

Bombay Stock Exchange Limited



The edge is efficiency

Compliance Manual

2009

Derivatives Segment

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The Bye-laws of the Derivative Segment of the Exchange provide that the books of accounts and documents of all active Trading Members are to be inspected by the Exchange and of the Clearing Members by the Clearing House. The main purpose of inspection of the books of accounts and other documents is to ascertain whether members are carrying on the business as per the provisions of the Rules, Bye-Laws & Regulations of the Derivative Segment of the Exchange, Securities Contracts (Regulation) Act, 1956, and Rules framed there under and the directions issued by the SEBI from time to time.

The Main Purposes of Inspection are:

1. To ensure that books of accounts and other records; as specified in Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 (1) of the Securities & Exchange Board of India (Stock Brokers & Sub-Brokers) Rules, 1992 are being maintained in the required manner;
2. To ensure that the provisions of the SEBI Act, Rules and Regulations framed thereunder are being complied with;
3. To ensure that the provisions of the Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Rules, 1957 and any other applicable laws are being complied with;
4. To ensure that the various provisions contained in the Rules, Bye-laws and Regulations of the Derivative Segment of the Exchange and any Business Requirement Specifications for the Derivatives Trading and Settlement System (DTSS), Notices, Circulars, Orders, Resolutions, Directions or Instructions issued thereunder or pursuant thereto by the SEBI/Exchange are being complied with;
5. To investigate into the complaints received from the Clients/Investors, other Members of the Exchange or any other person on any matter having a bearing on the activities of the Member;
6. To investigate suo-moto, for any reason where circumstances in the opinion of the Exchange or SEBI so warrant an inspection into the affairs of the Member;
7. To comply with any of the directives issued in this behalf by any regulatory authority including the Government of India;
8. To check whether the member has complied with all the trading and clearing restrictions, if any, imposed by the Exchange from time to time.

9. To check whether the conduct of the member is in the overall interest of the capital market and the member is fair in dealing with his clients.

The Exchange, being a self-regulatory body, is required to take suitable steps to inspect the books of accounts and other documents and institute necessary disciplinary action against members whose books of accounts and other documents reveal malpractices.

A. INSPECTION MECHANISM

Securities and Exchange Board of India (Stock Brokers and Sub brokers) Regulations, 1992 provides for mechanism for inspection of member-brokers with a view to ascertain whether the member-brokers registered are carrying on the business in terms of the provisions of the Regulations and also whether the conduct of the member-brokers is in the overall interest of the capital market and investors. Stock exchanges, being Self Regulatory Organizations (SRO) would be primarily responsible for ensuring orderly conduct by its member-brokers and also ensuring that the relevant Rules, Bye-laws, Regulations and directions are being complied with by its member-brokers.

As per Securities and Exchange Board of India (SEBI) guidelines at least 50% of its active member-brokers are required to be inspected every year.

The Exchange has set up a separate department called Department of Surveillance & Supervision (DOSS), which has been entrusted with the responsibility to carry out inspection of the books of accounts, records and other documents maintained by its member-brokers including their branches.

The Exchange issues letters to the member-brokers about the scheduled date of inspection and advising them to send the Inspection Questionnaire in soft as well as hard copy form (containing basic information about background and operations of the member) properly filled up alongwith all the required data and documents before the commencement of inspection.

The Inspecting Team inspects the books and records on a sample basis and prepares Inspection Report with respect to the areas inspected during the course of inspection. observations/findings of the inspection report are forwarded to the concerned member-broker. The member-broker is required to submit his reply on the observations contained in the observation letter, within the stipulated time.

The reply given by the member-broker is then vetted and action against the member-broker for the non-compliances observed during the inspection is initiated as per the norms laid down in this regard by the Disciplinary Action Committee constituted by the Exchange.

The final action initiated is communicated to the member-broker and the member-broker is also advised to take necessary steps to ensure that such non-compliances do not recur in future.

OBLIGATIONS OF A MEMBER ON INSPECTION

Obligation to Produce Books

It shall be the duty of every Trading Member who is being inspected and of every partner, director, officer, representative, agent and employee of the Trading Member to produce to the inspecting authority such books, records and other documents in his custody or control or arrange to produce such books, records and other documents which are in any other person's custody or control and furnish such statements and information within such time as the said inspection authority may require. Every Trading Member shall be obliged to ensure compliance of these Bye-laws by his partner, director, officer, representative, agent and employee.

Access

The Trading Member shall allow the inspecting authority to have reasonable access to the premises occupied by him or by any other person on his behalf and also extend reasonable facilities for examining any books, records, documents and computerised data in his possession or any other person and also provide copies of documents or other materials which in the opinion of the inspecting authority are relevant. Such copies or materials shall be retained by the inspecting authority as the property of the Derivatives Segment.

Statement of Trading Members

The inspecting authority, in the course of inspection shall be entitled to examine or record statements of any director, officer and employee of the Trading Member or of any associate of such Member.

Obligation to Co-Operate

It shall be the duty of every director, officer and employee of the Trading Member or where an associate is examined, such associate, to give to the inspecting authority all assistance in connection with the inspection, which the Member may be reasonably expected to give.

Right to Examine Record of Trading Member's Bank

The inspecting authority shall be entitled to examine the records relating to the Trading Member's financial affairs held with his bankers or any other agency or person which

the inspecting authority may find relevant.

Right to Examine Record of Trading Member's Associates

The inspecting authority shall have access to the accounts and other records relating to the Trading Member and also such access as authorised by the Derivatives Segment to the accounts and other records relating to any associate of the Trading Member as are within the power of the Member to provide.

B. BOOKS OF ACCOUNTS

The members of Derivatives Segment of the Exchange are required to maintain the 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) Regulations, 1992. These books and records are to be preserved for a minimum period of five years or as may be advised from time to time.

For the purpose of Inspection, the Exchange normally requires following records/documents, (including those of branches) from the members.

1. Trade Confirmation Slips or summary of Trade Confirmation Slips as obtained from the System.
2. Statements of obligations received from the Exchange/clearing house.
3. Record of all statements received from the settling agencies and record of all correspondence with them.
4. Client's Order Book as referred in Bye-Law-10.3 (d) of the Rules, Byelaws and Regulation of the Derivative Segment.
5. Details of up-front margins collected by the Members from each of his Client describing the form, value and mentioning appropriate haircuts.
6. Margin calls made and met.
7. Order book in respect of Trading Member's own orders.
8. The following reports produced from the Trading System (for own, client and institutional) -
 - Activity Log
 - Orders Cancelled/rejected Today
 - New Orders Today
 - Pending Orders Today
 - Trades done Today

9. Copies of all instructions as referred in Bye-Law - 10.3(i) of the Rules, Byelaws and Regulation of the Derivative Segment.
10. Records in respect of brokerage collected separately from the clients as well as other charges collected from the clients.
11. A Register of transactions (or other records of original entry) executed by the Trading Member on behalf of the Clients containing an itemwise daily record of all purchases and sales of contracts, showing for each such transaction effected, contract specifications, value of contracts, settlement date of contracts, rates both gross and net of brokerage and names of Clients, order date & time, trade date & time.
12. Register of transactions for trades executed by the Trading Member on his own behalf containing such particulars as may be specified by the Derivatives Segment
13. Besides above following records may also be called for inspection
 - a) Duplicate copies of contract notes issued to clients.
 - b) Copy of the Board resolution/Power of Attorney (along with specimen signatures of the authorised persons), if any, for signing the contract notes.
 - c) Duplicate copies of computerised margin statements.
 - d) All documents showing compliance of Bye-Law 8 of the Rules, Bye-Laws and Regulations of the Derivative segment of the Exchange with regard to segregation of clients' monies and securities (bank statements, bank books, clients' ledger accounts, and inward/outward register).
 - e) Margin Deposit Book
 - f) List of books of accounts, records and documents maintained by the member as required under Regulation 17 of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992
 - g) List of clients with such other details like Client Registration form, Broker-Client Agreements etc. which is maintained in the requisite format specified by the Exchange.
 - h) Details of **DTSS TWSS** installed and there locations.
 - i) Details of approved users and authorised persons of each office wherein DTSS is installed.
 - j) Details of Trading Member with other details like Terminal, Authorised person etc..
 - k) Details of Marketing, Promotional material and sales practices. (if any)
 - l) Copies of Board resolutions in case of Corporate / Institutional clients.

Maintenance of Records

Unless the Derivatives Segment otherwise specifies, every Trading Member shall maintain for a period of five years after the closure of the account or termination of the agreement (unless a dispute has arisen, in which case the Trading Member shall maintain

for a period of five years after the final settlement or adjudication of the dispute), the following: -

- (a) Copies of agreements and documents executed with his Clients and with each of the settling agencies or banks.
- (b) Records of all relevant particulars of persons which are registered as an Approved User for the Derivatives Segment.
- (c) Copies of all the communications received and copies of all communications sent by such Trading Member (including inter-office memo and communications) relating to its business as such.
- (d) All Guarantees, powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account and copies of resolutions empowering an agent to act on behalf of the Trading Member.
- (e) All written agreements and documents (or copies thereof) entered into by that Trading Member relating to his business as such, including the agreements with respect to any account.
- (f) Any record which relates to the terms and conditions with respect to the opening and maintenance of any Client's Account, date of entering into agreement with the Client, date of modification thereof, date of termination and representatives of such Client who signed in each case.

Records of Certain Related Entities to be Included

The above requirements relating to maintenance of records shall apply not only to records of the Trading Member's principal office but also to those of any branch offices.

Records of Complaints

Each Trading Member shall keep and preserve for a period of five years (unless a dispute has arisen, in which case the Trading Member shall maintain for a period of five years after the final settlement or adjudication of the dispute) a record of all written complaints of his Clients showing the reference number of the Client, date, Client's name, particulars of the complaints and action taken by the Trading Member and, if the matter is referred to arbitration under or pursuant to these Bye-laws, then the particulars thereof and record of resolution of the complaint by the Trading Member.

Details of Member's Securities

Every Trading Member shall maintain details of securities which are the property of a Trading Member showing with whom it is deposited and if held otherwise than by the Trading Member, whether it has been lodged as collateral security for loans or advances or otherwise.

Place where Records Maintained

Trading Member shall intimate to the Derivatives Segment the place where these records are kept and are available for audit/inspection.

C. CLIENT REGISTRATION DOCUMENTS

All the members of the Derivative Segment of the Exchange have to maintain a database of their clients. This concept has been called as "KNOW YOUR CLIENT". The member has to register all clients and maintain a registration form for each client. The Member shall take reasonable steps to assess the background, genuineness, beneficial identity and financial soundness of such person, and his investment objectives and such other matters as the Derivatives Segment may specify by asking the new Client to fill in a "**Client Registration Form**". The member should get Client Registration Form filled by the clients and get all necessary supporting documents to be annexed to it.

In addition to Client Registration Application Form, Members may seek additional information, if any so as to satisfy themselves about the antecedents of their clients. Members should allot unique code to each client. These client codes are to be used while putting orders in the Derivative Segment.

The Trading Member shall enter into an agreement on a stamp paper as may be applicable with each of his Clients before accepting or placing orders on Clients' behalf. Such agreement shall include provisions specified by SEBI and the Derivatives Segment in this behalf.

The agreement may have additional clause as agreed between member and the client till such clause does not negate the clauses specified by SEBI/Exchange.

(Exchange Notice No. 20031031-8 dated October 31, 2003 and 20040827-11 dated August 27, 2004)

The Trading Member's responsibility shall not in any way be reduced due to non-execution of agreement with the client.

The standard format of the following is given as Annexure- I to III.

- i) Client Registration Application Form(including Risk Disclosure Document),
- ii) Agreement between Client and Member and
- iii) Agreement between Client and Clearing Member.

In the case of corporate clients, banks, financial institutions and mutual funds, they should be allowed to trade derivatives only if and to the extent authorised by their Board of Directors/Trustees. Such authorisation should specify the scope of permissible derivative trading, i.e. the purposes or objectives for which derivatives trading may be undertaken, (e.g. hedging etc.), over-all limits for derivative exposure, the authority level for giving approval in this regard, the type of derivatives contracts (e.g. futures, forwards, options, swaps) and broad derivative category (e.g. derivatives on interest rate, exchange rate, equities and commodities). Derivatives broker/dealer may execute orders for such clients only if the orders are supported by the necessary authorization of the client's Board of Directors/Trustees.

Risk Disclosure to Clients:

Every Member shall make the Client aware of the Segments in which the Member is registered, particulars of the Member's SEBI registration number, the employees primarily responsible for the Client's affairs, the precise nature of the Member's liability for business to be conducted, the risk associated with business in Derivatives Trading including any limitations on that liability and the capacity in which the Member acts and the Clients' liability thereon by issuing to the Client a copy of the "**Risk Disclosure Document**" (as prescribed in Regulation of Rules, Bye-Laws and Regulations of Derivative Segment).(Copy of Risk Disclosure Document is attached as Annexure I A).

The Trading Member/Limited Trading Member shall enter into a separate agreement on a stamp paper as applicable with each of the Clearing Member on whose behalf he will be clearing trades. A copy of the agreement is enclosed as Annexure – III.

(Exchange Notice No. 49408/2000 dated May 8, 2000, 52207/2000 dated June 5, 2000 and 20031031-8 dated October 31, 2003)

D. Unique Client Code (UCC) & Permanent Account Number (PAN)

All members are required to allot Unique Client Code to all their clients.

The members are required to collect and maintain in their back office the Permanent Account Number (PAN) allotted by Income Tax Department for all their clients

All the members in the Derivatives Segment need to mandatorily collect PAN of all their clients and upload the same as part of UCC details uploaded to the Exchange, with effect from December 1, 2005. Members who have not uploaded the above details and who trade from such code will be levied penalty according to notice no. 20090715-4 dated July 15, 2009. Accordingly, trading members are required to collect copies of PAN cards from their existing as well as new clients and maintain the same in their record after verifying with the original. In case of institutional clients, the custodians are advised to verify the PAN details of the institutional clients with the original PAN card and provide copy of such verified PAN details to the brokers duly certified. This would be applicable in respect of institutional clients, namely, FIIs, MFs, VCFs, FVCIs, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with IRDA and Public Financial Institution as defined under section 4A of the Companies Act, 1956.

Trading members can execute transactions in the derivative segment on behalf of any entity/person only if the PAN details of such entity/person has been collected, cross-checked with the details on the website of the Income Tax Department (SEBI circular no. MRD/DoP/SE/Cir- 8 /2006 dated July 13, 2006) and uploaded by them to the Exchange as part of the Unique Client Code (UCC) details of the respective entity/person.

Trading members will ensure that:

1. All new UCC registrations are mandatorily accompanied with the PAN details of the client.
2. Name and PAN details of the clients already uploaded by them in the UCC database of the Exchange is correct and verified with the details on the website of the Income Tax Department.

Trading members are also requested to ensure that Name and PAN of the client as appearing on the PAN Card is correctly uploaded by them to the Exchange. Trading members are also required to maintain a photocopy of the PAN card of the client in their records. (Exchange Notice No.20060908-13 dated September 08, 2006)

SEBI vide circular no MRD/DoP/SE/Cir-05/2007 dated April 27, 2007 has decided that Permanent Account Number (PAN) would be the sole identification number for all

participants transacting in the securities market, irrespective of the amount of transaction.

(Exchange Notice No. 20090715-4 dated July 15, 2009)

E. MODE OF PAYMENT & DELIVERY

1. Every Member shall at all times keep the money of all his Clients in a separate bank account in a designated Clearing Bank.
2. Money paid and securities deposited by a Client shall be kept in separate Clients' account and, save and except with the express authorisation of the concerned Client but subject to his lien over the account, a Member shall not utilise one Client's money or securities for his own account or on behalf of another client. It should be ensured that trading by the member on own account is totally segregated from that for clients.

Co-mingling of Funds not Permitted

It is compulsory for all the members to keep the money of the Clients and their own money in a separate account, bearing words "Derivative Segment", with same designated Clearing Bank. Client accounts should be separate across segment/exchange. No payment for transactions in which the member is taking a position as a principal shall be allowed to be made from any Clients' account.

Provided the transfer from Clients' account to Trading Member's/Limited Trading Member account shall be allowed under the circumstances enumerated below:

- (a) **Obligation to pay money into Clients' account:** Every Trading Member/Limited Trading Member who holds or receives money on account of a Client shall forthwith pay such money to a current or deposit account with a bank to be kept in the name of the Trading Member/Limited Trading Member in the title of which the words " Clients – Derivatives Segment " shall appear (hereinafter referred to as "**Clients Account**"). The Trading Member/Limited Trading Member may keep one consolidated Client Account for all the Clients or separate accounts in the name of each Client, as he thinks fit; provided that when a Trading Member/Limited Trading Member receives a cheque or draft representing in part money belonging to the Client and in part money due to the Trading Member/Limited Trading Member, he shall pay the whole of such cheque or draft into the Clients Account and effect subsequent transfer as laid down in Clause (c). Similarly, a Clearing Member may keep one consolidated Clients' Account/Trading Members' Account for all the Clients and Trading

Members or separate accounts in the name of each Client of Trading Member, as he thinks fit

- (b) **Money to be paid into Clients Account:** No money shall be paid into Clients Account other than -
- (i) Money held or received on account of Clients;
 - (ii) Such money belonging to the Trading Member/Limited Trading Member as may be necessary for the purpose of opening or maintaining the account;
 - (iii) Money for replacement of any sum which may by mistake or accident has been drawn from the account;
 - (iv) A cheque or draft received by the Clearing Member representing in part money belonging to the Client and in part money due to the Trading Member/Limited Trading Member.
- (c) **Money to be withdrawn from Clients Account:** No money shall be drawn from Clients Account other than -
- (i) Money properly required for payment to or on behalf of Clients for or towards payment of a debt due to the Trading Member/Limited Trading Member from Clients or money drawn on Client's authority, or money in respect of which there is a liability of Client to the Trading Member/Limited Trading Member, provided that money so drawn shall not in any case exceeds the total of the money so held for the time being for each such Client;
 - (ii) Such money belonging to the Trading Member/Limited Trading Member as may have been paid into the Client Account under Clause (a) or (b)(iv) above;
 - (iii) Money which may by mistake or accident has been paid into such account.

Clearing Members to have Account with the Clearing Bank

Every Clearing Member of the Clearing House shall have clearing account(s) with designated Clearing Bank branch(es). Clearing Members shall operate the clearing account(s) only for the purpose of settlement of deals entered through the Clearing House, for the payment of margin money and for any other purpose as may be specified by the Clearing House from time to time. The clearing accounts may be for any or all of the Segments as may be specified by the Clearing House. The Clearing Member shall not operate the clearing account(s) for any other purpose.

Where the Trading Member manages a discretionary account for or on behalf of the client, he should abide by the Securities and Exchange Board of India (Portfolio Managers) Rules and Regulations, 1993.

F. MARGINS

The member should collect Initial Margins up front from all clients and the mark to market should be collected on regular basis.

The Exchange debits / credits Mark-to-Market Margin (MTM) loss / profit, from / in the Clearing Members' Accounts with designated banks on T+1 day basis. The MTM margin is computed by marking the daily net open position of a member in all series to the closing price of the respective underlying (index/stock) to find out the notional profit / loss a member would incur in case his net open position in all series at the end of the day in consideration were to be closed out. All notional profits made in some series and all notional losses in other series as well as all realised profit and losses incurred by the members on the positions squared up are netted and net amount is collected or paid as MTM margin.

The MTM margins are debited from members' client account and payable in cash only. The amount of margin liability is debited on T+1 day basis. Similarly, the MTM profits are credited to the designated bank accounts of the members on T+1 basis.

While calculating the collateral received for margin purpose necessary hair cut should be given as prescribed.

The member should refund the margin to clients within one business day of refund from Exchange/Clearing member. The member should take written approval from the client to withhold the margin collected from clients.

Member may collect more margins than is required to be paid by him and, until paid, the same shall be kept in the Member's Client Account.

Transactions entered into on behalf of a director or employee of the Member or transactions in which a director or employee of the Member has beneficial interest, shall be considered as those of Client of that Member and margin shall be collected from each such Client separately.

Right of Members to close out on Default of Dues

In case of non-payment of margin dues, settlement dues or any outstanding by the Clients at or after the time when the same is due, the Member shall be at liberty to close out transactions as specified by the Clearing House unless the Client has an equivalent or more free credit with the Member. The loss incurred in this regard shall be met from the margin money or any other amount or property of the Client with the Member and the gains, if any, would also accrue to the Client.

No exemptions:

No trade is exempted in the Derivative Segment. However, once the custodian confirms a trade as Institutional trade (i.e., purchases and sales on behalf of scheduled commercial banks, Indian Financial Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI and OCBs, HNIs), obligation related to that trade is transferred to the custodian and Initial Margin to that extent is released to member. A copy of the notice is enclosed as Annexure - IV.

(Refer to Exchange Notice No. 58613/2000 dated 8th August , 2000)

Reporting of margin received from clients

Members are required to furnish correct information related to initial margin and mark-to-market margin received from each client as prescribed by the Exchange. A 'Margin Statement' is generated by the Exchange and downloaded to the members everyday. The member should maintain separate a/c for Initial Margin and Mark-To-Market margin for each client in his books of accounts..

Cross-margining

Margin paid in Cash Segment of the Exchange is allowed to be adjusted for position taken in Derivative Segment of the Exchange and vice versa. Necessary accounting entries to be passed for transfer of margin across segments or from Initial Margin to Mark-To-Market margin a/c of clients for which written approval of client has been obtained.

Position limits

Members need to refer to various notices issued by Exchange from time to time in this regard so as to keep a check on varying position limits prescribed for differential categories of clients.

Note:In this chapter, Trading member will be treated as a client of clearing member, under whom he is registered. Premium will be treated as mark-to-market margin.

G. BROKERAGE

Orders Exclude Brokerage

Unless the Derivatives Segment otherwise specifies, all the orders entered on the system shall be at prices exclusive of brokerage.

Cap on Brokerage

Trading Members shall not charge brokerage at rates exceeding such scale as the Derivatives Segment may specify from time to time.

At present the Trading Member can charge maximum at the rate of 2.5% of the notional value of the contracts. In case of notional value of the contract, the amount of premium paid/received is added to the value of contract.

Specific Disclosure of Brokerage

A Trading Member may charge brokerage to his clients which shall be indicated in the contract note separately from the price.

Undisclosed Markup, Fee, Charges or Brokerage Prohibited

A Member shall not be entitled to directly or indirectly charge any undisclosed markup, fee, charges, commission or brokerage.

Brokerage

Save as otherwise provided, brokerage shall be charged and collected by Trading Members upon the execution of orders for Clients.

Rebate not allowed

No allowance, rebate, return or division of brokerage, charges, commission or fee of any nature or character shall be made by a Member to any Client in respect of any trade except as permitted by the Derivatives Segment.

With Whom Brokerage may be shared

A Member shall not be entitled to share any brokerage, charges or fee of any nature or character except with such persons, in such circumstances and to such extent as may be permitted by the Derivatives Segment.

Clearing Charges Chargeable by Clearing Members to Trading Members

Subject to such restrictions and limitations, if any, as the Derivatives Segment or the Clearing House may specify, a Clearing Member shall be entitled to charge a Trading

Member, whose trades he undertakes to clear, such clearing charges as may be agreed between the Clearing Member and the Trading Member.

Clearing Charges Chargeable By Clearing Members to their Clients

Subject to such restrictions and limitations, if any, as the Clearing House may specify, a Custodian Clearing Member shall be entitled to charge his Client, whose trades he undertakes to directly (i.e. without the intervention of a Trading Member) clear, such clearing charges as may be agreed between the Custodian Clearing Member and the Client for so clearing the Client's trades.

H. CONTRACT NOTE

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 in physical form or by way of ECN to his clients for the transactions in Futures & Options or any other derivatives products sold and purchased by him on their behalf. The Contract Notes are to be issued to the Clients by next business day from execution of the trades (or as per the notice issued in this regard from time to time). Members are also required to preserve counter-foils or duplicates of the copies of contract notes issued to clients along with proof of dispatch.

(Exchange Notice No. 20081110-6 dated November 10, 2008)

The Contract Notes are required to be signed either by the member himself or his authorised person 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 authorise another person(s) to sign the Contract Notes. 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 of the Exchange and an acknowledged copy should be made available to the Inspection Team during inspection of the member's books of accounts.

(Exchange Notice No. 20061215-22 dated December 15, 2006).

It is not mandatory for Members to issue Contract notes to their clients on automatic closing out of open position on expiration of futures/option contract, instead, they can issue confirmation memo/ bill to the clients.

(Exchange Notice No. 103517 dated November 1, 2001)

I. TRADING TERMINALS

Approved User

All the members have to appoint minimum two persons as Approved Users per Exchange. Approved User means the Trading Member or any other person appointed by him to use the trading workstation with the prior consent of the Exchange provided that such Approved User is having qualifications prescribed by the Exchange/SEBI. Alternatively, he may undertake to pass the Certification Programme at the time of application. In this case his appointment as an Approved User will be subject to passing of the Certification Programme before start of business. No person other than the Approved User can use the terminal. Moreover, the member will be liable for all the acts of all users.

Approved User cannot engage himself in any business, other than that of dealing in securities. An Approved User shall be a major individual and must not be in the employment of any person other than the concerned Trading Member or Limited Trading Member or Clearing Member. When using the Trading Workstation of any Trading Member or Clearing Member an Approved User shall not make contracts on behalf of any other Trading Member or /Limited Trading Member or Clearing Member. An Approved User shall not sign contract notes in his own or any other name nor shall he sign on behalf of his employer unless appointed by such employer as his constituted attorney for that purpose.

Authorised Person

“**Authorised Person**” means a person who is engaged or employed by a Trading/Clearing Member, whether through a contract of employment or otherwise, and whether or not for remuneration, for any kind of work or activity, manual or otherwise, relating to the Derivatives Segment and includes:

- (i) an Approved User,
- (ii) any person employed or engaged by or through a contractor,
- (iii) any person who is acting in any capacity on behalf of a Trading/Clearing Member,
- (iv) any person who is undergoing any kind of training with a Trading/Clearing Member, and
- (v) any person who is assigned any project work with a Trading/Clearing Member in pursuance of the requirements of any university or other academic body for any kind of work or activity relating to the Derivatives Segment.

A person shall not be an Authorised Person of more than one Trading/Clearing Member at the same time.

In case of Pro account trading, Member can enter trade only through trading terminals at a single location only. In case any member requires the facility of using “pro-account” through trading terminals from more than one location, such member shall be required to submit an undertaking to the Exchange stating the reason for using the “pro-account” at multiple locations and the Exchange may, on case to case basis after due diligence, consider extending the facility of allowing use of “pro-account” from more than one location.

(Exchange Notice no. 20031030-4 dated October 30, 2003)

J. SYSTEM AUDIT

In order to ensure the reliability of the IML / Internet Trading Systems used by the Trading Members, the Exchange has decided to make it obligatory on the part of the Trading Members to get their IML / Internet Trading Systems audited by Certified Systems Auditor and Submit a report to the Exchange.

Accordingly, the Trading Members who have availed of the IML facility from the Exchange are advised to submit a Systems Audit Report in the prescribed format every Financial Year.

The Trading Members are required to note the following with regards to the Systems Audit:

1. The System Audit should be carried out by CISA / ISA / CISSP Certified Systems Auditor and their name & registration number should be mentioned on the certificate submitted.
2. The System Audit will have to be carried out for all the branches where IML facility is provided and one consolidated report should be submitted to the Exchange.

Trading members are also required to submit the following documents / certificates to Exchange.

- Network Diagram duly certified by the Vendor showing the number and location of nodes.
- SSL (Secured Socket Layer) certificate or any other similar mechanism, which adequately protects the confidentiality of trade data.

(Exchange Notice No. 20070517-26 dated May 17, 2007 and 20090515-20 dated May 15, 2009).

K. ANTI MONEY LAUNDERING PROVISIONS

Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force w.e.f. July 01, 2005. As per the provisions of the Act, all the prescribed entities shall have to maintain records pertaining to the transactions of the value and nature prescribed as under :

- All cash transactions of the value of more than Rs.10 lakhs or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been valued below Rs.10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.
- All suspicious transactions whether or not made in cash.

All intermediaries are advised to ensure a proper policy framework as per the guidelines on anti-money laundering provisions. Members are required to appoint Principle Officer under Prevention of Money Laundering Act 2002. Also, members are required to have documented procedures to implement the Anti Money Laundering provisions as envisaged under Prevention of Money Laundering Act, 2002.

The Guidelines on Prevention of Money Laundering Standards, inter-alia require the members to:

- Ensure Customer due diligence (As stipulated under Guideline 5 of Part II of the Guidelines on Anti Money Laundering Provisions).
- Monitor and Report Suspicious Transactions to FIU (Financial Intelligence Unit) India. (As specified under Guidelines 2.2 and 9 of Guidelines on Prevention of Money Laundering Provisions)

(Exchange Notice No. 20060120-6 dated January 20, 2006, Notice no. 20060321-15 dated March 21, 2006, notice no. 20081222-21 dated December 22, 2008 and notice no. 20090122-9 dated January 22, 2009).

L. PENALTY NORMS

The Exchange has reviewed and rationalised the existing norms for imposing late fees, fines and penalties relating to inspection of trading members. The revised norms have been approved by the Disciplinary Action Committee (DAC) of the Exchange in its meeting held on February 27, 2008.

The consolidated list of revised norms shall be applied for the violations observed during the course of inspection or otherwise to be conducted w.e.f. April 01, 2008. The actions

including fines for violations are only indicative. In case of a large number of instances of violation involving large amount of funds / large quantity of securities or instances of repetitive nature, the DAC may take such strict action as it may deem fit including levy of higher fines / suspension / expulsion. (Exchange Notice No.20080307-8 dated March 07, 2008.

List of indicative penalty in respect of violations observed during inspections or otherwise in Cash segment, Derivative and Debt segment

No.	Details of contravention	Penalty (Fine in Rupees)
	I - Dealings with Clients	
1	Client Registration	
	(a) Documents not executed	Rs.10,000/- per client
	(b) Inclusion of contravening clauses / Omission of material details	Rs.10,000/-
	(c) Otherwise not in the prescribed format	Advice
2	Non-maintenance of Books of Accounts, Records & Documents including non maintenance of Client-wise Accounts for Funds / Securities Mis-utilisation of clients' funds or securities	Rs.50,000/-
3	Bank and Demat Account Operations	
	(a) Separate Clients Bank or Demat Account not maintained for clients' transactions	Rs.10,000/-
	(b) Payin / Payout not received from / delivered to respective clients' accounts	In excess of 2% of number of instances, fine of Rs.10,000/- Otherwise, Advice
	(c) Non-segregation of Own and Clients' Funds or Securities	In excess of 2% of number of instances, fine of Rs.10,000/- Otherwise, Advice
	(d) Delay in release of payout of Funds / Securities to clients	In excess of 2% of number of instances, fine of Rs.10,000/- Otherwise, Advice
	(e) Delayed / Non payment of Dividend (Delay in Excess of 90 days)	0.5 % of the amount (Rs.10,000/- if amount is not known)

4	Excess Brokerage charged	TM to be advised to refund the excess brokerage charged to the constituents and fine of Rs.5,000/- or Excess Brokerage whichever is higher. If not charged at all - Advice
5	Use of Multiple Codes for client or own trades	Advice
6	Contract Note related contraventions	
	(a) Non issue / delay in issue/ issued with material discrepancies or contract notes not signed by Authorised Signatory or Duplicates or Copies / Proof of dispatch of contract notes not maintained Non-compliances related to Spot Transaction	Rs.10,000/-
	(b) Otherwise not as prescribed Non-compliances related to STP system	Advice
7	Quarterly Statement of Accounts for funds or securities not sent	In excess of 2% of number of clients, fine of Rs10,000/- Other discrepancies - Advice
	Cash dealings with clients	Fine of 0.1% of the value in excess of Rs 10 lakhs. Otherwise - Advice
	Non-disclosure of trading on own account to clients Exclusive Email-ID for investors' complaints not created or not displayed	Advice
	Transfer of Trades / Errors at the time of order entry	In excess of 2% of number of orders executed, fine of 0.1% of the value of trades transferred
	Margin Trading related contraventions	
	(a) Agreement not executed with clients	Rs.5,000/- per client
	(b) Margin Trading facility in scrips other than permitted	Rs.10,000/-
	(c) Short collection of margin in excess of 20%	Rs.10,000/-
	(d) Other procedural contraventions	Rs.10,000/-

II - Dealings with Intermediaries	
Dealing with Unregistered Intermediaries	Rs.1,00,000/- per Unregistered Intermediary. Further, member is to be advised to ensure that the entities stop dealing as unregistered intermediaries and be directed to withdraw the terminal(s), if any, allotted to such entities, immediately. In addition to monetary fine, suspension of the trading membership may also be considered depending upon the gravity of the violation, in cases where instances of dealings with more than 5 Unregistered Intermediaries are observed.
Doing business for / through other TMs or sub-brokers of other TMs without prior approval of the Exchange	Rs.10,000/- for dealing with member of same Exchange. With brokers / sub-brokers of other Exchanges - Advice
Inspection of active Sub-Brokers / Branches not done Sharing of Brokerage / Commission, except as permitted under the Bye-Laws of the Exchange. Non-compliances by Subsidiaries of Regional Exchanges.	Advice
III - Trading System & Office Management	
Operation of Trading Terminals by persons other than an Approved User / Person	Advice
Allowing Trading Terminals to be operated by persons without BCFM Certification	Advice

(a) Unauthorised extension of BOLT or IML Terminal / Commencement of Internet trading without prior approval	Rs.50,000 per terminal. If trading terminals are observed to be used for carrying out illegal trading activity, suspension of the trading membership may also be considered depending upon the gravity of the violation.
(b) Errors in upload of Terminal details to the Exchange	In excess of 5 terminals, fine of Rs 5,000/- per terminal
Non-display of Notice Board or SEBI Registration Certificate	Rs.10,000/-
Non-appointment of Compliance Officer	Rs.10,000/-
Execution of trades on own account from locations other than those permitted	Rs.10,000/-
Evasion of margin by entering wrong client code	0.3% of the value of trades or Rs.25,000/- whichever is higher.
Not following the advertisement code of the Exchange	Rs.5,000/-
Non-compliance with PMLA requirements	Rs.10,000/-
Books of Accounts, Registers, Records & Documents not in prescribed format / not maintained properly or not submitted for inspection	Advice
Post Compliance Inspection	
(a) Submitting wrong Compliance Certificate	Rs.15,000/-
(b) Repeated violations observed in both, last normal inspection and post compliance inspection and where member was warned.	Fines prescribed for violations observed in routine inspection.
(c) Repeated violations observed in both, last routine inspection and post compliance inspection and where penalty was levied	Twice the amount of penalty levied in routine inspection.
IV - Margin reporting requirement (Derivative segment)	
% of factual wrong reporting of margin collection from constituents to total margin reported as collected	
Upto 5%	Warning
> 5% and upto 10%	0.5% of wrongly reported amount
> 10% and upto 25%	2% of the wrongly reported amount

> 25% and upto 50%	2% of the wrongly reported amount and suspension from trading for 1 day
> 50%	2% of the wrongly reported amount and suspension from trading for 5 days
% of (margin available but not properly accounted for / received from third parties) to total margin reported as collected	
Upto 5%	Advice
> 5% and upto 10%	0.5% of the wrongly reported amount, subject to maximum of Rs 25,000/-
> 10% and upto 25%	0.75% of the wrongly reported amount, subject to maximum of Rs 50,000
> 25% and upto 50%	1% of the wrongly reported amount, subject to aximum of Rs 75,000/-
> 50%	1.25% of the wrongly reported amount, subject to maximum of Rs 1,00,000/-

Note :- All the requisite records, if available/maintained by the trading members in electronic form, shall be considered as compliance.

M. AUDITED ACCOUNTS & NETWORTH CERTIFICATE

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 end of a financial year. Members are required to submit copy of the Audit Report to the Exchange within 30 days of its receipt. All Clearing and Trading members are required to submit the Audit report. An active member of the Stock Exchange refers to a member who has done business in futures, options etc. of the Derivative Segment even for a single day in the accounting year.

The members are required to submit the Balance Sheet and Profit & Loss Account in a sealed cover to the Membership Department. The Audit Report has to be submitted separately along with a covering letter.

Networth certificate

All the members are required to submit a Networth Certificate from their Chartered Accountant on a half yearly basis as on March 31 and September 30. The certificate for March 31 are required to be submitted by October 31, and the certificates for the half-year ended September 30, are required to submit by November 30.

(Exchange Notice No. 20090421-7 dated April 21, 2009)

N. INTERNAL AUDIT

All the stock brokers/trading members/clearing members were directed to carry out complete internal audit on a half yearly basis by chartered accountants, company secretaries or cost and management accountants who are in practice and who do not have any conflict of interest. The first internal audit period is from October 1, 2008 to March 31, 2009.

Internal auditor would submit the audit report to the Proprietor/Partners/Board of respective trading/clearing member who would place the report before his Board of Directors/proprietor/partners and shall forward the same along with para-wise/point wise comments to respective stock exchanges within 3 months from the end of the relevant half year audit period.

Non-submission of internal audit report as per guidelines shall be treated as non-compliance and charges of Rs.100 per day after the due date, till the date of submission of the report shall be levied on the member. In case audit report is not received for more than 3 months from the due date of submission of the report or in case of submission of incomplete/inadequate/deficient internal audit report, the matter shall be placed before Disciplinary Action Committee (DAC) for taking suitable action.

(Exchange notice no. 20090325-22 dated March 25, 2009 and Notice No.20090612-27 dated June 12, 2009)

O. MISCELLANEOUS

Designated Person

Members are not allowed to appoint Sub-broker to act on their behalf as an agent. However, Member can open branches and appoint designated person to act on his behalf for assisting the investors in buying, selling in derivative contracts. Further, member can make arrangement / agreement for sharing brokerage, profit, commission etc. with such designated person or person who brings in business. Members can also appoint sales personnel to market their services.

(Exchange Notice no. 69227/2000 dated 22nd November 2000)

Trading by FIIs

The Foreign Institutional Investors (FIIs) having valid approval under FERA, 1973 and under FEMA, 1999 and registered with Securities and Exchange Board of India (SEBI) have been permitted to invest in Exchange traded Index Futures by way of hedging on the recognised Stock Exchanges of India. The FIIs or their SEBI approved sub account may keep with the Trading Member/Clearing Member, amount sufficient to cover the margin prescribed by the Exchange/Clearing House and further such as may be considered necessary to meet the immediate need. A copy of circular issued by RBI in this regard is annexed as Annexure VII.

(Exchange Notice dated August 7, 2000)

Trading by Mutual Funds

According to amended Regulation 45 of the Securities and Exchange Board of India (Mutual Funds) Regulation, 1996, mutual funds can enter into derivative transactions for the purpose of hedging and portfolio balancing in accordance with Guidelines issued by SEBI. The test of whether a futures transaction is for hedging or for speculation hinges on whether there already exists a related commercial position which is exposed to risk of loss due to price movement A copy of guidelines issued by SEBI in this regard is annexed as Annexure VIII.

(SEBI circular MFD/CIR/011/061/2000 dated February 1, 2000)

Designated Directors

The Corporate members are required to designate minimum two directors as “Designated Director” for the purpose of Derivative Segment. In case of existing member of the cash segment, the same set of Designated Directors, can act as Designated Director for Derivative Segment also.

NEGOTIATED AND CROSS DEALS

L C gupta Committee stresses on fairness and transparency, safeguarding clients' money, market integrity etc. It also states that derivatives sales practices need regulation. The Clearing House to guarantee trades to ultimate clients. In light of the above, it becomes obvious that such negotiated or cross deals are not allowed to be transacted by the members.

Violation of Code of Conduct

The Securities and Exchange Board of India, has prescribed a code of conduct for member brokers (Code of Conduct annexed as Annexure XVII).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, professionalism, adherence to trading practices, front running, honesty and fairness, capabilities etc.