



Central Depository Services (India) Limited

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COMMUNIQUÉ TO DEPOSITORY PARTICIPANTS

CDSL/OPS/DP/POLCY/6160

September 29, 2016

SEBI CIRCULAR- ENHANCED SUPERVISION OF STOCK BROKERS/DEPOSITORY PARTICIPANTS

DPs are advised to refer to SEBI Circular no. **SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95** dated September 26, 2016 wherein SEBI has informed guidelines regarding enhanced supervision of stock brokers/depository participants [refer **Annexure**].

DPs are advised to take note of the same and ensure compliance. The operational modalities with respect to guidelines regarding uniform nomenclature to be followed by stock brokers for naming/tagging demat accounts and the reporting of such accounts to the depositories will be informed separately.

Queries regarding this communiqué may be addressed to:

CDSL – Helpdesk on (022) 2272-8642, 2272-8427, 2272-8624, 2272-8693, 2272-8639, 2272-1261 or 2272-2075. Emails may be sent to: helpdesk@cdslindia.com.

sd/-

Nayana Ovalekar
Sr. Vice President – Operations



भारतीय प्रतिभूती और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95

September 26, 2016

The Managing Directors of all Recognized Stock Exchanges and Depositories

Dear Sir/Madam,

Subject: Enhanced Supervision of Stock Brokers/Depository Participants

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 as Annexed to this circular are being issued. These guidelines cover the following broad areas:
 - I. 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.
 - II. Monitoring of Clients’ Funds lying with the Stock Broker by the Stock Exchanges, through a sophisticated alerting and reconciliation mechanism, to detect any mis-utilisation of clients fund.
 - III. 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.

- IV. 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.
- V. Imposition of uniform penal action on stock brokers/depository participants by the Stock Exchanges/Depositories in the event of non-compliance with specified requirements.
- VI. 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.

2. The Stock Exchanges/Depositories are directed to:

- a. bring the provisions of this circular to the notice of the Stock Brokers/depository participants and also disseminate the same on their websites.
- b. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above directions in co-ordination with one another to achieve uniformity in approach.
- c. communicate to SEBI, the status of the implementation of the provisions of this circular in their Monthly Development Reports.

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

Yours faithfully,

Debashis Bandyopadhyay

General Manager

Market Intermediaries Regulation and Supervision Department

Encl. : Annexure

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. Bank account(s) which hold own funds of the stock broker shall be named as "Name of Stock Broker - Proprietary Account".
 - 1.2.3. Demat account(s) which hold clients' securities shall be named as "Name of Stock Broker- Client Account".
 - 1.2.4. Demat account(s), which hold own securities of the stock broker, shall be named as "Name of Stock Broker-Proprietary Account".
 - 1.2.5. 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".

1.2.6. Demat account(s) held for the purpose of settlement would be named as " Name of Stock Broker - Pool account".

1.2.7. Bank account(s) held for the purpose of settlement would be named as " Name of Stock Broker - Settlement Account"

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

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 existing demat accounts maintained by stock brokers are assigned the appropriate nomenclature as mentioned above, within three months from the date of this circular.

2.3.2. All existing bank accounts maintained by stock brokers which do not have the above mentioned nomenclature, shall be assigned appropriate nomenclature, within six months from the date of this circular.

2.3.3. Details of all existing bank and demat accounts shall be communicated to Stock Exchanges by the stock brokers in the format specified above within one month from the date of this circular.

2.3.4. 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.

2.3.5. 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.

2.3.6. 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.

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

2.3.8. 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. This pledge can occur only with the explicit authorization of the client and the stock broker needs to maintain records of such authorisation. Pledge of such securities is permitted, only if, the same is done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations,1996. To strengthen the existing mechanism, the stock brokers shall ensure the following:

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 the clients as and when their securities are pledged/unpledged as given below:

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

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

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.

2.7. The above requirements mentioned under paras 2.4 to 2.6 shall be applicable within three months from the date of this circular.

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. Stock brokers shall submit the following data as on last trading day of every week to the Stock Exchanges on or before the next trading day:
 - 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 corporations 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 corporations and/or clearing member (across Stock Exchanges)
- F-** Aggregate value of Non-funded part of the BG across Stock Exchanges
- P -** Aggregate value of Proprietary Margin Obligation across Stock Exchanges
- MC -** Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges
- MF-** Aggregate value of Unutilized collateral lying with the clearing corporations 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 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 mis-utilisation 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 put in place the aforesaid monitoring mechanism within three months from the date of this circular and 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 vide Circular MIRSD/DPSIII/Cir-26/08 dated August 22, 2008 had 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. Stock Exchanges shall issue detailed guidelines regarding the above before March 31, 2017.

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-a-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 five years.

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.

4.7. The above mentioned additional requirements with respect to Internal Audit shall be applicable for half year from April 01, 2017 to September, 30, 2017 and onwards.

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:

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

d. Percentage change in inter corporate deposits given over last year/submission

5.1.2. Financial Ratios:

a. (Total outside liabilities i.e. all liabilities of a broker except those owed to his shareholders) / (Net worth)

b. (Value of Investments or advances or loans to group companies or associates or firms or entities) / (Net worth)

c. (Value of maximum outstanding inter corporate debt during the year) / (Net worth)

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

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—

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

b) 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 (a) 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. An statutory audit firm which has completed its term under clause 5.3 (b) 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:

5.7. The above provisions shall be applicable from April 01, 2017

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

- 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 non-compliance with the illustrative criteria listed above. Provided further that Stock Exchanges and Depositories may also frame more stringent criteria than as mentioned above.

6.1.4. The above provisions shall be applicable 3 months from the date of this circular.

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

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 (as on last trading day of the month) consolidated ISIN wise (i.e., total number of ISINs and number of securities across all ISINs)
- 7.1.3. For every client, number of securities pledged, 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 days of the last trading day of the month.
- 7.2. Each Stock Exchange shall in turn forward this information to clients via Email and/or SMS on the email IDs and mobile numbers uploaded by the stock broker to the Exchange for their clients.
- 7.3. The above provisions shall be applicable three months from the date of this circular.

8. Running Account Settlement

8.1. In partial modification of circular on running account settlement, 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.

8.2. The above provisions shall be applicable 3 months from the date of this circular.

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

* cash equivalents contains other components of collateral deposited by the stock broker, such as, FD, bank Guarantee etc excluding the Non- cash component. If **G is negative**, then there is utilization of clients' funds for other purposes i.e. either funds of credit balance clients are being utilized for settlement obligations of debit balance clients or for the stock brokers' own purposes. The difference has following two components:

Component I: Use of fund of one client for giving exposure to another client

Component II: Use of client fund for own purposes by stock broker

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

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

Table 2

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

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

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

Table 3

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

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