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1. PURPOSE OF INSPECTION

As per the circular No F 1/4/SE/83 dated January 29, 1983, issued by the Ministry of Finance, every Exchange is required to take suitable steps to inspect books of accounts and other documents of at least 10% of its active members in a financial year and institute necessary disciplinary action against members whose books of accounts and other documents reveal malpractice like excessive trading, under-reporting of transactions, trading in securities prior to listing, etc.

The main purpose of Inspection of the books & accounts & other documents of the members by the Exchange is to ascertain whether they are carrying on the business in terms of the provisions of the Rules, Bye-Laws & Regulations of the Exchange, Securities Contracts (Regulation) Act, 1956, and Rules framed thereunder and the directions issued by the SEBI from time to time. The Stock Exchange, being a Self Regulating Organisation, is primarily responsible for ensuring orderly conduct by its members.

The purpose of the inspection is to see that:

- Proper books of accounts, records and documents are being maintained by a member in the manner specified in Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 (1) of the Securities and Exchange Board of India (Stock Brokers & Sub-Brokers) Rules, 1992.

- The member has complied with the Rules, Bye-laws & Regulations of the Exchange.


- The member has not evaded payment of margins.

- The member has complied with all the trading restrictions, if any imposed by the Exchange from time to time.

- The conduct of the member is in the overall interest of the capital market and the member is fair in dealing with investors.
2. THE INSPECTION PROCESS

A list of the members, for the purpose of inspection of the books of accounts is generally drawn once in a month. Once the names of the members whose books have to be called for inspection are short listed, the Inspection Department ascertains whether a member is in Type-I or Type-II category and accordingly a letter is sent to him calling for his books for inspection. The member is required to submit the books of accounts and other documents called for, to the Inspection Dept. within 7 days from the receipt of the letter.

Members who have opted for carry-forward business in ‘A’ group scrips are called Type-I members, while Type-II members are those who have not so opted and transact in ‘A’ group scrips only on delivery and payment basis.

If the books are not submitted by a member within seven days from the date of receipt of the letter, a reminder is issued to him. If a member still does not submit the books of accounts and documents for inspection as directed by the Exchange a fine of Rs. 10,000/- is imposed on him. The members are required to send all the documents in a file with a covering letter.

Once the documents are received by the Inspection Department, the contents are verified to check whether all the documents called for have been submitted. These documents are retained by the Department till the inspection is complete. It normally takes about 10 to 15 days, to complete an inspection of the books of accounts etc. of a member, depending upon the volume of business.

*Inspection team is expected to verify in detail the transactions of at least three or more settlement periods.*

The inspection should start from:

- the Order Book – which records the receipt of Orders from Clients. A member is expected to enter each order received from the clients into an Order Book.

- Execution of Order – to be verified from Daily Transaction List, i.e., Sauda Book with Order Book. This is to confirm that the orders executed are as per the order book.

- Issue of Contract Notes – to be verified by checking Broker Query File (BRK Statement) with copies/counterfoils of Contract Notes issued, to ensure that Contract Notes are issued for all the transactions reported on BOLT.
• Verification of Contract Notes Issued – verify whether Contract Notes issued are as per the Format prescribed.

• Payment of Margin – In case of Type-I members, verify Margin Statement downloaded by the Exchange with Forward Scripwise Summary Report maintained by the member, for checking that the daily break-up has been reported correctly, i.e., scrip-wise, client-wise gross open position. For checking correct payment of carry-forward margin, check Client Upla Statement maintained by member, with Carry over Margin Statement downloaded by the Exchange. For Type-I & Type-II members check cases of manual exemption claimed by them from payment of margins, in respect of Sales for Delivery (SD), FII business, Break-up Errors in respect

• Issue of Bill – after the settlement is over the members are required to issue bills to their clients.

• Receive/pay-in obligation, i.e., securities/money in case of sale/purchase by clients. Verify whether monies received from clients are deposited in a separate bank account(s) designated as “clients’ account”.

• Inward/Outward Register (Documents Register) - This register is maintained for entering particulars of securities received or delivered by a member in physical form. This is supposed to be a primary record, which lists & identifies every security available with member at any time.

• Accounts - routing the client money through a separate bank account, to be verified by checking Bank Statement with Bank Book.

• Pay-in/Pay-out of securities/money to/from the Clearing House.

• Delivery of securities/payment of money to the clients, within 48 hours of declaration of pay-out by the Exchange.

• Obtaining receipt/acknowledgement from the clients for the contract notes, securities/monies.

These days all the records are maintained by the members on the computer and hard copies are generally not available. In absence of availability of hard copies, it becomes difficult for the inspection team to verify the records and members generally take a lot of time in providing hard copies. Hence, the Inspection Department instructs the members in advance to keep the hard copies of the records ready for inspection for selected settlements.
3. BOOKS OF ACCOUNT & DOCUMENTS CALLED FOR INSPECTION

For the purpose of Inspection, the Exchange normally calls the following records/documents from the members.

a) Daily transaction list with clients’ names (Sauda book).
b) Broker Query File (BRK file) for trades executed during the period
c) Forward scripwise clientwise list in respect of scrips of specified group, i.e., ‘A’ group. (Scrip-wise client-wise cumulative outstanding positions for each trading day).
d) Duplicate copies of contract notes issued to clients.
e) Copy of the Board resolution/Power of Attorney (along with specimen signature of the authorised persons), if any, for signing the contract notes.
f) Written consent of clients in respect of contracts entered into as principals.
g) Clients Bills along with bills summary.
h) Scrip-wise Clients upla statement (i.e., c/f position of all clients for the settlements is called).
i) Duplicate copies of self-certificates submitted on monthly basis for relevant period (i.e., no transaction has been carried forward for more than 75 days) and daily & badla break-ups have been reported correctly without netting positions of two different clients in the same scrip.
j) Duplicate copies of computerised margin statements.
k) Proof of exemption claimed from payment of margins for sales for delivery transactions.
m) All documents showing compliance of Bye-law 247-A of the Rules Bye-laws and Regulations of the Exchange with regards to segregation of clients’ monies and securities (bank statements, bank books, clients’ ledger accounts, and inward/outward register).
n) Margin Deposit Book
o) List of books of accounts, records and documents maintained by the members as required under Regulation 17 of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992
p) List of clients whose data base (Client Registration & Broker-Client Agreements) is maintained in the format prescribed by the Exchange.
q) Details of BOLT TWSs installed and their locations.
r) List of sub-brokers and their SEBI Registration Nos.

From Type II member (i.e., those who have not opted for Carry Forward System) some of the records like forward scrip-wise summary of specified group, self certificates etc. are not called.
4. RECORDS TO BE MAINTAINED BY MEMBERS

The members of the Exchange are required to maintain the following books of accounts & records as per Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 of the SEBI (Stock Brokers and Sub-Brokers) Rules, 1992. These books and records are to be preserved for a minimum period of five years.

- Register of Transactions (Sauda Books) / Daily Transaction List
- Clients Ledger
- General Ledger
- Journals
- Cash Book
- Bank Pass Book
- Documents Register/Inward-Outward Register showing full particulars of shares and securities received and delivered.
- Counterfoils or duplicates of contract notes issued to clients.
- Written consent of clients in respect of contracts entered into as principals.
- Margin deposit book.
- Register of accounts of sub-brokers.
- An agreement with a sub-broker specifying the scope of authority and responsibilities of the stock-broker and such sub-brokers.

In addition to the above statutory requirements, members of the Exchange are required to maintain the following records/documents:

- Scripwise clientwise list in respect of scrips of specified group, i.e., 'A' group. (inclusive of brought forward positions).
- Clients upla statement (i.e., carry-forward position of all clients).
- Duplicate copies of self-certificates submitted on monthly basis (i.e., no transactions in 'A' group scrips has been carry forward for more than 75 days and daily & badla break-ups have been reported correctly without netting positions of two different clients in the same scrip).
- Copies of all margin statements downloaded by the Exchange.
- Duplicate copies of claims made, if any, in respect of exemption from payment of margins for sales for delivery transactions.
- Copies of Valan Balance Sheet (Form-31) along with all relevant sheets.
- Details of spot delivery transactions entered into (including securities delivered and payments made to the members).
- Know your Client (Client database & Broker Client Agreement).
a) Order Book
SEBI has provided that the member brokers should maintain record of time when the client has placed the order. This information is maintained by the member in his Order Book. Inspecting team should verify whether the member maintains the order book for the trades entered into on behalf of clients. Order book should generally contain the following information:

- identity of the person placing the order
- date and time of order received
- name of the person receiving the order
- name of the client, description and value of the securities to be bought or sold.
- Terms and conditions of the order stating price/rate limit or price/trade related instructions and time limit (if any)
- details of any modification or cancellation, if any.
- Reference number of the contract issued.
- Serially numbered orders.

b) Broker Query File (for trades executed)
This statement is downloaded by the members on a daily basis during the broker query session of that particular day. This statement shows the details of all the transactions executed by a member from all his terminals for that day. It shows Trade ID, Transaction ID, Time of transaction, scrip quantity, scrip code, type of transaction, Client ID, terminal from which the transaction was executed and date. The contract Notes issued by a member should be checked with this statement to find if he has issued contract notes to all his clients.

c) Daily transactions list (Sauda Book) / Register of Transactions
All members are required to maintain a ‘Sauda Book’, which contains details of all deals transacted by them on a day to day basis. This is one of the very important basic records, which each member is required to maintain regularly on day-to-day basis. It contains the details regarding the name of the scrip, name of the client on whose behalf the deals have been done, rate & quantity of scrip bought or sold. These details are maintained date-wise. This register contains all the transactions, which may be of any of the kind mentioned below:
- member’s own business on the Exchange.
- member’s business on the Exchange on behalf of clients.
- member’s business with the clients on principal-to-principal basis.
- member’s business with the members of other Stock Exchanges.
- member’s business on behalf of his clients with the members of other Stock Exchanges.
- Spot transactions, etc.
Inspection team should verify that all the transactions done by a member are recorded in the sauda book. It should also be ensured that contract notes are issued for all the business conducted on behalf of the clients. Non-issuance of contract notes or any extra contract notes issued for trade done on other Stock Exchanges or trades, which have not been reported to the stock exchange, should be reported in the inspection report. The Inspection team should verify the details of transactions with Contract Notes issued and report any discrepancy.

d) Contract Notes
Contract note is a document through which a contractual obligation is established between a member and a client. This is the prime document on the basis of which all the disputes between the members and clients are settled. Every member has to issue contract notes to his clients for the securities sold and purchased by him on their behalf. The Contract Notes are to be issued to the Client within 24 hours of execution of the trades. Members are also required to preserve counter-foils or duplicates of the copies of contract notes issued to clients. The duplicates of the contract notes issued should be acknowledged by the clients.

Contract Notes are issued either in Form A, or in Form B. The format of the Contract Notes and various clauses to be printed on reverse thereof are given in Annexure - I. When a member is only acting as an agent for his client, he is required to issue contract note in Form A. In case of Form A contract notes issued to clients, the brokerage is required to be shown separately. The brokerage charged by the member should not exceed 2.5% of the value of the trade.

Where a member either buys for himself, or sells securities directly to his client without entering the client order on BOLT, then he is said to be acting on a principal to principal basis with his client. Members are allowed to enter into principal-to-principal transactions with their clients. However, when a member is transacting with a client on principal-to-principal basis, much transparency is required. The rules require that a member discloses this fact to the client before entering into such a deal and obtains written consent from the client for every such transaction within 3 days of entering of the contract. A member is also required vide Regulation 15(2) (c) of the Securities Contracts (Regulation) Rules, 1957, to maintain and preserve the written consent of the clients in respect of contracts entered into as principals. Further, the member is required to give priority to the orders from the clients over his own orders in the same scrip if they are received at the same time.

• It is, however, observed that members obtain one general consent from their clients to act on principal-to-principal basis and the same is produced before the inspection team. It is argued that this single consent is sufficient for all the trades executed for the period of inspection. It may,
however, be noted that written consent of the client is to be obtained separately in respect of each such transaction. It may be further noted that for Principal to Principal transactions no brokerage is to be charged by the members.

The Contract Notes are required to be signed either by the member himself or his constituted attorney. In case a sole proprietor/partnership firm wishes to authorise another person to sign the Contract Notes, then the member is required to submit a power of attorney on a stamp paper authorising another person(s) to sign the contract note. In case of corporate membership, a board resolution is required to authorise a person(s) including Directors to sign the contract notes. The power of attorney/board resolution(s) are required to be filed with the Membership Department and also made available to the Inspection Team during inspection of the member’s books of accounts.

Inspection team may also verify whether a member has entered into some transactions on his own account and simultaneously off loaded the same to a client on principal to principal basis after charging his margin. This conduct of the member is in violation of the Code of Conduct prescribed for stock brokers in SEBI regulations. The inspection team should make a note of such transactions.

Inspection team should check Broker Query File (BRK file) with Daily Transaction List (Sauda Book) to find out transactions with clients on principal-to-principal basis.

Inspection team should look into the following aspects while inspecting contract notes issued by a member.

- Whether the contract notes have been serially numbered.
- Any serial number left blank? (to accommodate back dated contracts).
- Whether the format of the contract note is as prescribed as per the Regulations of the Exchange.
- Whether contract notes have been issued to all the clients within 24 hours of execution of trades.
- Whether duplicate copies/counterfoils of contract notes are maintained and these are acknowledged by the clients.
- Brokerage charged in contract notes in Form A is within the permissible limits.
- Whether the contract notes have been signed by the member himself or a authorised signatory.
- Contract note is issued in Form ‘B’ for principal to principal transactions.
- Written consent has been obtained from the clients for every transaction done on principal to principal basis.
- Whether the contract notes have been issued in respect of all the transaction entered into by members.
- Whether Transaction ID, Trade ID, and Time when transaction was executed have been printed on the contract note.
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- Whether price of transaction and brokerage have been indicated separately in case of Form A contract note (transaction done on behalf of the clients as an agent)
- Whether SEBI Registration No., settlement no., etc. have been mentioned
- Whether PAN number of the member and of the client is printed on the contract note in case the value of the transactions is more than Rs. 10,00,000/-.
- Whether all the clauses specified by the Exchanges have been printed on the reverse of the contract notes.

e) Margin Deposit Book
A member is required to maintain a margin deposit book wherein details of all the margins deposited with the Exchange are to be recorded. The book should be inspected to ascertain whether the member has complied with all the directives regarding margins, etc. issued by SEBI or Stock Exchange from time to time. The margin payments made by the member may be cross-checked with the daily margin statements downloaded by the Stock Exchange.
As per the latest SEBI guidelines it is mandatory for the members to collect margins from their clients if the margin amount in respect of a client exceeds Rs. 50,000/- in a settlement. This is effective from December 14, 1998. The inspection team may verify whether the member has been complying with these requirements. The deficiencies observed in this regard may be suitably brought out in the inspection report.

It may, however, be noted that the members may have collected deposits from his registered sub-brokers. The same may not be deposited in the client account and can be used by the members for his own or other purposes.

f) Client Bills
The bills issued to clients pertaining to the settlements are called for inspection from the member. One purpose of scrutinising the bills is to check if any member of the Exchange is appearing as a client in his books. If that is the case, it should be investigated further to ascertain the nature of transaction, i.e., financing, etc. Clients' bills will also show the scrip-wise, carry-forward position in particular scrip. The carry-over margin collected from the clients will also be reflected in the bills.

Another important aspect that may be found out from the client bill is, whether any transaction in 'A' group scrips has been carried forward by a Type-I member for more than 75 days. Since the client bill shows scrip-wise, carry-forward position in a particular scrip and also the date of the transaction, it can easily be found out as to for how many days a particular transaction is being carried forward.
g) Clients Ledger

Every broker is required to maintain a clients’ ledger. This ledger contains the details of the bill raised and the payment received from or made to the clients. Inspection of this ledger can bring out the delay in making payment to the clients.

This ledger should be inspected in detail by the inspection team. The inspection team may find that in respect of some of the clients, payments have not been made or received since a considerable period. These may be cases of trading by the member-brokers in benami names or even fictitious names, wherein funds through benami or fictitious bank accounts might have been introduced. Even the receipt of funds through cheques in such cases does not necessarily mean that the fund is accounted for or the money is legitimate. Such transactions may require further scrutiny/investigation. Hence, the inspection team should take a note of such transactions/accounts and report the same in their inspection report.

Inspection team may also look into other irregular accounts in this ledger, which may be further inquired. If the inspection team is not satisfied with explanation furnished by the member for receiving/making payment, a note of such transactions may be taken and reported in the inspection report. The Inspection team should give prima facie opinion on such matters after discussing the matter with the member.

h) Documents Register (Inward/Outward Register)

This is the register, which contains the particulars of the securities including their distinctive numbers received or delivered by a member. This is a primary record, which lists and identifies every security available with the member at any given time. Generally, it is noted that members maintain a scrip ledger, which contains only the number of scrips, received, delivered and balance. This ledger does not provide for the distinctive number of the scrips for which bills have to be prepared. It may be mentioned that if distinctive numbers are not recorded properly then the identification of introducer cannot be established.

While scrutinising this register, the inspection team should analyze that a member has not used the scrips delivered by his clients to meet his own obligations. The inspection team may also physically verify the stock available with a member on the date of inspection, if so, desired.

Dematerialised Securities

All members are required to open two accounts with their Depository Participants (DP) for handling the receipt and delivery of shares in demat. One account is Beneficiary Account wherein the demat securities lying in the members’ own account are held and the other is Pool Account wherein the demat securities of the clients are temporarily lodged for
transfer to/from the Clearing House in the Pay-in/Pay-out. The clients who have sold securities transfer the same in the demat form to the members pool account before the pay-in and member transfers the same to the Clearing House on the pay-in day. In case of purchase of securities by the client, on pay-out day, the Clearing House credits the securities to the Pool Account of the member and the member then transfers the same to the accounts of individual clients. In this connection, the members are required to maintain a proper record of all shares received and delivered from their Pool Account as well as preserve acknowledged copy of the delivery instructions given to their DPs for transferring these securities from the Pool Account to the Clients’ account after the Pay-Out.

The Inspection Team is required to verify whether appropriate records have been maintained by the member in this regard.

These documents should be scrutinised by the Inspection Team as these provide insight into the fund flow of a member. If major cash payments or receipts are observed, further details may be asked from the member to verify their genuineness. Members are required to maintain separate bank account for clients’ monies. It should be verified that the member maintains separate bank account for monies received from the clients and all receipts from and payments to clients are routed through this account. It should also be seen that the funds lying in the clients’ account are not used by a member for own purpose or for other purposes, which are not allowed.

j) Scrip-wise Client-wise Register
All Type – I members are required to have provision in their software for accounting scrip-wise, client-wise gross open positions (from all their BOLT TWSs including outstation branches) on a daily basis. This statement shows the cumulative client-wise position in the scrips (Upla + day 1, Upla + day 1 + day 2, etc. till last day) for that settlement, on a day to day basis. This is a basic requirement for Type –I members. For checking evasion of margins, the day to day position in this statement is checked with the daily margin statement down loaded by the Exchange.

k) Scrip-Wise Client Upla Statement.
This statement maintained by the members shows the carry-forward position of the clients in a scrip from one settlement to another. The position shown in the carry-forward margin statement should be compared with Client Upla statement for checking evasion of margins by under-reporting of positions.
5. AUDITED ACCOUNTS & NETWORTH CERTIFICATES

Under Rule 12 of the Securities Contract Regulation Rules 1957, the members are required to have their accounts audited by a qualified Chartered Accountant and submit an audit report to the Exchange. The report to be submitted by the auditor has been prescribed in the circular No F.1/5/SE/83 dated May 31, 1984 issued by the Ministry of Finance, Government of India.

The audit of accounts of the members should be completed within 6 months from the close of the financial year. Members are required to submit copy of the Audit Report to the Exchange within 30 days of its receipt. All active members including representative members are required to submit the Audit report. An active member of the Stock Exchange refers to a member who has done business in securities even for a single day in the accounting year.

The Exchange has directed all the members to submit the Profit & Loss Account and the Balance Sheet along with the Audit Report. The due date for filing the above documents is October 31 of each year. The members are asked to submit the Balance Sheet and Profit & Loss Account in a sealed cover to the Inspection Department. The Audit Report has to be submitted separately along with a covering letter.

All the members are also required to submit a Networth certificate from their Chartered Accountant on a half yearly basis as on March 31 and September 30. The Certificates for March 31 are required to be submitted by October 31, and the Certificates for the half year ended September 30, are required to be submitted by November 30. The Certificate as on March 31 is required to be submitted on the basis of audited accounts. The certificate for the half year ended September 30, may be submitted on the basis of unaudited accounts.

The Inspection Team will have to verify that the Networth certificate submitted by the member is strictly as per the format prescribed by the Exchange. In case the Networth of the member is negative, the same should be mentioned in the Inspection Report. The Inspection Team is required to scrutinise these records and give their comments on the financial status of the member in the Inspection Report.
6. MARGINS

(a) Daily Margins

The Exchange collects daily margins from members based on their net cumulative outstanding positions in the market.

The Exchange has two types of members, i.e., Type-I and Type-II. Type-I members are those who have opted to carry-forward their transactions in ‘A’ group scrips (presently 140 scrips) while Type-II members are those who have not so opted. Type-I members are required to deposit the base minimum capital + additional capital of Rs. 15 lakhs (as against the base minimum capital requirement of Rs. 10 lakhs for Type-II members) and provide a bank guarantee of Rs. 10 lakhs to meet the requirement of up-front payment of daily margin on their outstanding position in ‘A’ group scrips.

The Type-I members are allowed to carry forward their position in ‘A’ group scrips from one settlement to another up to a maximum of 75 days from date of the original transaction. Type-I members are permitted to indicate at the end of each trading day, whether the outstanding position is for delivery or carry forward.

There is a limit of Rs. 20 crores for a Type-I member for carrying forward the outstanding position in all ‘A’ group scrips put together, from one settlement to another. There is also a sub-limit of Rs. 4 crores on value of transactions carried forward from one settlement to another in a single scrip within the overall limit of Rs. 20 crores. However, within a settlement, a member can have a maximum outstanding carry-forward position of Rs.50 crores in all scrips and Rs.6.00 crores in a single scrip. The limits mentioned above are exclusive of vyaj badla position and scrips, which are in their ‘No-Delivery’ period. There is no monetary ceiling or restriction on Vyaj badla positions.

For Type I Members- (For A Group scrips):
The daily margin for Type-I members on their transactions in ‘A’ group scrips is computed at 10% on transactions whether marked for delivery or carry-forward. Half of the daily margin (i.e., 5%) is required to be paid up-front, i.e., either before the execution of the transaction or on the day of the transaction itself. The daily margin for Type-I members is computed on the basis of scrip wise client wise gross position, i.e., without netting off purchase position of one client against the sale position of another client in the same scrip. The gross exposure of a member (i.e., $PC + SB + SC$, which is scripwise gross outstanding position without netting off positions of two different clients in the same scrip) in ‘A’ group scrips upto Rs. 25 crores attracts daily margin of 10% and the gross outstanding position above Rs. 25 crores and upto Rs. 40 crores attracts daily
margin of 15% and gross outstanding position above Rs. 40 crores attracts a daily margin of 20%. Further, Mark-to-Market (MTM) margin is also computed on outstanding positions and recovered if the amount of MTM margin payable exceeds the amount paid/payable as daily margin. The daily margin is payable on fresh transactions during the settlement, as well as positions carried forward from previous settlement.

The MTM margin is computed by marking the daily net outstanding position of a member in all scrips to the closing price of the respective scrips to find out the notional profit/loss a member would incur in case his net outstanding position in all securities at the end of the day in consideration were to be closed out. All notional profits made in some scrips are ignored whereas all notional losses in other scrips as well as all actual losses incurred by the members on the positions squared up are added and collected as MTM margin provided the same is higher than the daily margin as explained above.

For Type I Members (for B1 and B2 scrips):
The daily margin for Type-I members in respect of their transactions in ‘B1’ and ‘B2’ group scrips is calculated on the basis of their Gross Exposure. The Gross Exposure (i.e., outstanding cumulative net purchases + net sales) above Rs.1.00 crore attracts daily margin at the rates prescribed in Annexure -II.

For Type II Members (for A, B1 and B2 scrips):
The daily margin for Type-II members for their transactions in ‘A’, ‘B1’ & ‘B2’ group scrips is calculated on the basis of their Gross Exposure. The Gross Exposure (i.e., outstanding cumulative net purchases + net sales) above Rs.1.00 crore attracts daily margin at the rates prescribed in Annexure - II.

The Exchange also computes MTM margin on the positions, in a manner explained above, and recovers the same if it is higher than the margin payable on the basis of gross exposure. Thus, the members are required to pay higher of the two margins on a daily basis, i.e., Gross Exposure or MTM.

As on September 30, 1999, 303 members out of 490 active members of the Exchange have opted to be in the Type-I category.

Exemptions, etc.:
Institutional business (i.e., purchases and sales on behalf of scheduled commercial banks, Indian Financial Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI) and transactions marked as sales for delivery are exempt from payment of daily margin.
In case of transactions marked as Sales for Delivery (SD), the same are exempt from payment of margin, if and only when, delivery of the same is made to the Clearing House of the Exchange. Further, in case a member subsequently squares up his sales position after availing of exemption from payment of margin
by depositing the shares sold, then the purchase position is treated as a fresh position and is margined accordingly.

(b) Demat segment:
The daily margin on transactions done in the demat segment is computed at the rate of 10% on the basis of the members' gross outstanding position, subject to a basic exemption of Rs.10 lakhs. The gross outstanding position means the aggregate of scrip-wise net purchases + net sales. Further, MTM margin is also computed in the same manner as in the physical segment on these transactions and recovered if the same exceeds the amount of daily margin payable on the basis of gross outstanding positions in this segment.

(c) Carry Forward Margin

Carry forward margin is collected from Type-I members who wish to carry forward their transactions in 'A' group scrips from one settlement to another. All Vyaj Badla transactions except Book Closure Vyaj Badla, are exempted from payment of this margin. The carry forward margin is payable @15% on the value of the purchase and sale positions carried forward from one settlement to another and margin payable on Book Closure Vyaj Badla position is 10%. This margin is payable in cash only and is adjusted on the pay-in day in the members' settlement liabilities.

(d) Incremental Carry Forward Margin (ICFM)

The members are required to pay incremental carry forward margin if the outstanding carry forward position in any 'A' group scrip at the end of a settlement at the Exchange, exceeds 3% of the paid-up and issued capital of a Company (in terms of number of shares). The rates of the Incremental Carry Forward Margin are given below:

<table>
<thead>
<tr>
<th>Carry Forward position (as % of company's paid-up capital)</th>
<th>Incremental Carry Forward Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeding 3% going upto 4%</td>
<td>5%</td>
</tr>
<tr>
<td>Exceeding 4% going upto 5%</td>
<td>8%</td>
</tr>
<tr>
<td>Exceeding 5% going upto 6%</td>
<td>12%</td>
</tr>
<tr>
<td>Exceeding 6% going upto 7%</td>
<td>17%</td>
</tr>
<tr>
<td>Exceeding 7% going upto 8%</td>
<td>23%</td>
</tr>
<tr>
<td>Exceeding 8%</td>
<td>30%</td>
</tr>
</tbody>
</table>

* These rates are over and above the normal carry forward margin of 15%
This is applicable to both purchase and sale positions carried forward.

The actual percentage of margin to be levied on purchases and sales position carried forward from one settlement to another in any scrip is determined by the total outstanding position in shares (both purchases + sales) actually carried forward in the badla session held generally on Saturdays.

(e) **Additional Carry Forward Margin (ACFM)**

The scrips in which the gross outstanding market positions (purchases + sales carried forward) and net outstanding market purchase position (purchases carried forward - sales carried forward) after the badla session exceeds the prescribed limits, are subjected to ACFM at the rates mentioned below:

(Rs. in crores)

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Gross O/S market position (FPO + SB + MMB)</th>
<th>Net O/S market purchase position (TB + SB - MMB)</th>
<th>Applicable rate of ACFM (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td>OK</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>140</td>
<td>OK</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>200</td>
<td>OK</td>
<td>15</td>
</tr>
</tbody>
</table>

This margin is over and above the existing carry forward margin of 15% and is applicable on both purchase and sales positions carried forward. Further, in case a scrip attracts ACFM and ICFM, the higher of ACFM or ICFM is recovered. ACFM is charged on the gross outstanding position of a member declared in the badla break-up session. This margin is payable in cash only and is adjusted on the pay-in day in the members' settlement liabilities.

(f) **Special Margin**

Special Margin is a scrip-specific margin, which is imposed on fresh purchases made in scrips where price manipulation is suspected. The margin imposed is generally @ 25% of the value of the scrip in ‘B1’ and ‘B2’ Groups. This margin is payable in cash only (i.e., not adjusted against any previous credit/bank guarantee(s), etc) and is returned in the pay-in of the relevant settlement.

(g) **Adhoc margin**

As a risk management measure, this member-specific margin is imposed in cases where it is felt that the margin cover vis-a-vis the exposure of the member is inadequate or a member has a concentrated position in some scrip(s) or has common client(s) along with other members. This margin is over and above the normal margins paid by members and is payable in cash only. Once called, a
member is given about two clear days to make the payment and in case the outstanding exposure in question is either squared off or reduced, the margin may be reduced/waived after due authorisation.

(h) Special Adhoc margin

In order to effectively monitor business and also to caution the members, the Exchange has placed trading limits in ‘B2’ group companies which have a low capital base or which are infrequently traded and/or where the floating stock available for trading in the market is low. The trading limits are Rs.30 lakhs on cumulative outstanding net purchases/sales in an individual scrip or Rs.150 lakhs in all scrips put together in ‘B2’ group per member at any time in a settlement. Members intending to do business in excess of the specified limits, are required to obtain prior permission of the Exchange. The permission is granted after ascertaining various relevant factors subject to a payment of special ad-hoc margin, which varies from 25% to 100% of the value exceeding the specified limits. Generally, no Special Adhoc Margin is called for, in scrips, which are already subject to Special Margin.

(i) MTM Margin for the previous settlement

The members are also required to pay gross exposure or MTM margin, whichever is higher, on the deliverable and receivable position of the previous settlement till pay-in. However, while computing MTM margin for the previous settlement, the MTM profits in some scrips are netted against MTM losses in other scrips unlike computation of MTM in the current settlement where no such adjustment is done.

(j) Additional Volatility Margin (AVM)

This is a scrip-specific margin. It is payable if the price of a scrip goes up or down beyond certain limit in a rolling period of six weeks.

The computation of volatility and the percentage of AVM applicable are as under:

\[
\text{Volatility percentage} = \left( \frac{6 \text{ week high}^\# - 6 \text{ week low}^@}{6 \text{ week low}^@} \right) \times 100
\]

\[
^\# \text{ highest price of the scrip in the immediately preceding six settlements}
\]

\[
^@ \text{ lowest price of the scrip in the immediately preceding six settlements}
\]

<table>
<thead>
<tr>
<th>Volatility in percentage terms</th>
<th>Percentage of volatility margin applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>40% and above but less than 50%</td>
<td>5%</td>
</tr>
</tbody>
</table>
The AVM is computed on the net outstanding position of the members, including those carried forward by Type-I members from one settlement to another in the scrips which have attracted this margin. It is also charged on positions held in scrips, which are in no-delivery. However, where MTM margin and AVM are payable on the net outstanding position in a scrip, only the higher of the two margins is collected. MTM margin payable by a member is then compared with his daily margin and the higher of the two is recovered.

AVM is charged only during the settlement for which it is applicable and the rate remains constant throughout the entire settlement and is payable over and above other margins. This margin is not charged for scrips quoting below Rs. 40/-. Institutional business and sales marked for delivery are, however, exempt from payment of AVM.

**Computation and payment of margins:**

The daily margins are computed by the Exchange and are available for downloading by the respective members in their back-offices.

The daily margin or MTM margin and additional volatility margin are payable in Cash or Fixed Deposit Receipt(s) or by way of Bank Guarantee(s) from any Mumbai-based branch of scheduled commercial or specified scheduled co-operative banks. However ad-hoc, special ad-hoc, special margins, carry-forward margins including ICFM and ACFM are required to be paid in cash only.

Till May 11, 1998, the daily margins were payable by cheque on the next day of the trade (i.e., T+1) which were realised on the following day (i.e., T+2). However, with effect from May 12, 1998, the Exchange has started computerised posting of debits relating to margin liability of members, directly in their specified bank accounts maintained with the designated banks. The amount of margin liability is debited to the members’ bank accounts on the subsequent working day of the trade (i.e., T+1) at 5.00 p.m. (i.e., after the clearance of the high value cheques). The cases, where there is insufficient balance in the bank accounts of the members at the time of debit on the relevant day, are treated as late payment of margin. The bank accounts of members, in such cases, are swept first with the available balance leaving minimum amount and the members concerned are required to make separate payment for the balance amount by a
pay-order on the next working day. The amounts paid late by way of pay order for first three occasions are retained by the Exchange till pay-in day of the relevant settlement and a late fee @1% of the margin amount involved is also recovered from the members concerned. In case the default in payment of margins occurs for more than 3 times in a financial year, from the fourth instance onwards, till the sixth instance, apart from retention of amount till pay-in and recovery of late fee, the BOLT TWSs of the member is de-activated for one day, three days and one settlement respectively and his gross exposure limit is also restricted to 17.5, 15 and 10 times respectively for a period of one month. The intra-day trading limit of the member is also correspondingly reduced.

In case of bouncing of cheque given towards adhoc margin, 1% late fee is charged and the member has to immediately deposit the amount by pay order with the Exchange which is retained till pay-in or till the positions are reduced or squared up.

Also the exposure of such members is kept under close scrutiny to ensure that they do not become a hazard to the market. Such cases, if considered appropriate, are referred to the Scrutiny Committee for re-assessing the financial position of the members concerned and the members are allowed to restart their business only after additional funds are deposited by them with the Exchange.

It has now been decided that the additional capital deposited by the members in the form of cash, FDR(s) and bank guarantee(s) only, over and above the base minimum capital, would, after meeting the requirement of gross exposure, be adjusted against the margin liability of the members w.e.f. October 25, 1999 and the members would be required to pay the margin amounts only if the amount of unutilised Additional capital, after meeting the requirement of Gross Exposure, is not sufficient to meet the margin liabilities. Correspondingly, the gross exposure and intra-day trading limits of members on the subsequent trading day would stand reduced to the extent of such adjustment.

A careful scrutiny of ‘Margin Statement’, which is generated by the Information Systems Department (ISD) of the Exchange and downloaded by the members everyday, with ‘Forward Scripwise Summary Report’, will indicate the transactions which are netted across by the Type I members across different clients, in the same scrip to evade the payment of margin. In case of Type I members for checking correctness of payment of carry forward margin, ‘Client Upla Statement’ (i.e., c/f position of all clients for the settlement ) should be checked with ‘Carry over Margin Statement’, to find out, whether break ups have been reported as per the Scripwise, clientwise gross open positions and that the positions in the same scrip across different clients have not been netted out.
The other areas to be covered while checking payment of margins are whether the exemptions from payment of daily margin have been correctly claimed in respect of Institutional Transactions. The cases of wrong exemptions claimed may be suitably brought out in the Inspection report. Similarly cases of manual exemptions claimed, by reporting break-up error to the Inspection Department, should also be verified, to find out the genuineness of such exemptions. Any discrepancy observed, in reporting of break-up, should be reported preferably in the following format:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Date of Transaction</th>
<th>Scrip Code</th>
<th>Scrip Name</th>
<th>Quantity reported to the Exchange in break-up</th>
<th>Quantity as per members books</th>
<th>Unreported Quantity</th>
<th>Rate of daily Margin</th>
<th>Margin Value (*)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
<td>(f)</td>
<td>(g)</td>
<td>(h)</td>
<td>(i)</td>
</tr>
</tbody>
</table>

(*) (g) x (h) = (i) i.e. evaded margin

A summary of the important points to be looked into is as under:

a) Daily Margin by Type I members has been paid on scrip-wise client-wise gross open positions on a day to day basis.

b) Exemption from payment of margins for Institutional trades has been claimed correctly.

c) Trades marked for delivery are not squared up (Type-I members)

d) Scrip limit, settlement limit & daily limits for carry forward business (for Type-I members) have not been exceeded.

e) Carry-over margin on all trades carried forward internally between clients has been paid.

f) Margin has been collected from clients if the same exceeds Rs. 50,000/- in a settlement.

g) Whether there is evasion of margin by resorting to Chalu-Upla transactions.

h) Manual exemptions, if any, claimed for any reasons during the settlement have been correctly claimed.

i) The daily margin payable has been debited to the members account.

- Type-I members have to submit a monthly declaration to the Exchange that they have not carried forward any transaction in ‘A’ group scrips for more than 75 days and daily and badla break-ups have been reported correctly without netting positions of two different clients in the same scrip by the 7th of every month. It is to be verified whether member has submitted the necessary certificates to the Exchange within the stipulated time. Also the correctness of such certificates is to be verified.
7. WAREHOUSING OF TRADES

Warehousing of trades is a facility given to members to execute large Institutional orders in parts during a settlement. It is execution of firm client order for large quantity in parts during the same trading cycle and issue of one contract note at the weighted average price at the end of the trading cycle. SEBI has allowed warehousing of trades by institutional clients on the following conditions:

- Warehousing of transactions is allowed only against institutional client order and where registered custodians are involved for delivery/receipt of securities.

- Warehousing is permitted for both ‘purchase’ and a ‘sale’ order through the normal book (general) segment.

- The warehoused trades need to be parked in a separate client-warehousing account.

- Contract notes should be issued within 24 hours of the end of completion of order or the trading cycle whichever is earlier, at the weighted average price.

- The carry-forward of the un-executed/pending portion of the order to the next trading cycle is not permitted even for scrips in ‘No-Delivery’ period.

- All warehousing transactions, which are converted into institutional trades must result in deliveries.

- All warehoused trades till they are contracted out to the institution are treated as member’s own trades and are included in the computation of daily margin.

Facility has been provided to members on BOLT to transfer the break-up positions from ‘WH’ to ‘FI’ during break-up session. However, trades marked as ‘FI’ can be reverted to ‘WH’ only on the same day, during break-up session.

The Inspection Team has to verify that all the warehoused deals which have been converted into institutional deals have resulted in deliveries and this facility has been utilised only against genuine institutional client order/registered custodians and not for other clients.
8. INSPECTION OF FUNDS AND RESOURCES.
This is a very vital area, which should be looked into in detail in as much as it has far reaching implications for the entire securities market. Any flow of illegitimate or unaccounted money in the stock market leads to wide fluctuations and creation of a false market exposing small investors to high risks. Many a times unidentified funds are used for the purpose of price rigging in particular scrip. There are cases of trading by the members in benami names or fictitious names, introducing funds through benami or fictitious bank accounts.

Every receipt of fund through a cheque does not necessarily mean that the fund is accounted for and it needs deeper scrutiny to ascertain the genuineness of the transactions and payments. *The detailed investigation of Cash Book and Pass Book with reference to Client Ledger and Document Register will give some insight into the affairs of the member broker.*
9. CAPITAL ADEQUACY

a) Base Minimum Capital and Additional Capital

All active members of the Exchange are required to maintain a base minimum capital of Rs.10 lakhs with the Exchange. The base minimum capital is to be kept in the form of cash (minimum 12.5%), Fixed Deposit Receipt(s) of bank(s) (minimum 12.5%) and balance in approved securities or bank guarantee(s). For valuation of approved shares and securities, a hair-cut of 15% is applied, i.e., only 85% of the value of securities tendered is considered. The members are allowed to deposit additional capital with the Exchange for availing of higher intra-day trading limit (i.e., gross purchases + gross sales) and gross exposure limit (i.e., cumulative net purchases + sales) which have been prescribed @ 33.33 times and 20 times respectively of the base minimum capital + additional capital deposited by the members with the Exchange. The members are allowed to deposit additional capital in cash, FDR(s), bank guarantee(s) and securities in any proportion subject, however, to the condition that value of securities deposited (after the prescribed hair-cut of 15%) should not exceed 75% of the value of the total additional capital.

The FDRs and bank guarantees deposited by the members towards the base minimum capital and additional capital are required to be for a minimum period of three years and six months respectively.

The valuation of the securities deposited by the members towards the base minimum and additional capital is done by the Exchange weekly. This is done so that any depreciation in the value of securities due to fall in market prices can be collected from the members within the shortest possible time and the base minimum capital is kept intact.

Further, while accepting shares in the base minimum capital + additional capital, only the scrips which form part of BSE Sensex, BSE 100, BSE 200, S&P CNX Nifty, CNX Nifty Junior and CNX Midcap 200 are accepted.

The scrips which are to be compulsorily traded in demat form by all investors, are accepted only in demat form.

The members having more than 10 BOLT TWSs are required to deposit additional capital with the Exchange as per the norms prescribed in this regard.

b) Intra-day Trading Limits

The Exchange has prescribed an intra-day trading limit (i.e., gross purchases + gross sales) of 33.33 times of the base minimum capital + additional capital deposited by the members with the Exchange. The institutional business, i.e., transactions done on behalf of scheduled commercial banks, Indian Financial
Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI are not included for purposes of watching the compliance of the members with the intra-day trading limit.

The Exchange has made modifications in the BOLT software to flash on-line warning messages to the members when they reach 70%, 80% and 90% of their respective intra-day trading limit. However, when a member crosses 100% of the intra-day trading limits a message is flashed on the BOLT TWSs which says “CAPITAL ADEQUACY LIMIT VIOLATED” and immediately all the BOLT TWSs of the member get de-activated. Although the trading terminals get de-activated, the value of the last trade executed, may still exceed the 100% limit of capital adequacy. The BOLT TWSs of the members, in such cases, are re-activated only after they deposit additional capital to cover their turnover in excess of the intra-day trading limit. A fine of Rs.5,000/- is recovered if a member does not deposit the deficit additional capital on the day of the violation.

(c) Gross Exposure

The Exchange in accordance with the directives issued by SEBI, has prescribed a ceiling on the gross exposure (i.e., cumulative net outstanding purchases + cumulative net outstanding sales) of members at 20 times of the base minimum capital + additional capital deposited by them with the Exchange. Thus, the gross exposure of both Type-I and Type-II members in ‘A’, ‘B1’ & ‘B2’, ‘C’ ‘F’ and ‘Z’ and Rolling Settlement group of securities in the current settlement including crystallised liabilities of the previous settlement till pay-in day cannot exceed 20 times of their base minimum + additional capital deposited with the Exchange. In case of Type-I members, the gross exposure includes the value of outstanding transactions in ‘A’ group scrips carried forward from the previous settlement to the subsequent settlement, including scrips in no-delivery. Institutional business, i.e., transactions done on behalf of scheduled commercial banks, Indian Financial Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI and Vyaj Badla business are, however, excluded from the computation of gross exposure of members. Similarly, in case of sales for delivery, the value of securities delivered, (i.e., early pay-in of securities in the Clearing House) is not counted for the purpose of computation of the gross exposure. The members are issued warning on their BOLT TWSs as soon as they reach 70%, 80% and 90% of their gross exposure limits and their BOLT TWSs are de-activated if they cross 100% of their gross exposure limits. The BOLT TWSs of members, in such cases, are re-activated only after they deposit additional capital to cover their exposure in excess of the gross exposure limit.

The manner in which the gross exposure is calculated by the system is as under:
a. The gross exposure of a member at any point of time is the cumulative net outstanding purchases plus cumulative net outstanding sales in A, B1, B2, C, F and Z group scrips aggregated on a scrip-wise basis in the current settlement plus crystallised liabilities of the previous settlement till pay-in day. Accordingly, the system calculates the gross exposure of a member on the basis of cumulative net outstanding purchase or sale position in each scrip in the above groups and also takes into account the outstanding positions of a member in the Demat Segment and crystallised liabilities of the previous settlement till the pay-in day.

b. The scrip-wise net outstanding position in “No delivery” scrips is considered for calculating the gross exposure.

c. The purchase, sale and share Badla positions carried forward by a member from the previous settlement are taken into account for calculating the gross exposure in the current settlement. However, the Vyaj Badla (including book closure Vyaj Badla) positions are not considered.

d. Institutional business, i.e., purchases and sales on behalf of Banks, Indian Financial Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI is not considered. However, positions representing trades warehoused on behalf of institutions are considered.

e. Whenever a warehouse trade is converted into FI or vice versa (during break-up), the gross exposure of a member is updated accordingly.

f. The transactions marked as sales for delivery are included for computing the gross exposure till the securities sold are delivered to the Clearing House.

g. Early pay-in (of securities and funds) i.e., crystallised liabilities of previous settlement is reduced from the gross exposure of members.

The Inspection Team should verify the following aspects:

- that the capital maintained by the member is in the form & proportion prescribed by SEBI.
- The duration of the FDR(s) and Bank Guarantees submitted by the members towards Base Minimum Capital are for a minimum period of 3 years.
- The capital of the member has not fallen below Rs. 10 lakhs.
- In case of Composite Corporate Membership, the capital of the member is in the required proportion.
- In case a member has more number of terminals than the minimum per member allowed by the Exchange, his capital is in accordance with the number of BOLT TWSs allowed to him.
10. BYE-LAW 247-A

The main features of this Bye-law are:

- Segregation of clients' monies from the members' own money by opening and operating separate bank accounts for this purpose.

- Segregation of clients' securities from the member's own securities and maintenance of separate accounts for this purpose.

- No payment for transactions in which the member is taking a position as a principal is allowed to be made from the clients' account.

- Issuance of the Contract Note to the clients within 24 hours of the execution of the transactions.

- Payment of money to clients or delivery of securities to clients within 48 hours of the pay-out.

The principles and the circumstances under which transfer from clients' account to member broker's account are allowed are enumerated below:

Every member should keep such books of accounts, as are necessary, to show and distinguish in connection with his business as a member

i) Monies received from or on account of and monies paid to or on account of each clients and

ii) The monies received and the monies paid on member's own account.

Every member who holds or receives money on account of a client is required to forthwith deposit such money in designated client account. Member may keep one consolidated client account for all the clients or more accounts. If a member receives a cheque/draft representing in part money due to the member, he shall pay the whole of such cheque or draft into the clients' account and effect subsequent transfer as laid down below.

Only money properly required for payment to or towards payment of a debt due to the member from clients or money drawn on clients' authority, or money in respect of which there is a liability of clients to the member, provided that the money so drawn should not exceed the total of the money so held for the time being for each such client.
The purposes for which withdrawals are allowed from the clients’ account are mainly as under:

a) Margin payment  
b) Valan Obligation (Settlement Dues)  
c) Earnings (Brokerage) from the clients.

It is observed that members generally use clients’ account for making payment for following purposes, which are not allowed:

a) Office Expenses such as, salary, Telephone Bills, TDS payments, Purchase of Office Equipments etc.  
b) Towards Base Minimum and additional Capital  
c) Towards payment to Exchange for payment of fines, general charges etc.

It is compulsory for all member-brokers to keep separate accounts for clients’ securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities. Such accounts for clients’ securities shall, interalia, provide for the following:

a) Securities received for sale or kept pending delivery in the market;  
b) Securities fully paid for, pending delivery to clients;  
c) Securities received for transfer or sent for transfer by the member, in the name of client or his nominee(s);  
d) Securities that are fully paid for and are held in custody by the member as security/margin etc. The member shall obtain proper authorisation from the client for the same.  
e) Fully paid for clients’ securities registered in the name of the member, if any, towards margin requirements etc.;

It is compulsory for all members to keep the moneys of the clients and their own money in separate bank accounts.

During Inspection of the members’ books, it has to be ascertained whether:

- separate account has been opened for clients’ money and been designated as “clients account”.
- If the member is utilising more than one account for depositing/withdrawal of clients monies, all these accounts have been designated as clients account.
- No payment for transactions in which the member has taken a position as a principal has been made from the clients’ account.
- The client account has not been utilised for personal or miscellaneous purposes.
- The member has maintained separate record (inward & outward) of clients securities.

- Contract Notes have been issued to clients within 24 hours of execution of transactions.

- Payment to clients and delivery of securities have been made within 48 hours of declaration of pay-out.
11. KNOW YOUR CLIENT

Client-Broker Registration
SEBI has asked all the members of the Stock Exchanges to maintain a database of their clients. This concept has been called as “KNOW YOUR CLIENT”. SEBI has devised standard formats for the Client Registration and a Broker Client agreement. The format of client registration and client-broker agreement are given in Annexure-III. This information is required to be maintained not only by the members but also by the sub-brokers vis-a-vis their clients. Members may seek additional information, if any, so as to satisfy themselves about the antecedents of their clients. Different format has been prescribed for individuals and non-individuals. SEBI has put onus on the members to provide for client details as and when necessary.

In respect of small investors, an exemption may be made for the Annual Income, Income Tax No. and Market Value of Portfolio details at points 9, 10, & 11 of the individual client registration application form, in cases where the Annual gross turnover (i.e. purchases + sales) of a client is not more than Rs.5 lakhs. If the clients’ gross turnover exceeds Rs. 5 lakhs, it is desirable that a member gets the above details. However, the member may at his discretion waive the above requirements where he is personally satisfied about the risk profile of the client. This requirement may also be waived for SEBI registered FIIs/FIs and Mutual Funds that already have agreement with the members. In such cases a copy of the agreement will have to be provided by the member as and when necessary.

The Inspection Team should verify whether the member-broker is maintaining the client database of all his clients and the member-broker has entered into written agreement with all his clients in the format prescribed by the SEBI.
12. SUB-BROKERS

"Sub-broker" means any person not being a member of a Stock Exchange who acts on behalf of a stock-broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock-brokers.

Sub clause (b) under clause (1) of Section 5 of SEBI (Stock Brokers & Sub-Brokers) Rules, 1992, further lays down the condition of grant of a certificate to sub-broker as, "he shall take adequate steps for redressal of grievances of the investors within one month of the date of the receipt of the complaint and keep the Board informed about the number, nature and other particulars of the complaints received".

All Sub-brokers are required to obtain a Certificate of Registration from SEBI in accordance with SEBI (Stock Brokers & Sub-Brokers) Rules and Regulations, 1992, without which they are not permitted to deal in securities. SEBI has directed that no broker shall deal with a person who is acting as a sub-broker unless he is registered with SEBI and it shall be the responsibility of the broker to ensure that his clients are not acting in the capacity of a sub-broker unless they are registered with SEBI as a sub-broker or are recognised by the Stock Exchange as remisier.

SEBI has stated that transfer deeds bearing rubber stamps on the reverse thereof other than those of Clearing Members of the Stock Exchanges / Clearing House / Clearing Corporations, SEBI registered Sub-brokers and remissiers registered with the Stock Exchanges shall be treated as bad delivery in Stock Exchanges. This is applicable to all transfer deeds dated July 1, 1997 and thereafter.

The registered sub-broker can transact only through the member(s) who has recommended his application for registration by signing 'Form C'. Form B is the application Form for registration as Sub-brokers and Form C is recommendation letter to be given by the member with whom the Sub-broker is affiliated. The Sub-broker can do business with more than one broker, however, he will have to obtain separate registration in each case. It is mandatory for the sub-broker to disclose the name of all other broker(s) where he is having direct or indirect interest. It is a responsibility of a member to report defaults, if any, of his sub-brokers to all other brokers with whom the sub-broker is affiliated.

It is mandatory for members to enter into an agreement with all the sub-brokers in the format prescribed by SEBI. The agreement lays down the rights and responsibilities of members as well as sub-brokers. The Agreement between the broker and sub-broker can be terminated by giving notice in writing of not less than 6 months by either party.
Sub-brokers (like brokers) are obligated to enter into agreement and maintain the database of their clients, investors etc. in the format prescribed by SEBI.

SEBI has clarified that members of Stock Exchanges executing transactions of his clients through the members of other Exchanges are to be treated as sub-brokers. These members of the Stock Exchanges who are acting as sub-brokers through the members of other exchanges should obtain Certificate of Registration from SEBI to act as a sub-broker under SEBI(Stock Brokers & Sub-Brokers) Rules & Regulations, 1992. Further, the members who act on behalf of his principal broker as sub-brokers should issue purchase or sale notes for all the transactions entered into by him through his principal broker as an agent of the principal broker.

Control Over Sub-Broker.

It is seen that a reasonably large amount of business is transacted by the member-brokers through sub-brokers who act for and on behalf of the members. The inspection team should ascertain whether necessary measures have been taken by the member to exercise a reasonable control over the sub-brokers. It should be verified whether all the sub-brokers with whom the broker deals are registered with SEBI and the member has entered into necessary agreement as stipulated by SEBI with all his sub-brokers specifying the rights and obligations of the broker as well as sub-broker. It is the responsibility of the broker to ensure that his clients are not acting in the capacity of a sub-broker.

It is generally noted that brokers attempt to circumvent the requirement of registration of sub-brokers by treating the sub-brokers as their clients. Inspection team should analyze the accounts of major clients of the member to ascertain whether those clients are sub-brokers, which are not registered with SEBI as required. It may also be noted that members generally undertake outstation business through sub-brokers and those are not designated as such. Inspection team may have focus on outstation clients having major business with the member to ascertain the violation of the above referred directive of the SEBI. Whenever any doubt arises, inspection team should immediately refer to the database of the clients in case the member claims that a particular account is that of a client and not of a sub-broker. The database will reveal the financial position of the client/sub-broker whose correlation with the volume of transaction can prima facie establish as to whether he is a sub-broker or a client.

It is advisable that in the interest of stock-broker, he should get the books of accounts etc of the sub-brokers affiliated to him, inspected from a qualified Chartered Accountant.
Issue Of Confirmation Memo By Sub-Brokers
The sub-brokers appointed by a member are allowed to issue Confirmation Memo to their constituents in respect of the transactions entered into by them on their behalf. The Exchange has approved the format of the Confirmation Memo to be issued by the Sub-brokers to their constituents by adding Regulation 14.3 to the Rules, Bye-laws and Regulations of the Exchange. The format of the confirmation Memo - Form C (Regulation 14.3) duly approved by the Governing Board and also the relevant clauses under the Bye-laws of the Exchange, which are required to be printed on the reverse of both the Contract Note and Confirmation Memo are enclosed in Annexure-IV.

Brokerage Charged By Sub-Brokers
Appendix ‘A’ to the Regulation 14 of the Rules, Bye-laws and Regulations of the Exchange prescribes the Official Scale of Brokerage. As per this Regulation the brokerage charged by a member shall not exceed Rs. 0.25 per share/Debenture or 2.5% of the contract price per share/debenture of Joint Stock Companies, whichever is higher. A sub-broker is not allowed to charge from his clients a commission exceeding one and one half of one percent of the value mentioned in the respective sale or purchase notes. As per the Confirmation Memo prescribed by the Exchange the sub-broker must disclose, among other things, in the confirmation memo, the Brokerage payable to affiliated member and brokerage for sub-broker.

Books And Documents To Be Maintained By Sub-Brokers
Sub clause (b) under clause (1) of Section 15 of Securities Contract Regulation Act specifies the books and documents required to be maintained by the sub-broker. The list is as under:

- Register of transactions (Sauda book);
- Clients ledger;
- General ledger;
- Journal;
- Cash book;
- Bank pass book;
- Document should include particulars of shares and securities received and delivered.
13. REMISIERS

The Exchange has revived the institution of Remisiers under its Rules, Bye-laws and Regulations. A Remisier is a person who is engaged by a member primarily to solicit business in securities on a commission basis. The Rules No. 216 to 235 of the Rules, Bye-laws & Regulations of the Exchange provide for appointment and regulation of Remisiers. The Remisiers appointed by the members are required to be registered with the Exchange. A Remisier is required to pay one time non-refundable registration fee of Rs. 5,000/- to the Exchange at the time of every fresh registration. In this connection, it is clarified that Remisier should not be an employee of any individual member or any organisation other than the member concerned. The Remisier is expected to solicit business for a member and get commission thereon. He is not supposed to issue contract notes, confirmation memos or bills to the clients in his own name.

The Inspection Team is required to verify whether the persons to whom the member is paying commission for the business solicited by them are registered with the Exchange as Remisiers under the Rules of the Exchange.
14. BADLA (CARRY-FORWARD SYSTEM)

It is a system, which provides for buying of shares without the intention of taking delivery thereof, or selling of shares without having the requisite quantity in hand. The position so taken can be squared off or by taking or giving delivery of the scrips purchased or sold respectively, either in the same or subsequent settlement(s).

The carry-forward facility is available at the Exchange presently in 140 scrips in ‘A’ group. The trades can presently carried-forward not beyond 75 days and should result in delivery or payment in 90 days from the date of the original transaction.

Carry forward session takes place every Saturday between 10 a.m. and 12.30 p.m. on the Exchange. These transactions are executed through the screen-based trading system of the Exchange, which greatly facilitates transparency and creates depth at very fine spreads. In this session, Vyaj Badla financiers fund investors’ or operators’ purchase position at the week’s closing price by taking over that purchase position and simultaneously contracting a sale in the next week at cum-interest price. The difference between purchase price and sale price is, therefore, income for the financier and a cost for the borrower who is the buyer. In the same session, stock lenders lend stocks to short sellers at week’s closing price by taking over that sales position and simultaneously contracting a purchase in the next week at cum-interest price. Even buyers who are long and short sellers can transact with each other and carry forward their transactions to the next settlement at a mutually agreed cost. This trading is done by quoting interest amount and by using buy/sell mechanism.

A member who has opted for Carry-forward (Type - I) can do all four types of Badla, i.e., Purchases for carry-forward (Teji Badla), Sales for Carry-forward (Mandi Badla), Share Badla (SB), Vyaj Badla (VB). Vyaj Badla positions cannot be squared up and must result in delivery. Teji Badla, Mandi Badla cannot be done for positions marked as delivery on last trading day. If Teji Badla, Mandi Badla exceeds Purchase Carry forward / Sales Carry forward as reported on last trading day, excess TB/MB will be shifted to SB/VB. Share Badla transactions attract carry-over margin.

Mandi or Vyaj Badla

If a member has an outstanding purchase position at the end of a settlement and does not have necessary funds to take delivery he seeks help of a market financier (i.e., Vyaj badlawala) who supplies finance. The Vyaj badlawala enters into purchase contract in the current settlement with the member who is in need
of finance at the Havala rate which is declared for that settlement and takes
delivery of shares on behalf of the member. The delivery of shares is not given to
the Vyaj Badla financier but kept with the Clearing House of the Exchange
managed by BOISL Ltd., a Company jointly owned by Bank of India and Stock
Exchange. Simultaneously, he sells those shares to the same broker in the
ensuing settlement at the Havala rate plus interest (Contango or Badla charges).
The reverse of Contango or Badla is "backwardation" or "Undha Badla". Such
situations arise when buyer insists on delivery and the seller does not have
shares. The member who supplies finance, i.e., Vyaj badlawala is said to have
done 'Vyaj Badla'. The Vyaj badlawala does not have any outstanding position
in the current settlement but creates fresh sale position, which is called Mandi or
Vyaj Badla.

Teji or Share Badla

If a member has an outstanding sale position at the end of a settlement and does
not have the shares to deliver he seeks help of another broker who supplies
shares. The broker who would be supplying shares enters into a sale contract in
the current settlement with the member who is in need of shares at the 'Havala
rate' for the settlement and delivers the shares to the clearing house on behalf of
the member. Simultaneously, he purchases those shares from the same member
in the ensuing settlement at the 'Havala rate' plus interest (Badla charges). The
member who supplies shares is said to have done 'share Badla'. The share
badlawala does not have any outstanding position in the current settlement but
creates fresh purchase position. This is called a Teji or share Badla.

Settlement And Accounting Of Badla Trades

The stock lender and the buyer who wants to carry forward their position, input
"buy" orders in the system while vyaj badla financier and short sellers input
"sell" orders. This reflects their positions as they would appear in the
subsequent settlement. This is explained by way of following example. This
methodology serves a very useful purpose as a person placing the buy order
does not know whether the seller is vyaj badla financier or short seller.
Similarly, person placing sell order does not know that person placing the buy
order is long buyer or stock lender. This in fact leads to rationalisation of
interest rates/contango charges. This is explained by way of following example.

Example
A is buyer who wants to carry forward his long position of 500 Reliance : B is a
seller who wants to deliver 500 Reliance; C is a vyaj badla financier who wants
to fund purchase of 500 Reliance. A will therefore input a buy order of 500
Reliance while C inputs sale order of 500 Reliance, assuming that the order will
match with each other in carry forward session at a contango of Rs.1.20, books of A, B and C will look as follows:

### A's BOOKS

<table>
<thead>
<tr>
<th>Sett. No</th>
<th>Qty</th>
<th>Rate</th>
<th>Scrip</th>
<th>Qty</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>500</td>
<td>180.00</td>
<td>RIL</td>
<td>500</td>
<td>180</td>
</tr>
<tr>
<td>2</td>
<td>500</td>
<td>181.20</td>
<td>RIL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B's BOOKS

<table>
<thead>
<tr>
<th>Sett. No</th>
<th>Qty</th>
<th>Rate</th>
<th>Scrip</th>
<th>Qty</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>RIL</td>
<td>500</td>
<td>180.00</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### C's BOOKS

<table>
<thead>
<tr>
<th>Sett. No</th>
<th>Qty</th>
<th>Rate</th>
<th>Scrip</th>
<th>Qty</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>500</td>
<td>180.00</td>
<td>RIL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td>RIL</td>
<td>500</td>
<td>181.20</td>
</tr>
</tbody>
</table>

In Sett. No. 1, “B” will deliver 500 shares (as he has a sale position) which will be received by “C” as security (as he creates a purchase position in his books). “A”’s position in Sett. No. 1 becomes zero. “C” pays money (as a purchase position is created) and “B” receives money against his delivery position. In Settlement No. 2, since automatically a sales position is created for “C” and purchase position is created for “A”. “C” has delivery obligation of 500 shares and “A” has receipt obligation of 500 shares. By virtue of this position, “C” returns the security while “A” receives shares against his purchase position. “A” pays the money including contango charges while “C” receives back his loaned amount with interest without any further action.

### Book Closure Vyaj Badla

In case of Book closure Vyaj Badla, the concerned member may be allowed to withdraw the shares from the depository for transfer to his name, subject to the following conditions:

- The shares withdrawn from the Depository of BOI Shareholding Ltd. for registration on account of Book Closure Vyaj Badla must be relodged in BOI Shareholding within 12 weeks from the date of payout of the settlement in which Book Closure Vyaj Badla has been done.
- In case member fails to relodge the shares either fully or partly within the stipulated 12 weeks, then the Information Systems Department, i.e., will issue delivery orders in the name of the member in the
ensuing settlement for his outstanding Book Closure Vyaj Badla position which is older than 12 weeks and thereby reduce his Book Closure Vyaj Badla position. This will be done even though the member may have done Vyaj Badla for the said outstanding position.

- Members carry-forward shares figure will not be allowed to be reduced unless and until the member either returns the shares after transferring to his name or replaces the original shares with other valid shares. If partial replacement is done, then his carry-forward figure may be reduced to that extent only.

- Member would be liable to pay carry-forward margin until he replaces/redeposit the shares with the Clearing House.

Vyaj Badla financiers, being only lenders of funds with adequate security deemed proper by them, are not permitted under any circumstances to square up their positions till their arrangement with the borrower is over. To achieve this, the shares received by Vyaj Badla financiers at the end of a settlement are required to be deposited and kept in safe custody with the Clearing House. The Clearing House issues the receipt for such shares. However, this receipt is not permitted to be traded.

Every member is required to keep proper books of records of his sources of finance. The accounts of Vyaj Badla financiers would be shown separately.

A Type - II member is permitted to do only Vyaj Badla during the carry-forward trading session. Share Badla is permitted to Type - II member only in those scrips, which attract backwardation charges. Vyaj Badla transactions are exempted from payment of Carry-over margins, Daily margins and Mark-to-Market margin. A Type-II member who has done Share Badla will not be allowed to square up his “Share Badla” position in subsequent settlement(s) and will have to compulsorily take delivery in the settlement in which the scrip does not attract backwardation. However such members (Type - II) can take the delivery back by reducing “Share Badla” even in subsequent settlement(s) in which the scrip has attracted backwardation.

The carry-forward limits are as follows:

<table>
<thead>
<tr>
<th>Per scrip per member</th>
<th>All Scrips per member</th>
</tr>
</thead>
<tbody>
<tr>
<td>TB + SB &lt;= Rs.4 crores</td>
<td>TB + SB &lt;= Rs.20 Crs.</td>
</tr>
<tr>
<td>MB &lt;= Rs.4 crores</td>
<td>MB &lt;= Rs.20 Crs.</td>
</tr>
<tr>
<td></td>
<td>TB + SB + MB &lt;= Rs.20 Crs.</td>
</tr>
</tbody>
</table>
15. SELF-CERTIFICATION.

All the Type-I members are required to submit a declaration to the Exchange on a monthly basis stating that they have not carried forward any transaction for more than 75 days and daily & badla break-ups have been reported correctly without netting positions of the two different clients in the same scrip. This certificate is to be submitted by the 7th of ensuing month. A fine of Rs.500/- is charged on those Type-I members who have not submitted the declaration within the prescribed time.

With effect from the period ending March 31, 1999, the Type-I members are also required to submit the following two certificates from a Chartered Accountant:

- that the daily and carry-forward break-ups have been reported as per the scrip-wise, client-wise gross open positions and the positions have not been netted out across different clients. This certificate is required on a half-yearly basis, i.e., as on March 31 and September 30

- that no transaction in ‘A’ group scrip has been carried forward by him/them for more than 75 days. This certificate is required to be submitted on a yearly basis i.e., as on March 31 every year.

*Inspection team should verify the timely submission of the above certificates by the member as also randomly verify their correctness. The deficiencies, if any, may be suitably brought out in the Inspection Report.*
16. SHORT SALES

Short sale is defined as selling of the shares without having the physical possession of the shares unless it is either for squaring-up of an earlier purchase in the same settlement of the same Exchange or against the pending deliveries from the same stock exchange pertaining to previous settlements. The client/broker selling the shares at one exchange against his outstanding purchase position at another Exchange(s) will be considered as short-seller.

Normally short sales provide liquidity and competitive prices in the stock markets. However, excessive short sales in volatile scrips provide a mechanism for bear hammering and bear raids, which bring further and deeper depression in the stock market. Taking advantage of the depressed market sentiment, speculators are able to indulge in excessive short selling in volatile scrips to depress prices much further to the disadvantage of the other investors who continue to suffer increasing negative returns.
17. NEGOTIATED & CROSS DEALS

Members were earlier permitted to enter into negotiated deals & cross deals which were required to be reported to the Exchange. However, pursuant to the SEBI directive, the Exchange has advised the members that the facility of entering into negotiated deals (including cross deals) has been discontinued w.e.f. Settlement No 25/1999, which commenced on September 6, 1999.

Negotiated Deals are permitted only if the same are executed on the screen like any other normal trade. However, the Governing Board at its discretion may permit Special bargains between two members only for purchases or sales between FII's in such companies listed on the Exchange where the ceiling of FII investment of 24% or 30% as the case may be, has been reached, subject to the directions, restrictions and prohibitions imposed by SEBI from time to time.

The Inspection Team should verify that a member has not entered into any Cross or Negotiated Deals in his office, and all such deals are executed only on the BOLT System like normal trades.
18. QUALITY OF SERVICE TO THE CLIENT.

This is one of the important areas of inspection with a view to ascertain whether a member is providing responsible and professionalised service to his clients. As per the Code of Conduct prescribed by SEBI, a member is required to display fairness to his clients to protect their interest and to provide them fairly competent service. With a view to ascertain whether the member is providing proper service to his clients, inspection in the following areas is necessary:

- **Promptness in executing the orders and issue of contract notes is also to be checked.** The member is required to give priority to the client's order over his own if the same are received at the same time. The Contract Notes are required to be issued to the clients within 24 hours of the execution of transaction. It is to be verified whether the member has issued the contract notes to the clients within the specified time frame.

- **It should be verified whether the member is prompt in payment to his clients.** The time-lag between payment to the client from the date of pay-out should be checked to ascertain whether the member has made payment to his clients within 48 hours of the declaration of pay-out for the relevant settlement by the Exchange, unless the clients have agreed to the funds being retained/adjusted by the member.

- **It should be verified how prompt the member is in the matters of delivery of securities to the client.** Similarly, the securities are to be delivered to clients within 48 hours of the pay-out.

- **It should be also be verified whether the member has encouraged sales or purchase of security with the sole aim of generating brokerage.**

**Violation Of Code Of Conduct.**

The Securities and Exchange Board of India, has prescribed a code of conduct for member brokers. The inspection team has to scrutinise the affairs of member in detail to determine whether the member has violated the code of conduct. The area of violation can be decided with reference to proper maintenance of records, efficient and fair service to the customer, investigation into sources of funds and actual market operations, etc.
19. GENERAL

The actual market operations of a member specially pertaining to the periods when huge purchases and sales in particular scrip have been made should be investigated in detail. The investment and destination of funds for these operations will give the inspection team an insight whether these transactions are prompted by some inside information. It should be probed whether unusual purchase or sale of particular scrip has been entered into with the intention of price rigging or for creating a false market or was it a case of insider trading. The undue speculative buying and selling without a proper backing of funds or scrips is not only against the concept of integrity and ethical practices prescribed for a member, but it tends to destabilise the secondary market as a whole. It should also be verified whether the broker is dealing in unlisted securities or securities prior to their listing on the Exchange.

The inspection team should specifically look into the following areas:

- It should be verified whether the member-broker has rectified the bad deliveries within the time-frame prescribed in the Bye-laws of the Exchange.

- It should be verified whether investor complaints, if any, are resolved within a specified time.

- SEBI has directed that no member shall deal with a person who is acting as a sub-broker unless he is registered with SEBI. It shall be the responsibility of the members to ensure that their clients are not acting in the capacity of a sub-broker unless they are registered with SEBI as such.

- If a member has paid any commission to a person for bringing in the business, it should be verified whether the recipient of shares / brokerage / commission is registered with the Exchange as a remisier.

- If a member has done underwriting business under the SEBI (Underwriting) Rules and Regulations, whether necessary permission has been obtained from the Exchange and particularly whether information as required is submitted regularly to the Exchange. If any issue has devolved on a member, details of the amount devolved and settlement of the liability should be verified.

- The member is not engaged in any other type of business other than the securities business.

- The members should not have entered into transactions during period of his suspension or other sanctions. Particularly the adherence to the restrictions imposed by SEBI or any court on the members should be verified. The member should not trade in any scrip during the period the scrip has been suspended from trading.
The Stock Exchange, Mumbai

- The member is not involved in fund lending/borrowing activities (there should not be any borrowings for financing deals). However, lending or borrowing money for securities business / Vyaj Badla should not be treated as violation.

- The member should not trade in any security, which is not listed on any recognised Stock Exchange in India, without the express permission of the Exchange.

- Where member has executed any transaction in any security not listed on the Exchange, but listed on some other recognised Stock Exchange in India, the same should be reported to the Exchange in the format specified.

- With a view to avoid payment of margin money or trading restrictions, whether the member has entered into the transactions with other members of the Exchange, which is known as 'Chalu-Upla', i.e., the transactions are closed with the members in the current settlement and re-opened or entered into similar fresh transactions in the next settlement with the same members.

- It is to be verified that the transactions done by the members on other Stock Exchanges have been reported to the stock exchange where he is a member. It is necessary to examine the quantum of such business. It will reveal the extent to which a member is exposing himself to the risk and the nature of such transactions needs to be scrutinised.

- The other areas of inspection should cover to ascertain whether the member is over-trading. The list of top clients will reveal the nature of investment, whether the clients are speculation oriented or investment oriented.

- The inspection should also look into the cases of arbitration references pending against the member. It should be ascertained whether the member is attending the arbitration meetings regularly or just attempting to delay the finalisation of such cases.

- The transactions done by a member-broker may be scrutinised to ascertain whether the same have been entered into with the intention of price rigging or creating a false market. It may also be verified whether a member is indulging into transactions for unethical gains, sometimes with the connivance of the company.

- The details of the clients should be obtained along with addresses and names of contact persons. This may assist in tracking cases of Insider Trading or Price Rigging etc.

- Whether the member has issued any advertisement without obtaining approval from the Exchange.
20. SEBI CHECKLIST FOR INSPECTION OF BROKERS

SEBI has prescribed a checklist for Inspection of Brokers. The same is enclosed as Annexure VI.

21. INSPECTION REPORT

The Inspection Team would be required to carry on the inspection process in the member-broker’s office. Before commencing the inspection process, the members will be informed that their books of account will be inspected by an Inspection Team appointed by the Exchange. The member-brokers would be required to keep certain records documents and statement ready in his office. The Inspection Team would be required to inspect books of accounts and records etc. of at least three or more settlements. The inspection process would normally take about 10 to 15 days depending on the volume of turnover of a member. The Inspection team would be required to prepare a report on the irregularities observed during the inspection, and submit the same to the Inspection Department, with the necessary Annexures. The findings of the inspection would be send to the member concerned. He would be required to submit his reply, if any, within 7 days of the receipt of the report. The report and the clarification submitted by the member would be placed before the General Manager (Inspection & Surveillance).

Action against the members for the irregularities observed during the inspection would be taken as per the existing norms for imposition of late fees, fines & penalties approved by the Disciplinary Action Committee.
APPENDIX - B TO REGULATION 14
Contract Note - Form A (Regulation 14.2)
SUBJECT TO MUMBAI JURISDICTION
Contract Note issued by Members acting for constituents as Brokers and Agents
SEBI REG. NO.

Name of Member/Firm
Name(s) of Proprietor/Partners (if any)
To
Income Tax PAN/GIR No. of Constituent: (if a contract of a value exceeding Rs. 10 lakh)

Sir(s),
If we have done today the following transactions against your order:

<table>
<thead>
<tr>
<th>Order No.</th>
<th>Trade No.</th>
<th>Trade Time</th>
<th>'Securities BOUGHT for you for Delivery/Clearing'</th>
<th>'Securities SOLD for you for Delivery/Clearing'</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Qty. Kind of Security Purchase Rate Brokerage Rate Plus Brokerage</td>
<td>Qty. Kind of Security Sale Rate Brokerage</td>
</tr>
</tbody>
</table>

1. This Contract is made subject to the Rules, Bye-laws and Regulations and usages of The Stock Exchange, Mumbai.
2. Brokerage has been charged as stated above at rates not exceeding the official scale of brokerage.
3. This contract is subject to the jurisdiction of the Courts in Mumbai.
4. In the event of any claim (whether admitted or not) difference or dispute arising between you and me/us out of these transactions the matter shall be referred to arbitration in Mumbai as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Mumbai.
5. This contract constitutes and shall be deemed to constitute as provided overleaf an agreement between you and me/us that all claims (whether admitted or not) differences and disputes in respect of any dealings, transactions and contracts of a date prior or subsequent to the date of this contract (including any question whether such dealings, transactions or contracts have been entered into or not) shall be submitted to and decided by arbitration in Mumbai as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Mumbai.
6. The provisions printed overleaf form a part of the contract.

Yours faithfully,

Member(s) of the Stock Exchange, Mumbai
Income Tax PAN/GIR No. of Member:
(if a contract of a value exceeding Rs. 10 lakh)
APPENDIX - B TO REGULATION 14  
Contract Note - Form B (Regulation 14.2)  
SUBJECT TO MUMBAI JURISDICTION

Contract Note Issued by Members dealing with constituents as Principals

\[\text{Stamp as required under Article 5(b) or 5(c) of Schedule 1 to the Bombay Stamp Act, 1958 where necessary}\]

<table>
<thead>
<tr>
<th>Name of Member/Firm</th>
<th>Name(s) of Proprietor/Partners (if any)</th>
<th>To</th>
<th>Income Tax PAN/GIR No. Of Constituent</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEBI REG. NO.</td>
<td></td>
<td></td>
<td>(if a contract of a value exceeding Rs. 10 lakhs)</td>
</tr>
</tbody>
</table>

Sirs(s),

We have this day entered into the following transactions with you as PRINCIPAL(S) TO PRINCIPAL(S):

<table>
<thead>
<tr>
<th>&quot;Securities SOLD to you for&quot; Delivery/Clearing</th>
<th>&quot;Securities BOUGHT FROM you for&quot; Delivery/Clearing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity</td>
<td>Kind of Security</td>
</tr>
</tbody>
</table>

1. This Contract is made subject to the Rules, Bye-laws and Regulations and usages of The Stock Exchange, Mumbai.
2. This contract is subject to the jurisdiction of the Courts in Mumbai.
3. In the event of any claim (whether admitted or not) difference or dispute arising between you and me/us out of these transactions the matter shall be referred to arbitration in Mumbai as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Mumbai.
4. This contract constitutes and shall be deemed to constitute an agreement between you and me/us that all claims (whether admitted or not), differences and disputes in respect of any dealings, transactions and contracts of a date prior or subsequent to the date of this contract (including any question whether such dealings, transactions or contracts have been entered into or not) shall be submitted to and decided by arbitration in Mumbai as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Mumbai.
5. The provisions printed overleaf form a part of the contract.

Yours faithfully,

Member(s) of the Stock Exchange, Mumbai
Income Tax PAN/GIR No. of Member:
(if a contract of a value exceeding Rs. 10 lakhs)
Reference to Arbitration

248. (a) All claims (whether accrued or not) difference and disputes between a member and a non-member or non-members (the terms "non-member" and "non-members" shall include a remisier, authorised clerk, a sub-broker who is registered with SEBI as affiliated with that member or employee or any other person with whom the member shares brokerage) arising out of or in relation to dealings, transactions and contracts made subject to the Rules, Bye-laws and Regulations of the Exchange or with reference to anything incidental thereto or in pursuance thereof or relating to their construction, fulfillment or validity or in relation to the rights, obligations and liabilities of remisiers, authorised clerks, sub-brokers, constituents, employees or any other persons with whom the member shares brokerage in relation to such dealings, transactions and contracts shall be referred to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

(b) An acceptance whether express or implied of a contract subject to arbitration as provided in sub-clause (a) and with this provision for arbitration incorporated therein shall constitute and shall be deemed to constitute an agreement between the member and the non-member or non-members concerned that all claims (whether admitted or not), differences and disputes of the nature referred to in sub-clause (a) in respect of all dealings, transactions and contracts of a date prior or subsequent to the date of contract shall be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange and that in respect thereof any questions whether such dealings, transactions and contracts have been entered into or not shall also be submitted to and decided by arbitration as provided in the Rules, Bye-laws and Regulations of the Exchange.

(c) If any claim (whether admitted or not), difference or dispute arises between a sub-broker who is registered with SEBI as affiliated with a member and his constituent arising out of or in relation to dealings, transactions and contracts between the constituent and the sub-broker made subject to the Rules, Bye-laws and Regulations of the Exchange or with reference to anything incidental thereto or in pursuance thereof or relating to their construction fulfillment or validity or in relation to the rights, obligations and liabilities of the constituent, the sub-broker or the member in connection therewith, then such claim, difference or dispute shall be brought to the notice of the member by the constituent in writing within six months from the date of the claim, difference or dispute arising and the same shall as far as possible be settled with the help of the member failing which it shall be brought to the notice of the Exchange for resolution. If a claim, dispute or difference persists, the same shall be referred to and decided by arbitration as provided in the Rules, Bye-laws and Regulations.

Appointment of Arbitrators

249. (a) All claims, differences and disputes which are required to be referred to arbitration under these Bye-laws and Regulations shall be referred to arbitration of a sole arbitrator or of three arbitrators to be appointed by the Executive Director or by the parties from the Panel of Arbitrators constituted by the Governing Board, in the manner provided in these Bye-laws and Regulations. The Executive Director shall appoint a sole arbitrator and preferably appoint a non-member as sole arbitrator.

(b) In an arbitral tribunal of three arbitrators, each party shall appoint one arbitrator and the third Arbitrator will be appointed by Executive Director. These proposed arbitrators shall be from the panel of arbitrators constituted by the Governing Board. If any of the parties failed to appoint arbitrator within 10 days of the day he is asked to appoint arbitrator the Executive Director shall appoint such arbitrators in the manner provided in these Bye-laws and the request of the non-member for appointment of non-member arbitrator from the Panel of arbitrators prepared by the Governing Board shall be conceded to. All the Bye-laws providing arbitration by a single arbitrator shall apply mutatis mutandis to arbitration by three members.

Executive Director - authority to delegate

249A. The Executive Director of The Exchange for the purpose of Arbitration Bye-laws shall also include any official of the Exchange not below the rank of General Manager designated by the Executive Director from time to time for the specific function entrusted to him under these Bye-laws.

Appointment of Arbitrator by the Executive Director

250. (1) On payment in advance of the minimum fees of an arbitrator prescribed under these Bye-laws and Regulations by any party to a claim, difference or dispute, the Executive Director shall appoint an arbitrator;

(a) if the parties have failed to agree as to the person to be appointed as the arbitrator;

(b) if the arbitrator dies or fails, refuses or neglects to act or becomes incapable of acting as an arbitrator before an award is made by him.

(2) An arbitrator to be appointed under clause (1) shall be from the panel of arbitrators prepared by the Governing Board as per Bye-law 262 (b) and shall be a non-member in case one of the parties desires the appointment of a non-member as arbitrator.

(3) While appointing arbitrator it shall be ensured that the arbitrator is independent and impartial not interested in any of the parties or the claim dispute or difference referred to arbitration.

Award Binding on Parties and their Representatives

257. The parties to the reference shall in all things abide by and faithfully carry into effect the award of the arbitrator which shall be final and binding on the parties and their respective representatives notwithstanding the death of or legal disability occurring to any party before or after the making of the award and such death or legal disability shall not operate as a revocation of the reference or award.
Enforcement of the Award

259. (i) A party to a reference who is dissatisfied with an award of an arbitrator(s) may appeal to an Appeal Bench against such award within 15 days of receipt of the award.

(ii) When the time for preferring an appeal has expired and no appeal has been preferred or the appeal has been preferred and the award has been passed in the appeal, and when the time for making an application to set aside the award under Section 34 of the Arbitration and Conciliation Act, 1996 has expired, or such application having been made, it has been refused, the final award shall be enforceable in the same manner as if it were a decree of the Court.

Operation of Contracts

274. All dealings, transactions and contracts which are subject to the Rules, Bye-laws and Regulations of the Exchange and every arbitration agreement to which the Rules, Bye-laws and Regulations of the Exchange apply shall be deemed in all respects to be subject to the Rules, Bye-laws and Regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the city of Bombay and the parties to such dealings, transactions, contracts and agreements shall be deemed to have submitted to the jurisdiction of the Courts in Bombay for the purpose of giving effect to the provisions of the Rules, Bye-laws and Regulations of the Exchange.

Appeal against Arbitral Award

274A. A party dissatisfied with an Award may appeal to the Appeal Bench against such Award within 15 days of the receipt of such award.

Notices and Communications How to be Served

275. Notices and communications to a member or a non-member shall be served in any one or more or all of the following ways and any such notice or communication under (i) to (vi) below shall be served at his ordinary business address and/or at his ordinary place of residence and/or at his last known address:

(i) by delivering it by hand;
(ii) by sending it by registered post;
(iii) by sending it under certificate of posting;
(iv) by sending it by express delivery post;
(v) by sending it by telegram;
(vi) by affixing it on the door at the last known business or residential address;
(vii) by its oral communication to the party in the presence of a third person;
(viii) by advertising it at least once in any daily newspaper published in Mumbai;
(ix) by a notice posted on the notice board of the Exchange if no address be known.
Gross Exposure Margin will be computed on the aggregate of the net cumulative outstanding positions for each scrip (i.e., net purchases + net sales) for ‘B1 & B2’ group scrips for Type-I members and ‘A, B1 & B2’ group scrips for Type-II members in the following manner:

<table>
<thead>
<tr>
<th>GROSS EXPOSURE (Rs. in crores)</th>
<th>MARGIN %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 1</td>
<td>NIL</td>
</tr>
<tr>
<td>Above 1 and upto 7</td>
<td>10% of excess over Rs.1 crore</td>
</tr>
<tr>
<td>Above 7 upto 15</td>
<td>Rs.60 lakhs plus 15% of excess over Rs.7 crores</td>
</tr>
<tr>
<td>Above 15</td>
<td>Rs.1.8 crores plus 20% of excess over Rs.15 crores</td>
</tr>
</tbody>
</table>

* * * * *
THE STOCK EXCHANGE
MUMBAI

No. 1998/97

NOTICE

Thursday, April 24, 1997.

To,

The Members of the Exchange

Re: Client Registration Form and Broker-Client Agreement

We are in receipt of SEBI directive vide their letter no. SM1/POLICY/CIR/5 -97 dated April 11, 1997 requiring the exchange to introduce the concept of "Know Your Client", by asking broker member to maintain a database of their clients. For implementation of this concept we enclose herewith a uniform format of the Client Registration Form and the Broker-Client Agreement devised by SEBI. Member brokers may seek additional information, if any, so as to satisfy themselves about the antecedents of their clients. It has been required by SEBI that this client registration process is to be completed before May 31, 1997 and it would be member's responsibility to provide for client details as and when need arises.

R.C. MATHUR
EXECUTIVE DIRECTOR

Encl: As above
INDIVIDUAL CLIENT REGISTRATION APPLICATION FORM

To,

XYZ (BROKER-MEMBER OF THE _STOCK EXCHANGE_)

Name :
Address :
SEBI Registration No :

Dear Sir,

We request you to register us as your client and in this regard the following information is furnished :

1. Name :
2. Address. Telephone/Fax numbers :
   a. Residence :
   b. Office :
3. Date of Birth :
4. Sex : Male/ Female:
5. Educational Qualification :
6. Occupation :
7. Residential Status : Resident Indian/ Non-Resident Indian/Others
8. Particulars of the Bank Account
   • Name of the Bank
   • Branch (Address & Tel No )
   • Bank Account Number
   • Date of opening of account

(Please submit a letter from the banker certifying account number and the period from which this account is in operation)

9. Annual income in last three years :
10. Income Tax No. (PAN/GIR) :
11. Market Value of portfolio as on ________ :
12. Whether registered with any other broker - member :
   
   Name of Broker :
   Name of Exchange :
   Client Code No. :
13. Introduced by:
   - Name and Address:
   - Signature:

14. Copy of any two of the following proof of identity should be submitted:
   - Passport No, Place of Issue, Expiry Date
   - Driving License
   - Ration Card
   - Voters Identity Card
   - Copy of Income Tax return

The information furnished above is true to the best of my knowledge and belief, and I undertake to inform you of any changes therein immediately in writing. I am agreeable to enter into an agreement to abide by your terms and conditions.

Place: Signature:
Date: Name:

Note:
1. Each client has to use one registration form. In case of joint names/family members please submit separate form for each person.
2. Original documents may be verified at the time of filing of application.
3. The information given above would be confidential. However, if the information is required by any government agency, it may be given to them.
NON - INDIVIDUAL CLIENT REGISTRATION APPLICATION FORM

To,

XYZ (BROKER-MEMBER OF THE ___ STOCK EXCHANGE)

Name :

Address :

SEBI Registration No :

Dear Sir,

We request you to register us as your client and in this regard the following information is furnished :

1. Name or the Company/Firm :

2. Address, Telephone/Fax numbers :
   a. Registered Office
   b. Correspondence Office

3. Date of Incorporation :

4. Date of Commencement of Business :

5. Copy of Memorandum and Articles of Association/Partnership Deed :

6. Details of Promoters/ Partners/ Key Managerial Personnel of the Company/Firm :
   (as per Annexure - A )

7. Copies of the Annual Report of last three years: (If company has not completed three financial years of its operation, copy of annual reports for such completed financial years.)

8. Net Worth (certified) as on _____________(Excluding Revaluation Reserves) :

9. Particulars of the Bank Account from which the Company will carry out the transactions :
   • Name of the Bank
   • Branch (Address & Tel No )
   • Bank Account Number

(Please submit a letter from the banker certifying account number and the period from which this account is in operation)

11. Income Tax Number of the Company :
12. Annual income in the past three years:

13. Market Value of the Portfolio as on __________:

14. Whether registered with any other broker - member:
   Name of Broker:
   Name of Exchange:
   Client Code No.:

The information furnished above is true to the best of my knowledge and belief, and I undertake to inform you of any changes therein immediately in writing. I am agreeable to enter into an agreement to abide by your terms and conditions.

Place: Authorized Signatory with Seal:
Date: Name:

Note:
1. Original documents may be verified at the time of filing of application.
2. The information given above would be confidential. However, if the information is required by any government agency, it may be given to them.
1. Name:

Designation:

Residential Address & Telephone No.:

Qualification:

Experience:

Equity Stake:

Income Tax No. (PAN/GIR):

Photograph

Bank Account Details: (Name of the Bank, Address, Account No.)

(Any one of the following proof of identity should be submitted)

Passport No.:

- Place of Issue:

- Expiry Date:

Driving License No:

Ration Card No.:

Voters Identity Card:

Place: Signature:

Date: Name:
Checklist of Enclosures for Corporate Clients:

Details of the Corporate Entity:

1. Copy of Memorandum and Articles of Association.
2. Copies of Annual Reports of last three years.
4. Letter from the Banker, certifying the Account Number and the period from which this Account is in operation.
5. Copy of Income Tax return.

Personal Details of Promoters/Directors:

1. Copy of Income Tax return.
2. Salary Certificate.
3. Proof of Residence (Copy of Passport/ Ration Card/ Driving Licence/ Voters Identity Card)
4. Letter from the Banker certifying the Account Number.
MEMBER - CLIENT AGREEMENT

This agreement is made at ______ this ____ day of _______ between XYZ (member of ______ stock exchange with SEBI Registration No.:_______), hereinafter called MEMBER and having his registered office at ______, and ________ - a individual/company/trust/firm or any other body duly formed and registered under the relevant Act, hereinafter called the CLIENT, having its residence/registered office at __________ _

WITNESSTH:

Whereas the MEMBER is registered as TRADING MEMBER of ______ Stock Exchange with SEBI Registration No.: ________

Whereas the CLIENT is desirous of investing/trading in those securities admitted for dealing on the Exchange as defined in the Bye-Laws of the Exchange.

Whereas the CLIENT has satisfied itself of the capability of the MEMBER to deal in securities and wishes to execute his orders through him and the CLIENT shall continue to satisfy itself of such capability of the MEMBER before executing orders through him.

Whereas the MEMBER has satisfied and shall continuously satisfy himself about the genuineness and financial soundness of the CLIENT and investment objectives relevant to the services to be provided.

Whereas the MEMBER has taken steps and shall take steps to make the CLIENT aware of the precise nature of the MEMBER's liability for business to be conducted, including any limitations on that liability and the capacity in which it acts.

In consideration of the mutual understanding as set forth in this agreement, the parties thereto have agreed to the following terms and conditions:

1. The provisions of this agreement shall always be subject to Government notifications, any rules, regulations and guidelines issued by SEBI and Stock Exchanges rules, regulations and bye-laws that may be in force from time to time.

2. In the event of death or insolvency of the client or his otherwise becoming incapable of receiving and paying for or delivering or transferring securities which the client has ordered to be bought or sold, MEMBER may close out the transaction of the client and the client or his legal representative shall be liable for any losses, costs and be entitled to any surplus which may result therefrom.

3. The agreement entered into between the MEMBER and the CLIENT shall stand terminated by mutual consent of the parties by giving at least one month written notice. Such cancellation or termination shall not have any effect on transaction executed before the date of such notice of termination and the parties shall enjoy the same rights and shall have same obligations in respect of such transactions.
4. The instructions issued by an authorized representative of the client shall be binding on the client in accordance with the letter authorizing the said representative to deal on behalf of the client.

5. The Stock Exchange may cancel a trade sse-moto without giving any reason thereof. In the event of such cancellation, MEMBER shall be entitled to cancel relative contract(s) with CLIENT.

6. All trades, transactions and contracts are subject to the Rules and Regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the city of ______ and the parties to such trade shall be deemed to have submitted to the jurisdiction of the Courts in ______ for the purpose of giving effect to the provisions of the Rules and Regulations of the Exchange.

IN WITNESS THEREOF, the parties to agreement have caused these presents to be executed as of the day and year first above written.

Signed for and on behalf of

MEMBER :

By :

Signature :

Title :

Witness :

Signed for and on behalf of

CLIENT :

By :

Signature :

Title :

Witness :
TO,
The Members of the Exchange

Re: Client Registration and Broker-Client Agreement

In terms of circular letter no. SMD/-policy/circular/10-97 dated May 20, 1997, (copy enclosed), SEBI has conceded following exemptions in the standard format of client registration circulated to members vide our notice no. 1798/97 dated April 24, 1997.

In respect of the small investors, an exemption is made for giving details on the Annual Income, Income Tax No., and Market value of Portfolio details at point nos. 9, 10 and 11 of the Individual Client Registration Application Form, in cases where the Annual gross Turnover (i.e. Purchases + Sales of securities) of the client is not more than Rs. 5,00,000 (Rupees five Lakhs).

In case where client’s Gross Turnover is more than Rs.5,00,000, it is desirable that the brokers get the above details. However, the broker may at his discretion waive the above requirements in cases where he is personally satisfied about the risk profile of the client.

The requirement of Client Registration and the Member-Client Agreement may be waived for SEBI registered FIs / FIs/MFs that already have agreements with brokers. In such cases a copy of the agreement will have to be provided by the broker as and when necessary.

R.C. MATHUR
EXECUTIVE DIRECTOR

End: As above
To
The Executive Directors/Managing Directors
of all Stock Exchanges

Dear Sir,

SUB: Know Your Client

Please refer to SEBI circular no. SMD/POLICY/CIR/5-97 dated April 11, 1997 regarding "Know Your Client" wherein standard format for the Client - Registration Form and the Member - Client Agreement had been prescribed.

In view of the profile of the small investor, an exemption may be made for the Annual Income, Income Tax No. and Market Value of Portfolio details at point nos. 9, 10 and 11 of the Individual Client Registration Application Form, in cases where the Annual Gross Turnover (i.e. Purchases + Sales of securities) of the client is not more than Rs. 500,000/- (Rupees Five Lacs).

In cases where the client's Gross Turnover is more than Rs. 500,000/- it is desirable that the broker gets the above details. However, the broker may at his discretion waive the above requirements in cases where he is personally satisfied about the risk profile of the client.

The requirement of Client Registration and the Member - Client Agreement may be waived for SEBI registered FIIs/ FIs/ MFs that already have agreements with the brokers. In such cases a copy of the agreement will have to be provided by the broker as and when necessary.

Yours faithfully,

O.P. GAHERTRA

cc to
a] Chairman's Secretariat.
b] All Executive Directors, Division Chiefs and Regional Managers of SEBI.
c] All SEBI Nominee Directors on the Board of Exchanges.
d] All Division Chiefs requested to circulate to all their officers.

Note:

1. SMD Stock Exchange Administration Division to follow-up with the Exchanges for implementation of the decisions.

2. All the SEBI Nominee Directors on the Board of the Exchanges to follow-up the issues in the Board Meeting of the Exchanges.
# ANNEXURE - IV

APPENDIX - B TO REGULATION 14

Confirmation Memo - Form - C (Regulation 4.3)

Confirmation Memo issued by Sub-brokers acting for clients/constituents as Sub-brokers
SUBJECT TO EXCLUSIVE JURISDICTION OF THE COURTS AT MUMBAI

NAME OF THE SUB-BROKER
SEBI REGN. No.

NAME OF THE AFFILIATING MEMBER:
(Designation of the Stock Exchange, Member)

Member Clearing No.:
SEBI Regn. No.:
Address:
Ref. No. of consolidated Contract Note of Member:

To
Name of the Client/Constituent or Code No.:
Order No.:
Income Tax PAN-GIR No. of Client: (if a contract of a value exceeding Rs. 10 lakhs)

Sir,

We have done today the following transactions on your account and against your order:

<table>
<thead>
<tr>
<th>Order No.</th>
<th>Trade No.</th>
<th>Trade Time</th>
<th>Qty.</th>
<th>Name of Security</th>
<th>Purchase Rate</th>
<th>Brokerage for affiliated member</th>
<th>Brokerage for the Sub-broker</th>
<th>Rate Plus Brokerage</th>
<th>Qty.</th>
<th>Name of Security</th>
<th>Sale Rate</th>
<th>Brokerage for affiliated member</th>
<th>Brokerage for the Sub-broker</th>
<th>Rate Minus Brokerage</th>
<th>Net Amount to pay/receive</th>
</tr>
</thead>
</table>

As per the Contract Note issued by the Member.

1. This Confirmation Memo is subject to the Rules, Bye-laws and Regulations and usage of The Stock Exchange, Mumbai.
2. Brokerage has been charged as stated above at rates not exceeding the official scale of brokerage and indicated separately.
3. This contract is subject to the jurisdiction of the Courts in Mumbai.
4. In the event of any claim (whether admitted or not) or difference or dispute arising between you and us out of or in respect of these transactions, the matter shall be brought to the notice of the Member within 9 months from the date of dispute and same shall as far as possible be settled with the help of member broker (ies) which shall be brought to the notice of the Exchange officials for resolution. If the dispute persists, the same shall be referred to arbitration in Mumbai as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Mumbai.
5. This confirmation memo constitutes and shall be deemed to constitute as provided overleaf an agreement between you and us that all claims (whether admitted or not) or differences and disputes in respect of any dealings, transactions and contracts of a date prior or subsequent to the date of this contract (including any question whether such dealings, transactions or contracts have been entered into or not) shall be submitted to and decided by arbitration in Mumbai as provided in the Rules, Bye-laws and Regulations of The Stock Exchange, Mumbai.
6. The provisions printed overleaf form a part of the Confirmation Memo.

Yours faithfully,

Sub-broker

Income Tax PAN-GIR No. of Sub-broker:
(if a contract of a value exceeding Rs. 10 lakhs)
CODE OF CONDUCT FOR MEMBERS

- With a view to ensure a fair, healthy and efficient functioning of the capital market, SEBI has prescribed a Code of Conduct for the members of the Stock Exchanges. The in-house inspection team / Chartered Accountants conducting inspection of the books of accounts and records of the members, should study these carefully, and report non-adherence to code of conduct if any, in their report.

- The code of conduct, as specified at Schedule II, under Regulation 7, of the Securities and Exchange Board of India (stock brokers and sub-brokers) Regulations, 1992, for members of the Stock Exchanges is given in Annexure I - Code of Conduct for members.

A. GENERAL

(1) INTEGRITY : A stock-broker, shall maintain high standard of integrity, promptitude and fairness in the conduct of all investment business.

(2) EXERCISE OF DUE SKILL AND CARE : A stock-broker, shall act with due skill, care and diligence in the conduct of all his business.

(3) MANIPULATION : A stock-broker shall not indulge in manipulative fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) MALPRACTICES : A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

(5) COMPLIANCE WITH STATUTORY REQUIREMENTS : A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the stock exchange from time to time as may be applicable to him.
B. DUTY TO THE INVESTOR

(1) EXECUTION OF ORDERS: A stock-broker, in his dealings with the clients and the general investing public shall faithfully execute the orders for buying and selling of securities at the best available market price and not refuse to deal with a Small Investor merely on the ground of the volume of business involved. A stock-broker shall promptly inform his client about the execution or non-execution of an order, and make prompt payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients.

(2) ISSUE OF CONTRACT NOTE: A stock-broker shall issue without delay to his clients a contract note for all transactions in the form prescribed by the stock exchange.

(3) BREACH OF TRUST: A stock-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client, which he comes to know in his business relationship.

(4) BUSINESS AND COMMISSION:

(a) A stock-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage.

(b) A stock-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

(5) BUSINESS OF DEFAULTING CLIENTS: A stock-broker shall not deal or transact business knowingly directly or indirectly or execute an order for a client who has failed to carry-out his commitments in relation to securities with another stock-broker.

(6) FAIRNESS TO CLIENTS: A broker, when dealing with a client, shall disclose whether he is acting as a principal or as an agent and shall issue appropriate contract note ensuring at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.
(7) **INVESTMENT ADVICE** : A broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any involvement unless he shall have reasonable ground for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. They should seek such information from clients, wherever they feel it is appropriate to do so, in the interest of fulfilling their responsibilities in light of such information.

(8) **COMPETENCE OF BROKER** : A broker should have adequately trained staff and arrangements to render fair, prompt and competent service to its clients and continuous compliance with the regulatory system.

**C. STOCK-BROKERS VIS-À-VIS OTHER STOCK-BROKERS**

(1) **CONDUCT OF DEALINGS** : A broker shall cooperate with other contracting party in comparing unmatched transactions. A stock-broker shall not knowingly and willfully introduce documents, which constitute bad delivery and shall cooperate with other contracting party in prompt replacement of documents, which are declared as bad delivery.

(2) **PROTECTION OF CLIENTS' INTERESTS** : A stock-broker shall extend fullest cooperation to other stock-brokers in protecting the interests of his clients regarding their rights to dividends, bonus shares, right shares and any other right related to such securities.

(3) **TRANSACTIONS WITH STOCK-BROKERS** : A stock-broker shall carry out his transactions with other stock-brokers and shall comply with his obligation in completing the settlement of transactions with them.

(4) **ADVERTISEMENT AND PUBLICITY** : A stock-broker shall not advertise his business publicly unless permitted by the Stock Exchange.

(5) **INDUCEMENT OF CLIENTS** : A broker shall not resort to unfair means of inducing clients from other stock-brokers.

(6) **FALSE OR MISLEADING RETURNS** : A stock-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board and the stock exchange.
# CHECK LIST FOR INSPECTION OF BROKERS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Description</th>
<th>Reference to rule / regulation / circular</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Any other book / record to be maintained by the broker as per the exchange regulations</td>
<td>Rules, Regulations and Circulars of the concerned exchange.</td>
</tr>
<tr>
<td>3</td>
<td>The member should issue contract notes for all trades done by him.</td>
<td>Regulation 7(B)(2) of Schedule II of Code of Conduct of SEBI (Stock Broker and Sub Brokers) Regulations, 1992.</td>
</tr>
<tr>
<td>4</td>
<td>The member should time stamp his order slips / records and the order time should be reflected in the contract note along with the time of execution of order.</td>
<td>Circular SMD/POLICY/IECG/1-97 dated 11 February, 1997.</td>
</tr>
<tr>
<td>5</td>
<td>• The contract notes issued should bear the correct SEBI Registration number of the member.</td>
<td>• Rules and regulations of the exchange</td>
</tr>
<tr>
<td></td>
<td>• Contract notes should bear pre-printed serial numbers.</td>
<td>• Circular SMD/MDP/CIR/04-396 dated August 5, 1996.</td>
</tr>
<tr>
<td></td>
<td>• Contract notes should be issued within 24 hours of trade execution</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Appropriate stamps should be affixed on the original contract notes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Duplicates of the contract notes issued should be maintained. Counterfoils maintained should also have adequate details.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The duplicates of the contract notes issued should be acknowledged by the client.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>The contract notes should be signed by the member or his constituted attorney.</td>
<td>Rules and regulations of the exchange</td>
</tr>
<tr>
<td>7</td>
<td>In case of Form A contact notes issued to clients, the brokerage should be shown separately.</td>
<td>Ministry of Finance Directive – Circular F. No. 4/16/SE/19 dated 19th August, 1991.</td>
</tr>
<tr>
<td>8</td>
<td>In case the broker acts as a principal, the contracts issued should be in Form B.</td>
<td>SMD(B)/104/22775/93 dated October 29, 1993.</td>
</tr>
<tr>
<td>9</td>
<td>The consent of the client should be taken for any trade done by the broker while acting as a principal.</td>
<td>• Regulation 17 J of SEBI (Stock Broker and Sub Brokers) Regulations, 1992.</td>
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<td>• Section 15 of SC(R) Act, 1956.</td>
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<td>10</td>
<td>Brokerage should be charged by the broker in all trades executed by him for non-members of the exchange, except in cases of charity.</td>
<td>As applicable in the rules and regulations of the concerned exchanges.</td>
</tr>
<tr>
<td>11</td>
<td>Brokerage charged by the broker should be within the limits prescribed by the exchange - 2.5% of the trade value.</td>
<td>Rules and regulations of the concerned exchange</td>
</tr>
<tr>
<td>13</td>
<td>The member should make full payment / delivery within 48 hours of the relevant pay-out</td>
<td>• SMD/SED/CIR/93/23321 dated 18th November 1993.</td>
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<tr>
<td>Page</td>
<td>Item</td>
<td>Text</td>
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<td>Instances of dishonour of cheques issued to clients should be looked into by the inspecting authority.</td>
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<tr>
<td>16</td>
<td>Rectification of bad delivery should be done within a reasonable time.</td>
<td>SEBI circular SMD/POLICY/2926/96 dated 04/10/96</td>
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<td>17</td>
<td>In case of bad delivery because of fake shares, the introducing broker should file the necessary FIRs with the police.</td>
<td>SEBI circular SMD/RCG/PI/871/96 dated February 22, 1996.</td>
</tr>
<tr>
<td>18</td>
<td>The inspecting authority should report charging the client rates more than the prevailing market rates.</td>
<td>Code of Conduct A &amp; B under Regulation 7 of the SEBI (Brokers and Sub-Brokers) Regulations, 1992.</td>
</tr>
<tr>
<td>19</td>
<td>The member should take adequate steps for redressal of grievances of investors within one month from date of receipt of the complaint</td>
<td>Rule 4(e) of SEBI (Stock Broker and Sub-Brokers) Regulations, 1992</td>
</tr>
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</table>
| 20   | • The member should maintain a separate bank account for clients' funds.  
• There should be a clear segregation of the client's and the broker's moneys.  
• Payments to/from the client should be made from this separate account - there should be a clear segregation of business.  
• The member should not make payments for trades in which he is a principal from the client's account.  
• The member should keep such records and books of accounts as necessary, to distinguish client's securities from his own securities.  
• The member should keep such records and books of accounts as necessary, to distinguish client's securities from his own securities. | SMD/SED/CIR/93/23321 dated 18th November, 1993. |
| 21   | The member should not be involved in fund lending/borrowing activities- with the exception of those in connection with or incidental to or consequential upon the securities business. | Regulations 8(1) (f) and 8(3) (f) of SC(R) Rules, 1957 |
| 22   | The gross turnover of the member must be in direct correlation with the base capital / additional capital deposited by the member with the exchange. | Circulars SMD/SED/CIR/93/22570 dated 21/10/93 and SMD/SED/RCG/270/96 dated 19/01/96. |
| 23   | The member should collect margin money from the clients in case of large orders/ clients with frequent delays in payments deliveries/ disputes of deals. | SMD/SED/CIR/93/23321 dated 18th November, 1993. |
| 24   | The member should be paying margin money as per the exchange requirements, on a regular basis. The inspecting authority may also check the authenticity of the deals exempted from payment of margins, as in institutional deals, etc. Margins to be paid include Marked to market margin, etc. | • Circular SMD/RCG/2782/96 dated 16th July, 1996  
• SMDRP/Policy/Circular - 17/98 dated July 2, 1998. |
<p>| 25   | Instances of kapli / chalupi / carry forward transactions in exchanges where it is not permitted need to be looked into and reported. |  |
| 26   | The member should not be dealing in securities prior to it's getting listed on the exchange, especially after a public offer. |  |
| 27   | The member should report all off-market / negotiated deals to the concerned exchange, within the time | SMD/RCG/CIR/BDKY/233/95 dated March 14, 1995. |</p>
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<td><strong>28</strong></td>
<td>All off market deals / negotiated deals entered into by the member should result in compulsory delivery.</td>
<td></td>
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<tr>
<td><strong>29</strong></td>
<td>The member should not have entered into any fictitious transactions.</td>
<td>SEBI (Stock Broker And Sub Brokers) Regulations, 1992 - code of conduct.</td>
</tr>
<tr>
<td><strong>30</strong></td>
<td>The member should have submitted the audit reports for a financial year by September 30 of the next financial year.</td>
<td>SMD/ED/2132/96 dated June 4, 1996.</td>
</tr>
<tr>
<td><strong>31</strong></td>
<td>The member should not have any dealings with sub-brokers not registered with SEBI.</td>
<td>SMD/POLICY/CIRCULAR/3-97 dated March 31, 1997.</td>
</tr>
<tr>
<td><strong>32</strong></td>
<td>Members of Stock Exchanges acting as sub-brokers should register themselves with SEBI.</td>
<td>SMD/Policy/CIR-3/98 dated January 16, 1998</td>
</tr>
<tr>
<td><strong>33</strong></td>
<td>The member should not be involved in any type of business other than the securities business.</td>
<td>Rule 8(1) (f) and Rule 8(3) (f) of SC(R) Rules, 1957</td>
</tr>
<tr>
<td><strong>34</strong></td>
<td>In case the member has entered into transactions during periods of his suspension or other sanctions, these must have been entered into with prior permission only.</td>
<td>Rules and Regulations of the concerned Exchange</td>
</tr>
<tr>
<td><strong>35</strong></td>
<td>Annual payment of registration fees to SEBI, based on recommendations of the expert committee / court’s order, if any.</td>
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<td><strong>36</strong></td>
<td>The inspecting authority should look into instances of possible misuse of the exchange mechanism for securing financing transactions</td>
<td>Rules and Regulations of the concerned Exchange</td>
</tr>
<tr>
<td><strong>37</strong></td>
<td>The inspecting authority should look into the agreement entered into by the member and sub-broker, including adherence to the terms mentioned in the contract.</td>
<td>SMD/OFG/A/1020/96 dated 14.03.96</td>
</tr>
<tr>
<td><strong>38</strong></td>
<td>The inspecting authority should check if the member has submitted information about himself, sought by SEBI</td>
<td>SMD/Policy/Cir-7/98 dated February 16, 1998.</td>
</tr>
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