METROPOLITAN STOCK EXCHANGE

Frequently Asked Questions for Secondary Market Process

Background

Empowering investors through education and awareness is of paramount importance to Metropolitan Stock Exchange of India Limited (MSE). In order to make investors aware of the processes and concepts and to bring clarity around transactions in secondary markets, MSE has published Frequently asked Question (FAQs) on the various processes.

Disclaimer

These FAQs are not the interpretation of law and should be treated as a binding opinion/ guidance by MSE. The primary objective is to provide a simplistic explanation of various terms / concepts related to Secondary market. These FAQs are prepared with a view to guide retail investors. With regard to the various regulations and guidelines governing the secondary market, please refer to the Acts/ Regulations/ Guidelines/ Circulars issued by Securities and Exchange Board of India (SEBI) and MSE

Contents

1. What are the various types of financial market?

The financial markets can broadly be divided into money and capital market.

Money Market: Money market is a market for debt securities that pay off in the short term usually less than one year, for example the market for 90-days treasury bills. This market encompasses the trading and issuance of short term non-equity debt instruments including treasury bills, commercial papers, banker's acceptance, certificates of deposits, etc.

Capital Market: Capital market is a market for long-term debt and equity shares. In this market, the capital funds comprising of both equity and debt are issued and traded. This also includes private placement sources of debt and equity as well as organized markets like stock exchanges. Capital market can be further divided into primary and secondary markets.

2 What is Secondary Market?

Secondary Market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets. For the general investor, the secondary market provides an efficient platform for trading of his securities. For the management of the company, Secondary equity markets serve as a monitoring and control conduit—by facilitating value-enhancing control activities, enabling implementation of incentive-based management contracts, and aggregating information (via price discovery) that guides management decisions.

3. What is SEBI and its Role?

The SEBI is the regulatory authority established under Section 3 of SEBI Act 1992 to protect the investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith and incidental thereto.

4. **What are all the products dealt in the secondary market?**

Following are the main financial products/instruments dealt in the secondary market:

Equity shares, Rights issue/shares, Bonus shares, preference shares, Cumulative/cumulative convertible preference share, Government securities, Bonds, Debentures Commercial paper and Tresurary Bills.

5. **What are the 3 types of Secondary Market?**

Apart from the stock exchange and OTC market, other types of secondary market include **auction market and dealer market**.

6. **What is the importance of Secondary Market?**

The secondary market is important for several reasons:

- The secondary market helps measure the economic condition of a country. The rise or fall in share prices indicates a boom or recession cycle in an economy.
- The secondary market provides a good mechanism for a fair valuation of a company.
- The secondary market helps drive the price of securities towards their genuine, fair market value through the basic economic forces of supply and demand.
- The secondary market promotes economic efficiency. Each sale of a security involves a seller who values the security less than the price and a buyer who values the security more than the price.
- The secondary market allows for high liquidity – stocks can be easily bought and sold for cash.

7. What is the difference between Primary market & Secondary market?

The primary market is where securities like stocks and shares are created, and it's where they'll initially be listed. Often, the primary market is saturated with institutional investors like banks, funds and other corporate entities.

The secondary market is where securities can be freely bought and sold between retail traders and investors – and it follows the primary market. Anyone with a trading account or investment account can take a position on a securities price movements on the secondary market – and as previously said, it's where the majority of financial transactions take place

8. What are the advantages and disadvantages of a secondary market?

The pros and cons of aftermarket are as follows:

Pros	Cons
• Indicates fair valuation for a company	• Highly volatile
• Well-regulated; a safe platform for investments	• Commission calculation is crucial as taxes apply almost every time a trade occurs
• Price adjustments possible	• Time-consuming; involves formalities
• Fund mobilization is easier	• Regulations impose unwanted restrictions

9. Whom should I contact for my Stock Market related transactions?

You can contact a broker or a sub broker registered with SEBI for carrying out your transactions pertaining to the capital market.

10. Who is a broker?

A broker is a member of a recognized stock exchange, who is permitted to do trades on the screen-based trading system of different stock exchanges. He is enrolled as a member with the concerned exchange and is registered with SEBI.

11. Who is an Authorised person?

Authorised is a person who is registered with SEBI as such and is affiliated to a member of a recognized stock exchange.

12. How do I know if the broker or Authorised Person is registered?

You can confirm it by verifying the registration certificate issued by SEBI.

13. What is investor charter for stockbrokers?

In order to facilitate investor awareness about various activities which an investor deals with such as opening of account, KYC and in person verification, complaint resolution, issuance of contract notes and various statements, process for dematerialization/rematerialization etc., SEBI, in consultation with the market participants, has prepared an investor charter for stock brokers inter-alia detailing the services provided to investors, rights of investors, various activities of stock brokers with timelines, Dos and Don'ts for investors and grievance redressal mechanism. All stockbrokers are required to disclose the investor charter on their respective websites, and provide a copy of the same to respective clients through emails/letters etc.

14. Am I required to sign any agreement with the broker?

Yes. For the purpose of engaging a broker to execute trades on your behalf from time to time and furnish details relating to yourself for enabling the broker to maintain client registration form you have to sign the "Member - Client agreement" if you are dealing directly with a broker. In case you are dealing through a sub-broker then you have to sign a " Broker - Sub broker - Client Tripartite Agreement". Model Tripartite Agreement between Broker-Sub broker and Clients is applicable only for the cash segment. The Model Agreement has to be executed on the non-judicial stamp paper. The Agreement contains clauses defining the rights and responsibility of Client vis-à-vis broker/ sub broker. The documents prescribed are model formats. The stock exchanges/stock broker may incorporate any additional clauses in these documents provided these are not in conflict with any of the clauses in the model document, as also the Rules, Regulations, Articles, Byelaws, circulars, directives and guidelines.

15. What is Member – Client Agreement Form?

This form is an agreement entered between client and broker in the presence of witness where the client agrees (is desirous) to trade/invest in the securities listed on the concerned Exchange through the broker after being satisfied of brokers capabilities to deal in securities. The member, on the other hand agrees to be satisfied by the genuineness and financial soundness of the client and making client aware of his (broker's) liability for the business to be conducted any other broker, then the name of broker and concerned Stock exchange and Client Code Number.

For proof of address (any one of the following):

Passport	**Voter ID**	**Driving license**	**Bank Passbook**	**Rent Agreement**
Ration Card	**Flat Maintenance Bill**	**Telephone Bill**	**Electricity Bill**	**Insurance Policy**

Each client has to use one registration form. In case of joint names /family members, a separate has to be submitted for each person.

In case of Corporate Client, following information has to be provided:

- Name, address of the Company/Firm
- Date of incorporation and date of commencement of business.
- Registration number(with ROC, SEBI or any government authority)
- Details of PAN

- Details of Promoters/Partners/Key managerial Personnel of the Company/Firm in specified format.
- Bank and Depository Account Details
- Copies of the balance sheet for the last 2 financial years (copies of annual balance sheet to be submitted every year)
- Copy of latest share holding pattern including list of all those holding more than 5% in the share capital of the company, duly certified by the Company Secretary / Whole time Director/MD. (copy of updated shareholding pattern to be submitted every year)
- Copies of the Memorandum and Articles of Association in case of a company / body corporate, partnership deed in case of a partnership firm
- Copy of the Resolution of board of directors' approving participation in equity / derivatives / debt trading and naming authorized persons for dealing in securities.
- Photographs of Partners/Whole time directors, individual promoters holding 5% or more, either directly or indirectly, in the shareholding of the company and of persons authorized to deal in securities.
- If registered with any other broker, then the name of broker and concerned Stock exchange and Client Code Number.

16. What is meant by Unique Client Code?

In order to facilitate maintaining database of their clients and to strengthen the know your client (KYC) norms; all brokers have been mandated to use unique client code linked to the PAN details of the respective client which will act as an exclusive identification for the client.

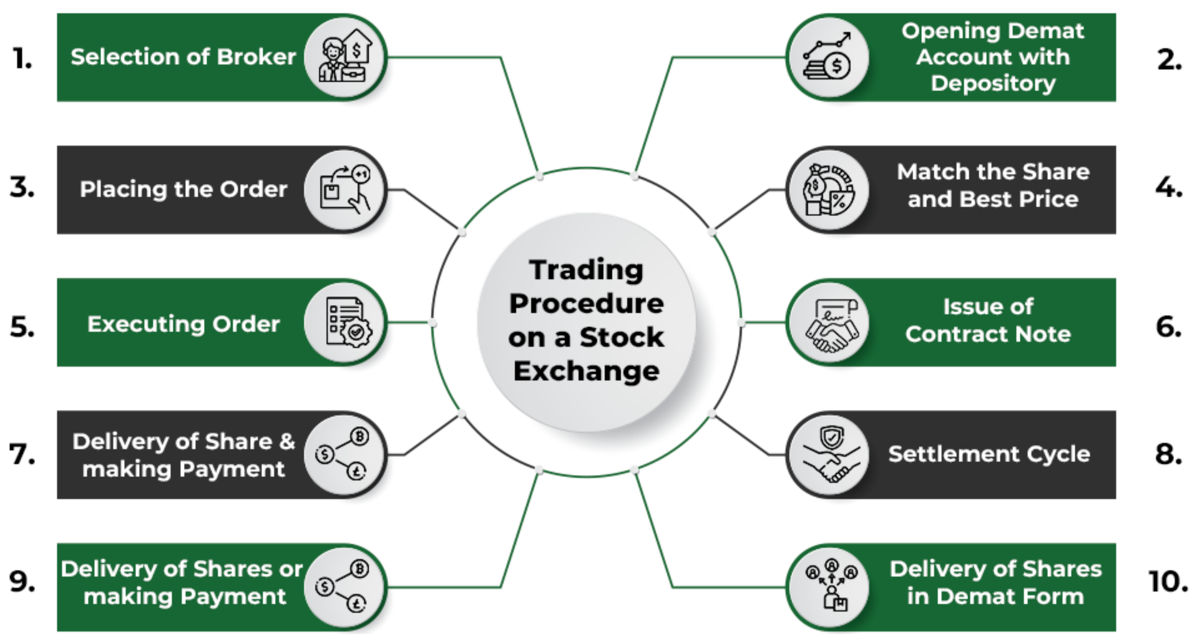
17. What is a risk disclosure document?

In order to acquaint the investors in the markets of the various risks involved in trading in the stock market, the members of the exchange have been required to sign a risk disclosure document with their clients, informing them of the various risks like risk of volatility, risks of lower liquidity, risks of higher spreads, risks of new announcements, risks of rumor's etc.

18. What are the steps in the trading process?

The main steps involved in the trading procedure are selecting a broker, opening a Demat account, placing an order for a transaction, executing the transaction by the broker, and finally, the settlement of the transfer between buyers and sellers

19. What is trading procedure on a stock exchange?



20. How to select stock broker?

One can buy and sell securities only through the brokers registered under SEBI and who are members of the stock exchange. A broker can be a partnership firm, an individual, or a corporate body. Hence, the first step of the trading procedure is the selection of a broker who will buy/sell securities on the behalf of a speculator or investor. Before placing an order to the registered broker, the investor has to provide some information, including PAN Number, Date of Birth and Address, Educational Qualification and Occupation, Residential Status (Indian/NRI), Bank Account Details, Depository A/c details, Name of any other brokers with whom they have registered, and Client code number in the client registration form. After getting information regarding all the said things, the broker opens a trading account in the name of the investor.

21. How to open Demat account with Depository?

An account that must be opened with the Depository Participant (including stock brokers or banks) by an Indian citizen for trading in the listed securities in electronic form is known as **Demat (Dematerialised) Account** or **Beneficial Owner (BO) Account.**

The second step of the trading procedure is the opening of a Demat Account. The Depository holds the securities in electronic form. A **Depository** is an organisation or institution, which holds securities like bonds, shares, debentures, etc. At present there are two Depositories; namely, **NSDL (National Securities Depository Ltd.)** and **CDSL (Central Depository Securities Ltd.).** The Depository and the investor do not have direct contact with each other and interact with each other through Depository Participants only. The Depository Participant will have to maintain the securities account balances of the investor and intimate investor from time to time about the status of their holdings

22. How to place an order?

The next step after the opening of a Demat Account is the placing of an order by the investor. The investor can place the order to the broker either personally or through email, phone, etc. The investor must make sure that the order placed clearly specifies the range or price at which the securities can be sold or bought. **For example,** an order placed by Kashish is, “Buy 200 equity shares of Nestle for no more than ₹200 per share.”

23. How the orders are matching?

The broker after receiving an order from the investor will have to then go online and connect to the main stock exchange to match the share and best price available.

24. How the orders are executing?

When the shares can be bought or sold at the price mentioned by the investor, it will be communicated to the broker terminal, and then the order will be executed electronically. Once the order has been executed, the broker will issue a trade confirmation slip to the investors

25. What documents should be obtained from broker on execution of trade?

You have to ensure receipt of the following documents for any trade executed on the Exchange:

a. Contract note in Form A to be given within stipulated time.

b. In the case of electronic issuance of contract notes by the brokers, the clients shall ensure that the same is digitally signed and in case of inability to view the same, shall communicate the same to the broker, upon which the broker shall ensure that the physical contract note reaches the client within the stipulated time. It is the contract note that gives rise to contractual rights and obligations of parties of the trade. Hence, you should insist on contract note from stock broker.

26. What is contract note?

Once the trade has been executed within 24 hours, the broker will issue a contract note. A contract note consists of the details of the number of shares bought or sold, the date, time of the deal, price of securities, and brokerage charges. A contract note is an essential legal document. It helps in settling disputes claims between the investors and the brokers. A contract note also consists of a printed unique order code number assigned to each transaction by the Stock Exchange.

27. What details are required to be mentioned on the Contract note issued by the Stock Broker?

A broker has to issue a contract note to clients for all transactions in the form specified by the stock exchange. The contract note inter-alia should have following:

- Name, address and SEBI Registration number of the Member broker.
- Name of partner /proprietor /Authorised Signatory.
- Dealing Office Address/Tel No/Fax no, Code number of the member given by the Exchange.
- Unique Identification Number
- Contract number, date of issue of contract note, settlement number and time period for settlement.
- Constituent (Client) name/Code Number.
- Order number and order time corresponding to the trades.
- Trade number and Trade time.
- Quantity and Kind of Security brought/sold by the client.
- Brokerage and Purchase /Sale rate are given separately.
- Service tax rates and any other charges levied by the broker.
- Securities Transaction Tax (STT) as applicable.
- Appropriate stamps have to be affixed on the original contract note or it is mentioned that the consolidated stamp duty is paid.
- Signature of the Stock broker/Authorized Signatory.
- Contract note provides for the recourse to the system of arbitrators for settlement of disputes arising out of transactions. Only the broker can issue contract notes.

28. What is the maximum brokerage that a broker can charge?

The maximum brokerage that can be charged by a broker has been specified in the Stock Exchange

Regulations and hence, it may differ from across various exchanges. As per the BSE, MSE & NSE Bye Laws, a broker cannot charge more than 2.5% brokerage from his clients

29. What are the charges that can be levied on the investor by a stock broker?

The trading member can charge:

1. Brokerage charged by member broker.
2. Penalties arising on specific default on behalf of client (investor)
3. Service tax as stipulated.
4. Securities Transaction Tax (STT) as applicable.

The brokerage, service tax and STT are indicated separately in the contract note.

30. What is process of delivery of share and making payment (pay in)?

In the next step, the investor has to deliver the shares sold or has to pay cash for the shares bought. The investor has to do so immediately after receiving the contract note or before the day when the broker shall make delivery of shares to the exchange or make payment. This is known as **Pay in Day.**

31. What is settlement cycle?

The payment of securities in cash or delivery of securities is done on Pay in Day, which is before T+2 Day. It is because the settlement cycle is T+2 days on w.e.f April 2003 rolling settlement basis. **For example,** if the transaction took place on Tuesday, then the payment must be done before Thursday, i.e., T+2 days (Transaction plus two more days).

32. What is process of delivery of share and making payment (pay out)?

On the T+2 Day, the Stock Exchange will then deliver the share or make payment to the other broker. This is known as **Payout Day.** Once the shares have been delivered of payment has been made, the broker has to make payment to the investor within 24 hours of the payout day, as he/she has already received payment from the exchange.

33. Delivery of shares in Demat form?

The last step of the trading procedure is making delivery or shares in Demat form by the broker directly to the Demat Account of the investor. The investor is obligated to give details of his Demat Account and instruct his Depository Participant (DP) for taking delivery of securities directly in his beneficial owner account.

34. What are various types of margins applicable while trading?

• **Equities:**

Margin includes Value at Risk (VAR) margin, Extreme Loss Margin (ELM), Intraday crystallized Mark to Market margin (ICMTM), Mark to market margin (MTM) and such other additional margins that may be specified by Clearing Corporation from time to time.

• **Derivatives:**

Margin in equity derivatives includes Initial margin and Extreme Loss Margin (ELM). Initial Margin shall include SPAN margins, margins on consolidated crystallized obligations, delivery margins and such other additional margins that may be specified by Clearing Corporation from time to time.

Margin in currency derivatives includes Initial margin and Extreme Loss Margin (ELM). Initial Margin shall include SPAN margins, margins on consolidated crystallized obligations and such other additional margins that may be specified by Clearing Corporation from time to time.

35. **How is margin computed for CM, FO and CD segment?**

Equities:

• VAR for a security is computed based on liquidity categorization of securities. VAR Margin is a margin intended to cover the largest loss that can be encountered on 99.9% of the days (99.9% Value at Risk). o Liquid Securities (Group I): 6σ (six sigma), subject to minimum of 9%

o Less Liquid Securities (Group II): 6σ, subject to minimum of 21.5%

o Illiquid Securities (Group III): 50% if traded at least once per week on any stock exchange; 75% otherwise.

• Sigma means the volatility of the security computed using the exponentially weighted moving average method applied to daily returns.

• Extreme Loss Margin is collected/ adjusted against the total liquid assets of the member on a real time basis. Extreme Loss Margin for any security is 3.5%.

• ICMTM shall be computed for all trades subject to upfront margining which are executed and closed out on the same trading day, based on weighted average prices of trades.

• Mark to market loss is calculated by marking each transaction in security to the settlement price of the security at the end of trading. In case the net outstanding position in any security is nil, the difference between the buy and sell values shall be is considered as notional loss for the purpose of calculating the mark to market margin payable.

• VAR, ELM & ICMTM shall be collected on an upfront basis by adjusting against the total liquid assets of the member. MTM margin is collected/adjusted from/against the cash/cash equivalent component of the liquid net worth.

Derivatives:

• SPAN margin shall be based on 99% value at risk over margin period of risk using Standard Portfolio Analysis of Risk system (SPAN®). It shall be based on a worst scenario loss of a portfolio of an individual client comprising his positions in options and futures contracts on the same underlying across different maturities and across various scenarios of price and volatility changes.

• Extreme loss margin shall be a fixed percentage rate for index derivatives contracts, stock derivatives contracts, and currency derivative contracts for each currency pair as specified by SEBI from time to time.

• Margins on consolidated crystallized obligation is computed on intraday as well as EOD basis. For intraday, it shall be amount payable at client level based on premium payable receivable and futures crystallized profit or loss. For EOD, it shall be amount payable at client level based on premium payable/receivable, futures mark to mark profits/losses, Options exercise/assignment for expired contracts and Futures final settlement for expired contracts.

• Post expiry, positions which are converted to delivery settlement margins as applicable in CM segment (i.e. VAR, Extreme Loss Margins, Mark to Market margins) shall be applicable and levied as delivery margins.

36. What is the new way of margin pledge?

- Stocks stay in the investor's Demat account.

i. No change of ownership of stocks happens.

- Investor makes a pledge in favor of the Stock Broker.

- Stock broker is required to open a separate demat account labelled 'TMCM – Client Securities Margin Pledge Account' for this purpose (TMCM = Trading Member Clearing Member).

- The broker then re-pledges these securities in favour of the Clearing Corporation and obtains margins.

37. What is new procedure?

Effective from September 01, 2020.

- Investors can now provide margin in form of "Securities".
- By pledging securities in favour of specially designated demat account of Stock Broker.
- What's New?: - Stock Brokers can accept securities (viz. shares) as collateral only in form of margin pledge created on the securities held in client's Demat account.

38. Pledged to whom?

- Created in favor of a "specially designated" demat account of the stock broker/ clearing member.
- Name of the account: TM – Client Securities Margin Pledge Account or TM / CM – Client Securities Margin Pledge Account).

39. What is Re-pledge?

- "Re-pledge" of securities by Stock Broker, that it received as "pledge" from investor, in favour of Clearing Member (CM).
- CM can "re-pledge" the same securities in favour of Clearing Corporation (CC) in respect of approved securities.
- Stock Brokers who are trading as well as clearing members may directly pledge securities to CC.
- Investor need to give consent for Re-pledge (given initially when investor pledged shares with Stock Broker) for underlying securities.

- Details of all pledge transactions and subsequent re-pledge transactions shall be displayed in the client's demat account statement.

40. When running account of client funds is settled?

In case client has opted for running account settlement, the settlement of running account of funds of the client shall be done by the stock broker after considering the end of the day (EOD) obligation of funds as on the date of settlement across all the exchanges on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan-Mar) for all the clients i.e. the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

For clients, who have opted for Monthly settlement, running account shall be settled on first Friday of every month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by stockbroker, within next three working days irrespective of the date when the running account was previously settled.

41. How does an investor know that his trade has been executed?

For every trade that takes place on the exchange, the stockbroker needs to issue contract note within 24 hours from the date of execution of the trade. An investor may opt for either electronic contract notes or physical contract notes during registration process.

In case of electronic contract notes issued by the brokers, the investors should ensure that the same is digitally signed and in case of inability to view the same, investor should communicate the same to the broker, upon which the broker shall ensure that the physical contract note reaches the client within the stipulated time. Investor needs to check the contract notes and if any discrepancy is found, the same should be taken up with the stockbroker immediately.

The Exchange also send out trade alert on a daily basis through SMS and emails to all investors on the registered mobile and email id.

42. When does the client account needs to be settled?

As per SEBI circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009 and SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016, the settlement of funds and / or securities shall be done within 1 working day of the pay-out, unless client specifically authorizes the trading member in writing to maintain a running account.

Vide SEBI circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, running account for securities has been discontinued and therefore, SEBI circulars dated December 03, 2009, and September 26, 2016, are now applicable for settlement of running account of client's "funds" only.

The settlement of running account of funds of the client shall be done by the trading member after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client.

43. What should be the periodicity of settlement of client account?

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

ii. Mandate of the client as to whether the settlement of funds should be done within a gap of 30 / 90 days between two settlements of running account

iii. A clause stating that the Client may revoke the authorization at any time (i.e. without notice)

Running account authorisation received through online secured access by way of client specific user id & password or through a registered email id of client is considered as authorisation in writing.

Accordingly, the actual settlement of funds shall be done by the member at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client.

Further, as per SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, for the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by trading member, within next three working days irrespective of the date when the running account was previously settled.

44. If the client has not done any exchange transaction in the last 30 calendar days but has an open position in derivatives segment, still the credit balance should be returned to client within next 30 days?

If the client has an open position in the derivatives segment, then the date of contract expiry or the date on which position is closed may be treated as last transaction date, for the purpose of computing 30 calendar days for returning the credit balance to such clients. However, members shall ensure settlement of running account of funds at least once within a gap of 30/90 days between two settlements of running account as per the preference of the client.

Illustration (For client accounts having credit balance and open position in derivatives segment)

SETTLEMENT PREFERENCE GIVEN BY CLIENT	LAST SETTLEMENT DATE	LAST TRADE DATE	POSITION CLOSURE DATE	CONTRACT EXPIRY DATE	NEXT SETTLEMENT DUE DATE
90 days	30-Jul-21	10-Aug-21	18-Aug-21	NA	17-Sep-21

90 days	30-Jul-21	10-Aug-21	NA	26-Aug-21	25-Sep-21
30 days	30-Jul-21	10-Aug-21	18-Aug-21	NA	29-Aug-21
30 days	30-Jul-21	10-Aug-21	NA	26-Aug-21	29-Aug-21

45. What is the client has not done any exchange transaction in the last 30 calendar days, but executes transaction with next 3 working days?

If the client executes a transaction on the Exchange on or before the date on which member is scheduled (within three working days) to return the credit balance, in that case, the member may retain the funds as clarified in Point 5 and settle the balance amount to client.

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

For the clients having outstanding obligations on the day on which settlement of running account of funds is scheduled, the following funds may be retained by a member at the time of settlement.

iv. Entire pay-in obligation of funds outstanding at the end of day on date of settlement, across all segments

- Margin liability as on the date of settlement of running account, in all segments and additional margins (maximum up to 125% of total margin liability on the day of settlement). The margin liability shall include the end of the day margin requirement excluding the margin on consolidated crystallized obligation/ MTM; therefore, the trading member may retain 225% of the total margin liability in all the segments across exchanges
- The margin liability may also include the margin collected by the Member from their clients as per the risk management policy and informed to the clients.

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

47. Whether the securities re-pledged to Clearing Member need to be unpledged while doing the settlement?

Excess securities (in the form of margin pledge/re-pledge) with Trading Member (TM), Clearing Member (CM) or with Clearing Corporation (CC), after adjustment of the 225% of the margin liability need not be unpledged for the purpose of periodic settlement

48. Whether the securities received by Trading Member as collateral from the clients by way of 'margin pledge', which in turn was not re-pledged with CM/CC, be adjusted towards margin liability while doing the settlement?

Yes. Value of securities (after applying appropriate haircut) accepted by trading member as collateral from the clients by way of 'margin pledge', shall be adjusted/ considered towards margin liability while doing the settlement of accounts, even if the same is not re-pledged with CM/CC

49. Can Members issue payments through physical mode, while settling the accounts of the clients?

For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.

Members may issue a physical payment instrument (cheque or demand draft), only in cases where electronic payment instructions have failed or have been rejected by the bank and after keeping adequate record of the same. In such cases, the date of debit of funds in member's bank account towards clearance of said physical instrument shall be considered as settlement date and not the date of issue of physical instrument.

Further, in case of failure of electronic payment instructions due to incorrect bank account details, members shall obtain correct bank details from clients and update their records after keeping adequate audit trail

50. Is there any threshold amount below which members may not be required to settle client's account?

No. Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients) is not permitted

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

As clarified vide Exchange circular, every member shall send a complete 'Statement of Accounts' for funds, securities and commodities in respect of each of its clients on weekly basis. Members have to send the 'Statement of Accounts' on or before the next four trading days of subsequent week.

Further all members will continue to send 'statement of accounts' containing an extract from the client ledger for funds, an extract from the register of securities/commodities displaying all receipts and deliveries of securities/commodities and a statement explaining the retention of funds/commodities within 5 days from the date of settlement.

Notwithstanding anything contained above, Member shall issue the statement of accounts for funds, securities and commodities for such period as may be requested by the client from time to time.

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

Members may refer Exchange circular for the format of the statement of accounts for funds and securities/commodities

52. Is statement of account required to be issued in case no trades are done by the clients?

The members shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and also has been flagged as 'Inactive' (i.e., if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange

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

The periodic settlement as per the above-mentioned rules (Point no.1) is not required to be done in the following cases:

a) Clients settling trades through "custodians."

b) Margin received in the form of Bank Guarantees and Fixed Deposit Receipts, which are created by clients.

c) Clearing members who are clearing trades of custodial participants/ trading members

d) Cheque received by the Member from the clients and credited in the respective client ledger but uncleared on settlement date.

e) In the case of new clients, no settlement would be required in the month/quarter in which funds are received by the Member for the first time. However, members shall ensure that, if the client is having credit balance, and has not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days

54. What is Securities Lending & Borrowing mechanism?

The Securities Lending and Borrowing (SLB) mechanism allows members to lend and borrow securities for a nominal fee. Liquid securities of Cash segment including all Futures & Options stocks along with liquid & frequently traded ETFS (Exchange Traded Funds) are eligible for trade in the SLB platform. SLB enables lending of idle securities by the investors through CC to earn a return. For SLB system, CC are the nodal agency registered as the "Approved Intermediaries" (AIs) under the Securities Lending Scheme, 1997. STT and Stamp duty is not applicable for transactions executed on SLB platform.

55. Investor Grievance Redressal Mechanism?

- Have a Dispute?

- Immediately question your Trading member about any transaction that you do not understand or you did not authorized your Trading member
- Not Satisfied with your Trading member response – Contact Trading member
- Any dispute with Trading member – complain in writing to Trading member
- Retain copy of complaint letter and correspondence with TM
- Complaint not addressed/redressed by the TM , contact MSE and file complaint

56. What is the platform available to redress the complaint?

Investor complaint against Trading member and Listed companies

- Investor Grievance cell
- Arbitration
- Appellate Arbitration

57. How to file the complaint?

- SCORES
- Online
- Mail
- Physical

58. Has all the redressal platform having timeline to resolve?

Yes, all the redressal platform having timeline prescribed by SEBI.

59. What is Investor Protection Fund (IPF) of stock exchanges?

Every exchange is required to establish an Investor Protection Fund (IPF) with the objective of compensating investors in the event of defaulters' assets not being sufficient to meet the admitted claims of investors, promoting investor education, awareness and research. The Investor Protection Fund is administered by way of registered Trust created for the purpose.

The Investor Protection Fund Trust endeavors to make good claims for compensation which may be submitted by an investor who suffers any loss arising from the said trading member being declared as a defaulter by the Exchange. SEBI has prescribed guidelines for utilization of IPF at the stock exchanges and have been permitted to fix suitable compensation limits.

60. When can a broker be declared a defaulter?

A stockbroker is declared as defaulter by direction/circular/notification issued by relevant authority and as per the byelaws of the exchange, *inter-alia,* when –

- He is unable to fulfill his obligations.
- He discloses his inability to discharge his duties, obligations, and liabilities.
- He fails or is unable to pay within the specified time the damages and the money difference due on a closing-out effected against him under these Byelaws, Rules, and Regulations.
- He fails to pay any sum due to the Exchange or to submit or deliver to the Exchange on the due date, delivery and receive orders, statement of differences and securities, balance sheet and such other clearing forms as prescribed.

- If he fails to pay or deliver to the Defaulters' Committee all monies, securities, and other assets due to a trading member who has been declared a defaulter within such time of the declaration of default.
- If he fails to abide by the arbitration proceedings as laid down under the Byelaws, Rules, and Regulations.

- If he is being an individual and /or partnership firm, /it, being a company incorporated under the Companies Act, files an application a petition before a Court of Law for adjudication of himself as an insolvent or an insolvency application is filed against it in accordance with the provisions of the Insolvency and Bankruptcy Code 2016 or any other analogous bankruptcy laws applicable to him / it, as the case maybe.

61. How can an Investor file a claim with stock exchanges regarding such default?

The claims of investors in default matters are dealt with and settled by respective stock exchanges as per their rules, regulations, and byelaws of exchanges. Public notice is issued in the newspapers inviting claims from the investors. Investors can file online claim through the website of the exchange and/or send offline claim form that can be obtained from the nearest investor service centres of the exchanges, which is also available on the exchange websites.