

CHAPTER 2 – MEMBERSHIP COMPLIANCE

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ITEM No.1: MEMBERSHIP ELIGIBILITY REQUIREMENTS**A. ELIGIBILITY REQUIREMENTS**

(1) The following persons shall be eligible to become Clearing Members of the Clearing Corporation:

- (a) Individuals;
- (b) Registered Firms;
- (c) Limited Liability Partnership;
- (d) Bodies corporate;
- (e) Companies as defined in the Companies Act, 1956;
- (f) Companies as defined in the Companies Act, 2013;
- (g) Trusts registered or recognised under any Act; and
- (h) Any Scheduled Commercial Banks or Scheduled Co-operative Banks authorised by Reserve Bank of India to participate in the relevant market as prescribed by it.

2. No person shall be admitted as a Clearing Member of the Clearing Corporation if such proposed member:

- (a) is an individual who has not completed 21 years of age;
- (b) has been adjudged bankrupt or a receiving order in bankruptcy has been made against the person or the person has been proved to be insolvent even though he has obtained his final discharge;
- (c) has compounded with his creditors for less than full discharge of debts;
- (d) has been convicted of an offence involving a fraud or dishonesty;
- (e) is a body corporate which has committed any act which renders it liable to be wound up under the provisions of the law;
- (f) is a body corporate which has had a provisional liquidator or receiver or official liquidator appointed to the person;
- (g) has been at any time expelled or declared a defaulter by any other stock exchange or clearing corporation;
- (h) has been previously refused admission to Clearing Membership of the Clearing Corporation unless the period of one year has elapsed since the date of rejection.

3. No Limited Liability Partnership shall be eligible to be admitted to the clearing membership of the Clearing Corporation unless:

- (a) The Limited Liability Partnership is formed and registered under the Limited Liability Partnership Act, 2008.
- (b) The Limited Liability Partnership complies with the conditions of Rule 8(6) of the Securities Contract (Regulation) Rules, 1957 pertaining to Limited Liability Partnership.

4. Additional Eligibility Criteria - No person shall be eligible to be admitted to the Clearing Membership of the Clearing Corporation unless the person satisfies such additional eligibility criteria as the Board or relevant authority may prescribe from time to time for different classes of Clearing Members and clearing segments;

Provided however that the relevant authority may waive compliance with any or all of the admission conditions and at its discretion waive the requirements set out as above, if it is of the opinion that the person seeking admission is considered by the relevant authority to be otherwise qualified to be admitted as a Clearing Member by reason of his means, position, integrity, knowledge and experience of business in securities.

B. TYPES OF MEMBERSHIP

(1) Self Clearing Member (SCM): This category of membership entitles a member to execute trades and to clear and

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settle the trades executed on his own account as well as on account of his clients.

(2) Clearing Member (CM): This category of membership entitles a member to execute trades on his own account as well as on account of his clients and to clear and settle trades executed by themselves as well as by other trading members who choose to use clearing services of the member.

(3) Professional Clearing Member (PCM): This category of membership entitles a member to clear and settle trades of such members of the Exchange who choose to clear and settle their trades through this member.

C. ADMISSION PROCESS

(1) Any person desirous of becoming a Clearing Member shall apply to the Clearing Corporation for admission to the Clearing Membership of the relevant segment of the Clearing Corporation. Every application shall be dealt with by the relevant authority who shall be entitled to admit or reject such applications at its discretion.

(2) The application for admission of Clearing Members to each segment shall be made in such formats as may be specified by the relevant authority from time to time.

(3) The application shall have to be submitted along with such fees, security deposit and other monies in such form and in such manner as may be specified by the relevant authority from time to time.

(4) The applicant shall have to furnish such declarations, undertakings, certificates, confirmations and such other documents or papers as may be specified from time to time by the relevant authority.

(5) The relevant authority shall have the right to call upon the applicant to pay such fees or deposit such additional security in cash or kind, deposit or contribution to Core Settlement Guarantee Fund and any other fund that may be maintained by the Clearing Corporation from time to time, to furnish any additional guarantee or to require contribution to computerisation fund, training fund or fee, if any, as the relevant authority may prescribe from time to time.

(6) The relevant authority may provisionally admit the applicant to Clearing Membership provided that the applicant satisfies the eligibility conditions and other procedures and requirements of application subject to such terms and conditions as may be specified by the relevant authority. Upon the relevant authority being satisfied that all other terms and conditions and other requirements for the Clearing Membership have been complied with, the applicant may be admitted as a Clearing Member. The granting of provisional membership shall not entitle the applicant to any privileges and rights of Clearing Membership.

(7) The relevant authority may at its absolute discretion reject any application for admission without communicating the reason thereof.

(8) If for any reason the application is rejected, the application fee or admission fee if any as the case may be or part thereof as may be decided by the relevant authority may at its discretion be refunded to the applicant, without any interest.

(9) The relevant authority may at any time from the date of admission to the Clearing Membership of the Clearing Corporation withdraw the admission and expel a Clearing Member if he has in or at the time of his application for admission to membership or during the course of the inquiry made by the relevant authority preceding his admission:

(a) made any willful misrepresentation; or

(b) suppressed any material information required of him as to his character and antecedents; or

(c) has directly or indirectly given false particulars or information or made a false declaration

10 (a) The membership admission does not confer any ownership right as a member of the Clearing Corporation and shall not be transferable or transmittable except as here in mentioned.

(b) Subject to such terms and conditions as the relevant authority may prescribe from time to time and to the prior written approval of the relevant authority, transfer of the Clearing Membership, may be effected as follows:

- (i) by making nomination under these Rules
- (ii) by an amalgamation or merger of a Clearing Member company
- (iii) by takeover of a Clearing Member company
- (iv) by transfer of the Clearing Membership of a Clearing Member firm to a new firm, in which, all the existing partners are not partners; and
- (v) by two or more Clearing Members / Clearing Member firms coming together to form a new partnership firm/company.

(c) A Clearing Member or his successor(s) may make a nomination to Clearing Membership. The nomination(s) made by a Clearing Member or successor(s) of a Clearing Member shall be subject to the following conditions, namely:

- (i) The nominee(s) shall, at the time when the nomination becomes effective, be person(s) who shall be qualified to be admitted as Clearing Member(s) of the Clearing Corporation.
- (ii) The nominee(s) shall give to the relevant authority his/their unconditional and irrevocable acceptance of his/their nomination.
- (iii) A Clearing Member shall nominate one or more of his successor(s) as per the applicable succession laws. If the Clearing Member has no successor(s) willing to carry on the Clearing Membership, then the Clearing Member may nominate person(s) other than his successor(s);
- (iv) If the Clearing Member has not nominated any person and is rendered incompetent to carry on his business on the Clearing Corporation on account of physical disability, then the Clearing Member may, within a period of six months, make a nomination as per the provisions of sub-clause (iii) above.
- (v) If the Clearing member has not nominated any person, the successor(s) of the Clearing Member may nominate one or more persons from among themselves within six months from the date of the death of the Clearing Member.
- (vi) If the nomination of the Clearing Member is such that it cannot be given effect to by the relevant authority, at the time when the nomination would have become effective, then the successor(s) of such a Clearing Member may nominate any other person(s) within six months from the date on which the nomination would have become effective.
- (vii) If more than one person(s) are nominated by the Clearing Member or the successor(s), then such nominated person(s) shall be required to form a company to carry on the Clearing Membership;
- (viii) A nomination made by a Clearing Member or successor(s) may be revoked with the prior written approval of the relevant authority and subject to such terms and conditions as the relevant authority may prescribe from time to time. No such revocation shall be permitted after the nomination becomes effective and
- (ix) The nomination shall become effective in the case of a nomination made by a Clearing Member, from the date of his death or physical disability or from the date of approval by the relevant authority, whichever is later and in the case of a nomination made by successor(s), from the date on which such nomination is made or from the date of approval by the relevant authority, whichever is later.

(d) The relevant authority may permit the transfer of Clearing Membership in the following circumstances: -

- (i) death of a Clearing Member.
- (ii) if in the opinion of the relevant authority, the Clearing Member is rendered incompetent to carry on his business on the Clearing Corporation on account of physical disability.
- (iii) upon amalgamation or merger of a Clearing Member company.
- (iv) upon takeover of a Clearing Member company; and

(v) upon the death of or resignation or notice of dissolution by a partner of a Clearing Member firm, and re-alignment, if any, by the partners in such firm or by the partners in such firm and the nominee(s)/successor(s) of the outgoing partner or by the partners in such firm and person(s) other than the nominee(s)/successor(s) of the outgoing partner in a new firm, within a period of six months from the date of such death or resignation or notice of dissolution.

D. TERMINATION OF MEMBERSHIP

(1) Any Clearing Member may cease to be a member, if one or more apply:

- (a) by resignation.
- (b) by death.
- (c) by expulsion in accordance with the provisions contained in the Bye Laws, Rules and regulations.
- (d) by being declared a defaulter in accordance with the Bye Laws, Rules and Regulations of the Clearing Corporation.
- (e) by dissolution in case of partnership firm.
- (f) by winding up or dissolution in the case of a limited company.

(1A) Notwithstanding anything contained in the Byelaws and Rules of Clearing Corporation, a clearing member shall ipso facto cease to be clearing member of the Clearing Corporation, on cessation of his membership/ trading membership on one or more stock exchanges in accordance with the provisions contained in the Byelaws, Rules and Regulations of such stock exchange(s) and in such cases, such clearing member shall not be entitled for any opportunity of being heard or explanation in such an event.

(2) The termination of Clearing Membership shall not in any way absolve the Clearing Member from any obligations and liabilities incurred by the Clearing Member prior to such termination.

E. SURRENDER OF MEMBERSHIP (RESIGNATION)

(1) A Clearing Member who intends to resign from the Clearing Membership of the Clearing Corporation shall intimate to the Clearing Corporation a written notice to that effect.

(2) Any Clearing Member of the Clearing Corporation objecting to any such resignation shall communicate the grounds of his objection to the relevant authority by letter within such period as may be specified by the relevant authority from time to time.

(3) The relevant authority may accept the resignation of a Clearing Member either unconditionally or on such conditions as it may think fit or may refuse to accept such resignation and in particular may refuse to accept such resignation until it is satisfied that all outstanding transactions with such Clearing Member have been settled.

(4) A non-defaulting Clearing Member may resign unconditionally within a period of 30 calendar days in the circumstances specified in explanation 2 to Bye Law 8 of Chapter XII of NCL Bye-Laws after making additional contribution as required by Clearing Corporation to Core Settlement Guarantee Fund. In such resignation cases, the provisions of clause (2) above shall not be applicable.

(5) The resignation under clause (4) above shall be subject to fulfillment of the following conditions:

- a) The non-defaulting Clearing Member has closed out/settled outstanding positions
- b) The non-defaulting Clearing Member has paid the capped additional contribution to the Clearing Corporation
- c) The non-defaulting Clearing Member has paid outstanding dues to SEBI

ITEM No.2: CONTINUED ADMITTANCE REQUIREMENTS**A. DEPOSITS AND NET WORTH REQUIREMENTS**

(1) All Members are required to ensure that the conditions and requirements for continued admittance to membership, prescribed from time to time, including maintenance of minimum net-worth and capital adequacy are adhered to. The clearing membership of any person who fails to meet these requirements shall be liable to be terminated.

(2) The Deposits and the net-worth requirements for each category of Membership is specified at [https://www.nscclindia.com/membership/fees-deposits--net worth-requirements](https://www.nscclindia.com/membership/fees-deposits--net-worth-requirements).

(3) Trading members / Clearing members of the Exchange/NCL are required to maintain net worth as prescribed by the Exchange/ NCL at all points of time as per the continuing membership norms of the Exchange/NCL.

(4) As per Regulation 9 of SEBI (Stockbrokers) Regulations, 1992 and the continuing membership norms of the Exchange, all Members are required to maintain the prescribed minimum net-worth all times and submit the Net-worth certificate on a half yearly basis to the Exchange.

(5) Member shall be required to submit the half yearly net-worth within 2 months from the end of the respective half year i.e. for the Half year ending March, the due date shall be May 31st and for the Half year ending September, the due date shall be November 30th. Exchange circular NSE/COMP/47735 dated March 24, 2021, stipulates the disciplinary action in case of Net worth shortfall and non-submission of Net-worth.

(6) For members providing Margin trading facility (MTF) to their clients, Members are required to submit the HY net-worth within one month from the end of respective half year.

(7) As per NSE Circular Ref No. NSE/COMP/29604 dated April 30, 2015, the Net-worth is required to be computed as per the method of computation specified by Dr. L.C. Gupta Committee Report.

(8) Revised Base Net worth for various classes of members as per SEBI Gazette Notification No. SEBI/LADNRO/GN/2022/73 dated February 23, 2022, is as under:

Segment	Type of Membership	Revised Base Network - Applicable from 23.02.2023 (Effective 31.03.2023 submissions)		Revised Base Network - Applicable from 23.02.2024 (Effective 31.03.2024 submissions)	
		Corporate/LLP	Firm / Individual	Corporate/LLP	Firm / Individual
Capital Market	TM	0.75 Crore	0.75 Crore	1 Crore	1 Crore
	TM (Alpha)	0.50 Crore	0.50 Crore	1 Crore	1 Crore
	TM & SCM	3 Crore	3 Crore	5 Crore	5 Crore
	TM & CM	10 Crore	10 Crore	15 Crore	15 Crore
	PCM	25 Crore	NA	50 Crore	NA
Futures & Options	TM	1 Crore	0.75 Crore	1 Crore	1 Crore
	TM (Alpha)	0.50 Crore	0.50 Crore	1 Crore	1 Crore
	TM & SCM	3 Crore	3 Crore	5 Crore	5 Crore
	TM & CM	10 Crores	10 Crores	15 Crores	15 Crores
	PCM	25 Crores	NA	50 Crores	NA
Currency Derivatives	TM	1 Crore	1 Crore	1 Crore	1 Crore
	TM & SCM	5 Crores	5 Crores	5 Crore	5 Crores
	TM & CM	10 Crores	10 Crores	15 Crore	15 Crore
	PCM	25 Crores	NA	50 Crore	NA
Commodity Derivatives	TM	0.50 Crore	0.50 Crore	1 Crore	1 Crore
	TM & SCM	3 Crore	3 Crore	5 Crore	5 Crore
	TM & CM	10 Crores	10 Crores	15 Crore	15 Crore
	PCM	25 Crores	NA	50 Crore	NA
Debt Segment	TM	0.50 Crore	0.50 Crore	1 Crore	1 Crore
	TM & SCM	3 Crore	3 Crore	5 Crore	5 Crore
	TM & CM	10 Crores	10 Crores	15 Crore	15 Crore
	PCM	25 Crores	NA	50 Crore	NA
TM = Registered Trading Membership.					
TM & SCM = Registered Trading and Self Clearing Membership.					
TM & CM = Registered Trading and Clearing Membership.					
PCM = Registered Professional Clearing Membership.					

(9) Vide NSE circular NSE/COMP/48895 dated July 10, 2021, clarification regarding with computation of Net-worth as per Dr. LC Gupta Formula has been provided:

A) Share Capital + Free Reserves

S.No.	Components of Net worth	Remarks
1	Share Capital	This element shall include: - • Paid-up equity share capital of the member. • Paid-up Preference share capital of the member. • Fully, compulsorily & mandatorily convertible debentures/Bonds/warrants which are convertible within a period of 10 years from the date of issue Loans from partners / directors / promoters will not be considered as share capital.
2	Free Reserves	As per Sec. 2(43) of the Companies Act, 2013, free reserves mean such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend: Provided that— (i) any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or (ii) any change in carrying amount of an asset or of a liability recognised in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves. Free Reserves shall include Profit & Loss, General Reserve, Securities Premium, Preference Share Redemption Reserve, Capital Redemption Reserve etc balance of which represents surplus arising out of sale proceeds of assets but will not include reserves created by revaluation of assets. Free Reserves should not include reserves such as Revaluation Reserve, Capital Reserve, Amalgamation Reserve, Debenture Redemption Reserve and other like reserves.

B) Non-Allowable Assets

S. No.	Components of Net worth	Remarks														
3	Fixed Assets	This shall include: - • Net book value of all the Tangible Assets as per Balance Sheet / Trial Balance. • Advances given for acquisition of fixed assets • Capital work in progress. Assets under lease or taken on rent need not be deducted from the Net worth														
4	Pledged Securities	Value of own securities (as recorded in the books of accounts) pledged with the Banks / NBFC or any Financial Institution for raising funds. Own shares pledged to clearing corporations/clearing members are not required to be deducted from Net worth. Illustration: <table><tr><th>Particulars</th><th>Amount</th></tr><tr><td>Total Value of own securities as per books of accounts (all Marketable)</td><td>Rs. 1000/-</td></tr><tr><td>Total Value of own securities pledged (Included above)</td><td>Rs. 700/-</td></tr><tr><td colspan="2">Amount to be deducted from Net worth</td></tr><tr><td>Value of pledged securities (100% of Rs. 700/-)</td><td>Rs. 700/-</td></tr><tr><td>30 % of the balance marketable shares (30% of (Rs. 1000-Rs. 700))</td><td>Rs. 90/-</td></tr><tr><td>TOTAL AMOUNT TO BE DEDUCTED</td><td>Rs. 790/-</td></tr></table>	Particulars	Amount	Total Value of own securities as per books of accounts (all Marketable)	Rs. 1000/-	Total Value of own securities pledged (Included above)	Rs. 700/-	Amount to be deducted from Net worth		Value of pledged securities (100% of Rs. 700/-)	Rs. 700/-	30 % of the balance marketable shares (30% of (Rs. 1000-Rs. 700))	Rs. 90/-	TOTAL AMOUNT TO BE DEDUCTED	Rs. 790/-
Particulars	Amount															
Total Value of own securities as per books of accounts (all Marketable)	Rs. 1000/-															
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Value of pledged securities (100% of Rs. 700/-)	Rs. 700/-															
30 % of the balance marketable shares (30% of (Rs. 1000-Rs. 700))	Rs. 90/-															
TOTAL AMOUNT TO BE DEDUCTED	Rs. 790/-															

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5	Non-allowable securities	This shall include: - • Value of all unlisted securities as recorded in the balance sheet including available under 'non-current investments'. • Investments done in unlisted securities of associate / subsidiary / group companies. Liquid & Debt Mutual Funds, G-Sec, non-government debt securities, corporate bonds shall not form part of non-allowable securities and the same shall be covered under 30% of marketable securities.
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6	Doubtful Debts and advances	This shall include: - • Debts or advances overdue for more than three months. <i>For instance: Debit Balance in the trading account of client 'A' as on Dec 01, 2020 – Rs. 1000. If the amount is not received till March 31, 2021, then the outstanding amount as on March 31, 2021 is to be reduced from the Net worth (since the amount is outstanding for more than three months)</i> • Wherever, a provision is created for Doubtful / Bad Debts, net amount i.e. after reducing provision made for Doubtful / Bad Debts shall be considered. • Any amount given in the nature of Loans, advances, Inter corporate deposits given to associates including subsidiaries / group companies of the member. • Loans given to Directors/Partners or any related party of the Member or its Directors or its partners or to the entities in which such director /partners or their relatives have control, irrespective of time period, shall also be deducted. • 'Associate' shall have the meaning as per the SEBI (Intermediaries) Regulations, 2008 <i>"associate" means and includes any person controlled, directly or indirectly, by the intermediary, any person who controls, directly or indirectly, the intermediary, or any entity or person under common control with such intermediary, or where such intermediary is a natural person any relative as defined under the Companies Act, 2013 of such intermediary or where such intermediary is a body corporate its group companies or companies under the same management;</i> <i>The expression 'control' shall have the same meaning as defined under clause (c) of Regulation 2 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.</i> <i>The term related party shall have the same meaning as given in clause 76 & 77 of Section 2 of Companies Act 2013 to be read with Rule 4 of the Companies (Specification and definition details) Rules, 2014.</i>
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7	Prepaid Expenses, losses	This shall include: • Prepaid expenses and losses as per Balance Sheet / Trial Balance. • Preliminary / Deferred revenue / Pre-operative expenses / Deferred Tax Asset/ MAT credit not written-off as per Balance Sheet • GST credit not required to be deducted									
8	Intangible Assets	Net book value of intangible assets such as goodwill, patents, copyrights, trademarks, computer software, investment in artwork and other antique items etc. as per Balance Sheet / Trial Balance									
9	30% Marketable Securities of	This shall include: • Listed securities held either as investment or Stock-in-Trade / Inventories shall be referred as marketable securities. • Value of these Securities to be considered for calculating this element shall be the value as recorded in the books of accounts, on the date the computation of the Net worth. It is observed that Clearing Corporations applies different hair cut for less riskier securities (Liquid and Debt Mutual Funds, G-Sec, non- government debt securities, corporate bonds, T-bills & Sovereign Gold bonds) for the purpose of collecting collaterals from members. NCL vide its circular no. NCL/CMPT/48346 dated May 21, 2021 stipulated different hair cut on different type of approved securities. Based on this, instead of deducting 30% value, such approved securities (Liquid and Debt Mutual Funds, G-Sec, non-government debt securities, corporate bonds, T-bills & Sovereign Gold bonds) can be aligned with the percentage hair cut applied by the clearing corporation on such collaterals. In case Liquid and Debt Mutual Funds, G-secs, T-bills, Sovereign Gold bonds, non-government debt securities, corporate bonds does not form part of aforementioned Exchange circular, Members are advised to refer SEBI circular dated Feb 21, 2019 for the haircut. Illustration: <table border="1"> <thead> <tr> <th>Particulars</th><th></th><th>Amount (Rs.)</th></tr> </thead> <tbody> <tr> <td>Listed Shares</td><td>A</td><td>Rs. 200</td></tr> <tr> <td>G-Sec (having 10% haircut)</td><td>B</td><td>Rs. 100</td></tr> </tbody> </table>	Particulars		Amount (Rs.)	Listed Shares	A	Rs. 200	G-Sec (having 10% haircut)	B	Rs. 100
Particulars		Amount (Rs.)									
Listed Shares	A	Rs. 200									
G-Sec (having 10% haircut)	B	Rs. 100									

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		TOTAL MARKETABLE SECURITIES	A+B	Rs. 300
		Deduction from Net worth		Rs. 70

		30% of Listed Shares – (30% of Rs. 200) - Rs. 60/- 10% of G Sec – 10% of Rs. 100 - Rs. 10		
		In this process, for those securities / other type of mutual funds wherever hair cut applied by Clearing Corporation is higher than 30%, maximum ceiling percentage of 30% given as per Dr LC Gupta formula shall be applicable. Further, whenever member is dealing with more than one Exchanges / Clearing Corporations then for the purpose of haircut, maximum applicable haircut / VAR by any of the Clearing Corporations with shall be taken for valuation of such securities (Liquid and Debt Mutual Funds, G-Sec, non-government debt securities, corporate bonds, T- bills & Sovereign Gold bonds).		

ITEM No 3: CC APPROVALS
A. CHANGE IN CONTROL

As per Regulation 9 (c) of SEBI (Stock Brokers) Regulations, 1992, one of the conditions of registration is that Members have to obtain prior approval of the SEBI for any change in control. SEBI circular CIR/MIRSD/2/2011 dated June 03, 2011, and NSE circular NSE/MEM/18010 dated June 08, 2011, requires all Members of the Exchange to take prior approval of SEBI and Exchange for any change in control.

In case of change in control without approval of Exchange, Monetary penalty of Rs. 2,00,000/- shall be levied along with withdrawal of trading facility of the trading member till approval of the Exchange. (Ref: NSE circular NSE/INSP/52085 dated April 22, 2022)

1.1.1. The following scenarios will amount to change in control:

Sr. No.	Change in Control scenarios	Whether Approval required
1	Any change in the promoters/partners resulting in change in control of the member as defined in SEBI (Stockbrokers) Regulations, 1992 ² & SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 2011 (SAST) ³	NOC from Exchanges & Prior Approval of SEBI
2	Change in legal formation or ownership w.r.t Partnership/ LLP/ individual members	NOC from Exchanges & Prior Approval of SEBI

² **SEBI (Stock Brokers) Regulations, 1992 ("SB Regs") defines "change in control" as under:**

(ac) "change in control" –

(i) in case of a body corporate –

(A) if its shares are listed on any recognised stock exchange, shall be construed with reference to the definition of control in terms of regulations framed under clause (h) of sub-section (2) of section 11 of the Act;

(B) in any other case, shall be construed as change in the controlling interest in the body corporate; Explanation:

For the purpose of para (B) of this sub-clause, the expression "controlling interest" means an interest, whether direct or indirect, to the extent of at least fifty-one percent of voting rights in the body corporate.

(ii) in a case other than that of a body corporate, shall be construed as any change in its legal formation or ownership.

³SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 2011 (SAST) defines “control” **as under:**

*“Control” includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually **or in concert**⁴, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner*

⁴ Persons Acting in concert shall have the same meaning as defined under 2 (q) of Chapter I of SEBI (SAST) Regulations, 2011

1.1.2. Exception to the aforementioned rule for change in control

In view of the SEBI circular Ref No. SEBI/HO/MIRSD/DOR/CIR/P/2021/42 dated March 25, 2021, in the following the scenarios the change in shareholding will not be construed as change in control and hence SEBI prior approval shall not be required:

- In case of unlisted body corporate
 - Transfer of shareholding among immediate relatives (as defined under Regulation 2(I) of SEBI (SAST) Regulations
 - Transfer of shareholding by way of transmission
- In case of partnership firm
 - Transfer of interest amongst the partners
 - Transfer of interest by way of transmission to a legal heir of a deceased partner provided the same is mentioned in partnership deed

ITEM No.4: MANDATORY SUBMISSIONS

A. SUBMISSION OF HALF YEARLY NET-WORTH CERTIFICATE

1.1. As per Regulation 9 of SEBI (Stockbrokers) Regulations, 1992 and the continuing membership norms of the Exchange/CC, all Members are required to maintain the prescribed minimum net worth all times and submit the Net-worth certificate on a half yearly basis to the Exchange/CC.

1.2. Member shall be required to submit the half yearly net worth within 2 months from the end of the respective half year i.e., for the Half year ending March, the due date shall be May 31st and for the Half year ending September, the due date shall be November 30th. Exchange circular NSE/COMP/47735 dated March 24, 2021, stipulates the disciplinary action in case of Net worth shortfall and non-submission of Net worth. The details are as under:

a. Action for reporting shortfall in Net worth

ACTION FOR REPORTING SHORTFALL IN NETWORTH	
For Trading members and Trading cum Self- clearing members	<u>Requirement:</u> In case of a Net Worth shortfall as on 31st March / 30th September, Members shall be required to mandatorily submit a revised certificate (as on a later date) along with the submission, meeting the minimum net worth requirement. <u>Action in case of shortfall and failure to submit revised certificate with adequate Net worth:</u> Member's trading rights shall be immediately disabled within 2 working days from the date of submission, in all segments of the Exchange.

For Trading cum Clearing members	<u>Requirement:</u> In case of a Net Worth shortfall as on 31st March / 30th September, Members shall be required to mandatorily submit a revised certificate (as on a later date) along with the submission, meeting the minimum net worth requirement. <u>Action in case of shortfall and failure to submit revised certificate with adequate Net worth:</u> A. <u>In the capacity of Trading Member</u> Member's trading rights shall be immediately disabled within 2 working days in all segments of the Exchange. B. <u>In the capacity of Clearing Member</u> One-month notice to be given to recoup the Net worth and submit the revised Net worth, failing which the following action shall be initiated: • Total deposits shall be blocked in accordance to % of shortfall as given in Section C below. No Exposure shall be permitted on such blocked deposit • Restriction on onboarding new Trading Members. • 2-months' notice to be given to the TMs affiliated with the Clearing member to associate with another Clearing member.
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For PCM	<u>Requirement:</u> In case of a Net Worth shortfall as on 31st March / 30th September, Members shall be required to mandatorily submit a revised certificate (as on a later date) along with the submission, meeting the minimum net worth requirement. <u>Action in case of shortfall and failure to submit revised certificate with adequate Net worth:</u> One-month notice to be given to recoup the Net worth and submit the revised Net worth. Upon failure: • Total deposits shall be blocked in accordance to % of shortfall (See note-1 below). No Exposure shall be permitted on such blocked deposit • Restriction on onboarding new Trading Members. • 2-months' notice to be given to the TMs affiliated with the Clearing member to associate with another Clearing member.
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Members providing Margin Trading Facility	Requirement: In case of a Net Worth shortfall as on 31st March / 30th September, Members shall be required to mandatorily submit on ENIT, a revised certificate (as on a later date) along with the submission, meeting the minimum net worth requirement. Action in case of shortfall and failure to submit revised certificate with adequate Net worth: Immediate withdrawal of Margin Trading facility within 2 working days from the date of submission.
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Note-1:

Category	Deposit to be blocked
Net worth shortfall less than or equal to 10% of the prescribed minimum	10% of Total Deposits (cash and collateral)
Net worth shortfall less than or equal to 20% of the prescribed minimum.	25% of Total Deposits (cash and collateral)
Net worth shortfall less than or equal to 50% of the prescribed minimum	50% of Total Deposits (cash and collateral)
Net worth shortfall greater than 50%	90% of Total Deposits (cash and collateral)

b. Action for non-submission of Net worth

ACTION FOR NON-SUBMISSION	
For Trading members and Trading cum Self-clearing members	Immediate disablement within two working days from the date of submission, in case of non-submission of Net worth within 2 months from the end of the half year

For Trading cum Clearing member	The following actions shall be taken on immediate basis if the Net worth is not submitted within 2 months from the end of the half year. A. <u>In the capacity of Trading Member</u> Member's trading rights shall be immediately disabled in all segments of the Exchange. B. <u>In the capacity of Clearing Member</u> • 90% of Clearing deposits shall be blocked. No Exposure shall be permitted on such blocked deposit • Prohibition on onboarding new Trading Members. • 2-month's notice to be given to the TMs affiliated with the Clearing member to associate with another Clearing member.
For PCM	The following actions shall be taken on immediate basis w.e.f. the following working day post the due date. • 90% Total deposits shall be blocked • Restriction on onboarding new Trading Members. • 2-months' notice to be given to the TMs affiliated with the Clearing member to associate with another Clearing member.

1.3. As per NSE Circular Ref No. NSE/COMP/29604 dated April 30, 2015, the Net worth is required to be computed as per the method of computation specified by Dr. L.C. Gupta Committee Report.

1.4 The half yearly Net worth certificate is required to be submitted through ENIT.

1.5. Amendment to SEBI (Stockbroker) Regulation, 1992:

1.5.1. SEBI has, vide official gazette dated Feb 23, 2022, amended the SEBI (Stockbroker) Regulation with respect to the Net worth requirements. As per amendments, Members have to maintain Net worth equivalent to the higher of the Base Net worth or Variable Net worth. Variable net worth shall mean 10% of average daily cash balance of clients retained with the member across segments/ exchanges in the previous 6 months.

Type of Member	Base Net worth {within 1 year of the date of notification of EBI (Stockbrokers) (Amendment) Regulations, 2022} (in ₹)	Base Net worth {within 2 years of the date of notification of the SEBI (Stockbrokers) (Amendment) Regulations, 2022} (in ₹)	Variable Net worth {within 1 year of the date of notification of the SEBI (Stockbrokers) (Amendment) Regulations, 2022}
Trading Member	-	1 crore	10% of average daily cash balance of clients retained with the member across segments/ exchanges in the previous 6 months.
Self-Clearing Member	3 crores*	5 crores	
Clearing Member	10 crores*	15 crores	
Professional Clearing Member	25 crores	50 crores	

* In Currency Derivative Segment, Self-Clearing Member and Clearing Member shall have minimum net worth of Rs. 5 crores and Rs. 10 crores, respectively.

1.5.2. Where the trading member/ self-clearing member deposits the fund with the clearing member/ professional clearing member/ clearing corporation, the maintenance of variable net worth would not be required by that trading member/ self-clearing member to the extent of client's funds deposited with clearing member/ professional clearing member/ clearing corporation.

1.5.3. Where the trading member deposits the client's funds with clearing member/professional clearing member, the computation of variable net worth at the level of clearing member/ professional clearing member shall also include the funds of the clients of trading member deposited with the clearing member/ professional clearing member.

1.5.4. Where the self-clearing member/ clearing member/ professional clearing member deposits the client's funds with the clearing corporation, the same shall be excluded while calculating the variable net worth at the level of the self-clearing member/ clearing member/ professional clearing member:

1.5.5. Cash / Fixed Deposit Receipts/ Bank Guarantee accepted by trading member/ self-clearing member/ clearing member/ professional clearing member shall be included while calculating the variable net worth.

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1.5.6. Cash / Fixed Deposit Receipts/ Bank Guarantee of clients deposited by trading member with clearing member/ professional clearing member and by self- clearing member/ clearing member/ professional clearing member with the clearing corporation shall be excluded while calculating the variable net worth.

1.5.7. For the purposes of this amendment, 'base net worth' shall mean paid up capital, fully, compulsorily and mandatorily convertible debentures / bonds / warrants which are convertible within a period of 5 years from the date of issue, free reserves and other securities approved by the Board from time to time, but shall not include fixed assets, pledged securities, value of member's card, non-allowable securities (unlisted securities), bad deliveries, any debts and advances (except trade debtors of less than 3 months), prepaid expenses, losses, intangible assets and 30% value of marketable securities:

1.5.8. Provided that in case of securities pledged to clearing corporation, the post haircut value of shares owned by the Trading Member / Clearing Member, as may be specified by the Board from time to time, shall be considered for computation of the net worth.

1.5.9. Provided further that the deposit requirement specified for the debt segment shall not be applicable when a clearing member clears and settles all the trades only on gross basis for both securities and funds, without using settlement or trade guarantee fund:

1.5.10. Provided further that where the stock broker, clearing member or self-clearing member in the debt segment, is also regulated by a sectoral regulator other than the Board, the net worth shall be computed in the manner as specified by such sectoral regulator or as specified by the Board, whichever is higher.

1.5.11. Free reserves shall include Profit and Loss, General Reserve, Securities Premium, Preference Share Redemption Reserve and Capital Redemption Reserve, but shall not include reserves created by revaluation of assets.

1.5.12. The provision/amendments stated in clause 22.6 shall be applicable within within one/2 years from the date of the gazette notification respectively i.e. by Feb 23, 2023/Feb 23, 2024 respectively

B. SUBMISSION OF HALF YEARLY INTERNAL AUDIT REPORT

This is to inform that all Trading Members/ Clearing Members are required to carry-out complete Internal Audit for the half year ended March 31, 2023 and submit the report electronically through the Inspection module in the Member Portal. The Audit shall be conducted only by an independent qualified Chartered Accountant or Company Secretary or Cost & Management Accountant who is in practice and does not have any interest in or relation with the Member other than the Internal Audit assignment.

Attention of members is also drawn to Exchange circular NSE/INSP/54080 dated October 14, 2022, regarding eligibility criteria for internal auditors.

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It is to be noted that the due date to submit the Internal Audit Report is within two months from the end of half year i.e., for the half year ended March 31, 2023, the due date is May 31, 2023. The penalties/disciplinary actions for late/non-submission of the Internal Audit Report and non-compliances observed in the Internal Audit Report, shall be applicable as per the Exchange Circular NSE/INSP/53530 dated September 02, 2022, or any other relevant circular that may be issued by the Exchange from time to time.

Members' attention is drawn to Exchange circular NSE/INSP/54080 dated October 14, 2022, wherein members were advised to submit an undertaking to Exchange on half yearly basis along with Internal Audit Report confirming that the penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" is not being passed on to respective clients under any circumstances. In view of the same, members are directed to submit the undertaking digitally signed by the proprietor or partner or the designated director of the company for the current audit period. Internal Auditor shall not be able to submit the Internal Audit Report unless the said undertaking is submitted by member.

Further, Internal Auditors are advised to take note of below while carrying out the Audit:

- i. Exchange has made available the data submitted by members to Exchange towards Enhanced Supervision, List of Bank/ Demat Accounts reported and other weekly/daily submissions such as bank account balances, Holding Statement and weekly submissions such as client level cash & cash equivalent balances for the sample dates/ period in the respective Auditor's login for the purpose of verification.
- ii. Details of sample dates/clients applicable for certain checklist points have been made available in respective Auditor's login to enable the auditor to select samples as per the sampling criteria 1, 2 and 3 prescribed in Annexure III. Auditors are advised to get their registration done from members and retrieve the aforesaid data and samples from their respective logins before initiating the audit.
- iii. The samples for parameters/ criteria other than provided above, shall be as per the "methodology for sample selection" prescribed in Annexure III, and the data required for the same may be sourced from the member.
- iv. There are certain changes in the sampling criterion and methodology for sample selection compared to previous half year submission. Auditors are advised to refer Annexure III carefully before initiating the audit.
- v. For each "Not complied" observation, wherever applicable, the auditor shall mandatorily provide the "no. of instances verified" and "Amount/value involved where non-compliance is observed" while submitting the Audit Report. Further, for each "Not Applicable" Points, appropriate remarks are mandatory to be provided.