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UPDATED CONSOLIDATED CIRCULAR

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Item 1

CLIENT REGISTRATION

(1.1) Model formats of uniform set of documents

(Circular No. NSE/INSP/2004/31, download reference no. NSE/INSP/5387 dated August 27, 2004)

SEBI vide circular number SEBI/MIRSD/DPS-I/Cir-31/2004 dated August 26, 2004 has prescribed uniform documentary requirement for trading and has provided model formats of uniform set of documents namely (a) Client Registration Form (b) Member Client Agreement (c) Tripartite agreement among broker, sub-broker and client wherever applicable and (d) Risk Disclosure Document (e) Agreement between trading member and sub-broker.

Also the requirement of obtaining Client Registration Form is waived for SEBI registered Foreign Institutional Investor , Mutual Funds, Venture Capital Funds and Foreign Venture Capital Investors, Scheduled Commercial Banks, Multilateral And Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with the Insurance Regulatory Development Authority (IRDA) and Public Financial Institution as defined under section 4A of the Companies Act, 1956. Further the stock broker and these clients may at their discretion, decide about the requirement of entering into broker-client agreement and bringing the contents of Risk Disclosure Document to the notice of such clients.

(Circular No. 463, download reference no. NSE/MEM/5983 dated March 31, 2005)

This circular states that the requirement of trading members to execute tripartite agreements shall be implemented strictly from April 1, 2005. Any violation of the said requirements after such date would be viewed strictly, entailing appropriate action.

(Circular No. 472, download reference no. NSE/MEM/6142 dated May 13, 2005)

This circular states that the subsidiaries to the registered stock exchanges who are registered as stock brokers and their registered sub brokers shall also comply with the provisions of Securities and Exchange Board of India (Stock Brokers and Sub brokers) (Amendment) Regulations, 2003 and that subsidiaries of stock exchanges and their sub brokers are required to execute tripartite agreements and to comply with the said regulations from 01.06.2005.

(Circular No. NSE/INSP/2004/71, download reference no. NSE/INSP/11184 dated August 26, 2008)

This circular contains the model set of client registration documents for the currency derivatives segment.

The currently applicable model formats of client registration documents and trading member - sub broker agreement are attached as **(Exhibit-1: Annexure C)**

(1.2) Client Registration Procedure, Mandatory and voluntary clauses/ documents

(SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8th November 2010; SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3rd December, 2009); (Circular No. NSE/INSP/2006/52, download reference no. NSE/INSP/7657 dated July 5, 2006)

The stock broker shall register a client by entering into an agreement with him. For this purpose, the stock broker shall make available a folder /book containing all the documents required for registration of a client. The folder/book shall have an index page listing all the documents contained in it and indicating briefly significance of each document.

The folder/ book shall have two parts: (a) Mandatory and (b) Non-mandatory

<u>(a) Mandatory Documents</u>
a. Member Client Agreement (MCA)/Tripartite Agreement in case sub-broker is associated,
b. Know Your Client (KYC) Form
c. Risk Disclosure Document (RDD)
These shall be executed in the format as prescribed by SEBI.

There shall be a mandatory document dealing with policies and procedures for the following:

- Refusal of orders for penny stocks. (illiquid securities may be considered while defining penny stocks by TM)
- Setting up client's exposure limits
- Applicable brokerage rate
- Imposition of penalty / delayed payment charges by either party specifying the rate & the period. The same should not result in funding
- The right to sell client's securities or close client's position without giving notice to the clients on account of non-payment of client's dues limited to the extent of settlement / margin obligation.
- Internal Shortage
- Conditions under which a client may not be allowed to take further position or the broker may close the existing position
- Temporarily suspending or closing a client's account at the client's request, and
- Deregistering a client

<u>(b) Non-mandatory Documents</u>

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

- The clauses in the non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents, as also the Rules, Regulations, Articles, Byelaws, circulars, directives and guidelines of SEBI and Exchanges. Any such contravening clause shall be null and void.

1. Any authorization sought in non-mandatory part shall be a separate document and shall have specific consent of the client. Moreover, the trading member may also seek additional information so as to satisfy himself about the antecedents of the client.

Trading members are further advised to ensure the following:

(1) It may be noted that proper segregation of the mandatory and non-mandatory documents shall be made.
(2) All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11**.**
(3) At the time of registering a client, the client shall be informed in writing that only the documents i.e MCA /Tripartite agreement, KYC form, Risk disclosure documents and document dealing with policies & procedures as stated in the above mentioned circulars are mandatory and any additional clause or documentation shall be voluntary and at the discretion of the trading member and the client. No other term or condition should be included in the Mandatory document.
(4) Additional documents shall state at the beginning in bold that the document is voluntary.
(5) However, if such documents are required in order to ensure smooth functioning of special facility such as internet trading offered by the trading member, the client shall be informed in writing clearly that such documents are voluntary and the client need not execute such documents if he / she does not wish to use that facility.
(6) Such documents, if any shall also recognize specifically the right of the client to terminate the document. In such an eventuality, the trading member may terminate the special facility.
(7) The docket or folder containing draft mandatory documents for signing and the checklist containing mandatory documents shall not include draft voluntary documents, if any.
(8) No term of the agreement, other than those prescribed by SEBI, shall be changed without the consent of the client. Such change needs to be preceded by a notice of 15 days**.**
(9) The Client shall indicate the stock exchange as well as the market segment where he intends his trades to be executed. He shall do so in the KYC form in his own hand and sign against these.
(10) The KYC form shall capture the identity and the address of the introducer instead of his MAPIN/UID. The KYC form shall be modified to this extent.
(11) 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.

<u>List of Illustrative documents</u>

- Copy of ITR Acknowledgement

- Copy of Annual Accounts
- Copy of Form 16 in case of salary income
- Net-worth certificate

a. Salary Slip
b. Bank account statement for last 6 months
c. Copy of Holding statement of de-mat account
d. Any other relevant documents substantiating ownership of assets
e. Self declaration along with relevant supporting

(12) The Stock Broker shall also capture details of action taken against a client by SEBI or other authorities during the last 3 years.
(13) No documentation shall give any exclusive right or control to the trading member or third party over the DP account or ledger account or bank account of the client except to the extent of and restricted to the client's obligation to the trading member in respect of the transactions done or to be done (like up-front margin) by the trading member on behalf of the client on the Exchange.
(14) 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) In the case of existing clients, if the policies & procedures are not explicitly elaborated, TM should intimate the same to all clients & maintain the proof of dispatch or delivery. In case of internet clients, TM may provide the same electronically in a secured manner.
(16) It has been decided that 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 know your client forms, and member client agreements;

(1.3) Delivery of copy of duly completed Client registration forms

(SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3rd December, 2009); (Circular No. NSE/INSP/2008/67, download reference no. NSE/INSP/10872 dated June 23, 2008)

The Exchange is in receipt of complaints from investors regarding non-availability of copies of the documents executed by them for registration and it is observed that many disputes are related to the contents thereof. In order to facilitate investors to have access to the details provided by them to trading members at the time of registration of their accounts, the trading members are required to comply with the following:

1. 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.

2. The timeline of 7 days should start from the day of upload of UCC to the Exchange by the trading member

3. The trading code and the unique client code allotted to a client and the email id furnished by the client for the purpose of receiving electronic contract notes and other details, shall be communicated by the trading member through the KYC form or otherwise in writing to the clients.

4. Proof of such delivery/communication is to be maintained along with the registration documents pertaining to the clients. In respect of existing clients, the above mentioned documents and details may be provided upon request from such clients.

5. 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.

   It is clarified that the Trading members having their own website shall display the set of standard documents on the website for information.

(1.4) In-person verification of Clients by Stock Brokers

(Circular no. NSE/INSP/2008/68, download reference no. NSE/INSP/10938 dated 4th July 2008)

SEBI vide letter no. MIRSD/DPS-III/130466/2008 dated 2nd July 2008 has emphasized that it shall be the responsibility of the stock broker to satisfactorily identify his clients and to ensure in-person verification by his own staff while registering clients and keep complete audit trail for the same. SEBI has also mentioned that it would be stock brokers' responsibility to provide client details as and when required.

Accordingly, members are required to ensure 'in-person' verification by their own staff only while registering the clients, including clients of their branches and sub brokers, and that this function is not outsourced. Further the date of verification, name and signature of the official who has done in-person verification and the stamp of the member should be incorporated in the client registration form.

In case of 'In-person' verification of non-residents, the members may obtain from such clients KYC documents attested by any one of the following entities - Indian Embassy / Consulate General in the country where the client resides, Notary Public, Court, Magistrate, Judge or Local Banker.

(SEBI Circular SEBI/MIRSD/Cir. No. 02/2010 dated January 18, 2010, Exchange Download Ref. No.: NSE/INSP/13931, Exchange Circular No.: NSE/INSP/2010/90 dated January 19, 2010)

SEBI pursuant to its circular SEBI/MIRSD/Cir. No. 02/2010 dated January 18, 2010 has clarified that "in-person verification done for opening beneficial owner's

accounts by Depository Participants (DP) will hold good for opening trading account by a stock broker and vice versa, if the stock broker and the DP is the same entity or if one of them is the holding or the subsidiary company of the other.

(1.5) Allotment of Trading Codes

(Circular No. NSE/INSP/2007/63, Download No. NSE/INSP/2007/9859 dated 4th December 2007)

As per circular no. NSE/INVG/2004/016 (download reference no. NSE/INVG/2004/5487) dated 30th September 2004.

"For those investors who are required by applicable regulations not to buy or sell without adequate funds or securities to their credit before execution of transaction and whose transactions are to be settled by delivery only, the brokers may be permitted to allot upto two trading client codes (i.e. for their buy and sell transactions separately and so that each leg of transaction is treated separately and not netted). Both the trading client codes would be mapped to the same Unique Client Code for the client. STT liability for such entities is thus to be determined on the basis of transactions being required to be settled by delivery only."

It is reiterated that the requirement is to be complied in letter and spirit by all the trading members in respect of the eligible clients without exception, failing which the Exchange will take such disciplinary action as it may deem fit.

(1.6) Execution of Power of Attorney (POA) by clients in favor of stock broker / stock brokers

(Download Ref. No: NSE/INSP/14646, Circular No. NSE/INSP/2010/97 dated 26th April, 2010 and SEBI circular No. CIR/MRD/DMS/13/2010, dated April 23, 2010)

In order to standardize the norms to be followed by stock brokers / stock broker and depository participants while obtaining Power of Attorney from clients, following guidelines have been finalized by the SEBI vide the above mentioned circular.

Guidelines for execution of Power of Attorney by Clients favouring Stock Brokers / Stock Broker

<u>PoA favouring Stock Brokers</u>

PoA executed in favour of a Stock Broker by the client should be limited to the following:

1. Securities

i. 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.

ii. 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.
iii. To apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers 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.

2. Funds

iv. 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.

<u>POA favouring Stock Brokers</u>

PoA executed in favour of a Stock Broker by the client should:

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. 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.
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.
4. not provide the authority to transfer the rights in favour of any assignees of the Stock Broker.
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.
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).

7. be revocable at any time, without notice.
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.
9. authorize the Stock Broker 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.

General Guidelines

The POA shall not facilitate the stock broker to do the following:

10. Transfer of securities for off market trades.
11. Transfer of funds from the bank account(s) of the Clients for trades executed by the clients through another stock broker.
12. Open a broking / trading facility with any stock broker or for opening a Beneficial Owner account with any Depository Participant.
13. Execute trades in the name of the client(s) without the client(s) consent.
14. Prohibit issue of Delivery Instruction Slips (DIS) to beneficial owner (client).
15. Prohibit client(s) from operating the account.
16. Merging of balances (dues) under various accounts to nullify debit in any other account.
17. 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.
18. 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.

Stock Broker should ensure that:

19. A duplicate/ certified true copy of the PoA is provided to the Client(s) after execution.
20. In case of merger/ demerger of the Stock Broker 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.

(Download Ref. No: NSE/INSP/15598, Circular No. NSE/INSP/2010/104 dated August 31, 2010 and SEBI circular no CIR/MRD/DMS/28/2010 dated August 31, 2010)

SEBI has issued circular no CIR/MRD/DMS/28/2010 dated August 31, 2010 regarding Clarifications on Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker / Stock Broker and Depository Participant.

Clarification to Guidelines for execution of Power of Attorney by Clients favouring Stock Brokers / Stock Broker

Sr. No.	**Clauses/ Provisions of the PoA Circular**	**Clarifications**
1	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.	Only internet based trading exempted.
2	The Stock Brokers shall take necessary steps to implement this circular latest by May 31, 2010 for the new clients and ensure to take necessary steps latest by September 01, 2010 to revoke those authorizations given by the existing clients to the stock brokers/ stock broker and depository participants through PoA that are inconsistent with the present guidelines.	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.
3	PoA executed in favour of a Stock Broker by the client should be limited to the following: "(i) 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.
4	PoA executed in favour of a Stock Broker by the client should be limited to the following: "(iii) To apply for various products like Mutual Funds, Public Issues	Redemptions are also included in PoA pursuant to client's instructions.

	(shares as well as debentures), rights, offer of shares, tendering shares in open offers 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."	
5	PoA executed in favour of a Stock Broker and Depository Participant by the client should 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' & brokers' Bank accounts & demat accounts may be updated / amended by proper communication without executing a new PoA every time. Copies of such communications may be preserved as annexure to the PoA.
6	PoA executed in favour of a Stock Broker and Depository Participant by the client should be revocable at any time, without notice.	PoA executed in favour of a Stock Broker / Stock Broker and Depository Participant by the client should 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.
7	The POA shall not facilitate the stock broker to do the following: "12. Transfer of securities for off market trades"	The PoA shall not facilitate off-market trades between parties other than the related parties as mentioned in the PoA.

(1.7) FAQs for NRIs on trading Account

Download Ref. No.: NSE/INSP/16615, Exchange Circular No.: NSE/INSP/2010/110 dated December 24, 2010)

Based on representations and queries received from members, Exchange has issued frequently asked questions (FAQs) for NRI- Trading account. Clarification in respect of trading by NRI's in the form of frequently asked questions is made available in http://www.nseindia.com/content/members/faq_NRI_TA.pdf**.**

Item 2

CONTRACT NOTES

(2.1) Clarifications on certain matters related to issue of contract notes

(SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8th November 2010 and Circular No: NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date: 17th October, 2002)

1. As per Regulation 3.5.1, every Trading Member shall issue a contract note to its constituents for trades executed in such format as specified in the NSE (Capital Market) Trading Regulations. It is hereby clarified that if a Trading Member is unable to provide all the trades of a client in a single contract note, it may, if it so desires, use continuation sheets subject, however, to the condition that the main sheet shall be in the prescribed contract note format and the continuation sheets shall contain the following particulars:

i) Name of the Trading Member (to be pre-printed)
ii) SEBI Registration number of the Trading Member (to be pre-printed)
iii) Name of the client.
iv) Trading Code and Unique Client Code of the client
v) Contract Note number
vi) Settlement number
vii) Signature of authorised signatory (to be signed by the same signatory who signed the main sheet in the prescribed format)
viii) Page number (starting from the main sheet in the prescribed format)
ix) All the details mentioned in the box given in the contract note format namely Order number, Trade number, Trade time, Quantity, Kind of security, Purchase / Sale rate, Brokerage, Net rate and Amount for the securities bought / sold.

Stationery control number of the continuation sheets shall be serially pre-printed for stock control purpose and the trading members shall maintain a control record for the printing and usage of the stationery.

2. It is also clarified that a Trading member may, if it so desires, issue contract note cum bills without diluting the form prescribed for contract note.

3. As per Regulation 3.5.3 of the NSE (Capital Market) Trading Regulations, the contract notes shall be numbered with unique running serial number commencing from one which shall be reset only at the beginning of every financial year. It is hereby clarified that financial year for the purpose of resetting the serial number of contract note is April to March.

4. It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently 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 issued to the clients.

(Circular no.NSE/INSP/2006/44, Download Ref. No.: NSE/INSP7330 Dated: 30th March 2006)

This circular contains the following clarifications in respect of the revised format of the contract note *(CM Segment)*

1. In case of order modification, order time to be printed on the contract note shall be (i) the original order placement time for the trades executed, before such order is modified and (ii) the order modification time for the trades executed, arising out of such modified order.
2. The columns for Securities Transaction Tax (STT) and Service Tax (ST) are optional. However, trading members shall continue to give total STT amount on the contract note and statement of STT as per annexure prescribed vide the Exchange's circular no. NSE/CMO/0135/ 2004 (download reference no. NSE/CMTR/5459) dated 24th September 2004. Service Tax, other statutory and regulatory levies, if required, may be given under the head "Other levies, if any". Brokerage shall be given for every trade.
3. Trading members may merge the common columns on buy and sell sides, but each trade shall clearly be identified as 'buy' or 'sell'. Accordingly, after merging, the columns may be printed sequentially as follows: (i) Order No. (ii) Order Time (iii) Trade No. (iv) Trade Time (v) Security (vi) Buy / Sell (vii) Quantity (viii) Gross Rate per Security (ix) Total (x) Brokerage - Total (xi) Service Tax (Optional) (xii) Securities Transaction Tax (Optional).
4. The actual traded price per security shall be given under the column 'Gross Rate per Security'.
5. Trading members, apart from ensuring that all the prescribed details are provided in the contract note, may add any other information relevant to the trades in the contract note like brokerage per security, net amount due to / from client, etc.
6. The revised format is not applicable for those cases which are covered under Straight Through Processing (STP) and in such cases the earlier format will continue to apply.

(SEBI circular No. CIR/MRD/DSA/24/2010 dated August 11, 2010 and Exchange circular No. Circular No.: NSEIL/ARBN/2010/003, Download No. NSE/ARBN/2010/15609 dated August 31, 2010)

This circular contains the following clarifications with respect to contract note

Limitation period –

The limitation period for filing an arbitration application shall be governed by the law of limitation i.e. The Limitation Act, 1963

(Circular no.NSE/INSP/2006/45, Download Ref. No.: NSE/INSP7329 Dated: 30th March 2006)

This circular contains the following clarifications in respect of the revised format of the contract note *(F&O Segment)*

1. In case of order modification, order time to be printed on the contract note shall be (i) the original order placement time for the trades executed, before such order is modified and (ii) the order modification time for the trades executed, arising out of such modified order.

2. The columns for Securities Transaction Tax (STT) and Service Tax (ST) are optional. However, trading members shall continue to give total STT amount on the contract note and statement of STT as per annexure prescribed vide the Exchange's circular no. NSE/F&O/0062/2004 (download reference no. NSE/FAOP/5458) dated 24th September 2004. Service Tax, other statutory and regulatory levies, if required, may be given under the head "Other levies, if any". Brokerage shall be given for every trade.

3. Trading members may merge the common columns on buy and sell sides, but each trade shall clearly be identified as 'buy' or 'sell'. Accordingly, after merging, the columns may be printed sequentially as follows: (i) Order No. (ii) Order Time (iii) Trade No. (iv) Trade Time (v) Security (Contract Description) (vi) Buy / Sell (vii) Quantity (viii) Gross Rate per Security (ix) Total (x) Brokerage - Total (xi) Service Tax (Optional) (xii) Securities Transaction Tax (Optional).

4. The actual traded price per security shall be given under the column 'Gross Rate per Security'. In case of Options Contract, it shall be the premium per security.

5. 'Contract Description' shall have the details viz. instrument type, underlying (symbol), expiry date, strike price and option type in case of Options Contact and in case of Futures Contract, instrument name underlying (symbol) and expiry date in the manner as provided by the Exchange.

e.g. (i) Contract description for a typical futures contract -

FUTIDX NIFTY 30MAR06

(ii) Contract description for a typical options contract -

OPTSTK HINDLEVER 30MAR06 250 CA

6. The words "Settlement no." and "Settlement date" need not be printed on the contract note for the F&O segment.

7. Trading members, apart from ensuring that all the prescribed details are provided in the contract note, may add any other information relevant to the trades in the contract note like net amount due to / from client, etc.

(SEBI circular No. CIR/MRD/DSA/24/2010 dated August 11, 2010 and Exchange circular No. Circular No.: NSEIL/ARBN/2010/003, Download No. NSE/ARBN/2010/15609 dated August 31, 2010)

This circular contains the following clarifications with respect to the contract note:

Limitation period –

The limitation period for filing an arbitration application shall be governed by the law of limitation i.e. The Limitation Act, 1963

(2.2) Revised format of Contract Notes

(CM segment - Circular no. NSE/INSP/2006/50, DOWNLOAD REF.NO: NSE/INSP/7647, Dated: 3rd July 2006 F&O segment - Circular no. NSE/INSP/2006/51, Download Ref. No: NSE/INSP/7648, Dated: 3rd July 2006)

It may be noted that the trading members shall comply with the requirement of issue of contract notes in the revised format latest by 1st August 2006.

(Circular no. NSE/INSP/2008/69, DOWNLOAD REF.NO: NSE/INSP/11143, Dated: 19th August 2008)

This circular contains the format of the contract note in respect of all trades executed on the Currency derivatives segment of the Exchange to be issued by the members to the clients within 24 hours.

The currently applicable formats of the contract note for the CM, F&O and Currency Derivatives segments are attached as **(Exhibit-2:Annexure C)**

(2.3) Electronic issuance of contract notes

(SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3rd December, 2009)

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.

Additional Conditions:

(Circular no. NSE/INSP/2005/41, DOWNLOAD REF.NO: NSE/INSP/6623, Dated: 9th September 2005)

SEBI has issued a circular no. MRD/DoP/SE/Cir-20/2005 dated 8th September, 2005 regarding additional conditions for electronic issuance of contract notes, with the following details

1. SEBI has stated that brokers can 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.

2.1 Issuing ECNs when specifically consented

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

2.2 Where to send ECNs

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

2.3 Requirement of digital signature

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

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

2.4.1 Acknowledgement

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

2.4.2 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.

2.4.3 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.

2.5 When to issue or send in Physical mode

2.5.1 Issue in Physical mode

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.

2.5.2 Send in Physical mode

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.

2.6 General requirements
2.6.1 ECNs through website
In addition to the e-mail communication of the ECNs in the manner stated above, in order to further strengthen the electronic communication channel, the member shall simultaneously publish the ECN on his designated web-site in a secured way and enable relevant access to the clients.
2.6.2 Access to the website
In order to enable clients to access the ECNs posted in the designated website in a secured way, the member shall allot a unique 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.
2.6.3 Preservation/Archive of electronic documents
The member shall retain/archive such electronic documents as per the extant rules/regulations/circulars/guidelines issued by SEBI/Stock Exchanges from time to time.

(2.4) Statement of Securities Transaction Tax (STT)
(Circular no.NSE/INSP/2006/55, Download Ref. No.: NSE/INSP/8108 Dated: 16th November 2006)

Trading members are informed that, "Statement of Securities Transaction Tax" containing the details as per Annexure – II to circular no. NSE/CMO/0135/2004 and Annexure – III to circular no. NSE/F&O/0062/2004 both dated 24th September 2004, may be issued on annual (Financial year) basis, unless required by the clients otherwise, within one month from the close of the financial year.

However, trading members shall continue to give total STT amount on the contract notes.

(2.5) Brokerage
- **in CM Segment**

(Circular No: NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date : 17th October, 2002)

As per circular no NSE/ CMT/ 001 dated 28/10/1994, the maximum brokerage chargeable by a Trading Member in relation to trades effected in the securities admitted to dealings on the Capital Market segment of the Exchange shall be 2.5 % of the contract price exclusive of statutory levies. It is hereby clarified that where the sale / purchase value of a share is Rs.10/- or less, a maximum brokerage of 25 paise per share may be collected.

- **on option contracts**

(Circular no. NSE/INSP/2006/56, download reference no. NSE/INSP/8338 dated 5th January 2007)

As per circular no. NSEIL/LEGAL/8319/2007 dated 2nd January 2007, Regulation 3.7.2A of NSE (Futures & Options) Trading Regulations has been amended as follows.

"The trading members shall charge brokerage for option contracts on the premium amount at which the option contract was bought or sold and not on the strike price of the option contract".

It is hereby clarified that brokerage on options contracts shall not exceed 2.5% of the premium amount or Rs 100/- (per lot) whichever is higher

(2.6) Issuance of Contract Notes through STP in the Equity Derivatives Segment
(Circular No. NSE/INSP/2008/75, download reference no. NSE/INSP/11611 dated November 7, 2008)

SEBI vide circular no. SEBI/DNPD/143542 /Cir-43/08 dated 6th November 2008, has extended the facility of issuance of ECNs as a legal document using STP to the equity derivatives segment and has provided a model contract note in electronic form (IFN 515 messaging format) and confirmation of electronic contract note (IFN 598 messaging format).

All the members are requested to take note of and comply with the circular.

Item 3

MARGIN COLLECTION FROM CONSTITUENTS

(3.1) Clarifications on Margin Collection & Reporting
*(Circular No. NSE/INSP/2009/77, download reference no. NSE/INSP/12503 dated June 2, 2009 and Circular No. NSE/INSP/2009/78, download reference no. NSE/INSP/12655 dated June 30, 2009; Circular no. NSE/INSP/2008/*65*, download reference no. NSE/INSP/*10367 *dated 28th February 2008)*

In addition to the mode and form of collection of margins as specified in our circular NSE/INSP/2008/65 (download ref no NSE/INSP/10367 dated 28th Feb 2008), clearing members / trading members in the F&O segment and the Currency Derivatives segment may also consider the following additional collaterals in dematerialized / electronic form while reporting the collection of margins from the respective trading members / constituents.

- Liquid securities actively traded on the National Exchanges, which are specifically not declared as illiquid securities. (List of illiquid securities are declared on a regular basis by the Exchanges)
- Units of liquid mutual funds whose NAVs are available and which could be liquidated readily.
- Government securities and Treasury bills.

The value of above should be computed as the closing price as on T-1 day reduced by the appropriate haircut.

Clarification in respect of margin collection and reporting mechanism in the form of frequently asked questions is made available at http://www.nseindia.com/content/members/mem_compliance.htm.

(3.2) Client margin information

(Circular no. NSE/INSP/2008/64, download reference no. NSE/INSP/10239 dated 11th February 2008)

On a daily basis, the National Securities Clearing Corporation Limited downloads to all members

- the Detailed Margin File for Capital Market segment (MG02) providing client wise, security wise margin and mark to market records
- the Detailed Margin File in respect of clearing member (MG12) and the Detailed Margin File in respect of trading member (MG13) for F & O segment, providing SPAN margin and net buy premium.

In order to ensure transparency at the client level, SEBI has made it mandatory for members to send margin related information to their clients on a daily basis.

Such information may include the following details:

a) Client code and name, Trade day (T)
b) Total margin deposit placed by the client upto day T-1 (with break-up in terms of cash, FDRs, BGs and securities)
c) Margin utilised upto the end of day T-1
d) Margin deposit placed by the client on day T (with break-up in terms of cash, FDRs, BGs and securities)
e) Margin adjustments for day T
f) Margin status (balance with the member / due from the client) at the end of day T

(3.3) Collateral deposited by clients with members

(Circular no. NSE/INSP/2008/66, download reference no. NSE/INSP/10605 dated 21st April 2008)

In continuation of earlier circulars and in order to reiterate the need for brokers to maintain proper records of client collateral and to prevent misuse of client collateral, SEBI vide circular MRD/DoP/SE/Cir-11/2008 dated 17th April 2008 has advised that :-

a) 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.
b) Brokers should further be able to produce the aforesaid records during inspection. The records should include details of

- Receipt of collateral from client and acknowledgement issued to client on receipt of collateral
- Client authorization for deposit of collateral with the exchange / clearing corporation / clearing house towards margin

- Record of deposit of collateral with exchange / clearing corporation / clearing house
- Record of return of collateral to client
- Credit of corporate action benefits to clients

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

d) 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.

e) 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.

f) 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.

Item 4

SETTLEMENT

(4.1) Mode of payment and delivery

(Circular No. NSE/INSP/2003/21, download Ref. No: NSE/INSP/4377 Dated: 1st September 2003)

SEBI has issued a circular no. SEBI/MRD/SE/Cir- 33/2003/27/08 of 27/08/2003 regarding cash transactions between stock brokers and their constituents, the relevant contents of which are given below.

Please refer to SEBI circular No.SMD/SED/CIR/93/23321 and letter No. SMD-1/23341 dated November 18, 1993 regarding regulation of transactions between clients and brokers.

It is reiterated that 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.

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 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.

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.

This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with Section 10 of the Securities Contracts (Regulation) Act 1956, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Trading Members are advised to take note of the above and also to bring the contents of this Circular to the notice of their registered sub-brokers and constituents, and to ensure strict adherence to the same.

(4.2) Tagging of demat accounts of trading / clearing members
(Circular no. NSE/INSP/2007/58, Download reference no. : NSE/INSP/9090 Dated: 28th June 2007)

The Exchange has received letters from National Securities Depository Ltd. (NSDL) and Central Depository Services Ltd. (CDSL) stating that they have made provision for tagging / flagging of the demat accounts of trading members / clearing members, generally referred to as 'client margin account' or 'client beneficiary account', in order to differentiate them from the regular own beneficiary accounts. For details, trading members / clearing members may refer to circular no. CDSL/OPS/DP/899 dated 16th May 2007 of CDSL and circular no. NSDL/POLICY/2007/0029 dated 15th June 2007 of NSDL from their respective web-sites and advise their depository participants accordingly.

(4.3) <u>Running Account Authorization and Actual settlement for funds & securities on monthly / quarterly basis</u>

(SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3rd December, 2009, Download Ref. No: NSE/INSP/14048, Circular No. NSE/INSP/2010/91 dated 3rd February, 2010 and Download Ref. No: NSE/INSP/15008, Exchange Circular No. NSE/INSP/2010/101 June 17, 2010)

The settlement of funds / securities shall be done within 24 hours (1 working day) of the payout, unless specifically authorized by client to maintain running account subject to the following conditions:

- Running account authorization shall be renewed at least once a year and shall be dated
- 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
- Actual settlement of funds and securities shall be done by the TM, at least once in a calendar quarter or month depending on preference of the client.

The trading member shall note the following points for the purpose of actual settlement of funds and securities on monthly / quarterly basis;

- 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.

- The client shall bring to notice any dispute within 7 working days from the date of receipt of funds / securities or statement
- No inter-client adjustment for the purpose of settlement of the "running account".
- For the purpose of quarterly/monthly settlement trading member may settle across segments of the same exchange for a particular client.
- Transfer funds / securities within 1 working day from the request if the same are lying with TM.
- In case the funds / securities are lying with Clearing Member/ Corporation, transfer the same within 3 working days from the request.
- Such periodic settlement may not be necessary:
    a. In case of institutional clients settling trades through "custodians"
    b. For clients availing margin trading facility
    c. For margin received in the form of BGs and FDRs

While settling the account 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.

- In respect of derivative market transactions, apart from margin liability as on the date of settlement, additional margins (maximum up-to 75% of margin requirement on the day of settlement) to take care of any margin obligation arising in next 5 days may be retained.
- In respect of cash market transactions, entire pay-in obligation of funds & securities due from clients as on date of settlement may be retained. Further, in the cash market segment, for next day's business, member may retain funds/securities/margin to the extent of value of transactions executed on the day of such settlement in the cash market only. *(Download Ref. No: NSE/INSP/15008, Exchange Circular No. NSE/INSP/2010/101 June 17, 2010)*

Item 5

STATEMENT OF ACCOUNTS

(5.1) Statement of Accounts (Capital Market Segment)

(Circular no. NSEIL/LEGAL/3401, download reference no. NSE/LEGL/3401 dated May 22, 2002)

NSE Capital Market Trading Regulations have been amended by inserting the following new clause as clause (d) to Regulation 6.1.5 of Chapter 6:

Every Trading Member shall send a complete `Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity not exceeding three months within a month of the expiry of the said period, The Statement shall also state that the client shall report errors, if any, in the Statement within 30 days of receipt thereof to the Trading Member.

(SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8th November 2010

It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently 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 statement of funds and securities, issued to the clients.

(5.2) Statement of Accounts (F&O Segment)

(Circular no. NSEIL/LEGAL/7410, download reference no. NSE/LEGL/7410 dated April 21, 2006)

NSE (Futures & Options) Trading Regulations of the Exchange are amended to include the following as Regulation 6.1.6.1 clause (c) in Chapter 6 of NSE (Futures & Options) Trading Regulations:-

"Every Trading Member shall send a complete 'Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity not exceeding three months (Calendar quarter) within a month of the expiry of the said period. The Statement shall also state that the client shall report errors, if any, in the Statement within 30 days of receipt thereof to the Trading Member."

(SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8th November 2010

It has been decided that while a stock broker may use the brand name / logo of its group companies, it must display more prominently 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 statement of funds and securities issued to the clients.

(5.3) Clarifications on Statement of Accounts
(Circular no. NSEIL/INSP/12, download reference no. NSE/INSP/3525 dated 29th July 2002)

With reference to Circular No. NSEIL / LEGAL / 3401 dated May 22, 2002 and Circular No. NSEIL / LEGAL / 3512 dated July 23, 2002, it is clarified as under.

(i) In respect of Trading Members who offer trading facility to their clients through internet and provide to such clients an access to an on-line account viewing and print-out facility, it would be treated as sufficient compliance of Regulation 6.1.5 (d) of Part A Chapter 6 of Capital Market Regulations of the Exchange, if they send the 'Statement of Accounts' by email to such clients.

(ii) It would be treated as sufficient compliance of the said Regulation if Trading Members take periodic written confirmation at such periodicities not exceeding three months, from their clients to the effect that no securities and / or funds are due from the Trading Member to the client.

(iii) In respect of institutional clients, the requirement of the said Regulation is applicable if the Trading Members receive funds / securities from their institutional clients and / or pay funds / deliver securities to such institutional clients directly and not through custodians.

(Download Ref. No: NSE/INSP/13606, Circular No. NSE/INSP/2009/85 dated December 03, 2009v and Download Ref. No: NSE/INSP/14048, Circular No. NSE/INSP/2010/91 dated February 03, 2010)

Further, trading member is required to send statement of accounts for funds & securities monthly/quarterly as applicable, at the time of settlement. This is an adequate compliance for the purpose of sending quarterly statement of accounts for funds/securities.

Additionally as on March 31 every year, the statement of balance of funds and securities in hard form and signed by the broker shall be sent to the clients only upon request.

Item 6

DEALINGS WITH CLIENTS

(6.1)Dealings between a client and a stock broker (trading members included)

(SEBI circular MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009, Exchange Download Ref. No: NSE/INSP/13606, Exchange Circular No. NSE/INSP/2009/85 dated 3rd December, 2009)

SEBI with a view to instill greater transparency and discipline in the dealing between the clients and the stock brokers issued circular no MIRSD/ SE /Cir-19/2009 dated 3rd December, 2009 regarding dealings between a client and a stock broker (trading members included). Changes have been made in the following aspects

- Client Registration
- Running Account Authorization
- Actual settlement for funds & securities on monthly / quarterly basis
- Electronic Contract Notes

All the members are requested to take note of and comply with the circular and ensure its full compliance in respect of all clients.

(Download Ref. No: NSE/INSP/14048, Circular No. NSE/INSP/2010/91 dated 3rd February, 2010)

This is with reference to the Exchange circular no. NSE/INSP/2009/85 (download no. NSE/INSP/13606) dated December 03, 2009. Based on various queries received from trading members, clarifications to certain requirements stated in the circular have been detailed out.

(Download Ref. No: NSE/INSP/14477, Exchange Circular No. NSE/INSP/2010/94 and SEBI circular No. MIRSD/ SE /Cir- 5/2010 dated 31st March, 2010)

With reference to the Exchange circular no. NSE/INSP/2009/85 (download no. NSE/INSP/13606) dated December 03, 2009 and Circular No. NSE/INSP/2010/91 (download no. NSE/INSP/14048) dated February 03, 2010. Further to the above, SEBI has issued circular no MIRSD/SE/Cir-5/2010 dated March 31, 2010 regarding clarification on dealings between a client and a stock broker which *inter alia* states that

"The stock brokers are now directed to ensure the full compliance of the said circular dated December 3, 2009 in respect of all clients-existing and new - latest by June 30, 2010."

(Download Ref. No: NSE/INSP/14660 and Circular No. NSE/INSP/2010/98 April 27, 2010)

SEBI vide its letter dated MIRSD-1/SE/AG/303/2010 dated April 05, 2010 has advised the Exchange to monitor the progress in implementation of the circulars MIRSD/SE/CIR-19/2009 dated December 03, 2009 and MIRSD/SE/CIR-5/2010 dated March 31, 2010 regarding dealing between a client and a stock broker.

(Download Ref. No: NSE/INSP/15008 and Circular No. NSE/INSP/2010/101 June 17, 2010)

Referring to SEBI circular no MIRSD/SE/Cir-19/2009 dated 3rd December, 2009 regarding dealings between a client and a stock broker (trading members included) and Exchange circular no. NSE/INSP/2009/85 (download no. NSE/INSP/13606) dated December 03, 2009 and Exchange circular no. NSE/INSP/2010/91 (download no.NSE/INSP/14048) dated February 03, 2010 and Exchange circular no. NSE/INSP/2010/94 (download no. NSE/INSP/14477) dated March 31, 2010 regarding clarifications on the above subject.

Attention of members is drawn to point no. 12 (d) of annexure to SEBI circular dated 3rd December 2009 regarding funds expected to be required to meet margin obligation for next 5trading days wherein Exchange vide its circular dated February 03, 2010 had clarified that in respect of cash market transactions, trading member may retain entire pay-in obligation of funds and securities due from clients as on date of settlement.

It is further clarified that, in addition to the above, in the cash market segment, for next day's business, member may retain funds/securities/margin to the extent of value of transactions executed on the day of such settlement in the cash market only.

(6.2) Financing of securities transactions and transfer of securities & funds
(Circular no. NSE/INSP/2005/42, Download reference no. NSE/INSP/6938 Dated 9th December 2005)

Trading members are required to refrain from arrangements by which, the securities and funds of a client are received / transferred by trading members routinely from / to the accounts of different entities or the joint accounts of the client with the financier or its agents, or the trading member operates the client's bank account and / or depository account, under a financing arrangement with a general authorisation by the clients.

Such arrangements are in violation of circulars issued earlier regarding mode of payment & delivery, margin trading and securities lending & borrowing. In view of the same, trading members are advised to ensure the following:

a) Trading members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group company, to fund the transactions executed by the trading members on behalf of their clients, or recognise or act in accordance with any such agreement or arrangement entered into by the clients with any person.

b) Trading members shall not entertain, any instructions to trade in securities or transfer funds or securities, from any entity other than the clients, by prior arrangement or otherwise to facilitate financing clients' transactions.

c) Trading members shall not obtain any authorisation or power of attorney, for operating the depository and / or bank accounts of clients who avail financing facility for securities trading, conferring rights for operation of such accounts exclusively by the trading member.

d) Trading members shall not also otherwise finance or act as a conduit or front for financing any secondary market transactions entered into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.

(6.3) Transactions outside the trading system of the Exchange
(Circular no. NSE/INSP/2003/18, download reference no. NSE/ INSP/4225 dated 26th June 2003)

Some unscrupulous elements reportedly arrange trading in securities outside the established trading system of the recognised stock exchanges, taking share prices disseminated on-line by major exchanges like NSE as reference prices. It appears that the accounts for such trades and their settlement are kept separately, mostly on cash basis and not combined with the books of accounts pertaining to the transactions on the stock exchanges, in order to avoid detection.

If any trading member of NSE or its sub-broker is found to be carrying out such activities in violation of the Rules, Bye-laws and Regulations of the Exchange, the same will be viewed with utmost seriousness by the Exchange and strict disciplinary action will be taken.

The Exchange has already undertaken a public awareness campaign to educate the investors in this regard. The trading members are advised to bring the contents of the circular to the notice of all their branches, sub-brokers, authorised persons, etc also and ensure that these extended arms of trading members do not indulge in such activities. The trading members are further requested to display a copy of the advertisement (copy enclosed as Exhibit-3) issued in this regard at their offices, branches and offices of their sub-brokers for additional publicity.

The trading members are also requested to educate their clients about the risks involved in dealing through such unauthorised trading mechanism including the grave risk of not having access to the dispute resolution and the arbitration mechanisms of the Exchange, in respect of any dispute arising out of such trades

Item 7

DEALINGS WITH INTERMEDIARIES

(7.1) Dealings by branches, intermediaries, authorised persons etc

(Circular No.NSE/INSP/2005/39, Download No. NSE/INSP/6334 Dated 6th July, 2005)

Over the last few years, Trading Members have been significantly expanding their trading network. Many of these extended trading centers are being manned by the Trading Members' branch officials, registered sub-brokers, authorized persons etc., Trading Members are aware that in respect of all such places, they continue to remain responsible for ensuring full compliance of the Rules, Byelaws, Regulations etc., (Regulations) of the Exchange. Especially, Trading Members are also aware that they are required to ensure that the activities of the persons manning these places and terminals are fully in compliance of the Regulations and that they do not indulge in any activity which is in violation of the Regulations, including activities like unregistered sub-broking, off-market deals, lending/ borrowing transactions, handling funds and securities otherwise than directly to / from the Trading Members' accounts, etc., In order to ensure the same, the Trading Members need to undertake appropriate due diligence. The due diligence to be undertaken by the Trading Members may include,

(i) ensuring that receipt or payment of funds and securities are only from or to the respective clients and not from other person (including sub-broker, branch official, authorised person, dealer, etc.,)
(ii) ensuring that the persons operating the terminals, while placing orders on behalf of a registered client, do not use the 'remarks column' without proper explanation or to put codes which could later suggest the existence of one or more ultimate clients;
(iii) ensuring that the persons operating the terminals use proper client code in respect of the orders received from such clients and do not combine orders of different persons;
(iv) ensuring that the no margin/pay-in obligation/pay-out adjustment is done among clients or between clients and sub-brokers, authorised persons, branch officials, dealers, etc.,

(v) ensuring making and receipt of payments only by 'Account Payee' cheque or by direct bank debit/credit and not dealing in cash;
(vi) ensuring that the sub-broker, branch official, authorised persons, dealers, etc., do not issue any contract note, bill, confirmation memo, debit/credit note etc., to the clients, unless it is issued in the name of the Trading Member under written authorisation from it;
(vii) if the Trading Member is also a Depository Participant for the client, sub-broker, authorised person, branch official, dealer etc., then to watch for unexplained, frequent or large off-market transfers
(viii) ensuring that the clients using or frequenting such premises do not indulge in such activities using the premises, name or accounts of the Trading Member or their sub-brokers etc.,
(ix) undertaking surprise inspections of such places to ensure prevention of any activity in violation of the Regulations.

The due diligence will also equally apply to the offices under the direct control of the Trading Members.

The Trading Members are further advised to bring the contents of this circular to the notice of all their employees, branches, sub-brokers, authorised persons, dealers, clients etc., and educate them not to allow or indulge in such activities. If any Trading Member of the Exchange is found to be allowing such activities in violation of the Rules, Bye-laws and Regulations of the Exchange, the same will be viewed seriously by the Exchange and strict disciplinary action will be taken against the Trading Member concerned. Besides the same, the Trading Member may also be saddled with redressing investor grievances and claims arising out of such dealings.

(7.2) Guidelines for location of CTCL terminals and usage thereof
(Circular No. NSE/INSP/ 3800, download reference no. NSE/ INSP/ 2002/16 dated 13th December 2002)

Trading members were, inter alia, informed vide circular no. 163 (Download reference no NSE/MEM/1591) dated 20/04/2000 that trading terminals shall be located only in the main / branch offices of the trading member or in the office of a registered sub-broker of the trading member for the operations of the trading member. It was also clarified vide circular no 282 (Download reference no NSE/MEM/3574) dated 29/08/2002 that CTCL terminals need to be located only in the office of the Trading Member or in the office of a registered sub-broker.

In spite of the above mentioned circulars, it appears that some trading members are allotting terminals to unregistered sub-brokers and other unauthorised persons, either directly or through CTCL arrangement, in gross violation of the requirement of these circulars.

Attention of the trading members is once again drawn to the above mentioned circulars and the trading members are advised to strictly comply with the requirements in this regard. Any violation thereof will be viewed seriously and strict action will be initiated.

(7.3) Use of terminals, placing of notice boards

(Circular No. NSE/I&ID/2001/3, DOWNLOAD REF.NO: NSE/I&ID/2893 Dated: September 28, 2001)

In partial modification of Circular No.NSE/MEM/1591 (download reference 163) dated April 20, 2000 pertaining to use of terminals, placing of notice board etc., clause number 7 of the said circular is being replaced with the following clause with immediate effect:

Trading Members shall display, in all their offices / offices of their registered sub brokers where trading terminals are located, notice boards/plates at prominently visible locations, painted / printed in a permanent manner, in a font and colour which enables easy reading of the subject matter and containing details as prescribed in Annexure 1 or 2 of the circular as applicable.

(7.4) Inspection of Sub Brokers / branches

(Circular No: NSEIL/ INSP/ 2002/14, Download Reference No. NSE/ INSP/3685 Date: 17th October, 2002)

As per circular no 60 (Download Reference no NSE/MEM/275) dated 12/06/1997, it shall be the primary responsibility of the affiliated stock broker / Trading Member to inspect the registered sub-brokers. It is hereby clarified that every Trading Member is required to inspect every year at least 10% of its active sub-brokers and 10% of its active branches and also to ensure that each active sub-broker / branch is inspected at least once in every five years. For this purpose, an active sub-broker / branch means one whose turnover is above 1/10th of the turnover of the Trading Member during the previous financial year (viz. April to March).

(7.5) Notification under regulation 3 of the Securities and Exchange board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007

(SEBI notification no. LAD- NRO/GN/2010-11/21/29390 dated December 10, 2010, Exchange Circular No: NSE/INSP/2010/109, Exchange Download No: NSE/INSP/16536)

SEBI vide its notification no. LAD-NRO/GN/2010-11/21/29390 published in the Gazette of India on December 10, 2010 regarding the above subject matter.

Accordingly, it is notified that with effect from the date of this notification, the following category of associated persons, i.e., persons associated with a registered stock-broker/trading member/clearing member in recognized stock exchanges, who are involved in, or deal with, any of the following, namely:-

(a) Assets or funds of investors or clients,
(b) Redressal of investor grievances,
(c) Internal control or risk management, and
(d) Activities having a bearing on operational risk,

shall be required to have a valid certification from the National Institute of Securities Markets (NISM) by passing the NISM-Series-VII: Securities Operations and Risk Management Certification Examination as mentioned in the NISM communiqué/Press Release NISM/Certification/Series-VII: SORM/2010/01 dated November 11, 2010, read with Annexures-I and II thereto.

Provided that the stock-broker/trading member/clearing member shall ensure that all persons associated with it and carrying on any activity specified in this paragraph as on the date of this notification obtain valid certification within two years from the said date of notification.

Provided further that a stock-broker/trading member/clearing member who employs any associated persons specified in this paragraph after the date of this notification shall ensure that the said associated persons obtain valid certification within one yearfrom the date of their employment.

Item 8

BOOKS OF ACCOUNTS AND OTHER DOCUMENTS

(8.1) Maintenance of books of accounts and other documents / Preservation of records

(Circular No.:NSE/INSP/2005/43, Download Ref. No.: NSE/INSP/6991, Dated: 26th December 2005 and SEBI circular MRD/Dop/SE/CIR-21/2009 dated December 09, 2009, Exchange Download Ref. No: NSE/INSP/13701, Exchange Circular No. NSE/INSP/2009/87 dated 16th December 2009)

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

It has been noticed that enforcement agencies like CBI, Police, Crime Branch etc. have been collecting copies of the various records/documents during the course of their investigation. The originals of such documents maintained either in physical or in electronic form or in both would be required by such enforcement agencies during trial of the case also. In view of the above, it is clarified that if a copy is taken by such enforcement agency either from physical or electronic record then the respective original is to be maintained till the trial or investigation proceedings have concluded.

(8.2) Maintenance of clientwise, scripwise Register of Securities

(Circular No. NSE/INSP/2004/28, DOWNLOAD REF.NO: NSE/INSP/4986 Dated: 16th April 2004)

Trading Members in CM and F & O segments are required to maintain a documents register (Register of Securities) including full particulars of shares and securities received and delivered, for a period of five years.

In this regard, the Regulation 6.1.3 (k) of NSE (Capital Market) Trading Regulations which prescribes the details to be included in the Register of Securities is reproduced below for quick reference.

"Every Trading Member shall maintain a Register or ledger account of Securities, clientwise and securitywise, giving inter alia, the following details viz. date of receipt of the security, quantity received, party from whom received, purpose of receipt, date of delivery of the security, quantity delivered, party to whom delivered and purpose of delivery".

To facilitate the Trading Members to maintain the register in proper format, a standard format containing the above details has been devised which is given below.

Register of Securities
Client : …….. **Security** : …….

Date of receipt/ delivery	From whom received / to whom delivered	Purpose	Quantity received	Quantity delivered	Balance quantity	Remarks

Trading members may note that non-maintenance of **clientwise, securitywise** Register of Securities in the prescribed format is a violation of the provisions of the Securities Contracts (Regulation) Rules 1957 and the Regulations of the Exchange and will be viewed seriously

Item 9

COMPLIANCE REQUIREMENTS

(9.1) Compliance Calendar

(Circular no. NSE/INSP/2004/32, download reference no. NSE/INSP/5496 dated 4th October 2004)

A consolidated checklist of reports / statements / certificates / data / submissions to be made by members to the Exchange / NSCCL is made available at http://www.nseindia.com/content/members/mem_compliance.htm.

(9.2) Internal Audit of trading members / clearing members

(Download Ref.No: NSE/INSP/15996, Circular No. NSE/INSP/2010/106 dated October 13, 2010; Download Ref.No: NSE/INSP/14644, Circular No. NSE/INSP/2010/96 dated April 23, 2010 and SEBI circular SEBI/MIRSD/Master Cir-04/2010 dated March 17, 2010, Exchange Download Ref. No: NSE/INSP/14340, Exchange Circular No. NSE/INSP/2010/93 dated 17h March 2010)

All trading members / clearing members who have executed / cleared at least one trade during the previous audit period are required to carry out complete internal audit on a half yearly basis by independent qualified Chartered Accountants or Company Secretaries or Cost and Management Accountants who don't have any conflict of interest.

The Internal auditor would submit the audit report to the Proprietor / Partners / Board of respective trading/clearing member who would place the report before its proprietor / partners / Board of Directors and shall forward the same along with para-wise comments to respective stock exchange within 3 months of the end of half year period. The audit report may be combined across segments and activity (trading/clearing) for respective Exchange.

The quality of internal audit reports received from members shall be monitored and appropriate steps shall be taken if the reports do not meet minimum expected quality levels.

Non-submission of internal audit report as per the guidelines in force shall be treated as non-compliance and appropriate action may be initiated against the concerned members. Where, in the opinion of the Exchange, the quality of the reporting is not satisfactory or the audit is not carried out in accordance with the aforesaid guidelines, the Exchange also reserves the right to advise the concerned members to change the auditors and / or submit revised reports.

Additional Areas added:

The additional areas as intimated vide our circular dated October 13, 2010 includes Execution of Power of Attorney (POA) , Provisions relating to December 3, 2009 SEBI circular, verification of provisions related to Prevention of Money Laundering Act, Investor Grievance handling mechanism, Power of Attorney received from Investors, status of compliances of last internal audit/Inspection Reports etc.

(Download ref.no: nse/insp/14644, circular no. nse/insp/2010/96 dated April 23, 2010)

Based on scrutiny of earlier reports, specific attention of the Members is drawn to the following point's :(circular no. 14644 dated April 23, 2010)

1. Each page of the Audit Report should be stamped by the auditors.
2. The Audit certificate should be on letterhead of the auditors containing the address and contact details of the auditors.

3. Minimum sample size should be adhered to and mentioned in the audit report.
4. The Audit Report must contain Management comments.
5. The Audit Reports should come through Members of the Exchange only.
6. The Audit Report should contain observations pertaining to the respective Exchange to which the report is submitted.

Format of Internal Audit certificate and format of Internal Audit Report and revised guidelines is detailed in **(Exhibit-4: Annexure C).**

Observations made during Inspections/Reported in Internal Audit Reports

(Download Ref. No: NSE/INSP/15770, Exchange Circular No: NSE/INSP/2010/105 dated 20th September 2010)

With a view to increase awareness amongst the members and improve their compliance level, Exchange conducts inspections of the books and records of members. Based on the observations made during recent inspections and scrutiny of internal audit reports submitted by the member, Exchange has listed out commonly observed areas which require attention of members for strengthening their compliance levels.

(9.3) Handbook on Compliance Issues

(Circular No. NSE/INSP/2008/73, download reference no. NSE/INSP/11532 dated October 23, 2008)

With a view to facilitate easy reference on various compliance issues, Exchange has released a handbook on compliance to help in enhancing the compliance level in members.

Compliance requirements pertaining to members of the Exchange are given in byelaws, regulations and circulars of the Exchange and the Clearing Corporation. In order to facilitate quick reference to such requirements, an attempt has been made to collate them in a single handbook. This compliance handbook is presented as a guiding document for carrying out certain internal compliance checks by members in their head office, branch offices and offices of sub broker(s)/authorized person(s).

The same is made available at http://www.nseindia.com/content/members/mem_compliance.htm.

(9.4) Display of details by stock brokers (including trading members)

(SEBI circular no Cir/MIRSD/9/2010 dated November 4, 2010, Exchange Download Ref. No: NSE/INSP/16242, Exchange Circular No. NSE/INSP/2010/107 dated 8th November 2010).

SEBI has issued circular no Cir/MIRSD/9/2010 dated November 4, 2010 regarding Display of details by stock brokers (including trading members) in their portal/web site, if any, notice / display boards, advertisements, publications, know

your client forms, member client agreements, Contract notes, Statement of funds and securities, and correspondences with the clients.

What to display	Where to display
Stock broker may use the brand name / logo of its group companies, it must display more prominently its (a) Name as registered with SEBI, (b) Own logo, if any, (c) Registration number, and (d) Complete address with telephone numbers	❖ Portal /web site, if any, ❖ Notice / display boards, Advertisements, ❖ Publications, ❖ Know your client forms, ❖ Member client agreements ❖ Contract notes, ❖ Statement of funds and securities, and ❖ correspondences with the clients
(e) the name of the compliance officer, his telephone number and e-mail address	❖ Contract notes, ❖ Statement of funds and securities, and correspondences with the clients

Item 10

APPLICABLE FINE STRUCTURE

(10.1) List of common violations and applicable penalties (CM Segment, WDM, F&O segments and CD Segment)

(Download Ref. No: NSE/INSP/16616, Circular No. NSE/INSP/2010/111 dated December 24, 2010)

Based on the findings during inspections conducted in the past and review of the commonly observed compliance issues, grouping of violations and the penalties thereof have been revised. Penalties are indicative in nature and could undergo change in specific cases depending on frequency and gravity of the violations. Further, In case any violation is observed to be repetitive of violations noted during inspections conducted in the last three financial years, penalties would be escalated by 50%. Actions in respect of violations having high impact would be dealt on case to case basis depending on seriousness and gravity of such violations. It may also be noted that the list contains commonly observed violations only and that action in respect of uncommon or abnormal violations would be dealt on a case to case basis depending on the seriousness and the gravity of such violations.

Members are hereby required to take preventive steps to avoid the violations and to put systems and procedures in place so as to ensure compliance with the applicable requirements. **(Exhibit-5: Annexure-C)**

(10.2) Revision in Charges/Penalty norms

(Circular No. NSE/INSP/2009/79, download reference no. NSE/INSP/12882 dated August 12, 2009)

To ensure strict compliance with SEBI orders debarring entity / entities from accessing securities market, members may note that for the violation observed in case of members dealing on behalf of SEBI debarred entity / entities, Exchange has decided to levy an indicative penalty of 0.25% of gross traded value of the transactions entered into by a member on behalf of debarred entity / entities subject to a minimum of Rs 50,000/-

Members are hereby advised to take preventive steps to avoid the violation of dealing with SEBI debarred entity/entities and to put systems and procedures in place so as to ensure compliance with various Rules, Bye-laws & Regulations of the Exchange, notices / circulars issued by the Exchange in addition to the directions given by SEBI/Exchange, in this regard