the State/UT where the account is held and to SEBI and FIU-IND, without delay. The communication shall be sent to SEBI through post and through email (sebi_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Deputy General Manager, Division of FATF, Market Intermediaries Regulation and Supervision Department, Securities and Exchange Board of India, SEBI Bhavan II, Plot No. C7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051. The consolidated list of UAPA Nodal Officers is available at the website of Government of India, Ministry of Home Affairs.

Jurisdictions that do not or insufficiently apply the FATF Recommendations

56. FATF Secretariat after conclusion of each of its plenary, releases public statements and places jurisdictions under increased monitoring to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing risks. In this regard, FATF Statements circulated by SEBI from time to time, and publicly available information, for identifying countries, which do not or insufficiently apply the FATF Recommendations, shall be considered by the registered intermediaries.

57. The registered intermediaries shall take into account the risks arising from the deficiencies in AML/CFT regime of the jurisdictions included in the FATF Statements. However, it shall be noted that the regulated entities are not precluded from having legitimate trade and business transactions with the countries and jurisdictions mentioned in the FATF statements.

Reporting to Financial Intelligence Unit-India

58. In terms of the PML Rules, registered intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,
Financial Intelligence Unit - India
6th Floor, Tower-2, Jeevan Bharati Building,
Connaught Place, New Delhi-110001, INDIA
Telephone : 91-11-23314429, 23314459
91-11-23319793(Helpdesk) Email:helpdesk@fiuindia.gov.in
(For FINnet and general queries)
ctrcell@fiuindia.gov.in
(For Reporting Entity / Principal Officer registration related queries)
complaints@fiuindia.gov.in
Website: <http://fiuindia.gov.in>

59. Registered intermediaries shall carefully go through all the reporting requirements and formats that are available on the website of FIU – IND under the Section Obligation of Reporting Entity – Furnishing Information -Reporting Format (https://fiuindia.gov.in/files/downloads/Filing_Information.html). These documents contain detailed directives on the compilation and manner/procedure of submission of the reports to FIU-IND.

The related hardware and technical requirement for preparing reports, the related data files and data structures thereof are also detailed in these documents. While detailed instructions for filing all types of reports are given in the instructions part of the related formats, registered intermediaries shall adhere to the following:

- i. The Cash Transaction Report (CTR) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month.
- ii. The Suspicious Transaction Report (STR) shall be submitted within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion.
- iii. The Non-Profit Organization Transaction Reports (NTRs) for each shall be submitted to FIU-IND by 15th of the succeeding month.
- iv. The Principal Officer will be responsible for timely submission of CTR, STR and NTR to FIU-IND;

- v. Utmost confidentiality shall be maintained in filing of CTR, STR and NTR to FIU-IND.
- vi. No nil reporting needs to be made to FIU-IND in case there are no cash/ suspicious/non-profit organization transactions to be reported.
- vii. Non-profit organization” means any entity or organisation, constituted for religious or charitable purposes referred to in clause (15) of section 2 of the Income-tax Act, 1961 (43 of 1961), that is registered as a trust or a society under the Societies Registration Act, 1860 (21 of 1860) or any similar State legislation or a Company registered under the section 8 of the Companies Act, 2013 (18 of 2013);”

60. Registered Intermediaries shall not put any restrictions on operations in the accounts where an STR has been made. Registered intermediaries and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing (“tipping off”) the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/ or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level.

It is clarified that the registered intermediaries, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

It is further clarified that "proceeds of crime" include property not only derived or obtained from the scheduled offence but also any property which may directly or indirectly be derived or obtained as a result of any criminal activity relating to the scheduled offence.

Designation of officers for ensuring compliance with provisions of PMLA

Confidentiality requirement does not inhibit information sharing among entities in the group.

61. Appointment of a Principal Officer: To ensure that the registered intermediaries properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. Names, designation and addresses (including email addresses) of ‘Principal Officer’ including any changes therein shall also be intimated to the Office of the Director-FIU-IND. In terms of Rule 2 (f) of the PML Rules, the definition of a Principal Officer reads as under:

Principal Officer means an officer designated by a registered intermediary; Provided that such officer shall be an officer at the management level.

62. Appointment of a Designated Director: In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:

“Designated director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes

a) the Managing Director or a Whole-Time Director duly authorized by the Board of Directors if the reporting entity is a company,

b) the managing partner if the reporting entity is a partnership firm,

c) the proprietor if the reporting entity is a proprietorship firm,

d) the managing trustee if the reporting entity is a trust,

e) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and

f) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above”.

63. In terms of Section 13 (2) of the PMLA, the Director, FIU – IND can take appropriate action, including levying monetary penalty, on the Designated Director for failure of the intermediary to comply with any of its AML/CFT obligations.

64. Registered intermediaries shall communicate the details of the Designated Director, such as, name designation and address to the Office of the Director, FIU – IND.
Hiring and Training of Employees and Investor Education

65. Hiring of Employees: The registered intermediaries shall have adequate screening procedures in place to ensure high standards when hiring employees. They shall identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

66. Training of Employees: The registered intermediaries shall have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements shall have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements,

implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

67. Investor Education: Implementation of AML/CFT measures requires registered intermediaries to demand certain information from investors which may be of personal nature or has hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need for registered intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. Registered intermediaries shall prepare specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT programme.

Repeal and Savings

68. On and from the issue of this Circular, the circulars listed out in the Appendix to this Circular shall stand rescinded. Notwithstanding such rescission, anything done or any action taken or purported to have been done or taken, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular.

Appendix

The following Circulars shall stand rescinded from the date of issuance of this Circular

1. **SEBI/HO/MIRSD/DOP/CIR/P/2019/113 dated October 15, 2019** – Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism(CFT) / Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed thereunder
2. **SEBI/HO/MIRSD/DOP/CIR/P/2021/36 dated March 25, 2021-** Combating Financing of Terrorism (CFT) under Unlawful Activities (Prevention) Act, 1967 –Directions to Stock Exchanges, Depositories and all registered intermediaries
3. **SEBI/HO/MIRSD/DOP/CIR/P/2019/69 dated May 28, 2019** - Combating Financing of Terrorism (CFT) under Unlawful Activities (Prevention) Act, 1967 –Directions to stock exchanges, depositories and all registered intermediaries
4. **CIR/MIRSD/1/2014 dated March 12,2014** - Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Obligations of Securities Market Intermediaries under the Prevention of Money-laundering Act, 2002 and Rules framed there under
5. **ISD/AML/CIR/1/2010 dated February 12, 2010** - Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT)/Obligations of Securities Market

Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under-Master Circular on AML/CFT

6. **ISD/AML/CIR-2/2009 dated October 23, 2009** - Combating Financing of Terrorism (CFT) under Unlawful Activities (Prevention) Act, 1967 – Directions to stock exchanges, depositories and all registered intermediaries.

Circular References:

- Circular No. NCDEX/COMPLIANCE-011/2023 dated February 09, 2023
- Circular No. NCDEX/COMPLIANCE-063/2023 dated June 19, 2023
- Circular No. NCDEX/COMPLIANCE-109/2023 dated October 16, 2023

46. SUBMISSION OF DATA TOWARDS 'CLIENT LEVEL CASH & CASH EQUIVALENT BALANCES' AND 'HOLDING STATEMENT'

The Exchange has introduced standardized reporting format for 'Cash & Cash Equivalent balances' (as per Annexure A of Circular no. NCDEX/COMPLIANCE-004/2021 dated January 16, 2021) and 'Holding Statement' (as per Annexure B of Circular no. NCDEX/COMPLIANCE-004/2021 dated January 16, 2021) in order to enable members to upload reports in uniform format across Exchanges. The new submissions shall be applicable for the week ending on January 16, 2021 and onwards.

Members will have to submit the data on a weekly basis for all calendar days of the week except Sunday on or before the next four trading days of the subsequent week. The first submission shall have to be made for the week ending on January 16, 2021, due date of which will be January 21, 2021.

The members are required to submit the data through NCFE Portal of the Exchange. The process for uploading the data will be communicated by way of a separate circular.

The members are required to submit the data through NCFE Portal of the Exchange. The process for uploading the data will be communicated separately. Meanwhile, members are requested to upload the above submissions in prescribed format and nomenclature on Web Extranet – in 'Inspection Submissions' folder.

After successful implementation of the aforesaid submissions, the Exchange may discontinue similar existing submissions in consultation with other Exchanges and SEBI. A separate communication would be issued for discontinuation of such existing submissions. Further, Members are requested to take a note of the following:

- a) Members shall submit the data for the UCC registered with the Exchange and for proprietary (OWN) trading.
- b) Members are not required to upload data for clients with zero balances who have not traded in last 12 months in any of the Exchanges.
- c) The requirement for aforementioned submissions are applicable to all Trading Members, except for those who are carrying out only proprietary trading and/or only trading for Custodian Settled clients. Members carrying out only proprietary trading and/or only trading for Custodian Settled clients will have to give a onetime declaration.
- d) Members shall not be required to submit Holding statement in case of Nil holding of securities and commodities after providing declaration.

Penalty structure for incorrect submission of Client Level Holding Statement, Cash & Cash Equivalent Balances and Bank Account Balances by members

All Members are required to ensure correct submission of data towards Client Level Holding Statement, Cash & Cash Equivalent Balances and Bank Account Balances to the Exchange. In this regard, the existing penalty structure for incorrect submission of data towards Holding Statement to Exchange has been reviewed and revised. The Disciplinary actions with respect to wrong or incorrect submissions of Client Level Holding Statement, Cash & Cash Equivalent Balances and Bank Account Balances are stipulated as under: -

Details of Contravention	Penalty Structure
Material incorrect submission or procedurally incorrect submission of Client Level Holding Statement, Cash & Cash Equivalent Balances and Bank Account Balances	<ul style="list-style-type: none"> • Penalty of Rs. 1 lakh in case of procedurally incorrect submission. • Disablement of trading terminals for 1 day in case of material incorrect submissions. <p>Further, if instances of incorrect submissions are less than 2% with value less than Rs. 5 Lakhs, warning may be issued.</p>

Further, it is clarified that the penalty structure is indicative in nature and the Relevant Authority of the Exchange may, on case to case basis and based on the gravity of the violation, deal with such non-compliances. The penalty norms as mentioned above shall be applicable in respect of submissions uploaded for batch dates on or after the date of this circular.

Circular References:

- Circular no. NCDEX/COMPLIANCE-079/2020 dated December 18, 2020
- Circular no. NCDEX/COMPLIANCE-004/2021 dated January 16, 2021

47. CHANGES TO THE FRAMEWORK TO ENABLE VERIFICATION OF UPFRONT COLLECTION OF MARGINS FROM CLIENTS IN CASH AND DERIVATIVES SEGMENTS

SEBI has issued circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/016 dated February 01, 2023, on the subject “Changes to the Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments”. The copy of the said SEBI circular is enclosed for your reference.

1. SEBI, vide circular SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020, prescribed the framework to enable verification of upfront collection of margins from clients in cash and derivatives segments.
2. Further, SEBI, vide circular SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2021/689 dated December 16, 2021, inter alia, modified the aforesaid framework prescribed vide said circular dated July 20, 2020, providing for additional snapshots for commodity derivatives segment.
3. Subsequently, SEBI, vide circular SEBI/HO/MRD2/DCAP/P/CIR/2022/60 dated May 10, 2022, inter-alia, modified the aforesaid framework specifying that the margin requirements to be considered for the intra-day snapshots, in derivatives segments (including commodity derivatives), shall be calculated based on the fixed Beginning of Day (BOD) margin parameters. It was also specified therein that there shall be no change in methodology of determination and collection of End of Day (EOD) margin obligation of the client.
4. In view of the representations received from market participants and based on deliberations with various stakeholders, it has now been decided that EOD margin collection requirement from clients, in derivatives segments (including commodity derivatives), shall also be calculated based on the fixed BOD margin parameters.
5. It is clarified that the above mentioned change is only for the purpose of verification of upfront collection of margins from clients. The margin parameters applicable for collection of margin obligation by Clearing Corporations shall continue to be updated on intra-day and EOD basis, as per the extant provisions.
6. SEBI circulars dated July 20, 2020, December 16, 2021 and May 10, 2022 shall, accordingly, stand modified to the above extent. All other provisions of the said SEBI circulars dated July 20, 2020, December 16, 2021 and May 10, 2022 shall continue to remain applicable.
7. The provisions of this circular shall come into effect from 3 months from the date of issuance of this circular.

8. Stock Exchanges and Clearing Corporations are directed to:

- a) take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;
- b) bring the provisions of this circular to the notice of their members and also disseminate the same on their websites; and
- c) communicate to SEBI, the status of implementation of the provisions of this circular in the Monthly Development Report.

9. This circular is being issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with Section 10 of the

Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Members are requested to take note of the contents of the circular and comply.

Circular Reference:

- Circular No. NCDEX/COMPLIANCE-006/2023 dated February 02, 2023

48. UPSTREAMING OF CLIENTS' FUNDS BY STOCK BROKERS (SBS) / CLEARING MEMBERS (CMS) TO CLEARING CORPORATIONS (CCS)

SEBI has issued circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023, on the captioned subject. The copy of the said SEBI circular is enclosed for your reference.

Members are requested to take note of the contents of the circular and comply.

1. SEBI, through various circulars issued from time to time, has given necessary directions/guidelines to stock brokers (SBs)/clearing members (CMs), to ensure orderly functioning of the securities market and to protect the interest of investors in securities market.
2. In this regard, with a view to safeguard clients' funds placed with SBs/CMs, it has been decided to require the upstreaming of all client funds received by SBs/CMs to the Clearing Corporations (CCs).

3. As per the framework, no clients' funds shall be retained by SBs/ CMs on End of Day (EoD) basis. The clients' funds shall all be upstreamed by SB/ CMs to CCs only in the form of either cash, lien on FDR (subject to certain conditions enumerated below), or pledge of units of Mutual Fund Overnight Schemes (MFOS). The details of the framework are as follows:

A. Upstreaming via FDRs created out of clients' funds:

- I. FDRs created by SBs/ CMs out of clients' funds shall be allowed only under the following conditions:
- SBs/ CMs may create FDRs out of clients' funds only with those banks which satisfy the CC's exposure norms as specified by SEBI or CCs from time to time.
 - Every FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.
 - Through this lien, CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
 - The tenure of such FDRs shall not be more than one year and one day the FDR should be pre-terminable on demand.
 - The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination costs.
 - SBs/CMs shall not avail any funded or non-funded banking facilities based on FDRs created out of clients' funds.
- II. It is clarified that existing FDRs (created out of clients' funds and having tenor of more than one-year) created prior to June 30, 2023 shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions specified above.

B. Upstreaming via pledge of units of Mutual Fund Overnight Schemes (MFOS):

- I. Units of Mutual Fund Overnight Schemes (MFOS) is a new avenue being made available to SBs/ CMs to deploy client funds into. MFOS ensures minimal risk transformation of client funds (that are withdrawable on demand) available with SBs/ CMs because of overnight tenure and exposure to only risk-free government securities.
- II. SBs/CMs shall ensure that client funds are invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri- party Repo Dealing and Settlement (TREPS). Such MFOS units should be in dematerialized (demat) form, and must necessarily be pledged with a CC at all times.
- III. SBs/CMs shall maintain a dedicated demat account (hereinafter referred to as "Client Nodal MFOS Account") for subscription/ redemption of MFOS units. The depositories

shall allow subscription/redemption transactions only in the said account.

- IV. From “Client Nodal MFOS Account”, SBs/CMs shall provide MFOS units as collateral to the CC. While providing the units as collateral, SBs/CMs shall identify the end clients. In order to implement the same, a pledge shall be created from the Client Nodal MFOS account to SB/CM margin pledge account of the SB/CM. The SB/CM shall further repledge the same to CC using the existing pledge re-pledge mechanism.
- V. Clause 15.3.2.3 of SEBI’s “Master Circular on Stock Brokers” dated May 17, 2023 mandates stock brokers to maintain demat accounts under 5 defined categories. The said clause of master circular is being modified to include ‘Client Nodal MFOS Account’ as sixth category of permissible demat account that can be maintained by stock brokers.

C. Receipt/payment of funds by SBs and CMs from/to their constituents:

- I. Other than the FDRs (liened to CCs) and MFOS (pledged to CCs), any remaining client funds with SBs/ CMs shall be upstreamed to a CC before a stipulated cut-off time.
- II. Clause 15.3.2.1 of SEBI’s “Master Circular on Stock Brokers” dated May 17, 2023 mandates stock brokers to maintain designated client bank account(s) (“Name of SB/CM - Client Account”) to receive/pay funds from/to their constituents. The nomenclature of all such accounts shall be changed to either of the following two categories of bank accounts:
 - a. Up Streaming Client Nodal Bank Account (USCNBA): SB/CM shall receive clients’ funds in USCNBA for further upstreaming it to the CCs. The nomenclature for such accounts shall be “Name of the SB/CM – USCNB account”.
 - b. Down streaming Client Nodal Bank Account (DSCNBA): Payment to clients should be done only from DSCNBA account post receiving of funds from CC/CM same day and any balance left in the account post cutoff time should be transferred to USCNBA for further upstreaming it to the CCs. The nomenclature for such accounts shall be “Name of the SB/CM – DSCNB account”.

Payment to Clients: The clients may request SBs/CMs to release funds at any time during the day. The processing of such release requests shall be as per respective risk management practices of SB/CMs. All payment requests of the client received on a day shall be processed on or before the next settlement day. In cases, where the payment request is not processed on the same day, SB/CMs need to ensure that the funds of the client are placed with CC in terms of this circular.

- III. In addition, CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature “Name of the CM –TM prop account” to

receive/pay proprietary funds from/to stock brokers.

- IV. Upstreaming of funds: Funds received on a given day by SBs shall be transferred to CMs, and by CMs to the CC any time during the day, but not later than the respective cutoff times. The respective cutoff times for upstreaming are as follow:

Sr. No.	Particular	Cutoff time
1	CM upstreaming cutoff time	To be decided by CC – not earlier than 6:00 PM
2	SB upstreaming cutoff time	To be decided by CM – not earlier than 1 hour prior to CM upstreaming cutoff time

- V. SBs/CMs may receive funds from clients beyond the prescribed cutoff time for upstreaming subject to the condition that there shall not be any further movement of funds from that account (i.e., a debit freeze) till the opening of upstreaming window on the next day.

Further, stock exchanges shall ensure that such funds remaining in bank accounts of SB/CM are minimal and are for legitimate purposes.

- VI. Downstreaming of funds: The clients may request release of funds to SBs/CMs at any time during the day. The processing of such release requests shall be as per respective risk management practices of SB/CMs. Subject to such validations, the SBs/CMs shall provide the requested funds to the client by requesting for release of cash collateral from the CCs. The respective cutoff times for down-streaming are as under:

Sr. No.	Particular	Cutoff time
1	CM release request cutoff Time	To be decided by CC – not earlier than 3:00 PM
2	SB release request cutoff time	To be decided by CM – not earlier than 30 minutes prior to CM release request cutoff time
3	Client release request cutoff time	To be decided by SB – not earlier than 30 minutes prior to SB release request cutoff time

- VII. For release requests received beyond this cutoff time by CCs/CMs/SBs, the payments shall be made on the next settlement day.

- VIII. The release requests received from the clients before “client release request cutoff time” must be processed the same day. Further, such funds received from the CC must either be paid out to the clients on the same day or upstreamed back to the CC on the same day.
- IX. The SBs/CMs may seek withdrawal of client funds from CCs only under following scenarios:
- Client unpaid securities obligations / MTF Obligations
 - Loss due to sale of unpaid securities
 - Penalties
 - Statutory levies (STT / Stamp Duty / SEBI Turnover Fee)
 - Brokerage (including exchange transaction fee)
 - Other charges (DP charges, etc.)
 - Funds to be released to client on account of regulatory requirements such as running account settlement
 - Funds withdrawal request from client

SBs/CMs shall provide reconciliation statements to stock exchanges/CCs, as may be required by stock exchanges and CCs. Stock exchange/ CCs shall put in place an appropriate reporting mechanism for SBs/CMs for the above mentioned scenarios. The withdrawal request received from SB/CM for point no (a) to (f) above shall be transferred from CC to CM settlement account and from there to CM/SB own account. For release request made for point (g-h) above, funds shall mandatorily be transferred to designated “DSCBA” account for onward payments only to clients.

Clause 15.4.4.2 of SEBI’s “Master Circular on Stock Brokers” dated May 17, 2023 stands rescinded to give effect to above-mentioned provisions.

- X. The CC shall endeavor to release the cash as soon as possible, but within two hours from the time requested.
- XI. A schematic representation of flow of funds under the instant framework is enclosed as **Annexure-A** of the circular.

The provisions of the circular stated at clause 3.C.II, 3.C.III, 3.C.V, 3.C.IX, 3.C.XI shall come into effect from September 01, 2023.

- To improve operational efficiency and reduce transaction costs, CCs shall build a mechanism for utilization of surplus unutilized collateral (i.e. collateral in excess of margin blocked) lying with CC in cash form, towards fund pay-in requirements across segments.
- Further, to improve operational efficiency and to reduce costs, CCs shall also facilitate a

mechanism to adjust the margin blocked in the form of cash, towards client fund pay-in obligations. Such mechanism shall be provided by CCs by 1st January 2024.

6. The provisions of this framework shall not be applicable to bank-CMs (including Custodians that are banks), and for proprietary funds of SBs/CMs in any segment and SB's proprietary funds deposited with CM in the capacity of a client.
7. The provisions of this circular shall come into effect from July 01, 2023.

Monitoring mechanisms

8. The stock exchanges and CCs shall create an SOP for monitoring the implementation of provisions of this Circular and put in place a uniform penalty structure for non-compliance.
9. The stock exchanges, depositories, and clearing corporations are directed to:

bring the provisions of this circular to the notice of stock brokers, depository participants, and clearing members, as the case may be, and also disseminate the same on their websites;
 - a. make amendments to the relevant bye-laws, rules and regulations for the implementation of the above provisions;
 - b. communicate to SEBI, the status of the implementation of the provisions of this circular in their monthly development report and
 - c. monitor compliance of this circular and submit a compliance report to SEBI in this regard by August 31, 2023.
10. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

Annexure 1

Operational Guidelines with respect to Upstreaming of Clients funds

- (1) Clause 15.3.2.1 of SEBI's "Master Circular on Stock Brokers" dated May 17, 2023, mandates the stock brokers (SBs) to maintain designated client bank account(s) ("Name of SB/CM - Client Account") to receive/pay funds from/to their constituents. The nomenclature of all such accounts changed to either of the following two categories of the bank accounts:
 - Up Streaming Client Nodal Bank Account (USCNBA): The SB/CM shall receive the clients' funds related to stock broking transactions in USCNBA. The nomenclature for such accounts shall be "Name of the SB/CM – USCNB

- account”.
- Down Streaming Client Nodal Bank Account (DSCNBA): Payment to the clients related to stock broking transactions shall be done only from DSCNBA account. The nomenclature for such accounts shall be “Name of the SB/CM – DSCNB account”.
 - CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature “Name of the CM –TM prop account” to receive/pay proprietary funds from/to the stock brokers.
- (2) The SBs/CMs may maintain multiple Own, USCNBA, DSCNBA, Settlement and CM – TM prop bank accounts however total number of USCNBA and DSCNBA accounts shall not exceed 30. Further, one common USCNBA account and one common DSCNBA account can be maintained across segments/across Exchanges.
- (3) The SBs/CMs shall ensure that clear credit balances of all the clients in the book of account of the SBs/CMs at the end of a given day are placed with the CC in form of either cash, lien on Fixed Deposit Receipts (FDRs) created out of the clients’ funds, or pledge of units of Mutual Fund Overnight Schemes (MFOS) created out of the clients’ funds. Further, FDRs created by the SBs/ CMs out of the clients’ funds shall be allowed only under the following conditions:
- The SBs/ CMs may create FDRs out of the clients’ funds only with those banks which satisfy the CC’s exposure norms as specified by the CCs or SEBI from time to time.
 - Such FDRs shall be created only from USCNBA.
 - Every FDR created out of the clients’ funds shall always be lien-marked to one of the CCs at all times. Therefore, FDR out of the clients’ funds cannot be created by the SB in favour of CM including bank CM.
 - Through this lien, the CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
 - The tenor of such FDRs shall not be more than one year and one day.
 - Such FDRs should be pre-terminable on demand.
 - The SBs/CMs shall not avail any funded or non-funded banking facilities based on the FDRs created out of the clients’ funds.
The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre- termination costs. Existing FDR not meeting this requirement (with monthly / quarterly / any periodicity interest payout) shall be permissible to continue till June 30, 2024 only. Such FDRs at the time of renewal shall meet the conditions specified hereinabove.
- Existing FDRs (created out of clients’ funds and having tenor of more than one-year) created prior to June 30, 2023 shall be allowed to be grandfathered till

maturity. Such FDRs at the time of renewal shall meet the conditions specified hereinabove.

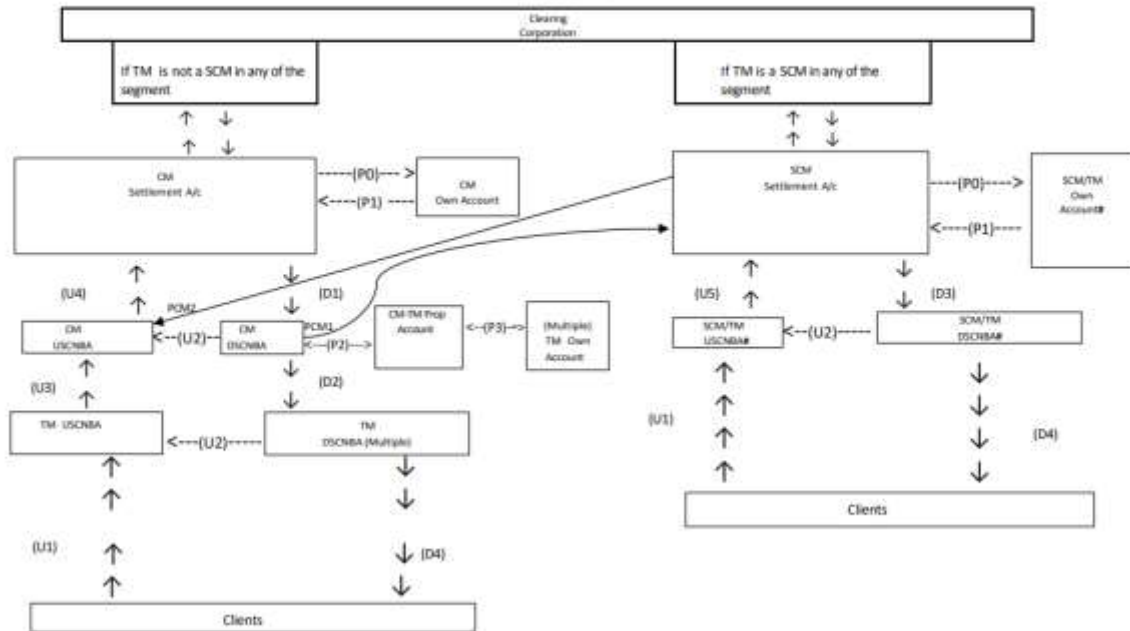
- (4) The bank instruments provided by the clients as collateral (i.e. client FDRs and client BGs) cannot be upstreamed to the CCs, and they shall be ineligible to be accepted as collateral in any segment of securities market. Hence it is clarified that all such bank instruments provided by the clients shall not be considered for the purpose of margin collection from the clients by the TMs/CMs/Bank CMs/Custodians. Further, only non-individual clients are allowed to give BGs as margins, for commodities derivatives segment subject to compliance of point number 8 and other terms and conditions mentioned in the Annexure A of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023. The SB/CM is required to ensure that such clients are complying with the net worth requirement as mentioned in Point no 2 of the Annexure A of the said SEBI circular. The SB/CM shall obtain audited net worth certificate on annual basis within six months from the end of the financial year, from such non-individual clients who have provided BGs as margin. Further, in the event of invocation of BG, the funds shall be credited only to USCNBA bank account of the SB/CM and the funds shall be up-streamed on the same day to the respective Clearing Corporation.
- (5) The SBs/CMs shall maintain a dedicated demat account “Client Nodal MFOS Account” for subscription/ redemption of MFOS units. The SBs/CMs shall ensure that the client funds are invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri-party Repo Dealing and Settlement (TREPS). Such MFOS units should be in dematerialized (demat) form and must necessarily be pledged in favour of a CC at all times. List of such MFOS shall be notified by SEBI/AMFI from time to time. From “Client Nodal MFOS Account”, the SBs/CMs shall provide MFOS units as collateral to the CC. While providing the units as collateral, the SBs/CMs shall identify the end clients. The CCs will make necessary changes in segregation reporting file to report MFOS at the client level in due course.
- (6) To implement the same, a pledge shall be created from the Client Nodal MFOS account to the SB/CM margin pledge account of the SB/CM. The SB/CM shall further repledge the same to the CC using the existing pledge re-pledge mechanism.
- (7) It may be noted that funds received from the clients cannot be used for the creation of Bank Guarantees (BG).
- (8) In case any clients’ clear credit balances which are not placed by the SBs/CMs with the CC on account of justifiable reasons as enumerated below and the said clear credit balances are reported in the segregation file as “Retained with TM” or “Retained with CM” as per the requirement of SEBI circular no. SEBI/HO/MRD2_DCAP/CIR/2021/0598

dated July 20, 2021, the SBs/ CMs shall report such justifiable reasons to the CC by next settlement day. However, such clients' balances reported as retained with the SBs/CMs should be either available in USCNBA/DSCNBA/Settlement account of the SBs/CMs and/or in transit to the CC.

- (9) List of permissible justifications for the clients' clear credit balances retained by the SBs/CMs is as under:
- i. Receipt of funds from the clients post stipulated cut off time in the USCNBA(s).
 - ii. The FDRs already liened to the CC but not deposited with the CC being in transit (including renewal cases) and subsequently deposited with the CC within next 5 settlement days.
 - iii. MFOS in transit and subsequently pledged to the CC on or before next settlement day.
 - iv. Funds retained in the DSCNBA on account of payout instructions submitted to the bank but processed on or before next settlement day/funds payout instructions failed in the banking system subject to adequate documentary evidence from Bank.
 - v. Funds retained in the DSCNBA on account of cheques issued to client but not cleared. [Note: The SB/CMs should ensure that if the cheque is not cleared in next 5 settlement days from the date of issuance, then the funds representing such uncleared cheques are mandatorily needs to be upstreamed to the CC on 6th Settlement day].
 - vi. Funds credited back by the CC in the settlement account on account of OFS.
 - vii. Funds retained in the USCNBA account before cut off time but not processed due to failure in the banking system subject to adequate documentary evidence from Bank.
 - viii. Funds retained overnight in DSCNBA account on running account settlement days.
- (10) System to report justifications listed out in point number 9 above by the SB/CM on daily basis shall be made available by CCs in due course.
- (11) Any credit balance of the clients retained by the TM / CM for the reason code listed above in 9 (i) and 9 (vii) should remain in the USCNBA or same can be returned back to the same client to whom it belongs through DSCNB account.
- (12) The cut-off times under Point 9 of SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 for upstreaming of the clear credit balances of the clients have been determined by the CCs in consultation with ISF as 5 pm.
- (13) For availability of the clients' funds under Enhanced Supervision guidelines, the clients' funds lying in USCNBA/DSCNBA/Settlement account only to the extent permissible as per point number 9 mentioned above can be considered.

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- (14) Permissible transfer of funds:
- Funds shall be received from the clients by SBs/CMs only into the USCNBA(s).
 - Funds to be transferred to the clients shall be only from the DSCNBA(s).
 - Funds from USCNBA(s) can be transferred into the Settlement/ Clearing Member USCNBA account(s) and for investing in FDR and MFOS only.
 - Funds can be transferred into the DSCNBA(s) only from the Settlement/ Clearing Member account DSCNBA account(s).
 - Funds from DSCNBA(s) can be transferred only to the clients or to the USCNBA account(s).
 - All own/ proprietary funds of the SB/ CM can be transferred from/to its settlement account(s) to/from Own/Prop account only.
 - “Name of the CM –TM prop account” Bank account of CM shall be used for receiving/paying proprietary funds from/to the SBs.
 - Between accounts of same category (i.e. from one USCNBA to another USCNBA, from one DSCNBA to another DSCNBA, from one own bank account to another own bank account, from one CM –TM prop account to another CM –TM prop account)
- (15) A schematic representation of flow of funds is enclosed as Annexure-A.
- (16) The provisions of upstreaming framework shall not be applicable to
- Bank-CMs (including Custodians that are banks)
 - Proprietary funds of SBs/CMs in any segment
 - The SB’s proprietary funds deposited with CM in the capacity of a client.

Annexure-A



if TM is also a self-clearing member (SCM) in any of the segment.

Notes:

Upstreaming

(U1) The Clients funds shall be received only to the Designated Bank Account "USCNBA". (U2) Funds from DSCNBA can be transferred to USCNBA.

(U3) Funds received in TMs USCNBA can be transferred to CMs USCNBA only. This step will not be applicable in case of SCM.

(U4) Funds received in CM USCNBA can be transferred to CM Settlement account only. This step will not be applicable in case of SCM.

(U5) In case of SCM, funds received in USCNBA can be transferred to Settlement account only.

Downstreaming

(D1) Funds from CM settlement account can be transferred to Clearing Member's DSCNBA account. This step will not be applicable in case of SCM.

(D2) Withdrawal of funds from CM DSCNBA towards client payables of TM shall only be transferred to Trading Member's DSCNBA account. This step will not be applicable in case of SCM.

(D3) In case of SCM, withdrawal of funds from settlement account towards client payables of TM shall only be transferred to DSCNBA account.

(D4) Payment shall be made to clients from TM DSCNBA account only.

Proprietary Funds

(P0) Funds from Settlement A/c other than client payables can be transferred to Member's OWN account (Dues of clients to Member or member's own funds).

(P1) Transfer of funds from Member's OWN account to Settlement A/c.

(P2) Funds from CM DSCNBA account other than client payables of TM can be transferred to CM-TM prop account (Dues of clients to Member or member's own funds) for onward transfer to TM own account. Similarly, TM own funds can be received in CM DSCNBA account from CM-TM prop account only. This step is not applicable in case of SCM.

(P3) Own funds of TM from their own account i.e. Name of Stok-Broker- Proprietary Account can be transferred to CM-TM prop account only. Similarly own funds of TM shall be transferred to TM own account i.e. Name of Stok-Broker- Proprietary Account from CM-TM Prop account only. This step is not applicable in case of SCM.

Transfer of funds between PCM & SCM Bank Accounts (Applicable only when trading member is SCM in one or more segment(s) and only TM (i.e. not SCM) in any other segment(s))

(PCM1) Funds from CM DSCNBA can be transferred to SCM Settlement A/c. However, trading member shall ensure that funds to clients should be given from SCM/TM DSCNBA only. This step is optional.

(PCM2) Funds from SCM Settlement A/c can be transferred to CM USCNBA. This step is optional.

Standard Operating Procedures with respect to Upstreaming of Clients funds

- (1) For the purpose of monitoring of upstreaming of clients' funds, CCs shall share following justifications provided by members with Exchanges for non-upstreaming of client funds by member to CCs.
 - a. Receipt of funds from the clients post stipulated cut off time in the USCNBA(s).
 - b. The FDRs already liened to the CC but not deposited with the CC being in transit (including renewal cases) and subsequently deposited with the CC within next 5 settlement days.
 - c. MFOS in transit and subsequently pledged to the CC on or before next settlement day.
 - d. Funds retained in the DSCNBA account on account of payout instructions submitted to the bank but processed on or before next settlement day/funds

- payout instructions failed in the banking system subject to adequate documentary evidence from Bank.
- e. Funds retained in the DSCNBA account on account of cheques issued to client but not cleared.
 - f. Funds credited back by the CC in the settlement account on account of OFS.
 - g. Funds retained in the USCNBA account before cut off time but not processed due to failure in the banking system subject to adequate documentary evidence from Bank.
 - h. Funds retained overnight in DSCNBA account on running account settlement days.
- (2) The cut-off times under Point 9 of SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 for upstreaming of the clear credit balances of the clients have been determined by the CCs in consultation with ISF as 5 pm.
- (3) CCs shall share the details of funds credited back by CCs to settlement account of member post upstreaming cut off time with Exchanges.
- (4) In order to monitor the availability of client's funds at aggregated level with member by Exchanges, CCs shall share details of collateral of members deposited with them to Exchanges. Similarly, Depositories shall share member wise client wise details of pledged MFOS with Exchanges and CCs.
- (5) Depository shall monitor that all the time MFOS are pledged/repledged client wise/member wise to CCs and such MFOS should not be transferred through off market.
- (6) Compliance with respect to provisions of upstreaming of Clients funds as stipulated by SEBI/Exchanges/CCs shall also be part of internal audit checklist, which shall be verified by auditors every half year.

Stock exchanges, Clearing Corporations and Depositories are directed to bring the provisions of this circular to the notice of their members/participants and also disseminate the same on their websites.

SEBI has issued circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023, on the captioned subject. The copy of the said SEBI circular is enclosed for your reference.

Members are requested to take note of the contents of the circular and comply.

1. With a view to safeguard clients' funds placed with Stock Brokers (SBs) / Clearing Members

(CMs), SEBI, vide circular no. SEBI/HO/MIRSD/MIRSD-PoD- 1/P/CIR/2023/084 dated June 08, 2023, and vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 (collectively hereinafter referred to as “June Circulars”), had specified the framework requiring SB/CMs to upstream (i.e. placed with) clients’ funds to CCs.

2. Representations have been received from various stakeholders viz. stock brokers, and Brokers’ associations citing certain operational difficulties in implementation. In order to address the issue, SEBI advised the industry associations to consult with MIIs under the aegis of Broker’s Industry Standards Forum (ISF) and submit a proposal to SEBI so that the principle of upstreaming is complied with and operational difficulties are suitably addressed.
3. The recommendations made by ISF have been considered by SEBI and accordingly as a step towards ease of doing business, the revised framework is specified below.
4. Principle: SBs/CMs shall upstream all the clients’ clear credit balances to CCs on End of Day (EOD) basis. Such upstreaming shall be done only in the form of either cash, lien on Fixed Deposit Receipts (FDRs) created out of clients’ funds, or pledge of units of Mutual Fund Overnight Schemes (MFOS) created out of clients’ funds.

A. Receipt/payment of funds by SBs and CMs from/to their clients:

- I. Clause 15.3.2.1 of SEBI’s “Master Circular on Stock Brokers” dated May 17, 2023 mandates stock brokers to maintain designated client bank account(s) (“Name of SB/CM - Client Account”) to receive/pay funds from/to their clients. The nomenclature of all such accounts shall be changed to either of the following two categories of bank accounts:
 - a. Up Streaming Client Nodal Bank Account (USCNBA): SB/CM shall receive clients’ funds in USCNBA. The nomenclature for such accounts shall be “Name of the SB/CM – USCNB account”.
 - b. Down Streaming Client Nodal Bank Account (DSCNBA): Payment to clients shall be done only from DSCNBA account. The nomenclature for such accounts shall be “Name of the SB/CM – DSCNB account”.
- II. In addition, CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature “Name of the CM –TM prop account” to receive/pay proprietary funds from/to stock brokers.
- III. **Payment to Clients:** The clients may request SBs/CMs to release funds at any time during the day. The processing of such release requests shall be as per respective risk management practices of SB/CMs. All payment requests of the client received on a day

shall be processed on or before the next settlement day. In cases, where the payment request is not processed on the same day, SB/CMs need to ensure that the funds of the client are placed with CC in terms of this circular.

B. Upstreaming via FDRs created out of clients' funds:

- I. FDRs created out of clients' funds by SBs/CMs shall satisfy the following conditions:
 - a. The FDR shall be created only with banks which satisfy the CC's exposure norms as specified by CCs/SEBI from time to time.
 - b. FDRs shall be created only from 'Up Streaming Client Nodal Bank Account (USCNBA)'.
 - c. Such FDRs shall necessarily be lien-marked to one of the CCs at all times, and CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
 - d. The tenor of such FDRs shall not be more than one year and one day; and the FDRs should be pre-terminable on demand.
 - e. The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination costs.
 - f. SBs/CMs shall not avail any funded or non-funded banking facilities based on FDRs created out of clients' funds.
- II. It is clarified that existing FDRs (created out of clients' funds and having tenor of more than one-year) created prior to June 30, 2023 shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions specified at clause 4.B.I of the circular.

C. Upstreaming via pledge of units of Mutual Fund Overnight Schemes (MFOS):

- I. Units of Mutual Fund Overnight Schemes (MFOS) is a new avenue being made available to SBs/ CMs to deploy client funds into. MFOS ensures minimal risk transformation of client funds (that are withdrawable on demand) available with SBs/ CMs because of overnight tenure and exposure to only risk-free government securities.
- II. SBs/CMs shall ensure that client funds are invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri- party Repo Dealing and Settlement (TREPS). Such MFOS units should be in dematerialized (demat) form, and must necessarily be pledged with a CC at all times.
- III. SBs/CMs shall maintain a dedicated demat account (hereinafter referred to as "Client Nodal MFOS Account") for subscription/ redemption of MFOS units. The depositories shall allow subscription/redemption transactions only in the said account.

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- IV. From “Client Nodal MFOS Account”, SBs/CMs shall provide MFOS units as collateral to the CC. While providing the units as collateral, SBs/CMs shall identify the end clients. In order to implement the same, a pledge shall be created from the Client Nodal MFOS account to SB/CM margin pledge account of the SB/CM. The SB/CM shall further repledge the same to CC using the existing pledge re-pledge mechanism.
 - V. Clause 15.3.2.3 of SEBI’s “Master Circular on Stock Brokers” dated May 17, 2023 mandates stock brokers to maintain demat accounts under 5 defined categories. The said clause of master circular is being modified to include ‘Client Nodal MFOS Account’ as sixth category of permissible demat account that can be maintained by stock brokers.
 5. To improve operational efficiency and reduce transaction costs, CCs shall build a mechanism for utilization of surplus unutilized collateral (i.e. collateral in excess of margin blocked) lying with CC in cash form, towards fund pay-in requirements across segments.
 6. Further, to improve operational efficiency and to reduce costs, CCs shall also facilitate a mechanism to adjust the margin blocked in the form of cash, towards client fund pay-in obligations. As CCs are in the process of evolving such a mechanism since issuance of June Circulars, the same shall be made available by January 01, 2024.

Eligibility of bank instruments as collateral:

7. The bank instruments provided by clients as collateral (i.e. client FDRs and BGs) cannot be upstreamed to CCs, and they shall be ineligible to be accepted as collateral in any segment of securities market.
8. However, in the interest of encouraging and development of hedging in the commodity derivatives market, it has been decided to allow Bank guarantees provided only by non-individual clients, based on certain terms and conditions. Such clients shall provide a declaration and underwriting that they shall have no recourse to SEBI or exchanges in case of wrongful invocation of such BGs by SB/CM. These BGs shall bear a condition that on invocation, the moneys shall be credited only to the (USCNBA) account and thereafter upstreamed to the CC. The other terms and conditions are mentioned in the Annexure A. The CCs are at liberty to apply stricter conditions other than those specified based on their risk assessment.
9. The cut-off times for upstreaming of clear credit balance of clients shall be determined by the CCs in consultation with ISF. Any clear credit balance that could not be upstreamed to CCs due to receipt of funds from clients beyond cut-off time shall necessarily remain in UNSCBA until it is upstreamed to CC on the next day.

10. The provisions of this framework shall not be applicable to bank-CMs (including Custodians that are banks), and for proprietary funds of SBs/CMs in any segment and SB's proprietary funds deposited with CM in the capacity of a client.
11. This revised framework supersedes the framework issued by SEBI in June Circulars.
12. The provisions of this circular shall come into force with immediate effect.

Monitoring mechanisms

13. The stock exchanges, depositories, and clearing corporations are directed to:
 - a. bring the provisions of this circular to the notice of stock brokers, depository participants, and clearing members, as the case may be, and also disseminate the same on their websites;
 - b. jointly issue the following within 15 days from the date of issuance of this circular
 - i. operational guidelines in consultation with relevant stakeholders;
 - ii. an SOP for monitoring the implementation of provisions of this circular (including determination of cut-off times) and
 - iii. a penalty structure for non-compliance;
 - c. make amendments to the relevant bye-laws, rules and regulations for the implementation of the above provisions; and
 - d. communicate to SEBI, the status of the implementation of the provisions of this circular in their monthly development report.
14. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 30 of SEBI (Stock Brokers) Regulations, 1992 and Regulation 51 of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

FAQs – Upstreaming of Client Funds

This is further to Exchange circular nos. NCDEX/COMPLIANCE-059/2023 dated June 09, 2023 and NCDEX/COMPLIANCE-067/2023 dated June 30, 2023 on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs).

Based on representations received from Members, Exchange is pleased to issue guidelines/clarifications on the subject in the form of frequently asked questions (FAQs). The FAQs are made available in the "FAQs" section on the Exchange website titled as "FAQs - Upstreaming of Clients' Funds" (https://ncdex.com/quick_links/faqs).

Members are requested to take note of the contents of the circular and comply.

1) In which forms the client funds can be upstreamed by SB/CM?

The client funds shall be upstreamed by SBs/CMs to CCs only in the form of either cash, lien on FDR or pledge of units of Mutual Fund Overnight Schemes (MFOS).

2) To whom the framework of upstreaming of client funds is applicable?

The framework is applicable to all SBs/CMs/non-bank Custodians. Bank-CMs (including custodians that are banks) and proprietary funds of SBs/CMs in any segment and SB's proprietary funds deposited with CM in the capacity of a client are exempt from the scope of this circular.

3) Whether the tenure of existing FDRs is required to be reduced upto one year and one day?

There is no tenure restriction of FDRs created out of proprietary funds. Existing FDRs (created out of clients' funds and having tenor of more than one-year and one day) created prior to issuance of the circular (before June 08, 2023) shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions as mentioned below:

- The tenor of such FDRs shall not be more than one year and one day; and the FDRs should be pre- terminable on demand.
- SBs/ CMs may create FDRs out of clients' funds only with those banks which satisfy the CC's exposure norms as specified by SEBI or CCs from time to time.
- Every FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.
- Through this lien, CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
- The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination costs.
- SBs/CMs shall not avail any funded or non-funded banking facilities based on FDRs created out of clients' funds.

4) Is it required to wind up the existing bank guarantees (BGs) created out of client funds and placed with CCs/CMs before June 30, 2023?

As per SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023, all the existing BGs created out of client funds and placed with CCs/CMs shall be wound down by September 30, 2023.

- 5) Whether FDR can be created by SB in favour of CM including bank CM?

No. FDRs created out of client funds shall necessarily be lien-marked to one of the CCs at all times. Through this lien, the CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing FDR.

- 6) Can FDRs be made from multiple USCNB accounts?

Yes. Client FDRs may be created from the USCNB accounts across the multiple bank accounts.

- 7) In which kind of MFOS can the client funds be invested?

SBs/CMs shall ensure that client funds are invested only in such eligible MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri-party Repo Dealing and Settlement (TREPS). The list of such eligible MFOS would be published from time to time.

- 8) Whether the MFOS can be considered as collateral with CC/CM under Enhanced Supervision reporting?

MFOS can be included in collateral available with CC/CM for the purpose of reporting under Enhanced Supervision. Accordingly, the provision of Exchange Circular no. NCDEX/COMPLIANCE-047/2021 dated October 21, 2021 shall stand modified to this extent with effect from July 1, 2023.

- 9) Which bank accounts to be displayed on website?

Name of Bank Account, Bank Account number and IFSC of Only USCNB accounts along with following note shall be displayed on website.

“Investors are requested to note that Stock broker (name of stock broker) is permitted to receive money from investor through designated bank accounts only named as Up streaming Client Nodal Bank Account (USCNBA). Stock broker (name of stock broker) is also required to disclose these USCNB accounts to Stock Exchange. Hence, you are requested to use following USCNB accounts only for the purpose of dealings in your trading account with us. The details of these USCNB accounts are also displayed by Stock Exchanges on their website.”

Accordingly, the provision of Exchange Circular no. NCDEX/COMPLIANCE-024/2023 dated March 08, 2023 shall stand modified to this extent with effect from September 1, 2023.

- 10) Can the member maintain FDR/MFOS that are not lien marked/pledged with CC?

FDR created out of client funds shall necessarily be lien-marked to one of the CCs at all the times. Further, SBs/CMs shall provide MFOS units as collateral to the CC. While providing the units as collateral, SBs/CMs shall identify the end clients. In order to implement the same, a pledge shall be created from the Client Nodal MFOS account to SB/CM margin pledge account of the SB/CM. SB/CM shall further repledge the same to CC using the existing pledge re-pledge mechanism.

- 11) Whether any client funds remaining after making FDR or investment in MFOS are required to be upstreamed?

Yes. As per Para I of Part C of the SEBI circular dated June 8, 2023 on Upstreaming of clients funds, other than the FDRs (liened to CCs) and MFOS (pledged to CCs), any remaining client funds with SBs/CMs shall be upstreamed to a CC before a stipulated cut-off time.

- 12) Is it mandatory to open new bank account with nomenclature "Name of the SB/CM – USC NBA" and "Name of the SB/CM – DSC NBA" or whether nomenclature of existing accounts reported as "Name of SB/CM - Client Account" can be changed? Further can member open multiple USC NBA or DSC NBA?

SBs/CMs may change the nomenclature of existing client accounts to "Name of the SB/CM – USC NBA" and/or "Name of the SB/CM – DSC NBA". All other bank accounts named as "Name of SB/CM - Client Account" shall be closed.

Further, member may also open new bank account with nomenclature "Name of the SB/CM – USC NBA" and "Name of the SB/CM – DSC NBA". However, member can maintain USC NBA or DSC NBA up to 30 only as per the guidelines issued by the Exchange on maintenance of client bank accounts. Member shall comply the same by August 31, 2023.

- 13) How shall member inform revised nomenclature of existing client bank accounts to the Exchange? What will be the impact of this circular on Daily Bank balance reporting, Holding Statement and weekly cash & cash equivalent submission by member to Exchange?

Member shall be allowed to input "Up streaming Client Nodal Bank Account (USC NBA)" and "Down streaming Client Nodal Bank Account (DSC NBA)" for all existing client bank accounts in a separate column in the existing Bank account reporting structure as per the Exchange circular no. NCDEX/MEMBERSHIP-036/2022 dated December 21, 2022. Similarly, one more category i.e., "Client Nodal MFOS Account", for reporting of demat account shall be added in the existing DP account reporting structure as per the Exchange circular no. NCDEX/MEMBERSHIP-036/2022 dated December 21, 2022.

Members shall not report holding lying in "Client Nodal MFOS Account" to the Exchange. Therefore, there shall not be any impact on reporting format of Holding statement submission.

Since the members shall also upstream unclaimed client funds to CC, member is required to report 0 in "CLIENT BANK ACCOUNT NO." column of Cash & Cash equivalent submission with effect from July 01, 2023.

Further, there is no change in the existing reporting format of daily bank balances to the Exchange as both "Up streaming Client Nodal Bank Account (USCNBA)" and "Down streaming Client Nodal Bank Account (DSCNBA)" bank accounts shall continue to be reported with purpose "CLIENT BANK ACCOUNT" under Bank account type column.

- 14) Whether requirement pertaining to running account settlement of client funds continue after implementation of this circular?

Yes. Compliance with respect to running account settlement of client funds shall continue.

- 15) How to treat the funds which are received after CM upstreaming cut off time?

As per Para (V) of Part C of SEBI Circular dated June 8, 2023 which has been further modified by SEBI circular dated June 30, 2023 on Upstreaming of client funds, SBs/CMs may receive funds from clients beyond the prescribed cutoff time for upstreaming subject to the condition that there shall not be any further movement of funds from that account (i.e., a debit freeze) till the opening of upstreaming window on the next day. However, such funds should be received for legitimate purpose. The said provision is applicable with effect from September 1, 2023.

- 16) Can funds be retained by SB in USCNBA and directly transferred to DSCNBA in case of intraday trades? (Trades squared off on the same day)

No. All client funds received in USCNBA shall be first upstreamed to CCs through settlement account and then the same can be received back from CC to settlement account and settlement account to DSCNBA from which, funds shall be released to the client.

- 17) For management of FDR (creation, renewal, and maturity), which bank account (USCNBA or DSCNBA) should be utilized?

SBs/CMs may create FDRs out of clients' funds from USCNB account only. Such FDRs created out of client funds shall necessarily be lien-marked to one of the CCs at all the times. Upon encashment/maturity of the FDR, the funds shall necessarily be received in the same USCNB account.

- 18) For management of MFOS (subscription/redemption), which bank account (USCNBA or DSCNBA) should be utilized?

As per Para III of Part B of SEBI Circular dated June 8, 2023, SBs/CMs shall maintain a dedicated demat account (hereinafter referred to as "Client Nodal MFOS Account") for subscription/ redemption of MFOS units. The depositories shall allow subscription/redemption transactions only in the said account.

Further, SBs/CMs shall subscribe for MFOS units out of clients' funds from USCNB account only. Such MFOS units should be in dematerialized (demat) form and must necessarily be pledged with a CC at all times. Upon redemption of MFOS units, the funds shall necessarily be received in the same USCNB account.

- 19) How does the SB/CM consider / process the release requests received from the clients before the client release request cut-off time?

The release requests received from the clients before "client release request cut off time" must be processed the same day. Further, such funds received from the CC must either be paid out to the clients on the same day or upstreamed back to the CC on the same day.

- 20) Whether any fund movements between USCNBA and DSCNBA be allowed?

As per Para II (b) of Part C of the SEBI circular dated June 8,2023, payment to clients should be done by SBs only from DSCNBA account post receiving of funds from CC/CM same day. Therefore, no fund movements from USCNBA to DSCNBA shall be allowed. However, funds from one USCNBA can be moved to another USCNBA. Similarly, funds from one DSCNBA can be moved to another DSCNBA, and from DSCNBA to USCNBA. The aforesaid provision is applicable from September 01, 2023.

- 21) Can one common USCNB account and one common DSCNB account be maintained by the member?

Yes. one common USCNB account and one common DSCNB account can be maintained across all segments.

- 22) Is there any restriction on the count of USCNBA and DSCNBA ?

Members may have multiple USCNBA and DSCNBA; however, the count of all USCNBA and DSCNBA shall not exceed 30 bank accounts.

- 23) Is there any collateral benefit provided by the CCs on the up-streamed funds?

Collateral benefit shall be provided to the respective client based on the segment wise collateral allocated to the clients and reported by the Trading Member in accordance with the provisions of the SEBI Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 on "Segregation and Monitoring of Collateral at Client Level".

- 24) Is there any impact on maintenance of a separate client bank account maintained for keeping untraceable/unclaimed clients funds?

Funds lying in a separate client bank account maintained for keeping untraceable/unclaimed clients funds shall be upstreamed to CC.

- 25) What if Self Clearing Member (SCM) in Capital market segment, Trading Member (TM) in Derivative segment(s) – Can the member maintain the common USCNBA & DSCNBA or Separate for SCM & TM?

Yes, one common USCNBA and one common DSCNBA across segments may be maintained.

- 26) Whether the balance of the Settlement account shall be considered under Weekly Enhanced Reporting?

Balance of the Settlement account shall not be considered. Accordingly, members shall not report the same under Weekly Enhanced Reporting. Accordingly, the provision of Exchange Circular no. NCDEX/COMPLIANCE-047/2021 dated October 21, 2021 shall stand modified to this extent with effect from July 1, 2023. However, amount to the extent of client funds credited back to settlement account of member by CC on account of Offer for Sale (OFS) release after cut off time can be considered while reporting Enhanced supervision data to Exchange.

- 27) Whether the SBs/CMs are required to submit any reconciliation statement? If so, what is the periodicity?

Members shall maintain the reconciliation statement for withdrawal of client funds from CCs on a daily basis and provide the same as and when sought by the relevant authority.

- 28) Whether member is required to upstream the funds received from client on pay in day for the purpose of pay in obligation?

Member is not required to upstream the funds to CC which are received from clients on settlement/pay in date itself before funds pay in time against their funds pay in obligation as such funds shall be taken by CC during the settlement process against settlement obligation .e.g. if time for funds pay in to CC is 11:00 AM and client transfers funds before

11:00 AM against its funds pay in obligation to be settled today, then funds received from such client in USCNB account shall be transferred to settlement account from which CC shall take the same as part of settlement process. However, funds received which would not be needed for CC pay-in and used by member for internal settlement shall need to be upstreamed.

29) Whether member is required to upstream the funds payout received from CC before releasing it to clients?

No, funds received in form of payout from CC can directly be transferred to DSCNB account for onward transfer to clients.

30) In case of TM/CM investing in MFOS, should TM take consent of the client?

TM/CM is not required to take consent of the client.

31) What would be the impact of variable net worth computation due to SEBI circular of Upstreaming?

There is no change in the method of calculation of variable net worth by the members.

32) To which accounts will the member transfer the funds released by CC?

Sr. No.	Reason for collateral withdrawal	Transferred from settlement account to
1	CM Prop (only for PCMs)	CM Own Account
2	TM Prop (for PCMs, TCMs and SCMs)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
3	TM - Client unpaid securities obligations / MTF Obligations	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
4	TM - Loss due to sale of unpaid securities	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
5	TM - Penalties	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
6	TM - Statutory levies (STT / Stamp Duty / SEBI Turnover Fee)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.

7	TM - Brokerage (including exchange transaction fee)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
8	TM - Other charges (DP charges, etc.)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
9	TM - Funds to be released to client on account of regulatory requirements such as running account settlement	CM DSCNBA for onwards transfer to client if it is not required to pass on to TM else CM DSCNBA to TM DSCNBA for onwards transfer to client.
10	TM - Funds withdrawal request from client	CM DSCNBA for onwards transfer to client if it is not required to pass on to TM else CM DSCNBA to TM DSCNBA for onwards transfer to client.
11	Reconverting to another form of Collateral	DSCNBA for onward transfer to USCNBA
12	Giving to Other CC	Other CC Settlement account
13	Pay-in purpose	No action

33) In which account will the CM receive the funds of TMs (Pro) and the funds of TM clients?

CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature "Name of the CM –TM prop account" to receive/pay proprietary funds from/to stock brokers. Further, the CM should also ensure that Stock broker Prop funds are received only from "Name of Stock- Broker -Proprietary Account".

CMs shall receive clients' funds in USCNBA for further upstreaming it to the CC.

34) In case of receipt of payout to CM by CC for TMs (only doing Pro trades), how the fund flow will happen?

The withdrawal request/payout shall be transferred from CC to CM settlement account and from there to DSCNBA. The CM may further transfer it to "Name of the CM –TM prop account" for onward transfer to "Name of Stock-Broker -Proprietary Account".

35) Is there a requirement for SBs to open USCNBA/DSCNBA if SBs are only trading and/or clearing for their prop/own trades and do not have any clients/CPs?

No. There is no mandate to open USCNBA/DSCNBA if SBs are only trading and/or clearing for their prop/own trades and do not have any clients/CPs

- 36) Fixed Deposit created out of client's monies but could not be lien marked to CC within operating hours, would there be any implications?

In accordance with SEBI circular dated June 8, 2023, Every FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.

- 37) For the purpose of upstreaming of clients' funds, do clients' funds mean net of brokerage / debits/ charges to be recovered etc. or upstreaming is expected on Gross basis for receipt of any funds from the clients?

All funds received from client is required to be up streamed as per SEBI circular. Further, the SBs/CMs may seek withdrawal of client funds from CCs only under scenarios as mentioned with appropriate reason code.

- 38) Do we need to allocate all the funds upstreamed to CC?

Yes, in order to comply with SEBI Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 on "Segregation and Monitoring of Collateral at Client Level".

- 39) For FDR's created towards base capital / interest free security deposit given to CC, whether this can be placed for more than one year and one day?

Yes, as membership deposit requirement is required to be placed out of own funds from members.

- 40) Whether the cut off prescribed by the CCs are for USCNBA or for settlement account?

In terms of SEBI circular, the CM shall transfer to CC any time during the day but not later than the respective cut off time prescribed by the CC. Hence, CMs are required to ensure that all client funds are transferred from USCNBA to Settlement to CC before cut off time.

- 41) What shall be the flow of funds received in CM-TM prop account?

Proprietary funds received from the Stock Broker by the Clearing Member in the CM-TM prop account should be transferred to USCNBA for onward upstreaming to CC. Further, the CM should also ensure that proprietary funds of the Stock broker are received in the said CM – TM prop Account only from Stock broker proprietary account named as "Name of Stock Broker – Proprietary account".

- 42) Is the clause 2.3 of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 applicable to existing FDRs which are placed with CM by SBs (created out of client funds) and such FDRs are not placed with CC?

No. As clause 2.3 of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 is applicable only for FDRs which are placed with CCs. Therefore, CM shall not retain any FDRs which are created out of client funds and submitted by SBs to them.

- 43) Can member have funds in DSCNB account post upstreaming cut off time for releasing the same to clients?

Yes, member can have funds in DSCNB account post upstreaming cut off time to transfer the same to client on same day itself thereby ensuring that there is no balance in DSCNB account on EOD basis. On running account settlement days, funds may remain in DSCNB account even beyond EOD, on exception basis, as long as instructions to banks have been given by EOD.

- 44) Whether member is required to upstream the funds received for trades rejected by custodian (i.e. DVP trades) ?

In case of DVP trades, member may receive funds from custodians in their own account instead of USCNB account and accordingly, member shall not require to upstream these funds to clearing corporations. However, in case such funds are received in the USCNB account, then such funds would need to be upstreamed and withdrawn with appropriate reason code.

Annexure: Addition to FAQs

- 1) Can member have funds in DSCNB account post upstreaming cut off time for releasing the same to clients?

Yes, member can have funds in DSCNB account post upstreaming cut off time to transfer the same to client on same day itself thereby ensuring that there is no balance in DSCNB account on EOD basis. On running account settlement days, funds may remain in DSCNB account even beyond EOD, on exception basis, as long as instructions to banks have been given by EOD.

- 2) Whether member is required to upstream the funds received for trades rejected by custodian (I.E. DVP trades)?

In case of DVP trades, member may receive funds from custodians in their own account instead of USCNB account and accordingly, member shall not require to upstream these funds to clearing corporations. However, in case such funds are received in the USCNB account, then such funds would need to be upstreamed and withdrawn with appropriate reason code.

Penalty Structure related to provisions of Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Bank Guarantees (BGs) created out of clients' funds

This is with reference to Exchange Circular Nos. NCDEX/COMPLIANCE-059/2023 dated June 09, 2023, NCDEX/COMPLIANCE-067/2023 dated June 30, 2023, NCDEX/COMPLIANCE-088/2023

dated August 17, 2023, NCDEX/COMPLIANCE-092/2023 dated August 31, 2023 on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Exchange circular no. NCDEX/COMPLIANCE-047/2023 dated April 26, 2023 on Bank Guarantees (BGs) created out of clients' funds.

In this regard, Exchange has formulated a penalty structure for any non-compliance of the provisions of the aforementioned circulars. The penalty structure is enclosed as Annexure and shall be applicable w.e.f. September 01, 2023.

Members are advised to ensure compliance with the above regulatory requirements.

Annexure: Penalty Structure

A. Client's funds/liquid overnight funds/FDR made out of clients' funds are not upstreamed/pledged/lien marked by member or creation of BG out of clients' funds:

Details of contravention	Disciplinary Action/Charges		Repeat violation
<ul style="list-style-type: none"> • Clients' funds received before cut-off are not upstreamed to Clearing Corporation and lying with member in any of its bank account* • Unit of Mutual fund overnight schemes/ FDR made out of clients' funds are not pledged/lien marked as case may be to Clearing Corporation* • Non-compliance with respect to tenure of FDR made out of clients' funds* • Non-compliance with respect to debit freeze of funds received after upstreaming cut off time • Transfer of funds to client from 	Value of Violation	Penalty (in Rs.)	2nd time in the same month - 50% escalation 3rd time in the same month - 100% escalation. In addition to penalty, the relevant authority may decide to disable / suspend the trading terminals of the member in
	Up to 5 Lakh	5,000	
	> 5 to 10 Lakhs	10,000	
	> 10 to 50 Lakhs	15,000	
	> 50 Lakhs to 1 Crore	25,000	
	> 1 Crore to 2 Crore	50,000	
	> 2 Crore to 5 Crore	1 Lakh	
	> 5 Crore to 10 Crore	2 lakhs	
> 10 Crore	5 lakhs		

<p>other than DSCNB account</p> <ul style="list-style-type: none"> • Receipt of funds from client in other than USCNB account • Non permissible transfer of funds between USCNB, DSCNB and any other bank account of member • BG created out of clients' funds on or after May 01,2023 or Existing BG created out of clients' funds is not wound down by September 30,2023* 		<p>all segments for 1 day in case of 3rd time repeat violation on case-to-case basis and based on the gravity of the violation.</p>
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* Along with penalty, direction to take corrective actions and report the same within 7 days shall be issued.

B. Funds received after upstreaming cut off time and lying in bank account are not for legitimate purpose

Details of contravention	Disciplinary Action/Charges		Repeat violation
	Penalty shall be as under		
	Violation observed during the period from the effective date of circular i.e. September 01,2023	Penalty per day (Rs.)	
	First 30 days	5,000	
	Next 31-60 days	10,000	
	Next 61-90 days	15,000	
	Next 91-120 days	20,000	

<p>Funds received after upstreaming cut off time and lying-in bank account are not for legitimate purpose</p>	<p>Rs. 50,000/- per day if violation is observed after 120 days from the effective date of circular</p>	<p>2nd time in the same month- 50% escalation</p> <p>3rd time in the same month - 100% escalation. In addition to penalty, the relevant authority may decide to disable / suspend the trading terminals of the member in all segments for 1 day in case of 3rd time repeat violation on case-to-case basis and based on the gravity of the violation.</p>
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Penalty prescribed in point number (B) mentioned above shall be applicable if value of such funds (i.e received after upstreaming cut off time and lying-in bank account are not for legitimate purpose) exceeds below mentioned threshold:

Value of Total Creditors (i.e. client payables)	Thresholds
Member with total creditors value up to 100 Crores	Higher of 1% of total creditors and 10 Lakhs
Member with total creditors value more than 100 crores up to 500 crores	1 crore plus 0.5% of incremental value of creditors above 100 crores
Member with total creditors value more than 500 Crores	3 crores plus 0.25% of incremental value of creditors above 500 crores

Circular References:

- Circular No. NCDEX/COMPLIANCE-059/2023 dated June 09, 2023
- Circular No. NCDEX/COMPLIANCE-067/2023 dated June 30, 2023
- Circular No. NCDEX/COMPLIANCE-088/2023 dated August 17, 2023
- Circular No. NCDEX/COMPLIANCE-092/2023 dated August 31, 2023
- Circular No. NCDEX/COMPLIANCE-093/2023 dated August 31, 2023
- Circular No. NCDEX/COMPLIANCE-139/2023 dated December 13, 2023
- Circular No. NCDEX/COMPLIANCE-010/2024 dated January 29, 2024

49. TRADING PREFERENCES BY CLIENTS – APPLICABILITY FOR COMMODITY DERIVATIVES

SEBI has issued circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023, SEBI has issued a circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 dated August 01, 2023, on “Trading Preferences by Clients – Applicability for commodity derivatives”. The copy of the said SEBI circular applicable to commodity derivatives is enclosed for your reference.

Members are requested to take note of the contents of the circular and comply.

SEBI, vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023, prescribed a revised format of “Trading Preferences” to be provided by clients to their respective stock brokers with the intent of allowing such clients access to all the exchanges for the same segment.

SEBI, vide its circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 (incorporated under SEBI Master Circular for Stock Brokers dated May 17, 2023), prescribed the account opening process for members of commodity derivatives exchanges, as per the FMC circular no. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015. Commodity derivatives exchanges have represented that the format as prescribed at Para 5 of SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023 may not be made applicable to exclusive members of the commodity derivatives exchanges.

In view of the fact that in case of commodity derivatives exchanges, overlap of traded commodities between them is low at this point of time, it is hereby clarified that the aforesaid format of “Trading Preferences” as specified in SEBI circular dated June 21, 2023, shall not be made applicable to members registered exclusively with commodity derivatives exchanges. Such members shall use the format as prescribed by the erstwhile Forward Markets Commission (FMC) vide its circular no. FMC/COMPL/IV/KRA-05/11/14 dated February 26, 2015, which is as under:

“D. TRADING PREFERENCE

Note: Please sign in the relevant boxes against the Exchange with which you wish to trade. The Exchange not chosen should be struck off by the client.

Sr. No.	Name of the National Commodity Exchanges #	Date of Consent for trading on concerned Exchange	Signature of the Client
1			
2			
3			
4			
5			
6			

At the time of printing the form, the Member must specify the names of the Exchanges where the Member has membership.

[In case of allowing a client for trading on any other Exchange at a later date, which is not selected now, a separate consent letter is required to be obtained by the Member from client and to be kept as enclosure with this document]

Further, with reference to para 6 of the SEBI circular dated June 21, 2023, it is also clarified that opting out facility should be provided to new as well as existing clients, and negative consent should be obtained separately from clients in writing. Stock brokers shall be mandated to maintain records of such written negative consent provided by the clients for at least five years.

All other provisions specified in SEBI circular dated June 21, 2023, shall continue to remain applicable.

“FAQs – Trading Preferences by Clients”

Based on the queries/ representations received from members, Exchange is pleased to issue guidelines/ clarifications on the subject in the form of frequently asked questions (FAQs). The FAQs are made available in the “FAQs” section on the Exchange website titled as “FAQs – Trading Preferences by Clients” (https://ncdex.com/quick_links/faqs).

Members are requested to take note of the contents of the circular and comply.

FAQ on SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023 read with SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 dated August 01, 2023 on Trading Preferences by Clients

Sr. No.	For Members exclusive to Commodity Segment	For Members not exclusive to Commodity segment
1	Is it mandatory to register new clients in all the Exchanges?	
	No. Clients to be registered only on the Exchange after obtaining the trading preferences as per format prescribed in SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 dated August 01, 2023.	Yes, it is mandatory to register new clients on all the active stock exchanges for the segment after obtaining the trading preferences for the segment as per format prescribed in SEBI Circular number SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023 except for Commodity Segment
2	Is it mandatory to register existing clients in all the Exchanges?	
	No. Clients to be registered only on the Exchange based on the trading preferences provided by the clients as per SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD 1/P/CIR/2023/132 dated August 01, 2023	Yes. Stockbroker shall offer access to clients on all the active stock Exchanges for the active segments, except for commodity segment, already opted by them as a default mode.
3	Does an existing client needs to sign the trading preference to get enabled in other Exchanges as per the new format?	
	Yes. Clients to be registered only on the Exchange based on the trading preferences provided by the clients.	No. Except for the commodity segment the stock brokers are mandated to offer clients access on all the active stock exchanges for the segments already opted by them, as a default mode latest by October 31, 2023 i.e. within three months from the effective date of the June 21, 2023 circular. The stockbrokers are required to inform their respective clients through email / SMS.
4	Is it mandatory to provide Opt-out facility to clients?	
	Not applicable. Only Opt-in facility to be provided to clients.	Yes. Except for the commodity segment selected for trading, opting out facility should be provided to new as well as existing clients and negative consent should be obtained separately from clients in writing/ through registered email id/ or through web portal / app of the trading member through secured access by way of

		client specific user ID and password (in case of internet clients). Stock brokers are mandated to maintain records of such negative consent provided by the clients for atleast 5 years . The stock brokers shall deactivate the segments as and when the negative consent is received from the clients.
5	What is the due date to comply with the provisions of the June 21, 2023 circular?	
	Not applicable.	For the provisions related to existing clients in other than commodity segment – latest by October 31, 2023 For the provisions related to New clients – From August 1, 2023
6	Does June 21, 2023 circular apply on inactive clients?	
	Not applicable.	The provisions of the circular applies to clients compliant with all mandatory UCC requirements communicated through various SEBI/ Exchange circulars from time to time. For noncompliant / inactive clients, the provision of the circular shall be applicable upon activating the UCCs. However, for commodity segment, client to be activated based on trading preference.
7	Does the information needs to be updated in UCC system as per June 21, 2023 circular?	
	Clients to be registered only on the Exchange based on the trading preferences provided by the clients.	Yes. The appropriate information, as applicable needs to be updated in UCC system as per SEBI circular dated June 21, 2023
8	Whether the June 21, 2023 circular is applicable to trading members having clientele base consisting of only institutional investors?	
	Not applicable. Clients to be registered only on the Exchange based on the trading preferences provided by the clients.	Yes, the captioned circular is applicable to trading members having clientele base consisting of only institutional investors.

9	Whether the trading members can implement the provisions of the June 21, 2023 circular on immediate basis before the applicable date as provided in the circular?	
	Not applicable.	Yes, the trading member can implement the circular on immediate basis before the applicable date as provided in the SEBI Circular dated June 21, 2023 read in line with SEBI circular dated August 01, 2023.
10	In case of existing clients, if UCC is currently created only in one exchange for a segment as per client's preference in KYC, then it needs to be done in other exchanges for that segment. What if client might not be interested to trade in other exchanges?	
	Clients can provide trading preference, in case they wish to trade. UCC to be created only after obtaining the client preference to trade on particular exchange.	Except for the commodity segment the stock brokers are mandated to offer clients access on all the active stock exchanges for the segments already opted by them, as a default mode latest by October 31, 2023 i.e. within three months from the effective date of the circular. The stockbrokers are required to inform their respective clients through email / SMS. Further, if the client is not interested to trade on any particular exchange, then the trading member has to obtain negative consent from the client as stated in Point no: 4.
11	If the trading member is not registered in a particular segment in any of the Exchanges, whether the said segment can be removed from the format?	
	Not applicable. As format Prescribes only Commodity Segment.	Yes. If the trading member is not registered in a particular segment in any of the Exchanges, then the said "segment" need not to be mentioned in the "Trading Preferences" format. Further, if the trading member is not registered in a particular Exchange the said "Exchange" need not be mentioned in the "Trading Preferences" format. Further, if member is registered in commodity segment, then the option to choose the exchange should also be given as per format prescribed in SEBI circular dated August 01, 2023.

Circular Reference:

- SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/132 dated August 01, 2023
- SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/95 dated June 21, 2023
- Circular No. NCDEX/COMPLIANCE-080/2023 dated August 02, 2023
- Circular No. NCDEX/COMPLIANCE-082/2023 dated August 08, 2023

50. SUBMISSION OF RISK BASED SUPERVISION

As per SEBI Directives, Members are required to submit the information / data towards the Risk Based Supervision for the period April 01, 2023 – September 30, 2023 to the Exchange latest by November 30, 2023.

The particulars of such information / data sought in this regard (Annexure A), charges for non submission/delayed submission (Annexure B) and process manual & FAQs for submission are available in the downloads section on the Exchange website https://ncdex.com/quick_links/download as Risk Based Supervision (RBS) Annexures. These details are to be submitted to the Exchange through the Compliance module on NCFE portal.

It is to be noted that the submission of RBS data is mandatory for all active members of the Exchange (i.e. those who have executed even a single trade during the period April 01, 2023 – September 30, 2023). Further, the data collated from the members and the Exchange towards RBS is shared with SEBI and in case of any non-submission/delayed submission by a member, disciplinary action as prescribed in Annexure B will be initiated. Any false/incorrect submission of data will be viewed seriously by the Exchange.

Members are advised to ensure compliance with the above regulatory requirements.

Circular References:

- Circular No. NCDEX/COMPLIANCE-104/2023 dated October 09, 2023
- Circular No. NCDEX/COMPLIANCE-127/2023 dated November 17, 2023

51. EASE OF DOING INVESTMENTS BY INVESTORS- FACILITY OF VOLUNTARY FREEZING BLOCKING OF TRADING ACCOUNTS BY CLIENTS

51.1 Stock broking industry in India has moved from a call and trade type of scenario to online mode, wherein the investors use the login ids and passwords provided to them by the Trading Members. It has been observed that at times, suspicious activities are noticed by

investors, but the facility of freezing/blocking of accounts is not available with majority of Trading Members.

51.2 Many a times, investors raise issues of suspicious activities in their trading accounts and thus, there is an urgent need to address the situation of having a facility for blocking of trading accounts as it is available for blocking of ATM Cards and Credit Cards.

51.3 Similar facility of voluntary blocking/ freezing of demat accounts is already available for investors and this facility is now proposed to be offered to the investors for their trading accounts also.

51.4 In this respect, pursuant to consultation with the Brokers' Industry Standards Forum (ISF) and to enhance ease of doing business and ease of investment, it has been decided that the framework for Trading Members to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients on account of suspicious activities shall be laid down on or before April 01, 2024, by the ISF, under the aegis of stock exchanges, in consultation with SEBI and the same shall, inter-alia, contain necessary guidelines with respect to the following:

51.4.1 Detailed policy for voluntary freezing/ blocking the online access of the trading account of the client including the following:

- modes through which a client can request/communicate to the Trading Member for voluntarily blocking the trading accounts;
- issuing of acknowledgement to the clients on receipt of message;
- time period within which the request shall be processed and the trading account shall be frozen/blocked.

51.4.2 Action to be taken by the Trading Member pursuant to the receipt of request for freezing/blocking of the trading account;

51.4.3 Process for re-enabling the client for trading/transfers;

51.4.4 Intimation to be provided by the trading member to the clients w.r.t. introduction of the facility to block the trading accounts.

51.5 Further, the Stock Exchanges shall ensure that the guidelines so issued under the aforesaid Framework are implemented by Trading Members with effect from July 01, 2024. Stock Exchanges shall also put in place an appropriate reporting requirement by Trading Members to enforce the above system. A compliance report to this effect shall be submitted to SEBI by Stock Exchanges latest by August 31, 2024.

51.6 Stock Exchanges are advised to:

- 51.6.1 take necessary steps and put in place necessary systems for implementation of above
- 51.6.2 make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above.
- 51.6.3 bring the provisions of this circular to the notice of Trading Members and also to disseminate the same on their website.

51.7 This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 30 of SEBI (Stock Brokers) Regulations, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

Circular Reference:

- Circular No. NCDEX/COMPLIANCE-009/2024 dated January 17, 2024

52. REVISED PENALTY STRUCTURE

Members are informed that the revised penalty/disciplinary action as mentioned in Annexure A shall be applicable in respect of inspections commenced or any non-compliance observed (as applicable) on or after the date of this circular. Further, all inspections that have been carried out prior to this circular shall continue to be governed by the penalty/disciplinary action guidelines applicable at that point in time.

The existing disciplinary actions provisions as per Circular NCDEX/COMPLIANCE-020/2017/285 dated October 31, 2017, if any, not included in the said annexure will continue to be applicable. The disciplinary actions as per the said annexure are indicative in nature and the Exchange may revise the same in specific cases depending on materiality, frequency and gravity of violations. Further, the Exchange may impose more stringent penalty/ enhance the penalty / deactivation of trading terminals / suspension etc. as deemed fit, in case of serious violations.

Members are advised to take note of the same and put in place systems and procedures so as to ensure adherence to the compliance requirements.

Annexure A

Sr. No	Details of Contravention	Penalty/ Disciplinary Action	Penalty/ Disciplinary Action in case of Repeat Violation
1	Actual settlement of funds or securities/commodities not done on monthly / quarterly basis as specified by the client (Applicable where less than or equal to 50% of sample instances, (includes instances where member has not returned funds of clients who have not traded for 30 days and Penalty for delay in settlement of client funds & Securities / Commodities)	<p>or sample clients more than 10 –</p> <p>a) In excess of 2% and upto 5% of number of instances - Rs.15,000/-</p> <p>b) In excess of 5% and upto 10% of number of instances – Rs.45,000/-</p> <p>c) In excess of 10% of number of instances – Rs.75,000/-</p> <p>d) up to 2% of number of instances : Advice</p> <p>If sample clients are less than 10 - monetary penalty of 10000 if violation is observed for more than 50 % of cases else Advice</p>	<ul style="list-style-type: none"> ➤ Prescribed monetary penalty ➤ 50% Escalation Penalty ➤ No new clients registration till submission of Internal Auditor certificate certifying that all clients have been settled
2	Actual settlement of funds or securities/commodities not done on monthly / quarterly basis as specified by the client (Applicable where number of clients are more than 10 and non-compliance are more than 50% of sample instances (includes instances where member has not returned funds of clients who have not traded for 30 days and Penalty for delay in settlement of client funds & Securities / Commodities)	<p>More than 50% of instances: Rs.2,00,000/- ; Direction to settle all clients and submit Internal Auditor certificate on compliance status for next 4 quarters.</p> <p>(Violation at equal to or below 50% has been considered in Procedural violations)</p>	<ul style="list-style-type: none"> ➤ Prescribed monetary penalty ➤ 100% Escalation Penalty ➤ No new clients registration till submission of Internal Auditor certificate certifying that all clients have been settled ➤ Submission of Internal Auditor certificate certifying settlement of all clients for 4 subsequent quarters

3	Pay in / payout not received from / delivered to respective clients / Inter-client adjustment done for the purpose of settlement of accounts	a) Non-compliance up to Rs. 5 lac-Warning b) In excess of Rs. 5 lac and up to Rs. 20 Lacs - Rs. 1 lac c) More than Rs. 20 lacs - Rs. 2 lacs	Increase penalty amount by 50% (if not specifically stated)
4	Member has not sent an intimation including the details about the transfer of funds to clients by SMS & Email at the time of running account settlement of funds.	Advice	
5	Incorrect statement sent to clients (Namely : Statement of Funds & Securities / Retention Statement/ annual Global Statement)	Advice	Warning
6	Weekly Statement of accounts for funds, securities and commodities not sent/delay in issuance of weekly Statement of accounts for funds, securities and Commodities, non-issue of weekly statement displaying all receipt and payment of funds / inward and outward movement of securities and pending obligations	a) Up to 25% of number of instances- Rs. 50,000/- b) In excess of 25% and up to 75% of number of instances – Rs. 1,00,000/- c) In excess of 75% of number of instances - Disablement of trading terminals for 1 day or till the time the weekly statements are sent will also be done depending upon the gravity of the case For clients less than or equal to 10 clients, penalty of Rs 10000 in case non compliance observed for more than 50% instances	50% escalation

7	Use of client funds & securities/commodities for other than specified purposes/ for own purpose/for other clients	<p>a) Misuse is Less than Rs. 10 Crores Rs. 1,00,000/- or 1% of the amount involved whichever is higher +</p> <p>> Direction to recoup shortfall within reasonable time else disablement till shortfall is recouped</p> <p>b) Misuse is more than Rs. 10 Crores >SEBI SOP Circular no. SEBI/HO/MIRSD/DPIEA/ CIR/P/2020/11 dated July 01, 2020 will be applicable</p>	<ul style="list-style-type: none"> ➤ Misuse is Less than Rs. 10 Crores then increased penalty amount by 50% ➤ Misuse is more than Rs. 10 Crores >SEBI SOP Circular no. SEBI/HO/MIRSD/DPIEA/ CIR/P/2020/11 dated July 01, 2020 will be applicable
8	Evasion of margin	<p>a) Margin evasion up to Rs.1 Lac - The amount of evasion.</p> <p>b) Margin evasion exceeding Rs.1 Lac - Rs. 1 lac or 0.3% of the value of trades whichever is higher.</p>	Increase penalty amount by 50% (if not specifically stated)
9	Non segregation of transactions between client and own bank accounts (Client money deposited in own account or expenses routed through Client Bank Account or own money deposited in client account) Non segregation of client and own money	<p>a) In excess of 2% and up to 5 % of number of instances - Rs.25,000/-</p> <p>b) In excess of 5% and up to 10% of number of instances - Rs.50,000/-</p> <p>c) In excess of 10% of number of instances - Rs.75,000/-</p> <p>d) Otherwise: Advice</p>	<ul style="list-style-type: none"> ➤ If Monetary Penalty is levied - Increase penalty amount by 50% ➤ If Advice is levied - Warning
10	Member has not maintained a daily reconciliation clearly indicating the reason for fund transfer among client bank, settlement and own bank	Advice	Warning

	account		
11	Segregation of Exchange-wise client ledgers not maintained	Rs.50,000/-	Increase penalty amount by 50%
12	Bank and demat account operations: Separate clients bank or demat account not maintained (as applicable)	Rs.1 Lac and direction to open separate account within 1 month	Increase penalty amount by 50%
13	Failure to report new bank and demat accounts opened by the stockbroker to exchanges within the time specified for reporting of such accounts.	Penalty of Rs.5,000/- per annum and warning to be issued to stock broker and direction to report such details to the Exchange.	
14	Failure to assign appropriate Bank and Demat nomenclature within the time specified	Penalty Charges of Rs.5,000/- per annum and warning to be issued to stockbroker and direction to assign appropriate nomenclature and intimate such details to the Exchange.	Increase penalty amount by 50%
15	Non-closure of bank account named as "Stock Broker - Client Account" in excess of 30 by December 31, 2020	<p>a) Rs. 20,000/- per account and Total maximum penalty capped to Rs. 100,000/- if the excess client bank accounts are not closed.</p> <p>b) Non-closure of client bank account within 8 days from the date of levying penalty as per point 1 above - Member will not be allowed to register any new clients in Exchange UCC database. Registration of new clients will be allowed only after closure of excess client bank accounts.</p>	Increase penalty amount by 50%

		<p>c) Non-closure of client bank account within 15 days from the date of levying penalty as per point 1 above - Letter for disablement (suspended square off mode) giving 15 days' notice will be sent.</p> <p>Member to be disabled (suspended square off mode) in all Exchanges in case account is not closed within 15 days from the notice.</p>	
16	Dealing with unregistered intermediaries	<p>Rs.1,00,000/- per unregistered intermediary ; Also Member to be directed to stop all dealings with such unregistered intermediaries and to withdraw the terminal(s), if any, allotted to such entities immediately. In addition to monetary penalty, suspension of the trading membership may also be considered, depending upon the gravity of the violation, in case where dealings with more than 5 unregistered intermediaries (in cash segment) and / or intermediaries (in Derivative segment) are observed.</p>	Increase penalty amount by 50%
17	Member is doing Portfolio Management Services (PMS) without requisite registration with SEBI	<p>Warning letter to be issued + No registration of new clients</p> <p>If PMS business continued beyond 6 months then a penalty of minimum Rs.1 lac per case</p>	
18	Non-display of Brokerage, Statutory & Regulatory Levies on Internet Based Trading	Monetary penalty of Rs. 50,000/- and Direction to comply with the requirement of	

	(IBT) / Wireless Trading (WT) applications	<p>displaying the Brokerage, Statutory & Regulatory Levies within 7 days from the date of communication.</p> <p>In case of non-submission of compliance within 7 days of such direction, new client registration to be prohibited and notice of 7 days for disablement of trading facility till submission of compliance report.</p> <p>In case of non-submission of compliance report within 7 days of the date of the notice, the Trading Member shall be disabled in all segments till submission of compliance report.</p>	
19	Funding to clients (as defined in the Enhanced Supervision circular)	<p>a) Where non-compliance is observed in more than 5% instances or amount exceeds Rs.1 crore - Rs. 50,000/-</p> <p>b) Where non-compliance is upto 5% and amount is upto Rs.1 crore - Advice</p>	<p>Where non-compliance is observed in</p> <ul style="list-style-type: none"> ➤ more than 5% instances or amount exceeds Rs.1 crore - 2nd time - 50% escalation ➤ If less than 5% of instance and amount is up to Rs. 1 crore - 2nd time - Warning
20	Facilitating financing to clients through NBFC in contravention of SEBI circular	Rs. 5 Lacs	50% escalation + No New Clients till such activity is discontinued
21	Submission of information for inspection a) Non co-operation in providing data/records/documents to inspecting officials for inspection resulting in non-completion of inspection.	a) Monetary penalty of Rs.1 lac, besides not allowing member to trade till the time of completion of inspection/Surrender/Declaration as default/Expulsion.	In addition to penalty, disablement /suspension of the trading terminals of the member in all segment

	<p>b) Delay in submission of documents/data/records sought for inspection</p> <p>c) Wrong/incorrect submission of data towards Inspection</p>	<p>b) Rs. 1,000 per day starting from final due date for submission of data / records /documents sought for inspection.</p> <p>c) Penalty of Rs.1 lac.</p>	
22	<p>Inspection of sub-brokers / APs/ branches not done / Inspection report of sub-brokers/APs & branches not made available to the inspecting team (as applicable)</p>	<p>Rs. 50,000/-</p>	<p>Increase penalty amount by 50%</p>
23	<p>Unauthorized extension of NEXTRA/ TWS/ NEAT/BSE Trading terminal / Non-upload of CTCL/BSE Trading terminals to the Exchange (As applicable) / Location of terminal at a place other than main / branch office and the location of the offices of registered sub brokers / authorized persons of the member not uploaded to Exchange</p>	<p>Rs.1 Lac per location</p> <p>In cases where non-upload of details of more than five CTCL terminals are observed and such CTCL terminals are also observed to be operated by entities acting as unregistered intermediaries in the CM segment or as intermediaries in the F&O segment and / or such terminals are observed to be used for carrying out illegal trading activity, suspension of the trading membership may also be considered depending upon the gravity of the violation</p>	<p>Increase penalty amount by 50%</p>
24	<p>Unauthorized trading determined by IGRP / Arbitration when there is no appeal Unauthorized or Illegal trading activities / fictitious transactions</p>	<p>a) Monetary fine of Rs.1 lac</p> <p>b) 50% escalation in case of 3 cases of unauthorized trading in the same FY.</p> <p>c) In case of 4 cases or more in the same FY - In addition to the above penalty, registration of</p>	<p>Increase penalty amount by 50% (if not specifically stated)</p>

		new client & APs to be disallowed for 1 month.	
25	Cash dealings with clients/ other entities	10% of the amount of cash dealing or Rs.1,000/- whichever is higher.	50% escalation
26	Non-appointment of compliance officer	Rs.50,000/-	Increase penalty amount by 50%
27	Non Appointment of Principal Officer /Designated Director/ Non Intimation of Designated Director or change of Principal officer to FIU Delhi	Report to FIU	
28	Clients' securities lying with the TM/CM cannot be pledged to the Banks/NBFCs or any other persons/entities for raising funds	Rs.1,00,000/- or 1% of the value of securities involved, whichever is higher. Direction to be given to unpledge the securities within 10 calendar days failing which trading facility to be withdrawn.	
29	The client's securities which have been unpledged but are not returned to the clients upon fulfilment of pay-in obligation or disposed off after giving notice of 5 days to the client.	Rs.50,000/- or 0.5% of the value of securities involved, whichever is higher.	
30	Non execution of client registration documents	Rs.15,000/- per client	Increase penalty amount by 50%
31	Client registration documents Not provided / Not made available to the Exchange	Rs.15,000/- per client	Increase penalty amount by 50%
32	Inclusion of contravening clauses / omission of material details	a) Violation for critical clauses - Rs.25,000/- b) Other procedural clauses – Rs.10,000/-	Increase penalty amount by 50%

33	Material Discrepancies (viz. Photograph not provided, No signature, No Pan Card details, No Proof of Address/Identity provided) in Client registration documents	Rs.10,000/- per client Otherwise Advice	<ul style="list-style-type: none"> ➤ If Monetary Penalty is levied - Increase penalty amount by 50% ➤ If Advice is levied - Warning
34	In-person verification of clients not carried out	Rs.1,000/- per client	Increase penalty amount by 50%
35	Delay in uploading KYC information to KRA / other procedural observations related to KRA process	Rs.3,000/- for more than 20% of instances Otherwise Advice	<ul style="list-style-type: none"> ➤ 50% escalation ➤ If Advice is levied - Warning
36	Not uploaded KYC information to KRA/CKYC within prescribed time frame	Rs.5,000/- for more than 20% of instances Otherwise Advice	<ul style="list-style-type: none"> ➤ 50% escalation ➤ If Advice is levied - Warning
37	More than one ID to a client	Rs.10,000/- per ID	Increase penalty amount by 50%
38	Non-maintenance of client code/non mapping of trading code.	Rs.10,000/- per client	50% escalation
39	Generation of email IDs for clients by member.	Rs.15,000/- per client	Increase penalty amount by 50%
40	Running account authorization taken by trading member from client is not dated and does not contain a clause that the client may revoke the authorization any time/ Running account authorization not signed by client but by POA holder / Other discrepancies in running account authorization from clients.	a) Up to 5 instances: Advice b) More than 5 instances Rs.10,000/-	<ul style="list-style-type: none"> ➤ 50% escalation ➤ If Advice is levied - Warning

41	Copy of client registration documents not delivered / Client Code and mail id not communicated in writing / policies & procedures not communicated to clients / RDD not issued to clients / incomplete (as applicable)	<p>a) In excess of 2% and up to 5% of number of instances - Rs.15,000/-</p> <p>b) In excess of 5% and up to 10% of number of instances - Rs.45,000/-</p> <p>c) In excess of 10% of number of instances - Rs.75,000/-</p> <p>d) Otherwise - Advice</p>	<p>➤ 50% escalation</p> <p>➤ If Advice is levied - Warning</p>
42	Non-disclosure of trading on own account to clients	Warning	Rs.10,000/-
43	<p>a) Trading member has not uploaded mobile number/ email address for clients for receiving alerts / Trade details</p> <p>b) Same email id / mobile number is uploaded for multiple clients (Not applicable for family members of clients. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents)</p>	Rs.1,000/- per client	50% escalation
44	Non - reporting of closure of Bank & Demat accounts to the Exchange within one week of its closure.	Penalty of Rs.5,000/- per annum and warning to be issued to Member and direction to report such details to the Exchange	50% escalation
45	Non-closure of existing client beneficiary accounts	Rs. 50,000/- per account (where Members are unable to provide reasonable explanation). Member to be disabled in all Exchanges in case account is not closed within one month of levy of penalty	

46	Not made available the facility for online closure of trading accounts and informed their clients regarding the availability of facility for online closure of trading accounts and its guidelines through emails, SMS, weekly / fortnightly / monthly newsletters etc.	Warning	Rs.10,000/-
47	Member has not implemented geo-location tagging guidelines for online KYC.	Advice	
48	Non display of mandatory KYC documents in vernacular languages on website and / or copy of same not provided to clients on their request.	Advice	
49	Mismatch of UCC details as compared to KYC of client or incorrect details uploaded in UCC database uploaded by the member.	a) Material discrepancy observed - minimum Rs. 10,000/- and for multiple clients (more than 20) maximum of Rs.1,00,000/- b) For others (other fields in the UCC) - Advice/ Warning. (Material discrepancy : State incorrect, Pincode incorrect, Name incorrect, PAN incorrect)	
50	Non adherence to SEBI directives on use of technology w.r.t.: - eSign - Online AOF - KYC and IPV	Advice	Warning

51	In case of submission Aadhaar card as a proof during client registration, member have not adhered to the Exchange guidelines that includes: a. consent letter b. Aadhaar card number should be redacted or blacked out	Advice	Warning
52	Clients wherein no trades have been carried out since last 12 (Twelve) months across all exchanges are not marked as inactive (i.e. 'S' on NCDEX)	Advice	Warning
53	Member has no process to check the list of the permanently disconnected mobile numbers made available by TRAI on a monthly basis. In case any mobile number appearing in the list is pertaining to your existing clients, member is required to update the new mobile number in their back office records as well as in UCC database of the Exchange for the respective client immediately, so that all the relevant messages meant to be disseminated to the respective clients are delivered without any issue.	Advice	Warning
54	Non-obtainment of board resolution permitting trading in derivatives, from non-individual constituents	a) Up to 5 Instances : Advice b) More than 5 Instances : Rs. 500/- Per default (maximum of Rs.5,000/-)	

55	Member has not displayed SCORES details on their Account Opening Kit.	Advice	
56	Error account (UCC - Pro account) not created by member as per its error code policy	Advice	Warning
57	Choice of nomination is not opted in case of existing trading account	Advice	Warning
58	Register of Securities not in the prescribed format (as applicable)	Rs.25,000/-	Increase penalty amount by 50%
59	Discrepancies / Incorrect details in Register of Securities, non-reconciliation of balances between client beneficiary accounts and register of securities (as applicable)	Rs.25,000/-	Increase penalty amount by 50%
60	Client ledger not maintained properly (i.e. incomplete/ erroneous/ delay in entries)	Rs.25,000/-	Increase penalty amount by 50%
61	Non-maintenance of 1. Client ledger 2. Register of Securities (Client wise scrip wise Register) (as applicable)	Rs.1 Lac + Direction to comply	Increase penalty amount by 50%

62	<p>Non adoption / Maintenance of following policies as per the regulatory requirements (as applicable):</p> <ul style="list-style-type: none"> i. Policy regarding pre-funded instrument ii. policy to handle client code modification iii. risk management policy iv. managing conflict of interest v. assessment of activities outsourced vi. Policy on applicability of NISM Series VII-SORM certification. (As applicable) vii. Surveillance policy viii. Policy for Inactive Clients 	Rs.2,000/- per policy	Increase penalty amount by 50%
63	<p>Books (Except Client ledger) not maintained including:</p> <ul style="list-style-type: none"> i) General Ledgers , ii) Journals, iii) Cash and Bank Book, iv) Margin Deposit details, v) Dividend Records, and vi) Brokerage Records vii) Register of complaints viii) Register of transaction ix) Register of account of sub broker / AP x) Register of commodity (as applicable) 	Rs.25,000/- per book	Increase penalty amount by 50%
64	Books (Except Client ledger) not maintained properly (i.e. incomplete/ erroneous/ delay	Rs.10,000/- per book	Increase penalty amount by 50%

	in entries) including: i)General Ledgers , ii)Journals, iii) Cash and Bank Book, iv)Margin Deposit details, v)Dividend Records, and vi)Brokerage Records vii) Register of complaints viii) Register of transaction ix) Register of account of sub broker / AP (as applicable)		
65	Narration / description of transactions not mentioned properly in Bank Books.	Advice	
66	Non-maintenance of up to date bank reconciliation	Advice	Warning
67	Non-reconciliation of funds lying in Suspense Accounts	Warning + Park Funds in a separate Fixed Deposit	Warning + Park Funds in a separate Fixed Deposit
68	Member has maintained bank Accounts with the Banks other than Clearing Banks or Scheduled Banks unless a written confirmation received from banks agreeing to submit the Day wise & Account No. wise details with the exchange.	Advice	Warning
69	Non-maintenance of vouchers (entries being directly posted to ledgers)	a) Up to 2 instances: Advice b) More than 2 instances: Warning	
70	Stockbroker had not preserved the specified books of account and other records for a minimum period of five years.	Warning	Rs.5,000/-
71	Non-issue of Contract Notes	Rs.10,000/- per client	Increase penalty amount by 50%

72	Contract Notes Issued with material discrepancies / Duplicates or copies or proof of dispatch of contract notes not maintained/ / Not issued 24 hours of transaction execution/ Not signed by authorized signatory.	<p>a) In excess of 2% and up to 5% of number of instances – Rs.15,000/-</p> <p>b) In excess of 5% and up to 10% of number of instances - Rs.45,000/-</p> <p>c) In excess of 10% of number of instances – Rs.75,000/-</p> <p>d) In excess of 20% of number of instances - Rs.1,00,000/-</p>	Increase penalty amount by 50%
73	ECN Log report not maintained in case of bounced back mails, ECN's sent to Email accounts other than those created / provided by clients, authorization for receiving ECN is not signed by the client but by the POA holder, e-mail ID for receiving ECN not created / provided by client / Consent of client not obtained for sending ECN	<p>a) In excess of 2% and up to 5% of number of instances – Rs.15,000/-</p> <p>b) In excess of 5% and up to 10% of number of instances – Rs.45,000/-</p> <p>c) In excess of 10% of number of instances – Rs.75,000/-</p> <p>d) In excess of 20% of number of instances – Rs.1,00,000/-</p>	Increase penalty amount by 50%
74	Non display of ECN on website	Advice	Warning
75	Daily Margin statement not sent	<p>a) In excess of 2% and up to 5% of number of instances – Rs.15,000/-</p> <p>b) In excess of 5% and up to 10% of number of instances – Rs.45,000/-</p> <p>c) In excess of 10% of number of instances – Rs.75,000/-</p> <p>d) Otherwise Advice</p>	<p>➤ Increase penalty amount by 50%</p> <p>➤ If Advice - Warning</p>

76	Delay in issue of Daily margin statement/ issued incorrect Daily margin statement	Advice	Warning
77	Non-issuance/ Delay in issuance of annual global statement to clients	Warning / Advice	Rs. 10,000/-
78	Contract note issued otherwise than in format prescribed by the Exchange	Advice	Warning
79	Operation of terminals by persons other than the approved user / person as per Exchange records	Rs.1,500/- per terminal	Increase penalty amount by 50%
80	Allowing trading terminals to be operated where certificate has expired (as applicable)	Rs.1,500/- per terminal	Increase penalty amount by 50%
81	Non-upload of non-trading id's (Id's that cannot be used for trading)	Advice	Warning
82	Minor Errors like difference in User details / Status of terminals in upload of CTCL/Trading terminal details / Upload of CTCL/BSE Trading Terminal (as applicable) details with incorrect terminal location (Non-Trading ids to be excluded while levying fine)	a) Up to 5 trading terminals- Rs. 1,000/- per terminal b) More than 5 trading terminals- Rs.5,000/- per terminal.	Increase penalty amount by 50%
83	Modification/Transfer of trades otherwise than on the Exchange trading platform or for purposes other than permitted	In excess of 5% of value (turnover). Penalty of 2% of value (turnover) modified, Otherwise a fine of 1% of value (turnover) modified	Increase penalty amount by 50% (if not specifically stated)
84	Trades in the error account are subsequently shifted to some other client code	In excess of 5% of value (turnover) - Penalty of 2% of value (turnover) modified, Otherwise a fine of 1% of value (turnover) modified	Increase penalty amount by 50% (if not specifically stated)

85	Transfer of trades otherwise than for genuine purpose	0.1% of value of trades modified for other than genuine purpose (over and above SEBI stipulated penalty for online modification)	Increase penalty amount by 50% (if not specifically stated)
86	Non-maintenance of Trading (TWS)reports	a) Up to 5 instances : Advice, b) More than 5 Instances : Rs. 1000/-	
87	Difference in trade rate as per the TWS system and the rate charged	Excess amount to be returned to the client and fine equal to twice the excess amount charged or Rs.25,000/- whichever is higher, to be levied on the member	
88	Member does not have appropriate systems in place to monitor, review trading terminals mapped to its branches/AP	Rs.1,000/- per terminal + Direction to place appropriate systems to monitor, review trading terminals mapped to its branches/AP	50% escalation
89	Incorrect submission of RBS (as applicable)	Penalty of Rs.10,000/-.	50% escalation
90	Non maintenance of Written Policy and Procedures relating to PMLA	Report to FIU	
91	Non-Implementation of systems in place to monitor, identify suspicious transaction and procedures for reporting the same	Report to FIU	
92	Non Adoption of customer due diligence	Report to FIU	
93	Financial information of clients not obtained / updated / documentary evidence related to financial information not obtained in case of clients trading in derivatives segment	Report to FIU	

94	Non Maintenance of records regarding ongoing training to staff relating to PMLA	Report to FIU	
95	Disproportionate Exposure	Report to FIU	
96	Any other observation /violation which is required as per PMLA and not covered above	Report to FIU	
97	AML policy has not been updated to reflect recent changes	Report to FIU	
98	Members has to complete the registration process on FINNET Gateway Portal and submit the details of registration with Financial Intelligence Unit - India (FIU-IND) to the Exchange.	Report to FIU	
99	Incomplete / Non display of details by member viz, Notice Board/name, its logo, registration no, address with telephone no, compliance officer name, telephone no, email id, SEBI Registration certificate/ AP Registration certificate and other prescribed details	Rs.10,000/-	Increase penalty amount by 50%
100	Exclusive e-mail id for investors' complaints not created or not displayed	a) Rs.10,000/- if email ID not created b) Rs.5,000/- if email ID not displayed	Increase penalty amount by 50%
101	NEFT/ RTGS not implemented	Advice	Warning
102	Execution of trades on own account from locations other than those permitted by the Exchange	Rs. 15,000/-	Increase penalty amount by 50%
103	Pledging statement not sent	Advice	Warning

104	Delay in release of payout of funds or securities (beyond one working day) or commodities	<p>a) up to 5% of number of instances – Rs.15,000/-</p> <p>b) In excess of 5% and up to 10% of number of instances – Rs.45,000/-</p> <p>c) In excess of 10% of number of instances – Rs.75,000/-</p> <p>d) In excess of 20% of number of instances – Rs.1,00,000/-</p>	Increase penalty amount by 50%
105	Delay in payment of funds to clients / Delay in transfer of commodities to clients beyond 3 days from the date of receipt of request from the clients	Rs. 50,000/- or 1% of the value of the amounts/ commodities, per instance.	Increase penalty amount by 50%
106	Delayed / non-payment of dividend	<p>Non-payment of dividend – 2 times the amount of dividend not paid.</p> <p>Delay in payment</p> <p>a) Up to Rs.1 lac- Warning</p> <p>b) Rs.1 lac to Rs.5 lacs- 1% of the amount involved</p> <p>c) Above Rs.5 lacs- 2% of the amount involved</p>	<p>➤ Increase penalty amount by 50%</p> <p>➤ If Warning - Increase penalty by Rs.5,000/-</p>
107	Non-payment of statutory dues/duties/fees etc.	Advice	Warning

108	Electronic transfers from clients not as per specified guidelines/Supporting documents/audit trail for pre-funded instruments not maintained (as applicable)	<p>a) In excess of 2% and upto 5% of no. of instances - Rs 15,000/-</p> <p>b) In excess of 5% and upto 10% of no. of instances - Rs 45,000/-</p> <p>c) In excess of 10% of no. of instances - Rs 75,000/-</p> <p>d) Upto 2% of no. of instances – Advice</p>	<p>➤ 50% escalation</p> <p>➤ If Advice is levied - Warning</p>
109	Not following the advertisement code of the Exchange	Rs. 50,000/-	
110	Trading member has outsourced activities in violation of SEBI prescribed rules	To be decided on a case to case basis based on nature of non-compliances	To be decided on a case to case basis based on nature of non-compliances
111	Excess payout has been given to the clients than the available ledger/securities balance	Advice	
112	Non maintenance of evidence of client placing / modifying / cancelling orders either written or electronic or voice recording	Rs.10,000/- + Direction to comply with the requirement of keeping appropriate evidence for orders placed by client within 30 days from the date of communication	Rs.20,000/- + Direction to comply with the requirement of keeping appropriate evidence for orders placed by client within 30 days from the date of communication
113	Member has not maintained pre order confirmation of trades (appropriate evidence for orders placed by client)	Advice + Direction to comply with the requirement of keeping appropriate evidence for orders placed by client within 30 days from the date of communication	Warning + Direction to comply with the requirement of keeping appropriate evidence for orders placed by client within 30 days from the date of communication

114	<p>“Client unpaid securities pledgee account”, is not opened by TM/CM as per SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated November 11, 2022 and all the existing “client unpaid securities accounts” are not wound up on or before April 15, 2023. The securities lying in “client unpaid securities accounts” were not disposed off in the market or transferred to the client’s demat account by the TM/CM accordingly.</p>	0.25% of the value of securities transferred	50% escalation
115	<p>Policy regarding treatment of inactive accounts not covering aspects of time period, return of client assets and procedure for reactivation of the same and has also not displayed the same on its web site, if any.</p> <p>In case of account reactivation, there are no adequate mechanisms in place to ensure that:</p> <ol style="list-style-type: none"> 1. Account is operated by the relevant client only and 2. Updated information related to KYC (if any) has been obtained from client. 	Advice	

116	DDPI - Demat Debit and Pledge Instruction shall be executed only if client provides his/her explicit consent to authorise stock broker & Depository Participant to access their BO account for limited purpose of meeting the Pay-in obligation for settlement of trades executed by them.	Advice	Warning
117	DDPI - Demat Debit and Pledge Instruction shall be a part of Voluntary documents as mentioned in Annexure - 1 of SEBI circular CIR/MIRSD/16/2011	Advice	Warning
118	Non installation of antivirus software, which is capable to take care of operating systems and protect the networks	Advice	
119	Monitoring of quality of Internal Audit Reports Deviations are observed between the findings of the internal audit report and the Stock Exchange inspection report	a) Caution the stock broker to reconsider the appointment of that particular internal auditor. b) The same shall also be brought to notice of all the stock brokers who are audited by that particular internal auditor. c) The Stock Exchange shall also bring the deviations to the notice of the internal auditor.	
120	Member has passed on short reporting penalty related to Upfront Margin to its clients without providing any relevant supporting.	Warning / Advice + Direction to refund short reporting penalty charged to its clients	Rs. 5,000/-

121	Non-compliance of SEBI circular wrt to Maintenance of Website and displaying the mandated details on the website (as applicable) as on the due date prescribed by SEBI	<p>a) Warning Letter will be issued to the Trading Members by August 25, 2023.</p> <p>b) One time penalty of Rs. 5,000/- to be levied on failure to comply upto 1 month from issuance of warning letter</p> <p>c) Block fresh UCC registration On completion of 2 weeks from levy of onetime penalty</p> <p>d) Rs. 5,000/- : If the non-compliance observed during Trading Member Inspection.</p>	
122	Doing business for / through other TMs or sub-brokers of other TMs of the Exchange without prior approval of the Exchange With brokers / sub-brokers/ AP of other Exchanges without intimation	Rs.15,000/-	Increase penalty amount by 50%
123	Doing business with or for the trading members who are prohibited to transact, including suspended/expelled/defaulting trading member, defaulting constituents and employees of other trading members	Rs.5,000/-	
124	Sharing of brokerage with a person for or with whom members are forbidden to do business	<p>a) Up to 2 instances: Rs.2,500/-</p> <p>b) More than 2 instances: Rs.5,000/-</p>	
125	Dealing with a Member of another Exchange on behalf of constituents without necessary registration	<p>a) Up to 2 instances: Rs.2,500/- per instance</p> <p>b) More than 2 instances:</p>	

		Rs.5,000/- per instance	
126	Dealing with one member of another exchange for proprietary trading without intimating the name of such member to the Exchange	a) One or Few Instances: Rs. 2,500/- per instance b) Multiple Instances: Rs.5,000/- per instance.	
127	Dealing with more than one member / Authorised Person of another exchange for proprietary trading	a) One or Few Instances : Rs. 2,500/- per instance b) Multiple Instances: Rs.5,000/- per instance.	
128	Dealing with brokers / AP of other Exchanges without intimation	Advice	Warning
129	Incorrect submission of information to the Exchange about the AP inspection	Advice	Warning
130	Delay in reporting of AP inspection to the Exchange	Advice	Warning
131	Member has not taken regular backup of data on the systems	Advice	
132	Member has not recovered long outstanding debit balances within 180 days based on sample verification as on March 31, 2021.	Advice	
133	Member has not submitted quarterly reports containing information on cyber-attacks and threats experienced and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities / threats that may be useful for other members within 15 days	Advice	

	from the end of each quarter.		
134	Member has not submitted the details of Artificial Intelligence (AI) & Machine Learning (ML) applications and systems in AI / ML Reporting Form within prescribed timelines	Advice	
135	Member has not submitted the status of the alerts forwarded to them on a quarterly basis to the Exchange in the prescribed format within 15 days from the last trading day of the respective quarter	Advice	
136	Change in Statutory Auditor not intimated to the Exchange	Advice	Warning

137	Member have not sensitize their investors and create investor awareness on fraudsters that are collecting data of customers who are already into trading on Exchanges and sending them bulk messages on the pretext of providing investment tips and luring them to invest with them in their bogus firms by promising huge profits. Members have not taken necessary steps to safeguards data of the customers / investors registered with them and/or have shared or revealed such data to unauthorized persons.	Advice	Warning
138	Transfer of membership to another entity pursuant to Amalgamation / Merger / Demerger or any other manner) without prior approval of the Exchange.	Rs. 50,000/- for instance where there is no change in control. For change in control Rs.100,000/-.	Penalty shall be levied along with escalation of 50%.
139	In case of Corporates / LLP / Partnership Firms where Member fails to intimate the change in the Registered office within 15 days from the date of filing in ROC/MCA/ROF. In case of Sole Proprietors / Individuals where member fails to intimate the change in Registered office within 15 days of such change.	Issue of warning letter.	

140	Non Compliance of NISM III A Certification for Compliance Officer	<p>a) Warning be issued to member to ensure compliance and submit valid NISM certificate to the Exchange within 3 months from the date of issue of Warning letter. Thereafter, from the subsequent month a flat penalty of Rs.5000/- for a period of another 3 months shall be levied.</p> <p>b) If non-compliance continues beyond 3 months, then Rs.5,000/- per month till the month (including the month in which the valid submission is done) of submission of valid NISM certificate for Compliance Officer.</p>	
141	Non-adherence of training programme to all compliance officers including new appointment	Advisory letter will be issued to the Trading Members	
142	Delay / no intimation of change in compliance officer	Advice will be given to the Trading member	
143	Non-submission/incorrect submission of PAN of Key Managerial Personnel (KMPs)/Directors/dealers etc. within the time specified	Penalty Charges of Rs.5,000/- per annum and warning to be issued to member	

144	Excess STT/CTT charges recovered from the clients	<p>a) If amount involved is less than Rs.10,000 + TM to be directed to refund to clients/remit to relevant authorities and fine equal to Rs.25,000/- and</p> <p>b) If amount involved is more than Rs.10,000/- Rs. 1 Lac Penalty + refund to clients/remit to relevant authorities</p>	Increase penalty amount by 50%
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145	Excess brokerage /Transaction Charges recovered from the clients/ Levy of charges other than statutory / regulatory dues in contract notes	Amount of excess charges or Rs.1 lac whichever is less + refund to clients	Increase penalty amount by 50%
146	Commodities due to one client transferred to other clients	<p>a) Up to 2 instances: Rs.2,500/-</p> <p>b) More than 2 instances: Rs.5,000/-</p>	
147	Penalty structure for Non-submission of undertaking/authorization to Exchange to access the information / statements pertaining to all bank accounts (maintained by members) from Banks	In case of non-submission of undertaking of new Bank Account to the Exchange - Rs.5,000 /-	50% escalation
148	Non adherence to Rule 8(1)(f) and 8(3)(f) of Securities Contract (Regulation) Rules, 1957, relating to fund based activities of brokers and in connection with / incidental to/consequential upon the securities business	To be decided on a case to case basis based on nature of non-compliances	

149	False/incorrect reporting of margins or non-reporting of margins by Trading Member in all segments	<p>Penalty structure is as per slabs as per circular NCDEX/COMPLIANCE-051/2019 dated December 19, 2019.</p> <p>Based on the slabs as per aforesaid circular, the penalty amount for the false/incorrect reporting of margin, shall be capped as under:</p> <p>a) Rs.15,00,000/- in case of violation by a Trading Member</p> <p>b) Rs.25,00,000/- in case of violation by a Clearing Member</p> <p>Along with the monetary penalty, the Member may also be subjected to suspension for one day in the respective</p>	
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		<p>segment in case of material instances.</p> <p>The false reporting shall be treated as material for the purpose of suspension, if it meets the all the following broad criteria:-</p> <p>a) Instances of false reporting is more than 5% of the instances verified (minimum 3 instances) during inspection, and</p> <p>b) Percentage of value of false reporting is more than 5% of total margin required to be collected for the instances verified during inspection, and</p> <p>c) Value of false reporting of margin is more than Rs.15 lacs.</p>	
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150	Failure to furnish Internal Audit report to Stock Exchanges for half year ending September 30th by November 30th and half year ending March 31st by May 31st.	<p>For Active Trading/Clearing Members (who are required to submit the internal audit report) Due time for submission: 2 Months</p> <p>a) For 1st month after due date, Fine of Rs. 200/- per day</p> <p>b) Charges of Rs.500/- per day from 2nd month after due date till date of submission or disablement 2 weeks' notice shall be given to the Member after the 3rd month from the due date, subsequent to which the Member shall be disabled (suspended square off mode) in all segments of the Exchange. The disablement notice issued to the Member shall be shared with all the Exchanges.</p>	
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151	Penal / Disciplinary Actions for Non / Late submission of data towards Cash and Cash Equivalents	<p>Disciplinary actions for late/non submission of 'Cash & Cash Equivalent Balances'</p> <p>a) Rs. 10,000 per day, in case of non-submission for second consecutive week, New client registration to be prohibited</p> <p>b) In case of non-submission for third consecutive week, Member shall be disabled (suspended square off mode) in all segments.</p> <p>Note: Late submission charges shall be levied only till the due date of next</p>	
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		submission cycle.	
152	Penal / Disciplinary Actions for Non / Late submission of holding statement	<p>Disciplinary actions for late/non submission of 'Holding statement'</p> <p>a) Rs.10,000 per day of delay</p> <p>b) In case of non-submission for second consecutive week, no new client registration to be allowed.</p> <p>c) In case of non-submission for third consecutive week, Member shall be disabled (suspended square off mode) in all segments and across all Exchanges.</p> <p>Note: Late submission charges shall be levied only till the due date of next submission cycle.</p>	

153	Non-submission / late submission of data towards monitoring of client funds (Including incomplete submission)	<p>Delay/non-submission in case of weekly submission:</p> <p>a) Submission within 10 calendar days from the due date – Rs.500/- per day</p> <p>b) Submission beyond 10 calendar days from the due date – Rs.1,000/- per day</p> <p>In case of non-submission for consecutive 4 weeks - New client registration to be restricted</p> <p>In case of non-submission for consecutive 8 weeks - 2 weeks' notice shall be given to the Member subsequent to which the Member shall be disabled (suspended square off mode) in all segments by the Exchange</p>	
154	Delayed/Non-submission of summary of settlement as per the prescribed format.	In case of non-submission of summary of settlement details within 2 trading days post settlement date or non-submission of UCC wise settlement details within 10 trading days post settlement date, penalty of Rs. 10,000 per day for each day of delay	

155	Delayed/Non-submission of UCC wise settlement details as per the prescribed format.	<p>a) In case of non-submission of summary of settlement details or UCC wise settlement details within one week from the due date of submission of UCC wise settlement details (i.e. 10 trading days post settlement date), new client registration to be prohibited. Further, a seven days' notice shall be given intimating disablement of trading facility (Suspended Square off mode) in the event of failure of the submission of data.</p> <p>b) In case of non-submission of summary of settlement</p>	
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		<p>details or UCC wise settlement details or both within two weeks from the due date of submission of UCC wise settlement details (i.e. 10 trading days post settlement date), Member shall be disabled (Suspended Square off mode) till submission of data.</p>	
156	Failure to submit data for the half yearly Risk Based Supervision within the time specified by Stock Exchange.	<p>a) For 1st week after due date, Charges of Rs. 2,500/- per day</p> <p>b) Charges of Rs. 5,000/- per day from second week after due date</p> <p>c) In case of non-submission within three weeks from the due date of submission, New client registration to be prohibited and notice of 7 days for disablement of trading</p>	<p>In case of a repeat instance by the Member, levy of applicable monetary penalty along with an escalation of 50%. In case of non-submission within three weeks from the due date of submission, New client registration to be prohibited and notice of 7 days for disablement of trading facility till submission of data/report.</p>

		<p>facility till submission of data/report. The disablement notice issued to the member shall be shared with all the Exchanges for information.</p> <p>d) In case of non-submission within four weeks from the due date of submission, Member shall be disabled in all segments till submission of data/report.</p>	<p>The disablement notice issued to the member shall be shared with all the Exchanges for information. In case of non-submission within four weeks from the due date of submission, Member shall be disabled in all segments till submission of data/report.</p>
157	Penalty for late submission of Holding and Bank statement submission on daily basis	Rs.1,000/- per day	<ul style="list-style-type: none"> ➤ continuous non submission for 6 reporting days – restriction of new client registration, ➤ continuous non submission for 12-reporting days - Terminal Disable (suspended square off mode)

Notes to above Annexure

Relevant Authority may consider following actions, as it deems fit, for repeated/serious violations:

- i. In addition to incremental penalty, Disablement of proprietary trading
- ii. Disallowing registration of new clients for a specific period of time
- iii. Disablement of trading terminal
- iv. Suspension
- v. Any other action, as deemed fit.

Incremental Penalties Structure

Applicable Penalty for repeat violations

Action in immediate previous inspection cycle	Escalation in action
Advise	Warning
Warning	Rs. 5000/-
Monetary Penalty	Increase penalty amount by 50%

Circular Reference:

Circular No: NCDEX/COMPLIANCE-111/2023 dated October 19, 2023.