

FAQs – Actual settlement of funds & securities

1. When does a client account need to be settled?

As per Exchange Circular NSE/INSP/13606 dated December 03, 2009, the settlement of funds and / or securities shall be done within 1 working day of the payout, unless client specifically authorizes the trading member in writing to maintain a running account.

Clients whose funds and securities are maintained on a running account basis have to be settled by members on a monthly / quarterly basis as per the client preference.

2. What should be the periodicity for settlement of client funds and securities?

In case a client wishes to maintain a running account for its funds and securities with the trading member, the client has to authorize the member in writing to retain its funds and securities. Such authorization should also contain:

- preference of the client as to whether the settlement of funds and securities should be done on a monthly or quarterly basis
- a clause stating that the Client may revoke the authorization at any time (i.e. without notice)

Accordingly, the actual settlement of funds and securities shall be done by the member at least once in a calendar quarter or month, depending on the preference of the client.

3. Which accounts need to be settled?

A member needs to settle the accounts of all clients who have opted for maintenance of running account instead of bill to bill settlement.

However, in case of new clients who are registered at the end of a month / quarter, no settlement would be required to be done in the first month / quarter respectively in which the client is registered.

4. What balances need to be considered while settling funds and securities of clients?

Exchange Circular NSE/INSP/13606 dated December 03, 2009, states that a member has to settle clients “funds and securities” at least once in a calendar quarter or month.

Accordingly members need to consider the EOD balance of funds and securities of clients across all segments of the Exchange while settling the client accounts.

It is clarified that while settling client accounts, both funds and securities of clients need to be settled on the same day.

5. What is the value of funds / securities that a trading member can retain while doing the settlement?

As per Exchange Circular NSE/INSP/13606 dated December 03, 2009, for the clients having outstanding obligations on the settlement date, a member 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.

Accordingly the following funds / securities may be retained by a member at the time of settlement

- entire pay-in obligation of funds & securities outstanding at the end of day on date of settlement
- funds / securities to the extent of value of transactions executed on the day of such settlement in the capital market
- in derivative segment apart from margin liability as on the date of settlement, additional margins (maximum up-to 75% of margin requirement on the day of settlement)

An indicative format of retention statement is attached as **Annexure 1**. In case of any other format, members should ensure that the contents specified by the relevant circulars are covered in the retention statement.

Note:

- a) While computing the value of securities, the closing rate for the trade date prior to the settlement date (T-1 day) should be considered after appropriate hair-cut viz. VaR margin rate applicable for the security in the Capital Market segment
- b) In case the member applies hair cut in excess of VaR rate on a regular basis then such higher rate may be considered for determining the amount to be retained, provided the member has intimated the requirement of additional margins to the clients through the policy and procedures document and consistently through the daily margin statements issued to clients
- c) No inter client adjustment can be done for the purpose of settling client accounts.
- d) Obtaining of authorization from the clients to the effect that no settlement need be done for particular month(s) / quarter(s) is contradictory to the SEBI requirement and hence not permissible.
- e) In case the member issues cheques in favor of the client, settlement will be deemed to have been done only if such cheque is cleared within a reasonable period.
- f) In case of settlement done on trading holiday(s), T day to be considered for margins / turnover, etc., would be the previous trading day
- g) In case the trading member has created Fixed Deposit Receipt out of the funds received from the client then the same needs to be settled as part of the settlement process.
- h) Illiquid / volatile scrip's having VaR margin (hair cut) as 100% also need to be returned to the client if adequate securities are available with the member as per its risk management system.

6. When should a member send statement of accounts for funds / securities?

A Member is required to send to the client 'statement of accounts' containing an extract from the client ledger for funds, an extract from the register of securities displaying all receipts and deliveries of securities and a statement explaining the retention of funds and / or securities *at the time of settlement*.

The statement of accounts sent at the time of settlement may be sent in hard or in soft form as per the consent obtained from the client and POD / dispatch register / logs of email sent should be retained by the member.

7. What details should the statement of accounts sent at the time of settlement contain?

A member could use any format for issue of statement of account at the time of settling client's accounts. However the statement should necessarily contain the following details:

- transactions / MTM / margins debited and reversed / pay in and pay out of funds for the period from the date of last settlement done till the current settlement date
- security wise pay in pay out / securities retained as margin / securities pledged for the period from the date of last settlement done till the current settlement date
- closing balance of funds / securities available with the member on the date of settlement
- an error reporting clause giving clients not less than 7 working days from the date of receipt of funds / securities or statement, to bring any dispute arising from the statement of account or settlement so made to the notice of the broker.
- a clause intimating the client that the client has provided a running account authorization which can be revoked at any time.

In addition to the statement of account for funds members also need to provide to their clients a statement explaining the retention of funds / securities.

8. Is the member required to send statement of accounts for funds / securities at the end of quarter in addition to the statement sent at the time of quarterly / monthly settlement?

In case a member has done monthly / quarterly settlement of client accounts and has sent statement of accounts for funds & securities as well as retention statement to the clients at the time of settlement as a part of settlement process, it would be considered adequate compliance for the purpose of sending quarterly statement of accounts for funds / securities for such clients provided statement of accounts (issued at the time of settlement) is sent on a regular basis to clients.

However, for clients whose settlement is not required to be done (e.g. Clients maintaining bill to bill pay in and pay out), the member is required to send statement of accounts for funds / securities at the end of quarter.

9. Is statement of account required to be issued in case no trades are done by clients in the quarter / month?

In case a client has not traded during the quarter / month and the trading member does not hold any funds or securities for the client at any point of time during the quarter / month for which settlement needs to be done, then the member may decide not to issue statement of account to the client.

10. In which circumstances settlement need not be done by a member?

Periodic settlement as per the above mentioned rules is not required to be done in the following cases:

- a) Clients settling trades through “custodians”
- b) Clients availing margin trading facility (to the extent of funds / securities relating to margin trading facility used by client)
- c) Margin received in the form of Bank Guarantees and Fixed Deposit Receipts which are created by clients
- d) Clearing members who are clearing trades of custodial participants / trading members

11. Can a member retain funds of clients towards obligations towards its sister companies?

While settling client accounts on monthly / quarterly basis a member cannot retain funds or securities in excess of the balances mentioned in Point 5.

Accordingly, while ascertaining retention amount, a member cannot consider debit balances of client which are arising in the books of sister concern / associate of the member which is registered in other exchanges / commodities broking.

Annexure 1

(A) Total value of clients Funds and Securities available

Particulars	Amount (Rs.)	Amount (Rs.)
Unencumbered balance in client ledger <i>(after reversing value of unsettled bills if any in case of trade day billing and margin amount if debited in client ledger)</i>	<u>XXXX</u>	
Unencumbered balance in margin ledgers	<u>XXXX</u>	<u>XXXX</u>
Value of Securities Available on T Day with member <i>(at closing rate of T-1 Day after appropriate Haircut)</i>		<u>XXXX</u>
Total Funds and Securities available		<u>XXXX</u>

(B) Explanation regarding Retention of Funds and Securities

Particulars	NSE CM Segment	NSE F&O Segment	NSE CD Segment	Other Exchange	Amount (Rs.)
Unencumbered Debit balance in client ledger <i>(across segments / exchanges after reversing value of unsettled bills if any in case of trade day billing and margin amount if debited in client ledger)</i>					<u>XXXX</u>
T Day Funds Pay in obligation	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	
T-1 Day Funds Pay in obligation	<u>XXXX</u>	N.A.	N.A.	<u>XXXX</u>	
T Day Securities Pay in obligation in CM segment	<u>XXXX</u>	N.A.	N.A.	<u>XXXX</u>	
T-1 Day Securities Pay in obligation in CM segment	<u>XXXX</u>	N.A.	N.A.	<u>XXXX</u>	
175% of T Day Margin Requirement in Derivatives seg	N.A.	<u>XXXX</u>	<u>XXXX</u>	N.A.	
T Day turnover in CM segment	<u>XXXX</u>	N.A.	N.A.	<u>XXXX</u>	<u>XXXX</u>
Maximum Funds and Securities that can be retained					<u>XXXX</u>

(C) Retention of Funds and Securities (Value)

Value of Funds received from client - retained						<u>XXXX</u>
Value of Securities of client – retained						
Scrip Name	ISIN	Quantity	Closing Rate on T-1 Day	Haircut	Value	
		<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	
		<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	
		<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>
Total Retention						<u>XXXX</u>

(D) Details of Payout to client

Funds released						<u>XXXX</u>
Details of Securities released						
Scrip Name	ISIN	Quantity	Rate on T-1 Day	Haircut	Value	
		<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	
		<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	
		<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	
		<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>	<u>XXXX</u>
Total Funds and Securities released						<u>XXXX</u>

(E) Amount not required to be returned

Value of BG's received from client - not required to be returned <i>(With details of each BG)</i>	<u>XXXX</u>
Value of FD's received from client - not required to be returned <i>(With details of each FD)</i>	<u>XXXX</u>