Modification of Client Code

In terms of the provisions of the Rules, Bye-Laws and Business Rules of the Exchange and in continuation of the SEBI Circular No. SEBI/HO/CDMRD/DMP/CIR/P/2016/73 dated August 19, 2016 and Exchange Circular No. MCX/S&I/242/2016 dated August 23, 2016 regarding "Modification of Client Codes post Execution of Trades on National and Regional Commodity Derivatives Exchanges–Clarification" and the Exchange Master Circular Nos. MCX/S&I/275/2024 dated April 30, 2024 and Exchange Circular No. MCX/S&I/438/2024 dated July 01, 2024, the Members of the Exchange are notified as under:

With an objective to reduce order entry mistakes and to discourage client code modifications, levy of penalty in all cases of client code modification as applicable was considered appropriate and accordingly a penalty structure was implemented.

The updated framework for Client Code Modification monitoring and penalty is as under:

1. **Penalty on Client Code Modification where either original code or modified client code is non-institutional client category:**

   The Exchange shall levy a penalty from members and credit the same to its Investor Protection Fund as under:

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

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

   The Exchange shall undertake stringent disciplinary actions against members who undertake frequent client code modifications. If 'a' as % of 'b', as defined above, exceeds 1% during a month, then the Exchange shall conduct a special inspection of the member to ascertain whether the modifications of client codes are being carried on as per the strict objective criteria set by the Exchange. Appropriate disciplinary action shall be taken by the Exchange, if any deficiency is observed.

2 Maintenance of Error Account

All the trading members with active clients are mandatorily required to create/ maintain designated "Error Account". Members, before placing order for their clients, are required to ensure that designated "Error account" is uploaded in the UCC database of the Exchange with Client Code as 'ERROR'. In cases where the trading member fails to create/ maintain a single active designated "ERROR" account, a penalty of Rs. 10,000/- per month will be imposed.

3. Penalty for Modification to ERROR client code category and Liquidation of trades transferred to ERROR account

As per above circular, shifting of any trade to the error account of the trading member shall not be treated as modification of client code provided the positions arising out of trades in error account are subsequently liquidated / closed out in the market and not shifted to some other client code.

Accordingly, Members are advised to ensure that if the erroneous trades from any client code is being shifted to "Error Account", then the shifted positions shall be liquidated from the "Error account" itself. In cases, where the trading member has traded in the wrong client code and square off the erroneous trade in client account itself and modify both the legs of the trades to Error account a penalty of Rs. 10,000/- per day of violation will be imposed.

4. Penalty for fresh trade in ERROR Account.

Members are required to ensure that no fresh trade is allowed/ permitted in Error account. Only square off trade allows from trade account. If any fresh trade executed in the Error account a penalty of Rs. 10,000/- per day of violation will be imposed.

5. Penalty for modification of client code from ERROR account to another client Code

In cases where the trading member modifies client code from error account to other client code, a penalty at the rate of 2% of traded value (for options notional value will be considered as traded value) shall be levied. In case of such repeated instances, in addition to the penalty levied further disciplinary action as may deemed fit would be initiated against the member.

6. **Penalty for Keeping Open position for more than 3 working days in ERROR account:**

In case where the trading member keep the open position more than 3 working days in ERROR account, a penalty as per client code modification as defined for applicable regulatory guidelines/ circulars of Exchange will be applicable & levied

The following penalty structure will be applicable:

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

Where:
"a" = Value (turnover) of total trades where client codes have been modified by a trading member in a segment during a calendar month.
"b" = Value (turnover) of total trades of the trading member in the segment during the calendar month.

7. **Institutional Trade Modification Penalty**

As per circular, shifting of any trade (institutional or non-institutional) to ERROR account of the trading member shall not be treated as modification of client code provided the positions arising out of trades in error account are liquidated / closed out in the market and not shifted to some other client code.

Modification between client codes of two entities, which are of the institutional category, will be allowed only if the modification from both client codes is from different schemes / sub-accounts of / managed by the same Institution. Such modification shall not be subject to penalty. Otherwise, a penalty as given below will be levied:

The following penalty structure will be applicable:

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

Where:
"a" = Value (turnover) of institutional trades where client codes have been modified by a trading member in a segment during a calendar month.
"b" = Value (turnover) of institutional trades of the trading member in the segment during the calendar month.

8. **Procedure of waiver of penalty**

   With reference to the above mentioned Exchange Circulars, the following will be classified as genuine errors for the purpose of client code modification:

   - Error due to communication and / or punching or typing such that the original client code / name and the modified client code / name are similar to each other.
   - Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013).

   Subject to the reasons mentioned above, Trading Members may kindly note that the request for waiver of penalty along with reasons and relevant supporting documents should be submitted to the Exchange within three (3) working day from the date modification failing which request for waiver shall not be accepted.

Trading members are required to take note of the same and take adequate precautions while placing the orders.

The provisions of the circular shall be effective from October 01, 2024.

Ayanansu Panda
Vice President
Surveillance and Investigation

Kindly contact Customer Service Team on 022 – 6649 4040 or send an email at customersupport@mcxindia.com for any clarification.