National Stock Exchange of India Limited

Circular

DEPARTMENT: INSPECTION	
Download Ref No: NSE/INSP/57314	**Date: June 27, 2023**
Circular Ref. No: 60/2023	

To All Members,

Sub: Trading supported by Blocked Amount in Secondary Market

SEBI has issued circular no. SEBI /HO /MRD/MRD-PoD-2/P/CIR/2023/99 dated June 23,2023, on the subject "Trading supported by Blocked Amount in Secondary Market". A copy of the said SEBI circular is enclosed as Annexure A for your reference.

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

For and on behalf of
National Stock Exchange of India Limited

Harinatha Reddy M
Chief Manager

In case of any clarifications, Members may contact our below offices:

Regional Office	CONTACT NO.	E MAIL ID
Ahmedabad (ARO)	079-49008632	inspectionahm@nse.co.in
Chennai (CRO)	044- 66309915/17	inspection_cro@nse.co.in
Delhi (DRO)	011-23459127 / 38 / 46	delhi_inspection@nse.co.in
Kolkata (KRO)	033-40400412 / 59	inspection_kolkata@nse.co.in
Mumbai (WRO)	022-26598200 / 022-61928200	compliance_wro@nse.co.in
Central Help Desk	compliance_assistance@nse.co.in	

भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI /HO /MRD/MRD-PoD-2/P/CIR/2023/99 **June 23,2023**

To

All Recognized Stock Exchanges

All Recognized Clearing Corporations

All Recognized Depositories

National Payment Corporation of India

Dear Sir/ Madam,

Sub: Trading supported by Blocked Amount in Secondary Market

1. In its continuing endeavour to provide protection to the investors from the default of member(s) ['trading member' (TM) / 'clearing member' (CM)], SEBI has decided to introduce a supplementary process for trading in secondary market based on blocked funds in investor's bank account, instead of transferring them upfront to the trading member, thereby providing enhanced protection of cash collateral. The said facility shall be provided by integrating Reserve Bank of India (RBI) approved Unified Payments Interface (UPI) mandate service of single-block-and-multiple-debits with the secondary market trading and settlement process and hereinafter referred as 'UPI block facility'.

2. Under the proposed framework, funds shall remain in the account of client but will be blocked in favour of the clearing corporation ('CC') till the expiry date of the block mandate or till block is released by the CC, or debit of the block towards obligations arising out of the trading activity of the client, whichever is earlier. Further, settlement for funds and securities will be done by the CC without the need for handling of client funds and securities by the member.

3. Further, while a UPI block upon creation shall be considered towards collateral, the same shall also be available for settlement purposes. For the clients who prefer to block lump sum amount, their block can be debited multiple times, subject to available balance, for settlement obligations across days.

4. The main features of the framework are as under:

4.1. General features:

4.1.1. Availing UPI block facility shall be at the option of the investor.

4.1.2. Shall be introduced as a non-mandatory facility to be provided by the stock broker.

4.1.3. Since an investor is allowed to have trading accounts across multiple stock brokers, an investor can choose to avail UPI block facility under some broker(s) and non-UPI based trading under others. However, once opted for UPI block facility (until they opt out after fulfilling all obligations) under particular broker(s), the following needs to be adhered to in respect of UPI block facility under that broker(s):

4.1.3.1. All cash collaterals shall be provided through UPI block only.

4.1.3.2. Cash equivalent collateral such as bank guarantees and fixed deposits shall not be permitted.

4.1.3.3. Securities collateral to be provided through pledge/re-pledge system and only those securities can be provided which are in the approved list of CC.

4.1.3.4. Funds pay-in settlement to be done through UPI block only.

4.1.4. Collateral and settlement shall continue to be segment-wise, and the client/TM/CM shall need to transfer/reallocate collateral between segments.

4.1.5. Running account settlement shall not be supported. CC shall settle the account of clients using UPI block facility on a daily basis, i.e., any pay-out due to the client shall be paid out to the client on the settlement day.

4.1.6. Single block limit of Rs. 5 lakhs shall apply [currently applicable for UPI based securities market transaction]. However, multiple blocks can co-exist subject to the overall limit applicable in UPI.

4.2. Eligibility of investors: All investors who are permitted to use RBI's UPI facility, and meeting the criteria defined by CCs, shall be eligible.

4.3. Process (in brief):

4.3.1. The stock brokers providing the facility shall notify the details of investors desirous of availing the service to the stock exchange. The stock exchange shall validate that bank and demat account maintained in the Unique Client code ('UCC') systems and used for block creation and settlement. The exchanges shall provide relevant details to the CC.

4.3.2. The block shall be created by client using the UPI application ('UPI app') based on the blocking request initiated through stock broker app. While creating the blocking request under the proposed block mechanism, relevant information such as TM Code, CM Code, Unique Client Code, segment etc. shall be captured by the stock broker and sent to UPI.

4.3.3. The UPI block shall get created in favour of the CC and can be debited by the CC only.

4.3.4. The block shall support multiple debits – i.e., for a block created on day 1, it can be partially debited multiple times till the exhaustion of amount or expiry/release of the block, whichever is earlier.

4.3.5. Since the CC shall directly maintain/update the client collateral value based on the blocking information received from the UPI railroads of National Payment Corporation of India ('NPCI') through the CC's sponsor bank, the stock brokers shall not allocate any collateral for clients under the facility of UPI block. Other procedures such as deemed allocation of proprietary collateral, validation of 50:50 cash collateral, risk reduction mode monitoring etc. remain unchanged.

4.3.6. The CC shall debit the UPI block created in its favor to the extent of client level obligations, and receive the same in its account, without funds going through the clearing bank account of the CM. Securities provided as early pay-in (EPI) by the clients, using the block mechanism provided by depositories shall be received by the CC as per the prevailing process.

4.4. Settlement

4.4.1. There shall be two rounds of pay-in and one round of pay-out.

4.4.2. In Round 1 Pay-in, settlement obligation shall be calculated at client level, individually, for the clients opting for UPI block facility. There shall be no netting of obligations across different clients opting for UPI block facility and the settlement obligations shall be inclusive of standard statutory levies such as securities transaction tax (STT), stamp duty etc. The first deadline for pay-in shall be for the UPI clients. Clients with payable funds shall provide UPI block atleast to the extent of obligations, and clients with deliverable securities shall ensure availability of securities to the extent of obligations through the prevailing Early Pay-in (EPI) block mechanism wherein the securities given as EPI are blocked in favour of CC in the demat account of the client undertaking sale transaction. At the end of the Round 1 pay-in deadline defined by the CCs, the clients who have not provisioned for their pay-in shall be considered as short.

4.4.2.1. Round 2 Pay-in

4.4.2.1.1. The second round of funds obligation shall be a single net settlement of funds obligation at CM level for (i) proprietary account of CM/TM, (ii) clients not opting for UPI block facility and (iii) shortages from UPI clients in Round 1 pay-in, including shortfall of funds in lieu of securities, if any.

[Illustration for funds in lieu of securities: Consider a scenario when a security sold for Rs. 100 was not delivered by client and last closing price available on settlement day for the said security was Rs. 105. In such a case, the CC shall not provide the pay-out of Rs. 100 to the client and in addition shall debit Rs. 5 from the block amount of the client. In case the blocked amount is insufficient, then CC shall debit this amount to CM.]

4.4.2.1.2. The second round of securities obligation shall be a single net settlement at CM level for (i) proprietary account of CM/TM, and (ii) clients not opting for UPI block facility, as per the existing process.

4.4.2.1.3. The CMs shall be required to provide the aforementioned funds/securities obligations to the CC.

4.4.2.1.4. If the CMs fail to fulfil the obligation, then such members shall be treated as short and relevant provisions for shortage handling/default management shall apply.

4.4.3. Pay-out - The pay-out shall be done in a single round after the two pay-in rounds. The CC shall give pay-out of funds directly to the bank account of the clients opting for UPI block facility, provided they have fulfilled their pay-in obligations. The CCs shall provide instructions to depositories for securities pay-out to the clients, which shall be directly delivered to client's account without the need of handling of such securities pay-out by TM/CM. For all other clients and proprietary account of CM/TM, there shall be single net settlement by CC to CM as is currently being done.

4.5. Release of block

4.5.1. Client can request for release of block to TM through TM app. TM shall request CM, and CM shall request CC. In case the TM, CM and CC do not have any residual claim, the CC shall release the block through UPI. Upon release of the block, the client's bank shall unfreeze the amount in the account of the client. Information regarding release shall be shared by NPCI with CC (through CC's sponsor bank) who in-turn shall transmit it to CM and TM. Further, since the release of the block is going to result in collateral being unallocated in favour of the client, as per the existing process, the CC shall send a notification to the client regarding the collateral being removed.

4.6. Various scenarios

4.6.1. An analysis of how various scenarios i.e. (i) prefunded purchase by client, (ii) delivery sale by client by EPI, (iii) purchase/ sale by client supported by margins and (iv) intraday cash market/ derivatives trading, would be handled under the proposed UPI block facility vis-a-vis the current process is placed as Annexure-1.

4.7. Dealing with shortages:

4.7.1. Cash Market: Funds shortage

4.7.1.1. CC shall provide pay-out of securities to the client's demat account and instruct the depository to auto-pledge such securities to the TM's "client unpaid securities pledgee account".

4.7.1.2. CC shall maintain the shortage amount of client. The obligation shall devolve on TM's CM, who shall settle the same with CC.

4.7.1.3. If client provides additional block subsequently, the CC shall debit the amount to the extent of shortfall and provide the same to the CM.

4.7.1.4. In case client fails to provide the amount, then TM can sell the securities pledged in favour of Client Unpaid Securities Pledgee Account (CUSPA) and/ or provided by way of margin pledge and mark early pay-in.

4.7.1.5. Out of the funds pay-out due to the client, amount to the extent of shortfall shall be paid to the CM who fulfilled the obligation. The remaining funds, if any, shall be paid out to the client.

4.7.1.6. The CC shall continue to maintain and update the residual short amount of the client, if any.

4.7.2. Cash Market: Securities shortage

4.7.2.1. Funds pay-out shall not be provided to the client. The amount shall be withheld by CC and used towards requirement of funds in lieu of securities delivered short.

4.7.2.2. Funds required in lieu of securities shortage in excess of funds pay-out shall be debited from block amount of client. In case of insufficient blocked amount, the same shall devolve on clearing member.

[Illustration: Consider a scenario when a share sold for Rs. 100 was not delivered and last closing price available on settlement day was Rs. 105. In such a case, the CC shall not provide the pay-out of Rs. 100 to the client and in addition shall debit Rs. 5 from the block amount of the client. In case the blocked amount is insufficient, then CC shall debit this amount to CM.]

4.7.2.3. Auction shall be conducted to buy the securities short delivered by UPI clients.

4.7.2.4. If actual amount required towards auction purchase or financial close-out exceeds the pay-out amount referred to in para 4.7.2.2 above, the same shall be debited from client block. In case of insufficient client block, the same shall devolve on clearing member.

4.7.2.5. In case of any devolvement on member, the short amount of client shall be maintained and in case any blocking is done in future, the block shall be debited to the extent of shortfall and provided to the clearing member.

4.7.3. Shortfall: Derivatives

4.7.3.1. CC shall debit block to the extent of pay-in requirements, irrespective of whether such debit causes a margin shortfall. In exceptional circumstances, if pay-in exceeds the margin, the residual amount shall devolve on CM.

4.7.3.2. In case of margin shortfall, TM/CM can close-out the position of the client and resultant loss shall be debited to the block or resultant profit shall be paid out to the client by the CC. Till the time TM/CM closes-out the position, the provisions related to deemed allocation of proprietary collateral shall apply.

4.7.3.3. In case obligations have devolved on CM, any pay-out resulting from close-out of positions, or any new block created by client, to the extent of devolvement, shall be provided to the CM.

5. Since the framework requires certain changes to be made in the systems and processes of clearing corporations, stock exchanges, depositories, stock brokers and NPCI, the concerned entities are expected to make requisite changes and test the systems and processes for robustness thereafter to make the facility live by January 01, 2024.

6. To begin with, the facility may be made available in the equity cash segment. The CCs may extend the facility to additional segments subsequently.

7. Further, detailed operational guidelines including mode of brokerage collection shall be issued by CCs in consultation with relevant stakeholders such as stock exchanges, depositories etc.

8. Stock Exchanges/Clearing Corporations/ Depositories are directed to:

    a. take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;
    b. bring the provisions of this circular to the notice of their members and also disseminate the same on their websites; and
    c. communicate to SEBI the status of implementation of the provisions of this circular.

9. This circular is being issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

10. This circular is available on SEBI website at www.sebi.gov.in at "Legal→Circulars".

Yours faithfully

(Vishal Shukla)
General Manager
Market Regulation Department
Policy and Development -2
Email: vishals@sebi.gov.in

Annexure-1: Various Scenarios

<table>
<tr><th>Current process</th><th>Proposed process</th></tr>
<tr><td colspan="2">Scenario 1: Prefunded purchase by client</td></tr>
<tr><td>Client transfers Rs. 150 to member.
Member may retain the client funds with itself and allocate collateral to the extent of 20% margin requirements at the CC (Say Rs. 30).
Client purchases a share for Rs. 100, the margin collection requirement is Rs. 20 which is blocked from client’s allocation.
Collateral is released after the member completes the net settlement with the CC.</td><td>Client creates a block of Rs. 150 in favour of the CC. The amount shall get allocated as collateral.
The client purchases a share worth Rs. 100. The margin requirement is 20, this shall get adjusted from the block (which is allocated as collateral).
STT and stamp duty shall be 11 paise, which shall be added to the client’s obligation. The CC shall debit 100.11 towards settlement at the stipulated time.
With the successful debit from the client, the securities receivable by the client shall be provided in the client’s depository account directly by the CC at the time of settlement pay-out.</td></tr>
<tr><td colspan="2">Scenario 2: Delivery sale by client by early pay-in</td></tr>
<tr><td>Client uses block mechanism for early pay-in of securities.
Such early pay-in information is received by the CC from depositories.
A sell order is executed on behalf of the client.
If sell order is executed after early pay-in, then no margin is applicable at any time.
If early pay-in is received subsequent to the sell order execution, the proprietary collateral of the member shall be blocked till receipt of early pay-in.
While providing pay-out to the client, the member may adjust other</td><td>The client shall provide securities as early pay-in through the block mechanism only.
If the early pay-in information is received from depository before trade execution, there shall be no margin. If the information is received subsequently, the proprietary collateral of the member shall be blocked till the receipt of early pay-in.
Since the client has completed the settlement, the CC shall pay out funds directly in the client account. While providing the funds pay-out, CC shall deduct the STT and stamp duty.</td></tr>
</table>

statutory dues (stamp duty, STT), brokerage etc.	
Scenario 3: Purchase/sale by client supported by margins	
• Client provides 20% margin to the member. Client can execute trades based on the margins on trade date. The client shall need to provide the remaining 80% amount (in case of purchase) or deliver the security (in case of sale) till the applicable settlement deadline.	• The client may create only partial block to the extent of margin instead of entire upfront value or early pay-in through block mechanism. The client shall need to provide additional block or provide early pay-in till the stipulated time. Further process shall be same as discussed in Scenario 1 and Scenario 2.
Scenario 4: Intraday cash market/derivatives trading	
• Client provides margin money to the member. Client carries out intraday trading or trade in derivatives. There are no exchange-of-value delivery obligations (funds against securities or vice-versa), but only losses or gains. Losses shall be deducted from the margin money given by clients and gains may be added to the margin money of client or paid out.	• In case of losses, the CC shall debit the block to the extent of losses towards client pay-in. • In case of gains, the pay-out shall be given by CC in the client account. The CC shall not add the pay-out to the funds collateral of the client, and if desired the client may create another block.