भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/MIRSD/DOP/P/CIR/2021/577 **June 16, 2021**

To,

All recognized Stock Exchanges

Madam / Sir,

Sub: Settlement of Running Account of Client's Funds lying with Trading Member (TM)

1. SEBI, vide circular no. MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, issued the guideline for settlement of running account of client's funds / securities. As specified by SEBI, the actual settlement of funds and securities shall be done by the member depending on the mandate of the client and there must be a gap of maximum 90 / 30 days (as per the choice of client viz. Quarterly / Monthly) between two settlements of running account.

2. Vide SEBI circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, settlement of 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.

3. Further, SEBI, vide circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, discontinued title transfer of securities to the demat account of TM for margin purposes and TM shall accept collateral from the clients in the form of securities only by way of 'margin pledge' created in the Depository system.

4. SEBI had extensive consultations with Stock Exchanges and industry representatives, to devise a framework to mitigate the risk of misuse of client's funds. The proposal was also discussed in the meeting of Secondary Market Advisory Committee.

5. In partial modification of the aforementioned circulars dated December 03, 2009 and September 26, 2016 on settlement of running account, following has been decided:

5.1. The settlement of running account of funds of the client shall be done by the TM 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 **30 / 90 days between two settlements of running account** as per the preference of the client.

5.2. In case of client having any outstanding trade position on the day on which settlement of running account of funds is scheduled, a TM may retain funds calculated in the manner specified below:

5.2.1. Entire pay-in obligation of funds outstanding at the end of the day on settlement of running account, of T day & T-1 day.

5.2.2. Margin liability as on the date of settlement of running account, in all segments and additional margins (maximum upto 125% of total margin liability on the day of settlement). The margin liability shall include the end of the day margin requirement excluding the MTM and pay-in obligation, therefore, TM may retain 225% of the total margin liability in all the segments across exchanges. Computation for arriving at retention of excess client funds based on above points would be as under:

Scenario	Fund pay in obligation of T day & T-1 day	EOD/peak margin requirement	225% of the margin	Securities pledged/ repledged	Client fund balance	Excess client funds retained
	A	B	C=225%*B	D	E	F=E-[(C-D)+A]
1	110000	100000	225000	200000	300000	165000
2	50000	20000	45000	15000	50000	0
3	150000	100000	225000	280000 ^	180000	30000

^ Excess securities of Rs. 55,000 (i.e. 280000-225000) is not required to be unpledged.

5.2.3. TM will first adjust the value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge' created in the Depository system for the purpose of margin and value of commodities (after applying appropriate haircut) respectively and thereafter TM shall adjust the client funds.

5.2.4. It is clarified that the excess securities (in the form of margin pledge) or any cash equivalent collateral identifiable with the client and deposited with CC, after adjustment of the 225% of margin liability need not be unpledged.

5.3. Client's running account shall be considered settled only by making actual payment into client's bank account and not by making any journal entries. Journal entries in client account shall be permitted only for levy / reversal of charges in client's account.

5.4. 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 TM, within next three working days irrespective of the date when the running account was previously settled.

5.5. In cases where physical payment instrument (cheque or demand draft) is issued by the TM towards the settlement of running account due to failure of electronic payment instructions, the date of realization of physical instrument into client's bank account shall be considered as settlement date and not the date of issue of physical instrument.

5.6. Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued.

5.7. The Authorized person is not permitted to accept client's funds and securities. The TM should keep a proper check. Proprietary trading by Authorized person should be permitted only on his own funds and securities and not using any of the client's fund.

5.8. Once the TM settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date). TM shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions within 5 working days.

5.9. Client shall bring any dispute on the statement of running account, to the notice of TM within 30 working days from the date of the statement.

6. Stock Exchanges shall develop online system for effective monitoring of timely settlement of running account for funds of client and to verify that excess clients' funds are not retained by the TM as on the date of settlement of running account. The intent of the online system shall be to discourage TM from retaining excess funds of clients after settlement of running account, by considering all the client obligations across exchanges. The responsibility of monitoring settlement of running account compliance of TM may be shared among Stock Exchanges.

7. The provisions of this circular shall be applicable with effect from August 01, 2021. Stock Exchanges shall put in place an appropriate reporting requirement by TM to enforce the above system.

8. 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

Narendra Rawat
General Manager
Market Intermediaries Regulation and Supervision Department