

FAOS – Settlement of Running Account of Client's Funds

1. When does a client account need 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.

Vide SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022, 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 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. 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 each month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

2. What should be the periodicity for settlement of client funds?

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:

- Mandate of the client as to whether the settlement of funds should be done on monthly / quarterly basis.
- 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.

As per SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022, the settlement of running account of funds of the client shall be done by the trading member on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan-Mar) for all the clients who have opted for quarterly settlement 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. 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 each month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

As per SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022, the actual settlement of funds shall be done by the member on first Friday of the Month or Quarter 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. Further, after settlement, if such client returns to the member with fresh funds and no trades are executed during this period, then members may compute the 30 calendar days for the purpose of subsequent settlement from the day the member receives funds instead of the last transaction date. However, member shall settle running account of client on first Friday of the quarter or month as per as per the preference of the client irrespective of date of his/her last transaction or receipt of funds.

Illustration (For client accounts having credit balance and not traded in last 30 calendar days)

Settlement preference given by client (A)	Last settlement date (B)	Last trade date (C)	Date on which settlement due if client not traded in 30 days from the last trade mentioned in column C (D)	Date of fresh receipt of funds post settlement done on the date mentioned in column D (E)	Next settlement due date (F)
Quarterly	07-Oct-2022	10-Oct-2022	09-Nov-2022	30-Nov-2022	30-Dec-2022
Quarterly	06-Jan-2023	08-Feb-2023	10-Mar-2023	24-Mar-2023	07-Apr-2023*

*First Friday of the Quarter

3. 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 three working 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 on first Friday of the Month or Quarter 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
Quarterly	07-Oct-2022	10-Oct-2022	18-Oct-2022	NA	17-Nov-2022
Quarterly	07-Oct-2022	10-Oct-2022	NA	27-Oct-2022	26-Nov-2022
Monthly	07-Oct-2022	10-Oct-2022	18-Oct-2022	NA	04-Nov-2022*
Monthly	07-Oct-2022	10-Oct-2022	NA	27-Oct-2022	04-Nov-2022*

*First Friday of the Month

4. What if the client has not done any Exchange transaction in the last 30 calendar days, but executes transaction within next three 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.

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

In case of client having any outstanding trade position on first Friday of the Month / Quarter on which settlement of running account of funds is scheduled, a Trading member may retain funds calculated in the manner specified below:

- Entire pay-in obligation of funds outstanding at the end of day on date of settlement, across all segments.
- Member may retain 50% of end of the day (EOD) margin requirement as cash margin, excluding the margin on consolidated crystallized obligation/ MTM.
- Apart from 50% cash margin mentioned in point ii above, member may also retain 225% of EOD margin (which includes additional 125% margin) reduced by 50% cash margin and 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). The margin liability shall include the end of the day margin requirement in all the segments across exchanges excluding the margin on consolidated crystallized obligation/ MTM. 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.

Computation for arriving at retention of excess client funds based on above points would be as under:

Scenario	Fund Pay in Obligation for T & T-1 day	EOD Margin Requirement	Cash margin to be retained (50% of EOD Margin)	Computation of 225% of margin to be retained			Client Funds Balance	Maximum funds that can be retained (i.e. Sum of cash margin to be retained, non-cash 225% EOD margin after securities /commodities adjustment and funds pay in obligation)	Client Funds to be returned (i.e. client fund balance if available after adjusting maximum funds that can be retained)
				225 % of EOD margin minus cash margin as computed in column C	Securities Pledged / Repledged or commodities	225% of EOD margin to be retained from funds if available after adjusting securities pledged/repledged or commodities			
	A	B	$C = 50\% * B$	$D = (225\% * B) - C$	E	$F = \text{MAX}((D-E), 0)$	G	$H = A + C + F$	$I = \text{MAX}((G-H), 0)$
1	110000	100000	50000	175000	200000^	0	300000	160000	140000
2	150000	150000	75000	262500	300000^	0	200000	225000	0
3	100000	100000	50000	175000	125000	50000	210000	200000	10000
4	15000	200000	100000	350000	200000	150000	300000	265000	35000
5	0	25000	12500	43750	200000^	0	10000	12500	0
6	5000000	12500000	6250000	21875000	30000000^	0	50000000	11250000	38750000

^ Excess securities need not to be unpledged.

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.

Note:

- Client's running account shall be considered settled if member has given instructions to bank for credit to client's bank account, provided that the member has sufficient balance in its account.
- While computing the value of securities, the closing rate for the trade date prior to the settlement date (T-1 day) should be considered after appropriate hair-cut viz. VaR margin rate applicable for the security in the Capital Market segment.
- In case the member applies haircut more than VaR rate on a regular basis and the actual margin is collected and exposure is provided accordingly, then such higher rate may be considered for determining the amount to be retained, provided the member has intimated the requirement of additional margins to the clients through the policy and procedures document and consistently through the daily margin statements issued to clients.
- No inter client adjustment/ passing of Journal Entries can be done/ considered for the purpose of settling client accounts.
- Obtaining of authorization from the clients to the effect that no settlement need be done for running accounts is contradictory to the SEBI requirement and hence not permissible.

6. Whether the securities pledged to Trading 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.

7. 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.

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.

8. 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 clients is not permitted.

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

As clarified vide Exchange Notice No. 20210205-30 dated February 05, 2021, 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 Notice 20210205-30 dated February 05, 2021, for the format of the statement of accounts for funds and securities/commodities.

10. 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.

11. In which circumstances the 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) Cheques 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 client, no settlement would be required on first settlement date (i.e. first Friday of the Month or Quarter as per the preference of client) immediate after registration of client. For example, a client who registered on October 01, 2022 and opted quarterly settlement, would not be required to be settled on the first settlement date i.e. October 07, 2022 and should be settled on next settlement date i.e. January 06, 2023. 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.

12. Can a member retain funds of clients towards obligations towards its sister companies?

While settling client accounts, a member cannot retain funds in excess of the balances mentioned in Point 5.

Accordingly, while ascertaining retention amount, a member cannot consider debit balances of the client which are arising in the books of sister concern / associate of the member registered in same/other exchanges / commodities broking.

13. Can the Member get the funds due for settlement invested in any other instrument after taking consent from the client?

No. All Members are advised to strictly comply with the abovementioned requirement relating to running account settlement and ensure strict adherence to the timelines prescribed therein. Further, members should ensure to credit the settlement amount to the client bank account directly and not run any schemes to invest the actual settlement amount with the consent/without consent of the client.

14. Can the Member settle running account of funds of clients which are scheduled to be settled in the month of September and October (till October 06,2022) directly on October 07,2022?

Yes, running account of funds of clients, which are scheduled to be settled in the month of September and October (till October 06, 2022) may directly be settled on October 07, 2022

Annexure 1

INDICATIVE FORMAT FOR RETENTION STATEMENT

(A) Total value of clients Funds available prior to settlement

Particulars	Amount (Rs.)	Amount (Rs.)
Unencumbered balance in client ledger <i>(after reversing value of unsettled bills if any in case of trade day billing and margin amount if debited in client ledger)</i>	<u>XXXX</u>	
Unencumbered balance in margin ledgers	<u>XXXX</u>	
Total Funds available (a)		<u>XXXX</u>

(B) Value of securities pledged/ repledged and value of commodities

Particulars	Amount (Rs.)
Value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge'	<u>XXXX</u>
Value of commodities (after applying appropriate haircut)	<u>XXXX</u>
Total value of securities pledged/ repledged and commodities (b)	<u>XXXX</u>

(C) Explanation regarding Retention of Funds

Particulars	CM Segment	FO Segment	CD Segment	Other Segments	Amount (Rs.)
T Day Funds Pay in obligation (c)	XXXX	XXXX	XXXX		XXXX
T-1 Day Funds Pay in obligation (d)	XXXX	N.A	N.A		XXXX
50% of end of the day (EOD) margin Liability (e)	XXXX	XXXX	XXXX		XXXX
225% of T Day Margin Liability (f)	XXXX	XXXX	XXXX		XXXX
225% of T Day Margin Liability in all segments across Exchanges (after reducing 50% of EOD margin and the value of securities accepted as collateral from the clients by way of 'margin pledge' and value of commodities) (g=f-e-b)					XXXX

Maximum Funds that can be retained (h=c+d+g)	XXXX	XXXX	XXXX	XXXX	XXXX
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(D) Retention of Funds

Value of Funds received from client - retained	<u>XXXX</u>
Total Retention	<u>XXXX</u>

(E) Details of Payout to client

Total Funds released	<u>XXXX</u>
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(F) Amount not required to be returned

Value of BG's received from client - not required to be returned (With details of each BG)	<u>XXXX</u>
Value of FD's received from client - not required to be returned (With details of each FD)	<u>XXXX</u>