

NSE Clearing Limited

DEPARTMENT: CAPITAL MARKET SEGMENT

Download Ref No: NCL/CMPT/57396

Date : June 30, 2023

Circular Ref. No: 237/2023

All Members/Custodians,

Sub: Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) Segregation and Monitoring of Collateral at Client Level

This is with reference to SEBI circular no SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023, SEBI circular no SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 (Copy enclosed) and replacement of our circular no 215/2023 (Download Ref No NCL/CMPT/57223) dated June 21, 2023. In view of the above circulars, the revised operational procedures are as under:

A. Placement of FDRs as collateral with NCL

The existing provisions and procedure for placement of FDR as collateral with NCL as specified in our consolidated circular in respective segment shall continue to be applicable. Additionally, clearing members shall ensure the following for placing FDR as collateral with NCL

- Clearing Member shall ensure that for all FDR lien marked to NCL, NCL shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
- The tenure of FDRs created out of client funds shall not be more than one year and one day, and the FDR should be pre-terminable on demand.
- The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination costs.
- Clearing Member shall not avail any funded or non-funded banking facilities based on FDRs created out of clients' funds.
- FDRs lien marked to NCL created out of client funds, created after June 7, 2023 shall have residual maturity of not more than one year and one day.

B. Upstreaming via pledge of units of Mutual Fund Overnight Schemes (MFOS):

- The units of MFOS shall be re-pledged to NCL only through depositary margin pledge-repledge mechanism.
- Clearing Members shall repledge units of MFOS to NCL from their existing mapped TMCM Margin pledge accounts.
- The list of MFOS eligible for repledge to NCL shall be published from time to time.
- Existing norms for valuation, haircut and prudential limits shall be applicable for units of MFOS repledged to NCL.

C. Addition and Release of Cash as collateral

- There will no change in the procedure to deposit and request for release of cash provided as collateral with NCL.
- The cut-off time for deposit and release of cash shall be as under

- a) Clearing Member upstreaming cutoff time – 7:00 pm on all settlement days
- b) Clearing Member release (down streaming) request cutoff time – 7.00 pm on all settlement days

Clearing members shall select immediate option while placing request. NCL shall endeavour to release the cash as soon as possible, but within two hours from the time requested subject to sufficient free collateral available in the collateral pool at the time of request of release.

In addition to above NCL shall provide following additional release windows for cash provided as collateral

- i. End of day request – Request shall be accepted till 8:00 pm. Funds shall be released by end of day on the same day subject to sufficient free collateral available in the collateral pool at end of day and credited to settlement bank account by end of day.
- ii. Value date request - Request shall be accepted till 8:00 pm. Funds shall be released from the collateral at end of day subject to sufficient free collateral available in the collateral pool at end of day and credited to the settlement bank account on the value date selected by the clearing member.

D. Allocation

There shall be no change in the allocation procedure.

E. Release of Cash towards pay-in

1. Clearing Members may request for unutilized collateral (i.e. collateral in excess of margin blocked) lying with NCL in cash form, towards fund pay-in requirements within the segment as per the below process:-
 - Clearing members shall use value date cash release request as mentioned in point C above.
 - Such value date release shall be credited in the settlement account of the respective segment and can be used to meet the funds pay-in requirement in the respective segment.
 - Clearing members may also use immediate option for cash release request on settlement date. However, only release requests received before 9:15 am shall be available for adjustment towards pay-in
2. Clearing Members who wish to release funds from one segment (source segment) towards funds pay-in obligation in another segment shall follow the below process:
 - Place value date cash release request from the source segment as mentioned in point C above.
 - Send a mail to **cash_collaterals@nsccl.co.in** with following details by 8.00 pm with subject as “REQUEST TO ADJUST RELEASE TOWARDS PAY-IN MEMBER CODE XXXXX”
 - Member Code
 - Member Name
 - Source segment (where value date release has been placed)
 - Target segment where such funds are required.
 - Total amount of funds requested in value date in source segment shall be credited to the clearing member settlement account of target segment on the value date selected.

F. Release of Other Collaterals

The timeline for release of various other forms of collaterals shall be as under

Collateral Type	Request Type	Cut-off time for requesting release	Release processed time
FDR/Bank Guarantee	Immediate	7:00 pm	As and when request received subject to sufficient free collateral available in the collateral pool at the time of request
FDR/Bank Guarantee	Value date	7:00 pm	At end of day subject to sufficient free collateral available in the collateral pool at end of day
Pledged Securities (Batch 1) *	Immediate	9:30 am	By 10:30 am
Pledged Securities (Batch 2) *	Immediate	12:30 pm	By 1:30 pm
Pledged Securities (Batch 3) *	Immediate	4:30 pm	By 6:00 pm
Pledged Securities\$	Value date	7:00 pm	By 8.30 pm

*The release processed time mentioned are tentative and subject to best effort basis. In case of request for release of repledge securities towards pay-in requirement clearing members should ensure that such request is made one-day prior to pay-in and not on the pay-in date.

\$ Not applicable for G-SEC and T-BILLS

G. Reporting of Reasons for Collateral withdrawal

- Clearing Members shall, report TM-wise break-up of all collateral release requests from NCL (Cash, FDRs, MFOS), with the following reason(s):
 - Client unpaid securities obligations / MTF Obligations
 - Loss due to sale of unpaid securities
 - Penalties
 - Statutory levies (STT / Stamp Duty / SEBI Turnover Fee)
 - Brokerage (including exchange transaction fee)
 - Other charges (DP charges, etc.)
 - Funds to be released to client on account of regulatory requirements such as running account settlement
 - Funds withdrawal request from client
 - CM /TM Prop
 - Reconverting to another form of Collateral
 - Giving to Other CC
 - Pay-in purpose
- The Cut off time for reporting the reasons shall be 11:59:59 PM on the same day.
- The reporting shall be consolidated across all segments.
- Members shall be provided with a facility to report the above reasons in member portal, details are given below:
 - Path: Member portal→Inspection→Statement Upload→Collateral Segregation Submission→ Reason for Collateral Release

The effective date of the Circular shall be July 01, 2023. The provisions of the Circular stated at Clause G shall come into effect from September 01, 2023.

**For and on behalf of
NSE Clearing Limited**

Huzefa Mahuvawala
Senior Vice President

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NOTICES

Notice No.	20230630-50	Notice Date	30 Jun 2023
Category	Settlement/RMS	Segment	General
Subject	Upstreaming of clients' funds by Stock-brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)_30.06.2023		
Attachments	Annexure A.pdf		
Content			

To

All Members/Participants,

SEBI had issued circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023, on the subject “Upstreaming of clients’ funds by Stock-brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)”. In continuation to above, SEBI has issued associated circular carrying reference no SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated 30th June 2023. A copy of the said SEBI circular is enclosed as Annexure A for reference.

ICCL shall come out with modified operational guidelines in accordance with the same.

Members are requested to take note of the contents of the circular and comply.

For and on behalf of the Indian Clearing Corporation Limited.

Anand Shaha General Manager Regulatory & Compliance	Hitesh Shah Deputy General Manager Operations
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CIRCULAR

SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110

June 30, 2023

To,

Stock Brokers through recognized Stock Exchanges

Depository Participants through recognized Depositories

Clearing Members through recognized Clearing Corporations

Dear Sir/Madam,

Subject: Implementation of circular on upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)

1. SEBI, vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/084 dated June 08, 2023 (herein after referred to as "circular"), has specified the framework for upstreaming of clients' funds by SBs/CMs to CCs, which *inter-alia* states the following:

"As per the framework, no clients' funds shall be retained by SBs/ CMs on End of Day (EoD) basis. The clients' funds shall all be upstreamed by SB/ CMs to CCs only in the form of either cash, lien on FDR (subject to certain conditions enumerated below), or pledge of units of Mutual Fund Overnight Schemes (MFOS)."

2. Representations have been received from various stakeholders viz. MIs, stock brokers, and associations that the changes to the systems are still under progress, and that there are certain practical difficulties in implementation of the proposal framework, including around opening of bank accounts. In view of the same, while the SBs/CMs shall adhere to the basic requirement of upstreaming of clients' funds to CCs, as stated in clause 1 above, the provisions of the circular stand modified as under:

2.1. Clause 3.C.V of the circular may be read as follows:

"SBs/CMs may receive funds from clients beyond the prescribed cutoff time for upstreaming subject to the condition that there shall not be any further movement of funds from that account (i.e., a debit freeze) till the opening of upstreaming window on the next day."

Further, stock exchanges shall ensure that such funds remaining in bank accounts of SB/CM are minimal and are for legitimate purposes."

2.2. Clause 3.A.I.d of the circular may be read as follows:

“The tenor of such FDRs shall not be more than one year and one day; and the FDRs should be pre-terminable on demand.”

2.3. It is clarified that existing FDRs (created out of clients’ funds and having tenor of more than one-year) created prior to issuance of the circular shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions specified at clause 3.A.I of the circular.

2.4. The provisions of the circular stated at clause 3.C.II, 3.C.III, 3.C.V, 3.C.IX, 3.C.XI shall come into effect from September 01, 2023.

3. Stock exchanges, Clearing Corporations and Depositories are directed to bring the provisions of this circular to the notice of their members/participants and also disseminate the same on their websites.
4. 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,

Bithin Mahanta
General Manager
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NSE Clearing Limited

Circular

DEPARTMENT: COMPLIANCE

Download Ref No: NCL/CMPL/57037

Date: June 9, 2023

Circular Ref. No: 19/2023

To All Members

Sub: Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)

SEBI has issued Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023 on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs). The copy of the said SEBI circular is enclosed as Annexure A.

Members are requested to take note of the contents of the circular and comply.

**For and on behalf of
NSE Clearing Limited**

Amit Mahesh Pujara
Head-Compliance

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NOTICES

Notice No.	20230608-41	Notice Date	08 Jun 2023
Category	Compliance	Segment	General
Subject	Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)		
Attachments	Annexure.pdf		

Content

We draw your attention to SEBI circular ref. no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/ 84 dated June 08, 2023 regarding Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs).

A copy of the said SEBI circular is enclosed as **Annexure**.

Members are requested to take note of the contents of the aforesaid SEBI circular.

In case of any queries/clarifications, you may reach us on the following contact details.

Contact Nos.	Email ID
022- 2272 8435/5785	bse.inspection@bseindia.com

For and on behalf of BSE Ltd.

Richa Ghosh
Asst. Gen. Manager
Brokers' Supervision

Josephine Baretto
Manager
Brokers' Supervision

CIRCULAR

SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84

June 08, 2023

To,

Stock Brokers through recognized Stock Exchanges

Depository Participants through recognized Depositories

Clearing Members through recognized Clearing Corporations

Dear Sir/Madam,

Subject: Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)

1. SEBI, through various circulars issued from time to time, has given necessary directions/guidelines to stock brokers (SBs)/clearing members (CMs), to ensure orderly functioning of the securities market and to protect the interest of investors in securities market.
2. In this regard, with a view to safeguard clients' funds placed with SBs/CMs, it has been decided to require the upstreaming of all client funds received by SBs/CMs to the Clearing Corporations (CCs).
3. As per the framework, no clients' funds shall be retained by SBs/ CMs on End of Day (EoD) basis. The clients' funds shall all be upstreamed by SB/ CMs to CCs only in the form of either cash, lien on FDR (subject to certain conditions enumerated below), or pledge of units of Mutual Fund Overnight Schemes (MFOS). The details of the framework are as follows:

A. Upstreaming via FDRs created out of clients' funds:

- I. FDRs created by SBs/ CMs out of clients' funds shall be allowed only under the following conditions:
 - a. SBs/ CMs may create FDRs out of clients' funds only with those banks which satisfy the CC's exposure norms as specified by SEBI or CCs from time to time.
 - b. Every FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.
 - c. Through this lien, CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.

- d. The tenure of such FDRs shall not be more than one year and the FDR should be pre-terminable on demand.
- e. The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination costs.
- f. SBs/CMs shall not avail any funded or non-funded banking facilities based on FDRs created out of clients' funds.

B. Upstreaming via pledge of units of Mutual Fund Overnight Schemes (MFOS):

- I. Units of Mutual Fund Overnight Schemes (MFOS) is a new avenue being made available to SBs/ CMs to deploy client funds into. MFOS ensures minimal risk transformation of client funds (that are withdrawable on demand) available with SBs/ CMs because of overnight tenure and exposure to only risk-free government securities.
- II. SBs/CMs shall ensure that client funds are invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri-party Repo Dealing and Settlement (TREPS). Such MFOS units should be in dematerialized (demat) form, and must necessarily be pledged with a CC at all times.
- III. SBs/CMs shall maintain a dedicated demat account (hereinafter referred to as "Client Nodal MFOS Account") for subscription/ redemption of MFOS units. The depositories shall allow subscription/redemption transactions only in the said account.
- IV. From "Client Nodal MFOS Account", SBs/CMs shall provide MFOS units as collateral to the CC. While providing the units as collateral, SBs/CMs shall identify the end clients. In order to implement the same, a pledge shall be created from the Client Nodal MFOS account to SB/CM margin pledge account of the SB/CM. The SB/CM shall further repledge the same to CC using the existing pledge re-pledge mechanism.
- V. Clause 15.3.2.3 of SEBI's "Master Circular on Stock Brokers" dated May 17, 2023 mandates stock brokers to maintain demat accounts under 5 defined categories. The said clause of master circular is being modified to include 'Client Nodal MFOS Account' as sixth category of permissible demat account that can be maintained by stock brokers.

C. Receipt/payment of funds by SBs and CMs from/to their constituents:

- I. Other than the FDRs (liened to CCs) and MFOS (pledged to CCs), any remaining client funds with SBs/ CMs shall be upstreamed to a CC before a stipulated cut-off time.
- II. Clause 15.3.2.1 of SEBI's "Master Circular on Stock Brokers" dated May 17, 2023 mandates stock brokers to maintain designated client bank account(s) ("Name of SB/CM - Client Account") to receive/pay funds from/to their constituents. The nomenclature of all such accounts shall be changed to either of the following two categories of bank accounts:
 - a. Up Streaming Client Nodal Bank Account (USCNBA): SB/CM shall receive clients' funds in USCNBA for further upstreaming it to the CCs. The nomenclature for such accounts shall be "Name of the SB/CM – USCNB account".
 - b. Down streaming Client Nodal Bank Account (DSCNBA): Payment to clients should be done only from DSCNBA account post receiving of funds from CC/CM same day and any balance left in the account post cutoff time should be transferred to USCNBA for further upstreaming it to the CCs. The nomenclature for such accounts shall be "Name of the SB/CM – DSCNB account".
- III. In addition, CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature "Name of the CM –TM prop account" to receive/pay proprietary funds from/to stock brokers.
- IV. Upstreaming of funds: Funds received on a given day by SBs shall be transferred to CMs, and by CMs to the CC any time during the day, but not later than the respective cutoff times. The respective cutoff times for upstreaming are as follow:

Sr. No.	Particular	Cutoff time
1	CM upstreaming cutoff time	To be decided by CC – not earlier than 6:00 PM
2	SB upstreaming cutoff time	To be decided by CM – not earlier than 1 hour prior to CM upstreaming cutoff time

- V. To ensure that no residual client funds remain with SBs/CMs, they shall not accept any fresh client funds from 30 minutes before the SB upstreaming cutoff time.
- VI. Downstreaming of funds: The clients may request release of funds to SBs/CMs at any time during the day. The processing of such release requests shall be as per respective risk management practices of SB/CMs. Subject to such validations, the SBs/CMs shall provide the requested funds to the client by requesting for release of cash collateral from the CCs. The respective cutoff times for down-streaming are as under:

Sr. No.	Particular	Cutoff time
1	CM release request cutoff time	To be decided by CC – not earlier than 3:00 PM
2	SB release request cutoff time	To be decided by CM – not earlier than 30 minutes prior to CM release request cutoff time
3	Client release request cutoff time	To be decided by SB – not earlier than 30 minutes prior to SB release request cutoff time

- VII. For release requests received beyond this cutoff time by CCs/CMs/SBs, the payments shall be made on the next settlement day.
- VIII. The release requests received from the clients before “client release request cutoff time” must be processed the same day. Further, such funds received from the CC must either be paid out to the clients on the same day or upstreamed back to the CC on the same day.
- IX. The SBs/CMs may seek withdrawal of client funds from CCs only under following scenarios:
- Client unpaid securities obligations / MTF Obligations
 - Loss due to sale of unpaid securities
 - Penalties
 - Statutory levies (STT / Stamp Duty / SEBI Turnover Fee)
 - Brokerage (including exchange transaction fee)
 - Other charges (DP charges, etc.)
 - Funds to be released to client on account of regulatory requirements such as running account settlement
 - Funds withdrawal request from client

SBs/CMs shall provide reconciliation statements to stock exchanges/CCs, as may be required by stock exchanges and CCs. Stock exchange/ CCs shall put in place an appropriate reporting mechanism for SBs/CMs for the above mentioned scenarios. The withdrawal request received from SB/CM for point no (a) to (f) above shall be transferred from CC to CM settlement account and from there to CM/SB own account. For release request made for point (g-h) above, funds shall mandatorily be transferred to designated “DSCBA” account for onward payments only to clients.

Clause 15.4.4.2 of SEBI’s “Master Circular on Stock Brokers” dated May 17, 2023 stands rescinded to give effect to above-mentioned provisions.

- X. The CC shall endeavor to release the cash as soon as possible, but within two hours from the time requested.
- XI. A schematic representation of flow of funds under the instant framework is enclosed as **Annexure-A** of the circular.
- 4. To improve operational efficiency and reduce transaction costs, CCs shall build a mechanism for utilization of surplus unutilized collateral (i.e. collateral in excess of margin blocked) lying with CC in cash form, towards fund pay-in requirements across segments.
- 5. Further, to improve operational efficiency and to reduce costs, CCs shall also facilitate a mechanism to adjust the margin blocked in the form of cash, towards client fund pay-in obligations. Such mechanism shall be provided by CCs by 1st January 2024.
- 6. The provisions of this framework shall not be applicable to bank-CMs (including Custodians that are banks), and for proprietary funds of SBs/CMs in any segment and SB’s proprietary funds deposited with CM in the capacity of a client.
- 7. The provisions of this circular shall come into effect from July 01, 2023.

Monitoring mechanisms

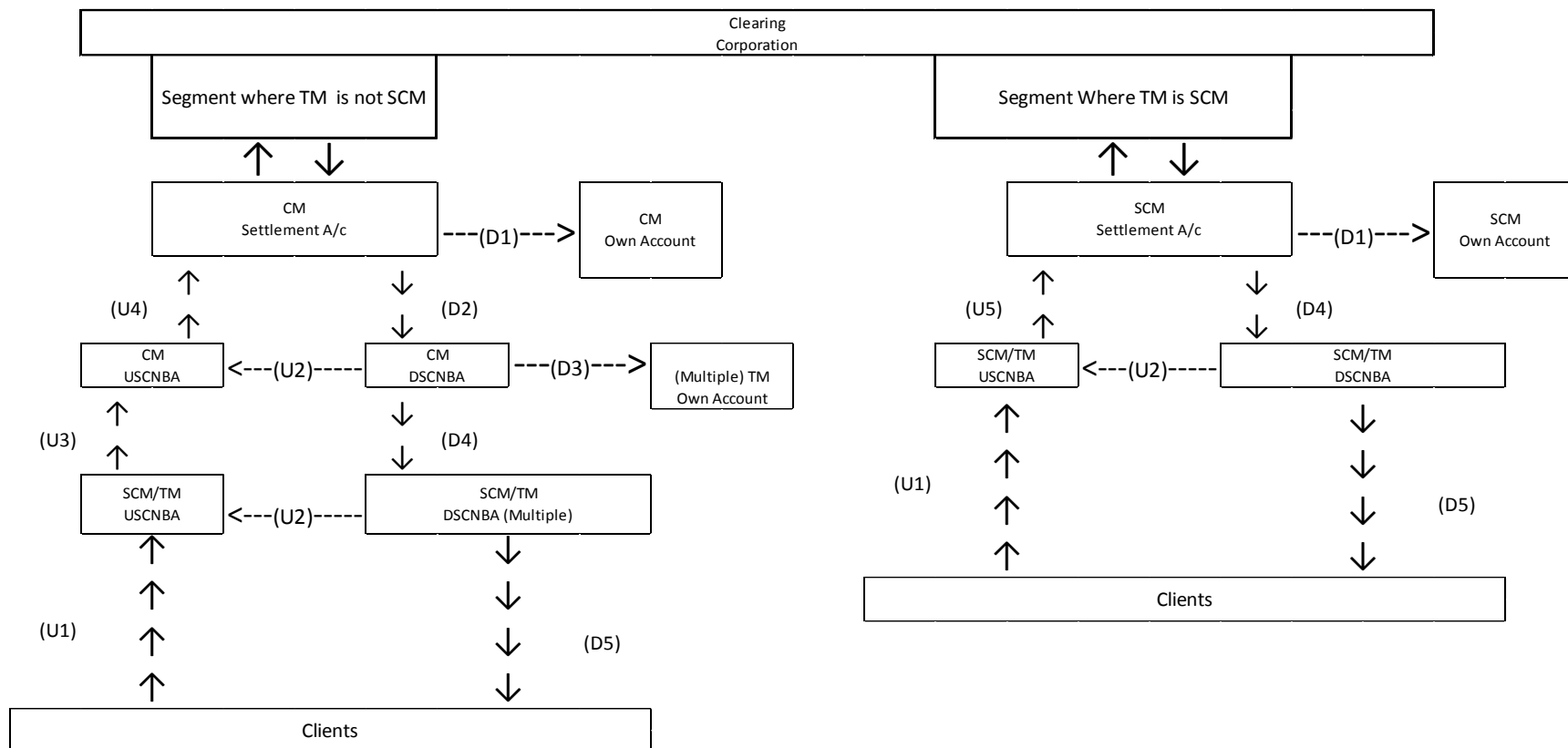
- 8. The stock exchanges and CCs shall create an SOP for monitoring the implementation of provisions of this Circular and put in place a uniform penalty structure for non-compliance.
- 9. The stock exchanges, depositories, and clearing corporations are directed to:

- a. bring the provisions of this circular to the notice of stock brokers, depository participants, and clearing members, as the case may be, and also disseminate the same on their websites;
 - b. make amendments to the relevant bye-laws, rules and regulations for the implementation of the above provisions;
 - c. communicate to SEBI, the status of the implementation of the provisions of this circular in their monthly development report and
 - d. monitor compliance of this circular and submit a compliance report to SEBI in this regard by August 31, 2023.
10. 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,

Aradhana Verma
General Manager
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Annexure-A



Notes:

Upstreaming

(U1) Clients funds shall be received only to Designated Bank Account "USCNBA".

(U2) Balance left in the DSCNBA post cutoff time should be transferred to USCBA for further upstreaming it to the CCs

(U3) Funds received in TMs USCNBA will have to be transferred to CMs USBCA only during the day, but not later than the stipulated cutoff times; this step will not be applicable in case of SCM

(U4) Funds received in CM USCNBA will have to be transferred to CC only via CM Settlement account during the day, but not later than the stipulated cutoff times

Downstreaming

(D1) Withdrawal of funds from CC received in Settlement A/c other than client payables shall only be transferred to Member's OWN account (Dues of clients to Member)

(D2) Withdrawal of funds received in Settlement A/c from CC by CM towards TM payables shall only be transferred to Clearing Member's DSCNBA account; this step will not be applicable in case of SCM

(D3) Withdrawal of funds from CM DSCNBA other than client payables shall only be transferred to Trading Member's OWN account (Dues of clients to Member); this step will not be applicable in case of SCM

(D4) Withdrawal of funds from CM DSCNBA towards client payables of TM shall only be transferred to Trading Member's DSCNBA account

(D5) Payout shall be made to clients from TM DSCNBA account only based on the request received before cut off time