

# Enhanced Supervision of Stock Brokers

Kolkata  
August 04, 2017

## A. Naming/ Tagging of Bank & Demat A/cs by the Stock Broker

All Bank/DP a/c (s) holding clients funds/securities to be named as "**Name of Stock Broker - Client Account**". Naming of Bank/DP accounts as "proprietary" is voluntary.

Demat a/c (s) & Bank account/s held for the purpose of settlement to be named as "Name of Stock Broker - Pool account" & "Name of Stock Broker - Settlement Account" respectively.

Demat a/c (s) used for depositing securities collateral with CC to be named as "Name of Stock Broker" & assigned sub-type/ tag of "Collateral Account".

Member who is also a Bank, shall be required to report to the Stock Exchanges only those bank accounts that are used for their stock broking activities".

## Timelines for Naming/ Tagging of accounts.

Sr. No	Requirements	Timeline
1	Naming/tagging of existing <b>demat accounts</b>	July 01, 2017
2	Naming of existing <b>bank accounts</b>	October 01, 2017



## B. Reporting of Bank & Demat A/cs by the Stock Broker

All Members were required to inform the Exchanges, details of all their existing & new bank /Demat account(s) by **November 25, 2016**.

All new bank & demat accounts opened by the Members will have to be reported to the stock exchanges within **one week of the opening** of the account.

Closure of any of the reported bank & demat accounts, to be communicated within **one week of its closure**.

**Reporting to be done electronically through the Inspection module in the Member portal**



My Inspection Risk Based Supervision **Enhanced Supervision** Internal Audit

Bank/DP account details

TM/CM Bank Details

Reconciliation

TM/CM DP Details

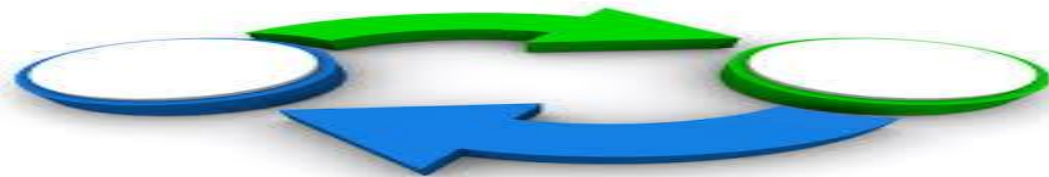


My Inspection

Sr. No.	Year	Quarter	Inspection Type	Segment	Reminder
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
1	2016-17	Q2	LPI	CMFOCD5	NA

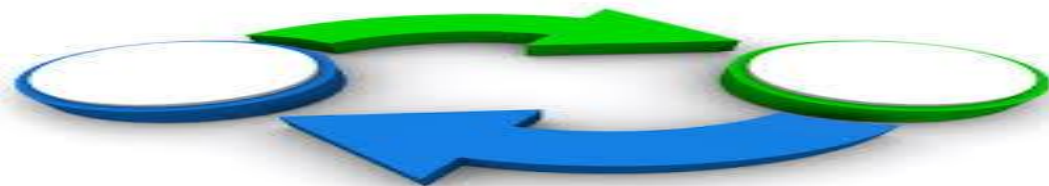
# Provisions regarding transfer of Funds

S.No	Transfer of Funds	Compliance Requirement	Record maintenance
1	Between client bank account, settlement account and client's own bank accounts	Allowed	Nil
2	Between client bank accounts & proprietary bank accounts	Permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc.	<b>Daily reconciliation statement</b> to be maintained clearly indicating the amount of funds transferred



# Provisions regarding transfer of Securities

S.No	Transfer of Securities	Compliance Requirement	Record maintenance
1	Between client beneficiary account, Pool account , individual client's BO account & Collateral A/c	Allowed	Nil
2	Between client beneficiary account & proprietary accounts	Permitted only for legitimate purposes such as, implementation of any Government/Regulatory directions or orders, in case of erroneous transfers pertaining to client's securities, for meeting legitimate dues of the stock broker, etc	<b>Stock transfer register</b> to be maintained clearly indicating the day-wise details of securities transferred.



## Provisions regarding pledging of client securities

- Securities of only those clients can be pledged who have a debit balance in their ledger.
- Funds raised against such pledged securities for a client shall not exceed the debit balance in the ledger of that particular client.
- Funds raised against such pledged securities shall be credited only to the bank account named as "Name of the Stock Broker - Client Account".
- The securities to be pledged shall be pledged from BO account tagged as "Name of the Stock Broker - Client Account".
- Pledge of such securities is permitted, only if, the same is done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996



## Provisions regarding pledging of client securities

Stock Brokers shall send a statement reflecting the pledge and funding to the clients as and when their securities are pledged/unpledged as given below:

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

The above requirement shall be applicable w.e.f July 01, 2017

## Client Funding

- *Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time."*
- **This clause would be effective from August 1, 2017.**



## **Monitoring of Client Assets lying with the Stock Broker by the Stock Exchanges**

# Monitoring of Client Assets lying with the Stock Broker by the Stock Exchanges



Members to submit the data relating to funds available , collaterals, ledger balances etc to the stock exchanges on a monthly basis.



Member to submit the data as on the last trading day of every month to the Stock Exchanges on or before the next trading day.



The stock exchanges shall monitor the clients' funds lying with the stock broker through a reconciliation process based on the data submitted by the Members



Members carrying out only proprietary trading and/or trading for institutional clients to be excluded.

## Broad Components



Client bank account balances

Balances of credit & debit clients

Collaterals with Clearing corporation/ Clg Members

PRO and Clientele margin obligation

- **PRINCIPLE 1:-** The total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member should always be equal to or greater than Clients' funds as per ledger balance.
- **Reconciliation - Funds of credit balance clients used for settlement obligation of debit balance clients or for own purpose:**

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

- **PRINCIPLE 2:-** The sum of Proprietary funds and securities i.e. lying with the clearing corporation/clearing member should be greater than or equal to Proprietary margin obligations.
- **Reconciliation** - Funds of clients used for Margin obligation of proprietary trading:

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

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

- **Principle 3:-** The clients' funds lying with the clearing corporation /clearing member should be less than or equal to sum of credit clients' margin obligations and free collateral deposits available with the clearing corporation/clearing member.
- **RECONCILIATION** - Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

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





My Inspection Risk Based Supervision Enhanced Supervision Internal Audit

Bank/DP account details

My Inspection

Reconciliation

Submit data

Submit Response/clarifications

View Submission

Sr. No.

Year

Quarter

Segment

Reminder

1

2016-17

Q2

1 Q1

CMFOCDs

NA



## **Strengthening of Internal Audit Mechanism**

## Strengthening of Internal Audit Mechanism

**Rotation of Auditors** - Individual internal auditor -5 yrs ; An audit firm - two terms of five consecutive years. To start from FY 2016-17

Audit reports to be submitted within 2 months of the end of the respective half year – HY ending Sep 2017

Exchanges to inspect select members for the same the sample data & period as that of the internal Audit

- **Internal auditor or its directors/partners not to have any interest in or relation with the stock broker concerned other than the proposed internal audit assignment**
- **Applicable for half year from April 01, 2017 to September, 30, 2017 and onwards**



## **Monitoring of Financial Strength of Stock Brokers**

# Monitoring of Financial Strength of Brokers

## Financial Statement Provisions

### Financial Strength

Stock Exchanges to monitor the financial indicators and ratios of stock brokers on periodic basis.

### Financial statements

- 1) Financial statements to be submitted in the same format as prescribed in Companies Act, 2013
- 2) Due date for submission of audited financial statements shall be as prescribed under Companies Act, 2013

### **No stock broker shall appoint or re-appoint:**

1. an individual as auditor for more than one term of five consecutive years and
2. an audit firm as auditor for more than two terms of five consecutive years.

Both individual/firm who has completed the term as above shall not re-appointed as an auditor with the same broker for 5 yrs from the completion of his term

**On a monthly basis, Members to upload the following data, as on the last trading day of the month , for every client, within seven days from the last trading day of the month.**

<b>S.No</b>	<b>Data to be uploaded monthly</b>
1	Exchange wise end of day balance across exchanges consolidated across all segments & also net funds payable or receivable by the broker to/from the client across all Exchanges
2	End of day securities balance ( Total number of ISINs and number of securities across all ISINs )
3	Number of Securities Pledged and funds raised from the pledging of such securities

- **Stock Exchanges to forward this information to clients via Email and/or SMS on the email IDs and mobile numbers uploaded by the stock broker to the Exchange for their clients.**
- **The 1<sup>st</sup> submission shall be made for the month of July 2017.**

## Clarification regarding Running Account Settlement

- There must be a gap of maximum 90/30 days between two running account settlements.
- Mode of transfer shall be by way of electronic funds transfer, (NEFT, RTGS, etc)
- The required details shall be obtained from new and existing clients, and physical payment instrument to be issued only when electronic instruction fails.
- Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.



# Reporting of PAN

- The stock brokers shall provide Permanent Account Numbers of all their Directors, Key Management Personnel and dealers to the Stock Exchanges. Any change in the aforesaid details/information shall be intimated to the Stock Exchanges within seven days of such change.
- Exchange has provided a platform for reporting the same in ENIT.





# Margin Trading

## Eligibility

- Only corporate stock brokers
- Members to have a net worth of at least Rs.3.00 crore
- Equity Shares that are classified as 'Group I security' are permitted.

# Commencement

- Members to seek prior permission of the Exchange for providing MTF.
- Member to obtain client consent in writing in his own hand or in any irrefutable electronic method
- Rights & obligation to be communicated to client.
- Terms and conditions of Margin Trading Facility, if any, shall be identified separately.
- Any transaction to be considered for MTF shall be determined as per the policy of the broker provided that such determination shall happen not later than T + 1 day.

## Margin Requirement

- Initial margin is required be collected

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

- Margin shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut.
- Members may impose/collect higher margin based on their RMS.

## Records

- Separate client-wise ledgers for funds and securities of clients to be maintained
- Separate record of details of the funds used and sources of funds for the purpose of margin trading to be maintained.
- Collateral & funded stocks to be identifiable separately & and no comingling shall be permitted
- Member to submit half-yearly net-worth certificate ( as per Dr. L.C. Gupta Committee Method) as on 31st March and 30th September of each year.

## Source of Funds

- Own Funds
- Borrowed funds from banks and/or NBFCs.
- Issuance of Commercial Papers
- Unsecured long term loans from their promoters and directors

## Exposure Limits

- Total indebtedness not to exceed 5 times of its net worth
- Maximum allowable exposure shall not exceed the borrowed funds and 50% of his net worth.
- Exposure to any single client at any point of time shall not exceed 10% of the broker's maximum allowable exposure

# Trading

- Members may grant further exposure to their clients only in case of increase in the value of Collaterals
- The mode of communication of order confirmation, margin calls or liquidation of position/security shall be as agreed between the broker and the client.
- The contract note issued to the client should indicate the Margin trading transactions.

# Liquidation of Securities

- Policy on liquidation of position/security shall be as agreed with the client and shall be in writing in his own hand or in any irrefutable electronic method
- Securities may be liquidated if the client fails to meet the margin call made by the broker but not exceeding 5 working days from the day of margin call.
- The policy of liquidation should be applicable to all clients uniformly.
- If securities are liquidated, the contract note issued shall indicate that the transaction has arisen out of failure to meet the margin call



# Reporting requirements

- Gross exposure towards MTF to be reported on or before 12 noon on the following trading day through FTP.
- If the transactions are initially undertaken as non-MTF and subsequently identified as MTF by T+1, reporting to be done by the following trading day.
- Details to be reported :-

Total amount funded to clients ( <b>Record-1</b> )	Funded Quantity/Amt liquidated during day ( <b>Record-3</b> )
Details of lender & Amount borrowed ( <b>Record-2</b> )	Funded Quantity/Amount end day( <b>Record-3</b> )
Opening Funded Quantity/Amount ( <b>Record-3</b> )	Collateral details -( <b>Record-4</b> )
Funded Quantity/Amount during day ( <b>Record-3</b> )	Client wise collateral Scrip details ( <b>Record-5</b> )

# DISCLAIMER

***Provisions mentioned in this 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