

**Deputy General Manager  
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MIRSD/ SE /Cir-19/2009

December 3, 2009

**The Managing Directors of all Recognized Stock Exchanges**

Dear Sir,

**Subject: Dealings between a client and a stock broker (trading members included)**

1. This is in continuation of circulars (a) No. SMD/SED/CIR/93/23321 dated November 18, 1993 specifying the norms for regulation of transactions between clients and brokers, (b) No. SEBI/MIRSD/DPS-1/Cir-31/2004 dated August 26, 2004 specifying the model format for the Member Clients Agreements, and (c) No. MRD/DoP/SE/Cir-20/2005 dated September 8, 2005 specifying the conditions for issuing electronic contract notes.
2. With a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers, it has been decided, in consultation with Investor Associations, Secondary Market Advisory Committee of SEBI (SMAC), market participants and major stock exchanges, that the stock brokers shall comply with the requirements as annexed to this circular.
3. The stock brokers shall take necessary steps to implement this circular immediately and ensure its full compliance in respect of all clients – existing or new – at the latest by 31<sup>st</sup> March 2010.
4. The Stock Exchanges are directed to:
  - a. bring the provisions of this circular to the notice of the Stock Brokers and also disseminate the same on their websites.
  - b. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision in co-ordination with one another to achieve uniformity in approach.
  - c. communicate to SEBI, the status of the implementation of the provisions of this circular in their Monthly Development Reports.
5. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

Yours faithfully,

**B. N. Sahoo**

Encl.: Annexure-A

CC: Investor Associations.

**Requirements relating to dealings between a Client and Stock Broker**

**Client Registration Procedure**

1. The stock broker shall register a client by entering into an agreement with him. For this purpose, the stock broker shall make available a folder /book containing all the documents required for registration of a client. The folder/book shall have an index page listing all the documents contained in it and indicating briefly significance of each document. Once signed, a copy of the same shall be made available to the client.
2. The folder/book shall have two parts: (a) Mandatory and (b) Non-mandatory.

**Mandatory Documents**

3. The mandatory documents are:
  - a. Member Client Agreement (MCA)/Tripartite Agreement in case sub-broker is associated,
  - b. Know Your Client (KYC) Form
  - c. Risk Disclosure Document (RDD)These shall be executed in the format as prescribed by SEBI.
4. The Client shall indicate the stock exchange as well as the market segment where he intends his trades to be executed. He shall do so in the KYC form in his own hand and sign against these.
5. The KYC form shall capture the identity and the address of the introducer instead of his MAPIN/UID. The KYC form shall be modified to this extent.
6. The stock broker shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment. In respect of other clients, the stock broker shall obtain the documents in accordance with its risk management system.
7. The Stock Broker shall also capture details of action taken against a client by SEBI or other authorities during the last 3 years.
8. There shall be a mandatory document dealing with policies and procedures for each of the following under appropriate headings:
  - a. refusal of orders for penny stocks,
  - b. setting up client's exposure limits,
  - c. applicable brokerage rate,
  - d. imposition of penalty/delayed payment charges by either party, specifying the rate and the period (This must not result in funding by the broker in contravention of the applicable laws),
  - e. the right to sell clients' securities or close clients' positions, without giving notice to the client, on account of non-payment of client's dues (This shall be limited to the extent of settlement/margin obligation),

- f. shortages in obligations arising out of internal netting of trades,
- g. conditions under which a client may not be allowed to take further position or the broker may close the existing position of a client,
- h. temporarily suspending or closing a client's account at the client's request, and
- i. deregistering a client.

#### **Non-mandatory Documents**

9. Any term or condition other than those stated in the mandatory part shall form part of non-mandatory documents.
10. The clauses in the non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents, as also the Rules, Regulations, Articles, Byelaws, circulars, directives and guidelines of SEBI and Exchanges. Any such contravening clause shall be null and void.
11. Any authorization sought in non-mandatory part shall be a separate document and shall have specific consent of the client.

#### **Running Account Authorization**

12. Unless otherwise specifically agreed to by a Client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stock broker to maintain a running account subject to the following conditions:
  - a. The authorization shall be renewed at least once a year and shall be dated.
  - b. The authorization shall be signed by the client only and not by any authorised person on his behalf or any holder of the Power of Attorney.
  - c. The authorization shall contain a clause that the Client may revoke the authorization at any time.
  - d. For the clients having outstanding obligations on the settlement date, the stock broker may retain the requisite securities/funds towards such obligations and may also retain the funds expected to be required to meet margin obligations for next 5 trading days, calculated in the manner specified by the exchanges.
  - e. The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month, depending on the preference of the client. While settling the account, the broker shall send to the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.
  - f. The client shall bring any dispute arising from the statement of account or settlement so made to the notice of the broker preferably within 7 working days from the date of receipt of funds/securities or statement, as the case may be.

- g. Such periodic settlement of running account may not be necessary:
  - i. for clients availing margin trading facility as per SEBI circular
  - ii. for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG)/Fixed Deposit receipts (FDR).
- h. The stock broker shall transfer the funds / securities lying in the credit of the client within one working day of the request if the same are lying with him and within three working days from the request if the same are lying with the Clearing Member/Clearing Corporation.
- i. There shall be no inter-client adjustments for the purpose of settlement of the 'running account'.
- j. These conditions shall not apply to institutional clients settling trades through custodians. The existing practice may continue for them.

#### **Authorization for Electronic Contract Notes**

- 13. The stock broker may issue electronic contract notes (ECN) if specifically authorized by the client subject to the following conditions:
  - a. The authorization shall be in writing and be signed by the client only and not by any authorised person on his behalf or holder of the Power of Attorney.
  - b. The email id shall not be created by the broker. The client desirous of receiving ECN shall create/provide his own email id to the stock broker.
  - c. The authorization shall have a clause to the effect that that any change in the email-id shall be communicated by the client through a physical letter to the broker. In respect of internet clients, the request for change of email id may be made through the secured access by way of client-specific user id and password.

#### **General**

- 14. All the documents in both the mandatory and the non-mandatory parts shall be printed in minimum font size of 11.
- 15. A copy of all the documents executed by client shall be given to him, free of charge, within 7 days from the date of execution of documents by the client. The stock broker shall take client's acknowledgement for receipt of the same.
- 16. The stock brokers having own web-sites shall display all the documents executed by a client, client's position, margin and other related information, statement of accounts, etc. in the web-site and allow secured access by way of client-specific user id and password.
- 17. No term of the agreement, other than those prescribed by SEBI, shall be changed without the consent of the client. Such change needs to be preceded by a notice of 15 days.
- 18. The stock broker shall frame the policy regarding treatment of inactive accounts which should, inter-alia, cover aspects of time period, return of client assets and procedure for reactivation of the same. It shall display the same on its web site, if any.

19. As on 31<sup>st</sup> March of every year, a statement of balance of Funds and Securities in hard form and signed by the broker shall be sent to all the clients.

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