NCDEX
Pragati ka Solid Exchange

NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange
Circular No. : NCDEX/COMPLIANCE-068/2023
Date : June 30, 2023
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 May 31, 2023 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a) anything done or any action taken or purported to have been done or taken under such revised/ rescinded process including but not limited to any regulatory inspection/ investigation or enquiry commenced or any disciplinary proceeding initiated or to be initiated under such rescinded/ revised process or rescission, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular;

b) the previous operation of the rescinded process or circular or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred thereunder, any penalty incurred in respect of any violation of such rescinded process or circulars, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded process or circulars have never been rescinded.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

Harvinder Singh
Vice President – Audit & Inspection

For further information, /clarifications, please contact
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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.

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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

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2. SIMPLIFICATION AND RATIONALIZATION OF CLIENT REGISTRATION PROCESS

As per SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 titled **Regulatory Framework for Commodity Derivatives Brokers** Members (Stock Broker) are required to continue to comply with regulatory requirements relating to client registrations.

2.1 SEBI has devised the uniform documentation to be followed by all the stock brokers/ trading members; a copy thereof to be provided by them to the clients. The details of such documents are listed below:

2.1.1 Index page listing all the documents contained in it and indicating briefly significance of each document: Annexure-7

2.1.2 Client Account Opening Form in two parts: (a) Mandatory and (b) Non-mandatory

(a) Mandatory Documents:

2.1.2.1.1 Know Your Client (KYC) form capturing the basic information about the client and instruction/check list to fill up the form:

The KYC template finalised by Central Registry of Securitization and Asset Reconstruction and Security interest of India (CERSAI) and as specified by SEBI through various circulars issued from time to time, shall be used by the registered intermediaries as Part I of AOF for individuals and legal entities.

2.1.2.1.2 Document capturing additional information about the client related to trading account: Annexure-8

(b) Non-mandatory Documents

Any term or condition other than those stated in the mandatory part shall form part of non-mandatory documents.

2.1.3 Document stating the Rights & Obligations of stock broker, and client for trading on exchanges (including additional rights & obligations in case of internet/ wireless technology based trading): Annexure-9

2.1.4 Uniform Risk Disclosure Documents (for all segments/ exchanges): Annexure-10

2.1.5 Guidance Note detailing with Do's and Don'ts for trading on exchanges: Annexure-11

2.2 The Client shall indicate the Exchange as well as the market segment where he/they intends the trades to be executed. He/they shall do so in the KYC form in his own hand and sign against these.

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2.3 The KYC form shall capture the identity and address of the introducer instead of his MAPIN/UID. The KYC form shall be modified to this extent.

2.4 The member shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment. In respect of other clients, the member shall obtain the documents in accordance with its risk management system.

2.5 The Member shall also capture details of action taken against a client by SEBI or other authorities during the last 3 years.

2.6 There shall be a mandatory document dealing with policies and procedures for each of the following under appropriate headings:

i. refusal of orders for penny stocks,
ii. setting up client's exposure limits,
iii. applicable brokerage rate,
iv. imposition of penalty/delayed payment charges by either party, specifying the rate and the period (This must not result in funding by the member in contravention of the applicable laws),
v. the right to sell clients' securities/commodities or close client's' positions, without giving notice to the client, on account of non-payment of client's dues (This shall be limited to the extent of settlement/margin obligation),
vi. shortages in obligations arising out of internal netting of trades,
vii. conditions under which a client may not be allowed to take further position or the member may close the existing position of a client,
viii. temporarily suspending or closing a client's account at the client's request, and
ix. Deregistering a client.

2.7 In the account opening process, the stock brokers/ trading members would also give the following useful information to the clients:

2.7.1 A tariff sheet specifying various charges, including brokerage, payable by the client, to avoid any dispute at a later date. List of documents which are voluntary/non-mandatory in nature.

2.7.2 Information on contact details of senior officials and the Investor grievance cell of the Member, so that the client can approach them in case of any grievance.

2.8 The client will now be required to sign only on one document i.e. Account Opening Form. Further, in the same form, the client shall continue to put his signatures instead of saying 'yes' or 'tick mark' while indicating preferences for trading in different exchanges/ segments, in accordance with existing requirements. However, in case the investor wants to avail Running Account facility, execute Power of Attorney, Demat Debit and Pledge Instruction **27** etc., he would have to give specific authorization to the stock broker in order to avoid any dispute in the future.

2.9 Stock Broker shall make available these standard documents to the clients, either in electronic or physical form, depending upon the preference of the client as part of account opening kit. The

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preference of the client shall be sought as part of the account opening form. In case the documents are made available in electronic form, stock broker shall maintain logs of the same.

2.10 Stock Exchanges/ stock brokers shall continue to make the documents mentioned in para 2.1.3 to 2.1.5 above, available on their website and keep the clients informed about the same.

2.11 It may be noted that any voluntary clause/ document added by the stock brokers shall form part of the non-mandatory documents. The stock broker shall ensure that any voluntary clause/document shall neither dilute the responsibility of the stock broker nor it shall be in conflict with any of the clauses in the mandatory documents, Rules, Bye-laws, Regulations, Notices, Guidelines and Circulars issued by SEBI and the Exchanges from time to time. Any such clause introduced in the existing as well as new documents shall stand null and void.

2.12 Any authorization sought in non-mandatory part shall be a separate document and shall have specific consent of the client

2.13 **General Conditions**

2.13.1. All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.

2.13.2. A copy of all the documents executed by client shall be given to the client, free of charge, within 7 days from the date of execution of documents by the client. The member shall take client’s acknowledgement for receipt of the same.

2.13.3. The members having own web-sites shall display all the documents executed by a client, client’s position, margin and other related information, statement of accounts, etc. in the web-site and allow secured access by way of client-specific user id and password.

2.13.4. No term of the agreement, other than those prescribed by SEBI, shall be changed without the consent of the client. Such change needs to be preceded by a notice of 15 days.

2.13.5. The member shall frame the policy regarding treatment of inactive accounts which should, inter-alia, cover aspects of time period, return of client assets and procedure for reactivation of the same. It shall display the same on its web site, if any.

2.13.6. As on 31st March of every year, a statement of balance of Funds and Securities in hard form and signed by the member shall be sent to all the clients.

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3. **SETTLEMENT OF RUNNING ACCOUNT OF CLIENT FUNDS**

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 as on the date of settlement across all the Exchanges on *first Friday of the Quarter* (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan–Mar) for all the clients i.e., the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday 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 of every month. If first Friday 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.

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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.

Settlement details submissions to Stock Exchange:

Further, 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 as specified below:

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

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

Annexure 1 – Clarification on few data points in Settlement of Clients' Funds Submission Reporting Requirement

<u>Summary of settlement of clients' funds</u>

Sr. No	**Particulars**	**Description**
1	Settlement Date	Format: DD-MM-YYYY

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Sr. No	Particulars	Description
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

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- 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

4. 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:

4.1. 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.

4.2. 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.

4.3. 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.

5. 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.

5.1.1. 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.

5.1.2. 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.

5.1.3. 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.

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5.1.4. 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.

5.1.5. The member shall, at all times, have adequate internal controls to ensure the security/ authenticity of data uploaded.

5.1.6. 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.

5.1.7. 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.

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:

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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.

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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

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- 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 Digiocker/ 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 liveliness 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

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6. NOMINATION FOR ELIGIBLE TRADING AND DEMAT ACCOUNT

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

2) In this regard, Trading Members, shall activate new Trading accounts, only upon receipt of above formats.

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.

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.

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.

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.

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) 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.

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.

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.

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Circular Reference:

- 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

7. **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.

7.1 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.

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

7.3 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

8. **REGULATION OF TRANSACTIONS BETWEEN CLIENTS AND BROKERS**

8.1 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.

8.1.1 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 –

a. the money received from or on account of each of his clients and

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b. the money received and money paid on Member's own account.

8.1.2 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).

8.1.3 What money to be paid into "clients account". No money shall be paid into clients account other than –

i. money held or received on account of clients;
ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;
iii. 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;
iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.

8.1.4 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.

8.1.5 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.

8.2 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: -

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8.2.1 Securities received for sale or kept pending delivery in the market;

8.2.2 Securities fully paid for, pending delivery to clients;

8.2.3 Securities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s);

8.2.4 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;

8.2.5 Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.;

8.3 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.

8.4 Member brokers shall issue the contract note for purchase/sale of securities to a client within 24 hours of the execution of the contract.

8.5 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.

8.6 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.

8.7 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.

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

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

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

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

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8.8.4 Record of return of collateral to client

8.8.5 Credit of corporate action benefits to clients

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

8.9 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.

8.10 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.

8.11 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.

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

9.1 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.

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

- Bank account(s) which hold clients' funds shall be named as **"Name of Stock Member - Client Account".**
- 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"**

9.3 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 on or before July 01, 2017.

- Demat account(s) which hold clients' securities shall be named as **"Name of Stock Member - Client Account".**

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- Demat account(s), which hold own securities of the stock broker, shall be named as **"Name of Stock Member - Proprietary Account".**
- Demat account(s), maintained by the stock broker for depositing securities collateral with the clearing corporation, shall be named as **"Name of Stock Broker - Collateral Account".**
- Demat account(s) held for the purpose of settlement would be named as **"Name of Stock Member - Pool account".**

It is however clarified that bank/ demat account which do not fall under the above categories would be deemed to be proprietary.

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".

10. **REPORTING OF BANK AND DEMAT ACCOUNTS MAINTAINED BY STOCK BROKER**

10.1 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

10.2 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

10.3 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.

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

10.4.1 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.

10.4.2 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.

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

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

10.5.2 Transfer of funds between "Name of Stock Broker - Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker - Client Account" 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.

10.5.3 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.

10.5.4 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.

10.6 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:

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

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

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

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

10.6.5 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)**	**Total Value (Adjusted for applicable haircut)**				

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

10.7 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.

10.8 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 “Name of Stock Broker - Client Account". 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 “Name of Stock Broker - Client Account” 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 “Name of Stock Broker - Client Account” by December 31, 2020.

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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 auditninspection@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.

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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 Reference:

- 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-024/2023 dated March 08, 2023.

11. 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.

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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).

11.1 Annexure A – Format for maintenance of Bank Book Ledger.
11.2 Annexure B – Format for maintenance of Client Fund Ledger.
11.3 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.

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

1. The uploading of the following data by the stock broker to the Stock Exchanges shall be on weekly basis i.e. stock brokers shall submit the 28 data as on last trading day of every week on or before the next three trading days. Further, the Stock Broker shall not be required to upload data with respect to custodian settled clients.
   -

   A- Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across Stock Exchanges.

   B- B- Aggregate value of collateral deposited with Clearing Corporation and/or clearing member (in cases where the trades are settled through clearing member) in form of Cash and Cash Equivalents (Fixed deposit (FD), Bank guarantee (BG), etc.) (across Stock Exchanges). Only funded portion of the BG, i. e. the amount deposited by stock broker with the bank to obtain the BG, shall be considered as part of B.

   C- Aggregate value of Credit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations).

   D- Aggregate value of Debit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients, uncleared cheques issued to clients and the margin obligations).

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E- Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the Clearing Corporation and/or clearing member (across Stock Exchanges).

F- Aggregate value of Non-funded part of the BG across Stock Exchanges.

P- Aggregate value of Proprietary Margin Obligation across Stock Exchanges.

MC- Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges.

MF- Aggregate value of Unutilized collateral lying with the Clearing Corporation and/or clearing member across Stock Exchanges.

2. The mechanism for monitoring of clients' funds lying with the stock brokers on the principles enumerated below:

   i. Funds of credit balance clients used for settlement obligation of debit clients or for own purpose:

      Principle: The total available funds i.e. cash and cash equivalents with the stock broker and with the Clearing Corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C).

      The difference i.e., G shall be calculated as follows – G = (A+B) - C

      If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate utilization of clients' funds for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes. The negative value of G acts as an alert to the Stock Exchanges.

      Thereafter, the absolute value of G shall be compared with debit balance of all clients as per client ledger D as follows:

      If the absolute value of (G) is lesser than |D|, then the stock broker has possibly utilised funds of credit balance clients towards settlement obligations of debit balance clients to the extent of value of G.
      If the absolute value of (G) is greater than |D|, then the stock broker has possibly utilised a part of funds of credit balance clients towards settlement obligations of debit balance clients and remaining part for his own purposes. In such cases the 30 amount of client funds used for own purpose is calculated as follows: H= |G|- |D|

   ii. Funds of clients used for Margin obligation of proprietary trading:
      Verifying whether the proprietary margin obligations (across Stock Exchanges) is less than the own funds and securities lying with the Stock Exchanges as collateral deposit, as follows:

      Principle: The sum of Proprietary funds and securities i.e. (G + E + F) lying with the Clearing Corporation/clearing member should be greater than or equal to Proprietary margin obligations (P).

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If value of G is positive (i.e. A+B > C), then proprietary funds are lying with the Clearing Corporation/clearing member and/or client bank accounts along with the clients funds to the extent of positive value of G.

The sum of the proprietary funds (positive value of G), the value of proprietary securities (E) and the non-funded portion of bank guarantee (F) available in the Stock Exchanges is compared with the Proprietary margin obligations (P).

If P > (G+E+F), then Stock Exchange shall calculate the difference I, which is the amount of proprietary margin obligation funded from clients assets.

$$I = P - (G+E+F)$$

If G is negative, then, value of G is considered as 0, as there is no proprietary funds lying with the Stock Exchange.

The value of I indicates the extent of funds and securities of clients which is possibly utilised towards proprietary margin 31 obligations. This value of I acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' assets towards proprietary margin obligations.

iii. Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:
Verifying whether the clients funds lying with the Clearing Corporation/clearing member are utilised towards margin obligations of debit balance clients and proprietary margin obligations.

Principle: The clients' funds lying with the Clearing Corporation/clearing member should be less than or equal to sum of credit clients' margin obligations (MC) and free collateral deposits available with the Clearing Corporation/clearing member (MF).

If value of G is negative (i.e. A+B < C), then fund lying with the Clearing Corporation/ clearing member (B) is entirely clients' fund. In such cases, B is compared with Margin obligations of credit balance clients and the free deposits available with the Clearing Corporation/ clearing member. The value of J is calculated as under:

$$J = B - (MC + MF)$$

If value of G is positive (i.e. A+B > C), then fund lying with the Clearing Corporation/clearing member (B) may contain proprietary and clients' fund. Hence, the value of clients funds lying with the Clearing Corporation/ clearing member i.e. (CA) shall be considered in the place of B.

In such cases, (C-A) is compared with Margin obligations of credit balance clients and the free deposits available with the Clearing Corporation/clearing member. The value of J, which is clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations, is calculated as under:

$$J = (C - A) - (MC + MF)$$

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The value of J, if positive, indicates the extent of clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations. This value of J acts as an alert on the possible misutilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.

iv. 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.

v. 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.

vi. Stock Brokers shall ensure due compliance in submitting the information to the Exchanges within the stipulated time.

Circular Reference:

- SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023.

TABLE 1

RECONCILIATION - Funds of credit balance clients used for settlement obligation of debit balance clients or for own purpose:

Funds Available in client bank accounts and cash/cash equivalent deposits with Clearing Corporation/ clearing member - across all Stock Exchanges		Clients' Funds as per the client ledger across all Stock Exchanges	Difference	Calculate only if G is negative		
Total of end of the day balance in all Client Bank Accounts	Collateral deposited with Clearing Corporation/ clearing member in form of Cash and Cash Equivalents*	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques)		Total debit balance (after adjusting for open bills and uncleared cheques)	Amount of funds of one client used for another client	Amount of fund used for own purpose (only if absolute value G is greater than debit balance clients)
(A)	(B)	(C)	(G)= (A+B)-(C)	(D)	(G), if (G)<(D)	(H)=(G)-(D)

* Cash equivalents contains other components of collateral deposited by the stock broker, such as, FD, bank Guarantee etc. excluding the Non- cash component. If G is negative, then there is utilization of clients' funds for other purposes i.e. either funds of credit balance clients are being utilized for settlement

obligations of debit balance clients or for the stock brokers' own purposes. The difference has following two components:

Component I: Use of fund of one client for giving exposure to another client
Component II: Use of client fund for own purposes by stock broker

Amount of funds of one client used for settlement obligation another client = Total Debit balances of all Clients (after adjusting for open bills and uncleared cheques)

Misuse of client's fund for own purpose = Absolute value of G - Total Debit balances of all clients (after adjusting for open bills and uncleared cheques)

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TABLE 2

RECONCILIATION - Funds of clients used for Margin obligation of proprietary trading:

G(if positive) - own money	Value of Own Securities Deposited as Collateral with Clearing Corporation/ Clearing member - across all Stock Exchanges	Non funded portion of the Bank Guarantee (F) - across all Stock Exchanges	Proprietary margin Obligation across all Stock Exchanges	Difference
(G) (from the reconciliation stage I - positive value)	(E)	(F)	(P)	(I)=(P)-(G+E+F)

Proprietary Obligation mentioned in column (P) shall be the sum of cash margin obligations and derivative margin obligations for proprietary trading as on reporting day.

Table 3

RECONCILIATION - Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

Total of end of the day balance in all Client Bank Accounts across all Stock Exchanges	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques)- across all Stock Exchanges	Collateral deposited with Clearing Corporation/ clearing member in form of Cash and Cash Equivalents across all Stock Exchanges	Margin utilized for positions of Credit Balance Clients (all exchanges)	Free/unblocked Collateral deposited with Clearing Corporation/ clearing member (MF)	Difference
(A) (from the reconciliation stage 1 - positive value)	(C)	(B)	(MC)	(MF)	(B)-(MC+MF) or (C-A)-(MC+MF)

Circular Reference:

- SEBI Circular No. SMD/SED/CIR/93/23321 dated November 19, 1993
- SEBI Circular no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008
- Circular No. NCDEX/COMPLIANCE-015/2016/238 dated September 27, 2016
- Circular No. NCDEX/COMPLIANCE-016/2016/239 dated September 27, 2016
- Circular No. NCDEX/COMPLIANCE-024/2016/342 dated December 22, 2016

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- Circular No. NCDEX/COMPLIANCE-009/2017/156 dated June 23, 2017
- Circular No. NCDEX/COMPLIANCE-010/2017/167 dated July 4, 2017
- Circular No. NCDEX/COMPLIANCE-011/2017/182 dated July 26, 2017
- Circular No. NCDEX/COMPLIANCE-014/2017/241 dated September 25, 2017
- Circular No. NCDEX/COMPLIANCE-009/2018/087 dated April 02, 2018
- Circular No. NCDEX/COMPLIANCE-047/2021 dated October 21, 2021
- Circular No. NCDEX/COMPLIANCE-002/2022 dated January 05, 2022
- Circular No. NCDEX/COMPLIANCE-025/2023 dated March 10, 2023
- Circular No. NCDEX/COMPLIANCE-032/2023 dated March 28, 2023

13. 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:

13.1. Members shall be required to report details of Bank guarantee breakup on weekly basis.
13.2. 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.
13.3. 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.
13.4. 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.
13.5. 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.

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

Circular Reference:

- 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.

14. INTERNAL AUDIT OF STOCK BROKER

14.1. 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:

14.2. Appointment and Rotation of Internal auditors

14.2.1 Stock Exchanges shall ensure that;

14.2.1.1 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.

14.2.1.2 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 14.2.1.2 (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 14.2.1.2 (b) above, shall not be eligible for re-appointment as internal auditor for the same stock broker

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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.

14.3. 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.

14.4. Monitoring of quality of Internal Audit Reports

14.4.1 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.

14.4.2 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.

14.5. Submissions of Internal Audit Report

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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 30th	November 30th
2	For half year ending March 31st	May 31st

14.6. Other requirements

14.6.1 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.

14.6.2 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

15. MONITORING OF FINANCIAL STRENGTH OF MEMBERS

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

15.1.1 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.

15.1.2 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).

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d) (Value of maximum outstanding inter corporate debt during the year)/ (Share capital).

15.2 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.

15.2.1 No stock broker shall appoint or re-appoint-

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

15.2.1.2 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 15.2.1.1 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 15.2.1.2 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

16. 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.

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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.

17. 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.

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Annexure A

➢ Client's Fund and Security Balances details file

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

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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

18. 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.

19. 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:

			Due date for Submission of Reports		
Periodicity of System Audit (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 (October to March)	All Members using ATS Facility	Type of broker – III	May 31st	June 30th	August 31st
Annually (April to March)	Members having CTCL/ IBT/ STWT and presence in > 10 locations or have > 50 terminals	Type of broker – II	June 30th	August 31st	December 31st
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 30th	August 31st	December 31st
Half Yearly (April to September)	All Members using ATS Facility	Type of broker – III	November 30th	December 31st	February 28th or 29th

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)

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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.

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

Circular Reference:

- Circular No. NCDEX/TECHNOLOGY-021/2013/279 dated September 6, 2013
- Circular No. NCDEX/TECHNOLOGY-015/2016/125dated May 31, 2016
- Circular No. NCDEX/COMPLIANCE-009/2016/184 dated August 04, 2016
- Circular No. NCDEX/COMPLIANCE-010/2016/191dated 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.

20. **SUBMISSION OF BANK ACCOUNT BALANCES**

Based on the directives received from SEBI, Exchange has introduced weekly submission of 'Bank Account Balances' by the members of the Exchange.

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Format for the same is prepared in consultation with other exchanges and is given in Annexure below

With a view to enhance monitoring of client assets on continuous basis, it was decided to revise the frequency of submission of Bank Account Balances from weekly to daily and accordingly, members shall make the submission of Bank Account Balances for each day of the week (except Sunday) daily with effect from February 27, 2023 onwards.

Due date for submission of daily bank account balances shall be the subsequent day (except Sunday). Further members are requested to refer to Annexure for the format of submission of daily Bank Account balance.

A user manual is updated on the exchange website under download section for the convenience of the member.

All Members are advised to ensure compliance with the above regulatory requirements in order to avoid any penal / disciplinary actions.

Members are further advised to:

a. Ensure that the sum of client and settlement bank balance is matching with total of bank balance as provided in column A of weekly Client Fund Monitoring data.

b. 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.

c. Take stock of their bank accounts and close those accounts that are not required.

The circular has been made applicable with effect from February 27, 2023 onwards.

Annexure

Following are the file details:

File Name	NCDEX_<TMID>_BankBal_<Batch date in DDMMYYYY>
File Type	CSV

Downloaded template shall have following columns:

Column No.	Column Name	Description
1	Bank Account Number	Field to enter Bank Account Number

Column No.	Column Name	Description
		User shall be allowed to enter alphanumeric value
2	IFSC	Field to enter IFSC Code User shall be allowed to enter alphanumeric value
3	Bank Account Type (1-Client,2-Settlement, 3-Own, 4-Any other)	Field to enter Bank Account Type User shall be allowed to enter only 1 digit o For Client, it should be '1' o For Settlement, it should be '2' o For Own, it should be '3' o For Any Other, it should be '4'
4	<Batch date in DD-MM-YYYY format>	If user has selected batch date as February 06, 2023, then heading of this column shall be "06-02-2023". Field to enter the Bank Balance in rupees. Debit balance amount to be entered with negative sign. User shall be allowed to enter Numeric value upto 3 decimal places.

Note: All the columns in this table are mandatory.
The nomenclature of the file and headers would be prefilled which are not to be changed by the member. For eg. File for the Batch date 06-Feb-2023 will be prefilled with the following headers:

Bank Account Number	IFSC Code	Bank Account Type - (1-Client 2-Settlement 3-Own 4-Any other)	06-02-2023

The Exchange has decided to seek information/ statements pertaining to all Bank accounts maintained by members directly from Bank or through a financial technology solution provider authorised by the Exchange. Hence, all members are advised to submit Undertaking/Authorisation to the Exchange for accessing the information/statements pertaining to all bank accounts maintained by the members, opened/reported to the Exchange from time to time, from the concerned banks directly or through a financial technology solution provider authorised by the Exchange. The format of undertaking/authorisation is attached as Annexure A.

Further, members are advised to keep the Bank/s appropriately notified of the said authorisation to enable them to honor the instructions received from the Exchange. Trading members shall not be required to submit updated/ fresh undertaking/authorisation to the Exchange for any new bank account opened.

Scanned copy of the said undertaking/authorization can be mailed to auditninspection@ncdex.com and physical copy of the same to be sent to the registered office of the Exchange. Board Resolution for execution of the said undertaking/authorization and authorization for signing the same should be enclosed

along with the undertaking/authorization. Accordingly, all members are advised to submit the said undertaking/authorisation on or before February 01, 2021.

Annexure A

To be submitted on Member's Letterhead with Designated Director's signature and Stamp

UNDERTAKING/AUTHORISATION TO BE SUBMITTED BY TRADING MEMBERS

To National Commodity and Derivatives Exchange Limited (NCDEX)

This undertaking/authorization is provided on this ________day of _______, 2021.

By

I/We, _________ Member of National Commodity and Derivatives Exchange Limited (NCDEX) (bearing Trading Member Id. ………)
having office at ………………………………………………………………................................
(hereinafter referred to as "Member", which expression, unless repugnant to the context or meaning thereof, shall be deemed to include its successors and assigns).

In favour of:

National Commodity and Derivatives Exchange Limited (NCDEX), a company incorporated under the Companies Act, 1956 having its corporate office at Ackruti Corporate Park, 1st Floor, LBS Road, Kanjurmarg (West), Mumbai – 400 078 (hereinafter referred to as "NCDEX", which expression, unless repugnant to the context or meaning thereof, shall be deemed to include its successors and assigns).
I/We hereby solemnly declare that:
Whereas the National Commodity and Derivatives Exchange Limited (NCDEX) has issued circular dated January 08, 2021 on authorizing NCDEX to seek information/statement of all bank accounts maintained by members directly from Bank or through a financial technology solution provider authorised by the Exchange.

Now, in consideration of the above, I / We do hereby agree and authorize that:
1. National Commodity and Derivatives Exchange Limited (NCDEX) is empowered/authorized to seek any information/statement of all bank accounts (maintained by me/us), opened/reported to the Exchange from time to time, from the concerned banks directly or through a financial technology solution provider authorised by the Exchange.
2. This Undertaking/Authorization shall be binding on my / our successors, legal representatives and assigns.
3. I / We declare that representations made by me/us are true and correct.

Solemnly authorized at)
this ___ day of ______, 2021)
(Name of Designated Director)

(Name of Trading Member)
(with rubber stamp & SEBI Registration No.)
Note: Board Resolution for execution of the said undertaking/authorization and authorization for signing the same should be enclosed along with the document

Circular Reference:

- 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

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21. 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	**Penalty/Disciplinary Action**
Non-display of Brokerage, Statutory & Regulatory Levies on Internet Based Trading (IBT) / Wireless Trading (WT) applications	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. 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. 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.

Circular Reference:

- Circular No. NCDEX/COMPLIANCE-060/2022 dated September 30, 2022
- Circular No. NCDEX/COMPLIANCE-072/2022 dated December 08, 2022

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- Circular No. NCDEX/COMPLIANCE-075/2022 dated December 29, 2022
- Circular No. NCDEX/COMPLIANCE-029/2023 dated March 20, 2023

22. 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).

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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.

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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.

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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 MIIs.

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/MIIs 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

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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.

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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.

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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.

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.

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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/MIIs;

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.

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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.

Circular Reference:

- Circular No. NCDEX/COMPLIANCE-010/2023 dated February 07, 2023
- Circular No. NCDEX/COMPLIANCE-023/2023 dated March 06, 2023

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

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14	SHAREKHAN LTD.
15	ZERODHA BROKING LIMITED

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

23. **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.

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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.

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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

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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,

<table>
<tr><td>CONTRACT NOTE NO.</td><td></td><td></td><td>Name Of Exchange</td><td>Name Of Exchange</td><td>Name Of Exchange</td></tr>
<tr><td rowspan="2">TRADE DATE</td><td rowspan="2"></td><td>SETTLEMENT NO.</td><td></td><td></td><td></td></tr>
<tr><td>SETTLEMENT DATE</td><td></td><td></td><td></td></tr>
<tr><td>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)</td><td></td><td colspan="4">GIVE EXCHANGE-WISE SETTLEMENT NO. & DATES</td></tr>
</table>

	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:

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

24. 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.

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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

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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

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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

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25. 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/commoditiesin 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 themember 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.

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

viii. 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.

ix. 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.

x. 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 Reference:

- 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

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26. FRAMEWORK FOR SUPERVISION OF AUTHORIZED PERSONS (APS) & BRANCHES BY MEMBERS

a) 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.

b) 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.

c) 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.

27. 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.

28. 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.

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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.

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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:

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

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

This is with reference to the Exchange Circular no. NCDEX/COMPLIANCE-001/2019 dated January 07, 2019 issued on 'Reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by market intermediaries.'

The members are required to submit Artificial Intelligence (AI) and Machine Learning (ML) applications and systems details within 15 days from the end of calendar quarter.

The details are to be submitted through NCFE portal of the Exchange in below mentioned module:
Compliance AI/ML

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

1. A separate form (Annexure A) is required to be submitted for each of the AI / ML application and system in case of multiple AI / ML applications and systems as defined in Annexure B 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 by end of the calendar quarter and will remain open for next 15 days only. Members are, therefore, requested to submit details on or before due date i.e. within 15 days from the end of calendar quarter.

Members are advised to ensure compliance with the above requirements.

Annexure A - Form to report on AI and ML technologies – To be submitted quarterly
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

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		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>

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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

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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 Reference:

- 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

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30. **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 Reference:

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

31. **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

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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 Reference:

- 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

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32. **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'.

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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

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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

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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

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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.

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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 Reference:

- 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

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33. **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 Reference:

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

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34. 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 confirm to the guidelines prescribed in Annexure I and futures on commodity indices shall confirm to the product design given in Annexure II of the circular.

Circular Reference:

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

35. 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 Reference:

- 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

36. 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

37. 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

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38. **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

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39. **GUIDELINES FOR OUTSOURCING OF ACTIVITIES**

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.

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

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.

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.

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.

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.

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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.

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

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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;

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.

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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;

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

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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.

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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.

Reference:

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

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40. **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

41. 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.

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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%

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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 Reference:

- 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.

42. 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

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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”.

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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.

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.

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, 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;

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;

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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;

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 -

a) 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

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the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

aa) 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 25% 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 15% 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);

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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.

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;

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e) Politically Exposed Persons (PEP). PEP are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The additional norms applicable to PEP as contained in the subsequent paragraph 14 of this circular shall also be applied to the accounts of the family members or close relatives 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;

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.

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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.

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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;

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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.

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

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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

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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.

<u>Record Management Information to be maintained</u>

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.

<u>Record Keeping</u>

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;

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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.

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

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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).

List of Designated Individuals/ Entities

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.

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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.

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 it’s 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:

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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.

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 relatable to the scheduled offence.
Designation of officers for ensuring compliance with provisions of PMLA

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. As a matter of principle, it is advisable that the 'Principal Officer' is of
a sufficiently senior position and is able to discharge the functions with independence and authority.

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

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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

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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 Reference:

- Circular No. NCDEX/COMPLIANCE-011/2023 dated February 09, 2023

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43. 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: -

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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	• Penalty of Rs. 1 lakh in case of procedurally incorrect submission. • Disablement of trading terminals for 1 day in case of material incorrect submissions. Further, if instances of incorrect submissions are less than 2% with value less than Rs. 5 Lakhs, warning may be issued.

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 Reference:

- Circular no. NCDEX/COMPLIANCE-079/2020 dated December 18, 2020
- Circular no. NCDEX/COMPLIANCE-004/2021 dated January 16, 2021

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44. **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

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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.

Reference:

- NCDEX Circular No. NCDEX/COMPLIANCE-006/2023 dated February 02, 2023

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