



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

MASTER CIRCULAR

SEBI/HO/MIRSD/DOPI/CIR/P/2018/87

June 01, 2018

To,

All Stock Exchanges
All Registered Stock Brokers

Dear Sir / Madam,

Subject: Master Circular for Stock Brokers

1. Securities and Exchange Board of India (SEBI), from time to time, has been issuing various circulars/directions to Stock Brokers. In order to enable the users to have access to the applicable circulars at one place, Master Circular in respect of Stock Brokers has been prepared.
2. This Master Circular is a compilation of relevant circulars issued by SEBI which are operational as on date of this circular. References in the circular to the Statutes / Regulations which now stand repealed, have been suitably updated.
3. The Master Circular is a compilation of all the existing / applicable circulars issued by Market Intermediaries Regulation and Supervision Department of SEBI pertaining to Stock Brokers. Efforts have been made to incorporate applicable provisions of existing circulars issued by other Departments of SEBI relevant to Stock Brokers. A list of SEBI circulars compiled in this Master Circular is given in Appendix at the end of this Master Circular.
4. In case of any inconsistency between the Master Circular and the applicable circulars, the content of the relevant circular shall prevail.
5. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully

Debashis Bandyopadhyay
General Manager



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

TABLE OF CONTENTS

I. REGISTRATION OF STOCK BROKERS		
S. No.	Subject	Page no.
1.	Registration of Brokers – Verification of antecedents of the applicant	6
2.	Conversion of individual membership into corporate membership	6
3.	Additional information to be submitted at the time of registration of Stock Broker with SEBI	6
4.	Additional requirements for processing applications of Stock Brokers for Registration/ Prior approval for sale of membership/ Change of name/ trade name	12
5.	Merger/ Amalgamation of Trading Members	14
6.	Intimation to the brokers to permit their Sub-Brokers to start business only after receipt of Sub-Broker registration certificate from SEBI	14
7.	Admission of Limited Liability Partnerships as Members of Stock Exchanges	14
8.	Simplification of registration requirements for Stock Brokers	15
9.	Single registration for Stock Brokers & Clearing Members	16
10.	Registration of Members of Commodity Derivatives Exchanges	18
11.	Online Registration Mechanism for Securities Market Intermediaries	19
12.	Integration of broking activities in Equity Markets and Commodity Derivatives Markets under single entity	19
II. TRADING ACCOUNT OPENING, UNIQUE CLIENT CODE, KNOW YOUR CLIENT, KYC REGISTRATION AGENCY, CENTRAL KYC RECORDS REGISTRY		
13.	Unique Client Code	21
14.	Simplification and Rationalization of Trading Account Opening Process	21
15.	Requirements relating to dealings between a Client and a Stock Broker (Trading Members included)	24
16.	SARAL Account Opening Form for Resident Individuals	26
17.	The Securities and Exchange Board of India (KYC Registration Agency) Regulations, 2011	27
18.	Operationalisation of Central KYC Records Registry (CKYCR)	30
19.	AADHAAR	31
20.	Guidelines on Identification of Beneficial Ownership	33
III. SUPERVISION & OVERSIGHT		
21.	Oversight of Members (Stock Brokers/Trading Members/Clearing Members of any Segment of Stock Exchanges and Clearing Corporations)	35
22.	Policy of Annual Inspection of Members by Stock Exchanges/Clearing Corporations	41
23.	Enhanced Supervision of Stock Brokers / Depository Participants	43
24.	Annual System Audit of Stock Brokers / Trading Members	61



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

IV. DEALINGS WITH CLIENT		
25.	Regulation of Transactions Between Clients and Brokers	83
26.	Collateral deposited by Clients with Brokers	85
27.	Severance of connections with other businesses	86
28.	Applicability of Rule 8(1)(f) and 8(3)(f) of the Securities Contract (Regulation) Rules, 1957	86
29.	Mode of payment and delivery	86
30.	Pre- funded instruments / Electronic fund transfers	87
31.	Disclosure of proprietary trading by Broker to Client	87
32.	“Pro - account” trading terminal	88
33.	Review of norms relating to trading by Members/ Sub-Brokers	89
34.	Market Access through Authorised Persons	90
35.	SMS and E-mail alerts to investors by Stock Exchanges	93
36.	Prevention of Unauthorised Trading by Stock Brokers	95
37.	Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/ Stock Broker and Depository Participant	96
38.	Modification of Client Codes of Non-institutional Trades Executed on Stock Exchanges (All Segments)	100
39.	Margin Trading Facility	102
V. TECHNOLOGY RELATED		
40.	Electronic Contract Note	108
41.	Conditions to be met by Broker for providing Internet Based Trading Service	111
42.	Securities Trading through Wireless medium on Wireless Application Protocol (WAP) platform	115
43.	Securities Trading using Wireless Technology	117
44.	Additional Requirements for Internet Based Trading (IBT) and Securities trading using Wireless Technology (STWT)	119
45.	Direct Market Access facility	120
46.	Smart Order Routing	129
47.	Broad Guidelines on Algorithmic Trading	132
48.	Testing of Software used in or related to Trading and Risk Management	136
49.	Safeguards to avoid trading disruption in case of failure of software vendor	140
VI. CHANGE IN STATUS, CONSTITUTION, CONTROL, AFFILIATION		
50.	Surrender of Certificate of Registration of Sub-Brokers and Change of Affiliation of Sub-Brokers	142
51.	Change in affiliation of Sub-Brokers	145
52.	Periodical Report - Grant of prior approval to members of Stock Exchanges/ Sub-Brokers	148



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

53.	Revised procedure for seeking prior approval for change in control through single window	150
VII. SUBSIDIARY		
54.	Floating of a Subsidiary/Company by a Stock Exchange to acquire the membership of other Stock Exchange	152
55.	Exclusion of turnover from the turnover of the Subsidiary	153
56.	Eligibility for Trading Member	153
57.	Restructuring of the Subsidiary Management	154
58.	Access to unauthorized persons by the Members of Subsidiaries	155
VIII. FOREIGN ACCOUNTS TAX COMPLIANCE ACT		
59.	Inter-Governmental Agreement with United States of America under Foreign Accounts Tax Compliance Act - Registration	156
60.	Implementation of the Multilateral Competent Authority Agreement and Foreign Account Tax Compliance Act	157
IX. SCORES, INVESTOR GRIEVANCES		
61.	Exclusive e-mail ID for redressal of Investor Complaints	158
62.	Redressal of investor complaints against Stock Brokers and Sub-Brokers in SEBI Complaints Redress System (SCORES)	158
63.	Information regarding Grievance Redressal Mechanism	159
X. GENERAL		
64.	Advertisement by Brokers/ Sub-Brokers and grant of trading terminals	160
65.	Registration Number of Brokers / Sub-Brokers to be quoted on all correspondences with SEBI	160
66.	Maintenance of books of accounts and other documents sought by Enforcement Agencies from Stock Exchanges and Brokers	160
67.	Display of Details by Stock Brokers (including Trading Members)	161
68.	Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication	161
69.	Guidelines on Outsourcing of Activities by Intermediaries	162
70.	General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognised Stock Exchanges, Recognised Clearing Corporations, Depositories and their Associated Persons in Securities Market	169
71.	Digital Mode of Payment	170
72.	Regulatory Framework for Commodity Derivatives Brokers	171
73.	Annexures pertaining to Section II <ul style="list-style-type: none"> i. Annexure 1 ii. Annexure 2 iii. Annexure 3 iv. Annexure 4 v. Annexure 5 	



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

	vi. Annexure 6 vii. Annexure 7
74.	Appendix - List of Circulars / Notifications



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

I. REGISTRATION OF STOCK BROKERS

1. Registration of Brokers - Verification of antecedents of the applicant¹

- 1.1. In terms of Rule 8(1)(e) of Securities Contracts (Regulation) Rules, 1957, "no person shall be eligible to be elected as a member if he has been convicted of an offence involving fraud or dishonesty".
- 1.2. Stock Exchanges shall verify the antecedents of the applicant before granting admission as a member of Stock Exchange and also submit a declaration at the time of forwarding the applications for registration with SEBI, to the effect that the member has not been convicted of any offence involving fraud or dishonesty.

2. Conversion of individual membership into corporate membership²

- 2.1. In case of corporatisation of individual membership, the individual member may trade in his individual name pending registration of the corporate member by SEBI.
- 2.2. In case the corporate member acquires the membership through purchase of membership card of an individual member, the corporate member shall not be entitled to trade because of the provisions of Section 12 of the Securities and Exchange Board of India Act, 1992, till registration is granted to the corporate member by SEBI.

3. Additional information to be submitted at the time of registration of Stock Broker with SEBI³

- 3.1. In terms of Regulation 3(2) of Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Rules and Regulation 1992, a Stock Broker has to apply in Form A duly recommended by the Stock Exchange of which he is a member, for registration as a Stock Broker by SEBI.
- 3.2. While forwarding the applications in Form A, Stock Exchanges shall ensure that additional information as per enclosed format is also submitted along with the application for all the cases sent henceforth for registration. Additional information to be submitted is prescribed in **Annexure** below:

¹ Reference: Circular SMD/POLICY/CIRCULAR/30/97 dated November 25, 1997.

² Reference: Circular SMD/POLICY/CIR-34/97 dated December 11, 1997.

³ Reference: Circular SMD/POLICY/CIR-11/98 dated March 16, 1998.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

ANNEXURE

1. Name of the Stock Exchange
2. Name of the Applicant Member Broker
3. Exchange Clearing Code No. (If allotted by the Stock Exchange)
4. Trade Name of Member
5. Address of Member

Tel. No. (O):

Tel No. (R):

Fax No.

6. Form of Organisation: Please tick the relevant entity

6.1 Partnership

6.2 Corporate Body

a. Financial Institution

b. Others

c. Foreign Joint Ventures

(If an Indian Company is holding more than 25% of total equity in the joint venture, please give details of top five shareholders of Indian Company).

Name of Indian Company	
Top five Shareholders	% Holding
1	
2	
3	
4	
5	
FIPB Approval, if applicable	

Sole Proprietorship:

Name of proprietor	Educational Qualification	Age (on the date of filing of application)	Experience (specify the nature and years)

Partnership:

Name of partners	Age (on the date of application)	Educational Qualification	Experience (specify the nature and years)	In case partner(s) is/are registered with SEBI, give SEBI



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

				Regd. No.

Corporate Body (Financial Institution /Others)

MOA object clause contains stock broking as one of the object in

Main Object
Other Object
Incidental Object

(If, stock broking clause appears in other object please attach a copy of special resolution to amend the MOA to incorporate Stock Broking in main object clause)

Mention relevant clause no. (Please enclose copy of the relevant clause of the MOA duly certified by the Stock Exchange. **If certified copy is not enclosed application would be returned**).

Information regarding directors

Name of directors with designation (whether whole time/designated/ additional)	Percentage of Share holding	Educational Qualification	Experience (specify nature and years)	Whether directors in other corporate bodies engaged in capital markets (please give names and SEBI Regd. No.)

Details of top five shareholders

Name of shareholders	Percentage of Share holding	Educational Qualification	Experience (specify nature and years)	Whether shareholders in other corporate bodies engaged in capital markets (please give names and SEBI Regd. No.)



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

7. Date of Admission to Membership of the Stock Exchange.
 8. Mode of Acquiring Membership (Please attach old SEBI Registration certificate in all cases other than the cases of new membership)
 - 8.1 New Membership
 - 8.2 Conversion
 - 8.3 Succession
 - 8.4 Auction Purchase
(In case member has become defaulter)
 - 8.5 Market Purchase
 - 8.6 Transfer to another Company under same management
(please specify reasons)
 - 8.7 Others, please specify
 9. Please give the following information in all the cases other than the case of new membership
 - 9.1 Name of the previous holder of the card
 - 9.2 SEBI Registration No.
 - 9.3 Date of Registration with SEBI
 10. Whether the applicant is member of more than one Stock Exchange? YES/ NO
 11. If yes, please give name(s) of the Stock Exchange(s) with Code No. and SEBI registration no.
 12. Whether any of the Associate Companies/Partnership/ Proprietorship Firm is /are having direct/indirect interest (* as defined below) in capital market? YES / NO
 - 12.1 Where he is individual, he or any of his relative being a broker/any intermediary, he or any of his relative being a partner in a broking firm/any intermediary, he or any of his relative being a director in a broking company/any intermediary or he or any of his relatives clubbed together holding substantial equity in any broking company/any intermediary engaged in capital market.
 - 12.2 Where it is partnership firm/company, the relative(s) of partner(s)/director(s) in the firm(s)/corporate body being a broker/any intermediary or being partner(s)/director(s) in any broking/intermediary or the same set of shareholders holding substantial equity in other broking / any intermediary engaged in capital market.
- * The member is deemed to have direct/indirect interest in the following conditions:



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

12.3 Relative shall mean husband, wife, brother, unmarried sister or any linear ascendant or descendant of an individual.

12.4 If yes, please give details (you may attach separate sheet, if required)

Name	Form of Organisation	Type of Intermediary#	Whether registered with SEBI (give No.)	Nature of interest

Merchant Banker, Portfolio Manager, Registrar to Issue & Share Transfer Agent, Banker to an Issue, Mutual Fund, Venture Capital, Underwriter, Debenture Trustee, FII.

13. Disciplinary Action initiated/taken against the Associate entities, as indicated in 12.4 above. (Please state details of nature of violation, action initiated/taken and by which authority)

13.1 Disciplinary action taken by SEBI (if yes, please attach details mentioning nature of violation and action taken) YES / NO

13.2 Disciplinary action taken by any other authority (please attach details of nature of violation and action initiated) YES / NO

13.3 Disciplinary action initiated by SEBI (if yes, please attach details of nature of violation and action taken) YES / NO

13.4 Disciplinary action initiated by any other authority (please attach details of nature of violation and action initiated) YES / NO

14. Net-worth as per the requirement of the exchange (Rs in Lakhs)

15. Applicant's net-worth in accordance with formula prescribed by concerned Stock Exchange (Rs in Lakhs) (Certificate from a qualified CA certifying the above should be enclosed)

16. Please indicate the net-worth as per the following formula (Rs in Lakhs)

16.1 Paid up Capital

16.2 Free Reserves (Exclusive of Revaluation Reserves)

16.3 Less - Misc. expenditure not written off

Total Net-worth (16.1 + 16.2 + 16.3)



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

I/we declare that the information given in this form is true to the best of my knowledge and belief.

Date: Signature

Name and Address of the applicant

List of Enclosures:

- Registration fees -Rs 50,000/- through NEFT/RTGS/IMPS or any other mode allowed by RBI or by draft in favour of "The Securities and Exchange Board of India".
- Copy of relevant clause of MOA duly certified by the Stock Exchange.
- Certificate from the qualified Chartered Accountant certifying the networth and paid up capital.
- Undertaking by applicant that he/ it had not introduced through any member broker/ sub-broker of the Exchange any fake/forged/stolen shares in the Exchange/market. If yes, details thereof including action taken, if any, by the applicant.

Certification by Stock Exchange

The above details have been scrutinised as per record made available to the Stock Exchange.

SIGNATURE:

NAME:

DESIGNATION:

SEAL OF STOCK EXCHANGE

Certification from the Stock Exchange:

This is to certify that

- The member is eligible to be admitted as the member of the Exchange as per the provisions of SC(R)A, SC(R)R, bye-laws of the exchange and circulars issued by Government of India and SEBI, in particular the GOI guidelines dated November 09, 1989 and SEBI circular dated May 14, 1993.
- is admitted as a member of this exchange as approved by the Council of Management in its meeting held on _.
- No complaints/ arbitration cases/ disciplinary action are pending against the transferor M/s _ and all the complaints received by the Exchange or referred by SEBI have been settled to the satisfaction of the Stock Exchange.
- We have verified the educational qualification, age, experience of the member



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

with respect to the original record and found it to be correct as per the information given in the application.

v) No litigation with regard to transfer of card is pending in court of law.

The application is recommended for registration with the Securities and Exchange Board of India under Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Rules and Regulations, 1992.

Signature:

Name:

Designation:

List of Enclosures alongwith application:

1. Turnover fee details of the transferor in the prescribed format (enclosed).
2. Disciplinary record of the transferor
3. Board Resolution approving the membership (will be submitted by the Exchange)

4. Additional requirements for processing applications of Stock Brokers for Registration/ Prior approval for sale of Membership/ Change of name/ Trade name⁴

4.1. The applications for grant of registration / requisite approvals are processed by SEBI based on information communicated by the Exchange/ members to SEBI. Such information can undergo a change within a very short period of time. It has been observed that in many cases information/ documents enclosed along with the applications are outdated for SEBI to take any cognizance of the same.

4.2. In order to improve the standard of information flow so as to enable SEBI to take an informed decision while processing applications, the following norms may be adhered to:

4.2.1. Application for registration of stock brokers:

- a. Stock Exchanges shall ensure that the following documents which are forwarded by the Exchanges along with registration applications are not more than three months old from the date of forwarding of the application.

- i. Form A
- ii. Additional Information Form

⁴ Reference: Circular SMD/DBA-II/CIR-22/2002 dated September 12, 2002.



भारतीय प्रतिभूति और विनिमय बोर्ड **Securities and Exchange Board of India**

iii. Undertakings furnished by the Applicant

4.2.2. Change of name applications for Brokers

- a. Stock Exchanges shall ensure that change of name applications should be accompanied by information from the Exchange as to whether the change in name is accompanied by / associated with change in majority shareholding / management / control. Applications not accompanied with such information from the Exchange would be returned to the concerned exchanges.
- b. Stock Exchanges shall instruct all the member brokers of the exchange to comply with the above instructions and ensure that applications forwarded to SEBI strictly adhere with the above time schedules / documents failing which the applications would be returned to the concerned Exchange.

4.3. Clarification regarding eligibility for availing fee continuity benefit by corporate entity formed by converting partnership membership card of the Exchange

- 4.3.1. In order to get benefit of clause I (4) of Schedule III of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, all erstwhile partner(s) should be wholetime directors in the corporate entity so formed, and the wholetime director shall individually (in case there is one wholetime director) or jointly (in case there are more than one wholetime directors) have to hold atleast 40% of the paid up equity capital of the corporate entity formed for a period of atleast three years from the date of such conversion.
- 4.3.2. In case of Exchanges which do not grant membership to the partnership firms, but permit individual members to form partnerships, each of the erstwhile member partner, now wholetime director of the corporate entity, will have to individually or jointly hold atleast 40% of the paid-up capital of the corporate entity so formed for a period of atleast three years from the date of such conversion.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

5. Merger/ Amalgamation of Trading Members⁵

- 5.1. When two or more corporate broking firms merge leading to creation of a new entity, the SEBI registration granted to the extinguishing entity does not automatically devolve upon the emerging entity and the new entity has to fulfil the eligibility criteria and apply afresh for registration and pay the registration fees.
- 5.2. The emerging entity may be allowed to trade on the registration of the extinguishing entity for a period of say 45 days. However, the emerging entity should apply to SEBI at the earliest and give an undertaking to be liable for the act of the extinguishing entity and such applications in any case should be made not later than 30 days of the registration granted by the Registrar of companies to the emerging entity.

6. Intimation to the Brokers to permit their Sub-Brokers to start business only after receipt of Sub-Broker registration certificate from SEBI⁶

- 6.1. As per Section 12(1) of the SEBI Act, 1992 read with Rule 3 of Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Rule 1992, no sub-broker shall buy, sell, deal in securities, unless he holds a certificate granted by the Board under the Regulations. Stock Exchanges shall inform all the brokers that their sub-brokers are permitted to start business only after clearance and receipt of registration certificate from SEBI. If any person contravenes or attempts to contravene or abets the contravention of the above said rule, shall be punishable under section 24(1) of SEBI Act 1992.

7. Admission of Limited Liability Partnerships as Members of Stock Exchanges⁷

- 7.1. Securities Contract (Regulation) Rules, 1957 (SCRR) do not explicitly mention Limited Liability Partnerships (LLPs) as the Limited Liability Partnership Act, 2008 was a subsequent development. As per the LLP Act, LLP is a body corporate. Sub-rule 4A and 5 of Rule 8 of the SCRR provides that Limited Liability Companies (LLC) and partnership firms are eligible to be admitted as members of Stock Exchanges. In this context it may be stated that LLPs are akin

⁵ Reference: Circular SMD/POLICY(BRK.REG.)/CIR-18/98 dated July 09, 1998.

Paragraph in Circular SMD/POLICY(BRK.REG.)/CIR-18/98 dated July 09, 1998, which read “It is generally seen that while the application comes to SEBI after the court has approved the scheme of amalgamation/ merger, the existing entity is required to seek prior approval from SEBI in case of any change in its constitution, in terms of Rule 4(c) of SEBI (Stock Brokers and Sub-brokers) Rules and Regulations, 1992. Therefore, you are advised that as soon as the application for merger is filed before the High Court, the extinguishing broking entity should approach SEBI through the Stock Exchange for obtaining prior permission, to the scheme of merger/ amalgamation giving all necessary details of the proposal.” deleted in view of Notification LAD-NRO/GN/2011-12/03/12650 dated April 19, 2011.

⁶ Reference: Circular SUB-BROK/CIR/02/2001 dated January 15, 2001.

⁷ Reference: Circular CIR/MIRSD/12/2011 dated July 11, 2011.



to LLC and partnership firms.

- 7.2. In view of the above and since the Parliament has put in place a legal framework for LLPs, Stock Exchanges may consider granting membership to LLPs subject to LLP complying with the conditions laid down in Rule 8(4A) of the SCRR, as far as it can apply to LLPs.

8. Simplification of registration requirements for Stock Brokers⁸

- 8.1. As per the amendment to SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as Broker Regulations) vide Notification No. LAD-NRO/GN/2013-14/25/24775 dated September 27, 2013, the existing practice of obtaining multiple registrations for operating in different segments of a Stock Exchange / Clearing Corporation has been done away with and instead a single registration per Stock Exchange / Clearing Corporation shall be required. For operating in multiple segments, approval will be required from the Stock Exchange or Clearing Corporation.
- 8.2. The implementation of the revised registration requirements will be as per the following guidelines:
- 8.2.1. If a new entity intends to register as a stock broker or clearing member in any segment(s) of a Stock Exchange or a Clearing Corporation promoted by that Stock Exchange, then the entity shall apply to SEBI through the respective Stock Exchange or Clearing Corporation in the manner prescribed in the Broker Regulations in any one segment. The entity shall be issued a certificate with a unique registration number for each Stock Exchange or Clearing Corporation, as the case may be, irrespective of number of segments.
- 8.2.2. If an entity is already registered with SEBI in any segment of the Stock Exchange, then for operating in any other segment of that Stock Exchange or for operating in the Clearing Corporation promoted by that Stock Exchange, the entity need not apply to SEBI. The entity can directly apply to the concerned Stock Exchange or Clearing Corporation as per the procedure prescribed in the Broker Regulations for approval.
- 8.2.3. Similarly, if any entity is already registered with SEBI in any segment of the Clearing Corporation, then for operating in any other segment of the Clearing Corporation or for operating in the Stock Exchange which has promoted that Clearing Corporation, the entity shall follow the procedure as prescribed in Clause 8.2.2 above.

⁸ Reference: Circular CIR/MIRSD/8/2013 dated September 30, 2013.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 8.2.4. Fees shall be applicable for all the stock brokers, self clearing members and clearing members as per Schedule V of the Broker Regulations. As per current practice, the entity shall continue to be liable to pay fees for each additional segment approved by the Stock Exchange or Clearing Corporation, as per the Schedule to the Brokers Regulations. For stock brokers coming under Schedule III, fees shall continue to be applicable as per that Schedule till such time as the Schedule V becomes applicable to them.
- 8.3. The Stock Exchange or Clearing Corporation shall grant approval for any additional segment to the stock broker, self-clearing member or clearing member, as the case may be, after exercising due diligence and on being satisfied about the compliance of all relevant eligibility requirements, and shall also ensure:
- 8.3.1. The applicant, its directors, proprietor, partners and associates satisfy the Fit and Proper Criteria as defined in the SEBI (Intermediaries) Regulations, 2008 and whether any past actions taken / initiated against them by SEBI / Stock Exchange(s) or other regulators.
- 8.3.2. The Stock Exchange or Clearing Corporation shall satisfy itself that the applicant has taken corrective steps to rectify the deficiencies or irregularities observed in the past. They may also seek details whether the Board of the applicant is satisfied about the steps taken. They may also carry out inspection, wherever considered appropriate.
- 8.3.3. Recover all pending fees / dues payable to SEBI and / or stock exchange.

9. Single registration for Stock Brokers & Clearing Members⁹

- 9.1. As per the amendment to SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as Broker Regulations) vide Notification No. LAD-NRO/GN/2014-15/15/1671 dated October 08, 2014, the requirement of obtaining registration as stock broker/ clearing member for each Stock Exchange/ Clearing Corporation has been done away with and instead a single registration with any Stock Exchange/ Clearing Corporation shall be required. For operating in any other Stock Exchange(s)/ Clearing Corporation (s), approval will be required from the concerned Stock Exchange or Clearing Corporation.
- 9.2. The implementation of the revised registration requirements will be as per the following guidelines:

⁹ Reference: Circular CIR/MIRSD/4/2014 dated October 13, 2014.



भारतीय प्रतिभूति और विनिमय बोर्ड **Securities and Exchange Board of India**

- 9.2.1. If a new entity desires to register as a stock broker or clearing member with any Stock Exchange or Clearing Corporation, as the case may be, then the entity shall apply to SEBI through the respective Stock Exchange or Clearing Corporation in the manner prescribed in the Broker Regulations. The entity shall be issued one certificate of registration, irrespective of the Stock Exchange(s)/ Clearing Corporation(s) or number of segment(s).
- 9.2.2. If the entity is already registered with SEBI as a stock broker with any Stock Exchange, then for operating on any other Stock Exchange(s) or any Clearing Corporation, the entity can directly apply for approval to the concerned Stock Exchange or Clearing Corporation, as per the procedure prescribed in the Broker Regulations for registration. The Stock Exchange/ Clearing Corporation shall report to SEBI about such grant of approval.
- 9.2.3. Similarly, if any entity is already registered with SEBI as a clearing member in any Clearing Corporation, then for operating in any other Clearing Corporation(s) or any Stock Exchange, the entity shall follow the procedure as prescribed in Clause 9.2.2 above.
- 9.2.4. Fees shall be applicable for all the stock brokers, self-clearing members and clearing members as per Schedule V of the Broker Regulations. As per current requirement, the entity shall continue to be liable to pay fees for each segment approved by the Stock Exchange or Clearing Corporation, as per the Schedule to the Brokers Regulations.
- 9.3. The Stock Exchange or Clearing Corporation shall grant approval for operating in any segment(s) or additional segment(s) to the SEBI registered stock broker, self-clearing member or clearing member, as the case may be, after exercising due diligence and on being satisfied about the compliance of all relevant eligibility requirements, and shall also, inter-alia ensure:
- 9.3.1. The applicant, its directors, proprietor, partners and associates satisfy the Fit and Proper Criteria as defined in the SEBI (Intermediaries) Regulations, 2008;
- 9.3.2. The applicant has taken satisfactory corrective steps to rectify the deficiencies or irregularities observed in the past in actions initiated/ taken by SEBI/ Stock Exchanges(s) or other regulators. The Stock Exchange or Clearing Corporation may also seek details whether the Board of the applicant is satisfied about the steps taken. They may also carry out inspection, wherever considered appropriate; and
- 9.3.3. Recovery of all pending fees/ dues payable to SEBI, Stock Exchange and



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Clearing Corporation.

9.4. Recover all pending fees / dues payable to SEBI and / or stock exchange.

10. Registration of Members of Commodity Derivatives Exchanges¹⁰

10.1. Any person desirous of becoming a member of any commodity derivatives exchange(s), shall have to meet the eligibility criteria to become a member of an exchange and conditions of registration, as specified in Securities Contract (Regulation) Rules, 1957 and SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, respectively.

10.2. The application for registration shall be made in the manner prescribed in the Stock Broker Regulations, through the commodity derivatives exchange, of which it holds membership, in the prescribed form, along with the applicable fees. The application shall be accompanied by additional information as prescribed in para 3 above regarding additional information to be submitted at the time of registration of stock broker with SEBI).

10.3. The minimum net worth specified for members of commodity derivatives exchanges, as per Stock Broker Regulations, shall have to be computed as follows:

- Capital +Free reserves
- Less non-allowable assets viz.,
 - a. Fixed assets
 - b. Pledged securities
 - c. Member's card
 - d. Non-allowable securities (unlisted securities)
 - e. Bad deliveries
 - f. Doubtful debts and advances*
 - g. Prepaid expenses, losses
 - h. Intangible assets
 - i. 30% of marketable securities

*Explanation – includes debts/advances overdue for more than three months or given to associates.

10.4. It is clarified that, “business in goods related to the underlying” and/ or “business in connection with or incidental to or consequential to trades in commodity derivatives”, by a member of a Stock Exchange, would not be

¹⁰ Reference: Circular CIR/MIRSD/4/2015 dated September 29, 2015, Circular SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/04 dated September 21, 2017 and Circular FITTC/DC/CR-1/98 dated June 16, 1998.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

disqualified under Rule 8(1)(f) and Rule 8(3)(f) of the Securities Contract (Regulation) Rules, 1957.

11. Online Registration Mechanism for Securities Market Intermediaries¹¹

- 11.1. SEBI Intermediary Portal (<https://siportal.sebi.gov.in>) has been operationalized for the intermediaries to submit all the registration applications online. The SEBI Intermediary Portal includes online application for registration, processing of application, grant of final registration, application for surrender / cancellation, submission of periodical reports, requests for change of name / address / other details etc.
- 11.2. All applications for registration / surrender / other requests shall be made through SEBI Intermediary Portal only. The application in respect of stock brokers / sub-broker and depository participants shall continue to be made through the Stock Exchanges and Depositories respectively.
- 11.3. The applicants will be separately required to submit relevant documents viz. declarations / undertakings, in physical form, only for records without impacting the online processing of applications for registration.
- 11.4. Where applications are made through the Stock Exchanges / Depositories, the hard copy of the applications made by their members shall be preserved by them and shall be made available to SEBI, as and when called for.

12. Integration of broking activities in Equity Markets and Commodity Derivatives Markets under single entity¹²

- 12.1. Government of India vide Gazette notification no. G.S.R. 664(E) dated June 27, 2017 amended the Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as "SCRR") and Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) (Amendment) Regulations 2017 which was notified on July 13, 2017 (hereinafter referred to as "the Stock Broker Regulation").
- 12.2. Through these amendments, restriction on stock brokers dealing in securities (other than commodity derivatives) to deal in commodity derivatives has been done away with. Similarly, restriction on stock brokers dealing in commodity derivatives to deal in other securities has also been done away with. Therefore, post these amendments, a stock broker can deal in commodity derivatives and other securities under a single entity, thereby facilitating ease of doing business.

- 12.3. As per the existing procedure under single registration mechanism, a one-time

¹¹ Reference: Circular SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017.

¹² Reference: Circular SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/04 dated September 21, 2017.



भारतीय प्रतिभूति और विनिमय बोर्ड **Securities and Exchange Board of India**

certificate of registration as stock broker / clearing member shall be granted by SEBI and subsequent permissions to act as a stock broker / clearing member of other Stock Exchanges / Clearing Corporation, shall be granted by the respective Stock Exchange / Clearing Corporation after proper due diligence.

- 12.4. Prior approval from SEBI will be required to be obtained by the stock broker only in cases where integration leads to change in control of the stock broker/clearing member.
- 12.5. Further, to facilitate integration between stock brokers, it is clarified that client account may be transferred from one stock broker to the other stock broker, by taking the express consent of the client through a verifiable mode of communication and thereby continuing with the existing set of documentation in respect of broker client relationship.



II. TRADING ACCOUNT OPENING, UNIQUE CLIENT CODE, KNOW YOUR CLIENT, KYC REGISTRATION AGENCY, CENTRAL KYC RECORDS REGISTRY

13. Unique Client Code¹³

13.1. It shall be mandatory for the broker to use unique client code for all clients. For this purpose the broker shall collect and maintain in their back office the Permanent Account Number (PAN) allotted by the Income Tax Department for all their clients.

13.2. In case of other entities –

13.2.1. Brokers shall verify the documents with respect to the unique code retain a copy of the document.

13.2.2. The brokers shall also be required to furnish the above particulars of their clients to the Stock Exchanges/Clearing Corporations 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.

13.2.3. The Stock Exchanges shall be required to maintain a database of client details submitted by brokers. Historical records of all quarterly submissions shall be maintained for a period of 7 years by the exchanges.

14. Simplification and Rationalization of Trading Account Opening Process¹⁴

14.1. 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:

14.1.1. Index of documents giving details of various documents for client account opening process: **Annexure-1**.

14.1.2. Client Account Opening Form in two parts:

¹³ Reference: Circular SMDRP/POLICY/CIR-39/2001 dated July 18, 2001 and Circular SEBI/MRD/SE/CIR-34/2003/29/09 dated September 29, 2003.

¹⁴ Reference: Circular CIR/MIRSD/16/2011 dated August 22, 2011, Circular MIRSD/SE/CIR-21/2011 dated October 05, 2011, Circular CIR/MIRSD/13/2013 dated December 26, 2013, Circular CIR/MIRSD/64/2016 dated July 12, 2016 and Circular CIR/MIRSD/66/2016 dated July 21, 2016.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- a. Know Your Client (KYC) form capturing the basic information about the client and instruction/check list to fill up the form: **Annexure-2.**

The KYC template finalised by Central Registry of Securitization and Asset Reconstruction and Security interest of India (CERSAI) shall be used by the registered intermediaries as Part I of AOF for individuals.

KYC form for Non-individuals shall be as specified by SEBI.

- b. Document capturing additional information about the client related to trading account: **Annexure-3.**

14.1.3. Document stating the Rights & Obligations of stock broker, sub-broker and client for trading on exchanges (including additional rights & obligations in case of internet / wireless technology based trading): **Annexure-4.**

14.1.4. Uniform Risk Disclosure Documents (for all segments / exchanges): **Annexure-5.**

14.1.5. Guidance Note detailing Do's and Don'ts for trading on exchanges: **Annexure-6.**

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

14.2.1. A tariff sheet specifying various charges, including brokerage, payable by the client to avoid any disputes at a later date.

14.2.2. Information on contact details of senior officials within the stock broking firm and investor grievance cell in the Stock Exchange, so that the client can approach them in case of any grievance.

14.3. 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 Stock Exchanges from time to time. Any such clause introduced in the existing as well as new documents shall stand null and void.

14.4. 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



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

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, etc., he would have to give specific authorization to the stock broker in order to avoid any dispute in the future.

- 14.5. In case the stock broker is also a depository participant, he can use the same KYC form (as specified in **Annexure-2**) for basic details and take additional information pertaining to demat account.
- 14.6. Stock Broker/ Depository Participant 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 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/ depository participant shall maintain logs of the same.
- 14.7. Stock Exchanges / Depositories / stock brokers/ depository participants shall continue to make the documents mentioned in para 14.1.3 to 14.1.5 above, available on their website and keep the clients informed about the same.
- 14.8. Further, with a view to bring about uniformity in securities markets, the KYC form in **Annexure-2** above and supporting documents shall also be used by Depository Participants, Mutual Funds, Portfolio Managers, Collective Investment Schemes and Venture Capital Funds. The KYC form shall be filled by an investor at the account opening stage while dealing with any of the above intermediaries. Additional details specific to the area of activity of the intermediary being obtained now but not covered in the KYC form shall also be obtained from the investors in Part II of the account opening form.
- 14.9. The additional information (Part II) shall be prescribed by Depositories for their depository participants and by Association of Mutual Funds in India (AMFI) for all mutual funds. The Portfolio Managers, Venture Capital Funds, and Collective Investment Schemes shall capture the additional information specific to their area of activities, as considered appropriate by them. The intermediaries shall also continue to abide by Circulars issued by SEBI from time to time for prevention of money laundering.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

15. Requirements relating to dealings between a Client and a Stock Broker (Trading Members included)¹⁵

15.1. Running Account Authorization

15.1.1. Unless otherwise specifically agreed to by a Client, the settlement of funds/securities 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:

- a. The authorization shall be signed by the client only and not by any authorised person on his behalf or any holder of the Power of Attorney.
- b. The authorisation shall be dated and shall contain a clause that the clients may revoke the authorisation 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.
- c. For the clients having outstanding obligations on the settlement date, the stock broker may retain the requisite securities/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 exchanges.
- d. The actual settlement of funds and securities shall be done by the broker, at least once in 90 days / 30 days, 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.
- e. The client shall bring any dispute arising from the statement of account or settlement so made to the notice of the broker preferably within 7 working days from the date of receipt of funds/securities or statement, as the case may be.
- f. Such periodic settlement of running account may not be necessary:
 - i. for clients availing margin trading facility as per SEBI circular.
 - ii. for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG)/Fixed Deposit receipts (FDR).
- g. The stock broker shall transfer the funds / securities lying in the credit of the client within one working day of the request if the same are lying with him and within three working days from the request if

¹⁵ Reference: Circular MIRSD/SE/CIR-19/2009 dated December 03, 2009, Circular SEBI/MIRSD/CIR/01/2011 dated May 13, 2011 and Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

the same are lying with the Clearing Member/Clearing Corporation.

- h. There shall be no inter-client adjustments for the purpose of settlement of the 'running account'.
- i. These conditions shall not apply to institutional clients settling trades through custodians. The existing practice may continue for them.

15.2. Authorization for Electronic Contract Notes

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

- a. 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.
- b. 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.
- c. 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.

15.3. The stock broker 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 stock broker shall obtain the documents in accordance with its risk management system.

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

15.4.1. refusal of orders for penny stocks

15.4.2. setting up client's exposure limits

15.4.3. applicable brokerage rate

15.4.4. imposition of penalty/delayed payment charges by either party, specifying the rate and the period (This must not result in funding by the broker in contravention of the applicable laws)

15.4.5. the right to sell clients' securities or close clients' 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)



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 15.4.6. shortages in obligations arising out of internal netting of trades
- 15.4.7. conditions under which a client may not be allowed to take further position or the broker may close the existing position of a client
- 15.4.8. temporarily suspending or closing a client's account at the client's request, and
- 15.4.9. deregistering a client
- 15.5. All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.
- 15.6. A copy of all the documents executed by client shall be given to him, free of charge, within 7 days from the date of execution of documents by the client. The stock broker shall take client's acknowledgement for receipt of the same.
- 15.7. The stock brokers 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.
- 15.8. The stock broker 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.
- 15.9. As on 31st March of every year, a statement of balance of Funds and Securities in hard form and signed by the broker shall be sent to all the clients.

16. SARAL Account Opening Form for Resident Individuals¹⁶

- 16.1. A majority of new investors in the securities market begin with participation in the cash segment without obtaining various other facilities such as internet trading, margin trading, derivative trading and use of power of attorney.
- 16.2. With a view to encourage their participation, it is, therefore, decided that such individual investors can open a trading account and demat account by filling up a simplified Account Opening Form ('AOF') termed as 'SARAL AOF' given at **Annexure-7**. This form will be separately available with the intermediaries and can also be downloaded from the Exchanges' and Depositories' website. The investors who open account through SARAL AOF will also have the option to obtain other facilities, whenever they require, on furnishing of

¹⁶ Reference: Circular CIR/MIRSD/1/2015 dated March 04, 2015.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

additional information as per prescribed regulations/circulars.

16.3. The standard set of documents viz. Rights and Obligations document, Uniform Risk Disclosure Document and Guidance Note and documentary proof related to identity and address as specified by SEBI shall continue to remain applicable. It is further clarified that the provisions laid down under the PML Act, PML Rules, SEBI Master Circular on AML dated December 31, 2010 and SEBI Circular on AML dated March 12, 2014 shall also continue to remain applicable for set of individual investors mentioned in paragraph 16.2 above.

16.4. For these set of individual investors, the requirement of submission of 'proof of address' is as follows:

16.4.1. Henceforth, individual investor may submit only one documentary proof of address (either residence/correspondence or permanent) while opening a trading account and / or demat account or while undergoing updation.

16.4.2. In case the proof of address furnished by the said investor is not the address where the investor is currently residing, the intermediary may take a declaration of the residence/correspondence address on which all correspondence will be made by the intermediary with the investor. No proof is required to be submitted for such correspondence/residence address. In the event of change in this address due to relocation or any other reason, investor may intimate the new address for correspondence to the intermediary within two weeks of such a change. The residence/correspondence address and any such change thereof may be verified by the intermediary through 'positive confirmation' such as (i) acknowledgment of receipt Welcome Kit/ dispatch of contract notes / any periodical statement, etc. (ii) telephonic conversation; (iii) visits, etc.

17. The Securities and Exchange Board of India (KYC Registration Agency) Regulations, 2011¹⁷

17.1. To avoid duplication of KYC process by the client with every intermediary, a mechanism for centralization of the KYC records in the securities market has been developed.

17.2. An intermediary shall perform the initial KYC of its clients and upload the

¹⁷ Reference: Circular CIR/MIRSD/22/2011 dated October 25, 2011, Circular MIRSD/CIR-23/2011 dated December 02, 2011, Circular MIRSD/CIR-26 dated December 23, 2011, SEBI (KYC Registration Agency) Amendment Regulation 2013 vide Notification no. LAD-NRO/GN/2012-13/35/6998 dated March 22, 2013 and Circular CIR/MIRSD/4/2013 dated March 28, 2013.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

details on the system of the KRA. When the client approaches another intermediary, the intermediary can verify and download the client's details from the system of the KRA. As a result, once the client has done KYC with a SEBI registered intermediary, he need not undergo the same process again with another intermediary.

- 17.3. Accordingly, SEBI has formulated the KYC Registration Agency (KRA) Regulations, which have been notified vide notification no. LAD-NRO/GN/2011-12/29/36772 dated December 2, 2011. The Regulations cover the registration of KRAs, functions and responsibilities of the KRAs and intermediaries, code of conduct, data security, etc.

17.4. Guidelines for Intermediaries

- 17.4.1. The intermediary shall perform the initial KYC/due diligence of the client, upload the KYC information 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:

Provided that in the case of clients of a mutual fund, the Registrar to an Issue and Share Transfer Agent appointed by the mutual fund may perform the initial KYC/due diligence of the client, upload the KYC information with proper authentication on the system of the KRA, and furnish the scanned images of KYC documents to the KRA.

- 17.4.2. The intermediary or the mutual fund, as the case may be, shall furnish the physical KYC documents or authenticated copies thereof to the KRA, whenever so desired by the KRA.
- 17.4.3. In case a client's scanned images of 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.
- 17.4.4. The intermediary shall carry out KYC when the client chooses to trade/ invest / deal through it.
- 17.4.5. The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.
- 17.4.6. The intermediary shall promptly provide KYC related information to KRA, as and when required.
- 17.4.7. The intermediary shall have adequate internal controls to ensure the security / authenticity of data uploaded by it.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

17.5. Guidelines for KRAs

- 17.5.1. KRA system shall provide KYC information in data and image form to the intermediary.
- 17.5.2. KRA shall send a letter to the client within 10 working days of the receipt of the initial/updated KYC documents from intermediary, confirming the details thereof and maintain the proof of dispatch.
- 17.5.3. KRA(s) shall develop systems, in co-ordination with each other, to prevent duplication of entry of KYC details of a client and to ensure uniformity in formats of uploading / modification / downloading of KYC data by the intermediary.
- 17.5.4. KRA shall maintain an audit trail of the upload / modifications / downloads made in the KYC data, by the intermediary in its system.
- 17.5.5. KRA shall ensure that a comprehensive audit of its systems, controls, procedures, safeguards and security of information and documents is carried out annually by an independent auditor. The Audit Report along with the steps taken to rectify the deficiencies, if any, shall be placed before its Board of Directors. Thereafter, the KRA shall send the Action Taken Report to SEBI within 3 months.
- 17.5.6. KRA systems shall clearly indicate the status of clients falling under PAN exempt categories viz. investors residing in the state of Sikkim, UN entities / multilateral agencies exempt from paying taxes / filing tax returns in India.
- 17.5.7. A client can start trading / investing/ dealing with the intermediary and its group / subsidiary / holding company as soon as the initial KYC is done and other necessary information is obtained while the remaining process of KRA is in progress.

17.6. In-Person Verification (IPV)

- 17.6.1. 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:
 - a. It shall be mandatory for intermediaries viz. stock brokers, depository participants, mutual funds, portfolio managers, venture capital funds, collective investment schemes to carry out IPV of their clients.
 - b. The intermediary shall ensure that the details like name of the person



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

doing IPV, his designation, organization with his signatures and date are recorded on the KYC form at the time of IPV.

- c. The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.
- d. In case of Stock brokers, their sub-brokers or Authorised Persons (appointed by the stock brokers after getting approval from the concerned Stock Exchanges in terms of provisions specified in para 34 below on Market Access through Authorised Persons) can perform the IPV.
- e. The subsidiaries of Stock Exchanges, acting as stock brokers, may rely upon the 'in-person' verification done by their sub-brokers (who are also registered with SEBI as stock brokers of the parent Stock Exchange) for their respective clients. However, the ultimate responsibility for 'in-person' verification would remain with the subsidiaries and they shall obtain the necessary IPV documents for their records.
- f. In case of Mutual Funds, their Asset Management Companies (AMCs) and the distributors who comply with the certification process of National Institute of Securities Market (NISM) or Association of Mutual Funds (AMFI) and have undergone the process of 'Know Your Distributor (KYD)', can perform the IPV. However, in case of applications received by the mutual funds directly from the clients (i.e. not through any distributor), they may also rely upon the IPV performed by the scheduled commercial banks.

18. Operationalisation of Central KYC Records Registry (CKYCR)¹⁸

- 18.1. Government of India has authorized the Central Registry of Securitization and Asset Reconstruction and Security interest of India (CERSAI), set up under subsection (1) of Section 20 of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, to act as, and to perform the functions of, the Central KYC Records Registry under the PML Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a "client", as defined in clause (ha) sub-section (1) of Section 2 of the Prevention of Money Laundering Act, 2002
- 18.2. As per the 2015 amendment to PML (Maintenance of Records) Rules, 2005 (the rules), every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the Rules, as per the KYC template for "individuals" finalised by CERSAI.
- 18.3. The "live run" of the CKYCR started with effect from July 15, 2016 in a phased manner beginning with new "individual accounts". Further, "Test

¹⁸ Reference: Circular CIR/MIRSD/66/2016 dated July 21, 2016 and Circular CIR/MIRSD/120/2016 dated November 10, 2016.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Environment” has also been made available by CERSAI for the use of the reporting entities.

18.4. In the first phase, the registered intermediaries shall upload the KYC data with CKYCR, in respect of all individual accounts opened on or after August 1, 2016, wherever KYC is required to be carried out as per the circulars issued by SEBI from time to time and accordingly, shall take steps to prepare their systems for uploading the KYC data.

18.5. Government of India, vide its letter dated October 04, 2016, directed the following with regard to KYC details of existing and new individual clients:

18.5.1. Registered intermediaries have to update their IT systems as well as register all new accounts of individuals in accordance with the CKYCR template, mandatorily by October 31, 2016.

18.5.2. Mutual funds and Intermediaries other than mutual funds may follow the following time lines in respect of uploading KYC data of the existing individual clients with CKYCR.

18.5.3. Mutual funds may ensure 30% completion of uploading of existing KYC data by November 30, 2016, another 30% of KYC data by January 31, 2017 and the rest 40% data by March 31, 2017.

18.5.4. Intermediaries other than mutual funds may ensure 50% completion of uploading of existing KYC data by November 30, 2016 and the remaining 50% of KYC data by December 31, 2016.

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

19. AADHAAR¹⁹

19.1. Aadhaar Letter issued by Unique Identification Authority of India (UIDAI) shall be admissible as Proof of Address in addition to it being recognized as Proof of Identity.

19.2. e-KYC service launched by UIDAI shall be accepted as a valid process for KYC verification. The information containing relevant client details and photograph made available from UIDAI as a result of e-KYC process shall be treated as

¹⁹ Reference: Circular CIR/MIRSD/09/2012 dated August 13, 2012, Circular CIR/MIRSD/09/2013 dated October 08, 2013 and Circular CIR/MIRSD/29/2016 dated January 22, 2016.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

sufficient Proof of Identity and Address of the client. However, the client shall have to authorize the intermediary to access his data through UIDAI system.

- 19.3. The Hon'ble Supreme Court, in Writ Petition (Civil) No. 494 of 2012 in the matter of Justice K.S. Puttaswamy (Retd.) & Another vs Union of India & Others, vide order dated August 11, 2015 and October 15, 2015 directed that the usage of the Aadhaar card as issued by the Unique Identification Authority of India (UIDAI) is voluntary. In view of the said orders, the usage of Aadhaar card is optional and purely on a voluntary basis, subject to the final judgment of the Hon'ble Supreme Court in the aforesaid petition.
- 19.4. For accessing the details enabling client identification and authentication from UIDAI based on client authorisation, on voluntary basis, intermediaries who utilize the services of KYC Service Agencies (KSAs) would be registered as KYC User Agencies (KUA) with UIDAI.
- 19.5. For entering into account based relationship, the client may provide the following information to the intermediary:
 - 19.5.1. Name
 - 19.5.2. AADHAAR Number
 - 19.5.3. Permanent Account Number (PAN)
- 19.6. The above information can be provided by the client electronically including through any web enabled device.
- 19.7. The intermediary shall perform verification of the client with UIDAI through biometric authentication (fingerprint or iris scanning). Mutual Funds can also perform verification of the client with UIDAI through One Time password (OTP) received on client's mobile number or on e-mail address registered with UIDAI provided, the amount invested by the client does not exceed Rs. 50,000 per financial year per Mutual Fund and payment for the same is made through electronic transfer from the client's bank account registered with that Mutual Fund.
- 19.8. PAN of such client is to be verified from the income tax website.
- 19.9. After due validation of Aadhaar number provided by the client, the intermediary (acting as KUA) shall receive the KYC information about the client from UIDAI through KSA.
- 19.10. The information downloaded from UIDAI shall be considered as sufficient information for the purpose of KYC verification. The intermediary shall upload this KYC information on the KRA system in terms of KRA Regulations.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

19.11. In case material difference is observed either in the name (as observed in the PAN vis-a-vis Aadhaar) or photograph in Aadhaar is not clear, the intermediary shall carry out additional due diligence and maintain a record of the additional documents sought pursuant to such due diligence.

19.12. The records of KYC information so received shall be maintained by the intermediary as per the SEBI Act, Regulations and various circulars issued thereunder.

20. Guidelines on Identification of Beneficial Ownership²⁰

20.1. SEBI Master Circular No. CIR/ISD/AML/3/2010 dated December 31, 2010 has mandated all registered intermediaries to obtain, as part of their Client Due Diligence policy, sufficient information from their clients in order to identify and verify the identity of persons who beneficially own or control the securities account. The beneficial owner has been defined in the circular as the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted, and includes a person who exercises ultimate effective control over a legal person or arrangement.

20.2. SEBI has also prescribed uniform Know Your Client (KYC) requirements for the securities markets vide circular nos. CIR/MIRSD/16/2011 dated August 22, 2011 and MIRSD/SE/Cir-21/2011 dated October 5, 2011. The SEBI KYC Registration Agency (KRA) Regulations, 2011 have been notified and guidelines have been issued under these regulations from time to time.

20.3. Further, the Prevention of Money Laundering Rules, 2005 also require that every banking company, financial institution and intermediary, as the case may be, shall identify the beneficial owner and take all reasonable steps to verify his identity. The Government of India in consultation with the regulators has now specified a uniform approach to be followed towards determination of beneficial ownership. Accordingly, the intermediaries shall comply with the following guidelines.

20.3.1. **For clients other than individuals or trusts** - Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

- a. 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

²⁰ Reference: Circular CIR/MIRSD/2/2013 dated January 24, 2013.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

interest.

Explanation: Controlling ownership interest means ownership 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.
- b. In cases where there exists doubt under clause 20.3.1(a) 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.

- c. Where no natural person is identified under clauses 20.3.1(a) or 20.3.1(b) above, the identity of the relevant natural person who holds the position of senior managing official.
- 20.3.2. **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 settler 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.
- 20.3.3. **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.
- 20.3.4. **Applicability for foreign investors** - Intermediaries dealing with foreign investors' viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, may be guided by the clarifications issued vide SEBI circular CIR/MIRSD/11/2012 dated September 5, 2012, for the purpose of identification of beneficial ownership of the client.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

III. SUPERVISION & OVERSIGHT

21. Oversight of Members (Stock Brokers/Trading Members/Clearing Members of any Segment of Stock Exchanges and Clearing Corporations)²¹

21.1. Inspection of Members by Stock Exchanges / Clearing Corporations

21.1.1. The Stock Exchange or the Clearing Corporation, as the case may be, shall, in consultation with SEBI, formulate a policy for annual inspection of their members in various segments and follow up action thereon. The policy shall also cover various kinds of risks posed to the investors and market at large on account of the activities/business conduct of their members.

21.1.2. The Stock Exchange or the Clearing Corporation, as the case may be, shall conduct inspection of their members in various segments in terms of the above policy and in case of members who hold multiple memberships of the exchanges, the Stock Exchanges shall establish an information sharing mechanism with one another on the important outcome of inspection in order to improve the effectiveness of supervision.

21.1.3. The inspection shall cover:

- a. Compliance with the relevant provisions of the Act, Rules and Regulations made there under, Rules and Regulation of the Stock Exchange / Clearing Corporation and the circulars issued by SEBI and Stock Exchanges / Clearing Corporations from time to time, and
- b. Efficacy of the investor grievance redressal mechanism and discharge of various obligations towards clients, for the preceding one year unless a longer period is warranted in the circumstances.

21.1.4. An illustrative list of common violations/deficiencies observed by SEBI in its inspections of members is enclosed as **Annexure**. The Stock Exchanges and Clearing Corporations are advised to bring this list to the notice of members with an advice to them to avoid these violations/deficiencies.

21.1.5. The Stock Exchange or the Clearing Corporation, as the case may be, shall initiate all the follow up action - remedial, penal and disciplinary - required on inspection findings, within 6 months from the conclusion of the inspection.

²¹ Reference: Circular SEBI/MIRSD/MASTER CIR-04/2010 dated March 17, 2010 and Circular CIR/MIRSD/13/2012 dated December 07, 2012.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

21.2. Internal Audit

21.2.1. The member shall carry out complete internal audit on a half yearly basis by an independent qualified Chartered Accountant, Company Secretary or Cost and Management Accountant who is in practice and does not have any conflict of interest.

21.2.2. The audit shall cover, inter alia,

- a. the existence, scope and efficiency of the internal control system,
- b. compliance with the provisions of the SEBI Act, 1992, Securities Contracts (Regulation) Act 1956, SEBI (Intermediaries) Regulations, 2008, SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, circulars issued by SEBI from time to time, Bye Laws and Regulations and circulars issued by the Stock Exchange / Clearing Corporation,
- c. data security and insurance in respect of operations, and
- d. efficacy of the investor grievance redressal mechanism and discharge of various obligations towards clients.

21.2.3. The internal auditor shall submit the audit report to the member, who shall place it before its Board of Directors/Proprietor/Partners and shall forward the same along with para-wise comments to the respective Stock Exchange/ Clearing Corporation within two months²² from the end of the half year period.

21.2.4. The Stock Exchange/Clearing Corporation shall analyze the audit reports so received and take appropriate follow up action.

21.2.5. The Stock Exchange/Clearing Corporation shall initiate appropriate actions - remedial, penal or disciplinary - against the members where deficiencies are noticed in audit reports or where audit report has not been received, and inform the details of action taken to SEBI, within six months from the end of the half year period.

21.3. Default in case of Multiple Membership

21.3.1. Whenever a member of any segment is declared defaulter, the concerned Stock Exchange/Clearing Corporation shall immediately declare it a defaulter in all its segments. It shall also immediately inform all other Stock Exchanges/Clearing Corporations the details of the defaulter member such as name of the member, the names of the proprietors/partners/promoters/dominant shareholders, as applicable.

²² Words “three months” replaced with “two months” in view of Para 4.5.1 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

21.3.2. Immediately on receipt of the information about default of a member, the Stock Exchange / Clearing Corporation shall declare the said member defaulter on all its segments.

21.3.3. The Stock Exchanges / Clearing Corporations shall take appropriate action against the associates of defaulter member. For this purpose, the term 'associate' shall include a person:

- who, directly or indirectly, by itself, or in combination with other persons, exercises control over the member, whether individual, body corporate or firm or holds substantial share of not less than 15% in the capital of such entities; or
- in respect of whom the member, individual or body corporate or firm, directly or indirectly, by itself or in combination with other persons, exercises control; or
- whose director or partner is also a director or partner of the member, body corporate or the firm, as the case may be.

Explanation: The expression "control" shall have the same meaning as defined under clause (e) of Regulation 2 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.²³

ANNEXURE ²⁴	
The common irregularities observed in the Stock Brokers/trading members books are brought to the notice of all. They are as follows:	
S. No.	Description
I	<p><u>Relating to KYC</u></p> <ol style="list-style-type: none"> 'In person verification' not done while opening the account. Photo copy of KYC & Rights and Obligations document are not provided to clients; if provided proof of delivery/dispatch is not maintained. Adding clauses in Rights and Obligations document which are contrary to the clauses as prescribed by SEBI. Voluntary clauses are not highlighted as 'voluntary' and signatures of clients taken on all the documents.

²³ Words "clause (c) of Regulation 2 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997" replaced with "clause (e) of Regulation 2 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011" in view of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 being repealed and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 being in force as on date.

²⁴ Para VI(37) of Annexure of Circular SEBI/MIRSD/MASTER CIR-04/2010 dated March 17, 2010, deleted in view of Notification LAD-NRO/GN/2011-12/03/12650 dated April 19, 2011.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

II	<p><u>Relating to Contract notes</u></p> <p>3. Contract notes are not bearing serial numbers, SEBI registration numbers, Order no. & time. Contract notes are not issued in the prescribed format/not issued within 24 hours of trade execution/not signed properly by the broker or his authorized representatives.</p> <p>4. Duplicates/counterfoils/acknowledged copies of the contract notes issued not being maintained or maintained with inadequate details.</p> <p>5. Not issuing contracts in the prescribed format while acting as principal.</p> <p>6. Appropriate stamp duty not paid and charging Securities Transaction Tax (STT) on non equity funds transactions by the brokers.</p> <p>7. Brokerage is not shown separately on contract notes. The correct rate at which the transaction was executed is not passed on to the client.</p> <p>8. Charges other than brokerage and statutory charges levied on the clients which are not specifically agreed upon by the clients or charging more than the limits prescribed.</p> <p>9. In case the Electronic Contract Notes (ECN) are issued, the same are not made available on brokers' websites/ sending ECN on single email-id for a group of clients/not maintaining ECN logs for ECN sent to the clients.</p>
III	<p><u>Relating to Investor services</u></p> <p>10. Deficiency in service to the clients.</p> <p>11. Non maintenance of investor grievance register and lack of proper system for receipt and reconciliation of investor grievances/not taking adequate steps for redressal of grievances of investors within one month from the date of receipt of the complaint.</p> <p>12. Non maintenance of client database or details captured wrongly in the database.</p> <p>13. There are delays between pay-out by the exchange to their members and the transmission of shares/money received in such pay-out to their clients by brokers without any record of reasons for such delay.</p> <p>14. Non dissemination of email ID created for receiving investor</p>



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

	<p>grievances to the investors.</p> <p>15. Freezing of accounts of clients without giving adequate reason.</p> <p>16. Providing multiple client codes to one client/using same PAN no. for more than one client.</p> <p>17. Frequent trade modification/client code modification done in client account</p> <p>18. Daily margin statement and quarterly statements not sent to clients</p> <p>19. Relationship managers acting as portfolio managers by entering into verbal agreement with clients for trading on their behalf.</p>
IV	<p><u>Relating to funds and securities</u></p> <p>20. Unauthorized trading activities carried out in client's account.</p> <p>21. Not having separate account for clients' funds/securities or having separate accounts for clients but not segregating clients' funds/securities from its own funds/securities.</p> <p>22. The brokers are found involved in funding activities - with the exception of those in connection with or incidental to or consequential upon the securities business.</p> <p>23. Non collection of margin from clients/wrong reporting of collection of margins to exchanges/clearing members.</p> <p>24. Accepting cash from the clients. Accepting/giving third party payments/receipts.</p> <p>25. The details of shares pledged not being informed to client²⁵.</p>
V	<p><u>Relating to terminals</u></p> <p>26. Not putting the unique client code (UCC) of clients while placing orders in the trading system.</p> <p>27. The broker granting the trading terminals at places other than that</p>

²⁵ Words "Pledging client's securities without explicit authorization from client" in Para IV(25) of Annexure of Circular SEBI/MIRSD/MASTER CIR-04/2010 dated March 17, 2010, deleted in view of Para 2(c) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

	<p>specified by SEBI e.g. registered office, branch office or registered sub-brokers' offices.</p> <p>28. Terminals operated by personnel without having proper qualification/ persons operating the terminal are not employees/remisiers/sub-brokers of stock brokers.</p>
VI	<p><u>Others</u></p> <p>29. Non-maintenance or improper maintenance of Books of Accounts which are required to be maintained as per Rule 15 of SC (R) Rules, 1957 and Regulation 17 of SEBI (Brokers and Sub-Brokers) Regulations 1992.</p> <p>30. Non-compliance with provisions relating to spot/negotiated deals.</p> <p>31. Instances of the broker/dealers/others connected with the broker, involved in front running, circular trading, creating false markets, misuse of the exchange mechanism for securing financing transactions, entering fictitious transactions and illegal transactions.</p> <p>32. Non submission of audit report/internal audit reports within the prescribed time limit.</p> <p>33. Dealing with unregistered sub-brokers/acting through brokers of other exchanges for its clients without registering as a sub-broker of these brokers.</p> <p>34. Involved in business other than the securities business in violation of applicable laws.</p> <p>35. Non payment/ inadequate payment of SEBI registration fees by the stock brokers and also by their sub-brokers.</p> <p>36. Not complying with the provisions of advertisements/internet based trading</p> <p>37. Non appointment of compliance officer.</p> <p>38. Non- compliance with trading restrictions imposed by Stock Exchanges</p> <p>39. Trading in unlisted securities and in securities prior to their admission to dealings by Exchanges</p>



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

	40. Not reporting off-the-floor transactions (e.g.) (a) The transactions with stock brokers of other exchanges (b) Principal to principal transactions with clients (c) Transactions done after the trading hours.
	41. Not informing the investors/general public about cancellation of registration of its sub-broker(s)
	42. Non-formation of policies related to internal controls, employee/insider trading, Prevention of Money Laundering (PML) etc. If policies are formulated, they are not implemented.
	43. Delivery vs payment (DvP) trades are done in other than those circumstances as prescribed.

22. Policy of Annual Inspection of Members by Stock Exchanges/Clearing Corporations²⁶

22.1. Policy for annual inspection of members, as decided in consultations with Stock Exchanges/Clearing Corporations, is prescribed in **Annexure** below.

ANNEXURE

1. The criteria for selection of members for annual inspection are as follows:
 - 1.1. Stock Brokers servicing investors, getting disabled on account of funds shortages on more than 3 times in a month shall be inspected irrespective of the fact of when they were last inspected.
 - 1.2. Stock Brokers servicing investors, having overnight disablement on account of margin shortage for more than 2 days shall be inspected irrespective of the fact of when they were last inspected.
 - 1.3. Top 25 stock brokers paying high and recurring penalties for non-reporting or short reporting of margin/Client Code modification/CTCL mismatch fines or any other similar high risk compliance issue shall be inspected irrespective of when they were last inspected.
 - 1.4. Top 25 stock brokers in terms of investor complaints and arbitration cases filed by investors shall be inspected irrespective of the fact of when they were last inspected.
 - 1.5. Stock Brokers having adverse observations in the internal audit report on high risk issues like wrong reporting of margins, transfer of trades, pledging of

²⁶ Reference: Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/73 dated June 30, 2017.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

client securities, dealing with unregistered intermediaries etc., shall be inspected irrespective of the fact of when they were last inspected.

- 1.6. Subsidiaries of Regional Stock Exchanges shall be inspected every year.
- 1.7. Stock Exchange shall frame internal policy for selection of stock brokers for inspection based on inputs/alerts from Risk Based Supervision.
- 1.8. Besides the above, the special purpose/limited inspections shall be carried out based on any triggers like patterns found during investor complaint resolution/Arbitration, complaints on specific malpractices of a broker or references from various authorities. The inspection shall be irrespective of the fact of when the last inspection was carried out.
- 1.9. Apart from the above few stock brokers shall be selected by the Stock Exchanges on a random basis for inspection.
- 1.10. Stock Brokers who do not fall under any of the above category shall be inspected by the Stock Exchanges at least once in three years.
- 1.11. Stock Brokers selected on the above category shall be inspected for all segments and also for clearing activity if the stock broker is undertaking clearing for other stock brokers.
- 1.12. Inspections of Professional Clearing Members shall be conducted by Clearing Corporations once in two years.
2. Clearing activity undertaken by stock brokers for other stock brokers shall be inspected by Clearing Corporations. Other activities of stock brokers shall be inspected by Stock Exchanges. If Stock Exchanges and Clearing Corporations so desire, they can conduct joint inspections of stock brokers. Where Clearing Corporation has not been set up, Stock Exchange shall inspect all activities of stock brokers including activity of clearing for other stock brokers.
3. The Stock Exchanges/Clearing Corporations are advised to continuously assess the risks posed by their members and review/revise the policy of annual inspection, as and when required, in consultation with SEBI.
4. The Stock Exchanges shall establish an information sharing mechanism with one another on the important outcome of inspection of members who hold multiple memberships of the exchanges in order to improve the effectiveness of supervision and shall also bring cases of repetitive and / or serious violations to the notice of SEBI.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

23. Enhanced Supervision of Stock Brokers / Depository Participants²⁷

23.1. SEBI constituted a committee on “Enhanced Supervision of Stock Brokers”, which included representatives from Stock Exchanges, Depositories and Brokers. With a view to implement the recommendations, the guidelines in **Annexure** below have been issued. These guidelines cover the following broad areas:

- 23.1.1. Uniform nomenclature to be followed by stock brokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Stock Exchanges/Depositories.
- 23.1.2. Monitoring of Clients’ Funds lying with the stock broker by the Stock Exchanges, through a sophisticated alerting and reconciliation mechanism, to detect any misutilisation of clients’ fund.
- 23.1.3. Changes in the existing system of internal audit for stock brokers/depository participants viz. appointment, rotation of Internal Auditors, formulation of objective sample criteria, monitoring of quality of Internal Audit Reports, timeline for submissions of Internal Audit Reports, etc.
- 23.1.4. Monitoring of Financial Strength of Stock Brokers by Stock Exchanges so as to detect any signs of deteriorating financial health of stock brokers and serve as an early warning system to take preemptive and remedial measures.
- 23.1.5. Imposition of uniform penal action on stock brokers/depository participants by the Stock Exchanges/Depositories in the event of non-compliance with specified requirements.
- 23.1.6. Other Requirements:
 - a) Uploading client's funds and securities balances by Stock Brokers to Stock Exchange System and onwards transmission of the same to the clients for better transparency.
 - b) Clarification on Running Account Settlement
 - c) Providing PAN details of Directors, Key Management Personnel and Dealers, to Stock Exchanges and any change thereof.

23.2. The provisions of enhanced supervision circular is not applicable to Regional

²⁷ Reference: Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, Circular CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017 and Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2017/123 dated November 29, 2017.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Commodity Exchanges till further notice.

ANNEXURE

1. Naming/Tagging of Bank and Demat Accounts by Stock Broker

- 1.1. Bank accounts and Demat accounts maintained by all stock brokers shall have appropriate nomenclature to reflect the purpose for which those bank/demat accounts are being maintained.
- 1.2. The nomenclature for bank accounts and demat accounts to be followed is given as under:
 - 1.2.1. Bank account(s) which hold clients funds shall be named as "Name of Stock Broker - Client Account".
 - 1.2.2. Demat account(s) which hold clients' securities shall be named as "Name of Stock Broker- Client Account".
 - 1.2.3. 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".
 - 1.2.4. Demat account(s) held for the purpose of settlement would be named as "Name of Stock Broker - Pool account".
 - 1.2.5. Bank account(s) held for the purpose of settlement would be named as "Name of Stock Broker - Settlement Account".
- 1.3. Naming proprietary bank/demat accounts of the stock broker as 'Stock Broker-Proprietary Account' is voluntary. It is however clarified that bank/demat account which do not fall under the above clauses from 1.2.1 to 1.2.5 would be deemed to be proprietary.

2. Reporting of Bank and Demat accounts maintained by Stock Broker:

- 2.1. 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



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

2.1.1. 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.

2.2. 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

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

2.3.1. 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.

2.3.2. 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.

2.3.3. Depositories shall ensure that once the nomenclature for a particular demat account has been assigned by the stock broker, then the same shall not be modified.

2.3.4. Any non-compliance/non-reporting in this regard by the stock broker shall attract penal action as per the provisions of Stock Exchanges.

2.3.5. Based on the list of stock brokers (including PANs) provided by the respective Stock Exchanges, Depositories shall also provide stock broker-wise details of all the demat accounts opened by a stock broker to the concerned Stock Exchanges to facilitate reconciliation with the data submitted by the stock broker.

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

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

2.4.2. 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.

2.4.3. 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.

2.4.4. 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.

2.5. 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. 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:

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

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

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

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

2.5.5. Stock Brokers shall send a statement reflecting the pledge and funding to



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

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								
			ISIN / Security Name	Previous day's closing price	Total Quantity	Total Value (Total Quantity * Previous day closing price)	Total Value (Adjusted for applicable haircut)	Pledged Quantity	Pledged value	Borrowing	Details of Pledgee

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

2.6. 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, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to



time.

3. Monitoring of Clients' Funds lying with the Stock Broker by the Stock Exchanges

3.1. Stock Exchanges shall put in place a mechanism for monitoring clients' funds lying with the stock broker to generate alerts on any misuse of clients' funds by stock brokers, as per the guidelines stipulated in para 3.2 & 3.3 below.

3.2. 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 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- 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).

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.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

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

3.3. Based on the aforesaid information submitted by the stock broker, Stock Exchanges shall put in place a mechanism for monitoring of clients' funds lying with the stock brokers on the principles enumerated below:

3.3.1. 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).

Stock Exchanges shall calculate the difference i.e. G 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 amount of client funds used for own purpose is calculated as follows:

$$H = |G| - |D|$$

3.3.2. Funds of clients used for Margin obligation of proprietary trading:

Stock Exchanges shall thereafter, verify whether the proprietary margin



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

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).

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 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.

3.3.3. Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

Stock Exchanges shall thereafter, verify 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. (C-A) 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:

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

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 to the Stock Exchanges on the possible misutilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.

- 3.4. 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 Table 1, 2 & 3 given at the end of the **Annexure**.
- 3.5. Stock Exchanges shall 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.
- 3.6. Stock Brokers shall ensure due compliance in submitting the information to the Exchanges within the stipulated time.



4. Internal Audit of Stock Broker

4.1. SEBI has mandated half yearly internal audit for stock brokers/clearing members. The following additional requirements in relation to internal auditors shall become applicable:

4.2. Appointment and Rotation of Internal auditors

4.2.1. Stock Exchanges shall ensure that;

4.2.1.1. 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.

4.2.1.2. 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 –

4.2.1.3. An individual internal auditor who has completed his term under clause 4.2.1.2 (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.

4.2.1.4. An audit firm which has completed its term under clause 4.2.1.2 (b) above, shall not be eligible for re-appointment as internal auditor for the same stock broker for five years from the completion of such term; Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a stock broker immediately preceding the financial year, shall be appointed as internal auditor for the same



stock broker for a period of five years.

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

4.3. Formulation of objective sample criteria for Internal Audit

4.3.1. The Stock Exchanges shall, in consultation with each other, develop for each theme/area of the internal audit, a 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.

4.4. Monitoring of quality of Internal Audit Reports

4.4.1. 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.

4.4.2. 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 years²⁸.

²⁸ Words “five years” replaced with “three years” in view of Para 1(j) of Annexure of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/73 dated June 30, 2017.



4.5. Submissions of Internal Audit Report

- 4.5.1. 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:

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

4.6. Other requirements

- 4.6.1. 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.
- 4.6.2. 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.

5. Monitoring of Financial Strength of Stock Brokers

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

5.1.1. Financial Indicators:

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

5.1.2. Financial Ratios:

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



/ (Net worth).

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

5.2. 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.

5.3. No stock broker shall appoint or re-appoint –

5.3.1. an individual as statutory auditor for more than one term of five consecutive years;

and

5.3.2. an audit firm as statutory auditor for more than two terms of five consecutive years:

Provided that –

5.4. An individual statutory auditor who has completed his term under clause 5.3.1 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.

5.5. A statutory audit firm which has completed its term under clause 5.3.2 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.

5.6. 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.

6. Standard Operating Procedures for Stock Brokers/Depository Participants - Actions to be contemplated by Stock Exchanges/Depositories for any event based discrepancies

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

6.1.1. Monitoring criteria for Stock Brokers



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- a. Failure to furnish Networth certificate to Stock Exchange within 60 days for half year ending September 30th and half year ending March 31st.
- b. 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.
- c. Failure to furnish Annual Audited Accounts by September 30th of the relevant year.
- d. 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.
- e. Failure to submit data for the half yearly Risk Based Supervision within the time specified by Stock Exchange.
- f. Failure to assign appropriate Bank and Demat nomenclature within the time specified and to report the same to the Stock Exchanges.
- g. Failure to report new bank and demat accounts opened by the stock broker to exchanges within the time specified for reporting of such accounts.
- h. Complaints pending for more than 30 days and total value of which is more than 50 per cent of the Networth of the Broker.
- i. If, at any point of time, Net worth of the Broker is negative or lower than 75 per cent of the requirement.
- j. In case stock broker shares incomplete/wrong data or fails to submit data on time.
- k. Failure to submit financial statements as per timeline prescribed under Companies Act, 2013.

6.1.2. Monitoring criteria for Depository Participants

- a. Failure to furnish Networth certificate to Depository for year ending March 31st by September 30th.
- b. Failure to furnish Internal Audit report to Depository for half year ending September 30th by November 15th and half year ending March 31st by May 15th.
- c. Failure to co-operate with the Depository for conducting inspection by not submitting all the information/records sought within 45 days from the due date specified in the letter of intimation.
- d. Failure to submit data for the half yearly Risk Based Supervision within the time specified by Depositories.
- e. Failure to furnish half yearly compliance certificate/report to Depository for half year ending June 30th by July 30th and half year ending December 31st by January 31st.
- f. Failure to furnish monthly Investor grievance report by 10th day of next month.
- g. In case depository participant shares incomplete/wrong data or fails



to submit data on time.

- h. Failure to submit financial statements as per timeline prescribed by the Depositories.

6.1.3. The Stock Exchanges and Depositories shall jointly frame uniform penal action on stock brokers and depository participants respectively, in the event of noncompliance with the illustrative criteria listed above. Provided further that Stock Exchanges and Depositories may also frame more stringent criteria than as mentioned above.

7. Uploading clients' fund balance and securities balance by the Stock Brokers on Stock Exchange system

7.1. The Stock Exchanges shall put in place a mechanism and ensure that stock brokers upload the following data on a monthly basis for every client onto each Stock Exchange system where the broker is a member:

- 7.1.1. Exchange-wise end of day fund balance as per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges.
- 7.1.2. End of day securities balances ISIN wise (as on last trading day of the month) and End of day securities balances (as on last trading day of the month) consolidated ISIN wise (i.e., total number of ISINs and total number of securities across all ISINs).
- 7.1.3. ISIN wise number of securities pledged, if any, and the funds raised from the pledging of such securities and consolidated number of securities pledged (i.e., total number of ISINs and total number of securities across all ISINs), if any and the funds raised from the pledging of such securities.
- 7.1.4. The data at Para 7.1.1, 7.1.2 and 7.1.3 pertains to the last trading day of the month. The stock broker shall submit the aforesaid data within seven calendar days of the last trading day of the month.
- 7.1.5. 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.

7.2. Each Stock Exchange shall in turn forward –

- 7.2.1. Information at Para 7.1.1, 7.1.2 and 7.1.3 to clients via Email on the email IDs uploaded by the stock broker to the exchange for their clients.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 7.2.2. Information at Para 7.1.1, 7.1.2 (only consolidated data) and 7.1.3 (only consolidated data) to clients via SMS on mobile numbers uploaded by the stock broker to the Exchange for their clients.

8. Running Account Settlement

8.1. The stock broker shall ensure that;

- 8.1.1. There must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.
- 8.1.2. For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.
- 8.1.3. The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.
- 8.1.4. Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.

9. Providing PAN Number

- 9.1. 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.

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	Clients' Funds as per the client ledger across all	Difference	Calculate only if G is negative
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भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Exchanges		Stock Exchanges				
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)

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	Non funded portion of the Bank Guarantee (F) - across all Stock Exchanges	Proprietary margin Obligation across all Stock Exchanges	Difference
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भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

	Corporation/ Clearing member - across all Stock Exchanges			
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 $(C-A)-(MC+MF)$



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

24. Annual System Audit of Stock Brokers / Trading Members²⁹

- 24.1. System audit guidelines for Stock Brokers / Trading members prescribed below includes System Audit Process, Auditor Selection Norms and Terms of Reference (TOR).
- 24.2. The Stock Exchanges should ensure that system audit of stock brokers / trading members is conducted in accordance with the prescribed guidelines.
- 24.3. Exchanges are advised to keep track of findings of system audits of all brokers on quarterly basis and ensure that all major audit findings, specifically in critical areas, are rectified / complied in a time bound manner failing which follow up inspection of such brokers may be taken up for necessary corrective steps / actions thereafter, if any.
- 24.4. Stock Exchange should report all major non-compliances / observations of system auditors, broker wise, on a quarterly basis to SEBI.

Stock Broker System Audit Framework

1. Audit Process

1.1. System Audit of stock brokers should be conducted with the following periodicity:

1.1.1. Annual system audit is prescribed for stock brokers who satisfy any of the following criteria:

- a. Stock Brokers who use [Computer-to-Computer Link (CTCL) or Intermediate Messaging Layer (IML)] (or other similar trading facilities) / Internet Based Trading (IBT)/ Direct Market Access (DMA)/ Securities Trading using Wireless Technology (STWT) / Smart Order Routing (SOR) and have presence in more than 10 locations or number of terminals are more than 50.
- b. Stock Brokers who are depository participants or are involved in offering any other financial services.

1.1.2. Half yearly system audit has been prescribed for stock brokers who use Algorithmic Trading or provide their clients with the facility of Algorithmic Trading as per SEBI Circular CIR/MRD/16/2013 dated May 21, 2013.

1.1.3. For all other stock brokers, system audit shall be conducted once in two years.

1.2. Such audit shall be conducted in accordance with the Norms, Terms of Reference (ToR) and Guidelines issued by SEBI and / or by Stock Exchanges. Separate ToRs are specified for the following categories of brokers:

²⁹ Reference: Circular CIR/MRD/DMS/34/2013 dated November 06, 2013.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 1.2.1. **Type I Broker:** Brokers who trade through exchange provided terminals such as NSE's NEAT, BSE's BOLT, MCX-SX's TWS, etc. (ToR attached as **Annexure I** below);³⁰
- 1.2.2. **Type II Broker:** Brokers who trade through API based trading terminals like [CTCL or IML] or IBT/DMA/STWT or SOR facility and who may also be TYPE I Brokers. (ToR attached as **Annexure II** below)
- 1.2.3. **Type III Broker:** Brokers who use Algorithmic Trading facility to trade and who may also be TYPE II Brokers. (ToR attached as **Annexure III** below)
- 1.3. Stock brokers shall select auditors as per the selection norms provided in the guidelines and directions issued by Stock Exchanges and SEBI from time to time. The Auditor may perform a maximum of 3 successive audits of the stock broker.
- 1.4. The Stock Exchanges shall periodically review ToR of such system audit and, if required, shall suitably revise the ToR after taking into consideration developments that have taken place in the securities market since the last review of ToR, observations reported in the audit reports of the stock brokers and directions issued by SEBI from time to time in this regard.
- 1.5. The auditor in its report shall specify compliance / non-compliance status with regard to areas mentioned in ToR. Observations on minor / major deviations as well as qualitative comments for scope for improvement shall also be specified in the report. The auditor shall also take into consideration the observations / issues mentioned in the previous audit reports and cover open items in the report. The audit report submitted by the auditor should be forwarded to the Stock Exchange by the Stock Broker along with management comments, within 1 month of submission of report by the auditor.
- 1.6. Stock Exchange shall ensure that the management of the stock broker provides their comment about the non-compliance / non-conformities (NCs) and observations mentioned in the report. For each NC, specific time-bound (within 3 months of submission of report by the exchange) corrective action must be taken and reported to the Stock Exchange. The auditor should indicate if a follow-on audit is required to review the status of NCs.
- 1.7. In order to ensure that the corrective actions are taken by the stock broker, follow-on audit, if any, shall be scheduled by the stock broker within 6 months of submission of the audit report by the system auditor.
- 1.8. The system auditors should follow the reporting standard as specified in Annexure IV of this Framework for the executive summary of the System Audit report to highlight the major findings of the System Audit.

³⁰ Vide Letter MRD/DMS/OW/9500/2015 dated March 31, 2015, SEBI informed Stock Exchanges that System Audit requirement for Type I brokers may be kept on hold till further communication from SEBI.



2. Auditor Selection Norms

- 2.1. The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. Stock Exchanges, Clearing Corporation, 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.
- 2.2. It is recommended that resources employed 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)².
- 2.3. The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.
- 2.4. The Auditor shall not have any conflict of interest in conducting fair, objective and independent audit of the stock broker. Further, the directors / partners of Auditor firm shall not be related to any stock broker including its directors or promoters either directly or indirectly.
- 2.5. 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.

Annexure I

3. Terms of Reference (ToR) for Type I Broker

The system auditor shall at the minimum cover the following areas:

3.1. System controls and capabilities

- 3.1.1. **Order Tracking** – The system auditor should verify system process and controls at exchange provided terminals with regard to order entry, capturing of IP address of order entry terminals, modification / deletion of orders, status of the current order/outstanding orders and trade confirmation.
- 3.1.2. **Order Status/ Capture** – Whether the system has capability to generate / capture order id, time stamping, order type, scrip details, action, quantity, price and validity etc.
- 3.1.3. **Rejection of orders** – Whether system has capability to reject orders which do not go through order level validation at the end of the stock broker and at the servers of respective Stock Exchanges.
- 3.1.4. **Communication of Trade Confirmation / Order Status** – Whether the system has capability to



timely communicate to Client regarding the Acceptance/ Rejection of an Order / Trade via various media including e-mail; facility of viewing trade log.

- 3.1.5. **Client ID Verification** – Whether the system has capability to recognize only authorized Client Orders and mapping of Specific user Ids to specific predefined location for proprietary orders.

3.2. Risk Management System (RMS)

- 3.2.1. **Online risk management capability** – The system auditor should check whether the system of online risk management (including upfront real-time risk management) is in place for all orders placed through exchange provided terminals.
- 3.2.2. **Trading Limits** –Whether a system of pre-defined limits / checks such as Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit, etc) are in place and only such orders which are within the parameters specified by the RMS are allowed to be pushed into exchange trading engines. The system auditor should check that no user or branch in the system is having unlimited limits on the above parameters.
- 3.2.3. **Order Alerts and Reports** –Whether the system has capability to generate alerts when orders that are placed are above the limits and has capability to generate reports relating to Margin Requirements, payments and delivery obligations.
- 3.2.4. **Order Review** –Whether the system has capability to facilitate review of such orders were not validated by the system.
- 3.2.5. **Back testing for effectiveness of RMS** – Whether the system has capability to identify trades which have exceeded the pre-defined limits (Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit) and also exceed corresponding margin availability of clients. Whether deviations from such pre-defined limits are captured by the system, documented and corrective steps taken.
- 3.2.6. **Log Management** – Whether the system maintains logs of alerts / changes / deletion / activation / deactivation of client codes and logs of changes to the risk management parameters mentioned above. Whether the system allows only authorized users to set the risk parameter in the RMS.

3.3. Password Security

- 3.3.1. **Organization Access Policy** – Whether the organization has a well documented policy that provides for a password policy as well as access control policy for the exchange provided terminals.
- 3.3.2. **Authentication Capability** – Whether the system authenticates user credentials by means of a password before allowing the user to login, and whether there is a system for authentication of orders originating from Internet Protocol by means of two-factor authentication, including Public



Key Infrastructure (PKI) based implementation of digital signatures.

- 3.3.3. **Password Best Practices** – Whether there is a system provision for masking of password, system prompt to change default password on first login, disablement of user id on entering multiple wrong passwords (as defined in the password policy document), periodic password change mandate and appropriate prompt to user, strong parameters for password, deactivation of dormant user id, etc.

3.4. Session Management

- 3.4.1. **Session Authentication** – Whether the system has provision for Confidentiality, Integrity and Availability (CIA) of the session and the data transmitted during the session by means of appropriate user and session authentication mechanisms like SSL etc.
- 3.4.2. **Session Security** – Whether there is availability of an end-to-end encryption for all data exchanged between client and broker systems. or other means of ensuring session security.
- 3.4.3. **Inactive Session** – Whether the system allows for automatic trading session logout after a system defined period of inactivity.
- 3.4.4. **Log Management** – Whether the system generates and maintain logs of Number of users, activity logs, system logs, Number of active clients.

3.5. Network Integrity

- 3.5.1. **Seamless connectivity** – Whether stock broker has ensured that a backup network link is available in case of primary link failure with the exchange.
- 3.5.2. **Network Architecture** – Whether the web server is separate from the Application and Database Server.
- 3.5.3. **Firewall Configuration** – Whether appropriate firewall is present between stock broker's trading setup and various communication links to the exchange. Whether the firewall is appropriately configured to ensure maximum security.

3.6. Access Controls

- 3.6.1. **Access to server rooms** – Whether adequate controls are in place for access to server rooms and proper audit trails are maintained for the same.
- 3.6.2. **Additional Access controls** – Whether the system provides for any authentication mechanism to access to various components of the exchange provided terminals. Whether additional password requirements are set for critical features of the system. Whether the access control is adequate



3.7. Backup and Recovery

- 3.7.1. **Backup and Recovery Policy** – Whether the organization has a well documented policy on periodic backup of data generated from the broking operations.
- 3.7.2. **Log generation and data consistency** - Whether backup logs are maintained and backup data is tested for consistency.
- 3.7.3. **System Redundancy** – Whether there are appropriate backups in case of failures of any critical system components.

3.8. BCP/DR (Only applicable for Stock Brokers having BCP / DR site)

- 3.8.1. **BCP / DR Policy** – Whether the stock broker has a well documented BCP/ DR policy and plan. The system auditor should comment on the documented incident response procedures.
- 3.8.2. **Alternate channel of communication** – Whether the stock broker has provided its clients with alternate means of communication including channel for communication in case of a disaster. Whether the alternate channel is capable of authenticating the user after asking for additional details or OTP (One-Time-Password).
- 3.8.3. **High Availability** – Whether BCP / DR systems and network connectivity provide high availability and have no single point of failure for any critical operations as identified by the BCP/DR policy.
- 3.8.4. **Connectivity with other FMIs** – The system auditor should check whether there is an alternative medium to communicate with Stock Exchanges and other FMIs.

3.9. Segregation of Data and Processing facilities – The system auditor should check and comment on the segregation of data and processing facilities at the stock broker in case the stock broker is also running other business.

3.10. Back office data

- 3.10.1. **Data consistency** – The system auditor should verify whether aggregate client code data available at the back office of broker matches with the data submitted / available with the Stock Exchanges through online data view / download provided by exchanges to members.
- 3.10.2. **Trail Logs** – The system auditor should specifically comment on the logs of Client Code data to ascertain whether editing or deletion of records have been properly documented and recorded and does not result in any irregularities.

3.11. IT Infrastructure Management (including use of various Cloud computing models such as Infrastructure as a service (IaaS), Platform as a service (PaaS), Software as a service (SaaS), Network as a service (NaaS))



- 3.11.1. **IT Governance and Policy** – The system auditor should verify whether the relevant IT Infrastructure-related policies and standards exist and are regularly reviewed and updated. Compliance with these policies is periodically assessed.
 - 3.11.2. **IT Infrastructure Planning** – The system auditor should verify whether the plans/policy for the appropriate management and replacement of aging IT infrastructure components have been documented, approved, and implemented. The activities, schedules and resources needed to achieve objectives related to IT infrastructure have been integrated into business plans and budgets.
 - 3.11.3. **IT Infrastructure Availability (SLA Parameters)** – The system auditor should verify whether the broking firm has a process in place to define its required availability of the IT infrastructure, and its tolerance to outages. In cases where there is huge reliance on vendors for the provision of IT services to the brokerage firm the system auditor should also verify that the mean time to recovery (MTTR) mentioned in the Service Level Agreement (SLA) by the service provider satisfies the requirements of the broking firm.
 - 3.11.4. **IT Performance Monitoring (SLA Monitoring)** – The system auditor should verify that the results of SLA performance monitoring are documented and are reported to the management of the broker.
- 3.12. **Exchange specific exceptional reports** – The additional checks recommended by a particular exchange need to be looked into and commented upon by the system auditor over and above the ToR of the system audit.

Annexure II

4. ToR for Type II Broker

The system auditor shall at the minimum cover the following areas:

4.1. System controls and capabilities (CTCL / IML terminals and servers)

- 4.1.1. **Order Tracking** – The system auditor should verify system process and controls at CTCL / IML terminals and CTCL/ IML servers covering order entry, capturing of IP address of order entry terminals, modification / deletion of orders, status of current order/outstanding orders and trade confirmation.
- 4.1.2. **Order Status/ Capture** – Whether the system has capability to generate / capture order id, time stamping, order type, scrip details, action, quantity, price and validity, etc.
- 4.1.3. **Rejection of orders** – Whether system has capability to reject orders which do not go through order level validation at CTCL servers and at the servers of respective Stock Exchanges.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 4.1.4. **Communication of Trade Confirmation / Order Status** – Whether the system has capability to timely communicate to Client regarding the Acceptance/ Rejection of an Order / Trade via various media including e-mail; facility of viewing trade log.
- 4.1.5. **Client ID Verification** – Whether the system has capability to recognize only authorized Client Orders and mapping of Specific user Ids to specific predefined location for proprietary orders.
- 4.1.6. **Order type distinguishing capability** – Whether system has capability to distinguish the orders originating from (CTCL or IML) / IBT/ DMA / STWT.

4.2. **Software Change Management** - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:

- 4.2.1. Processing / approval methodology of new feature request or patches.
- 4.2.2. Fault reporting / tracking mechanism and process for resolution.
- 4.2.3. Testing of new releases / patches / modified software / bug fixes.
- 4.2.4. Version control- History, Change Management process, approval etc.
- 4.2.5. Development / Test / Production environment segregation.
- 4.2.6. New release in production – promotion, release note approvals.
- 4.2.7. Production issues / disruptions reported during last year, reasons for such disruptions and corrective actions taken.
- 4.2.8. User Awareness.

The system auditor should check whether critical changes made to the (CTCL or IML) / IBT / DMA / STWT/ SOR are well documented and communicated to the Stock Exchange.

4.3. **Risk Management System (RMS)**

- 4.3.1. **Online risk management capability** – The system auditor should check whether system of online risk management including upfront real-time risk management, is in place for all orders placed through (CTCL or IML) / IBT / DMA / STWT.
- 4.3.2. **Trading Limits** – Whether a system of pre-defined limits /checks such as Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit, etc., are in place and only such orders which are within the parameters specified by the RMS are allowed to be pushed into exchange trading engines. The system auditor should check that no user or branch in the system is having unlimited limits on the above parameters.



- 4.3.3. **Order Alerts and Reports** – Whether the system has capability to generate alerts when orders that are placed are above the limits and has capability to generate reports relating to margin requirements, payments and delivery obligations.
- 4.3.4. **Order Review** – Whether the system has capability to facilitate review of such orders that were not validated by the system.
- 4.3.5. **Back testing for effectiveness of RMS** – Whether system has capability to identify trades which have exceeded the pre-defined limits (Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit) and also exceed corresponding margin availability of clients. Whether deviations from such pre-defined limits are captured by the system, documented and corrective steps taken.
- 4.3.6. **Log Management** – Whether the system maintains logs of alerts / changes / deletion / activation / deactivation of client codes and logs of changes to the risk management parameters mentioned above. Whether the system allows only authorized users to set the risk parameter in the RMS.
- 4.4. **Smart order routing (SOR)** - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:
- 4.4.1. **Best Execution Policy** – System adheres to the Best Execution Policy while routing the orders to the exchange.
- 4.4.2. **Destination Neutral** – The system routes orders to the recognized Stock Exchanges in a neutral manner.
- 4.4.3. **Class Neutral** – The system provides for SOR for all classes of investors.
- 4.4.4. **Confidentiality** - The system does not release orders to venues other than the recognized Stock Exchange.
- 4.4.5. **Opt-out** – The system provides functionality to the client who has availed of the SOR facility, to specify for individual orders for which the clients do not want to route order using SOR.
- 4.4.6. **Time stamped market information** – The system is capable of receiving time stamped market prices from recognized Stock Exchanges from which the member is authorized to avail SOR facility.
- 4.4.7. **Audit Trail** - Audit trail for SOR should capture order details, trades and data points used as a basis for routing decision.
- 4.4.8. **Server Location** – The system auditor should check whether the order routing server is located in India.



- 4.4.9. **Alternate Mode** - The system auditor should check whether an alternative mode of trading is available in case of failure of SOR Facility.

4.5. Password Security

- 4.5.1. **Organization Access Policy** - Whether organization has a well documented policy that provides for a password policy as well as access control policy for exchange provided terminals and for API based terminals.
- 4.5.2. **Authentication Capability** - Whether the system authenticates user credentials by means of a password before allowing the user to login, and whether there is a system for authentication of orders originating from Internet Protocol by means of two-factor authentication, including Public Key Infrastructure (PKI) based implementation of digital signatures.
- 4.5.3. **Password Best Practices** - Whether there is a system provision for masking of password, system prompt to change default password on first login, disablement of user id on entering multiple wrong passwords (as defined in the password policy document), periodic password change mandate and appropriate prompt to user, strong parameters for password, deactivation of dormant user id, etc.

4.6. Session Management

- 4.6.1. **Session Authentication** - Whether system has provision for Confidentiality, Integrity and Availability (CIA) of the session and the data transmitted during the session by means of appropriate user and session authentication mechanisms like SSL etc.
- 4.6.2. **Session Security** - Whether there is availability of an end-to-end encryption for all data exchanged between client and broker systems or other means of ensuring session security. Whether session login details are stored on the devices used for IBT and STWT.
- 4.6.3. **Inactive Session** - Whether the system allows for automatic trading session logout after a system defined period of inactivity.
- 4.6.4. **Log Management** - Whether the system generates and maintains logs of Number of users, activity logs, system logs, Number of active clients.

4.7. Database Security

- 4.7.1. **Access** - Whether the system allows CTCL or IML database access only to authorized users / applications.
- 4.7.2. **Controls** - Whether the CTCL or IML database server is hosted on a secure platform, with Username and password stored in an encrypted form using strong encryption algorithms.



4.8. Network Integrity

- 4.8.1. **Seamless connectivity** – Whether the stock broker has ensured that a backup network link is available in case of primary link failure with the exchange.
- 4.8.2. **Network Architecture** – Whether the web server is separate from the Application and Database Server.
- 4.8.3. **Firewall Configuration** – Whether appropriate firewall is present between stock broker's trading setup and various communication links to the exchange. Whether the firewall is appropriately configured to ensure maximum security.

4.9. Access Controls

- 4.9.1. **Access to server rooms** – Whether adequate controls are in place for access to server rooms and proper audit trails are maintained for the same.
- 4.9.2. **Additional Access controls** – Whether the system provides for two factor authentication mechanism to access to various CTCL or IML components. Whether additional password requirements are set for critical features of the system. Whether the access control is adequate.

4.10. Backup and Recovery

- 4.10.1. **Backup and Recovery Policy** – Whether the organization has a well documented policy on periodic backup of data generated from the broking operations.
- 4.10.2. **Log generation and data consistency** - Whether backup logs are maintained and backup data is tested for consistency.
- 4.10.3. **System Redundancy** – Whether there are appropriate backups in case of failures of any critical system components.

4.11. BCP/DR (Only applicable for Stock Brokers having BCP / DR site)

- 4.11.1. **BCP / DR Policy** – Whether the stock broker has a well documented BCP/ DR policy and plan. The system auditor should comment on the documented incident response procedures.
- 4.11.2. **Alternate channel of communication** – Whether the stock broker has provided its clients with alternate means of communication including channel for communication in case of a disaster. Whether the alternate channel is capable of authenticating the user after asking for additional details or OTP (One-Time-Password).
- 4.11.3. **High Availability** – Whether BCP / DR systems and network connectivity provide high availability and have no single point of failure for any critical operations as identified by the BCP/ DR policy.



4.11.4. **Connectivity with other FMIs** – The system auditor should check whether there is an alternative medium to communicate with Stock Exchanges and other FMIs.

4.12. **Segregation of Data and Processing facilities** – The system auditor should check and comment on the segregation of data and processing facilities at the stock broker in case the stock broker is also running other business.

4.13. Back office data

4.13.1. **Data consistency** – The system auditor should verify whether aggregate client code data available at the back office of broker matches with the data submitted / available with the Stock Exchanges through online data view / download provided by exchanges to members.

4.13.2. **Trail Logs** – The system auditor should specifically comment on the logs of Client Code data to ascertain whether editing or deletion of records have been properly documented and recorded and does not result in any irregularities.

4.14. User Management

4.14.1. **User Management Policy** – The system auditor should check whether the stock broker has a well documented policy that provides for user management and the user management policy explicitly defines user, database and application Access Matrix.

4.14.2. **Access to Authorized users** – The system auditor should check whether the system allows access only to the authorized users of the CTCL or IML System. Whether there is a proper documentation of the authorized users in the form of User Application approval, copies of User Qualification and other necessary documents.

4.14.3. **User Creation / Deletion** – The system auditor should check whether new users ids were created / deleted as per CTCL or IML guidelines of the exchanges and whether the user ids are unique in nature.

4.14.4. **User Disablement** – The system auditor should check whether non-complaint users are disabled and appropriate logs (such as event log and trade logs of the user) are maintained.

4.15. **IT Infrastructure Management** (including use of various Cloud computing models such as Infrastructure as a service (IaaS), Platform as a service (PaaS), Software as a service (SaaS), Network as a service (NaaS))

4.15.1. **IT Governance and Policy** – The system auditor should verify whether the relevant IT Infrastructure-related policies and standards exist and are regularly reviewed and updated. Compliance with these policies is periodically assessed.

4.15.2. **IT Infrastructure Planning** – The system auditor should verify whether the plans/policy for the



appropriate management and replacement of aging IT infrastructure components have been documented, approved, and implemented. The activities, schedules and resources needed to achieve objectives related to IT infrastructure have been integrated into business plans and budgets.

4.15.3. IT Infrastructure Availability (SLA Parameters) – The system auditor should verify whether the broking firm has a process in place to define its required availability of the IT infrastructure, and its tolerance to outages. In cases where there is huge reliance on vendors for the provision of IT services to the brokerage firm the system auditor should also verify that the mean time to recovery (MTTR) mentioned in the Service Level Agreement (SLA) by the service provider satisfies the requirements of the broking firm.

4.15.4. IT Performance Monitoring (SLA Monitoring) – The system auditor should verify that the results of SLA performance monitoring are documented and are reported to the management of the broker.

4.16. Exchange specific exceptional reports – The additional checks recommended by a particular exchange need to be looked into and commented upon by the System Auditor over and above the ToR of the System audit.

4.17. Software Testing Procedures - The system auditor should check whether the stock broker has complied with the guidelines and instructions of SEBI / Stock Exchanges with regard to testing of software and new patches, including the following:

4.17.1. Test Procedure Review – The system auditor should evaluate whether the procedures for system and software testing were proper and adequate.

4.17.2. Documentation – The system auditor should verify whether the documentation related to testing procedures, test data, and resulting output were adequate and follow the organization's standards.

4.17.3. Test Cases – The system auditor should review the internal test cases and comment upon the adequacy of the same with respect to the requirements of the Stock Exchange and SEBI.

Annexure III

5. ToR for Type III Broker

The system auditor shall at the minimum cover the following areas:

5.1. System controls and capabilities (CTCL/IML Terminals and servers)

5.1.1. Order Tracking – The system auditor should verify system process and controls at CTCL / IML terminals and CTCL/ IML servers covering order entry, capturing IP address of order entry, modification / deletion of orders, status of current order/outstanding orders and trade



confirmation.

- 5.1.2. **Order Status/ Capture** – Whether the system has capability to generate / capture order id, time stamping, order type, scrip details, action, quantity, price and validity etc.
- 5.1.3. **Rejection of orders** – Whether the system has capability to reject orders which do not go through order level validation at CTCL servers and at the servers of respective exchanges.
- 5.1.4. **Communication of Trade Confirmation / Order Status** – Whether the system has capability to timely communicate to client regarding the Acceptance/ Rejection of an Order / Trade via various media including e-mail; facility of viewing trade log.
- 5.1.5. **Client ID Verification** – Whether the system has capability to recognize only authorized Client Orders and mapping of Specific user Ids to specific predefined location for proprietary orders.
- 5.1.6. **Order type distinguishing capability** – Whether the system has capability to distinguish the orders originating from (CTCL or IML) / IBT / DMA / STWT / SOR / Algorithmic Trading.

5.2. **Software Change Management** - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:

- 5.2.1. Processing / approval methodology of new feature request or patches.
- 5.2.2. Fault reporting / tracking mechanism and process for resolution.
- 5.2.3. Testing of new releases / patches / modified software / bug fixes.
- 5.2.4. Version control- History, Change Management process, approval etc.
- 5.2.5. Development / Test / Production environment segregation.
- 5.2.6. New release in production – promotion, release note approvals.
- 5.2.7. Production issues / disruptions reported during last year, reasons for such disruptions and corrective actions taken.
- 5.2.8. User Awareness.

The system auditor should check whether critical changes made to the (CTCL or IML) / IBT / DMA / STWT/ SOR are well documented and communicated to the Stock Exchange.

5.3. **Risk Management System (RMS)**

- 5.3.1. **Online risk management capability** – The system auditor should check whether the online risk management including upfront real-time risk management, is in place for all orders placed



through (CTCL or IML) / IBT/ DMA / SOR / STWT / Algorithmic Trading.

- 5.3.2. **Trading Limits** – Whether a system of pre-defined limits / checks such as Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit, etc., are in place and only such orders which are within the parameters specified by the RMS are allowed to be pushed into exchange trading engines. The system auditor should check that no user or branch in the system is having unlimited limits on the above parameters.
- 5.3.3. **Order Alerts and Reports** – Whether the system has capability to generate alerts when orders that are placed are above the limits and has capability to generate reports relating to margin requirements, payments and delivery obligations.
- 5.3.4. **Order Review** – Whether the system has capability to facilitate review of such orders that were not validated by the system.
- 5.3.5. **Back testing for effectiveness of RMS** – Whether the system has capability to identify trades which have exceeded the pre-defined limits (Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit) and also exceed corresponding margin availability of clients. Whether deviations from such pre-defined limits should be captured by the system, documented and corrective steps taken.
- 5.3.6. **Log Management** – Whether the system maintains logs of alerts / changes / deletion / activation / deactivation of client codes and logs of changes to the risk management parameters mentioned above. Whether the system allows only authorized users to set the risk parameter in the RMS.
- 5.4. **Smart order routing (SOR)** - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:
 - 5.4.1. **Best Execution Policy** – System adheres to the Best Execution Policy while routing the orders to the exchange.
 - 5.4.2. **Destination Neutral** – The system routes orders to the recognized Stock Exchanges in a neutral manner.
 - 5.4.3. **Class Neutral** – The system provides for SOR for all classes of investors.
 - 5.4.4. **Confidentiality** - The system does not release orders to venues other than the recognized Stock Exchange.
 - 5.4.5. **Opt-out** – The system provides functionality to the client who has availed of the SOR facility, to specify for individual orders for which the clients do not want to route order using SOR.
 - 5.4.6. **Time stamped market information** – The system is capable of receiving time stamped market prices from recognized Stock Exchanges from which the member is authorized to avail SOR



facility.

5.4.7. **Audit Trail** - Audit trail for SOR should capture order details, trades and data points used as a basis for routing decision.

5.4.8. **Server Location** - The system auditor should check whether the order routing server is located in India.

5.4.9. **Alternate Mode** - The system auditor should check whether an alternative mode of trading is available in case of failure of SOR Facility.

5.5. **Algorithmic Trading** - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:

5.5.1. **Change Management** - Whether any changes (modification/addition) to the approved algos were informed to and approved by Stock Exchange. The inclusion / removal of different versions of algos should be well documented.

5.5.2. **Online Risk Management capability** - The CTCL or IML server should have capacity to monitor orders / trades routed through algo trading and have online risk management for all orders through Algorithmic trading and ensure that Price Check, Quantity Check, Order Value Check, Cumulative Open Order Value Check are in place.

5.5.3. **Risk Parameters Controls** - The system should allow only authorized users to set the risk parameter. The System should also maintain a log of all the risk parameter changes made.

5.5.4. **Information / Data Feed** - The auditor should comment on the various sources of information / data for the algo and on the likely impact (run away / loop situation) of the failure one or more sources to provide timely feed to the algorithm. The system auditor should verify that the algo automatically stops further processing in the absence of data feed.

5.5.5. **Check for preventing loop or runaway situations** - The system auditor should check whether the brokers have real time monitoring systems to identify and shutdown/stop the algorithms which have not behaved as expected.

5.5.6. **Algo / Co-location facility Sub-letting** - The system auditor should verify if the algo / co-location facility has not been sub-letted to any other firms to access the exchange platform.

5.5.7. **Audit Trail** - The system auditor should check the following areas in audit trail:

- Whether the audit trails can be established using unique identification for all algorithmic orders and comment on the same.
- Whether the broker maintains logs of all trading activities.
- Whether the records of control parameters, orders, traders and data emanating from trades executed through algorithmic trading are preserved/ maintained by the stock broker.
- Whether changes to the control parameters have been made by authorized users as per the



Access Matrix. The system auditor should specifically comment on the reasons and frequency for changing of such control parameters. Further, the system auditor should also comment on the possibility of such tweaking leading to run away/loop situation.

e. Whether the system captures the IP address from where the algo orders are originating.

5.5.8. **Systems and Procedures** – The system auditor should check and comment on the procedures, systems and technical capabilities of stock broker for carrying out trading through use of Algorithms. The system auditor should also identify any misuse or unauthorized access to algorithms or the system which runs these algorithms.

5.5.9. **Reporting to Stock Exchanges** – The system auditor should check whether the stock broker is informing the Stock Exchange regarding any incidents where the algos have not behaved as expected. The system auditor should also comment upon the time taken by the stock broker to inform the Stock Exchanges regarding such incidents.

5.6. Password Security

5.6.1. **Organization Access Policy** – The system auditor should check whether the stock broker has a well documented policy that provides for a password policy as well as access control policy for exchange provided terminals and for API based terminals.

5.6.2. **Authentication Capability** – Whether the system authenticates user credentials by means of a password before allowing the user to login. Whether there is a system for authentication of orders originating from Internet Protocol by means of two-factor authentication, including Public Key Infrastructure (PKI) based implementation of digital signatures.

5.6.3. **Password Best Practices** – Whether there is a system should for masking of password, system prompt to change default password on first login, disablement of user id on entering multiple wrong passwords (as defined in the password policy document), periodic password change mandate and appropriate prompt to user, strong parameters for password, deactivation of dormant user id, etc.

5.7. Session Management

5.7.1. **Session Authentication** – Whether the system has provision for Confidentiality, Integrity and Availability (CIA) of the session and the data transmitted during the session by means of appropriate user and session authentication mechanisms like SSL etc.

5.7.2. **Session Security** – Whether there is availability of an end-to-end encryption for all data exchanged between client and broker system or other means of ensuring session security. Whether session login details are stored on the devices used for IBT and STWT.

5.7.3. **Inactive Session** – Whether the system allows for automatic trading session logout after a system defined period of inactivity.



5.7.4. **Log Management** – Whether the system generates and maintains logs of number of users, activity logs, system logs, number of active clients.

5.8. Database Security

5.8.1. **Access** – Whether the system allows CTCL or IML database access only to authorized users / applications.

5.8.2. **Controls** – Whether the CTCL or IML database server is hosted on a secure platform, with username and password stored in an encrypted form using strong encryption algorithms.

5.9. Network Integrity

5.9.1. **Seamless connectivity** – Whether the stock broker has ensured that a backup network link is available in case of primary link failure with the exchange.

5.9.2. **Network Architecture** – Whether the web server is separate from the Application and Database Server.

5.9.3. **Firewall Configuration** – Whether appropriate firewall are present between the stock broker's trading setup and various communication links to the exchange. Whether the firewalls should be appropriately configured to ensure maximum security.

5.10. Access Controls

5.10.1. **Access to server rooms** – Whether adequate controls are in place for access to server rooms, proper audit trails should be maintained for the same.

5.10.2. **Additional Access controls** - Whether the system should provide for two factor authentication mechanism to access to various CTCL or IML components. Whether additional password requirements are set for critical features of the system. Whether the access control is adequate.

5.11. Backup and Recovery

5.11.1. **Backup and Recovery Policy** – Whether the organization has a well documented policy on periodic backup of data generated from the broking operations.

5.11.2. **Log generation and data consistency** – Whether backup logs are maintained and backup data should be tested for consistency.

5.11.3. **System Redundancy** – Whether there are appropriate backups in case of failures of any critical system components



5.12. BCP/DR (Only applicable for Stock Brokers having BCP / DR site)

- 5.12.1. **BCP / DR Policy** – Whether the stock broker has a well documented BCP / DR policy and plan. The system auditor should comment on the documented incident response procedures.
- 5.12.2. **Alternate channel of communication** – Whether the stock broker has provided its clients with alternative means of communication including channel for communication in case of a disaster. Whether the alternate channel is capable of authenticating the user after asking for additional details or OTP (One-Time-Password).
- 5.12.3. **High Availability** – Whether BCP / DR systems and network connectivity provide high availability and have no single point of failure for any critical operations as identified by the BCP / DR policy.
- 5.12.4. **Connectivity with other FMIs** – The system auditor should check whether there is an alternative medium to communicate with Stock Exchanges and other FMIs.

5.13. Segregation of Data and Processing facilities – The system auditor should check and comment on the segregation of data and processing facilities at the stock broker in case the stock broker is also running other business.

5.14. Back office data

- 5.14.1. **Data consistency** – The system auditor should verify whether aggregate client code data available at the back office of broker matches with the data submitted / available with the Stock Exchanges through online data view / download provided by exchanges to members.
- 5.14.2. **Trail Logs** – The system auditor should specifically comment on the logs of Client Code data to ascertain whether editing or deletion of records have been properly documented and recorded and does not result in any irregularities.

5.15. User Management

- 5.15.1. **User Management Policy** – The system auditor should verify whether the stock broker has a well documented policy that provides for user management and the user management policy explicitly defines user, database and application access matrix.
- 5.15.2. **Access to Authorized users** – The system auditor should verify whether the system allows access only to the authorized users of the CTCL or IML system. Whether there is a proper documentation of the authorized users in the form of user application approval, copies of user qualification and other necessary documents.
- 5.15.3. **User Creation / Deletion** – The system auditor should verify whether new users ids should be created / deleted as per CTCL or IML guidelines of the exchanges and whether the user ids are unique in nature.



- 5.15.4. **User Disablement** – The system auditor should verify whether non-complaint users are disabled and appropriate logs such as event log and trade logs of the user should be maintained.
- 5.16. **IT Infrastructure Management** (including use of various Cloud computing models such as Infrastructure as a service (IaaS), Platform as a service (PaaS), Software as a service (SaaS), Network as a service (NaaS))
- 5.16.1. **IT Governance and Policy** – The system auditor should verify whether the relevant IT Infrastructure-related policies and standards exist and are regularly reviewed and updated. Compliance with these policies is periodically assessed.
- 5.16.2. **IT Infrastructure Planning** – The system auditor should verify whether the plans/policy for the appropriate management and replacement of aging IT infrastructure components have been documented, approved, and implemented. The activities, schedules and resources needed to achieve objectives related to IT infrastructure have been integrated into business plans and budgets.
- 5.16.3. **IT Infrastructure Availability (SLA Parameters)** – The system auditor should verify whether the broking firm has a process in place to define its required availability of the IT infrastructure, and its tolerance to outages. In cases where there is huge reliance on vendors for the provision of IT services to the brokerage firm the system auditor should also verify that the mean time to recovery (MTTR) mentioned in the Service Level Agreement (SLA) by the service provider satisfies the requirements of the broking firm.
- 5.16.4. **IT Performance Monitoring (SLA Monitoring)** – The system auditor should verify that the results of SLA performance monitoring are documented and are reported to the management of the broker.
- 5.17. **Exchange specific exceptional reports** – The additional checks recommended by a particular exchange need to be looked into and commented upon by the system auditor over and above the ToR of the system audit.
- 5.18. **Software Testing Procedures** - The system auditor shall audit whether the stock broker has complied with the guidelines and instructions of SEBI / Stock Exchanges with regard to testing of software and new patches including the following:
- 5.18.1. **Test Procedure Review** – The system auditor should review and evaluate the procedures for system and program testing. The system auditor should also review the adequacy of tests.
- 5.18.2. **Documentation** – The system auditor should review documented testing procedures, test data, and resulting output to determine if they are comprehensive and if they follow the organization's standards.
- 5.18.3. **Test Cases** – The system auditor should review the test cases and comment upon the adequacy of



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

the same with respect to the requirements of the Stock Exchange and various SEBI Circulars.

Annexure IV

Executive Summary Reporting Format

For Preliminary Audit

Audit Date	Observation	Description of Finding	Department	Status / Nature of Findings	Risk Rating of Findings	Audit TOR Clause	Audited by	Root cause Analysis	Impact Analysis	Suggested Corrective action	Deadline for the Corrective Action	Verified By	Closing date

Description of relevant Table heads

- Audit Date** – This indicates the date of conducting the audit
- Description of Findings/ Observations** – Description of the findings in sufficient detail, referencing any accompanying evidence (e.g. copies of procedures, interview notes, screen shots etc.)
- Status/ Nature of Findings** - the category can be specified for example:
 - Non Compliant
 - Work In progress
 - Observation
 - Suggestion
- Risk Rating of Findings** – A rating has to be given for each of the observations based on their impact and severity to reflect the risk exposure, as well as the suggested priority for action.

Rating	Description
HIGH	Weakness in control those represent exposure to the organization or risks that could lead to instances of non compliance with the requirements of TORs. These risks need to be addressed with utmost priority.
MEDIUM	Potential weakness in controls, which could develop into an exposure or issues that represent areas of concern and may impact internal controls. These should be addressed reasonably promptly.
LOW	Potential weaknesses in controls, which in combination with other weakness can develop into an exposure. Suggested improvements for situations not immediately/ directly affecting controls.

- Audit TOR Clause** – The TOR clause corresponding to this observation.
- Root cause Analysis** –A detailed analysis on the cause of the nonconformity
- Impact Analysis** – An analysis of the likely impact on the operations/ activity of the organization.
- Suggested Corrective Action** –The action to be taken by the broker to correct the nonconformity.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

For Follow on / Follow up System Audit

Preliminary Audit Date	S. No.	Preliminary Observation Number	Preliminary Status	Preliminary Corrective Action	Current Finding	Current Status	Revised Corrective Action	Deadline for the Revised Corrective Action	Verified By	Closing date

Description of relevant Table heads

- Preliminary Status** - The original finding as per the preliminary System Audit Report.
- Preliminary Corrective Action** - The original corrective action as prescribed in the preliminary System Audit report.
- Current Finding** - The current finding w.r.t. the issue.
- Current Status** - Current status of the issue viz Compliant, Non Compliant, Work In Progress (WIP).
- Revised Corrective Action** - The revised corrective action prescribed w.r.t. the Non Compliant / WIP issues.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

IV. DEALINGS WITH CLIENT

25. Regulation of Transactions Between Clients and Brokers³¹

25.1. 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.

25.1.1. 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. Moneys received from or on account of each of his clients and
- b. the moneys received and the moneys paid on Member's own account

25.1.2. 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 25.1.4(b).

25.1.3. What moneys to be paid into "clients account". No money shall be paid into clients account other than

- a. money held or received on account of clients.
- b. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account.
- c. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of 25.1.4 given below.
- d. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.

25.1.4. What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than

³¹ Reference: Circular SMD/SED/CIR/93/23321 dated November 18, 1993.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- a. 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;
- b. such money belonging to the Member as may have been paid into the client account under 25.1.3(b) or 25.1.3(d) given above;
- c. money which may by mistake or accident have been paid into such account in contravention of para 25.1.3 above.

25.1.5. Right to lien, set-off etc., not affected. Nothing in this para 25.1 shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counter-claim charge or otherwise against moneys standing to the credit of clients account.

25.2. It shall be compulsory for all Member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities. Such accounts for client's securities shall, inter-alia provide for the following:

25.2.1. Securities received for sale or kept pending delivery in the market.

25.2.2. Securities fully paid for, pending delivery to clients.

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

25.2.4. 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.

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

25.2.6. Securities given on Vyaj-badla. Member shall obtain authorization from clients for the same.

25.3. Member Brokers shall make payment to their clients or deliver the securities purchased within 24 hours of pay-out unless the client has requested otherwise³².

³² Words "two working days" replaced with "24 hours" in view of Para 12 of Annexure-A of SEBI circular MIRSD/SE/CIR-9/2009 dated December 03, 2009.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 25.4. Member brokers shall issue the contract note for purchase/sale of securities to a client within 24 hours of the execution of the contract.
- 25.5. 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 two days of contract note having been delivered for cash shares and seven days for specified shares or before pay-in day (as fixed by Stock Exchange for the concerned settlement period), whichever is earlier; 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.
- 25.6. 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.

26. Collateral deposited by Clients with Brokers³³

- 26.1. For brokers to maintain proper records of client collateral and to prevent misuse of client collateral, it is advised that:
- 26.1.1. 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.
- 26.1.2. Brokers should further be able to produce the aforesaid records during inspection. The records should include details of:
- a. Receipt of collateral from client and acknowledgement issued to client on receipt of collateral.
 - b. Client authorization for deposit of collateral with the exchange / Clearing Corporation / clearing house towards margin.
 - c. Record of deposit of collateral with Stock Exchange / Clearing Corporation / Clearing House.
 - d. Record of return of collateral to client.
 - e. Credit of corporate action benefits to clients.
- 26.1.3. The records should be periodically reconciled with the actual collateral deposited with the broker.

³³ Reference: Circular MRD/DoP/SE/CIR-11/2008 dated April 17, 2008.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 26.1.4. 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.
- 26.2. 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.
- 26.3. 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.
- 27. Severance of connections with other businesses³⁴**
- 27.1. Rule 8(1)(f) and Rule 8(3)(f) of the Securities Contract (Regulation) Rules, 1957, requires that members of a Stock Exchange, whether individual, partnership or corporate, shall not engage in any business other than that of securities. Stock Exchanges should be ensured that the applicants do not attract the above stated rule.
- 28. Applicability of Rule 8(1)(f) and 8(3)(f) of the Securities Contract (Regulation) Rules, 1957³⁵**
- 28.1. Borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f) of the Securities Contract (Regulation) Rules, 1957.
- 29. Mode of payment and delivery³⁶**
- 29.1. Brokers and sub-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients.
- 29.2. All payments shall be received / made by the brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through EFT, or any other mode allowed by RBI. The brokers shall accept cheques drawn only by the clients and also

³⁴ Reference: Circular SMD/VRN/1476/95 dated April 27, 1995.

³⁵ Reference: Circular SMD/POLICY/CIR-6/97 dated May 07, 1997.

³⁶ Reference: Circular SEBI/MRD/SE/CIR-33/2003/27/08 dated August 27, 2003.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

issue cheques in favour of the clients only, for their transactions. However, in exceptional circumstances the broker or sub-broker may receive the amount in cash, to the extent not in violation of the Income Tax requirement as may be in force from time to time.

- 29.3. Similarly, in the case of securities also giving / taking delivery of securities in “demat mode” should be directly to / from the “beneficiary accounts” of the clients except delivery of securities to a recognized entity under the approved scheme of the Stock Exchange and / or SEBI.

30. Pre-funded instruments / Electronic fund transfers³⁷

- 30.1. To address the concerns regarding flow of third party funds / unidentified money, following guidelines shall be followed:

- 30.1.1. If the aggregate value of pre-funded instruments is Rs 50,000/- or more, per day per client, the stock brokers 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 from the issuing bank on its letterhead or on a 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 passbook/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.

- 30.1.2. Maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only.

31. Disclosure of proprietary trading by Broker to Client³⁸

- 31.1. With a view to increase the transparency in the dealings between the broker and the client, every broker shall disclose to his client whether he does client based business or proprietary trading as well.

- 31.2. The broker shall disclose this information upfront to his new clients at the time of entering into the Know Your Client agreement.

- 31.3. In case of a broker who at present does not trade on proprietary account,

³⁷ Reference: Circular CIR/MIRSD/03/2011 dated June 09, 2011.

³⁸ Reference: Circular SEBI/MRD/SE/CIR-42/2003 dated November 19, 2003.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

chooses to do so at a later date, he shall be required to disclose this to his clients before carrying out any proprietary trading.

32. “Pro – account” trading terminal³⁹

32.1. During the course of inspections carried out by SEBI and Stock Exchanges of the books of accounts and other documents of members, following observations were made:

32.1.1. Certain members are putting large number of orders on pro-account from various locations rather than using “pro-account” at the terminals located at the corporate office from where the owner / directors normally function.

32.1.2. These trades executed from various locations under “pro-account” are, many a time, transferred subsequently to the respective clients in the back office of the members.

32.2. The aforementioned practices clearly violate the requirement of putting the orders of clients under the appropriate client code through trading terminals.

32.3. With a view to check such misuse of the above facility, if any, Stock Exchanges are directed to ensure the following:-

32.3.1. Facility of placing orders on “pro-account” through trading terminals shall be extended only at one location of the members as specified / required by the members.

32.3.2. Trading terminals located at places other than the above location shall have a facility to place orders only for and on behalf of a client by entering client code details as required / specified by the Exchange / SEBI.

32.3.3. In case any member requires the facility of using “pro-account” through trading terminals from more than one location, such member shall be required to submit an undertaking to the Stock Exchange stating the reason for using the “pro-account” at multiple locations and the Stock Exchange may, on case to case basis after due diligence, consider extending the facility of allowing use of “pro-account” from more than one location.

³⁹ Reference: Circular SEBI/MRD/SE/CIR-32/2003/27/08 dated August 27, 2003



33. Review of norms relating to trading by Members/ Sub-Brokers⁴⁰

33.1. During the course of inspections carried out by SEBI of the books of accounts and other documents of members/sub-brokers, following observation was made:

33.1.1. Certain members/sub-brokers are dealing through a large number of other stock brokers/sub-brokers of the same exchange/other exchange for their proprietary trades as well as trades on behalf of clients.

33.2. Trading through large number of brokers/sub-brokers raises serious issues of regulatory concerns including taking excessive exposure, executing pro account trading from multiple locations in violation of provisions specified in para 32.3 above (Pro-account Trading Terminal), possibility of over leveraging and default etc.

33.3. With a view to address these concerns, Stock Exchanges are directed to ensure the following:

33.3.1. A stock broker/ sub-broker of an exchange cannot deal with brokers/sub-brokers of the same exchange either for proprietary trading or for trading on behalf of clients, except with the prior permission of the exchange. The Stock Exchanges while giving such permission, shall consider the reasons stated by the brokers/sub-brokers for dealing with brokers/sub-brokers of the same exchange and after carrying out due diligence allow such brokers/sub-brokers to deal with only one stock broker/sub-broker of the same exchange.

33.3.2. A stock broker/sub-broker of an exchange can deal with only one broker/sub-broker of another exchange for proprietary trading after intimating the names of such stock broker/sub-broker to his parent Stock Exchange.

33.3.3. As per Regulation 15(1) (e) of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 a sub-broker shall not be affiliated to more than one stock broker of one Stock Exchange. It is reiterated that a stock broker of an exchange can deal with only one broker of another exchange on behalf of clients after obtaining necessary registration as a sub-broker.

⁴⁰ Reference: Circular SEBI/MIRSD/CIR-06/2004 January 13, 2004



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

34. Market Access through Authorised Persons⁴¹

The framework governing the market access through authorised persons is prescribed below. This framework provides the minimum requirements and the Stock Exchanges and stock brokers may prescribe additional requirements, as they may deem appropriate, in the interest of investors and market.

Regulatory Framework for Market Access through Authorised Persons

34.1. Who is an “Authorised Person”?

Any person - individual, partnership firm, LLP or body corporate - who is appointed as such by a stock broker (including trading member) and who provides access to trading platform of a Stock Exchange as an agent of the stock broker.

34.2. Appointment of Authorised Person

A stock broker may appoint one or more authorised person(s) after obtaining specific prior approval from the Stock Exchange concerned for each such person. The approval as well as the appointment shall be for specific segment of the exchange.

34.3. Procedure for Appointment

34.3.1. Stock Broker shall select a person in compliance with the criteria laid down by the Exchange and this framework for appointment as an authorized person and forward the application of the person to Stock Exchange for approval.

34.3.2. On receipt of the aforesaid application, the Stock Exchange

- a. may accord approval on satisfying itself that the person is eligible for appointment as authorized person, or
- b. may refuse approval on satisfying itself that the person is not eligible for appointment as authorized person.

34.4. Eligibility Criteria

34.4.1. An individual is eligible to be appointed as authorised person if he:

- a. is a citizen of India;
- b. is not less than 18 years of age;

⁴¹ Reference: Circular MIRSD/DR-1/CIR-16/09 dated November 06, 2009 and Circular SEBI/CIR/MIRSD/AP/8/2010 dated July 23, 2010.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- c. has not been convicted of any offence involving fraud or dishonesty;
- d. has good reputation and character;
- e. has passed at least 10th standard or equivalent examination from an institution recognized by the Government; and

34.4.2. A partnership firm, LLP or a body corporate is eligible to be appointed as authorized person

- a. if all the partners or directors, as the case may be, comply with the requirements contained in clause 34.4.1 above.
- b. the object clause of the partnership deed or of the Memorandum of Association contains a clause permitting the person to deal in securities business.

34.4.3. The person shall have the necessary infrastructure like adequate office space, equipment and manpower to effectively discharge the activities on behalf of the stock broker.

34.4.4. The approved users and/or sales personnel of Authorised Persons shall have the necessary certification of the respective segments at all points of time.

34.5. Conditions of Appointment

34.5.1. The following are the conditions of appointment of an authorised person:

- a. The stock broker shall be responsible for all acts of omission and commission of the authorized person.
- b. All acts of omission and commission of the authorized person shall be deemed to be those of the stock broker.
- c. The authorized person shall not receive or pay any money or securities in its own name or account. All receipts and payments of securities and funds shall be in the name or account of stock broker.
- d. The authorised person shall receive his remuneration - fees, charges, commission, salary, etc. - for his services only from the stock broker and he shall not charge any amount from the clients.
- e. A person shall not be appointed as authorized person by more than one stock broker on the same Stock Exchange.
- f. A partner or director of an authorised person shall not be appointed as an authorised person on the same Stock Exchange.
- g. The stock broker and authorised person shall enter into written agreement(s) in the form(s) specified by Exchange. The agreement shall inter-alia cover scope of the activities, responsibilities, confidentiality of information, commission sharing, termination clause, etc.



भारतीय प्रतिभूति और विनिमय बोर्ड **Securities and Exchange Board of India**

34.6. Withdrawal of Approval

34.6.1. Approval given to an authorised person may be withdrawn by the Stock Exchange:

- a. on receipt of a request to that effect from the stock broker concerned or the authorised person, subject to compliance with the requirements prescribed by the Stock Exchange, or
- b. on being satisfied that the continuation of authorised person is detrimental to the interest of investors or securities market or the authorised person at a subsequent date becomes ineligible under clause 34.4 above.

34.7. Obligations of Stock Broker

34.7.1. The stock broker shall be responsible for all acts of omission and commission of his authorised person(s) and/or their employees, including liabilities arising there from.

34.7.2. If any trading terminal is provided by the stock broker to an authorised person, the place where such trading terminal is located shall be treated as branch office of the stock broker.

34.7.3. Stock Broker shall display at each branch office additional information such as particulars of authorised person in charge of that branch, time lines for dealing through authorised person, etc., as may be specified by the Stock Exchange.

34.7.4. Stock Broker shall notify changes, if any, in the authorised person to all registered clients of that branch at least thirty days before the change.

34.7.5. Stock Broker shall conduct periodic inspection of branches assigned to authorised persons and records of the operations carried out by them.

34.7.6. The client shall be registered with stock broker only. The funds and securities of the clients shall be settled directly between stock broker and client and all documents like contract note, statement of funds and securities would be issued to client by stock broker. Authorised person may provide administrative assistance in procurement of documents and settlement but shall not issue any document to client in its own name. No fund/securities of clients shall go to account of authorized person.

34.7.7. On noticing irregularities, if any, in the operations of authorised person, stock broker shall seek withdrawal of approval, withhold all moneys due to authorised person till resolution of investor problems, alert investors in



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

the location where authorised person operates, file a complaint with the police, and take all measures required to protect the interest of investors and market.

34.8. Obligations of Exchange

34.8.1. The Stock Exchange shall maintain a database of all the authorised persons which shall include the following:

- a. PAN Number of authorised person and in case of partnership or body corporate, PAN Number of all the partners or directors as the case may be.
- b. Details of the broker with whom the authorised person is registered.
- c. Locations of branch assigned to authorised person(s).
- d. Number of terminals and their details, given to each authorised person.
- e. Withdrawal of approval of authorised person.
- f. Change in status or constitution of authorised person.
- g. Disciplinary action taken by the Exchange against the authorised person.

All the above details, except (a) above, shall be made available on web site of the Stock Exchange.

34.8.2. While conducting the inspection of the stock broker, the Stock Exchange shall also conduct inspection of branches where the terminals of authorised persons are located and records of the operations carried out by them.

34.8.3. Dispute between a client and an authorised person shall be treated as dispute between the client and the stock broker and the same shall be redressed by the Stock Exchange accordingly.

34.8.4. In case of withdrawal of approval of authorised person due to disciplinary action, the Stock Exchange shall issue a press release and disseminate the names of such authorised persons on its website citing the reason for cancellation.

35. SMS and e-mail alerts to investors by Stock Exchanges⁴²

Stock Exchanges shall send details of the transactions to the investors, by the end of trading day, through SMS and E-mail alerts. This would be subject to the following guidelines:

⁴² Reference: Circular CIR/MIRSD/15/2011 dated August 02, 2011 and SEBI communication SE/10118 dated October 12, 1992.



भारतीय प्रतिभूति और विनिमय बोर्ड **Securities and Exchange Board of India**

35.1. Applicability –

- 35.1.1. These guidelines are applicable to equity - cash and derivative - segments of the Stock Exchanges.

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

- 35.2.1. Stock Exchanges shall provide a platform to stock brokers to upload the details of their clients, preferably, in sync with the UCC updation module.
- 35.2.2. Stock Brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.
- 35.2.3. Stock Brokers shall ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.
- 35.2.4. Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker 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.

35.3. Verification by the Stock Exchanges

- 35.3.1. After uploading of details by the stock brokers, the Stock Exchanges 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 stock brokers.
 - b. By way of sending letters to the address of the investors uploaded by the stock brokers.

35.4. Sending of alerts by the Stock Exchanges

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

35.5. Handling of discrepancies, if any



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

35.5.1. If any discrepancy is observed by the Stock Exchanges in the details uploaded by the stock brokers including non-confirmation by investors, bounced E-mails, undelivered SMS/letters, etc., the Stock Exchanges shall inform the respective stock broker.

35.6. Meeting out the expenses for providing SMS and E-mail alerts

35.6.1. The Stock Exchanges may use the amount set aside from the listing fees (20% of the listing fees) for providing services to the investing public, to meet the expenses for providing this facility.

36. Prevention of Unauthorised Trading by Stock Brokers⁴³

36.1. SEBI in the past has taken several steps to tackle the menace of “Unauthorized Trades” viz Periodic Running Account Settlement, Post transactions SMS/email by Stock Exchanges/Depositories, Ticker on broker/DP websites etc. It was observed that in spite of measures taken, a considerable proportion of investor complaints is of the nature of “Unauthorized Trades”.

36.2. To further strengthen regulatory provisions against un-authorized trades and also to harmonise the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, it could be, inter alia, in the form of:

- a. Physical record written & signed by client,
- b. Telephone recording,
- c. Email from authorized email id,
- d. Log for internet transactions,
- e. Record of SMS messages,
- f. Any other legally verifiable record.

36.3. When a dispute arises, the broker shall produce the above mentioned records for the disputed trades. However, for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/ securities by client in respect of disputed trade, etc. shall also be considered.

36.4. Further, wherever the order instructions are received from clients through the telephone, the stock broker shall mandatorily use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

⁴³ Reference: Circular SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

36.5. The Brokers are required to maintain the records specified at Para 36.2 above for a minimum period for which the arbitration accepts investors' complaints as notified from time to time currently three years. However, in cases where dispute has been raised, such records shall be kept till final resolution of the dispute.

36.6. If SEBI desires that specific records be preserved then such records shall be kept till further intimation by SEBI.

37. Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/ Stock Broker and Depository Participant⁴⁴

37.1. A Power of Attorney (PoA) is executed by the client in favour of the stock broker /stock broker and depository participant to authorize the broker to operate the client's demat account and bank account to facilitate the delivery of shares and pay – in/ pay – out of funds.

37.2. Generally, the PoA is taken from the clients who want to avail internet based trading services. For offering internet based trading services, a Stock Broker requires necessary authorizations for seamless trading, collection of margins as well as settlement of funds and securities. Further, some of the Stock Brokers also obtain authorizations from their clients to offer non-internet based services.

37.3. It came to SEBI's notice that the clients are compelled to give irrevocable power of attorney to manage client's demat account and bank account so that the client is able to pay funds or deliver shares to its broker on time. In some cases, the PoA even allows a broker to open and close accounts on behalf of the client and to trade on client's account without the consent of the client.

37.4. In order to standardize the norms to be followed by stock brokers/ stock broker and depository participants while obtaining PoA from the clients, guidelines as set out in the **Annexure** shall be made applicable to stock brokers/ stock broker and depository participants.

37.5. Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-in/pay-out of funds etc. No stock broker or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour. However, internet based trading is exempted from this clause.

⁴⁴ Reference: Circular CIR/MRD/DMS/13/2010 dated April 23, 2010 and CIR/MRD/DMS/28/2010 dated August 31, 2010.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

37.6. Stock Broker/ DP may revoke those authorizations that are inconsistent with the present guidelines by communicating the inconsistent clauses to the existing clients. In the event, the deleted clauses are not accepted by the client, Stock Broker/ DP may be required to either obtain fresh PoA or close the account. In case of any addition to the existing PoA, Stock Broker / DP shall be required to obtain a new PoA from clients.

ANNEXURE

1. PoA favouring Stock Brokers

1.1. PoA executed in favour of a stock broker by the client should be limited to the following:

1.1.1. Securities

- a) Transfer of securities held in the beneficial owner account(s) of the client(s) towards Stock Exchange related margin / delivery obligations arising out of trades executed by the Client(s) on the Stock Exchange through the same stock broker. Margin / Delivery obligations shall also include settlement obligations, if any.
- b) Pledge the securities in favour of stock broker for the limited purpose of meeting the margin requirements of the client(s) in connection with the trades executed by the clients on the Stock Exchange through the same stock broker. Necessary audit trail should be available with the stock broker for such transactions.
- c) To apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers, redemptions etc. pursuant to the instructions of the Client(s). However, a proper audit trail should be maintained by the stock broker to prove that the necessary application/act was made/done pursuant to receipt of instruction from Client.

1.1.2. Funds

Transfer of funds from the bank account(s) of the clients for the following:

- a. For meeting the settlement obligations of the client(s)/ margin requirements of the client(s) in connection with the trades executed by the clients on the Stock Exchange through the same stock broker.



- b. For recovering any outstanding amount due from the client(s) arising out of clients trading activities on the Stock Exchanges through the same stock broker.
- c. For meeting obligations arising out of the client subscribing to such other products/facilities/services through the stock broker like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares in etc.
- d. Towards monies/fees/charges, etc. due to the stock broker /depository participant/ principal payable by virtue of the client using/subscribing to any of the facilities/services availed by the client at his/her instance.

Necessary audit trail should be available with the stock broker for such transactions.

2. PoA favouring Stock Brokers and Depository Participants

- 2.1. PoA executed in favour of a stock broker and Depository Participant by the client should:
 - 2.1.1. Identify/provide the particulars of the beneficial owner account(s) and the bank account(s) of the client(s) that the stock broker is entitled to operate.
 - 2.1.2. Provide the list of clients' & brokers' Bank accounts & demat accounts where funds and securities can be moved. Such bank & demat accounts should be accounts of related party only. The list of clients' and brokers' Bank account and demat accounts may be updated / amended by proper communication without executing a new PoA every time. Copies of such communication may be preserved as annexure to PoA.
 - 2.1.3. Be executed in the name of the concerned SEBI registered entity only and not in the name of any employee or representative of the stock broker /depository participant.
 - 2.1.4. Not provide the authority to transfer the rights in favour of any assignees of the stock broker/depository participant.
 - 2.1.5. Be executed and stamped as per the rules / law prevailing in the place where the PoA is executed or the place where the PoA is kept as a record, as applicable.



- 2.1.6. Contain a clause by which the stock broker would return to the client(s), the securities or fund that may have been received by it erroneously or those securities or fund that it was not entitled to receive from the client(s).
- 2.1.7. Be revocable at any time. However, such revocation shall not be applicable for any outstanding settlement obligation arising out of the trades carried out prior to receiving request for revocation of PoA. Further, the PoA revocation requests should be dated and time stamped by the brokers for ensuring proper audit trail.
- 2.1.8. Be executed by all the joint holders (in case of a demat account held jointly). If the constitution of the account is changed for whatever reason, a new PoA should be executed.
- 2.1.9. Authorize the stock broker/depository participant to send consolidated summary of Client's scrip-wise buy and sell positions taken with average rates to the client by way of SMS / email on a daily basis, notwithstanding any other document to be disseminated as specified by SEBI from time to time.

3. General Guidelines

- 3.1. The POA shall not facilitate the stock broker to do the following:
 - 3.1.1. Off-market trades between parties other than the related parties as mentioned in the PoA.
 - 3.1.2. Transfer of funds from the bank account(s) of the Clients for trades executed by the clients through another stock broker.
 - 3.1.3. Open a broking / trading facility with any stock broker or for opening a beneficial owner account with any depository participant.
 - 3.1.4. Execute trades in the name of the client(s) without the client(s) consent.
 - 3.1.5. Prohibit issue of Delivery Instruction Slips (DIS) to beneficial owner (client).
 - 3.1.6. Prohibit client(s) from operating the account.
 - 3.1.7. Merging of balances (dues) under various accounts to nullify debit in any other account.



3.1.8. Open an email ID/ email account on behalf of the client(s) for receiving statement of transactions, bills, contract notes etc. from stock broker / depository participant.

3.1.9. Renounce liability for any loss or claim that may arise due to any blocking of funds that may be erroneously instructed by the stock broker to the designated bank.

4. Stock Broker / Depository Participant should ensure that:

4.1. A duplicate/ certified true copy of the PoA is provided to the Client(s) after execution.

4.2. In case of merger/ demerger of the stock broker/depository participant with another entity/ into another entity, the scheme of merger/ demerger should be approved by High Court and one month prior intimation given to the client about the corporate restructuring to facilitate investor/ client to continue or discontinue with the broker.

38. Modification of Client Codes of Non-institutional Trades executed on Stock Exchanges (All Segments)⁴⁵

38.1. Stock Exchanges may allow modifications of client codes of non-institutional trades only to rectify a genuine error in entry of client code at the time of placing / modifying the related order.

38.2. If a Stock Exchange wishes to allow trading members to modify client codes of non-institutional trades, it shall

38.2.1. lay down strict objective criteria, with the approval of its Governing Board, for identification of genuine errors in client codes which may be modified, and disclose the same to market in advance,

38.2.2. set up a mechanism to monitor that the trading members modify client codes only as per the strict objective criteria, and

38.2.3. ensure that modification of client codes is covered in the internal audit of trading members.

⁴⁵ Reference: Circular CIR/DNPD/6/2011 dated July 05, 2011 and Circular CIR/MRD/DP/29/2014 dated October 21, 2014.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

38.3. Notwithstanding the above,

38.3.1. The Stock Exchanges shall levy a penalty from trading members and credit the same to its Investor Protection Fund as under:

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

Where

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

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

38.3.2. The Stock Exchange shall conduct a special inspection of the trading member to ascertain whether the modifications of client codes are being carried on as per the strict objective criteria set by the Stock Exchange, as directed in Para 38.2 above, if 'a' as % of 'b', as defined above, exceeds 1% during a month and take appropriate disciplinary action, if any deficiency is observed.

38.4. Shifting of trades to the error account of broker would not be treated as modification of client code, provided the trades in error account are subsequently liquidated in the market and not shifted to some other code.

38.5. Further, brokers shall disclose the codes of accounts which are classified as 'error accounts' to the Stock Exchanges. Each broker should have a well-documented error policy approved by the management of the broker. Stock Exchanges shall periodically review the trades flowing to the error accounts of the brokers.

38.6. Waiver of Penalty

38.6.1. Stock exchanges may waive penalty for a client code modification where stock broker is able to produce evidence to the satisfaction of the stock exchange to establish that the modification was on account of a genuine error.

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



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

38.7. Proprietary trades shall not be allowed to be modified as client trade and vice versa

38.8. Stock exchanges shall submit a report to SEBI every quarter regarding all such client code modifications where penalties have been waived.

38.9. Stock exchanges shall undertake stringent disciplinary actions against stock brokers who undertake frequent client code modifications.

39. Margin Trading Facility⁴⁶

39.1. Equity Shares that are classified as 'Group I security' shall be eligible for margin trading facility. Group I securities are liquid securities which are traded at least 80% of the days over the previous six months and impact cost for which over the previous six months is less than or equal to 1%. (For securities that have been listed for less than six months, the trading frequency and the impact cost shall be computed using the entire trading history of the scrip)

39.2. Margin Requirement

39.2.1. In order to avail margin trading facility, initial margin required shall be as under:

Category of Stock	Applicable margin
Group I stocks available for trading in the F & O Segment	VaR + 3 times of applicable ELM(*)
Group I stocks other than F&O stocks	VaR + 5 times of applicable ELM(*)

(*) For aforesaid purpose the applicable VaR and ELM shall be as in the cash segment for a particular stock.

39.2.2. The initial margin payable by the client to the stock broker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate haircut as specified by SEBI.

39.2.3. The stock brokers shall be required to comply with the following conditions:

- The stocks deposited as collateral with the stock broker for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) shall be identifiable

⁴⁶ Reference: Circular CIR/MRD/DP/54/2017 dated June 13, 2017 and Circular CIR/MRD/DP/86/2017 dated August 01, 2017.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

separately and no comingling shall be permitted for the purpose of computing funding amount;

- b. Collateral and Funded stocks shall be marked to market on a daily basis;
- c. In case of increase in the value of Collaterals, stock brokers may have the option of granting further exposure to their clients subject to applicable haircuts;
- d. However, no such exposure shall be permitted on the increased value of funded stocks.

39.2.4. Stock Brokers shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls.

39.2.5. The exchange/stock broker, based on the risk assessment, shall have the discretion to impose/collect higher margin than the margin specified in para 39.2.1 above.

39.3. Liquidation of Securities by the stock broker in case of default by the client

39.3.1. The stock broker shall list out situations/conditions in which the securities may be liquidated and such situations/conditions shall be included in the "Rights and Obligations Document". The broker shall liquidate the securities, if the client fails to meet the margin call to comply with the conditions as mentioned in this circular or specified in the "Rights and Obligations Document" specified by exchange.

39.3.2. However, the broker shall not liquidate or use in any manner the securities of the client in any situation other than the conditions stipulated at para 39.3.1 above.

39.4. Eligibility requirements for stock brokers to provide Margin Trading Facility to clients

39.4.1. Only corporate stock brokers with a net worth of at least Rs.3.00 crore shall be eligible to offer margin trading facility to their clients.

39.4.2. The "net worth" for the purpose of margin trading facility shall be as specified in SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

39.4.3. The stock brokers shall submit to the Stock Exchange a half-yearly certificate, as on 31st March and 30th September of each year, from an



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

auditor confirming the net worth. Such a certificate shall be submitted not later than 30th April and 31st October of every year.

39.5. Source of Funds

39.5.1. For the purpose of providing the margin trading facility, a stock broker may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI. Stock Brokers may borrow funds by way of issuance of Commercial Paper (CP) and by way of unsecured long term loans from their promoters and directors. The borrowing by way of issuance of CPs shall be subject to compliance with appropriate RBI Guidelines. The borrowing by way of unsecured long term loans from the promoters and directors shall be subject to the appropriate provisions of Companies Act.

39.5.2. A stock broker shall not be permitted to borrow funds from any other source, except the sources stated at para 39.5.1 above

39.5.3. The stock broker shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.

39.6. Leverage and Exposure Limits

39.6.1. At any point of time, the total indebtedness of a stock broker for the purpose of margin trading shall not exceed 5 times of its net worth, calculated as per para 39.4.2 above.

39.6.2. The maximum allowable exposure of the broker towards the margin trading facility shall be within the self imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth".

39.6.3. While providing the margin trading facility, the broker shall ensure that:

- a) exposure to any single client at any point of time shall not exceed 10% of the broker's maximum allowable exposure, as specified in para 39.6.2 above.
- b) exposure towards stocks purchased under margin trading facility and collateral kept in the form of stocks are well diversified. Stock Brokers shall have appropriate Board approved policy in this regard.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

39.7. Disclosure Requirement

- 39.7.1. The stock broker shall disclose to the Stock Exchanges details on gross exposure towards margin trading facility including name of the client, Category of holding (Promoter/promoter group or Non-promoter), clients' Permanent Account Number ("PAN"), name of the scrips (Collateral stocks and Funded stocks) and if the stock broker has borrowed funds for the purpose of providing margin trading facility, name of the lender and amount borrowed, on or before 12 noon on the following trading day. The format for this disclosure by the stock broker to the stock exchange is enclosed at **Annexure**.
- 39.7.2. The Stock Exchanges shall disclose on their websites the scrip wise gross outstanding in margin accounts with all brokers to the market. Such disclosure regarding margin trading done on any day shall be made available after the trading hours, on the following day, through its website.
- 39.7.3. The Stock Exchanges shall put in place a suitable mechanism to capture and maintain all relevant details including member-wise, client-wise, scrip-wise information regarding outstanding positions in margin trading facility and also source of funds of the stock brokers, on the exchange both on daily as well as on cumulative basis.

39.8. Rights and Obligations for Margin Trading

- 39.8.1. The Stock Exchanges shall frame a Rights and Obligations document laying down the rights and obligations of stock brokers and clients for the purpose of margin trading facility. The Rights and Obligations document shall be mandatory and binding on the Broker/Trading Member and the clients for executing trade in the Margin Trading framework.
- 39.8.2. The broker/exchange may modify the Rights and Obligations document only for stipulating any additional or more stringent conditions, provided that no such modification shall have the effect of diluting any of the conditions laid down in the circular or in the Rights and Obligations document.

39.9. Maintenance of Records

- 39.9.1. The stock broker shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility.
- 39.9.2. The stock broker shall maintain a separate record of details of the funds



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

used and sources of funds for the purpose of margin trading.

39.9.3. The books of accounts, maintained by the broker, with respect to the margin trading facility offered by it, shall be audited on a half yearly basis. The stock broker shall submit an auditor's certificate to the exchange within one month from the date of the half year ending 31st March and 30th September of a year certifying, inter alia, the extent of compliance with the conditions of margin trading facility. This certificate is in addition to the certificate on net worth specified in para 39.4.2 above.

39.10. Other Conditions

39.10.1. A broker shall take adequate care and exercise due diligence before providing margin trading facility to any client.

39.10.2. Any disputes arising between the client and the stock broker in connection with the margin trading facility shall have the same treatment as normal trades and should be covered under the investor grievance redressal mechanism, arbitration mechanism of the Stock Exchange.

39.10.3. SGF and IPF shall be available for transactions done on the exchange, whether through normal or margin trading facility. However, any losses suffered in connection with the margin trading facility availed by the client from the stock broker shall not be covered under IPF.

39.10.4. The stock brokers wishing to extend margin trading facility to their clients shall be required to obtain prior permission from the exchange where the margin trading facility is proposed to be offered. The exchange shall have right to withdraw this permission at a later date, after giving reasons for the same.

ANNEXURE

Format of the Daily Reporting by the members to the Exchange on the amount financed by them under the Margin Trading Facility

**Name of the member
Clearing No.**

Name of Client	Category of Holding (Promoter/Promoter Group or Non Promoter)	PAN	Name of Stock (Collateral or Funded Stock)	Stock Exchange	Qty Financed (Number of shares)	Amount Financed (In lakhs)
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भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

S. No.	Particulars	(Rs in Lakhs)
1	Total outstanding on the beginning of the day	
2	Add: Fresh exposure taken during the day	
3	Less: Exposure liquidated during the day	
4	Net outstanding at the end of the day	

Source of Funds

1	Out of net worth	
2	Out of borrowed funds	
3	If borrowed, name of lenders and amount borrowed to be specified separately	

Note: Disclosure is required to be made on or before 12 noon on the following trading day.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

V. TECHNOLOGY RELATED

40. Electronic Contract Note⁴⁷

40.1. Brokers are allowed to issue contract notes authenticated by means of digital signatures provided that the broker has obtained digital signature certificate from Certifying Authority under the IT Act, 2000.

40.2. Contract notes can be issued by the brokers in electronic form authenticated by means of digital signatures.

40.3. All the members of stock exchanges who are desirous of issuing Electronic Contract Notes (ECNs) to their clients shall comply with the following conditions:

40.3.1. 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:

- a. 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.
- b. 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.
- c. 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.

40.3.2. Issuing ECNs when specifically consented

- a. 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.

⁴⁷ Reference: Circular SMDRP/POLICY/CIR-56/00 dated December 15, 2000, Circular SEBI/SMD/SE/15/2003/29/04 dated April 29, 2003, Circular MRD/DoP/SE/CIR-20/2005 dated September 08, 2005 and Circular MIRSD/SE/CIR-19/2009 dated December 03, 2009.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

40.3.3. Where to send ECNs

- a. 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 receipts of ECNs.

40.3.4. Requirement of digital signature

- a. 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.

40.3.5. Requirements for acknowledgement, proof of delivery, log report etc.

a. Acknowledgement

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

b. 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.

c. 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.

40.3.6. When to issue or send in Physical mode



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- a. Issue in Physical mode
 - i. 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 mode to such clients.
- b. Send in Physical mode
 - i. 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.

40.3.7. General requirements

- a. ECNs through website
 - i. 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 website in a secured way and enable relevant access to the clients.
- b. Access to the website
 - i. In order to enable clients to access the ECNs posted in the designated website in a secured way, the member shall allot a unique user name 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.
- c. Preservation/Archive of electronic documents
 - i. 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.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

41. Conditions to be met by Broker for providing Internet Based Trading Service⁴⁸

41.1. Internet Based trading can take place through order routing systems, which will route client orders, to exchange trading systems, for execution of trades on the existing stock exchanges. SEBI Registered Brokers can introduce the service after obtaining permission from respective Stock Exchanges. Exchanges while giving permission will be required to ensure minimum conditions specified in the report which is available on the SEBI's web site. The salient conditions to be met are:

41.2. Application for permission by Brokers

41.2.1. SEBI registered Stock Brokers interested in providing Internet based trading services will be required to apply to the respective stock exchange for a formal permission. The stock exchange should grant approval or reject the application as the case may be, and communicate its decision to the member within 30 calendar days of the date of completed application submitted to the exchange.

41.2.2. The stock exchange, before giving permission to brokers to start Internet based services shall ensure the fulfilment of the following minimum conditions:

a. Networth Requirement

i. The broker must have a minimum net worth of Rs.50 lacs if the broker is providing the Internet based facility on his own. However, if some brokers collectively approach a service provider for providing the internet trading facility, net worth criteria as stipulated by the stock exchange will apply. The net worth will be computed as follows:

- Capital +Free reserves
- Less non-allowable assets viz.,
 - i. Fixed assets
 - ii. Pledged securities
 - iii. Member's card
 - iv. Non-allowable securities (unlisted securities)
 - v. Bad deliveries
 - vi. Doubtful debts and advances*
 - vii. Prepaid expenses, losses
 - viii. Intangible assets

⁴⁸ Reference: Circular SMDRP/POLICY/CIR-06/2000 dated January 31, 2000 and Circular FITTC/DC/CIR-1/98 dated June 16, 1998.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

ix. 30% of marketable securities

*Explanation – includes debts/advances overdue for more than three months or given to associates.

b. Operational and System Requirements

- i. **Operational Integrity:** The Stock Exchange must ensure that the system used by the broker has provision for security, reliability and confidentiality of data through use of encryption technology. (Basic minimum security standards are specified in following paras). The Stock Exchange must also ensure that records maintained in electronic form by the broker are not susceptible to manipulation.
- ii. **System Capacity:** The Stock Exchange must ensure that the brokers maintain adequate backup systems and data storage capacity. The Stock Exchange must also ensure that the brokers have adequate system capacity for handling data transfer, and arranged for alternative means of communications in case of Internet link failure.
- iii. **Qualified Personnel:** The Stock Exchange must lay down the minimum qualification for personnel to ensure that the broker has suitably qualified and adequate personnel to handle communication including trading instructions as well as other back office work which is likely to increase because of higher volumes.
- iv. **Written Procedures:** Stock Exchange must develop uniform written procedures to handle contingency situations and for review of incoming and outgoing electronic correspondence.
- v. **Signature Verification/ Authentication:** It is desirable that participants use authentication technologies. For this purpose it should be mandatory for participants to use certification agencies as and when notified by Government / SEBI. They should also clearly specify when manual signatures would be required.

c. Client Broker Relationship

- i. **Know Your Client:** The Stock Exchange must ensure that brokers comply with all requirements of "Know Your Client" and have sufficient, verifiable information about clients, which would facilitate risk evaluation of clients.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- ii. **Broker-Client Agreement:** Brokers must enter into an agreement with clients spelling out all obligations and rights. This agreement should also include inter alia, the minimum service standards to be maintained by the broker for such services specified by SEBI/Exchanges for the Internet based trading from time to time.
 - iii. **Exchanges will prepare a model agreement for this purpose.** The broker agreement with clients should not have any clause that is less stringent/contrary to the conditions stipulated in the model agreement.
 - iv. **Investor Information:** The broker web site providing the internet based trading facility should contain information meant for investor protection such as rules and regulations affecting client broker relationship, arbitration rules, investor protection rules etc. The broker web site providing the Internet based trading facility should also provide and display prominently, hyper link to the web site/ page on the web site of the relevant stock exchange(s) displaying rules/ regulations/circulars. Ticker/quote/order book displayed on the web-site of the broker should display the time stamp as well as the source of such information against the given information.
 - v. **Order/Trade Confirmation:** Order/Trade confirmation should also be sent to the investor through email at client's discretion at the time period specified by the client in addition to the other mode of display of such confirmations on real time basis on the broker web site. The investor should be allowed to specify the time interval on the web site itself within which he would like to receive this information through email. Facility for reconfirmation of orders which are larger than that specified by the member's risk management system should be provided on the internet based system.
 - vi. **Handling Complaints by Investors:** Exchanges should monitor complaints from investors regarding service provided by brokers to ensure a minimum level of service. Exchange should have separate cell specifically to handle Internet trading related complaints. It is desirable that exchanges should also have facility for on-line registration of complaints on their web-site.
- d. **Risk Management**
- i. **Exchanges must ensure that brokers have a system-based control**



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

on the trading limits of clients, and exposures taken by clients. Brokers must set pre-defined limits on the exposure and turnover of each client.

- ii. The broker systems should be capable of assessing the risk of the client as soon as the order comes in. The client should be informed of acceptance/rejection of the order within a reasonable period. In case system based control rejects an order because of client having exceeded limits etc., the broker system may have a review and release facility to allow the order to pass through.
 - iii. Reports on margin requirements, payment and delivery obligations, etc. should be informed to the client through the system.
- e. Contract Notes
- i. Contract notes must be issued to clients as per existing regulations, within 24 hours of the trade execution.
- f. Cross Trades
- i. As in the case of existing system, brokers using Internet based systems for routing client orders will not be allowed to cross trades of their clients with each other. All orders must be offered to the market for matching.
 - ii. It is emphasised that in addition to the requirements mentioned above, all existing obligations of the broker as per current regulation will continue without changes. Exchanges may also like to specify more stringent standards as they may deem fit for allowing Internet based trading facilities to their brokers.
- g. Network Security
- The following security features are mandatory for all Internet based trading systems:
- i. User id
 - ii. First Level password (Private code)
 - iii. Automatic expiry of passwords at the end of a reasonable duration. Reinitialise access on entering fresh passwords
 - iv. All transaction logs with proper audit facilities to be maintained in the system.
 - v. Secured Socket Level Security for server access through Internet



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- vi. Suitable Firewalls between trading set-up directly connected to an Exchange trading system and the Internet trading set-up.

The following advanced security products are advisable.

- i. Microprocessor based SMART cards
- ii. Dynamic Password (Secure ID Tokens)
- iii. 64 bit/128 bit encryption **
- iv. Second Level password (personal information e.g. village name, birth date etc.)

**DOT policy and regulations will govern the level of encryption.

h. Standards for Web Interfaces and Protocols

- i. Between a Trading Web Server and Trading Client Terminals, Interfaces Standards as per recommendations of IETF (Internet Engineering Task Force) and W3C (World Wide Web Consortium) may be adopted. E.g.: HTTP Ver 4 or above HTML Ver 4/XML.

i. Systems Operations

- i. Brokers should follow the similar logic/priorities used by the Exchange to treat client orders.
- ii. Brokers should maintain all activities/ alerts log with audit trail facility
- iii. Broker Web Server should have internally generated unique numbering for all client order/trades
- iv. Brokers should seek permission from the Exchange before commencement of Internet trading facility after providing complete details of the features of implemented systems.
- v. Brokers should make periodic reporting to the Exchange as specified by the Exchange.

42. Securities Trading through Wireless medium on Wireless Application Protocol (WAP) platform⁴⁹

- 42.1. A broker providing stock trading through WAP must be a SEBI registered broker who also has an Internet website which complies with all the requirements laid in para 41 above. With regard to the requirements mentioned above, some additional requirements are to be met by the broker for providing securities transaction through WAP. These requirements are provided in the following criteria:

⁴⁹ Reference: Circular SMDRP/POLICY/CIR-48/2000 dated October 11, 2000.



भारतीय प्रतिभूति और विनिमय बोर्ड **Securities and Exchange Board of India**

42.2. Network Security

- 42.2.1. The break in data encryption at the WAP gateway server raises security issues. Until the shortcoming is addressed by WAP, the WAP server should be hosted by the broker itself and not by a third party.
- 42.2.2. Suitable firewalls should be installed between trading set-up directly connected to an Exchange trading system and the WAP server.
- 42.2.3. WTLS (Wireless Transport Layer Security) level security or a higher level of security (as and when available) for wireless communication is mandatory for wireless transactions.
- 42.2.4. The WTLS encrypts data upto the WAP Gateway server. Transmission from the WAP Gateway server to the Internet server should be secured using Secured Socket Level Security, preferably with 128 bit encryption, for server access through Internet. Alternately, the WAP Gateway server and Internet server may be co-hosted. The server resource should not be shared for any other applications.
- 42.2.5. The following security measures applicable for fixed Internet based systems should be made mandatory:
 - a. User ID
 - b. First Level password (Private code)
 - c. Automatic expiry of passwords at the end of a reasonable duration. Reinitialize access on entering fresh passwords
 - d. All transaction logs with proper audit facilities to be maintained in the system.
- 42.2.6. Digitally signed transactions ensure client authentication and support nonrepudiation. Digital certification should be mandatory for participants as and when certification agencies are notified by Government / SEBI.
- 42.2.7. In case of failure of the network, alternative means of communication such as telephone, Internet or e-mail should be available.

42.3. Price Quotes/ Order/ Trade Confirmations

- 42.3.1. Stock quotes should be time-stamped.
- 42.3.2. All orders and trades must be identified by a unique ID. Order confirmation must be provided to the user on submitting the order. Order modification/ cancellation facilities must also be provided. This may be provided using alternate protocols in case the same is not supported by



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

WAP.

42.3.3. Trade confirmation should be provided to the user through e-mail and/or on the mobile phone.

42.4. System operations

42.4.1. Brokers should follow the similar logic/priorities used by the Exchange to treat client orders.

42.4.2. Orders/ trades placed through either fixed Internet or WAP system should be accessible from both systems.

42.4.3. Brokers should maintain all activities/ alerts log with audit trail facility.

42.4.4. Broker Web Server should have internally generated unique numbering for all client order/trades.

42.5. Risk Management

42.5.1. It is emphasised that risk management should be comprehensive and the risk management systems should take into account the overall positions of clients, irrespective of the medium of trading.

43. Securities Trading using Wireless Technology⁵⁰

43.1. SEBI registered brokers who provide Internet Based Trading shall be eligible to provide securities trading using wireless technology. All relevant requirements applicable to internet based trading shall also be applicable to securities trading using wireless technology.

43.2. Securities Trading using Wireless technology shall include devices such as mobile phone, laptop with data card, etc, that use Internet Protocol (IP).

43.3. In addition, the stock exchange shall ensure that the broker complies with the following:

43.3.1. There shall be secure access, encryption and security of communication for internet based trading and securities trading using wireless technology. DOT policy and regulation shall govern the level of encryption.

43.3.2. Adequate measures should be taken for user identification, authentication and access control using means such as user-id,

⁵⁰ Reference: Circular CIR/MRD/DP/ 25/2010 dated August 27, 2010.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

passwords, smart cards, biometric devices or other reliable means, to prevent misuse of facility by unauthorized persons.

- 43.3.3. Unique identification number as given in case of internet based trading shall be made applicable for securities trading using wireless technology.
- 43.3.4. In case of failure of the wireless network, alternative means of communication for placing orders should be available.
- 43.3.5. Additional provisions specifying possible risks, responsibilities and liabilities associated with securities trading using wireless technology should be incorporated in the Broker-Client agreement as an addendum or by bringing to the notice of clients, who are desirous of availing such facility, and taking their concurrence on the same.
- 43.3.6. As it may not be possible to give detailed information to the investor on a hand held device e.g. mobile phones, it may be ensured that minimum information may be given with addresses of the Internet web site/web page where detailed information would be available.
- 43.3.7. Order confirmation should be provided to the user on submitting the order. Order modification / cancellation facilities should also be provided. Trade confirmation should be provided to the user, along with history of trades for the day.
- 43.3.8. Session login details should not be stored on the devices used for internet based trading and securities trading using wireless technology.
- 43.3.9. Network security protocols and interface standards should be as per prevalent industry standards and sound audit trails should be available for all transactions conducted using wireless devices.
- 43.3.10. The broker's server routing orders to the exchange trading system shall be located in India.
- 43.3.11. Stock exchanges shall arrange for periodic systems audits of broker systems to ensure that requirements specified in the circulars are being met.
- 43.3.12. Stock exchange shall also include securities trading using wireless technology in their ongoing investor awareness and educational programme.
- 43.4. Stock exchanges may take such other measures and implement such other safeguards as they deem fit to ensure security and integrity of transactions conducted using wireless technology.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

44. Additional Requirements for Internet Based Trading (IBT) and Securities trading using Wireless Technology (STWT)⁵¹

44.1. The stock exchange shall ensure that the broker comply with the following

- 44.1.1. The broker shall capture the IP (Internet Protocol) address (from where the orders are originating), for all IBT/ STWT orders.
- 44.1.2. The brokers system should have built-in high system availability to address any single point failure.
- 44.1.3. There should be secure end-to-end encryption for all data transmission between the client and the broker through a Secure Standardized Protocol. A procedure of mutual authentication between the client and the broker server should be implemented.
- 44.1.4. The broker system should have adequate safety features to ensure it is not susceptible to internal/ external attacks
- 44.1.5. In case of failure of IBT/ STWT, the alternate channel of communication shall have adequate capabilities for client identification and authentication.
- 44.1.6. Two-factor authentication for login session may be implemented for all orders emanating using Internet Protocol. Public Key Infrastructure (PKI) based implementation using digital signatures, supported by one of the agencies certified by the government of India, is advisable. Further the two factors in the Two-factor authentication framework should not be same.
- 44.1.7. In case of no activity by the client, the system should provide for automatic trading session logout.

Further to the above, the following practice is advisable –

- 44.1.8. The back-up and restore systems implemented by the broker should be adequate to deliver sustained performance and high availability. The broker system should have on-site as well as remote site back-up capabilities

⁵¹ Reference: Circular CIR/MRD/DP/08/2011 dated June 30, 2011.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

45. Direct Market Access facility⁵²

45.1. Direct Market Access (DMA) is a facility which allows brokers to offer clients direct access to the exchange trading system through the broker's infrastructure without manual intervention by the broker. Some of the advantages offered by DMA are direct control of clients over orders, faster execution of client orders, reduced risk of errors associated with manual order entry, greater transparency, increased liquidity, lower impact costs for large orders, better audit trails and better use of hedging and arbitrage opportunities through the use of decision support tools / algorithms for trading.

45.2. While ensuring conformity with the provisions of the Securities Contract (Regulations) Act, 1956 (42 of 1956), Stock Exchanges may facilitate Direct Market Access for investors subject to the following conditions:

45.3. Application for Direct Market Access (DMA) facility

45.3.1. Brokers interested to offer DMA facility shall apply to the respective stock exchanges giving details of the software and systems proposed to be used, which shall be duly certified by a Security Auditor as reliable.

45.3.2. The stock exchange should grant approval or reject the application as the case may be and communicate its decision to the member within 30 calendar days of the date of completed application submitted to the exchange.

45.3.3. The stock exchange, before giving permission to brokers to offer DMA facility shall ensure the fulfillment of the conditions specified below.

45.4. Operational specifications

45.4.1. All DMA orders shall be routed to the exchange trading system through the broker's trading system. The broker's server routing DMA orders to the exchange trading system shall be located in India.

45.4.2. The broker should ensure sound audit trail for all DMA orders and trades and be able to provide identification of actual user-id for all such orders and trades. The audit trail data should be available for at least 5 years.

45.4.3. Exchanges should be able to identify and distinguish DMA orders and trades from other orders and trades. Exchanges shall maintain statistical data on DMA trades and provide information on the same to SEBI on a

⁵² Reference: Circular MRD/DoP/SE/CIR-7/2008 dated April 03, 2008, Circular MRD/DoP/SE/CIR-03/2009 dated February 20, 2009 and Circular CIR/MRD/DP/20/2012 dated August 02, 2012.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

need basis.

- 45.4.4. The DMA system shall have sufficient security features including password protection for the user ID, automatic expiry of passwords at the end of a reasonable duration, and reinitialisation of access on entering fresh passwords.
- 45.4.5. Brokers should follow the similar logic/priorities used by the Exchange to treat DMA client orders. Brokers should maintain all activities/ alerts log with audit trail facility. The DMA Server should have internally generated unique numbering for all such client order/trades.
- 45.4.6. A systems audit of the DMA systems and software shall be periodically carried out by the broker as may be specified by the exchange and certificate in this regard shall be submitted to the exchange.
- 45.4.7. The exchanges and brokers should provide for adequate systems and procedures to handle the DMA trades.

45.5. Risk Management

- 45.5.1. The broker shall ensure that trading limits/ exposure limits/ position limits are set for all DMA clients based on risk assessment, credit quality and available margins of the client. The broker system shall have appropriate authority levels to ensure that the limits can be set up only by persons authorized by the risk / compliance manager.
- 45.5.2. The broker shall ensure that all DMA orders are routed through electronic/automated risk management systems of the broker to carry out appropriate validations of all risk parameters including Quantity Limits, Price Range Checks, Order Value, and Credit Checks before the orders are released to the Exchange.
- 45.5.3. All DMA orders shall be subjected to the following limits:
 - a. Order quantity / order value limit in terms of price and quantity specified for the client.
 - b. All the position limits which are specified in the derivatives segment as applicable.
 - c. Net position that can be outstanding so as to fully cover the risk emanating from the trades with the available margins of the specific client.
 - d. Appropriate limits for securities which are subject to FII limits as specified by RBI.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

45.6. Broker to be liable for DMA trades

- 45.6.1. The broker shall be fully responsible and liable for all orders emanating through their DMA systems. It shall be the responsibility of the broker to ensure that only clients who fulfill the eligibility criteria are permitted to use the DMA facility.

45.7. Cross Trades

- 45.7.1. Brokers using DMA facility for routing client orders shall not be allowed to cross trades of their clients with each other. All orders must be offered to the market for matching.

45.8. Other legal provisions

- 45.8.1. In addition to the requirements mentioned above, all existing obligations of the broker as per current regulations and circulars will continue without change. Exchanges may also like to specify additional safeguards / conditions as they may deem fit for allowing DMA facilities to their brokers.

- 45.9. The facility of DMA provided by the stock broker shall be used by the client or an investment manager of the client. A SEBI registered entity shall be permitted to act as an investment manager on behalf of institutional clients. In case the facility of DMA is used by the client through an investment manager, the investment manager may execute the necessary documents on behalf of the client(s).

- 45.10. Exchange shall specify from time to time the categories of investors to whom the DMA facility can be extended. Currently, this facility is available for institutional clients. Brokers shall specifically authorize clients or investment managers acting on behalf of clients for providing DMA facility, after fulfilling Know Your Client requirements and carrying out necessary due diligence. The broker shall maintain proper records of such due diligence.

- 45.11. The exchange/ broker shall ensure that proper audit trails are available to establish identity of the ultimate client. The exchange may put in place such other safeguards as it deems fit to mitigate any concerns it may have.

- 45.12. The terms and conditions for the purpose of DMA is specified in **Annexure** below. The “Terms and Conditions” shall be provided to the client or investment manager acting on behalf of a client (s) for availing the DMA facility. In case the DMA facility provided by the stock broker is used by the client the paragraphs 1 to 18 of **Part A of Annexure** shall be applicable. In case the DMA facility provided by the stock broker is used by the client through an investment manager the paragraphs 1 to 18 of **Part B of Annexure** shall be



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

applicable and additionally, the investment manager shall provide to the stock broker the details as specified at the end of the **Annexure**.

ANNEXURE

PART A: DMA FACILITY USED BY THE CLIENT

1. The client is expected to be fully aware of the risks associated with the market and the financial instruments being traded on stock exchanges through DMA. The client shall be responsible for complying with laws, rules, regulations, notifications etc issued by regulatory authorities as may be applicable from time to time.
2. The client shall ensure that DMA facility provided by the Broker is used only to execute the trades of the client and shall not be used for transactions on behalf of any other person / entity.
3. The client shall be responsible for ensuring that, only persons authorized by it shall access and use the DMA facility provided by the Broker. All orders originating from such facility / system shall be deemed to be authorized by the client.
4. Where the client accesses or proposes to access the Broker's DMA platform through external applications, including but not restricted to services of third party service provider(s), own application(s), etc., the client shall ensure that such applications have adequate security features including but not limited to access controls, password protection etc; and that appropriate agreement(s) with such third party service provider(s) etc. for ensuring secured access and communication has been executed and are in place.
5. The client shall ensure that no person authorized by them to place orders through DMA facility provided by the broker has been / is involved in any adverse action by any regulatory authorities in any jurisdiction.
6. The client shall provide the names of authorized individual users to the broker prior to placing DMA orders.
7. The client shall not use or allow the use of DMA facility to engage in any form of market misconduct including insider trading and market manipulation or conduct that is otherwise in breach of applicable laws, rules and regulation.
8. The client is aware that Algorithmic trading i.e. generation of orders using automated execution logic is governed by Algorithmic trading guidelines issued by SEBI and Exchanges and requires prior approval of the exchanges. The client shall ensure that new algorithms and changes to existing approved algorithms are not used through the DMA facility without prior approval of concerned stock



exchanges. The client shall ensure that it has necessary checks and balances, in place to identify and control dysfunctional algorithms and the Broker shall have the right to shut down the DMA facility and remove any outstanding client orders in case of any suspected dysfunctional algo.

9. The client is aware that authentication technologies and strict security measures are required for routing orders through DMA facility and undertakes to ensure that the password of the client and/or his representative are not revealed to any third party.
10. The client acknowledges that all DMA orders placed by them through the DMA facility would be validated by the risk management system of the broker. The Broker has the right to accept or reject any DMA order placed by the client at its sole discretion.
11. The client shall be solely responsible for all acts or omissions of any person using a DMA facility and shall be bound to accept and settle all transactions executed through the DMA facility provided by the Broker notwithstanding that such order(s) may have been submitted erroneously or by an unauthorized user, or that its data is inaccurate or incomplete when submitted, or the client subsequently determines for whatever reason that the order should not have been submitted.
12. The client shall notify the Broker in the event of DMA facility being compromised. Upon receipt of this notice, client's DMA facility shall be promptly disabled but the client shall continue to be responsible for any misuse of the DMA facility or any orders placed through the DMA facility as a result of the compromise of the DMA facility at their end. The Broker shall not be liable for any loss, liability or cost whatsoever arising as a result of any unauthorized use of DMA facility at the client's end.
13. In the event of winding-up or insolvency of the client or his otherwise becoming incapable of settling their DMA obligation, broker may close out the transaction of the client as permissible under bye-laws, rules, regulations of the exchanges. The client shall continue to be liable for any losses, costs, damages arising thereof.
14. The client is fully aware of the risks of transmitting DMA orders to the Broker's DMA facility through vendor systems or service providers and the Broker is not responsible for such risks.
15. The client should be aware of the fact that neither the DMA facility will be uninterrupted nor error free nor the results that may be obtained from the use of the service or as to the timeliness, sequence, accuracy, completeness, reliability or content of any information, service or transaction provided through DMA. The



DMA service is provided on an "as is", "as available" basis without warranties of any kind, either express or implied, including, but not limited to, those of information access, order execution, merchantability and fitness for a particular purpose. The Broker shall not be liable for any loss, damage or injury including but not limited to direct lost profits or trading losses or any consequential, special, incidental, indirect, or similar damages from the use or inability to use the service or any part thereof.

16. The Broker shall have the right to withdraw the DMA facility in case of:-

16.1. Breach of the limits imposed by the broker or any regulatory authority.

16.2. On account of any misuse of the DMA facility by the client or on instructions from SEBI/Exchanges.

16.3. Any other reason, at the discretion of the broker.

Broker shall endeavor to give reasonable notice to the client in such instances.

17. The Broker shall not be liable or responsible for non-execution of the DMA orders of the client due to any link/system failure at the client/ Broker/ exchange(s) end.

18. This document shall not be altered, amended and /or modified by the parties in a manner that shall be in contravention of any other provisions of this document. Any additional terms and conditions should not be in contravention with rules / regulations /bye-laws/circulars, of the relevant authorities including applicable stock exchanges as amended from time to time.

**PART - B: DMA FACILITY USED BY THE CLIENT THROUGH AN
INVESTMENT MANAGER**

1. The client shall be solely responsible for all acts or omissions of any person using a DMA facility and shall be bound to accept and settle all transactions executed through the DMA facility provided by the Broker to the investment manager acting on behalf of the client, notwithstanding that such order(s) may have been submitted erroneously or by an unauthorized user, or that its data is inaccurate or incomplete when submitted, or the client subsequently determines for whatever reason that the order should not have been submitted.
2. The investment manager is expected to be fully aware of the risks associated with the market and the financial instruments being traded on stock exchanges through DMA. The investment manager shall be responsible for complying with laws, rules, regulations, notifications etc issued by regulatory authorities as may be applicable from time to time.



3. Where the DMA facility provided by the Broker is used to execute trade on behalf of one or more clients, by the investment manager, then it is represented and warranted that, at each time an order is placed by such investment manager through the DMA facility of the Broker -
 - 3.1. The investment manager has due authority to deal on behalf of the client(s) through the Broker, specifying the roles and responsibilities of the investment manager in execution of transactions on behalf of the client(s).
 - 3.2. The investment manager shall comply with any applicable laws, rules and regulations affecting or relating to trading operations.
 - 3.3. The investment manager and the client(s) are bound by the terms and conditions hereof;
 - 3.4. The investment manager using the DMA facility for routing client(s) orders shall not cross trades of their client(s) with each other. Accordingly, all orders should be offered in the market.
 - 3.5. The stock exchange or SEBI may at any time call for any information from a client(s) or an investment manager acting on behalf of the client(s) with respect to any matter relating to the activity of the investment manager. The investment manager shall also furnish any information specifying the roles and responsibilities of the investment manager in execution of transactions on behalf of the client(s), as and when required by the exchanges or SEBI.
4. The investment manager shall be responsible for ensuring that, only persons authorized by it shall access and use the DMA facility provided by the Broker. All orders originating from such facility / system shall be deemed to be authorized by the client.
5. Where the investment manager accesses or proposes to access the Broker's DMA platform through external applications, including but not restricted to services of third party service provider(s), own application(s), etc., the investment manager shall ensure that such applications have adequate security features including but not limited to access controls, password protection etc; and that appropriate agreement(s) with such third party service provider(s) etc. for ensuring secured access and communication has been executed and are in place.
6. The investment manager shall ensure that no person authorized by them to place orders through DMA facility provided by the broker has been / is involved in any adverse action by any regulatory authorities in any jurisdiction.
7. The investment manager shall provide the names of authorized individual users to the broker prior to placing DMA orders.



8. The investment manager shall not use or allow the use of DMA facility to engage in any form of market misconduct including insider trading and market manipulation or conduct that is otherwise in breach of applicable laws, rules and regulation.
9. The investment manager is aware that Algorithmic trading i.e. generation of orders using automated execution logic is governed by Algorithmic trading guidelines issued by SEBI and Exchanges and requires prior approval of the exchanges. The investment manager shall ensure that new algorithms and changes to existing approved algorithms are not used through the DMA facility without prior approval of concerned stock exchanges. The investment manager shall ensure that it has necessary checks and balances, in place to identify and control dysfunctional algorithms and the Broker shall have the right to shut down the DMA facility and remove any outstanding client orders in case of any suspected dysfunctional algo.
10. The investment manager is aware that authentication technologies and strict security measures are required for routing orders through DMA facility and undertakes to ensure that the password of the investment manager and/or his representative are not revealed to any third party.
11. The investment manager acknowledges that all DMA orders placed by them through the DMA facility would be validated by the risk management system of the broker. The Broker has the right to accept or reject any DMA order placed by the investment manager at its sole discretion.
12. The investment manager shall notify the Broker in the event of DMA facility being compromised. Upon receipt of this notice, client's DMA facility shall be promptly disabled but the client shall continue to be responsible for any misuse of the DMA facility or any orders placed through the DMA facility as a result of the compromise of the DMA facility at their end. The Broker shall not be liable for any loss, liability or cost whatsoever arising as a result of any unauthorized use of DMA facility at the client's end.
13. In the event of winding-up or insolvency of the client or his otherwise becoming incapable of honoring their DMA obligation, broker may close out the transaction of the client as permissible under bye-laws, rules, regulations of the exchanges. The client shall continue to be liable for any losses, costs, damages arising thereof.
14. The investment manager is fully aware of the risks of transmitting DMA orders to the Broker's DMA facility through vendor systems or service providers and the Broker is not responsible for such risks.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

15. The investment manager should be aware of the fact that neither the DMA facility will be uninterrupted nor error free nor the results that may be obtained from the use of the service or as to the timeliness, sequence, accuracy, completeness, reliability or content of any information, service or transaction provided through DMA. The DMA service is provided on an "as is", "as available" basis without warranties of any kind, either express or implied, including, but not limited to, those of information access, order execution, merchantability and fitness for a particular purpose. The Broker shall not be liable for any loss, damage or injury including but not limited to direct lost profits or trading losses or any consequential, special, incidental, indirect, or similar damages from the use or inability to use the service or any part thereof.
16. The Broker shall have the right to withdraw the DMA facility in case of:-
- 16.1. Breach of the limits imposed by the broker or any regulatory authority.
- 16.2. On account of any misuse of the DMA facility by the client/ investment manager or on instructions from SEBI/Exchanges.
- 16.3. Any other reason, at the discretion of the broker.
- Broker shall endeavor to give reasonable notice to the client in such instances.
17. The Broker shall not be liable or responsible for non-execution of the DMA orders of the client due to any link/system failure at the client/ Broker/ exchange(s) end.
18. This document shall not be altered, amended and /or modified by the parties in a manner that shall be in contravention of any other provisions of this document. Any additional terms and conditions should not be in contravention with rules / regulations /bye-laws/circulars, of the relevant authorities including applicable stock exchanges as amended from time to time.

DETAILS TO BE PROVIDED TO THE STOCK BROKER

On the letter head of the Investment manager

PART A

DETAILS OF THE INVESTMENT MANAGER:

NAME OF THE INVESTMENT MANAGER:

NAME OF THE HOME REGULATOR

COUNTRY OF JURISDICTION OF HOME

REGULATOR REGISTERED /REGULATED IN HOME JURISDICTION AS:



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

SEBI REGISTRATION NUMBER:					
PART B					
CLIENT(S) DETAILS:					
S. No.	NAME OF THE ENTITY	NAME OF THE REGULATOR	REGULATED IN INDIA AS	REGISTRATION NUMBER	PAN

46. Smart Order Routing⁵³

46.1. Smart Order Routing allows the brokers trading engines to systematically choose the execution destination based on factors viz. price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.

46.2. Stock Exchanges are advised to ensure the following conditions with regard to the Smart Order Routing facility:

46.2.1. Stock broker interested to offer Smart Order Routing facility shall apply to the respective stock exchanges.

46.2.2. Stock broker shall submit a third party system audit of its Smart Order Routing system and software. Stock exchanges shall disseminate to its stock brokers a list of approved system auditors (CISA or equivalent) qualified to undertake such system audits.

46.2.3. Stock broker shall provide the following to the respective stock exchanges:

- An undertaking to the respective stock exchanges that Smart Order Routing shall route orders in a neutral manner.
- Provide the features of the Smart Order Routing to stock exchange.

46.2.4. Stock exchange shall communicate its decision to the broker within 30 calendar days from the date of receipt of complete application by the stock exchange. Stock exchange shall not consider testing and demonstration of the SOR system/software as a criterion for declaring the application of the broker as 'complete'. Further, testing and demonstration of SOR system/software, if required, shall be suitably scheduled within the aforesaid period of 30 calendar days.

⁵³ Reference: Circular CIR/MRD/DP/26/2010 dated August 27, 2010 and Circular CIR/MRD/DP/36/2010 dated December 09, 2010.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 46.2.5. In case of rejection of the application on smart order routing of a stock broker, the stock exchange shall communicate such reasons of rejections to the stock broker. Further, the decision of the stock exchange on the SOR application of the stock broker and reasons for rejection of the SOR application shall also be communicated to all the other stock exchanges where the broker's SOR facility intends to route orders.
- 46.2.6. Stock exchange shall ensure that brokers adhere to the best execution policy while using Smart Order Routing.
- 46.2.7. Smart Order Routing facility shall be provided to all class of investors.
- 46.2.8. Stock Broker shall communicate to all clients the features, possible risks, rights, responsibilities and liabilities associated with the smart order routing facility. The client desirous of availing such facility shall do so by entering into a broker-client agreement, as applicable. For the existing clients, the same shall be implemented through an addendum to the existing broker-client agreement, as applicable.
- 46.2.9. Stock broker shall maintain logs of all activities to facilitate audit trail. Broker shall maintain record of orders, trades and data points for the basis of decision.
- 46.2.10. Stock exchange shall permit smart order routing for all orders, without restricting to any specific type of order. The choice on order types shall be left to the client.
- 46.2.11. If stock exchange desires to advise its brokers to seek re-approval, it may do so only in case of –
- a. Inclusion of a new stock exchange for offering SOR facility; and/or,
 - b. Material changes in the software/system of the smart order routing facility.
- 46.2.12. In case the client has availed Smart Order Routing facility and does not want to use the same for a particular order, the same shall be well documented by the stock broker.
- 46.2.13. System audit of the Smart Order Routing systems and software shall be periodically carried out by the brokers as may be specified by the exchange and certificate in this regard shall be submitted to the exchange.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 46.2.14. Stock exchange shall ensure that Smart Order Routing is not used to place orders at venues other than the recognised stock exchanges.
- 46.2.15. The stock broker shall carry out appropriate validation of all risk parameters before the orders are placed in the Smart Order Routing system.
- 46.2.16. Stock exchange shall provide unique identification number for the orders placed through Smart Order Routing system. Further, stock exchanges shall maintain data on Smart Order Routing orders and trades.
- 46.2.17. Stock exchange shall have necessary surveillance mechanism in place to monitor trading done through Smart Order Routing.
- 46.2.18. Stock broker shall ensure that alternative mode of trading system is available in case of failure of Smart Order Routing facility.
- 46.2.19. Stock exchange shall ensure that within a period of three months from implementation of Smart Order Routing, a system is put in place to time stamp market data feed that is disseminated to the market, if the same is not already available.
- 46.2.20. Stock exchange shall strengthen investor grievance cell in order to address complaints, if any, received with regard to Smart Order Routing. Further, in case of any disputes or complaints, stock exchanges shall share necessary data as and when required in order to facilitate necessary examination.
- 46.2.21. Stock exchange shall synchronise their system clocks with atomic clock before the start of market.
- 46.2.22. The broker server routing orders placed through Smart Order Routing system to the exchange trading system shall be located in India. Stock exchange shall permit SOR approved brokers to offer SOR facility through all their servers irrespective of their location in India.
- 46.2.23. All other existing obligations for the broker as per current regulations and circulars will continue.
- 46.2.24. Stock exchange may specify additional safeguards as they deem fit for allowing Smart Order Routing facility to their brokers.



47. Broad Guidelines on Algorithmic Trading⁵⁴

47.1. Any order that is generated using automated execution logic shall be known as algorithmic trading.

47.2. Guidelines to the stock exchanges and the stock brokers:

Stock exchanges shall ensure the following while permitting algorithmic trading:

47.2.1. The stock exchange shall have arrangements, procedures and system capability to manage the load on their systems in such a manner so as to achieve consistent response time to all stock brokers. The stock exchange shall continuously study the performance of its systems and, if necessary, undertake system upgradation, including periodic upgradation of its surveillance system, in order to keep pace with the speed of trade and volume of data that may arise through algorithmic trading.

47.2.2. In order to ensure maintenance of orderly trading in the market, stock exchange shall put in place effective economic disincentives with regard to high daily order-to-trade ratio of algo orders of the stock broker. Further, the stock exchange shall put in place monitoring systems to identify and initiate measures to impede any possible instances of order flooding by algos.

47.2.3. The stock exchange shall ensure that all algorithmic orders are necessarily routed through broker servers located in India and the stock exchange has appropriate risk controls mechanism to address the risk emanating from algorithmic orders and trades. The minimum order-level risk controls shall include the following:

- a. Price check - The price quoted by the order shall not violate the price bands defined by the exchange for the security. For securities that do not have price bands, dummy filters shall be brought into effective use to serve as an early warning system to detect sudden surge in prices.
- b. Quantity Limit check - The quantity quoted in the order shall not violate the maximum permissible quantity per order as defined by the exchange for the security.

47.2.4. In the interest of orderly trading and market integrity, the stock exchange shall put in place a system to identify dysfunctional algos (i.e. algos leading to loop or runaway situation) and take suitable measures, including advising the member, to shut down such algos and remove any

⁵⁴ Reference: Circular CIR/MRD/DP/09/2012 dated March 30, 2012 and Circular CIR/MRD/DP/16/2013 dated May 21, 2013.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

outstanding orders in the system that have emanated from such dysfunctional algos. Further, in exigency, the stock exchange should be in a position to shut down the broker's terminal.

- 47.2.5. Terminals of the stock broker that are disabled upon exhaustion of collaterals shall be enabled manually by the stock exchange in accordance with its risk management procedures.
- 47.2.6. The stock exchange may seek details of trading strategies used by the algo for such purposes viz. inquiry, surveillance, investigation, etc.
- 47.2.7. In order to strengthen the surveillance mechanism related to algorithmic trading and prevent market manipulation, stock exchanges shall take necessary steps to ensure effective monitoring and surveillance of orders and trades resulting from trading algorithms. Stock exchanges shall periodically review their surveillance arrangements in order to better detect and investigate market manipulation and market disruptions.
- 47.2.8. The stock exchange shall include a report on algorithmic trading on the stock exchange in the Monthly Development Report (MDR) submitted to SEBI inter-alia incorporating turnover details of algorithmic trading, algorithmic trading as percentage of total trading, number of stock brokers / clients using algorithmic trading, action taken in respect of dysfunctional algos, status of grievances, if any, received and processed, etc.
- 47.2.9. The stock exchange shall synchronize its system clock with the atomic clock before the start of market such that its clock has precision of atleast one microsecond and accuracy of atleast +/- one millisecond.
- 47.3. Stock exchange shall ensure that the stock broker shall provide the facility of algorithmic trading only upon the prior permission of the stock exchange. Stock exchange shall subject the systems of the stock broker to initial conformance tests to ensure that the checks mentioned below are in place and that the stock broker's system facilitate orderly trading and integrity of the securities market. Further, the stock exchange shall suitably schedule such conformance tests and thereafter, convey the outcome of the test to the stock broker.
- 47.4. For stock brokers already providing algo trading, the stock exchange shall ensure that the risk controls specified herein are implemented by the stock broker.
- 47.5. The stock brokers / trading members that provide the facility of algorithmic trading shall subject their algorithmic trading system to a system audit every



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

six months in order to ensure that the requirements prescribed by SEBI / stock exchanges with regard to algorithmic trading are effectively implemented. Such system audit of algorithmic trading system shall be undertaken by a system auditor who possess any of the following certifications:

- 47.5.1. CISA (Certified Information System Auditors) from ISACA;
- 47.5.2. DISA (Post Qualification Certification in Information Systems Audit) from Institute of Chartered Accountants of India (ICAI);
- 47.5.3. CISM (Certified Information Securities Manager) from ISACA;
- 47.5.4. CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC)².
- 47.6. Deficiencies or issues identified during the process of system audit of trading algorithm / software shall be reported by the stock broker / trading member to the stock exchange immediately on completion of the system audit. Further, the stock broker / trading member shall take immediate corrective actions to rectify such deficiencies / issues.
- 47.7. In case of serious deficiencies / issues or failure of the stock broker / trading member to take satisfactory corrective action, the stock exchange shall not allow the stock broker / trading member to use the trading software till deficiencies / issues with the trading software are rectified and a satisfactory system audit report is submitted to the stock exchange. Stock exchanges may also consider imposing suitable penalties in case of failure of the stock broker / trading member to take satisfactory corrective action to its system within the time-period specified by the stock exchanges.
- 47.8. The stock broker, desirous of placing orders generated using algos, shall satisfy the stock exchange with regard to the implementation of the following minimum levels of risk controls at its end -
 - 47.8.1. Price check - Algo orders shall not be released in breach of the price bands defined by the exchange for the security.
 - 47.8.2. Quantity check - Algo orders shall not be released in breach of the quantity limit as defined by the exchange for the security.
 - 47.8.3. Order Value check - Algo orders shall not be released in breach of the 'value per order' as defined by the stock exchanges.
 - 47.8.4. Cumulative Open Order Value check - The individual client level



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

cumulative open order value check, may be prescribed by the broker for the clients. Cumulative Open Order Value for a client is the total value of its unexecuted orders released from the stock broker system.

- 47.8.5. Automated Execution check - An algo shall account for all executed, unexecuted and unconfirmed orders, placed by it before releasing further order(s). Further, the algo system shall have pre-defined parameters for an automatic stoppage in the event of algo execution leading to a loop or a runaway situation.
- 47.8.6. All algorithmic orders are tagged with a unique identifier provided by the stock exchange in order to establish audit trail.
- 47.9. The other risk management checks already put in place by the exchange shall continue and the exchange may re-evaluate such checks if deemed necessary in view of algo trading.
- 47.10. The stock broker, desirous of placing orders generated using algos, shall submit to the respective stock exchange an undertaking that -
- 47.10.1. The stock broker has proper procedures, systems and technical capability to carry out trading through the use of algorithms.
- 47.10.2. The stock broker has procedures and arrangements to safeguard algorithms from misuse or unauthorized access.
- 47.10.3. The stock broker has real-time monitoring systems to identify algorithms that may not behave as expected. Stock broker shall keep stock exchange informed of such incidents immediately.
- 47.10.4. The stock broker shall maintain logs of all trading activities to facilitate audit trail. The stock broker shall maintain record of control parameters, orders, trades and data points emanating from trades executed through algorithm trading.
- 47.10.5. The stock broker shall inform the stock exchange on any modification or change to the approved algos or systems used for algos.
- 47.11. The stock exchange, if required, shall seek conformance of such modified algo or systems to the requirements specified above.
- 47.12. In order to discourage repetitive instances of high daily order-to-trade ratio, stock exchanges shall impose an additional penalty in form of suspension of proprietary trading right of the stock broker / trading member for the first trading hour on the next trading day in case a stock broker / trading member



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

is penalized for maintaining high daily order-to-trade ratio, provided penalty was imposed on the stock broker / trading member on more than ten occasions in the previous thirty trading days.

48. Testing of software used in or related to Trading and Risk Management⁵⁵

48.1. The term 'software' shall mean electronic systems or applications used by stock brokers / trading members for connecting to the stock exchanges and for the purposes of trading and real-time risk management, including software used for Internet Based Trading (IBT), Direct Market Access (DMA), Securities Trading using Wireless Technology (STWT), Smart Order Routing (SOR), Algorithmic Trading (AT) etc.

48.2. Testing of Software

48.2.1. In addition to the testing and approval requirements specified by SEBI on IBT, DMA, STWT, SOR and AT, stock exchanges shall frame appropriate testing policies for functional as well as technical testing of the software. Such framework shall at the minimum include the following:

- a. Testing in a simulated test environment: Stock exchanges shall provide suitable facilities to market participants / software vendors to test new software or existing software that have undergone change. Subjecting the new software or existing software that have undergone change to such testing facility shall be mandatory for market participants, before putting it in use.
- b. Mock testing
 - i. Stock exchanges shall organize mock trading sessions on regular basis, atleast once in a calendar month, to facilitate testing of new software or existing software that has undergone any change of functionality, in a close-to-real trading environment. Stock exchanges shall suitably design and plan such mock trading sessions to ensure maximum participation and sufficient trading volumes for the purpose of testing.
 - ii. Stock exchanges shall mandate a minimum time period for such testing in the mock trading sessions.
 - iii. In order to improve the efficacy of the mock trading sessions, all stock brokers / trading members shall ensure that all user-ids approved for Algo trading, irrespective of the algorithm having

⁵⁵ Reference: Circular CIR/MRD/DP/24/2013 dated August 19, 2013 and Circular CIR/MRD/DP/06/2014 dated February 07, 2014.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

undergone change or not, shall participate in the mock trading sessions.

- iv. User Acceptance Test (UAT): The stock broker / trading member shall undertake UAT of the software to satisfy itself that the newly developed / modified software meets its requirements.
 - c. With respect to testing of software related to (i) fixes to bugs in the software, (ii) changes undertaken to the stock brokers' software / systems pursuant to a change to any stock exchange's trading system, and (iii) software purchased from a software vendor that has already been tested in the mock environment by certain number of stock brokers, stock exchanges may prescribe a faster approval process to make the process of approval expeditious.
- 48.2.2. Stock brokers / trading members shall also engage system auditor(s) to examine reports of mock tests and UAT in order to certify that the tests were satisfactorily undertaken.
- 48.2.3. Stock exchanges shall monitor compliance of stock brokers / trading members, who use trading algorithm, with regard to the requirement of participation in mock trading session as mandated herein. In cases where stock exchanges find that the stock broker / trading member has failed to participate in such mock trading sessions, stock exchange shall call for reasons and if found unsatisfactory, shall suspend the proprietary trading rights of the stock broker / trading member for a minimum period of one trading day.
- 48.2.4. Stock exchanges shall also ensure that the system auditors examine the compliance of stock broker / trading member, who use trading algorithms, with regard to the requirement of participation in mock trading session, as mandated herein, and provide suitable comments in the periodic system audit report. In cases where the system audit report indicate that the stock broker / trading member has failed to participate in such mock trading sessions, stock exchange shall call for reasons from the stock broker / trading member and if found unsatisfactory, shall suspend the proprietary trading rights of the stock broker / trading member for a minimum period of one trading day.
- 48.2.5. For pre-approval / periodic system audit of Computer-to-Computer Link (CTCL) or Intermediate Messaging Layer (IML), IBT, DMA, STWT, SOR and AT, stock brokers / trading members shall engage a system auditor with any of the certifications specified in para 47.5.1 to 47.5.4 above. While finalizing the system auditor, stock brokers / trading members shall ensure the system auditor does not have any conflict of interest with the stock broker and the directors / promoters of the system auditor are



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

not directly or indirectly related to the current directors or promoters of stock broker / trading member.

48.3. Approval of Software of stock broker / trading member

- 48.3.1. Stock brokers / trading members shall seek approval of the respective stock exchanges for deployment of the software in the securities market by submitting necessary details required by stock exchange including details of software, tests undertaken and certificate / report provided by the system auditor. Stock exchange may seek additional details as deemed necessary for evaluating the application of the stock broker / trading member.
- 48.3.2. Stock exchanges shall grant approval or reject the application of the stock broker as the case may be, and communicate the decision to the stock broker / trading member within fifteen working days from the date of receipt of completed application (or within any other such time period specified vide SEBI circulars on DMA, IBT, STWT, SOR, AT, etc.). In case of rejection of the application, the stock exchange shall also communicate reasons of rejection to the stock broker / trading member within such time period.
- 48.3.3. Before granting approval to use software in securities market, stock exchange shall ensure that the requirements specified by SEBI / stock exchange with regard to software are met by the stock broker / trading member.
- 48.3.4. Stock exchanges may suitably schedule the requirements of mock testing, certification of test reports by system auditor(s) and the software approval process, so as to facilitate a speedy approval and a smooth transition of the stock brokers to the new / upgraded software.
- 48.3.5. In order to ensure that stock brokers are not using software without requisite approval of the stock exchanges, stock exchanges are advised to put in place suitable mechanism to prevent any unauthorized change to the approved software.

48.4. Undertaking to be provided by stock brokers / trading members

- 48.4.1. Stock brokers / trading members shall submit an undertaking to the respective stock exchanges stating the following at the minimum:
 - a. M/s(name of the stock broker / trading member)..... will take all necessary steps to ensure that every new software and any change thereupon to the trading and/or risk management functionalities of the software will be tested as per the framework prescribed by SEBI /



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

stock exchange before deployment of such new / modified software in securities market.

- b. M/s(name of the stock broker / trading member)..... will ensure that approval of the stock exchange is sought for all new / modified software and will comply with various requirements specified by SEBI or the stock exchange from time to time with regard to usage, testing and audit of the software.
- c. The absolute liability arising from failure to comply with the above provisions shall lie entirely with M/s(name of the stock broker / trading member).....

48.4.2. Stock exchanges may include additional clauses as deemed necessary in the undertaking.

48.5. Sharing of Application Programming Interface (API) specifications by the stock exchange with stock brokers / trading members

48.5.1. API is an interface that enables interaction of software with other software and typically includes language and message format that is used by an application program to communicate with the operating system or other application program. Stock brokers / trading members and software vendors require relevant API specifications to facilitate interaction of the developed software with the systems of the stock exchanges.

48.5.2. Stock exchanges shall provide relevant API specifications to all stock brokers / trading members and software vendors who are desirous of developing software for the securities market, after establishing their respective credentials.

48.5.3. In case of refusal to share APIs, stock exchanges shall provide reasons in writing to the desirous stock brokers / trading members or software vendors within a period of fifteen working days from the date of receipt of such request for sharing of API.

48.5.4. Further, stock exchanges shall not selectively release updates / modifications, if any, of the existing API specifications to few stock brokers / trading members or software vendors ahead of others and shall provide such updated / modified API specifications to all stock brokers / trading members and software vendors with whom the earlier API specifications were shared.

48.6. Penalty on malfunction of software used by stock broker / trading member:

48.6.1. Stock exchanges shall examine the cases of malfunctioning of software used by stock brokers / trading members and apply deterrent penalties



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

in form of fines or suspension to the stock broker / trading member whose software malfunctioned. In addition, stock brokers / trading members shall implement various mechanisms including the following to minimize their losses in the event of software malfunction:

- a. include suitable clauses in their agreement with the software vendors to define liabilities of software vendor and stock broker / trading member in case of software malfunction, and / or,
- b. consider taking suitable insurance cover to meet probable losses in case of software malfunction.

48.7. With regard to changes / updates to stock broker's trading software that intend to modify the 'look and feel' and do not affect the risk management system of the stock broker or the connectivity of the trading software with stock exchange's trading system, it is clarified that mock testing and consequent system audit may not be insisted upon by the stock exchanges.

48.8. Stock exchanges shall direct their stock brokers to put in place adequate mechanism to restore their trading systems to 'production state' at the end of testing session so as to ensure integrity of stock brokers' trading system.

49. Safeguards to avoid trading disruption in case of failure of software vendor⁵⁶

49.1. Software vendors who provide software to market participants and market infrastructure institutions for the purpose of trading, risk management, clearing and settlement play a crucial role in the securities market. Any inability on the part of such software vendors to provide software or related services in timely and continuous manner may create a situation of stress in the securities market.

49.2. Adequate mechanism / procedure should be in place to ensure smooth transition by stock broker(s) to another software vendor in case of inability of the existing software vendor to provide software and related services in timely and continuous manner.

49.3. Stock exchanges may advise the stock brokers to take the following measures:

- 49.3.1. Explore the possibility of establishing a 'software escrow arrangement' with their existing software vendors.
- 49.3.2. In case of large stock brokers, consider reducing dependence on a single software vendor for trading and risk management systems, by engaging more than one software vendor.

⁵⁶ Reference: Circular CIR/MRD/DP/07/2014 dated February 11, 2014.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

49.3.3. Consider including the following in their contracts with the software vendors:

- a. access to documents related to design and development specifications in the event software vendor fails to provide continuous and timely services to the stock broker;
- b. development of expertise at the end of the stock broker through appropriate training with regard to software usage and maintenance;
- c. appropriate penalty clauses for cases of disruptions to the trading system of the stock broker on account of (i) software vendor failing to provide continuous and timely services to the stock broker or (ii) glitches to the software provided by the software vendor;
- d. obligation on the part of the software vendor to cooperate in case of audit of software including forensic audit, if required.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

VI. CHANGE IN STATUS, CONSTITUTION, CONTROL, AFFILIATION

50. Surrender of Certificate of Registration of Sub-Brokers and Change of Affiliation of Sub-Brokers⁵⁷

50.1. Surrender of registration by sub-broker

50.1.1. The affiliating stock broker shall issue a public advertisement in a local newspaper with wide circulation where the sub-broker's place of work is situated, informing the investors/general public about the surrender of registration of his sub-broker and not to deal with such sub-broker.

50.1.2. An application for surrender of registration has to be made to SEBI by the sub-broker, along with the following:

- a. the letter of de-recognition issued by the Exchange;
- b. a certificate from the affiliating broker that the sub-broker has been disabled from trading;
- c. copies of two advertisements issued by the affiliating broker informing the investors/ general public about the cancellation of his/their sub-broker(s) and advising them not to deal with such sub-broker(s). One advertisement shall be issued in a local newspaper where the sub-broker's Registered Office/ Head Office/ Corporate Office is situated and another in English daily/vernacular newspaper with wide circulation;
- d. the original certificate of registration for cancellation. In case the surrender is made by the affiliating broker, the application for surrender shall be made by the broker along with evidence of service of notice of termination of agreement; and,
- e. an undertaking that it / he would be liable for all liabilities/obligations (including monetary penalties, if any) for violations if any, of the provisions of the SEBI Act and the SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations, 1992 that have taken place before the surrender.

50.1.3. Fees, as may be due, as per Schedule III (II) of the SEBI (Stock Broker and Sub-Broker) Regulations, 1992 as on the date of de-recognition of the sub-broker by the Exchange, shall be paid along with the application for surrender.

⁵⁷ Reference: Circular MIRSD-DR 1/SRP/CIR-43/28408/04 dated December 15, 2004.

Circular CIR/MIRSD/2/2011 dated June 03, 2011,

Circular CIR/MIRSD/10/2012 dated August 27, 2012.

Para A (1 & 2) of Circular MIRSD-DR 1/SRP/CIR-43/28408/04 dated December 15, 2004, deleted in view of Notification LAD-NRO/GN/2011-12/03/12650 dated April 19, 2011.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 50.1.4. On receipt of the application for surrender and being found suitable in all respects, the procedure as prescribed in the SEBI (Stock Broker and Sub-Broker) Regulations, 1992 read with Regulation 15(i) the SEBI (Procedure for Holding Inquiry) Regulations, 2002, shall be followed.
- 50.1.5. The sub-broker may, if he so desires, make a representation for dispensing with the procedure, along with the application for surrender in terms of fresh proviso to regulations 16(i) of the SEBI ((Procedure for Holding Inquiry and Imposing Penalty) Regulations, 2002.
- 50.1.6. If the surrender application is accepted by SEBI, registration would be cancelled by SEBI with effect from the date of de-recognition by the Exchange. Until SEBI cancels the registration and issues no due certificate, the deposit, if any, of the sub- broker shall not be released to the sub-broker by the Exchange.
- 50.2. In case of transition from sub-broker to Authorized Person (AP) (where the sub-broker surrenders registration while seeking approval as AP) with the same stock broker and the same Stock Exchange, issue of advertisement in newspaper regarding surrender of sub-broker registration shall not be required. However, the affiliating stock broker shall furnish an undertaking/ confirmation to the Stock Exchanges at the time of surrender of sub-broker registration that he has sent communication to the clients of the sub-broker individually about the surrender of sub-brokership and also the fact of approval as AP.
- 50.3. The affiliating stock broker and/or Stock Exchange shall publish the details of sub-brokers whose registration has been surrendered or their new status as AP, as the case may be on their respective websites for the information of the investors.
- 50.4. Forwarding of application
- 50.4.1. On receipt of the application(s) for prior approval and / or for surrender and / or registration, as the case may be, of the sub-broker(s), the Exchange shall forward the same to SEBI within a month of receipt of the application by the Exchange only after it has approved the same and recognized and / derecognized the sub-broker(s) concerned, along with a confirmation (if not possible to confirm, details may be given) on the following:
- a. no complaint/ arbitration /disciplinary proceeding /investigation /inquiry is pending against the sub-broker with the exchange,
 - b. as on date of application, the sub-broker, has paid fees as per Schedule III (II) of the Regulations, along with interest, if any, till the date on which the exchange has de-recognised the sub-broker.



भारतीय प्रतिभूति और विनिमय बोर्ड **Securities and Exchange Board of India**

50.5. Change of constitution of the affiliating broker

50.5.1. The change in status and constitution of the affiliating broker would not constitute change in status and constitution of the sub-broker. However, if the change in status and constitution of the affiliating broker results in a fresh registration for the broker, the outgoing broker shall ensure that the all the sub-brokers affiliated to him either surrender their registrations or get their registrations affiliated against the new registration number of the incoming broker in accordance with the following:

- a. If the registrations of the sub-brokers are to be surrendered, the surrender requests of the sub-brokers must be submitted to SEBI before or at the time of application for change in status and constitution of the broker and the procedure specified in para 50.1 above shall be followed.
- b. If brokers are to be affiliated with the incoming broker, the incoming broker must submit applications for change of affiliation from the outgoing broker to the incoming broker, along with its application for fresh registration. The sub-brokers shall enter into a fresh stock broker – sub-broker agreement with the incoming broker in terms of Regulation 15(1)(c) of the SEBI (Stock Broker and Sub-Broker) Regulations and a copy of the same shall be enclosed with the application for change of affiliation. The application for change of affiliation shall also be accompanied with the original certificate of registration of the sub-broker for carrying out the necessary changes. Though the affiliation of the sub-broker will change, it shall be liable for all its activities before the change of affiliation.

50.6. Change in name of sub-broker or affiliating broker

50.6.1. Change in name of the sub-broker or in name of affiliating broker would not amount to change in status and constitution of the sub-broker and hence no approval is required for the same. If a sub-broker changes name, it shall be the responsibility of the affiliating broker to submit the registration certificate of such sub-broker to SEBI through the concerned exchange for recording change of name on the registration certificate. If the name of the affiliating broker changes, the broker shall submit the registration certificates of all its sub-brokers to SEBI through the concerned exchange for carrying out appropriate changes on the certificate. All requests for recording such changes in the certificate of registration must be sent to SEBI within 7 days of change of name.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

51. Change in affiliation of Sub-Brokers⁵⁸

51.1. Regulation 11(2) of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 stipulates that: “No fresh certificate needs to be obtained under sub-regulation (1) where a sub-broker merely changes his affiliation from one stock broker to another stock broker, being a member of the same Stock Exchange.”

51.2. Though no fresh certificate needs to be obtained for change in affiliation, such a change may require approval from the Board.

51.3. The procedure to be followed and the documents to be submitted for seeking approval for change in affiliation by the sub-brokers is specified in the table given below:

S. No.	Scenarios (A)	Remarks (B)	Procedure and Documents to be submitted by the applicant. (C)
i.	A sub-broker intends to discontinue business with one broker and start business with another broker by changing affiliation.	The sub-broker shall submit the application for change in affiliation to the exchange through the broker with whom affiliation is being sought and exchange shall forward the application to SEBI along-with its recommendation.	<u>Procedure:</u> Application for change in affiliation to be submitted to the exchange through the broker with whom affiliation is being sought. The exchange shall ensure and confirm that there is no complaint(s) / action(s) is /are pending against the sub-broker seeking change in affiliation and the sub-broker has no outstanding fee against it.
ii.	A broker merges / amalgamates with another broker or is acquired by another broker.	The sub-broker affiliated to merging / amalgamating / acquired broker entities may either choose to surrender registration or affiliate with the incoming entity or any other broker. The broker must ensure that all the sub-brokers affiliated to it submit the application for change in affiliation or surrender within a period of 15 days. The application for surrender of certificate of registration of sub-broker shall be submitted to the exchange through the existing broker whereas the application for change in	The Exchange shall forward the application complete in all respects to SEBI along with its recommendation. SEBI shall take the change in affiliation on record and effect the changes on the sub-broker certificate.

⁵⁸ Reference: Circular MIRSD-DR 1/MK/CIR-15/111600/07 dated December 20, 2007.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

		affiliation of sub-broker shall be submitted to the exchange through the broker with whom affiliation is being sought. The exchange shall forward the application for surrender / change in affiliation to SEBI for approval.	The modified certificate shall be dispatched to the exchange to be handed over to the broker / sub-broker.
iii.	A broker applies for surrender.	<p>Sub-Brokers affiliated to a broker who has applied for surrender of registration may apply for change in affiliation to another broker or apply for surrender.</p> <p>The broker must ensure that all the sub-brokers affiliated to it submit the application for change in affiliation or surrender at the time broker applies for surrender. The application must be submitted through the exchange.</p> <p>The application for surrender of certificate of registration of sub-broker shall be submitted to the exchange through the existing broker whereas the application for change in affiliation of sub-broker shall be submitted to the exchange through broker with whom affiliation is being sought. Exchange shall forward the application for surrender / change in affiliation to SEBI for approval.</p>	<p>The sub-broker seeking change in affiliation shall be eligible to do business with the old broker till the application is granted approval by SEBI. Thereafter, on grant of approval by SEBI the exchange shall ensure that affiliation of the sub-broker is changed to new broker with immediate effect.</p> <p><u>Documents to be submitted:</u></p> <p>Exchange recommendation and recommendation by the broker with whom affiliation is being sought.</p> <p>Certificate of registration in original for recording change in affiliation. In case of lost / misplaced certificate, an affidavit (on stamp paper of appropriate value) indemnifying SEBI from possible harm caused by loss of certificate and a copy of FIR/ police complaint lodged by the sub-broker is required to be furnished.</p> <p>Letter from the sub-broker seeking change in affiliation addressed to SEBI.</p> <p>No Objection Certificate (NOC) from the existing affiliated broker with whom</p>
iv.	A broker undergoes change in control or change in status and constitution / sale / transfer / transmission	<p>Sub-brokers affiliated to a broker who has undergone change in control/change in status or constitution / transfer/ sale/ transmission, may apply for change in affiliation to another broker or apply for surrender.</p> <p>The broker undergoing change must ensure that all the sub-brokers affiliated to it submit the sub-brokers' application for change in affiliation or surrender after the issuance of prior approval to the broker and before the registration of the incoming broking entity. The application must be submitted through the exchange.</p> <p>In case the broker expires, the sub-brokers may change their affiliation within a period of six months from the date on which the</p>	



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

		<p>broker ceases to exist or the registration will be deemed cancelled.</p> <p>The application for surrender of certificate of registration of sub-broker(s) shall be submitted to the exchange through the existing broker whereas the application for change in affiliation of sub-broker shall be submitted to the exchange through the broker with whom affiliation is being sought. The exchange shall forward the application for surrender / change in affiliation to SEBI for approval.</p>	<p>the sub-broker wishes to discontinue business.</p> <p>Certified true copy of the agreement between the broker and the sub-broker.</p>
v.	SEBI takes punitive action against the broker like cancellation / debarred from securities market or the broker is declared a defaulter or expelled from exchange.	<p>Sub-Brokers affiliated to a broker against whom punitive action has been taken, may apply for change in affiliation to another broker or apply for surrender. The sub-brokers must apply for change in affiliation or surrender through the exchange within a period of one (1) month from the date of the SEBI order.</p> <p>The application for surrender of certificate of registration of sub-broker(s) shall be submitted to the exchange through the existing broker whereas the application for change in affiliation of sub-broker shall be submitted to the exchange through the broker with whom affiliation is being sought. The exchange shall forward the application for surrender / change in affiliation to SEBI for approval.</p>	
vi.	The broker or the sub-broker terminates the agreement.	<p>In case the broker or the sub-broker terminates the agreement, the sub-broker may apply for change in affiliation or surrender registration.</p> <p>In case the sub-broker intends change in affiliation and broker does not issue NOC, the sub-broker may apply for change in affiliation after completion of one month from the date of termination of agreement with the proof of request to the broker for NOC.</p>	



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

		<p>In case the sub-broker terminates the agreement, the sub-broker shall submit an application to the exchange for surrender of certificate of registration as sub-broker and enclose proof of service of notice for termination of agreement with the broker.</p> <p>In case the sub-broker is not traceable or does not either apply for change in affiliation or surrender after termination of agreement by the broker, the broker may submit an application for surrender of registration along with proof of service of notice to the sub-broker after a period of one month from the date of termination of agreement.</p>	
vii.	Broker undergoes a change in name.	The sub-brokers may only submit certificate of registration in original for the change in affiliating broker's name to be recorded on certificate.	

51.4. The exchange shall provide to SEBI only its recommendation and the certificate of the sub-broker seeking change in affiliation / copy of police complaint or FIR as attachments if the certificate is misplaced or lost along with an affidavit (on stamp paper of appropriate value) indemnifying SEBI from any possible harm due to loss of certificate. The other documents mentioned above may be retained by exchange at its end. The exchange shall provide these documents to SEBI as and when required.

52. Periodical Report – Grant of prior approval to members of Stock Exchanges/ Sub-Brokers⁵⁹

52.1. With the amendment in SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as "the said Regulations") vide Notification No. LAD-NRO/GN/2011-12/03/12650 dated April 19, 2011, the requirement of members of the Stock Exchanges and sub-brokers to obtain prior approval from SEBI for change in status or constitution has been done away with. However, the members of the Stock Exchanges would be required to take prior approval from SEBI for change in control.

52.2. The Stock Exchanges will continue to grant prior approval to their members and sub-brokers for change in status or constitution, which would include the following:

52.2.1. in case of a body corporate –

⁵⁹ Reference: Circular CIR/MIRSD/2/2011 dated June 03, 2011.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- a. amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 230 of the Companies Act, 2013⁶⁰ or the corresponding provision of any other law for the time being in force;
- b. change in its managing director, whole-time director or director appointed in compliance with clause (v) of sub-rule (4A) of rule 8 of the Securities Contracts (Regulation) Rules, 1957; and
- c. any change in control over the body corporate;

52.2.2. any change between the following legal forms - individual, partnership firm, Hindu undivided family, private company, public company, unlimited company or statutory corporation and other similar changes;

52.2.3. in case of a partnership firm any change in partners not amounting to dissolution of the firm;

52.2.4. any other purpose as may be considered appropriate by the Stock Exchanges.

52.3. The Stock Exchanges shall submit a periodical report with details of the changes in status or constitution of the members / sub-brokers, as per the format and in accordance with guidelines given at **Annexure** below.

ANNEXURE

Format for reporting changes in "status or constitution" of Members/ Sub-Brokers

Name of the Stock Exchange:

Report for the quarter ending: June/September/December/March

Year:-

Date of report:

S. No.	Date of receipt	Name of the member/ sub-broker	Registration number INB/F/E INS	Type of change	Details of changes		PAN (incoming entities)	Date of Change	Date of approval by Stock Exchange
					Pre	Post			

⁶⁰ Words "section 391 of the Companies Act, 1956 (1 of 1956)" replaced with "section 230 of the Companies Act, 2013" in view of Companies Act 2013 being in force.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

Type	Description of Change
I	Amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 230 of the Companies Act, 2013 or the corresponding provision of any other law for the time being in force.
II	Change in managing director, whole-time director or director appointed in compliance with clause (v) of sub-rule (4A) of rule 8 of the Securities Contracts (Regulation) Rules, 1957.
III	Change in control.
IV	Any change between the following legal forms - individual, partnership firm, Hindu undivided family, private company, public company, unlimited company or statutory corporation and other similar changes.
V	In case of a partnership firm any change in partners not amounting to dissolution of the firm.
VI	Any other purpose as may be considered appropriate by the Stock Exchanges.
<p style="text-align: center;">Guidelines to fill up the format and sending the same to SEBI</p> <ol style="list-style-type: none"> 1. A separate annexure shall be submitted for each "Type of change" as specified in the format. 2. The report shall be signed by an authorized representative of the Stock Exchange and the same shall be stamped. 3. The Stock Exchanges shall furnish the report to SEBI by 7th day of month following the end of each quarter. 4. The report shall be submitted by e-mail at serpa@sebi.gov.in. A hard copy of the report shall also be submitted to SEBI. 	

53. Revised procedure for seeking prior approval for change in control through single window⁶¹

53.1. Pursuant to amendments in Regulations for certain intermediaries viz., Stock Brokers and Sub-Brokers, Merchant Bankers, Debenture Trustees, Registrar to an Issue and Share Transfer Agents, Underwriters, Depository Participants, Bankers to an Issue and Credit Rating Agencies, vide Notification No. LAD-NRO/GN/2011-12/03/12650 dated April 19, 2011, the requirement of obtaining prior approval for change in status or constitution has been dispensed with. However, in case of change in control of the above intermediaries except for sub-brokers, prior approval of SEBI is required.

53.2. With a view to expedite the process of granting prior approval, a 'single window clearance at SEBI' will be adopted for the above intermediaries in case of their having multiple registrations with SEBI. Accordingly, in consultation with the major Stock Exchanges and market participants, the following procedure has been devised:

⁶¹ Reference: Circular CIR/MIRSD/14/2011 dated August 02, 2011



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

- 53.2.1. In case an applicant holds multiple registrations with SEBI, it shall make only one application to SEBI accompanied by the following information about itself, the acquirer and the directors/partners of the acquirer:
- Whether any application was made in the past to SEBI seeking registration in any capacity but it was not granted? If yes, details thereof.
 - Whether any action has been initiated / taken under SCRA/SEBI Act or rules and regulations made thereunder? If yes, status thereof along with corrective action taken to avoid such violations in the future. The acquirer shall also confirm that it shall honour all past liabilities / obligations of the applicant, if any.
 - Whether any investor complaint is pending? If yes, steps taken and confirmation that the acquirer shall resolve the same.
 - Details of litigation, if any.
 - That all the fees due to SEBI have been paid.
 - That there will not be any change in the Board of Directors of incumbent, till the time prior approval is granted.
 - That the incumbent shall inform all its existing investors / clients in order to enable them to take informed decision regarding their continuance or otherwise with the entity with new management.
- 53.2.2. Further, in case the incumbent is a registered stock broker and / or depository participant, in addition to the above, it shall obtain approval / NOC from all the Stock Exchanges / Depositories, where the incumbent is a member / depository participant and forward a self attested copy of the same to SEBI.
- 53.2.3. The application shall be addressed to "Chief General Manager, MIRSD, SEBI".
- 53.2.4. The prior approval granted by SEBI shall be valid for a period of 180 days from the date of communication.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

VII. SUBSIDIARY

54. Floating of a Subsidiary/ Company by a Stock Exchange to acquire the membership of other Stock Exchange⁶²

54.1. Small Stock Exchanges may promote/float a subsidiary/company to acquire membership rights of other Stock Exchange subject to the under noted conditions:

54.1.1. The subsidiary/company shall be 100% owned by the Stock Exchange promoting/floating such a subsidiary/company.

54.1.2. For the purposes of fulfillment of above condition, the Exchange and its members shall together hold 100% in nominal value of the equity share capital of the subsidiary/company with exchange holding not less than 51% in nominal value of the equity share capital of the subsidiary/company.

54.1.3. The name of the subsidiary/company shall not contain the words "Stock Exchange".

54.1.4. The members of the Stock Exchange shall register themselves as sub-brokers of the subsidiary/company to enable them trade through the subsidiary/company.

54.1.5. The subsidiary/company shall not undertake any dealing in securities on its own account.

54.1.6. The subsidiary/company shall register only the members of the Stock Exchange, which is promoting the subsidiary/company as its sub-broker and no other client/sub-broker shall be entertained by the subsidiary/company. Hence, the member has to be eligible to trade on parent Stock Exchange to be eligible to trade through the subsidiary company as its sub-broker.

54.1.7. The sub-brokers of the subsidiary/company shall maintain separate deposit with the subsidiary/company. The Base Minimum Capital deposited by the sub-broker with the promoting Stock Exchange shall not be transferred to the subsidiary/company. This deposit could be maintained 25% in the form of cash and the balance 75% in irrevocable

⁶² Reference: Circular SMD-II/POLICY/CIR-37/99 dated November 26, 1999, Circular SMD-I/POLICY/CIR-40/99 dated December 16, 1999, Circular SMD-II/ALLSE/CIR-02/2000 dated January 10, 2000, Circular SMDRPD/POLICY/CIR-8/2001 dated February 07, 2001 and Circular SEBI/SMD/SE/CIR-20/2003/02/06 dated June 02, 2003.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

bank guarantees / Fixed Deposit Receipts (FDRs). These FDRs would be discharged in favour of the subsidiary/company and the subsidiary/company would be given a complete unencumbered and unconditional lien on these FDRs.

54.1.8. The trading/exposure limit of the sub-brokers shall be based on the deposit received by the subsidiary/company from the sub-brokers and these limits shall not exceed the limits as prescribed by the Stock Exchange of which the subsidiary/company is a member.

54.1.9. The subsidiary/company shall collect margins from the sub-brokers for the payment of margins to the respective Stock Exchanges of which the subsidiary/company is a member. The margin imposed by the subsidiary/company on its sub-brokers shall not be less than the margin payable to the Stock Exchanges of which the subsidiary/company is the member.

54.1.10. The Stock Exchange shall incorporate the above mentioned conditions in the Memorandum of Association/Articles of Association of the subsidiary/company.

55. Exclusion of turnover from the turnover of the Subsidiary⁶³

55.1. Where a Stock Exchange has formed a subsidiary company, which has become a stock broker of another Stock Exchange, then the turnover of the stock broker who is buying, selling or dealing in securities, through the subsidiary company as a sub-broker, shall be excluded from the turnover of the subsidiary company, only if the stock broker has paid five years turnover based fees plus fee for a block of five years in accordance with the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992, on the concerned Stock Exchange which has formed the subsidiary company.

56. Eligibility for Trading Member⁶⁴

56.1. Subsidiaries of the Stock Exchanges can become trading and or clearing members of the derivatives segment on fulfilling the eligibility criteria laid down by the exchanges and prescribed under the SEBI (Stock Broker and Sub-Broker) Regulations, subject to the following conditions:

56.1.1. All the risk containment measures laid down by SEBI shall be followed by these subsidiary companies and

⁶³ Reference: Circular SMD/POLICY/CIR. No. 24/25374/2001 dated March 22, 2001 and SEBI (Stock Brokers and Sub-Brokers) (Second Amendment) Regulations, 2000 dated August 30, 2000.

⁶⁴ Reference: Circular SMDRP/POLICY/CIR-41/2001 dated August 09, 2001.



56.1.2. These subsidiaries shall not undertake proprietary trade.

57. Restructuring of the Subsidiary Management⁶⁵

57.1. Subsidiary company shall be required to comply with minimum requirements in order to ensure that the transactions in subsidiaries are conducted in a manner which are not detrimental to the interest of the investors and also to enable the subsidiaries to provide a safe and transparent mechanism for transactions in securities.

57.2. The management structure of subsidiaries of small Stock Exchanges shall be as under:

57.2.1. Chief Executive Officer - The subsidiary company shall appoint a Chief Executive Officer (CEO) who shall not hold any position concurrently in the Stock Exchange (parent exchange). The appointment, the terms and conditions of service, the renewal of appointment and the termination of service of CEO shall be subject to prior approval of SEBI.

57.2.2. Reconstitution of Governing Board - The Governing Board of the subsidiary company shall have the following composition:

- a. The CEO of the subsidiary company shall be a director on the Board of Subsidiary. The CEO shall not be a sub-broker of the subsidiary company or a broker of the parent exchange.
- b. At least 50% of Directors representing on the Governing Board of subsidiary company shall not be sub-brokers of the subsidiary company or brokers of the promoter / holding exchange (parent exchange). These directors (excluding CEO) shall be called the Public Representatives.
- c. The Public Representatives shall be nominated by the parent exchange (subject to prior approval of SEBI).
- d. Public Representatives to be nominated as directors of subsidiary company shall be from amongst the persons of integrity having necessary professional competence and experience in the areas related to securities market.
- e. For purpose of nomination as Public Representatives the Governing body of parent exchange may forward the names of the persons to the SEBI for its approval. The SEBI shall, however have the right to nominate persons, whose names have not been forwarded by the governing body of the Stock Exchange.
- f. The Public Representatives to be appointed as directors shall hold the office for a period of one year from the date of assumption of the office or till the Annual General Meeting of subsidiary company

⁶⁵ Reference: Circular SMD/POLICY/CIR-4/ 2003 dated February 11, 2003.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

whichever is earlier.

- g. There should be a gap of at least one year after a consecutive period of three years before re-nomination of any person for the post of non-member director.
- h. The parent exchange may appoint a maximum of two directors who are officers of the parent exchange. Such directors shall be in addition to 50% non-member directors (public representatives) mentioned above.

57.2.3. Staff of the Subsidiary - The subsidiary company shall have its own staff none of whom shall be concurrently working for or holding any position of office in the parent exchange.

57.2.4. Responsibilities of Parent Exchange towards Subsidiary Company - The parent exchange shall be responsible for all risk management of the subsidiary company and shall set up appropriate mechanism for the supervision of the trading activity of subsidiary company. Such mechanism shall include:

- a. Verification of compliance of margin payments and other risk management measures applicable to the subsidiary company as a broker member of another exchange.
- b. Reporting requirements between the subsidiary and exchange, such as placing quarterly reports on the financial and accounts of the subsidiary and on review of operations of the subsidiary before the Governing Board of exchange at its meetings.
- c. Conducting of half-yearly inspections of the subsidiary and 20% of its sub-brokers and placing such reports before the Governing Board of exchange.
- d. Handling of investor complaints of sub-brokers of the subsidiary company.

58. Access to unauthorized persons by the Members of Subsidiaries⁶⁶

58.1. The Stock Exchanges which have formed subsidiaries shall note that appropriate penal action including fine, suspension of trading rights of the subsidiaries/sub-brokers, etc., would be initiated, in case, any of the members of the exchange who are sub-brokers of the subsidiary is found to be providing unauthorized access to persons for illegal trading and/or providing their own terminal for illegal trading. The exchanges shall exercise vigilance and surveillance on their subsidiaries/its members to ensure that the members do not indulge in these types of activities.

⁶⁶ Reference: Circular SEBI/MRD/SE/15958/2003 dated August 22, 2003.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

VIII. FOREIGN ACCOUNTS TAX COMPLIANCE ACT

59. Inter-Governmental Agreement with United States of America under Foreign Accounts Tax Compliance Act - Registration⁶⁷

59.1. The Government of India has advised that India and the United States of America (US) have reached an agreement in substance on the terms of an Inter-Governmental Agreement (IGA) to implement Foreign Accounts Tax Compliance Act (FATCA) and India is now treated as having an IGA in effect from April 11, 2014. However, the IGA may be signed in due course. Information on FATCA is available at:
<http://www.irs.gov/Businesses/Corporations/Foreign-Account-Tax-ComplianceAct-FATCA>.

59.2. As advised by the Government, the following points may be noted by all SEBI registered intermediaries:

59.2.1. Indian Financial Institutions would have time upto December 31, 2014 to register with US authorities and obtain a Global Intermediary Identification Number (GIIN). This time limit would also be applicable to Indian Financial Institutions having overseas branches in Model 1 jurisdictions, including those jurisdictions where an agreement under Model 1 has been reached in substance. Registration should be done only after the formal IGA is signed.

59.2.2. Overseas branches of Indian Financial Institutions in a jurisdiction having IGA 2 agreement or in a jurisdiction that does not have an IGA but permits financial institutions to register and agree to a Foreign Financial Institution (FFI) agreement, may register with US authorities within the stipulated time period and obtain a GIIN in accordance with the requirements to avoid potential withholding under FATCA.

59.2.3. Overseas branches of Indian Financial Institutions in a jurisdiction that does not have an IGA and does not permit financial institutions to register and agree to an FFI agreement may not register and their overseas branches would eventually be subject to withholding under FATCA.

59.2.4. The Government has further advised that if registration of the parent intermediary/ head office is a pre-requisite for a branch to register, such intermediaries may register as indicated at 59.2.1 and 59.2.2 above.

⁶⁷ Reference: Circular CIR/MIRSD/2/2014 dated June 30, 2014.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

60. Implementation of the Multilateral Competent Authority Agreement and Foreign Account Tax Compliance Act⁶⁸

- 60.1. India joined the Multilateral Competent Authority Agreement (MCAA) on Automatic Exchange of Financial Account Information on June 03, 2015. In terms of the MCAA, all countries which are signatory to MCAA, are obliged to exchange a wide range of financial information after collecting the same from financial institutions in their country / jurisdiction.
- 60.2. On July 09, 2015, the Governments of India and United States of America (USA) signed an agreement to improve international tax compliance and to implement the Foreign Account Tax Compliance Act (FATCA) in India. The USA enacted FATCA in 2010 to obtain information on accounts held by US taxpayers in other countries. As per the aforesaid agreement, foreign financial institutions (FFIs) in India will be required to report tax information about US account holders / taxpayers directly to the Indian Government which will, in turn, relay that information to the US Internal Revenue Service (IRS).
- 60.3. For implementation of the MCAA and agreement with USA, the Government of India has made necessary legislative changes to Section 285BA of the Income Tax Act, 1961. Further, the Government of India has notified Rules 114F to 114H (herein after referred to as “the Rules”) under the Income Tax Rules, 1962 and form No. 61B for furnishing of statement of reportable account specified in the Rules. The Rule is available at <http://www.incometaxindia.gov.in/communications/notification/notification%20no.%2062%20dated%2007-08-2015.pdf>
- 60.4. A “Guidance Note on implementation of Reporting Requirements under Rules 114F to 114H of the Income Tax Rules” as issued by the Department of Revenue, Ministry of Finance vide F.No.500/137/2011-FTTR-III dated August 31, 2015 is available at http://www.incometaxindia.gov.in/communications/notification/guidance_notes_on_implementation_31_08_2015.pdf, for information and necessary action.
- 60.5. All registered intermediaries shall take necessary steps to ensure compliance with the requirements specified in the aforesaid Rules after carrying out necessary due diligence.

⁶⁸Reference: Circular CIR/MIRSD/2/2015 dated August 26, 2015 and Circular CIR/MIRSD/3/2015 dated September 10, 2015.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

IX. SCORES, INVESTOR GRIEVANCES

61. Exclusive e-mail ID for redressal of Investor Complaints⁶⁹

61.1. All the Stock Exchanges/registered brokers/registered sub-brokers/listed companies/Depositories/registered depository participants shall 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.

62. Redressal of Investor complaints against Stock Brokers and Sub-Brokers in SEBI Complaints Redress System (SCORES)⁷⁰

62.1. SEBI commenced processing of investor complaints in a centralized web based complaints redress system 'SCORES'. The salient features of this system are:

62.1.1. Centralised database of all complaints,

62.1.2. Online movement of complaints to the concerned listed companies,

62.1.3. Online upload of Action Taken Reports (ATRs) by the concerned companies, and

62.1.4. Online viewing by investors of actions taken on the complaint and its current status.

62.2. The investor grievances received by SEBI against stock brokers and sub-brokers will be taken up electronically with the concerned Stock Exchange(s) through SCORES (<https://scores.gov.in/Admin>). The Stock Exchange(s) shall, in turn, take up the matter with the concerned stock brokers/sub-brokers.

62.3. The complaint shall be redressed within a period of 15 days from the receipt of the complaint. In case additional information is required from the complainant, the same shall be sought within 7 days from the receipt of the complaint. In such cases, the period of 15 days shall run from the receipt of additional information.

⁶⁹ Reference: Circular MRD/DoP/Dep/SE/CIR-22/06 dated December 18, 2006.

⁷⁰ Reference: Circular CIR/MIRSD/18/2011 dated August 25, 2011 and Circular SEBI/HO/MIRSD/MIRSD6/CIR/P/2017/20 dated March 10, 2017.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

63. Information regarding Grievance Redressal Mechanism⁷¹

63.1. For information of all investors who deal/ invest/ transact in the market, the offices of all stock brokers (its registered sub-broker(s) and authorized person(s)) and depository participants shall prominently display basic information, as provided in **Annexure** below, about the grievance redressal mechanism available to investors.

ANNEXURE

Dear Investor,

In case of any grievance / complaint against the Stock Broker / Depository Participant:

Please contact Compliance Officer of the Stock Broker/ Depository Participant (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 Stock Broker/ Depository Participant, you may contact the concerned Stock Exchange / Depository at the following:

	Web Address	Contact No.	Email-id
NSE	www.bseindia.com	xxxxxxxxxx	xxx@bseindia.com
BSE	www.nseindia.com	Xxxxxxxxxx	xxx@nse.co.in
MSEI	www.msei.in	xxxxxxxxxx	xxx@msei.in

	Web Address	Contact No.	Email-id
CDSL	www.cdslindia.com	xxxxxxxxxx	xxx@cdslindia.com
NSDL	www.nsdl.co.in	xxxxxxxxxx	xxx@nsdl.co.in

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.

⁷¹ Reference: Circular CIR/MIRSD/3/2014 dated August 28, 2014.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

X. GENERAL

64. Advertisement by Brokers/ Sub-Brokers and grant of trading terminals⁷²

64.1. The Stock Exchanges shall ensure that brokers and sub-brokers do not issue advertisements of their business, including in their internet sites, by subsidiaries, group companies etc. in contravention to Clause C(4) and C(5) of the Code of Conduct specified in Schedule II of Regulation 7 and Clause C(5) and C(6) of the Code of Conduct specified in Schedule II of Regulation 15 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 and Bye Laws of the concerned Stock Exchange. Similarly, the Stock Exchanges shall inform their brokers to ensure that their sub-brokers do not issue such advertisements in future.

64.2. Stock Exchanges shall grant trading terminals only at the members' registered office, branch offices and their registered sub-brokers' offices.

65. Registration Number of Brokers / Sub-Brokers to be quoted on all correspondences with SEBI⁷³

65.1. Stock Exchanges shall quote SEBI Registration Number of the concerned Broker / Sub-Broker quoted on all correspondences with SEBI relating to them. Stock Exchanges shall instruct the Brokers / Sub-Brokers to quote their SEBI Registration Number in all their correspondences with SEBI. Stock Exchanges shall also advise the Brokers / Sub-Brokers to indicate (i) SEBI Registration Number of the Broker / Sub-Broker and (ii) Name of the Broker/ Sub-Broker as per SEBI registration certificate on the reverse of the demand drafts forwarded to SEBI.

66. Maintenance of books of accounts and other documents sought by Enforcement Agencies from Stock Exchanges and Brokers⁷⁴

66.1. In terms of Rules 14 and 15 of Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as SCRR, 1957), every recognized stock exchange and its members are required to maintain and preserve the specified books of account and documents for a period ranging from two years to five years. Further, as per Regulation 18 of SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 (hereinafter referred to as Stock Broker Regulations), every stock broker shall preserve the specified books of account and other records for a minimum period of five years.

66.2. Enforcement agencies like CBI, Police, Crime Branch etc. have been collecting

⁷² Reference: Circular SMD/POLICY/CIR-49/2001 dated October 22, 2001.

⁷³ Reference: Circular SMD/DBA-II/Cir-16/9618/03 dated May 05, 2003.

⁷⁴ Reference: Circular SEBI/MRD/SE/CIR-15/2005 dated August 04, 2005.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

copies of the various records/documents during the course of their investigation. These original documents both in physical form and electronic form would be required by such enforcement agencies during trial of the case also.

- 66.3. Notwithstanding anything contained in SCRR, 1957 and the Stock Broker Regulations, it is advised to preserve the originals of the documents, both in electronic and physical form, copies of which have been taken by CBI, Police or any other enforcement agency during the course of any investigation till the trial is completed.

67. Display of details by Stock Brokers (including Trading Members)⁷⁵

- 67.1. While a stock broker may use the brand name / logo of its group companies, it must display more prominently:
- 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.

68. Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication⁷⁶

- 68.1. It has been observed by SEBI that unauthenticated news related to various scrips are circulated in blogs/chat forums/e-mail etc. by employees of Broking Houses/Other Intermediaries without adequate caution as mandated in the Code of Conduct for Stock Brokers and respective Regulations of various intermediaries registered with SEBI.
- 68.2. Further, in various instances, it has been observed that the Intermediaries do not have proper internal controls and do not ensure that proper checks and balances are in place to govern the conduct of their employees. Due to lack of proper internal controls and poor training, employees of such intermediaries are sometimes not aware of the damage which can be caused by circulation of unauthenticated news or rumours. It is a well established fact that market rumours can do considerable damage to the normal functioning and behaviour

⁷⁵ Reference: Circular CIR/MIRSD/9/2010 dated November 04, 2010.

⁷⁶ Reference: Circular CIR/ISD/1/2011 dated March 23, 2011 and Circular CIR/ISD/2/2011 dated March 24, 2011.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

of the market and distort the price discovery mechanisms.

68.3. In view of the above facts, SEBI Registered Market Intermediaries are directed that:

- 68.3.1. Proper internal code of conduct and controls should be put in place.
- 68.3.2. Employees/temporary staff/voluntary workers etc. employed/working in the Offices of market intermediaries do not encourage or circulate rumours or unverified information obtained from client, industry, any trade or any other sources without verification.
- 68.3.3. Access to Blogs/Chat forums/Messenger sites etc. should either be restricted under supervision or access should not be allowed.
- 68.3.4. Logs for any usage of such Blogs/Chat forums/Messenger sites (called by any nomenclature) shall be treated as records and the same should be maintained as specified by the respective Regulations which govern the concerned intermediary.
- 68.3.5. Employees should be directed that any market related news received by them either in their official mail/personal mail/blog or in any other manner, should be forwarded only after the same has been seen and approved by the concerned Intermediary's Compliance Officer. If an employee fails to do so, he/she shall be deemed to have violated the various provisions contained in SEBI Act/Rules/Regulations etc. and shall be liable for action. The Compliance Officer shall also be held liable for breach of duty in this regard.

69. Guidelines on Outsourcing of Activities by Intermediaries⁷⁷

- 69.1. 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.
- 69.2. It has been observed that often the intermediaries resort to outsourcing with a view to reduce costs, and at times, for strategic reasons.
- 69.3. 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.
- 69.4. Principles for Outsourcing

⁷⁷ Reference: Circular CIR/MIRSD/24/2011 dated December 15, 2011.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

69.4.1. 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. The principles for outsourcing are given below in **Annexure**.

69.5. Activities that shall not be Outsourced

69.5.1. 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 stock brokers; dematerialisation 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.

69.6. Other Obligations

69.6.1. 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.

ANNEXURE

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 programme 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 programme include-
 - 2.1.1. 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;
 - 2.1.2. 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;
 - 2.1.3. Regulatory status of the third party, including its fitness and probity status;
 - 2.1.4. 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 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:
 - 4.2.1. third party's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
 - 4.2.2. compatibility of the practices and systems of the third party with the intermediary's requirements and objectives;



- 4.2.3. market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
 - 4.2.4. level of concentration of the outsourced arrangements with a single third party; and
 - 4.2.5. the environment of the foreign country where the third party is located.
5. Outsourcing relationships shall be governed by written contracts / agreements / terms and conditions (as deemed appropriate) {hereinafter referred to as "contract"} that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.
- 5.1. Outsourcing arrangements shall be governed by a clearly defined and legally binding written contract between the intermediary and each of the third parties, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the intermediary.
 - 5.2. Care shall be taken to ensure that the outsourcing contract:
 - 5.2.1. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
 - 5.2.2. provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties;
 - 5.2.3. provides for the liability of the third party to the intermediary for unsatisfactory performance/other breach of the contract
 - 5.2.4. 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;
 - 5.2.5. 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;
 - 5.2.6. 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;
- 5.2.7. 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.;
- 5.2.8. provides for preservation of the documents and data by third party;
- 5.2.9. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- 5.2.10. provides for termination of the contract, termination rights, transfer of information and exit strategies;
- 5.2.11. addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when intermediary outsources its activities to foreign third party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;
- 5.2.12. neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- 5.2.13. provides for the intermediary and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.
6. The intermediary and its third parties shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
- 6.1. Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.
- 6.2. An intermediary shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the third party level. Notably, it shall consider contingency plans at the third party; co-ordination of contingency plans at both the intermediary and the third party; and contingency plans of the intermediary in the event of non-performance by the third party.



- 6.3. To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the intermediary to fulfill its obligations to other market participants/clients/regulators and could undermine the privacy interests of its customers, harm the intermediary's reputation, and may ultimately impact on its overall operational risk profile. Intermediaries shall, therefore, seek to ensure that third party maintains appropriate IT security and robust disaster recovery capabilities.
- 6.4. Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by the intermediary to confirm the adequacy of the third party's systems.
7. The intermediary shall take appropriate steps to require that third parties protect confidential information of both the intermediary and its customers from intentional or inadvertent disclosure to unauthorised persons.
 - 7.1. An intermediary that engages in outsourcing is expected to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.
 - 7.2. The intermediary shall prevail upon the third party to ensure that the employees of the third party have limited access to the data handled and only on a "need to know" basis and the third party shall have adequate checks and balances to ensure the same.
 - 7.3. In cases where the third party is providing similar services to multiple entities, the intermediary shall ensure that adequate care is taken by the third party to build safeguards for data security and confidentiality.
8. Potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties.
 - 8.1. 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.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

70. General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognised Stock Exchanges, Recognised Clearing Corporations, Depositories and their Associated Persons in Securities Market.⁷⁸

- 70.1. All intermediaries, recognized Stock Exchanges, recognised Clearing Corporations and Depositories (hereinafter collectively referred to as "such entities") are presently governed by the provisions for avoidance of conflict of interest as mandated in the respective regulations read with relevant circulars issued from time to time by SEBI. On the lines of Principle 8 of the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulations, it has been decided to put in place comprehensive guidelines to collectively cover such entities and their associated persons, for elimination of their conflict of interest, as detailed hereunder.
- 70.2. Such entities shall adhere to these guidelines for avoiding or dealing with or managing conflict of interest. They shall be responsible for educating their associated persons for compliance of these guidelines.
- 70.3. For the purpose of these guidelines "intermediaries" and "associated persons" have the same meaning as defined in Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007.
- 70.4. Such entities and their associated persons shall,
- 70.4.1. lay down, with active involvement of senior management, policies and internal procedures to identify and avoid or to deal or manage actual or potential conflict of interest, develop an internal code of conduct governing operations and formulate standards of appropriate conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned;
 - 70.4.2. at all times maintain high standards of integrity in the conduct of their business;
 - 70.4.3. ensure fair treatment of their clients and not discriminate amongst them;
 - 70.4.4. ensure that their personal interest does not, at any time conflict with their duty to their clients and client's interest always takes primacy in their advice, investment decisions and transactions;
 - 70.4.5. make appropriate disclosure to the clients of possible source or potential areas of conflict of interest which would impair their ability to render

⁷⁸ Reference: Circular CIR/MIRSD/5/2013 dated August 27, 2013.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

fair, objective and unbiased services;

- 70.4.6. endeavor to reduce opportunities for conflict through prescriptive measures such as through information barriers to block or hinder the flow of information from one department/ unit to another, etc.;
 - 70.4.7. place appropriate restrictions on transactions in securities while handling a mandate of issuer or client in respect of such security so as to avoid any conflict;
 - 70.4.8. not deal in securities while in possession of material non published information;
 - 70.4.9. not to communicate the material non published information while dealing in securities on behalf of others;
 - 70.4.10. not in any way contribute to manipulate the demand for or supply of securities in the market or to influence prices of securities;
 - 70.4.11. not have an incentive structure that encourages sale of products not suiting the risk profile of their clients;
 - 70.4.12. not share information received from clients or pertaining to them, obtained as a result of their dealings, for their personal interest;
- 70.5. The Boards of such entities shall put in place systems for implementation of the aforementioned guidelines and provide necessary guidance enabling identification, elimination or management of conflict of interest situations. The Boards shall review the compliance of the above guidelines periodically.
- 70.6. The said guidelines shall be in addition to the provisions, if any, contained in respective regulations/ circulars issued by the Board from time to time regarding dealing with conflict of interest, in respect of such entities.

71. Digital Mode of Payment⁷⁹

- 71.1. SEBI has notified the SEBI (Payment of Fees and Mode of Payment) (Amendment) Regulations, 2017 on March 06, 2017 to enable digital mode of payment (RTGS/NEFT/IMPS etc.) of fees/penalties/remittance/other payments etc.
- 71.2. Pursuant to above, SEBI has been receiving direct credit of amounts from various intermediaries / other entities.

⁷⁹ Reference: Circular SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

71.3. In order to identify and account such direct credit in the SEBI account, intermediaries / other entities shall provide the information as mentioned in **Annexure** below to SEBI once the payment is made.

71.4. The above information should be emailed to the respective department(s) as well as to Treasury & Accounts division at tad@sebi.gov.in.

ANNEXURE									
Date	Department of SEBI	Name of Intermediary / Other entities	Type of Intermediary	SEBI Registration No. (If any)	PAN	Amount (Rs)	Purpose of Payment (including the period for which payment was made e.g. quarterly, annually)	Bank name and Account number from which payment is remitted	UTR No.

72. Regulatory Framework for Commodity Derivatives Brokers⁸⁰

72.1. As per Section 131(B) of Finance Act, 2015 all rules, directions, guidelines, instructions, circulars, or any like instruments, made by the erstwhile Forward Markets Commission (FMC) or the Central Government applicable to recognized associations under the Forward Contracts (Regulation) Act, 1952 shall continue to remain in force for a period of one year from the date on which the FCRA is repealed (September 29, 2015), or till such time as notified by SEBI, whichever is earlier, as if the FCRA had not been repealed.

72.2. Erstwhile FMC issued various circulars/letters/ directions to exchanges dealing in commodity derivatives for compliance by their members from time to time. Consequent to merger of FMC with SEBI, it is important that regulatory provisions for brokers across equity and commodity derivatives markets be harmonized. Accordingly, regulatory provisions have been divided into three parts as described below.

72.2.1. Part A contains details of FMC circulars which shall stand repealed and relevant SEBI circulars which shall be applicable.

72.2.2. Part B contains details of FMC circulars contents/norms of which shall continue as they are specific to commodity derivative markets.

⁸⁰ Reference: Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016 and Circular SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/104 dated September 21, 2017.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

72.2.3. Part C contains details of FMC circulars which shall stand repealed.

72.3. **Part A:** Following FMC circulars shall stand repealed and relevant SEBI circulars shall be applicable to all commodity derivatives exchanges including regional commodity derivative exchanges for compliance by their members.

S. No.	Subject	FMC Circular being repealed	SEBI circulars being made applicable
i	Segregation of Client and Own Funds and Securities	No circular issued by FMC	a) SMD/SED/CIR/93/23321 dated Nov 18, 1993. b) MRD/DoP/SE/Cir-11/2008 dated Apr 17, 2008.
ii	Running Account Settlement	a) FMC/4/2012/C/14 No. 1/2/2012/IR-I/Client-Protect/ dated Feb 02, 2012. b) FMC/4/2013/C/59 No. 1/2/2012/IR-I/Client-Protect dated May 20, 2013. c) No. 1/2/2012/IR-I/Client-Protect dated Jun 25, 2013. d) FMC/4/2014/C/121 FMC/2014/04/23-Quarterly Settlement dated Oct 17, 2014.	a) Clause 12 of Annexure A to MIRSD/ SE /Cir-19/2009 dated Dec 3, 2009. b) MIRSD /Cir/ 01/ 2011 dated May 13, 2011.
iii	Requirements with respect to Financial Documents, PAN, Inactive Clients etc.	a) No.IRD/Div/(1)FMCR/1/2 005 dated Feb 14, 2006. b) Div. III/I/(53)/06/PAN No. dated Nov 28, 2006. c) 9/3/2008-MKT-II dated Jan 12, 2009. d) No. 18/1/2007/MKT-III dated Feb 11, 2008. e) No. 9/1/2009-MKT-I dated Dec 07, 2009. f) No. 9/12009-MKT-I dated	a) Clauses 6,8,14,15,16,18 and 19 of Annexure A to MIRSD/ SE /Cir-19/2009 dated Dec 03, 2009. ⁸¹ b) CIR/MIRSD/01 /2013 dated Jan 04, 2013. c) CIR/MIRSD/64/2016 dated Jul 12, 2016. For new client accounts.

⁸¹ Words "Clauses 1 to 11 and Clauses 14 to 19 of Annexure A to MIRSD /SE/Cir-19/2009 dated Dec 3, 2009" replaced with "Clause 6,8,14,15,16,18 and 19 of Annexure A to MIRSD/SE/CIR-19/2009 dated December 03, 2009" in view of Clauses 1,2,3,4,5,7,9,10,11 and 17 of SEBI Circular dated December 03, 2009, being incorporated in various provisions of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 and FMC Circular FMC/4/2011/G/30 dated December 16, 2011 and Annexures specified in these circulars.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

		Aug 10, 2010.	
iv	In-Person Verification	Part C of FMC/4/2015/C/0015No. FMC/COMPL/IV/KRA-05/11/14 dated Mar 13, 2015.	a) Para 3 of MIRSD/Cir- 26 /2011 Dec 23, 2011. b) Point 4 of Part 'Instructions/Check List' of Annexure 3 of Circular CIR/MIRSD/16/2011 dated Aug 22, 2011.
v	KRA	FMC/4/2015/C/0015 No. FMC/COMPL/IV/KRA-05/11/14 dated Mar 13, 2015	a) MIRSD/Cir-23/2011 dated Dec 2, 2011. b) Para 1 of MIRSD/Cir- 26 /2011 dated Dec 23, 2011.
vi	Anti-Money Laundering and Maintenance of Records	a) No.7/1/2008- MKT-II dated Oct 30, 2009. b) No.7/1/2008-MKT-II dated Jan 25, 2010. c) No. 7/1/2008-MKT-II dated Aug 25, 2010. d) FMC/4/2013/C/163; Div. III / I/ 89 / 07 dated Dec 18, 2013. e) No. 7/1/2013-MKT-1(A) dated Feb 04, 2015.	a) CIR/ISD/AML/3/2010 dated Dec 31, 2010. b) CIR/MIRSD/2/2013 dated Jan 24, 2013. c) CIR/MIRSD/1/2014 dated Mar 12, 2014.
vii	Dealing in Cash	FMC/2/2014/C/23 No. 9/1/2014 -MKT-I dated Mar 12, 2014.	MRD/SE/Cir- 33/2003/27/08 dated Aug 27, 2003.
viii	Guidelines on Pre-funded Instruments	FMC/4/2011/G/0010FMC/Complt/Circular dated Sep 27, 2011.	CIR/MIRSD/03/2011 dated Jun 9, 2011.
ix	SMS and Email alerts facility to clients	a) FMC/4/2012/C/13 No. FMC/IR-I/Client protection/2012 dated Feb 02, 2012. b) FMC/Complt/Circular dated Jun 04, 2012. c) No:IR (2)/5/2012/SMS-Email dated Dec 07,2012. d) No.IR(2)/5/2012/SMS-Email dated Jan 21, 2013. e) No.IR(2)/5/2012/SMS/Email dated Mar 01, 2013. f) No.IR(2)/5/2012/SMS/Email dated Mar 06, 2013. g) No.IR(2)/5/2012/SMS/Email dated May 15, 2013.	CIR/MIRSD/15/2011 dated Aug 02, 2011.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

		h) No.IR(2)/5/2012/SMS/E-mail dated Jun 21, 2013.	
x	Contract Note	a) No. 07/2008/COMP/LAD-ENF/AD(SN)/6609 dated Oct 27, 2009. b) FMC/COMPL/IV/2010/03/05/00011 dated Apr 19, 2011. c) Div.III/I/89/07 dated Mar 13, 2014. d) Div.III/I/89/07 dated Dec 24, 2014.	a) SMDRP/Policy/Cir-56/2000 dated Dec 15, 2000. b) SMD/SE/15/2003/29/04 dated Apr 29, 2003. c) MRD/DoP/SE/Cir-20/2005 dated Sep 8, 2005. d) Clause 13 of Annexure A to MIRSD/ SE /Cir-19/2009 dated Dec 3, 2009.
xi	Exclusive e-mail ID for redressal of Investor Complaints	No circular issued by FMC	MRD/DoP/Dep/SE/Cir-22/06 dated Dec 18, 2006.
xii	Display of information such as logo, registration number on notice board and contract note and investor grievance redressal mechanism on notice board	No circular issued by FMC	a) Cir/MIRSD/ 9 /2010 dated Nov 4, 2010. b) CIR/MIRSD/3/2014 dated Aug 28, 2014.
xiii	Internal Audit	No circular issued by FMC	Para 7 to 11 of circular MIRSD/Master Cir-04/2010 dated Mar 17, 2010.
xiv	Inspection of brokers	a) No. Div./III/I/301/2011-12/Audit dated Dec 23, 2011. b) No. Div./III/I/104/2008-09/Audit dated Feb 02, 2012. c) FMC/1/2014/C/50No.Div. III/I/300/2011-12/Audit dated Apr 23, 2014. d) FMC/1/2014/C/47 No. FMC/1/2014/Audit/C Dated Apr 23, 2014.	a) Para 2 to 6 of circular MIRSD/Master Cir-04/2010 dated Mar 17, 2010. b) CIR/MIRSD/13/2012 dated Dec 07, 2012.
xv	Change in control/constitution	a) No.IRD-Div-III/1/143/10-MR dated Aug 14, 2010. b) Div.III/I/120/MR-2011/2 dated Apr 07, 2011. c) FMC/6/2011/C/0018 No. Div.III/I/68/MR/General	a) MIRSD/MSS/Cir- 30/13289/03 dated Jul 09, 2003. b) CIR/MIRSD/2/2011 dated Jun 3, 2011. c) CIR/MIRSD/14/2011



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

		dated Sep 22, 2011. d) FMC/6/2011/C/0019 No. Div. III/I/157/10-MR Dated Sep 27, 2011. e) FMC/4/2012/C/41 No. Div. III/I/157/10-MR dated Apr 04, 2012. f) Div. III/I/10/MR dated Apr 30, 2015.	dated Aug 02, 2011.
xvi	Procedure for surrender of membership	a) FMC/6/2011/C/0018 No. Div. III/I/68/MR/General dated Sep 22, 2011. b) FMC/1/2014/C/146 dated Dec 31, 2014. c) No. Div. II/I/112/2015/Refund of Deposit dated Jan 19, 2015. d) No. III/I/10/MR dated Jul 08, 2015.	MIRSD/MSS/Cir- 30/13289/03 dated Jul 09, 2003.
xvii	Guidelines on Outsourcing of Activities by Intermediaries	No circular issued by FMC	CIR/MIRSD/24/2011 dated Dec 15, 2011.
xviii	BPO/KPO services - Segregation thereof from Commodity Derivatives Market	No. S/1/2009/MD-I dated Mar 28, 2011.	a) Rule 8(1)(f) and 8(3)(f) of SCRR, 1957. b) SMD/POLICY/CIR-6//97 dated May 07, 1997.
xix	Authorized Persons	No.6/3/2008-MKT - II; FMC/2/2012/G/3 dated Jan 11, 2012.	a) MIRSD/ DR-1/ Cir- 16 /09 dated Nov 06, 2009. b) Cir/MIRSD/AP/8/2010 dated Jul 23, 2010.

72.4. Part B: Following FMC circulars are specific to commodity derivatives market. Contents/norms specified in following circulars shall continue to be in force beyond September 28, 2016. Provisions of these circulars shall be applicable to all commodity derivatives exchanges including regional commodity derivatives exchanges for compliance by their members.

S. No.	Subject	FMC Circular No. and Date
i	Account Opening Process	a) No.-FMC/4/2011/G/30 Ref. No.: Div. III/I/89/07 dated Dec 16, 2011*. b) Div. III/I/89/07 dated Aug 23, 2013. c) F.No.FMC/COMPL/2013/10/30-FSLRC/FSDC dated Mar 28, 2014. d) Div. III/2/89/VOL IV dated Apr 23, 2014.



भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

		e) No. FMC/COMPL/IV/KRA-05/11/14 dated Feb 26, 2015.
ii	Customer Protection such as keeping evidence of client placing order	No.FMC/Comp/VI/2009/04/06/114/5787 dated Sep 16, 2009.
iii	Nomenclature of Stock brokers	a) 4/5/2005- M&S/MCX/Unit-II dated Apr 25, 2006.
iv	Surrender of membership	F.No.1/4/2009/MD-I dated Jul 20, 2009.

*All clauses to remain except to the extent as modified as described below. Annexure - 3 (Rights and Obligations of Members, Authorized Persons and Clients) of Circular No.-FMC/4/2011/G/30 Ref. No.: Div. III/I/89/07 dated Dec 16, 2011 is modified as follows:

In Clause 30, for the words "in the Statement immediately but not later than 30 calendar days of receipt thereof, to the Member. A detailed statement of accounts must be sent every month to all the clients in physical form. The proof of delivery of the same should be preserved by the Member" the words "in the Statement within such time as may be prescribed by the relevant Exchange from time to time where the trade was executed, from the receipt thereof to the Stock broker" shall be substituted.

In Clause 31, for the words "monthly", the words "daily" shall be substituted.

Para 3 C.A.iv which restricted seeking authorization through non-mandatory documents for any adjustment of funds among securities (stock) exchange and commodities exchange, will not be applicable, if such adjustment is within the same broking entity.

72.5. **Part C:** Following FMC circulars shall stand repealed.

S. No.	Subject	FMC Circular No. and Date
i	Segregation of Client Accounts in Commodity Futures Exchange and Spot Exchanges	FMC/2/2011/C/0008; No.9/1/2011-MKT/I dated Sep 26, 2011.
ii	Member to obtain FMC Unique Code	No. IRD/Div./III/(1)/FMCR/1/2005 dated Oct 28, 2005.
iii	Submission of network certificate from the members	No. Div-III/I/122/10/MR dated Nov 22, 2010.
iv	Nomenclature of Stock Brokers	No. IRD-DIV-III/I/FCR-I/2009 dated Dec 21, 2009.
		No. DIV-III/I/122/10/MR dated Jun 25, 2010.
		6/3/2008-MKT -II dated Feb 18, 2011.

72.6. All commodity derivatives exchanges shall continue to levy penalties they are



भारतीय प्रतिभूति और विनिमय बोर्ड **Securities and Exchange Board of India**

currently levying and any revision thereof shall be decided in consultation with SEBI. Accordingly, FMC circulars dealing with penalties including Uniform Penalty Circular dated Mar 05, 2010 shall stand repealed.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

ANNEXURES TO SECTION II

Annexure - 1

ACCOUNT OPENING KIT

INDEX OF DOCUMENTS

S. No.	Name of the Document	Brief Significance of the Document	Page No
MANDATORY DOCUMENTS AS PRESCRIBED BY SEBI & EXCHANGES			
1	Account Opening Form	A. KYC form - Document captures the basic information about the constituent and an instruction/check list.	
		B. Document captures the additional information about the constituent relevant to trading account and an instruction/check list.	
2	Rights and Obligations	Document stating the Rights & Obligations of stock broker/trading member, sub-broker and client for trading on exchanges (including additional rights & obligations in case of internet/wireless technology based trading).	
3	Risk Disclosure Document (RDD)	Document detailing risks associated with dealing in the securities market.	
4	Guidance note	Document detailing do's and don'ts for trading on exchange, for the education of the investors.	
5	Policies and Procedures	Document describing significant policies and procedures of the stock broker <i>(to be added by the stock broker)</i> .	
6	Tariff sheet	Document detailing the rate/amount of brokerage and other charges levied on the client for trading on the stock exchange(s) <i>(to be added by the stock broker)</i> .	
VOLUNTARY DOCUMENTS AS PROVIDED BY THE STOCK BROKER			
7			
8			

Name of stock broker/trading member/clearing member: -----

SEBI Registration No. and date: -----

Registered office address: -----

Ph: ----- Fax: ----- Website: -----

Correspondence office address: -----

Ph: ----- Fax: ----- Website: -----

Compliance officer name, phone no. & email id: -----

CEO name, phone no. & email id: -----

For any grievance/dispute please contact stock broker (name) at the above address or email id- xxx@email.com and Phone no. 91-XXXXXXXXXX. In case not satisfied with the response, please contact the concerned exchange(s) at xyz@email.com and Phone no. 91-XXXXXXXXXX.

Important Instructions:

- A) Fields marked with '**' are mandatory fields.
 B) Please fill the form in English and in BLOCK letters.
 C) Please fill the date in DD-MM-YYYY format.
 D) Please read section wise detailed guidelines / instructions at the end.

- E) List of State / U.T code as per Indian Motor Vehicle Act, 1988 is available at the end.
 F) List of two character ISO 3166 country codes is available at the end.
 G) KYC number of applicant is mandatory for update application.
 H) For particular section update, please tick (✓) in the box available before the section number and strike off the sections not required to be updated.

**For office use only**

Application Type*

☐ New☐ Update

(To be filled by financial institution)

KYC Number

(Mandatory for KYC update request)

Account Type*

☐ Normal☐ Simplified (for low risk customers)☐ Small☐ **1. PERSONAL DETAILS** (Please refer instruction **A** at the end)

Prefix

First Name

Middle Name

Last Name

☐ Name* (Same as ID proof)

Maiden Name (If any*)

Father / Spouse Name*

Mother Name*

Date of Birth*

 - -

Gender*

☐ M- Male☐ F- Female☐ T-Transgender

Marital Status*

☐ Married☐ Unmarried☐ Others

Citizenship*

☐ IN- Indian☐ Others (ISO 3166 Country Code)

Residential Status*

☐ Resident Individual☐ Non Resident Indian☐ Foreign National☐ Person of Indian Origin

Occupation Type*

☐ S-Service (☐ Private Sector☐ Public Sector☐ Government Sector)☐ O-Others (☐ Professional☐ Self Employed☐ Retired☐ Housewife☐ Student)☐ B-Business☐ X- Not Categorised**PHOTO**

Signature / Thumb Impression

☐ **2. TICK IF APPLICABLE** ☐ RESIDENCE FOR TAX PURPOSES IN JURISDICTION(S) OUTSIDE INDIA (Please refer instruction **B** at the end)

ADDITIONAL DETAILS REQUIRED* (Mandatory only if section 2 is ticked)

ISO 3166 Country Code of Jurisdiction of Residence*

Tax Identification Number or equivalent (If issued by jurisdiction)*

Place / City of Birth*

ISO 3166 Country Code of Birth*

☐ **3. PROOF OF IDENTITY (PoI)*** (Please refer instruction **C** at the end)(Certified copy of any one of the following Proof of Identity [PoI] needs to be submitted)☐ A- Passport Number

Passport Expiry Date

 - -
☐ B- Voter ID Card

☐ C- PAN Card

☐ D- Driving Licence

Driving Licence Expiry Date

 - -
☐ E- UID (Aadhaar)

☐ F- NREGA Job Card

☐ Z- Others (any document notified by the central government)

Identification Number

☐ S- Simplified Measures Account - Document Type code

Identification Number

4. PROOF OF ADDRESS (PoA)*☐ **4.1 CURRENT / PERMANENT / OVERSEAS ADDRESS DETAILS** (Please see instruction **D** at the end)(Certified copy of any one of the following Proof of Address [PoA] needs to be submitted)

Address Type*

☐ Residential / Business☐ Residential☐ Business☐ Registered Office☐ Unspecified

Proof of Address*

☐ Passport☐ Driving Licence☐ UID (Aadhaar)☐ Voter Identity Card☐ NREGA Job Card☐ Others

☐ Simplified Measures Account - Document Type code

Address

Line 1*

Line 2

Line 3

District*

Pin / Post Code*

State / U.T Code*

ISO 3166 Country Code*

☐ 4.3 ADDRESS IN THE JURISDICTION DETAILS WHERE APPLICANT IS RESIDENT OUTSIDE INDIA FOR TAX PURPOSES* (Applicable if section 2 is ticked)

☐ Same as Current / Permanent / Overseas Address details

☐ Same as Correspondence / Local Address details

Line 1*

Line 2

Line 3

State*

City / Town / Village*

ZIP / Post Code*

ISO 3166 Country Code*

6. DETAILS OF RELATED PERSON (In case of additional related persons, please fill 'Annexure B1') (please refer instruction G at the end)									
<input type="checkbox"/> Addition of Related Person		<input type="checkbox"/> Deletion of Related Person		KYC Number of Related Person (if available*)					
Related Person Type*		<input type="checkbox"/> Guardian of Minor		<input type="checkbox"/> Assignee		<input type="checkbox"/> Authorized Representative			
Name*		Prefix		First Name		Middle Name		Last Name	
<div style="border: 1px solid black; height: 20px; width: 100%;"></div>		<div style="border: 1px solid black; height: 20px; width: 100%;"></div>		<div style="border: 1px solid black; height: 20px; width: 100%;"></div>		<div style="border: 1px solid black; height: 20px; width: 100%;"></div>		<div style="border: 1px solid black; height: 20px; width: 100%;"></div>	
(If KYC number and name are provided, below details of section 6 are optional)									

[illegible][illegible]

8. APPLICANT DECLARATION

- I hereby declare that the details furnished above are true and correct to the best of my knowledge and belief and I undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, I am aware that I may be held liable for it.
- I hereby consent to receiving information from Central KYC Registry through SMS/Email on the above registered number/email address.

Date : - -
Place :

[Signature / Thumb Impression]

Signature / Thumb Impression of Applicant

9. ATTESTATION / FOR OFFICE USE ONLY	
Documents Received	<input type="checkbox"/> Certified Copies
KYC VERIFICATION CARRIED OUT BY	
Date	<input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
Emp. Name	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
Emp. Code	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
Emp. Designation	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
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<div style="border: 1px solid black; width: 100%; height: 100%; position: relative;"> [Employee Signature] </div>	
INSTITUTION DETAILS	
Name	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
Code	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
<div style="border: 1px solid black; width: 100%; height: 100%; position: relative;"> [Institution Stamp] </div>	

General Instructions:

- 1 Fields marked with '*' are mandatory fields.
- 2 Tick '✓' wherever applicable.
- 3 Self-Certification of documents is mandatory.
- 4 Please fill the form in English and in BLOCK Letters.
- 5 Please fill all dates in DD-MM-YYYY format.
- 6 Wherever state code and country code is to be furnished, the same should be the two-digit code as per Indian Motor Vehicle, 1988 and ISO 3166 country code respectively list of which is available at the end.
- 7 KYC number of applicant is mandatory for updation of KYC details.
- 8 For particular section update, please tick (✓) in the box available before the section number and strike off the sections not required to be updated.
- 9 In case of 'Small Account type' only personal details at section number 1 and 2, photograph, signature and self-certification required.

A Clarification / Guidelines on filling 'Personal Details' section

- 1 **Name:** Please state the name with Prefix (Mr/Mrs/Ms/Dr/etc.). The name should match the name as mentioned in the Proof of Identity submitted failing which the application is liable to be rejected.
- 2 Either **father's name** or **spouse's** name is to be mandatorily furnished. In case PAN is not available father's name is mandatory.

B Clarification / Guidelines on filling details if applicant residence for tax purposes in jurisdiction(s) outside India

- 1 **Tax identification Number (TIN):** TIN need not be reported if it has not been issued by the jurisdiction. However, if the said jurisdiction has issued a high integrity number with an equivalent level of identification (a "Functional equivalent"), the same may be reported. Examples of that type of number for individual include, a social security/insurance number, citizen/personal identification/services code/number, and resident registration number)

C Clarification / Guidelines on filling 'Proof of Identity [Pol]' section

- 1 If driving license number or passport is provided as proof of identity then expiry date is to be mandatorily furnished.
- 2 Mention identification / reference number if 'Z- Others (any document notified by the central government)' is ticked.
- 3 In case of Simplified Measures Accounts for verifying the identity of the applicant, any one of the following documents can also be submitted and undernoted relevant code may be mentioned in point 3 (S).

Document Code	Description
01	Identity card with applicant's photograph issued by Central/ State Government Departments, Statutory/ Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions.
02	Letter issued by a gazetted officer, with a duly attested photograph of the person.

D Clarification / Guidelines on filling 'Proof of Address [PoA] - Current / Permanent / Overseas Address details' section

- 1 PoA to be submitted only if the submitted Pol does not have an address or address as per Pol is invalid or not in force.
- 2 State / U.T Code and Pin / Post Code will not be mandatory for Overseas addresses.
- 3 In case of Simplified Measures Accounts for verifying the address of the applicant, any one of the following documents can also be submitted and undernoted relevant code may be mentioned in point 4.1.

Document Code	Description
01	Utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill).
02	Property or Municipal Tax receipt.
03	Bank account or Post Office savings bank account statement.
04	Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address.
05	Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation.
06	Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India.

E Clarification / Guidelines on filling 'Proof of Address [PoA] - Correspondence / Local Address details' section

- 1 To be filled only in case the PoA is not the local address or address where the customer is currently residing. No separate PoA is required to be submitted.
- 2 In case of multiple correspondence / local addresses, Please fill '**Annexure A1**'

F Clarification / Guidelines on filling 'Contact details' section

- 1 Please mention two- digit country code and 10 digit mobile number (e.g. for Indian mobile number mention 91-9999999999).
- 2 Do not add '0' in the beginning of Mobile number.

G Clarification / Guidelines on filling 'Related Person details' section

- 1 Provide KYC number of related person if available.

H Clarification / Guidelines on filling 'Related Person details – Proof of Identity [Pol] of Related Person' section

- 1 Mention identification / reference number if 'Z- Others (any document notified by the central government)' is ticked.

List of two – digit state / U.T codes as per Indian Motor Vehicle Act, 1988

State / U.T	Code	State / U.T	Code	State / U.T	Code
Andaman & Nicobar	AN	Himachal Pradesh	HP	Pondicherry	PY
Andhra Pradesh	AP	Jammu & Kashmir	JK	Punjab	PB
Arunachal Pradesh	AR	Jharkhand	JH	Rajasthan	RJ
Assam	AS	Karnataka	KA	Sikkim	SK
Bihar	BR	Kerala	KL	Tamil Nadu	TN
Chandigarh	CH	Lakshadweep	LD	Telangana	TS
Chattisgarh	CG	Madhya Pradesh	MP	Tripura	TR
Dadra and Nagar Haveli	DN	Maharashtra	MH	Uttar Pradesh	UP
Daman & Diu	DD	Manipur	MN	Uttarakhand	UA
Delhi	DL	Meghalaya	ML	West Bengal	WB
Goa	GA	Mizoram	MZ	Other	XX
Gujarat	GJ	Nagaland	NL		
Haryana	HR	Orissa	OR		

List of ISO 3166 two- digit Country Code

Country	Country Code	Country	Country Code	Country	Country Code	Country	Country Code
Afghanistan	AF	Dominican Republic	DO	Libya	LY	Saint Pierre and Miquelon	PM
Aland Islands	AX	Ecuador	EC	Liechtenstein	LI	Saint Vincent and the Grenadines	VC
Albania	AL	Egypt	EG	Lithuania	LT	Samoa	WS
Algeria	DZ	El Salvador	SV	Luxembourg	LU	San Marino	SM
American Samoa	AS	Equatorial Guinea	GQ	Macao	MO	Sao Tome and Principe	ST
Andorra	AD	Eritrea	ER	Macedonia, the former Yugoslav Republic of	MK	Saudi Arabia	SA
Angola	AO	Estonia	EE	Madagascar	MG	Senegal	SN
Anguilla	AI	Ethiopia	ET	Malawi	MW	Serbia	RS
Antarctica	AQ	Falkland Islands (Malvinas)	FK	Malaysia	MY	Seychelles	SC
Antigua and Barbuda	AG	Faroe Islands	FO	Maldives	MV	Sierra Leone	SL
Argentina	AR	Fiji	FJ	Mali	ML	Singapore	SG
Armenia	AM	Finland	FI	Malta	MT	Sint Maarten (Dutch part)	SX
Aruba	AW	France	FR	Marshall Islands	MH	Slovakia	SK
Australia	AU	French Guiana	GF	Martinique	MQ	Slovenia	SI
Austria	AT	French Polynesia	PF	Mauritania	MR	Solomon Islands	SB
Azerbaijan	AZ	French Southern Territories	TF	Mauritius	MU	Somalia	SO
Bahamas	BS	Gabon	GA	Mayotte	YT	South Africa	ZA
Bahrain	BH	Gambia	GM	Mexico	MX	South Georgia and the South Sandwich Islands	GS
Bangladesh	BD	Georgia	GE	Micronesia, Federated States of	FM	South Sudan	SS
Barbados	BB	Germany	DE	Moldova, Republic of	MD	Spain	ES
Belarus	BY	Ghana	GH	Monaco	MC	Sri Lanka	LK
Belgium	BE	Gibraltar	GI	Mongolia	MN	Sudan	SD
Belize	BZ	Greece	GR	Montenegro	ME	Suriname	SR
Benin	BJ	Greenland	GL	Montserrat	MS	Svalbard and Jan Mayen	SJ
Bermuda	BM	Grenada	GD	Morocco	MA	Swaziland	SZ
Bhutan	BT	Guadeloupe	GP	Mozambique	MZ	Sweden	SE
Bolivia, Plurinational State of	BO	Guam	GU	Myanmar	MM	Switzerland	CH
Bonaire, Sint Eustatius and Saba	BQ	Guatemala	GT	Namibia	NA	Syrian Arab Republic	SY
Bosnia and Herzegovina	BA	Guernsey	GG	Nauru	NR	Taiwan, Province of China	TW
Botswana	BW	Guinea	GN	Nepal	NP	Tajikistan	TJ
Bouvet Island	BV	Guinea-Bissau	GW	Netherlands	NL	Tanzania, United Republic of	TZ
Brazil	BR	Guyana	GY	New Caledonia	NC	Thailand	TH
British Indian Ocean Territory	IO	Haiti	HT	New Zealand	NZ	Timor-Leste	TL
Brunei Darussalam	BN	Heard Island and McDonald Islands	HM	Nicaragua	NI	Togo	TG
Bulgaria	BG	Holy See (Vatican City State)	VA	Niger	NE	Tokelau	TK
Burkina Faso	BF	Honduras	HN	Nigeria	NG	Tonga	TO
Burundi	BI	Hong Kong	HK	Niue	NU	Trinidad and Tobago	TT
Cabo Verde	CV	Hungary	HU	Norfolk Island	NF	Tunisia	TN
Cambodia	KH	Iceland	IS	Northern Mariana Islands	MP	Turkey	TR
Cameroon	CM	India	IN	Norway	NO	Turkmenistan	TM
Canada	CA	Indonesia	ID	Oman	OM	Turks and Caicos Islands	TC
Cayman Islands	KY	Iran, Islamic Republic of	IR	Pakistan	PK	Tuvalu	TV
Central African Republic	CF	Iraq	IQ	Palau	PW	Uganda	UG
Chad	TD	Ireland	IE	Palestine, State of	PS	Ukraine	UA
Chile	CL	Isle of Man	IM	Panama	PA	United Arab Emirates	AE
China	CN	Israel	IL	Papua New Guinea	PG	United Kingdom	GB
Christmas Island	CX	Italy	IT	Paraguay	PY	United States	US
Cocos (Keeling) Islands	CC	Jamaica	JM	Peru	PE	United States Minor Outlying Islands	UM
Colombia	CO	Japan	JP	Philippines	PH	Uruguay	UY
Comoros	KM	Jersey	JE	Pitcairn	PN	Uzbekistan	UZ
Congo	CG	Jordan	JO	Poland	PL	Vanuatu	VU
Congo, the Democratic Republic of the	CD	Kazakhstan	KZ	Portugal	PT	Venezuela, Bolivarian Republic of	VE
Cook Islands	CK	Kenya	KE	Puerto Rico	PR	Viet Nam	VN
Costa Rica	CR	Kiribati	KI	Qatar	QA	Virgin Islands, British	VG
Cote d'Ivoire	CI	Korea, Democratic People's Republic of	KP	Reunion	RE	Virgin Islands, U.S.	VI
Croatia	HR	Korea, Republic of	KR	Romania	RO	Wallis and Futuna	WF
Cuba	CU	Kuwait	KW	Russian Federation	RU	Western Sahara	EH
Curacao	CW	Kyrgyzstan	KG	Rwanda	RW	Yemen	YE
Cyprus	CY	Lao People's Democratic Republic	LA	Saint Barthelemy	BL	Zambia	ZM
Czech Republic	CZ	Latvia	LV	Saint Helena, Ascension and Tristan da Cunha	SH	Zimbabwe	ZW
Denmark	DK	Lebanon	LB	Saint Kitts and Nevis	KN		
Djibouti	DJ	Lesotho	LS	Saint Lucia	LC		
Dominica	DM	Liberia	LR	Saint Martin (French part)	MF		

E) List of State / U.T code as per Indian Motor Vehicle Act, 1988 is available at the end.

F) List of two character ISO 3166 country codes is available at the end.

G) KYC number of applicant is mandatory for update application.

H) For particular section update, please tick (✓) in the box available before the section number and strike off the sections not required to be updated.



(Mandatory for KYC update request)

[illegible]

Tel. (Off)	<input type="text"/>	<input type="text"/>	Tel. (Res)	<input type="text"/>	<input type="text"/>	Mobile	<input type="text"/>	<input type="text"/>
FAX	<input type="text"/>	<input type="text"/>	Email ID	<input type="text"/>				

[illegible]

Signature / Thumb Impression of Applicant

Annexure B1

CENTRAL KYC REGISTRY | Know Your Customer (KYC) Application Form | Individual | Related Person

Important Instructions:

- A) Fields marked with "*" are mandatory fields.
 B) Please fill the form in English and in BLOCK letters.
 C) Please fill the date in DD-MM-YYYY format.
 D) Please read section wise detailed guidelines / instructions at the end.
- E) List of State / U.T code as per Indian Motor Vehicle Act, 1988 is available at the end.
 F) List of two character ISO 3166 country codes is available at the end.
 G) KYC number of applicant is mandatory for update application.
 H) For particular section update, please tick (✓) in the box available before the section number and strike of the sections not required to be updated.



For office use only

Application Type*

☐ New ☐ Update

(To be filled by financial institution)

KYC Number

(Mandatory for KYC update request)

☐ 1. DETAILS OF RELATED PERSON (Please refer instruction G at the end)

☐ Addition of Related Person

☐ Deletion of Related Person

KYC Number of Related Person (if available*)

Related Person Type*

☐ Guardian of Minor

☐ Assignee

☐ Authorized Representative

Name*

Prefix

First Name

Middle Name

Last Name

(If KYC number and name are provided, below details of section 1 are optional)

PROOF OF IDENTITY (PoI) OF RELATED PERSON* (Please see instruction (H) at the end)

☐ A- Passport Number

Passport Expiry Date

☐ B- Voter ID Card

☐ C- PAN Card

☐ D- Driving Licence

Driving Licence Expiry Date

☐ E- UID (Aadhaar)

☐ F- NREGA Job Card

☐ Z- Others (any document notified by the central government)

Identification Number

☐ S- Simplified Measures Account - Document Type code

Identification Number

2. APPLICANT DECLARATION

- I hereby declare that the details furnished above are true and correct to the best of my knowledge and belief and I undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, I am aware that I may be held liable for it.

[Signature / Thumb Impression]

Date : Place :

Signature / Thumb Impression of Applicant

3. ATTESTATION / FOR OFFICE USE ONLY

Documents Received

☐ Certified Copies

KYC VERIFICATION CARRIED OUT BY

Date

Emp. Name

Emp. Code

Emp. Designation

Emp. Branch

[Employee Signature]

INSTITUTION DETAILS

Name

Code

[Institution Stamp]

KNOW YOUR CLIENT (KYC) APPLICATION FORM

For Non-Individuals

Please fill this form in **ENGLISH** and in **BLOCK LETTERS**.

PHOTOGRAPH

Please affix the recent passport size photographs and sign across it

A. IDENTITY DETAILS

1. **Name of the Applicant:** _____
2. **Date of incorporation:** _____ (dd/mm/yyyy) **& Place of incorporation:** _____
3. **Date of commencement of business:** _____ (dd/mm/yyyy)
4. **a. PAN:** _____ **b. Registration No. (e.g. CIN):** _____
5. **Status (please tick any one):**
Private Limited Co./Public Ltd. Co./Body Corporate/Partnership/Trust/Charities/NGO's/FI/ FII/HUF/AOP/ Bank/Government Body/Non-Government Organization/Defense Establishment/BOI/Society/LLP/ Others (please specify) _____

B. ADDRESS DETAILS

1. **Address for correspondence:** _____
_____ City/town/village: _____ Pin Code: _____ State: _____ Country: _____
2. **Contact Details:** Tel. (Off.) _____ Tel. (Res.) _____ Mobile No.: _____ Fax: _____ Email id: _____
3. **Specify the proof of address submitted for correspondence address:** _____
4. **Registered Address** (if different from above): _____
_____ City/town/village: _____ Pin Code: _____ State: _____ Country: _____

C. OTHER DETAILS

1. **Name, PAN, residential address and photographs of Promoters/Partners/Karta/Trustees and whole time directors:** _____
2. **a) DIN of whole time directors:** _____
b) Aadhaar number of Promoters/Partners/Karta: _____

DECLARATION

I/We hereby declare that the details furnished above are true and correct to the best of my/our knowledge and belief and I/we undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, I am/we are aware that I/we may be held liable for it.

Name & Signature of the Authorised Signatory

Date: _____ (dd/mm/yyyy)

FOR OFFICE USE ONLY

☐ Originals verified and Self-Attested Document copies received

(.....)
Name & Signature of the Authorised Signatory
Date

Seal/Stamp of the intermediary

Annexure – 3

TRADING ACCOUNT RELATED DETAILS

For Individuals & Non-individuals

A. BANK ACCOUNT(S) DETAILS

Bank Name	Branch address	Bank account no.	Account Type: Saving/Current/ Others-In case of NRI/NRE/NRO	MICR Number	IFSC code

B. DEPOSITORY ACCOUNT(S) DETAILS

Depository Participant Name	Depository Name (NSDL/CDSL)	Beneficiary name	DP ID	Beneficiary ID (BO ID)

C. TRADING PREFERENCES

**Please sign in the relevant boxes where you wish to trade. The segment not chosen should be struck off by the client.*

Exchanges	Segments			
Name of the Exchange -1	Cash		Currency Derivative	
	F&O		Name of other Segment s, if any	
Name of the Exchange -2	Name of the Segments -1, 2...			

If, in future, the client wants to trade on any new segment/new exchange, separate authorization/letter should be taken from the client by the stock broker.

D. PAST ACTIONS

- Details of any action/proceedings initiated/pending/ taken by SEBI/ Stock exchange/any other authority against the applicant/constituent or its Partners/promoters/whole time directors/authorized persons in charge of dealing in securities during the last 3 years:

E. DEALINGS THROUGH SUB-BROKERS AND OTHER STOCK BROKERS

- If client is dealing through the sub-broker, provide the following details:
 Sub-broker's Name: SEBI Registration number:
 Registered office address: Ph: Fax: Website:
- Whether dealing with any other stock broker/sub-broker (if case dealing with multiple stock brokers/sub-brokers, provide details of all)
 Name of stock broker:.....Name of Sub-Broker, if any:.....
 Client Code:Exchange:
 Details of disputes/dues pending from/to such stock broker/sub- broker:

F. ADDITIONAL DETAILS

- Whether you wish to receive physical contract note or Electronic Contract Note (ECN) (please specify):
 Specify your Email id, if applicable:
- Whether you wish to avail of the facility of internet trading/ wireless technology (please specify):
- Number of years of Investment/Trading Experience:
- In case of non-individuals, name, designation, PAN, UID, signature, residential address and photographs of persons authorized to deal in securities on behalf of company/firm/others:
- Any other information:

G. INTRODUCER DETAILS (optional)

Name of the Introducer:
(Surname) (Name) (Middle Name)
Status of the Introducer: Sub-broker/Remisier/Authorized Person/Existing Client/Others, please specify.....
Address and phone no. of the Introducer: Signature of the Introducer:

H. NOMINATION DETAILS (for individuals only)☐ **I/We wish to nominate**☐ **I/We do not wish to nominate**

Name of the Nominee: Relationship with the Nominee:
PAN of Nominee: Date of Birth of Nominee:
Address and phone no. of the Nominee:

If Nominee is a minor, details of guardian:

Name of guardian: Address and phone no. of Guardian:
Signature of guardian

WITNESSES (Only applicable in case the account holder has made nomination)

Name	Name
Signature	Signature
Address	Address

DECLARATION

1. I/We hereby declare that the details furnished above are true and correct to the best of my/our knowledge and belief and I/we undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, I am/we are aware that I/we may be held liable for it.
2. I/We confirm having read/been explained and understood the contents of the document on policy and procedures of the stock broker and the tariff sheet.
3. I/We further confirm having read and understood the contents of the 'Rights and Obligations' document(s) and 'Risk Disclosure Document'. I/We do hereby agree to be bound by such provisions as outlined in these documents. I/We have also been informed that the standard set of documents has been displayed for Information on stock broker's designated website, if any.

Place
Date

(.....)
Signature of Client/ (all) Authorized Signatory (ies)

FOR OFFICE USE ONLY

UCC Code allotted to the Client: -----

	Documents verified with Originals	Client Interviewed By	In-Person Verification done by
Name of the Employee			
Employee Code			
Designation of the employee			
Date			
Signature			

I / We undertake that we have made the client aware of 'Policy and Procedures', tariff sheet and all the non-mandatory documents. I/We have also made the client aware of 'Rights and Obligations' document (s), RDD and Guidance Note. I/We have given/sent him a copy of all the KYC documents. I/We undertake that any change in the 'Policy and Procedures', tariff sheet and all the non-mandatory documents would be duly intimated to the clients. I/We also undertake that any change in the 'Rights and Obligations' and RDD would be made available on my/our website, if any, for the information of the clients.

.....
Signature of the Authorised Signatory

Date

Seal/Stamp of the stock broker

INSTRUCTIONS/ CHECK LIST

1. Additional documents in case of trading in derivatives segments - illustrative list:

Copy of ITR Acknowledgement	Copy of Annual Accounts
In case of salary income - Salary Slip, Copy of Form 16	Net worth certificate
Copy of demat account holding statement.	Bank account statement for last 6 months
Any other relevant documents substantiating ownership of assets.	Self declaration with relevant supporting documents.

**In respect of other clients, documents as per risk management policy of the stock broker need to be provided by the client from time to time.*

2. Copy of cancelled cheque leaf/ pass book/bank statement specifying name of the constituent, MICR Code or/and IFSC Code of the bank should be submitted.
3. Demat master or recent holding statement issued by DP bearing name of the client.
4. For individuals:
 - a. Stock broker has an option of doing 'in-person' verification through web camera at the branch office of the stock broker/sub-broker's office.
 - b. In case of non-resident clients, employees at the stock broker'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 stock broker'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.
5. For non-individuals:
 - a. Form need to be initialized by all the authorized signatories.
 - b. Copy of Board Resolution or declaration (on the letterhead) naming the persons authorized to deal in securities on behalf of company/firm/others and their specimen signatures.

Annexure – 4

RIGHTS AND OBLIGATIONS OF STOCK BROKERS, SUB-BROKERS AND CLIENTS *as prescribed by SEBI and Stock Exchanges*

1. The client shall invest/trade in those securities/contracts/other instruments admitted to dealings on the Exchanges as defined in the Rules, Byelaws and Regulations of Exchanges/ Securities and Exchange Board of India (SEBI) and circulars/notices issued there under from time to time.
2. The stock broker, sub-broker and the client shall be bound by all the Rules, Byelaws and Regulations of the Exchange and circulars/notices issued there under and Rules and Regulations of SEBI and relevant notifications of Government authorities as may be in force from time to time.
3. The client shall satisfy itself of the capacity of the stock broker to deal in securities and/or deal in derivatives contracts and wishes to execute its orders through the stock broker and the client shall from time to time continue to satisfy itself of such capability of the stock broker before executing orders through the stock broker.
4. The stock broker shall continuously satisfy itself about the genuineness and financial soundness of the client and investment objectives relevant to the services to be provided.
5. The stock broker shall take steps to make the client aware of the precise nature of the Stock broker's liability for business to be conducted, including any limitations, the liability and the capacity in which the stock broker acts.
6. The sub-broker shall provide necessary assistance and co-operate with the stock broker in all its dealings with the client(s).

CLIENT INFORMATION

7. The client shall furnish all such details in full as are required by the stock broker in "Account Opening Form" with supporting details, made mandatory by stock exchanges/SEBI from time to time.
8. The client shall familiarize himself with all the mandatory provisions in the Account Opening documents. Any additional clauses or documents specified by the stock broker shall be non-mandatory, as per terms & conditions accepted by the client.
9. The client shall immediately notify the stock broker in writing if there is any change in the information in the 'account opening form' as provided at the time of account opening and thereafter; including the information on winding up petition/insolvency petition or any litigation which may have material bearing on his capacity. The client shall provide/update the financial information to the stock broker on a periodic basis.
10. The stock broker and sub-broker shall maintain all the details of the client as mentioned in the account opening form or any other information pertaining to the client, confidentially and that they shall not disclose the same to any person/authority except as required under any law/regulatory requirements. Provided however that the stock broker may so disclose information about his client to any person or authority with the express permission of the client.

MARGINS

11. The client shall pay applicable initial margins, withholding margins, special margins or such other margins as are considered necessary by the stock broker or the Exchange or as may be directed by SEBI from time to time as applicable to the segment(s) in which the client trades. The stock broker is permitted in its sole and absolute discretion to collect additional margins (even though not required by the Exchange, Clearing House/Clearing Corporation or SEBI) and the client shall be obliged to pay such margins within the stipulated time.

12. The client understands that payment of margins by the client does not necessarily imply complete satisfaction of all dues. In spite of consistently having paid margins, the client may, on the settlement of its trade, be obliged to pay (or entitled to receive) such further sums as the contract may dictate/require.

TRANSACTIONS AND SETTLEMENTS

13. The client shall give any order for buy or sell of a security/derivatives contract in writing or in such form or manner, as may be mutually agreed between the client and the stock broker. The stock broker shall ensure to place orders and execute the trades of the client, only in the Unique Client Code assigned to that client.
14. The stock broker shall inform the client and keep him apprised about trading/settlement cycles, delivery/payment schedules, any changes therein from time to time, and it shall be the responsibility in turn of the client to comply with such schedules/procedures of the relevant stock exchange where the trade is executed.
15. The stock broker shall ensure that the money/securities deposited by the client shall be kept in a separate account, distinct from his/its own account or account of any other client and shall not be used by the stock broker for himself/itself or for any other client or for any purpose other than the purposes mentioned in Rules, Regulations, circulars, notices, guidelines of SEBI and/or Rules, Regulations, Bye-laws, circulars and notices of Exchange.
16. Where the Exchange(s) cancels trade(s) suo moto all such trades including the trade/s done on behalf of the client shall ipso facto stand cancelled, stock broker shall be entitled to cancel the respective contract(s) with client(s).
17. The transactions executed on the Exchange are subject to Rules, Byelaws and Regulations and circulars/notices issued thereunder of the Exchanges where the trade is executed and all parties to such trade shall have submitted to the jurisdiction of such court as may be specified by the Byelaws and Regulations of the Exchanges where the trade is executed for the purpose of giving effect to the provisions of the Rules, Byelaws and Regulations of the Exchanges and the circulars/notices issued thereunder.

BROKERAGE

18. The Client shall pay to the stock broker brokerage and statutory levies as are prevailing from time to time and as they apply to the Client's account, transactions and to the services that stock broker renders to the Client. The stock broker shall not charge brokerage more than the maximum brokerage permissible as per the rules, regulations and bye-laws of the relevant stock exchanges and/or rules and regulations of SEBI.

LIQUIDATION AND CLOSE OUT OF POSITION

19. Without prejudice to the stock broker's other rights (including the right to refer a matter to arbitration), the client understands that the stock broker shall be entitled to liquidate/close out all or any of the client's positions for non-payment of margins or other amounts, outstanding debts, etc. and adjust the proceeds of such liquidation/close out, if any, against the client's liabilities/obligations. Any and all losses and financial charges on account of such liquidation/closing-out shall be charged to and borne by the client.
20. In the event of death or insolvency of the client or his/its otherwise becoming incapable of receiving and paying for or delivering or transferring securities which the client has ordered to be bought or sold, stock broker may close out the transaction of the client and claim losses, if any, against the estate of the client. The client or his nominees, successors, heirs and assignee shall be entitled to any surplus which may result there from. The client shall note that transfer of funds/securities in favor of a Nominee shall be valid discharge by the stock broker against the legal heir.
21. The stock broker shall bring to the notice of the relevant Exchange the information about default in payment/delivery and related aspects by a client. In case where defaulting client is a corporate

entity/partnership/proprietary firm or any other artificial legal entity, then the name(s) of Director(s)/Promoter(s)/Partner(s)/Proprietor as the case may be, shall also be communicated by the stock broker to the relevant Exchange(s).

DISPUTE RESOLUTION

22. The stock broker shall provide the client with the relevant contact details of the concerned Exchanges and SEBI.
23. The stock broker shall co-operate in redressing grievances of the client in respect of all transactions routed through it and in removing objections for bad delivery of shares, rectification of bad delivery, etc.
24. The client and the stock broker shall refer any claims and/or disputes with respect to deposits, margin money, etc., to arbitration as per the Rules, Byelaws and Regulations of the Exchanges where the trade is executed and circulars/notices issued thereunder as may be in force from time to time.
25. The stock broker shall ensure faster settlement of any arbitration proceedings arising out of the transactions entered into between him vis-à-vis the client and he shall be liable to implement the arbitration awards made in such proceedings.
26. The client/stock-broker understands that the instructions issued by an authorized representative for dispute resolution, if any, of the client/stock-broker shall be binding on the client/stock-broker in accordance with the letter authorizing the said representative to deal on behalf of the said client/stock-broker.

TERMINATION OF RELATIONSHIP

27. This relationship between the stock broker and the client shall be terminated; if the stock broker for any reason ceases to be a member of the stock exchange including cessation of membership by reason of the stock broker's default, death, resignation or expulsion or if the certificate is cancelled by the Board.
28. The stock broker, sub-broker and the client shall be entitled to terminate the relationship between them without giving any reasons to the other party, after giving notice in writing of not less than one month to the other parties. Notwithstanding any such termination, all rights, liabilities and obligations of the parties arising out of or in respect of transactions entered into prior to the termination of this relationship shall continue to subsist and vest in/be binding on the respective parties or his/its respective heirs, executors, administrators, legal representatives or successors, as the case may be.
29. In the event of demise/insolvency of the sub-broker or the cancellation of his/its registration with the Board or/withdrawal of recognition of the sub-broker by the stock exchange and/or termination of the agreement with the sub broker by the stock broker, for any reason whatsoever, the client shall be informed of such termination and the client shall be deemed to be the direct client of the stock broker and all clauses in the 'Rights and Obligations' document(s) governing the stock broker, sub-broker and client shall continue to be in force as it is, unless the client intimates to the stock broker his/its intention to terminate their relationship by giving a notice in writing of not less than one month.

ADDITIONAL RIGHTS AND OBLIGATIONS

30. The stock broker shall ensure due protection to the client regarding client's rights to dividends, rights or bonus shares, etc. in respect of transactions routed through it and it shall not do anything which is likely to harm the interest of the client with whom and for whom they may have had transactions in securities.
31. The stock broker and client shall reconcile and settle their accounts from time to time as per the Rules, Regulations, Bye Laws, Circulars, Notices and Guidelines issued by SEBI and the relevant Exchanges where the trade is executed.

32. The stock broker shall issue a contract note to his constituents for trades executed in such format as may be prescribed by the Exchange from time to time containing records of all transactions including details of order number, trade number, trade time, trade price, trade quantity, details of the derivatives contract, client code, brokerage, all charges levied etc. and with all other relevant details as required therein to be filled in and issued in such manner and within such time as prescribed by the Exchange. The stock broker shall send contract notes to the investors within one working day of the execution of the trades in hard copy and/or in electronic form using digital signature.
33. The stock broker shall make pay out of funds or delivery of securities, as the case may be, to the Client within one working day of receipt of the payout from the relevant Exchange where the trade is executed unless otherwise specified by the client and subject to such terms and conditions as may be prescribed by the relevant Exchange from time to time where the trade is executed.
34. The stock broker shall send a complete 'Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity and format within such time, as may be prescribed by the relevant Exchange, from time to time, where the trade is executed. The Statement shall also state that the client shall report errors, if any, in the Statement within such time as may be prescribed by the relevant Exchange from time to time where the trade was executed, from the receipt thereof to the Stock broker.
35. The stock broker shall send daily margin statements to the clients. Daily Margin statement should include, inter-alia, details of collateral deposited, collateral utilized and collateral status (available balance/due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities.
36. The Client shall ensure that it has the required legal capacity to, and is authorized to, enter into the relationship with stock broker and is capable of performing his obligations and undertakings hereunder. All actions required to be taken to ensure compliance of all the transactions, which the Client may enter into shall be completed by the Client prior to such transaction being entered into.

ELECTRONIC CONTRACT NOTES (ECN)

37. In case, client opts to receive the contract note in electronic form, he shall provide an appropriate e-mail id to the stock broker. The client shall communicate to the stock broker any change in the email-id through a physical letter. If the client has opted for internet trading, the request for change of email id may be made through the secured access by way of client specific user id and password.
38. The stock broker shall ensure that all ECNs sent through the e-mail shall be digitally signed, encrypted, non-tamperable and in compliance with the provisions of the IT Act, 2000. In case, ECN is sent through e-mail as an attachment, the attached file shall also be secured with the digital signature, encrypted and non-tamperable.
39. The client shall note that non-receipt of bounced mail notification by the stock broker shall amount to delivery of the contract note at the e-mail ID of the client.
40. The stock broker shall retain ECN and acknowledgement of the e-mail in a soft and non-tamperable form in the manner prescribed by the exchange in compliance with the provisions of the IT Act, 2000 and as per the extant rules/regulations/circulars/guidelines issued by SEBI/Stock Exchanges from time to time. 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 stock broker for the specified period under the extant regulations of SEBI/stock exchanges. The log report shall provide the details of the contract notes that are not delivered to the client/e-mails rejected or bounced back. The stock broker shall take all possible steps to ensure receipt of notification of bounced mails by him at all times within the stipulated time period under the extant regulations of SEBI/stock exchanges.

41. The stock broker shall continue to send contract notes in the physical mode to such clients who do not opt to receive the contract notes in the electronic 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 stock broker 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.
42. In addition to the e-mail communication of the ECNs to the client, the stock broker shall simultaneously publish the ECN on his designated web-site, if any, in a secured way and enable relevant access to the clients and for this purpose, shall allot a unique user name and password to the client, with an option to the client to save the contract note electronically and/or take a print out of the same.

LAW AND JURISDICTION

43. In addition to the specific rights set out in this document, the stock broker, sub-broker and the client shall be entitled to exercise any other rights which the stock broker or the client may have under the Rules, Bye-laws and Regulations of the Exchanges in which the client chooses to trade and circulars/notices issued thereunder or Rules and Regulations of SEBI.
44. The provisions of this document shall always be subject to Government notifications, any rules, regulations, guidelines and circulars/notices issued by SEBI and Rules, Regulations and Bye laws of the relevant stock exchanges, where the trade is executed, that may be in force from time to time.
45. The stock broker and the client shall abide by any award passed by the Arbitrator(s) under the Arbitration and Conciliation Act, 1996. However, there is also a provision of appeal within the stock exchanges, if either party is not satisfied with the arbitration award.
46. Words and expressions which are used in this document but which are not defined herein shall, unless the context otherwise requires, have the same meaning as assigned thereto in the Rules, Byelaws and Regulations and circulars/notices issued thereunder of the Exchanges/SEBI.
47. All additional voluntary clauses/document added by the stock broker should not be in contravention with rules/regulations/notices/circulars of Exchanges/SEBI. Any changes in such voluntary clauses/document(s) need to be preceded by a notice of 15 days. Any changes in the rights and obligations which are specified by Exchanges/SEBI shall also be brought to the notice of the clients.
48. If the rights and obligations of the parties hereto are altered by virtue of change in Rules and regulations of SEBI or Bye-laws, Rules and Regulations of the relevant stock Exchanges where the trade is executed, such changes shall be deemed to have been incorporated herein in modification of the rights and obligations of the parties mentioned in this document.

INTERNET & WIRELESS TECHNOLOGY BASED TRADING FACILITY PROVIDED BY STOCK BROKERS TO CLIENT
(All the clauses mentioned in the '*Rights and Obligations*' document(s) shall be applicable. Additionally, the clauses mentioned herein shall also be applicable.)

1. Stock broker is eligible for providing Internet based trading (IBT) and securities trading through the use of wireless technology that shall include the use of devices such as mobile phone, laptop with data card, etc. which use Internet Protocol (IP). The stock broker shall comply with all requirements applicable to internet based trading/securities trading using wireless technology as may be specified by SEBI & the Exchanges from time to time.
2. The client is desirous of investing/trading in securities and for this purpose, the client is desirous of using either the internet based trading facility or the facility for securities trading through use of wireless technology. The Stock broker shall provide the Stock broker's IBT Service to the Client, and the Client shall avail of the Stock broker's IBT Service, on and subject to SEBI/Exchanges Provisions and the terms and conditions specified on the Stock broker's IBT Web Site provided that they are in line with the norms prescribed by Exchanges/SEBI.
3. The stock broker shall bring to the notice of client the features, risks, responsibilities, obligations and liabilities associated with securities trading through wireless technology/internet/smart order routing or any other technology should be brought to the notice of the client by the stock broker.
4. The stock broker shall make the client aware that the Stock Broker's IBT system itself generates the initial password and its password policy as stipulated in line with norms prescribed by Exchanges/SEBI.
5. The Client shall be responsible for keeping the Username and Password confidential and secure and shall be solely responsible for all orders entered and transactions done by any person whosoever through the Stock broker's IBT System using the Client's Username and/or Password whether or not such person was authorized to do so. Also the client is aware that authentication technologies and strict security measures are required for the internet trading/securities trading through wireless technology through order routed system and undertakes to ensure that the password of the client and/or his authorized representative are not revealed to any third party including employees and dealers of the stock broker
6. The Client shall immediately notify the Stock broker in writing if he forgets his password, discovers security flaw in Stock Broker's IBT System, discovers/suspects discrepancies/ unauthorized access through his username/password/account with full details of such unauthorized use, the date, the manner and the transactions effected pursuant to such unauthorized use, etc.
7. The Client is fully aware of and understands the risks associated with availing of a service for routing orders over the internet/securities trading through wireless technology and Client shall be fully liable and responsible for any and all acts done in the Client's Username/password in any manner whatsoever.
8. The stock broker shall send the order/trade confirmation through email to the client at his request. The client is aware that the order/ trade confirmation is also provided on the web portal. In case client is trading using wireless technology, the stock broker shall send the order/trade confirmation on the device of the client.
9. The client is aware that trading over the internet involves many uncertain factors and complex hardware, software, systems, communication lines, peripherals, etc. are susceptible to interruptions and dislocations. The Stock broker and the Exchange do not make any representation or warranty that the Stock broker's IBT Service will be available to the Client at all times without any interruption.
10. The Client shall not have any claim against the Exchange or the Stock broker on account of any suspension, interruption, non-availability or malfunctioning of the Stock broker's IBT System or Service or the Exchange's service or systems or non-execution of his orders due to any link/system failure at the Client/Stock brokers/Exchange end for any reason beyond the control of the stock broker/Exchanges.

Annexure – 5

RISK DISCLOSURE DOCUMENT FOR CAPITAL MARKET AND DERIVATIVES SEGMENTS

This document contains important information on trading in Equities/Derivatives Segments of the stock exchanges. All prospective constituents should read this document before trading in Equities/Derivatives Segments of the Exchanges.

Stock exchanges/SEBI does neither singly or jointly and expressly nor impliedly guarantee nor make any representation concerning the completeness, the adequacy or accuracy of this disclosure document nor have Stock exchanges /SEBI endorsed or passed any merits of participating in the trading segments. This brief statement does not disclose all the risks and other significant aspects of trading.

In the light of the risks involved, you should undertake transactions only if you understand the nature of the relationship into which you are entering and the extent of your exposure to risk.

You must know and appreciate that trading in Equity shares, derivatives contracts or other instruments traded on the Stock Exchange, which have varying element of risk, is generally not an appropriate avenue for someone of limited resources/limited investment and/or trading experience and low risk tolerance. You should therefore carefully consider whether such trading is suitable for you in the light of your financial condition. In case you trade on Stock exchanges and suffer adverse consequences or loss, you shall be solely responsible for the same and Stock exchanges/its Clearing Corporation and/or SEBI shall not be responsible, in any manner whatsoever, for the same and it will not be open for you to take a plea that no adequate disclosure regarding the risks involved was made or that you were not explained the full risk involved by the concerned stock broker. The constituent shall be solely responsible for the consequences and no contract can be rescinded on that account. You must acknowledge and accept that there can be no guarantee of profits or no exception from losses while executing orders for purchase and/or sale of a derivative contract being traded on Stock exchanges.

It must be clearly understood by you that your dealings on Stock exchanges through a stock broker shall be subject to your fulfilling certain formalities set out by the stock broker, which may inter alia include your filling the know your client form, reading the rights and obligations, do's and don'ts, etc., and are subject to the Rules, Byelaws and Regulations of relevant Stock exchanges, its Clearing Corporation, guidelines prescribed by SEBI and in force from time to time and Circulars as may be issued by Stock exchanges or its Clearing Corporation and in force from time to time.

Stock exchanges does not provide or purport to provide any advice and shall not be liable to any person who enters into any business relationship with any stock broker of Stock exchanges and/or any third party based on any information contained in this document. Any information contained in this document must not be construed as business advice. No consideration to trade should be made without thoroughly understanding and reviewing the risks involved in such trading. If you are unsure, you must seek professional advice on the same.

In considering whether to trade or authorize someone to trade for you, you should be aware of or must get acquainted with the following:-

1. BASIC RISKS:

1.1 Risk of Higher Volatility:

Volatility refers to the dynamic changes in price that a security/derivatives contract undergoes when trading activity continues on the Stock Exchanges. Generally, higher the volatility of a security/derivatives contract, greater is its price swings. There may be normally greater volatility in thinly traded securities / derivatives contracts than in active securities /derivatives contracts. As a result of volatility, your order may only be partially executed or not executed at all, or the price at which your order got executed may be substantially different from the last traded price or change substantially thereafter, resulting in notional or real losses.

1.2 Risk of Lower Liquidity:

Liquidity refers to the ability of market participants to buy and/or sell securities / derivatives contracts expeditiously at a competitive price and with minimal price difference. Generally, it is assumed that more the numbers of orders available in a market, greater is the liquidity. Liquidity is important because with greater liquidity, it is easier for investors to buy and/or sell securities / derivatives contracts swiftly and with minimal price difference, and as a result, investors are more likely to pay or receive a competitive price for securities / derivatives contracts purchased or sold. There may be a risk of lower liquidity in some securities / derivatives contracts as compared to active securities / derivatives contracts. As a result, your order may only be partially executed, or may be executed with relatively greater price difference or may not be executed at all.

1.2.1 Buying or selling securities / derivatives contracts as part of a day trading strategy may also result into losses, because in such a situation, securities / derivatives contracts may have to be sold / purchased at low / high prices, compared to the expected price levels, so as not to have any open position or obligation to deliver or receive a security / derivatives contract.

1.3 Risk of Wider Spreads:

Spread refers to the difference in best buy price and best sell price. It represents the differential between the price of buying a security / derivatives contract and immediately selling it or vice versa. Lower liquidity and higher volatility may result in wider than normal spreads for less liquid or illiquid securities / derivatives contracts. This in turn will hamper better price formation.

1.4 Risk-reducing orders:

The placing of orders (e.g., "stop loss" orders, or "limit" orders) which are intended to limit losses to certain amounts may not be effective many a time because rapid movement in market conditions may make it impossible to execute such orders.

1.4.1 A "market" order will be executed promptly, subject to availability of orders on opposite side, without regard to price and that, while the customer may receive a prompt execution of a "market" order, the execution may be at available prices of outstanding orders, which satisfy the order quantity, on price time priority. It may be understood that these prices may be significantly different from the last traded price or the best price in that security / derivatives contract.

1.4.2 A "limit" order will be executed only at the "limit" price specified for the order or a better price. However, while the customer receives price protection, there is a possibility that the order may not be executed at all.

1.4.3 A stop loss order is generally placed "away" from the current price of a stock / derivatives contract, and such order gets activated if and when the security / derivatives contract reaches, or trades through, the stop price. Sell stop orders are entered ordinarily below the current price, and buy stop orders are entered ordinarily above the current price. When the security / derivatives contract reaches the pre-determined price, or trades through such price, the stop loss order converts to a market/limit order and is executed at the limit or better. There is no assurance therefore that the limit order will be executable since a security / derivatives contract might penetrate the pre-determined price, in which case, the risk of such order not getting executed arises, just as with a regular limit order.

1.5 Risk of News Announcements:

News announcements that may impact the price of stock / derivatives contract may occur during trading, and when combined with lower liquidity and higher volatility, may suddenly cause an unexpected positive or negative movement in the price of the security / contract.

1.6 Risk of Rumors:

Rumors about companies / currencies at times float in the market through word of mouth, newspapers, websites or news agencies, etc. The investors should be wary of and should desist from acting on rumors.

1.7 System Risk:

High volume trading will frequently occur at the market opening and before market close. Such high volumes may also occur at any point in the day. These may cause delays in order execution or confirmation.

1.7.1 During periods of volatility, on account of market participants continuously modifying their order quantity or prices or placing fresh orders, there may be delays in order execution and its confirmations.

1.7.2 Under certain market conditions, it may be difficult or impossible to liquidate a position in the market at a reasonable price or at all, when there are no outstanding orders either on the buy side or the sell side, or if trading is halted in a security / derivatives contract due to any action on account of unusual trading activity or security / derivatives contract hitting circuit filters or for any other reason.

1.8 System/Network Congestion:

Trading on exchanges is in electronic mode, based on satellite/leased line based communications, combination of technologies and computer systems to place and route orders. Thus, there exists a possibility of communication failure or system problems or slow or delayed response from system or trading halt, or any such other problem/glitch whereby not being able to establish access to the trading system/network, which may be beyond control and may result in delay in processing or not processing buy or sell orders either in part or in full. You are cautioned to note that although these problems may be temporary in nature, but when you have outstanding open positions or unexecuted orders, these represent a risk because of your obligations to settle all executed transactions.

2. As far as Derivatives segments are concerned, please note and get yourself acquainted with the following additional features:-

2.1 Effect of "Leverage" or "Gearing":

In the derivatives market, the amount of margin is small relative to the value of the derivatives contract so the transactions are 'leveraged' or 'geared'. Derivatives trading, which is conducted with a relatively small amount of margin, provides the possibility of great profit or loss in comparison with the margin amount. But transactions in derivatives carry a high degree of risk.

You should therefore completely understand the following statements before actually trading in derivatives and also trade with caution while taking into account one's circumstances, financial resources, etc. If the prices move against you, you may lose a part of or whole margin amount in a relatively short period of time. Moreover, the loss may exceed the original margin amount.

A. Futures trading involve daily settlement of all positions. Every day the open positions are marked to market based on the closing level of the index / derivatives contract. If the contract has moved against you, you will be required to deposit the amount of loss (notional) resulting from such movement. This amount will have to be paid within a stipulated time frame, generally before commencement of trading on next day.

B. If you fail to deposit the additional amount by the deadline or if an outstanding debt occurs in your account, the stock broker may liquidate a part of or the whole position or substitute securities. In this case, you will be liable for any losses incurred due to such close-outs.

C. Under certain market conditions, an investor may find it difficult or impossible to execute transactions. For example, this situation can occur due to factors such as illiquidity i.e. when there are insufficient bids or offers or suspension of trading due to price limit or circuit breakers etc.

D. In order to maintain market stability, the following steps may be adopted: changes in the margin rate, increases in the cash margin rate or others. These new measures may also be applied to the existing open interests. In such conditions, you will be required to put up additional margins or reduce your positions.

E. You must ask your broker to provide the full details of derivatives contracts you plan to trade i.e. the contract specifications and the associated obligations.

2.2 Currency specific risks:

1. The profit or loss in transactions in foreign currency-denominated contracts, whether they are traded in your own or another jurisdiction, will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

2. Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example when a currency is deregulated or fixed trading bands are widened.

3. Currency prices are highly volatile. Price movements for currencies are influenced by, among other things: changing supply-demand relationships; trade, fiscal, monetary, exchange control programs and policies of governments; foreign political and economic events and policies; changes in national and international interest rates and inflation; currency devaluation; and sentiment of the market place. None of these factors can be controlled by any individual advisor and no assurance can be given that an advisor's advice will result in profitable trades for a participating customer or that a customer will not incur losses from such events.

2.3 Risk of Option holders:

1. An option holder runs the risk of losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will necessarily lose his entire investment in the option. If the price of the underlying does not change in the anticipated direction before the option expires, to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of his investment in the option.

2. The Exchanges may impose exercise restrictions and have absolute authority to restrict the exercise of options at certain times in specified circumstances.

2.4 Risks of Option Writers:

1. If the price movement of the underlying is not in the anticipated direction, the option writer runs the risks of losing substantial amount.

2. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest and thereby assuming a spread position or by acquiring other types of hedging positions in the options markets or other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. A spread position is not necessarily less risky than a simple 'long' or 'short' position.

3. Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors. Combination transactions, such as option spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, a complexity not well understood is, in itself, a risk factor. While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.

3. TRADING THROUGH WIRELESS TECHNOLOGY/ SMART ORDER ROUTING OR ANY OTHER TECHNOLOGY:

Any additional provisions defining the features, risks, responsibilities, obligations and liabilities associated with securities trading through wireless technology/ smart order routing or any other technology should be brought to the notice of the client by the stock broker.

4. GENERAL

4.1 The term 'constituent' shall mean and include a client, a customer or an investor, who deals with a stock broker for the purpose of acquiring and/or selling of securities / derivatives contracts through the mechanism provided by the Exchanges.

4.2 The term 'stock broker' shall mean and include a stock broker, a broker or a stock broker, who has been admitted as such by the Exchanges and who holds a registration certificate from SEBI.

Annexure-6

GUIDANCE NOTE - DO's AND DON'Ts FOR TRADING ON THE EXCHANGE(S) FOR INVESTORS

BEFORE YOU BEGIN TO TRADE

1. Ensure that you deal with and through only SEBI registered intermediaries. You may check their SEBI registration certificate number from the list available on the Stock exchanges www.exchange.com and SEBI website www.sebi.gov.in.
2. Ensure that you fill the KYC form completely and strike off the blank fields in the KYC form.
3. Ensure that you have read all the mandatory documents viz. Rights and Obligations, Risk Disclosure Document, Policy and Procedure document of the stock broker.
4. Ensure to read, understand and then sign the voluntary clauses, if any, agreed between you and the stock broker. Note that the clauses as agreed between you and the stock broker cannot be changed without your consent.
5. Get a clear idea about all brokerage, commissions, fees and other charges levied by the broker on you for trading and the relevant provisions/ guidelines specified by SEBI/Stock exchanges.
6. Obtain a copy of all the documents executed by you from the stock broker free of charge.
7. In case you wish to execute Power of Attorney (POA) in favour of the Stock broker, authorizing it to operate your bank and demat account, please refer to the guidelines issued by SEBI/Exchanges in this regard.

TRANSACTIONS AND SETTLEMENTS

8. The stock broker may issue electronic contract notes (ECN) if specifically authorized by you in writing. You should provide your email id to the stock broker for the same. Don't opt for ECN if you are not familiar with computers.
9. Don't share your internet trading account's password with anyone.
10. Don't make any payment in cash to the stock broker.
11. Make the payments by account payee cheque in favour of the stock broker. Don't issue cheques in the name of sub-broker. Ensure that you have a documentary proof of your payment/deposit of securities with the stock broker, stating date, scrip, quantity, towards which bank/ demat account such money or securities deposited and from which bank/ demat account.
12. Note that facility of Trade Verification is available on stock exchanges' websites, where details of trade as mentioned in the contract note may be verified. Where trade details on the website do not tally with the details mentioned in the contract note, immediately get in touch with the Investors Grievance Cell of the relevant Stock exchange.
13. In case you have given specific authorization for maintaining running account, payout of funds or delivery of securities (as the case may be), may not be made to you within one working day from the receipt of payout from the Exchange. Thus, the stock broker shall maintain running account for you subject to the following conditions:
 - a) Such authorization from you shall be dated, signed by you only and contains the clause that you may revoke the same at any time.
 - b) The actual settlement of funds and securities shall be done by the stock broker, at least once in a calendar quarter or month, depending on your preference. While settling the account, the stock broker shall send to you a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all the receipts/deliveries of funds and securities. The statement shall also explain the retention of funds and securities and the details of the pledged shares, if any.
 - c) On the date of settlement, the stock broker may retain the requisite securities/funds towards outstanding obligations and may also retain the funds expected to be required to meet derivatives margin obligations for next 5 trading days, calculated in the manner specified by the exchanges. In respect of cash market transactions, the stock broker may retain entire pay-in obligation of funds and securities due from clients as on date of settlement and for next day's business, he may retain funds/securities/margin to the extent of value of transactions executed on the day of such

settlement in the cash market.

- d) You need to bring any dispute arising from the statement of account or settlement so made to the notice of the stock broker in writing preferably within 7 (seven) working days from the date of receipt of funds/securities or statement, as the case may be. In case of dispute, refer the matter in writing to the Investors Grievance Cell of the relevant Stock exchanges without delay.
- 14. In case you have not opted for maintaining running account and pay-out of funds/securities is not received on the next working day of the receipt of payout from the exchanges, please refer the matter to the stock broker. In case there is dispute, ensure that you lodge a complaint in writing immediately with the Investors Grievance Cell of the relevant Stock exchange.
- 15. Please register your mobile number and email id with the stock broker, to receive trade confirmation alerts/ details of the transactions through SMS or email, by the end of the trading day, from the stock exchanges.

IN CASE OF TERMINATION OF TRADING MEMBERSHIP

- 16. In case, a stock broker surrenders his membership, is expelled from membership or declared a defaulter; Stock exchanges give a public notice inviting claims relating to only the "transactions executed on the trading system" of Stock exchange, from the investors. Ensure that you lodge a claim with the relevant Stock exchanges within the stipulated period and with the supporting documents.
- 17. Familiarize yourself with the protection accorded to the money and/or securities you may deposit with your stock broker, particularly in the event of a default or the stock broker's insolvency or bankruptcy and the extent to which you may recover such money and/or securities may be governed by the Bye-laws and Regulations of the relevant Stock exchange where the trade was executed and the scheme of the Investors' Protection Fund in force from time to time.

DISPUTES/ COMPLAINTS

- 18. Please note that the details of the arbitration proceedings, penal action against the brokers and investor complaints against the stock brokers are displayed on the website of the relevant Stock exchange.
- 19. In case your issue/problem/grievance is not being sorted out by concerned stock broker/sub-broker then you may take up the matter with the concerned Stock exchange. If you are not satisfied with the resolution of your complaint then you can escalate the matter to SEBI.
- 20. Note that all the stock broker/sub-brokers have been mandated by SEBI to designate an e-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints.

Annexure - 7

SARAL

ACCOUNT OPENING FORM FOR RESIDENT INDIVIDUALS TRADING IN CASH SEGMENT

PHOTOGRAPH

Please affix your recent passport size photograph and sign across it

I KYC - Please fill this form in BLOCK LETTERS.

A. IDENTITY DETAILS

- Name of the Applicant: _____
- Father's/ Spouse Name: _____
- a. Gender: Male/ Female b. Marital status: Single/ Married c. Date of birth: ____ (dd/mm/yyyy)
- Nationality: _____
- a. PAN: _____ b. Aadhaar Number, if any: _____
- Specify the proof of Identity submitted: _____

B. ADDRESS DETAILS

- Residence/ Correspondence Address: _____ City/town/village: _____
Pin Code: _____ State: _____ Country: _____
- Contact Details: Tel. (Off.) _____ Tel. (Res.) _____ Mobile No.: _____ Fax: _____ Email id: _____
- Permanent Address (if different from above address): _____
City/town/village: _____ Pin Code: _____ State: _____ Country: _____
- Specify the proof of address submitted for residence/correspondence /permanent address: _____

DECLARATION

I hereby declare that the details furnished above are true and correct to the best of my knowledge and belief and I undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, I am aware that I may be held liable for it.

Signature of the Applicant Date: ____ (dd/mm/yyyy)

☐ Originals verified and Self-Attested Document copies received (.....)

Name & Signature of the Authorised Signatory
Seal/Stamp of the intermediary

Date

II OTHER DETAILS:

1. Bank account details:

Bank Name	Branch address	Bank account no.	Account Type: Saving/Current/	MICR Number	IFSC code

2. Demat account details:(In case the client does not have DP account, this column may be crossed)

DP name	NSDL/CDSL	Beneficiary name	DP ID	BO ID

3. Whether DP account is also to be opened with the same intermediary (Yes/No)

4. Trading Preferences: Please sign the relevant boxes where you wish to trade.

Exchange	Sign	Exchange	Sign	Exchange	Sign
NSE		BSE		MCX-SX	

5. Mode of receiving Contract Note/ Statement of Account: Physical / Electronic (Please indicate your preference).....

6. Standing instructions to receive credits automatically into my BO account (Yes/No)

7. Nomination details (Name, PAN, Address and Phone no. of nominee); relationship with the nominee (If nominee is a minor, details of Guardian like name, address, phone no. and signature of Guardian may be obtained)

I have understood the contents of policy and procedures document, tariff sheet, 'Rights and Obligations' document and 'Risk Disclosure Document'. I do hereby agree to be bound by such provisions as outlined in these documents. I have also been informed that the standard set of documents has been displayed for information on stock broker's designated website.

Signature of the Applicant Date: ____ (dd/mm/yyyy)

FOR OFFICE USE ONLY

UCC Code allotted to the Client: -----

DP name	NSDL/CDSL	Beneficiary name	DP ID	BO ID

	Documents verified with Originals	Client By	Interviewed	In-Person Verification done by
Name of the Employee				
Employee Code				
Designation of the employee				
Date				
Signature				

I / We undertake that I/we have made the client aware of 'Policy and Procedures', tariff sheet. I/We have also made the client aware of 'Rights and Obligations' document (s), RDD and Guidance Note. I/We have given/sent him a copy of all the KYC documents. I/We undertake that any change in the 'Policy and Procedures', tariff sheet would be duly intimated to the clients. I/We also undertake that any change in the 'Rights and Obligations' and RDD would be made available on my/our website, if any, for the information of the clients.

If the client chooses to avail the demat facility from the same stock broker who is also a depository participant, the stock broker may use the same form and provide the details of the demat account opened for the said client to the client while providing a copy of the KYC documents.

.....

Signature of the Authorised Signatory

Date

Seal/Stamp of the stock broker

NOTE: This form is applicable for individual investors trading in the cash segment. If such investors wish to trade in segments other than cash segment and / or wish to avail facilities such as internet trading, running account, margin trading, Power of Attorney etc., they may furnish additional details required as per prescribed regulations to the concerned intermediary.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

APPENDIX

LIST OF CIRCULARS / NOTIFICATIONS

S. No.	Circular / Notification No. and Date	Subject
1.	SEBI communication SE/10118 dated October 12, 1992.	Listing fees from 1992-93 to 1996-97.
2.	SMD/SED/CIR/93/23321 dated November 18, 1993.	Regulation Of Transactions Between Clients and Brokers.
3.	SMD/VRN/1476/95 dated April 27, 1995.	Severance of connections with other businesses.
4.	SMD/POLICY/CIR-6/97 dated May 07, 1997.	Applicability of Rule 8(1)(f) and 8(3)(f) of the Securities Contract (Regulation) Rules, 1957.
5.	SMD/POLICY/CIRCULAR/30/97 dated November 25, 1997.	Registration of Brokers.
6.	SMD/POLICY/CIR-34/97 dated December 11, 1997.	Conversion of individual membership into Corporate membership.
7.	SMD/POLICY/CIR-11/98 dated March 16, 1998.	Additional information to be submitted at the time of registration of Stock Broker with SEBI.
8.	FITTC/DC/CR-1/98 dated June 16, 1998.	Derivatives Trading in India.
9.	SMD/POLICY(BRK.REG.)/CIR-18/98 dated July 09, 1998.	Merger/ Amalgamation of Trading Members.
10.	SMD-II/POLICY/CIR-37/99 dated November 26, 1999.	Floating of a Subsidiary/Company by a Stock Exchange to acquire the membership of other Stock Exchange.
11.	SMD-I/POLICY/CIR-40/99 dated December 16, 1999.	Floating of a Subsidiary/Company by a Stock Exchange to acquire the membership of other Stock Exchange.
12.	SMD-II/ALLSE/CIR-02/2000 dated January 10, 2000.	Meeting Of All Stock Exchanges.
13.	SMDRP/POLICY/CIR- 06/2000 dated January 31, 2000.	Conditions to be met by Broker for providing Internet Based Trading Service.
14.	SMD/POLICY/CIR. No. 24/25374/2001 dated March 22, 2001 and SEBI (Stock Brokers and Sub-Brokers) (Second Amendment) Regulations, 2000 dated August 30, 2000.	Exclusion of turnover from the turnover of the Subsidiary.
15.	SMDRP/Policy/Cir-48/2000 dated October 11, 2000.	Securities Trading through Wireless medium on Wireless Application Protocol (WAP) platform.
16.	SMDRP/POLICY/CIR-56/00 dated December 15, 2000.	Use of Digital Signature on Contract Notes.
17.	SUB-BROK/CIR/02/2001 dated January 15, 2001.	Intimation to the Brokers to permit their Sub-Brokers to start business only after receipt of Sub-Broker registration certificate from SEBI.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

18.	SMDRPD/POLICY/CIR-8/2001 dated February 07, 2001.	Composition of the deposit with Subsidiary.
19.	SMDRP/POLICY/CIR-39/2001 dated July 18, 2001.	Unique Client Code.
20.	SMDRP/POLICY/CIR-41/2001 dated August 09, 2001.	Eligibility for Trading Member.
21.	SMD/POLICY/CIR-49/2001 dated October 22, 2001.	Advertisement by Brokers/ Sub-Brokers and grant of trading terminals.
22.	CIR/MIRSD/24/2011 dated December 15, 2011.	Guidelines on Outsourcing of Activities by Intermediaries.
23.	SMD/DBA-II/CIR-22/2002 dated September 12, 2002.	Additional requirements for processing applications of Stock Brokers for Registration/ Prior approval for sale of membership/ Change of name/ trade name.
24.	SMD/POLICY/CIR-4/ 2003 dated February 11, 2003.	Restructuring of the Subsidiary Management.
25.	SEBI/SMD/SE/15/2003/29/04 dated April 29, 2003.	Issuance of Contract Notes in electronic form.
26.	SMD/DBA-II/Cir-16/9618/03 dated May 05, 2003.	SEBI Registration Number of Brokers / Sub-Brokers to be quoted on all correspondences with SEBI.
27.	SEBI/SMD/SE/CIR-20/2003/02/06 dated June 02, 2003.	Eligibility of a sub-broker to trade through the Subsidiary Company.
28.	SEBI/MRD/SE/15958/2003 dated August 22, 2003.	Access to unauthorized persons by the members of Subsidiaries.
29.	SEBI/MRD/SE/CIR-32/2003/27/08 dated August 27, 2003.	"Pro - account" trading terminal.
30.	SEBI/MRD/SE/CIR-33/2003/27/08 dated August 27, 2003.	Mode of payment and delivery.
31.	SEBI/MRD/SE/CIR-34/2003/29/09 dated September 29, 2003.	Unique Client Code.
32.	SEBI/MRD/SE/CIR-42/2003 dated November 19, 2003.	Disclosure of proprietary trading by Broker to Client.
33.	SEBI/MIRSD/CIR-06/2004 January 13, 2004.	Review of norms relating to trading by Members/Sub-Brokers.
34.	SEBI/MRD/SE/CIR-15/2005 dated August 04, 2005.	Maintenance of books of accounts and other documents sought by Enforcement Agencies from Stock Exchanges and Brokers.
35.	MRD/DoP/SE/CIR-20/2005 dated September 08, 2005.	Electronic issuance of contract notes – Additional conditions.
36.	MRD/DoP/Dep/SE/CIR-22/06 dated December 18, 2006.	Exclusive e-mail ID for redressal of Investor Complaints.
37.	MIRSD-DR 1/MK/CIR-15/111600/07 dated December 20, 2007.	Change in affiliation of Sub-Brokers.
38.	MRD/DoP/SE/CIR-7/2008 dated April	Introduction of Direct Market Access facility.



भारतीय प्रतिभूति और विनिमय बोर्ड

Securities and Exchange Board of India

	03, 2008.	
39.	MRD/DoP/SE/CIR-11/2008 dated April 17, 2008.	Collateral deposited by Clients with Brokers.
40.	MRD/DoP/SE/CIR-03/2009 dated February 20, 2009.	Direct Market Access – Clarification.
41.	MIRSD/DR-1/CIR-16/09 dated November 06, 2009.	Market Access through Authorised Persons.
42.	MIRSD/SE/CIR-19/2009 dated December 03, 2009.	Dealings between a client and a stock broker (trading members included).
43.	SEBI/MIRSD/MASTER CIR-04/2010 dated March 17, 2010.	Master Circular on Oversight of Members (Stock Brokers/Trading Members/Clearing Members of any Segment of Stock Exchanges and Clearing Corporations).
44.	CIR/MRD/DMS/13/2010 dated April 23, 2010.	Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/ Stock Broker and Depository Participant.
45.	SEBI/CIR/MIRSD/AP/8/2010 dated July 23, 2010.	Market Access through Authorised Persons.
46.	CIR/MRD/DP/ 25/2010 dated August 27, 2010.	Securities Trading using Wireless Technology.
47.	CIR/MRD/DP/26/2010 dated August 27, 2010.	Introduction of Smart Order Routing.
48.	CIR/MRD/DMS/28/2010 dated August 31, 2010.	Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/ Stock Broker and Depository Participant – Clarifications.
49.	CIR/MIRSD/9/2010 dated November 04, 2010.	Display of Details by Stock Brokers (including Trading Members).
50.	CIR/MRD/DP/36/2010 dated December 09, 2010.	Smart Order Routing (SOR) – Clarification.
51.	CIR/ISD/1/2011 dated March 23, 2011.	Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication.
52.	CIR/ISD/2/2011 dated March 24, 2011.	Addendum to Circular no. Cir/ISD/1/2011 dated March 23, 2011.
53.	Notification LAD-NRO/GN/2011-12/03/12650 dated April 19, 2011.	(Change in Conditions of Registration of Certain Intermediaries) (Amendment) Regulations, 2011.
54.	SEBI/MIRSD/CIR/01/2011 dated May 13, 2011.	Clarification on circular dated December 3, 2009 on 'Dealings between a Client and a Stock broker.
55.	CIR/MIRSD/2/2011 dated June 03, 2011.	Periodical Report – Grant of prior approval to members of Stock Exchanges/Sub-Brokers.
56.	CIR/MIRSD/03/2011 dated June 09, 2011.	Pre- funded instruments / electronic fund transfers.
57.	CIR/MRD/DP/08/2011 dated June 30,	Review of Internet Based Trading (IBT) and



भारतीय प्रतिभूति और विनिमय बोर्ड

Securities and Exchange Board of India

	2011.	Securities trading using Wireless Technology (STWT).
58.	CIR/DNPD/6/2011 dated July 05, 2011.	Modification of Client Codes of Non-institutional Trades Executed on Stock Exchanges (All Segments).
59.	CIR/MIRSD/12/2011 dated July 11, 2011.	Clarification regarding admission of Limited Liability Partnerships as Members of Stock Exchanges.
60.	CIR/MIRSD/14/2011 dated August 02, 2011.	Revised procedure for seeking prior approval for change in control through single window.
61.	CIR/MIRSD/15/2011 dated August 02, 2011.	SMS and E-mail alerts to investors by Stock Exchanges.
62.	CIR/MIRSD/16/2011 dated August 22, 2011.	Simplification and Rationalization of Trading Account Opening Process.
63.	CIR/MIRSD/18/2011 dated August 25, 2011.	Redressal of investor grievances against Stock Brokers and Sub-Brokers in SEBI Complaints Redress System (SCORES).
64.	MIRSD/SE/CIR-21/2011 dated October 05, 2011.	Uniform Know Your Client (KYC) Requirements for the Securities Markets.
65.	CIR/MIRSD/22/2011 dated October 25, 2011.	'In-person' verification (IPV) of Clients by Subsidiaries of Stock Exchanges, acting as Stock Brokers.
66.	MIRSD/CIR-23/2011 dated December 02, 2011.	The Securities and Exchange Board of India (KYC Registration Agency) Regulations, 2011.
67.	MIRSD/CIR-26/2011 dated December 23, 2011.	Guidelines in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011 and for In-Person Verification (IPV).
68.	CIR/MRD/DP/09/2012 dated March 30, 2012.	Broad Guidelines on Algorithmic Trading.
69.	CIR/MRD/DP/20/2012 dated August 02, 2012.	Direct Market Access - Clarification.
70.	CIR/MIRSD/09/2012 dated August 13, 2012.	Aadhaar Letter as Proof of Address for Know Your Client (KYC) norms.
71.	CIR/MIRSD/10/2012 dated August 27, 2012.	Rationalization of process relating to surrender of registration by Sub-Brokers.
72.	CIR/MIRSD/13/2012 dated December 07, 2012.	Oversight of Members (Stock Brokers/Trading Members/Clearing Members of any segment of Stock Exchanges/Clearing Corporations).
73.	CIR/MIRSD/2/2013 dated January 24, 2013	Guidelines on Identification of Beneficial Ownership.
74.	Notification no. LAD-NRO/GN/2012-13/35/6998 dated March 22, 2013.	SEBI (KYC Registration Agency) Amendment Regulation 2013.
75.	CIR/MIRSD/4/2013 dated March 28, 2013.	Amendment to SEBI {(Know Your Client) Registration Agency} Regulations, 2011 and relevant circulars.
76.	CIR/MRD/DP/24/2013 dated August	Testing of software used in or related to Trading



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

	19, 2013.	and Risk Management.
77.	CIR/MIRSD/5/2013 dated August 27, 2013.	General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognised Stock Exchanges, Recognised Clearing Corporations, Depositories and their Associated Persons in Securities Market.
78.	CIR/MRD/DP/16/2013 dated May 21, 2013.	Broad Guidelines on Algorithmic Trading.
79.	CIR/MIRSD/8/2013 dated September 30, 2013.	Simplification of registration requirements for Stock Brokers.
80.	CIR/MIRSD/09/2013 dated October 08, 2013.	Know Your Client Requirements.
81.	CIR/MRD/DMS/34/2013 dated November 06, 2013.	Annual System Audit of Stock Brokers / Trading Members.
82.	CIR/MIRSD/13/2013 dated December 26, 2013.	Know Your Client Requirements.
83.	CIR/MRD/DP/06/2014 dated February 07, 2014.	Testing of software used in or related to Trading and Risk Management.
84.	CIR/MRD/DP/07/2014 dated February 11, 2014.	Safeguards to avoid trading disruption in case of failure of software vendor.
85.	CIR/MIRSD/2/2014 dated June 30, 2014.	Inter-Governmental Agreement with United States of America under Foreign Accounts Tax Compliance Act - Registration.
86.	CIR/MIRSD/3/2014 dated August 28, 2014.	Information regarding Grievance Redressal Mechanism.
87.	CIR/MIRSD/4/2014 dated October 13, 2014.	Single registration for Stock Brokers & Clearing Members.
88.	CIR/MRD/DP/29/2014 dated October 21, 2014.	Modification of Client Codes of Non-institutional Trades Executed on Stock Exchanges (All Segments).
89.	MIRSD-DR 1/SRP/CIR-43/28408/04 dated December 15, 2004.	Change in Status and Constitution of the Sub-Brokers, Surrender of Certificate of Registration of Sub-Brokers and Change of Affiliation of Sub-Brokers.
90.	CIR/MIRSD/1/2015 dated March 04, 2015.	SARAL Account Opening Form for Resident Individuals.
91.	CIR/MIRSD/2/2015 dated August 26, 2015.	Implementation of the Multilateral Competent Authority Agreement and Foreign Account Tax Compliance Act.
92.	CIR/MIRSD/3/2015 dated September 10, 2015.	Reporting Requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) - Guidance Note.
93.	CIR/MIRSD/4/2015 dated September 29, 2015.	Registration of Members of Commodity Derivatives Exchanges.
94.	CIR/MIRSD/29/2016 dated January 22, 2016.	Know Your Client Requirements - Clarification on voluntary adaptation of Aadhaar based e-



भारतीय प्रतिभूति और विनिमय बोर्ड

Securities and Exchange Board of India

		KYC process.
95.	CIR/MIRSD/64/2016 dated July 12, 2016.	Simplification of Account Opening Kit.
96.	CIR/MIRSD/66/2016 dated July 21, 2016.	Operationalisation of Central KYC Records Registry (CKYCR).
97.	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016.	Regulatory Framework for Commodity Derivatives Brokers.
98.	SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.	Enhanced Supervision of Stock Brokers/Depository Participants.
99.	CIR/MIRSD/120/2016 dated November 10, 2016.	Uploading of the existing clients' KYC details with Central KYC Records Registry (CKYCR) System by the registered intermediaries.
100.	SEBI/HO/MIRSD/MIRSD6/CIR/P/2017/20 dated March 10, 2017.	Redressal of complaints against Stock Brokers and Depository Participants in SEBI Complaints Redress System (SCORES).
101.	SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017.	Online Registration Mechanism for Securities Market Intermediaries.
102.	SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017.	Digital Mode of Payment.
103.	CIR/MRD/DP/54/2017 dated June 13, 2017.	Comprehensive Review of Margin Trading Facility.
104.	CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017.	Clarification to Enhanced Supervision Circular.
105.	CIR/HO/MIRSD/MIRSD2/CIR/P/2017/73 dated June 30, 2017.	Policy of Annual Inspection of Members by Stock Exchanges/Clearing Corporations.
106.	CIR/MRD/DP/86/2017 dated August 01, 2017.	Margin Trading Facility - Clarification.
107.	SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/04 dated September 21, 2017.	Integration of broking activities in Equity Markets and Commodity Derivatives Markets under single entity.
108.	CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017.	Clarification to Enhanced Supervision Circular.
109.	SEBI/HO/MIRSD/MIRSD2/CIR/P/2017/123 dated November 29, 2017.	Modification to Enhanced Supervision Circular.
110.	SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018.	Circular on Prevention of Unauthorised Trading by Stock Brokers.
