

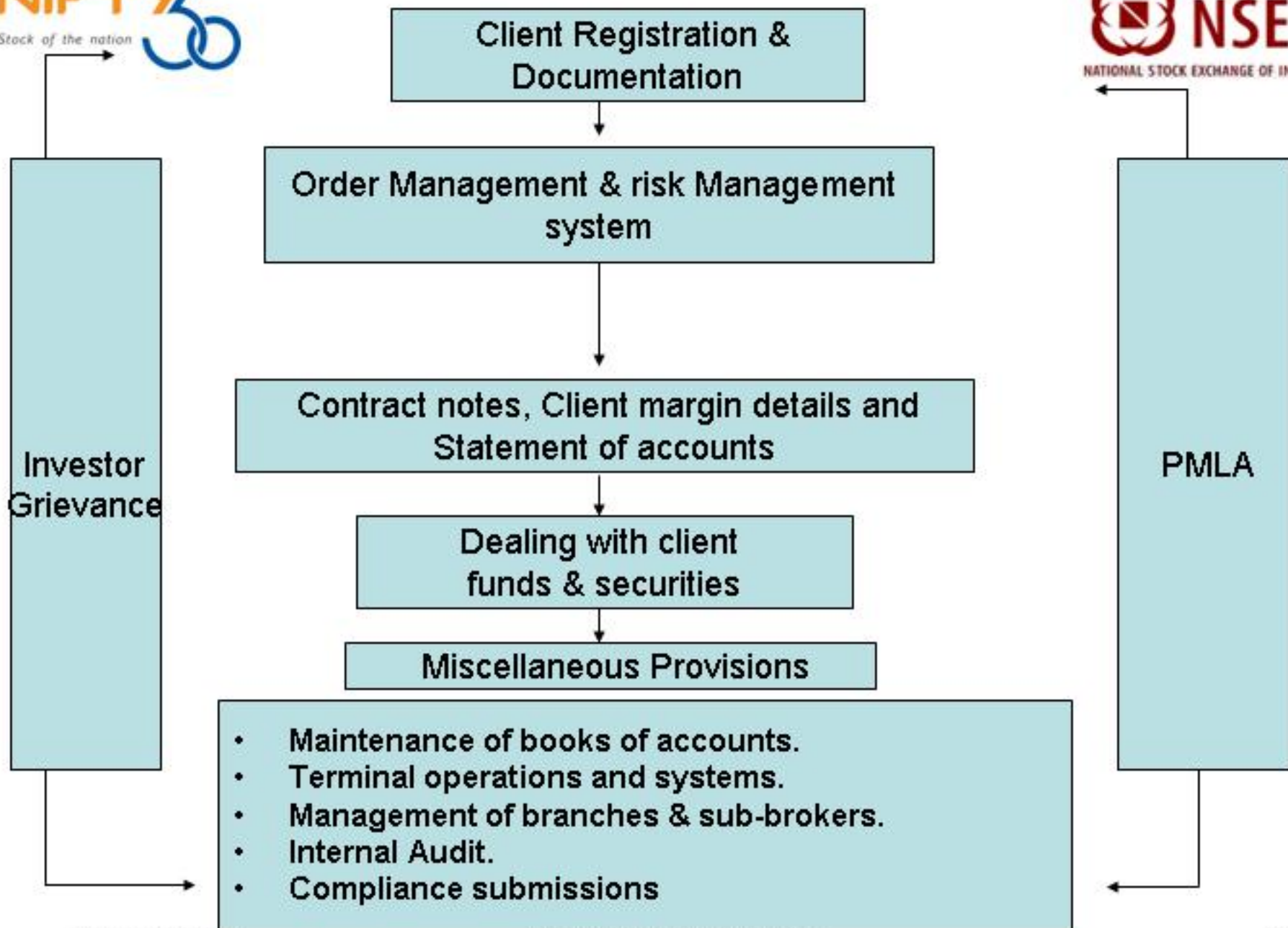


# NATIONAL STOCK EXCHANGE OF INDIA LIMITED



**Compliance Training Program for Trading Members**

**March, 2014**





## Trading Account Opening :

- SEBI has devised the uniform documentation to be followed by all the stock brokers / trading members
- *Uniform documentation contains:*
- **Mandatory documents**
  - Know your client form capturing the basic information about the client
  - Documents capturing additional information about the client related to trading account.
  - Document stating the Rights & Obligations of stock broker, sub-broker and client for trading on stock Exchanges.
  - Uniform Risk Disclosure Documents
  - Guidance Note detailing Do's and Don'ts for trading on exchanges
  - Document describing Policies and Procedures of Stock Brokers
  - Document detailing the rate\amount of brokerage and other charges levied.
- **Voluntary Documents /Additional Documents**

Any additional clauses/documents included , shall not be in contravention of any of the clauses specified by SEBI and also the Rules, Regulations, Articles, Bye laws , directives and guidelines of SEBI and Exchanges.

- *All the client documents pertaining to client registration shall be printed in minimum font size of 11*
- *Copy of all the documents executed by client shall be given to client , free of charge with in 7 days from the date of execution of documents by the clients.*



# **In-Person Verification**

- It shall be the responsibility of the stock broker to ensure in-person verification.
- Sub-brokers/Authorised Persons can perform IPV.
- Name of the Person doing In-Person verification, designation, organization, signature, date are to be recorded.
- The IPV carried out by one SEBI registered intermediary can be relied upon by another intermediary.
- In case of NRI clients, attestation of KYC documents by Notary Public, Court, Magistrate, Judge, Local Bankers, Indian Embassy/Consulate General in the country where the client resides may be permitted

## **Clients financial information**

***For derivatives segment , Trading Members are required to obtain documentary evidence in support of financial information provided by the Client.***

### **List of Illustrative documents**

1. Copy of ITR Acknowledgement
2. Copy of Annual Accounts
3. Copy of Form 16 in case of salary income
4. Net-worth certificate
5. Salary Slip
6. Bank account statement for last 6 months
7. Copy of Holding statement of de-mat account
8. Any other relevant documents substantiating ownership of assets
9. Self declaration along with relevant supporting

***For segments other than derivative segment trading members are required to obtain documents in accordance with its risk management policy***

***Trading members are required to ensure periodic review (at-least annually) of clients financial information and if any changes are observed with respect to client's last submission ,trading member is required to collect documentary evidence pertaining to client's current financial information.***

## **KYC – Recent Circulars**

- Aadhaar Letter issued by UIDAI shall be admissible both as Proof of Identity and Address.
- Intermediaries may verify the PAN of their clients online at the Income Tax website without insisting on the original PAN card, provided that the client has presented a document for Proof of Identity other than the PAN card.
- SEBI has clarified that the KYC (Account Opening Process) is applicable to institutions or FIIs.
- 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 sufficient proof of Identity and Address of the client.
- The above shall be allowed only if the client has authorized the intermediary to access his data through UIDAI system.

# **KYC – Recent Circulars**

- Modification of **Part I i.e Annexure-2** (containing the basic KYC details of the investor) of the client registration document.
- Certain information related income, occupation, net worth etc. of the client contained in Section C of Part I of the registration document have been shifted to Part II (containing additional information specific to dealing in the stock exchange(s)) of the Account Opening Form.
- Revised format to be implemented not later than six months from the date of circular.

*---Exchange Circular dated December 26, 2013NSE/INSP/25392---*



- KRA requirements are applicable for all the clients of stock brokers/depository participants, without any exemption to any category of clients like institutions or FIIs.
- 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 and furnish the **scanned images** of the KYC documents to the KRA immediately not exceeding 10 working days from the date of execution of documents by the client and retain the physical KYC documents.
- The intermediary, shall furnish the physical KYC documents or authenticated copies thereof to the KRA, whenever so desired by the KRA.
- It shall be the responsibility of the Trading Member to check whether KYC details of a new client is already available in the KRA database.
- Download / fetch KYC information from KRA system for such clients who are already registered with KRA.
- The client who has already done the KYC with any SEBI registered intermediary need not undergo the same process again when he approaches another intermediary.



- **Format of Contract note for Negotiated trades in debt segment issued.**  
*Exchange circular NSE/INSP/24937 dated November 8, 2013*
- **Format of Common contract note across Exchanges and segments introduced.**  
*Exchange circular NSE/INSP/25030 dated November 18, 2013 and NSE/INSP/26233 dated Mar 20, 2014*
- **Revised format to be implemented not later than June 02, 2014**
- **Trading members shall issue the contract note for purchase/sale of securities to a client with in 24 hours of the execution of the contract.**
- **In case of equity segment all the institutional trades mandatorily needs to be processed through STP system.**
- **Where Contract notes have been issued at weighted average price, separate Annexure to the contract note to be issued to the clients containing details of all individual trades for a given order for which a weighted average price (WAP) is provided in the contract note.**

*Contd.....*

**1. Whether the Contract No. will be the same for all the Exchange segment or it will as per current process.**

- There shall be unique serial number across the segments and Exchanges.

**2. SEBI Registration is different for all The Exchange and in given format, provision has been provided only for one. Should we display all the exchange SEBI Reg. No. and how to display on Contract Note?**

- Yes, Should display all the Exchange SEBI Registration Numbers. You can incorporate the same in the field where the SEBI registration has been asked in the format.

**3. Is there a need to show B/F trades in Case of Option Derivatives**

**-Details with respect to brought forward trades are not required to be shown for Option Contracts?**

**4. Trading/ Back Office Code (If Different from UCC) : This field is required exchange/segment wise or not. - Yes, it is required Exchange & Segment wise.**

## **Electronic Contract Notes (ECN)**

- The digitally signed ECNs may be sent only to those clients who have opted to receive the contract notes in an electronic form.
- Trading member shall send ECNs to appropriate email id created/provided by the client.
- The proof of delivery i.e., log report generated by the system at the time of sending the contract note shall be maintained by the Trading Member.
- In addition to ECN trading member shall simultaneously publish the ECN on his designated web-site in a secured way and enable relevant access to the clients.

**Issuance of ECNs as a legal document using Straight Through Processing (STP) to the equity derivatives segment**



## Margin calls

- ☐ In case member has made margin calls to the clients and the client has failed to comply, then the contract note issued to the clients for the trades executed due to non-compliance by the client should bear a remark specifying the same.
  
- ☐ Members are required to maintain a verifiable records of making such margin calls and that the clients did not comply to the same

*—SEBI Circular CIR/MRD/ICC/30/2013 dated September 26, 2013—*

**Margin details are to be issued to client on daily basis for both Cash and Derivatives Market.**

Daily Margin to mention Name, Email ID , Telephone No: and address of compliance officer.

## **Minimum information to be included in the Margin statement**

- Details of collateral deposited.
- Collateral utilized.
- Collateral status (available balance /due from clients ) with break up in terms of cash, Fixed Deposit receipts (FDR's) , Bank Guarantee and securities.

# Daily Margin Statements

Client Code:

Client Name:

Exchange:

Segment	Trade day	Margins available till T day					Margin required by Exchange/NSCCL end of T day			Excess / Shortfall w.r.t. Requirement by Exchange / NSCCL	Additional Margin required by member as per RMS	Margin Status (Balance with Member / Due from client)
		Funds	Value of Securities (after haircut)	Bank Guarantees / FDR	Any other approved form of Margins*	Total Margins Available	Initial Margin	Exposure Margin	Total Margin			
		A	B	C	D	E= (A+B+C+D)	F	G	H=(F+G)	I=E-H	J	K=(I-J)

\*approved form as may be specified by the Exchange/NSCCL from time to time

Notes:

1. Daily Margin Statement to be issued within one working day from T day
2. Daily Margin statement to mention the name, email id, telephone number and address of compliance officer
3. Detailed exhibits for the margin collected may be provided to the clients. In case of securities (scrip name, qty, value ) Bank Guarantee (BG no, amount, expiry date) and FDR's (FDR No., Amount and Maturity date)



If the value of pre-funded instruments (Pay Order, Demand Draft, Banker's cheque etc.) is Rs. 50,000/- or more, per day per client, the stock brokers may accept the instruments only if the same are accompanied by proofs like

1. ***Certificate from the issuing bank on its letterhead or on a plain paper with the seal of the issuing bank.***
2. ***Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument***
3. ***Certified copy of the passbook/bank statement for the account debited to issue the instrument***
4. ***Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument***

Members should also maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only.

## **Settlement of funds & Securities**

- The Trading Member shall make pay out of funds or delivery of securities, as the case may be, to the Constituent within one (1) working day of receipt of the payout from the Exchange unless trading member has taken running account authorization in the prescribed format
- Trading member shall pass corporate benefits like dividend, rights, bonus, split, etc. to clients within reasonable time.

## **Running account authorization**

- Authorization shall contain a clause , stating that client can revoke authorization any time.
- Authorization shall be signed by the client only & not by any POA holder.

## **Monthly/Quarterly settlement for funds & securities**

- Actual settlement of funds and securities shall be done by the broker across Exchange and segments , at least once in a calendar quarter or month depending on preference of the respective client.
- For calculation of "funds expected to be required to meet margin obligation for next 5 trading days" it is clarified that
  - In respect of derivative market transactions, apart from margin liability as on the date of settlement, trading member may retain additional margins (maximum up-to 125% of margin requirement on the day of settlement) to take care of any margin obligation arising in next 5 days.
  - In respect of cash market transactions, trading member may retain entire pay-in obligation of funds & securities due from clients as on date of settlement
  - Member may retain an amount up to Rs. 10000/- for the client (net amount across segment and across exchanges, after taking written consent of the client.)

(The above threshold limit on retention of amount shall not be applicable in case of clients who have not traded even once during the last one month/quarter)
- No inter-client adjustment for the purpose of settlement of the "running account".
- Not applicable to institutional clients settling trades through "custodians"



## **FAQs- Monthly/Quarterly Settlement of funds & settlement**

- Obtaining of authorization from the clients to the effect that no settlement need be done for particular month(s) / quarter(s) is contradictory to the SEBI requirement and hence not permissible.
- In case the member issues cheques in favor of the client, settlement will be deemed to have been done only if such cheques is cleared within a reasonable period
- Statement of accounts for funds & securities to be send at the time of settlement along with an extract statement explaining the retention of funds / securities.
- Statement of accounts for funds & securities as well as retention statement sent to the clients at the time of settlement as a part of settlement process, would be considered adequate compliance for the purpose of sending quarterly statement of accounts for funds / securities.
- Margin received in the form of Bank Guarantees and Fixed Deposit Receipts which are created by clients need not be settled.

## **Statement of account for funds & securities**

- Trading members are required to issue quarterly/monthly (as consented by client) for both funds and securities.
- Statement of accounts should contain error reporting clause.
- Periodical statement of accounts to the clients, shall mention therein that their running account authorization would continue until it is revoked by the clients.
- Earlier requirement of sending of quarterly statement of accounts for funds & securities as SEBI UDR Circular dated Aug 26<sup>th</sup> , 2004 may not be additionally applicable in cases wherein stock broker is sending statement of accounts for fund & securities quarterly/monthly (as applicable) at the time of settlement as per the revised SEBI circular dated Dec 03<sup>rd</sup> 2009 MIRSD/SE/Cir-19/2009

## **Display of Details by Stock Brokers** **(including Trading Members)**

What to display	Where to display
<p>Stock broker may use the brand name / logo of its group companies, it must display more prominently its</p> <p>(a) Name as registered with SEBI,  (b) Own logo, if any,  (c) Registration number, and  (d) Complete address with telephone numbers</p>	<ul style="list-style-type: none"> <li>❖ Portal / web site, if any,</li> <li>❖ Notice / display boards, Advertisements,</li> <li>❖ Publications,</li> <li>❖ Know your client forms,</li> <li>❖ Member client agreements</li> <li>❖ Contract notes,</li> <li>❖ Statement of funds and securities, and</li> <li>❖ correspondences with the clients</li> </ul>
<p>(a) The name of the compliance officer, his telephone number and e-mail address</p>	<ul style="list-style-type: none"> <li>❖ Contract notes,</li> <li>❖ Statement of funds and securities, and correspondences with the clients</li> </ul>



## **Order Management & Risk Management System**

***The broker member should maintain record of time when the client has placed the order and reflect the same in contract note along with the time of execution of the order***

### **Comprehensive Risk Management System (Capital Market)**

Members should have a prudent system of risk management to protect themselves from client default. Margins are likely to be an important element of such a system. The same shall be well documented and be made accessible to the clients and the Stock Exchanges. However, the quantum of these margins and the form and mode of collection are left to the discretion of the members.

## **Margins from Constituents (Derivatives Segment)**

Clearing Members and Trading Members are required to collect **upfront initial margins** from all their Trading Members/ Constituents. Trading member can report client margin details to **clearing corporation up-to T+5 day.**( here 'T' is the trade date).

**In case of currency derivative segment it is mandatory for members to collect initial margins and extreme loss margins from their client/constituent on an upfront basis.**

- Daily reporting of Margins Collected
- Non reporting would be considered as 100 % shortfall
- Penalty would be imposed in case of shortfall
- Wrong reporting (Considered as serious violation with stringent disciplinary actions)

Marked to Market (MTM) settlement needs to be settled up-to T+1 (T= trade date) day in cash.

Clearing members and trading members are required to collect margin from trading members / constituents in the mode as prescribed by NSCCL.

Clearing Members to report details of margins levied on the proprietary account of Trading Members through MG-12.

## *Clarification regarding Margin Reporting*

### Member may consider:-

- Funds / securities in the clients bank / DP account of the client for which the client has given POA in favor of the member
- Bank guarantees and Fixed deposits received towards margin, issued by approved banks and discharged in favour of the member.
- Government securities and Treasury bills, Units of mutual funds in dematerialized / electronic form and any other such collaterals, as may be specified by Clearing Corporation from time to time
- Free and unencumbered Balances (funds and securities) available with the member of respective client in **different segments of the Exchange**
- Free and unencumbered Balances (funds and securities) available with the member of respective client in **different segments of any Stock Exchange** subject to certification by independent Chartered Accountant with specific authorization from the client



## **Clarification regarding Margin Reporting**

- Value of securities (with appropriate haircut) in dematerialized form traded on the National Exchanges, which are specifically not declared as illiquid securities
- Margin collected/available in approved form from entities related to the client and certified by independent professionals
- Cheques received / recorded in the books of trading member on or before T day and deposited by member by T+1 day (excluding bank holiday, if any) and cleared subsequently
- Members should ensure that only cheques which are cleared should be considered and cheques dishonored or not cleared up to T+5 working days should not be reported as margin collected.



## **Risk Management**

### **Limit setting for execution of orders**

- Trading Members shall inter alia put in place limits for:
  - Quantity limit for each order
  - Value limit for each order
  - User value limit for each user ID
  - Branch value limit for each branch ID
  - Security wise limit for each user ID – for CM (Optional)
  - For FO and CD, Spread order Quantity and Value Limit
- Compliance officers shall submit a certificate to the Exchange on a quarterly basis regarding compliance of above
- System Auditor shall confirm that the systems and system records are maintained as prescribed.

## *Risk Management*

- Trading member not to deal with unregistered intermediaries for transactions on the Exchange. Members to be alert wherein entities buy shares on behalf of multiple unrelated clients having different addresses through its trading account and then transfer the same back to them in off market mode and vice-a-versa in case of sale.
- **Surveillance Obligations for Trading Members**
  - ✓ Various transaction alerts based on the trading activity on the Exchange being downloaded by the Exchange  
ENIT>Compliance>Exchange>Investigation department>Transaction alerts
  - ✓ Member to have adequate surveillance policy in this regard which has been approved by its Board / Partners / Proprietor.
  - ✓ Trading Members are required to carry out the Due Diligence of its client(s) on a continuous basis.
  - ✓ Key KYC parameters needs to be updated on a periodic basis and latest information of the client is updated in UCC database of the Exchange. Based on this information the Trading Member shall establish groups / association amongst clients to identify multiple accounts / common account / group of clients.

## **Risk Management**

### **Surveillance Obligations for Trading Members**

- ✓ In case of alerts, Members to seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.
- ✓ Seek documentary evidence to satisfy itself.
- ✓ After analyzing the documentary evidences, including the bank / demat statement, the Trading Member shall record its observations for such identified transactions or Client(s) / Group of Client(s).
- ✓ In case of adverse observations, Member shall report all such instances to the Exchange within 45 days of the alert generation.
- ✓ Member to maintain adequate details regarding number of alerts generated / downloaded, disposed off and pending along with reasons for pendency
- ✓ Internal auditor shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit and record the observations with respect to the same in their report.



# **Risk Management**

## **Indicative Transactional Alerts to be provided by the Exchange:**

<b>S.No.</b>	<b>Transactional Alerts</b>	<b>Segment</b>
1	Significantly increase in client activity	Cash
2	Sudden trading activity in dormant account	Cash
3	Clients/Group of Client(s), deal in common scrips	Cash
4	Client(s)/Group of Client(s) is concentrated in a few illiquid scrips	Cash
5	Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
6	Client / Group of Client(s) Concentration in a scrip	Cash
7	Circular Trading	Cash
8	Pump and Dump	Cash
9	Wash Sales	Cash & Derivative
10	Reversal of Trades	Cash & Derivative
11	Front Running	Cash
12	Concentrated position in the Open Interest / High Turnover concentration	Derivative
13	Order book spoofing i.e. large orders away from market	Cash

***Members may also formulate their own alerts in addition to the above.***



## **Risk Management**

### ➤ **Risk Reduction Mode**

Stock brokers shall be mandatorily put in *risk-reduction mode* when 90% of the stock broker's collateral available for adjustment against margins gets utilized on account of trades that fall under a margin system. Such risk reduction mode shall include the following:

- (a) All *unexecuted orders shall be* cancelled once stock broker breaches 90% collateral utilization level.
- (b) Only orders with *Immediate or Cancel* attribute shall be permitted in this mode.
- (c) All new orders shall be checked for sufficiency of margins.
- (d) Non-margined orders shall not be accepted from the stock broker in risk reduction mode.
- (e) The stock broker shall be moved back to the normal risk management mode as and when the collateral of the stock broker is lower than 90% utilization level.

## **Recent Circulars on Risk Management**

- *Exchange circular NSE/COMP/21990; 21991; 21992 dated October 23, 2012.*
- *Exchange circular NSE/SURV/22310 dated December 14, 2012*
- *Exchange circular NSE/INVG/22908 dated March 7, 2013*
- *Exchange circular NSE/ISC/24570 September 27, 2013*

- CTCL terminals need to be located only in the office of the Trading Member or in the office of their registered sub-brokers.
- CTCL terminal is at a place which is not the office of their registered sub-broker, such a place shall be deemed to be the office of the Trading Member.
- No extension of NEAT terminal without prior approval of the Exchange.
- Trading terminal to be operated by approved persons only.
- Upload of CTCL terminal to the Exchange before activation.
- All information to be correctly uploaded in the prescribed format particularly user name, location of the terminal and CTCL id.
- Any change in the uploaded details to be immediately uploaded to the Exchange.
- Due diligence to be exercised while allotting trading terminal and prevent misuse.
- PRO trading to be done only from trading terminals enabled for PRO trading.

*Contd....*



## **A) NISM-Series-VII: Securities Operations and Risk Management Certification Examination**

category of associated persons who are involved in, or deal with any of the following :-

- (a) assets or funds of investors or clients
- (b) redressal of investor grievances
- (c) internal control or risk management
- (d) activities having a bearing on operational risk

Members who employ any associated persons as specified, after the date of this notification shall ensure that the said associated persons obtain valid certification within one year from the date of their employment

## **B) NISM- Series- VIII: Equity Derivative Certification Examination.**

Associated persons functioning as **approved users and sales personnel** of an equity derivative segment of a recognized stock exchange

- ✓ associated persons who are approved users or sales personnel as on the date of this notification shall obtain certification by passing EDCE within two years from the date of this notification
- ✓ associated person who is an approved user or sales personnel, after the date of this notification, shall ensure that such person obtains certification by passing EDCE within one year from the date of his employment.

***Exchange Circular dated January 24<sup>th</sup> , 2013; NSE/INSP/22613***

**c) NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination (SICCE)** as mentioned in the NISM communiqué No. NISM/Certification/Series-III A: SIC/2013/01 dated January 7, 2013.

- All such intermediaries shall ensure that associated persons functioning as compliance officers as on the date of this notification obtain certification by passing SICCE within two years from the date of this notification

- Provided that an intermediary, who engages or employs any such associated persons functioning as compliance officer after the date of this notification, shall ensure that such person obtains certification by passing SICCE within one year from the date of his employment.

*----Exchange's circular NSE/INSP/22924 dated 12-Mar-2013----*

#### **D) NISM- Series-IV: IRD Certification Examination**

- Approved users and sales personnel of the trading members who are registered in the currency derivatives segment of a recognized stock exchange and trading in interest rate derivatives

- With in two years from the date of this notification

- Employed after the date of notification within a period of one year

*----Exchange's circular NSE/INSP/25617 dated 12-Jan-2014----*

- Trading member should have a well-documented error policy to handle client code modifications, approved by their board/management.
- No Transfer of trades from PRO to client and vice versa.
- No transfer of trades from one client to another.
- Online code modifications/ non-institutional trades only to rectify a genuine error in entry of client code at the time of placing / modifying the related order.
- Shifting of any trade (institutional or non-institutional) to the error account of the trading member shall not be treated as modification of client code
- Trading members would be required to disclose the client codes which are classified as 'Error Accounts' to the Exchange at the time of UCC upload.



As per rule 8 (1)(f) and rule 8(3)(f) of securities Contract (Regulation) Rules, 1957

*“Trading member should not be engaged as principal or employee in any business other than that of securities.”*

As per SEBI Circular dated May 07, 1997 SMD/POLICY/Cir-6/97

*“It has been opined that 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).”*

- TM not to be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any other person financing such clients
- TM not to entertain any instructions to trade or transfer funds or securities from any other entity other than the clients to facilitate financing

*Contd.....*

## **Clarification on Treatment of debit balances in clients account**



Clarification to the provisions of Rule 8 (1)(f) and Rule 8 (3)(f) of SCRR and Regulation 3.11 of Part A of the Capital Market Regulations of the Exchange.

### ***Scenario wherein debit balances in clients account would not be construed as violation relating to funding***

- If debit balance arises out of client's failure to pay such amount for less than fifth trading day reckoned from date of pay-in.
- If debit balance arises out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and no further exposure is granted to client from the sixth trading day reckoned from the date of pay-in.

### ***Scenario wherein debit balances in clients account would be construed as violation relating to funding***

- If debit balances arise out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client

## ***Clarification on Treatment of debit balances in clients account...cont.....***

- ▶ **Delayed Payment Charges or interest charge for the funds deployed by the member may be charged at the rate/s consented by the client**
  
- ▶ **If subsequently any complaint is received regarding selling of collaterals for recovery of debit balance, as per the Regulation 3.11 of Part A Capital Market Regulations of the Exchange quoted above, the securities shall be deemed to have been closed out at the closing price declared by the Exchange for fifth trading day reckoned from the date of pay-in.**



## **OUTSOURCING OF ACTIVITIES**

- Core Activities not to be outsourced eg. execution of orders and monitoring of trading activities (RMS)
- Compliance function

### **Other Obligations of the members while outsourcing activities**

- Prepare comprehensive policy for activities to be outsourced
- Due diligence of third party and monitoring of performance
- Written contract, terms of performance and confidentiality
- Plans for disaster recovery and back up

## ***Applicability of PMLA***

- “ Provisions of PMLA are applicable to every banking company, financial institution and intermediary (includes a stock broker, sub broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, asset management company, depository participant, merchant banker, Investment adviser and any other intermediary associated with the securities market and registered under section 12 of SEBI Act,”

These AML requirements are also applicable to intermediary branches and subsidiaries located abroad.

Irrespective of amount of investment , no minimum threshold or exemption is available to registered intermediary from obtaining the minimum information/documents from clients as stipulated in the PML rules/SEBI circulars

No exemption from carrying out CDD exists in respect of any category of clients.

In addition to the Principal Officer the registered intermediaries shall also designate a person as a ' Designated Director '.

## **Policies & Procedures**

- Ensure complete understanding of policies & procedures to relevant employees-training
- Communicate group policies to relevant persons at branches, department and subsidiaries also.
- Written procedures to include client due diligence process including three specific parameters:
  - Policy for acceptance of clients
  - Procedure for identifying clients.
  - Risk Based Approach
  - Transaction Monitoring & Reporting.



## **Suspicious customer identification circumstances**

- Unusual or suspicious identification documents
- Unwilling to provide personal background information
- Without references & local address
- Address is outside service area
- Reluctant to provide service / business details
- Refuses to identify a legitimate source for funds
- False or misleading information

## **Alert generation & continuous monitoring**

- System for monitoring transaction of clients
- Identify and generate alerts
- Payment through DD/ Cash/NEFT/RTGS to be closely monitored. Analysis of such alerts generated.
- Use of complete KYC information including details of occupation and financial status at the time of analyzing alerts.
- Reporting of suspicious transactions to FIU-IND

## **Record Keeping**

- Member to keep records for 5 years (earlier requirement was 10 years).
- Records related to Complex/ High value large transactions to be preserved till 5 years(earlier requirement was 10 years).
- Records related to investigations to be kept for 5 years from the date of the transaction between the client and the intermediary (earlier requirement was until it is confirmed that the case has been closed).

<b>Internal Audit Report</b>	<b>Within 3 months from the end of 31<sup>st</sup> March &amp; 30<sup>th</sup> Sept every year</b>
<b>Annual Returns</b>	<b>Within 6 months from the end of the financial year</b>
<b>Half Yearly Net worth</b>	<b>Within 3 months from the end of the half year</b>
<b>Mandatory Insurance Cover</b>	<b>By the 31<sup>st</sup> of July for the period June to May</b>
<b>Monthly Client Funding Reporting</b>	<b>By the 7<sup>th</sup> of the following month</b>
<b>Half Yearly Net worth – MTF Compliance</b>	<b>Within 1 month from the end of the half year</b>
<b>Annual System Audit for NNF facility</b>	<b>Within one month from the end of the financial year</b>
<b>Half Yearly System Audit for Algorithmic Trading facility</b>	<b>Within one months from the end of 31<sup>st</sup> March &amp; 30<sup>th</sup> Sept every year.</b>



## **SMS and Email Alerts**

### ***Uploading of Mobile number and E-mail address by stock brokers***



For clients who wish to opt for the facility, stock broker shall ensure

- ▶ to upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.
- ▶ that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.
- ▶ that separate mobile number/Email 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.
- ▶ Wef. October 15th, 2012, Exchange to provide details of the transactions via SMS/E Mail to all the retail investors by the end of the day. ( Circular No. NSE/INV G/21841 dated October 04th, 2012)

## **Facility for PAN - Client Query and Inactive Traded Clients Report on UCI online**

- Facility to all the Trading Members to generate a report on the basis of PAN to check the clients registered by them on UCI online.
- Report would be downloaded to all members at EOD, where they have traded in a particular client code which has been marked as inactive by them.

*---- NSE/INVG/22487 dated January 4, 2013 ----*

- Members are required to upload Corporate Identity Number (CIN) of corporate clients registering w.e.f. June 1, 2012. Further, for existing bodies corporate clients the trading members are required to update the CIN details in UCC database by September 30, 2012.
- A facility for SMS and Email alerts for key information on Unique Client Code has been provided. Trading Members intending to use this facility may please log on the following path for registering : **UCI Online> Other Options> Contact Details.**
- Members can define their client status as "**Active**" or "**Inactive**" on UCI online through member portal. Trading Members can use this facility on the following path: **UCI Online > Client Details > Update Client Status**  
----Circular No. NSE/INVG/21588 dated August 31, 2012----
- Facility available where members can verify whether a PAN has been registered with other brokers of the Exchange. The said facility will only provide the status whether the client is registered with the other members or not .



## **Unique Client Code Non Submission Charges**

- It has been decided in coordination with SEBI and other Exchanges to levy charges of Rs.10,000/- per day per client code for execution of trade without registration of client code along with PAN till the date of registration of such code.
- Applicable with effect from November 1, 2012 and shall be levied on monthly basis.

## **Guidelines on Identification of Beneficial Ownership**

- SEBI 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.
- **Beneficial owner:-** 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.
- PMLR mandates intermediaries to identify the beneficial owner and take all reasonable steps to verify his identity.
- Specified a uniform approach to be followed towards determination of beneficial ownership.

----- *Exchange Circular dated January 24<sup>th</sup>, 2013 NSE/INSP/22614* -----

## **Guidelines for dealing with Conflicts of Interest of Intermediaries**

As per SEBI CIR/MIRSD/5/2013 dated August 27, 2013, all intermediaries and associated persons are required to have Policies and internal procedures to identify and avoid or manage actual or potential conflict of interest.

- Maintain high standards of integrity
- Ensuring fair treatment of their clients and not discriminate amongst them
- Not deal in securities while in possession of material non published information
- Not in any way contribute to manipulate the demand for or supply of securities
- Make appropriate disclosure to the clients of possible areas of conflict of interest

Entities to comply with the same and bring their policies in line with the above within 6 months from the date of the circular.



## **Safeguards to avoid trading disruption - failure of software vendor**

TM's are advised to take the following measures:

- Explore the possibility of establishing a 'software escrow arrangement' with their existing software vendors.
- 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.
- Consider including the following in their contracts with the software vendors:
  - (i) access to documents related to design and development specifications in the event of software vendor fails to provide timely services to the stock broker
  - (ii) appropriate training with regard to software usage and maintenance
  - (iii) appropriate penalty clauses on account of (a) software vendor failing to provide timely services to the stock broker or (b) glitches to the software provided by the software vendor
  - (iv) obligation on the part of the software vendor to cooperate in case of audit of software

## **Clarification on Pre-paid schemes**

- Terms & conditions of schemes relating to advance collection of funds towards brokerage and other allied services must be properly documented
- Positive confirmation of the clients for availing such services/schemes must be obtained.
- Where the funds are collected in advance under the pre-paid schemes, the broker must ensure that the brokerage charged should not exceed the amount specified under the exchange byelaws.

## **Other Changes**

- ❑ Revised format of contract notes for CM, FO & CD (**Exchange Circular no. NSE/INSP/25030 dated Nov 18, 2013 and NSE/INSP/26233 dated March 20, 2014**)
- ❑ Revision in file structure for submission of data in respect of Unique Client Code. Format of file structure has been prescribed with the additional details which is to be captured. (W.E.F July 01, 2013). **Exchange Circular no. NSE/INVG/22916 ,23264, 23309 dated March 11, 2013 ,April 23, 2013 and April 30, 2013 respectively.**
- ❑ List of violations and applicable penalties (CM, WDM, F&O and CD Segments) ( **Exchange Circular no. NSE/INSP/23768 dated June 27, 2013** )
- ❑ Changes in relation to Securities Transaction Tax is effective from June 1, 2013 on transactions done at exchange . ( **Exchange Circular no. NSE/FATAX/23500 dated May 24, 2013** )
- ❑ Daily Provisional CTCL Mismatch report being provided at EOD through Member portal to enable members to take immediate corrective action and avoid penalty charges  
Link : **<https://www.connect2nse.com/MemberPortal>ENIT>Exchange >CTCL>Provisional CTCL>**  
(**Exchange Circular no. NSE/INSP/23739 dated June 24, 2013** )



## ***Some Best Practices***

AREA	BEST PRACTICES	BENEFITS
<b>Branches/Sub Broker/AP</b>	<ul style="list-style-type: none"> <li>• Conduct frequent inspection of branches, sub brokers and APs to specifically check for any unregistered activities. Inspections being done once in three years.</li> <li>• Conduct regular investor compliance programs at such locations.</li> <li>• Proper process for branch/sub broker discontinuation, including advance information to clients and obtaining their consent for account shifting.</li> </ul>	<ul style="list-style-type: none"> <li>• Will result in lesser number of complaints and irregular trading activities.</li> <li>• Better awareness to clients at these locations</li> <li>• Clients can come to know of the closure and if they wish can opt for some other branch or TM.</li> </ul>
<b>Dealing with Clients</b>	<ul style="list-style-type: none"> <li>• In case of internet clients, sending user ID and transaction password separately thru different letters.</li> <li>• In case TM comes to know about trades in any inactive client codes, he immediately verifies and seeks clarification.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensures no unauthorized use of internet trading facility.</li> <li>• Better management of clients with debit balances and those defaulting</li> </ul>

## ***Some Best Practices***

AREA	BEST PRACTICES	BENEFITS
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>Member classifies dealers on the basis of experience and limits allotted to them and review the same on a continuous basis.</li> </ul>	<ul style="list-style-type: none"> <li>A new and less experienced dealer shall have a lower trading limit compared to a more experienced dealer. This will reduce chances of punching errors.</li> </ul>
<b>Trade Related</b>	<ul style="list-style-type: none"> <li>All client code punching errors identified after the online modification time are modified in back office to the error account only and no client to client transfers done</li> </ul>	<ul style="list-style-type: none"> <li>Violations on account of transfer of trades are eliminated.</li> </ul>

## **Compliance Training**

You can register for a compliance training session through our website through the following link:

**[www.nseindia.com](http://www.nseindia.com)**

**Home Page- Membership- Compliance for Trading Members- Compliance Training**

You can also specify a particular area for which you require training. Once registered you will be called for the next scheduled compliance workshop.



## Disclaimer

***Provisions mentioned in the presentation are indicative and not exhaustive. Regulatory requirements applicable as on date as per relevant acts, rules, regulations, byelaws and circulars of the SEBI and Exchange would apply.***



# THANK YOU