

## NSE Clearing Limited

(Formerly known as National Securities Clearing Corporation Ltd.)

**Department : CAPITAL MARKET SEGMENT**

Download Ref No: NCL/CMPT/58895

Date : October 12, 2023

Circular Ref. No: 0357/2023

All Members,

**Sub: Trading supported by Blocked Amount in Secondary Market -Operating Guidelines**

This is with reference to SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/99 dated June 23,2023 and our circular ref: NCL/CMPT/57305 dated June 27,2023. The detailed operational guidelines for trading supported by blocked amount in secondary market is provided in Annexure 1 placed below.

Members are requested to take note of the above.

**For and on behalf of  
NSE Clearing Limited  
(Formerly known as National Securities Clearing Corporation Limited)**

Huzefa Mahuvawala  
Senior Vice President

Telephone No	Fax No	Email id
1800 266 0050 (option 2)	022-26598242	<a href="mailto:risk_ops@nsccl.co.in">risk_ops@nsccl.co.in</a>

## **Annexure- 1: Operating Guidelines for Trading supported by Blocked Amount in Secondary Market**

SEBI vide its circular reference number SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/99 dated June 23,2023 (“SEBI Circular”) has decided to introduce a supplementary process for trading in secondary market based on blocked amount in investor’s bank account (“Facility”). Pursuant to the para 7 of the said circular, the detailed operational guidelines for the Facility shall be as follows:

### Segment

1. To begin with, the Facility shall be available in the equity cash segment.
2. The Facility may also be offered by TMs, at their choice, to their clients trading in multiple segments. In case of such clients:
  - 2.1. Cash market segment: Procedures as outlined in the operating guidelines shall be applicable.
  - 2.2. Other segments: Existing procedures shall be applicable.

### Registration for the Facility

3. In accordance with the aforesaid SEBI Circular, availing this Facility will be at investors discretion, and offering the Facility will be at the option of trading members (TMs).
4. On a pilot basis, TMs can offer the facility to a limited number of clients.
5. The facility shall not be available for clients availing the margin trading facility (MTF).
6. The said Facility shall be extended to resident individuals and Hindu undivided families (HUFs) only. The individuals and HUFs settling their trades with their respective TMs shall only be eligible to avail the Facility. If such investors have appointed a Custodian clearing member to clear their trades, they shall not be eligible to avail the Facility. Exchanges shall allow only these categories of investors to register for the said Facility.
7. Exchanges shall provide a mechanism in the UCC database to the clients who wish to enroll for the said Facility. At the time of registration, the TM shall be required to provide one primary bank and demat accounts for the client. Funds and securities pay-out due to the client, if any, will be provided by the CC in the primary bank and primary demat accounts respectively. Exchanges shall also provide a mechanism for maintenance of additional bank accounts for the registered client. The client may create Unified Payments Interface (UPI) block in favor of the CC using any or all among the primary or additional bank accounts maintained.
8. PAN shall be mandatory for availing the facility. Exchanges vide UPI/NPCI shall verify that the permanent account number (PAN) maintained in the UCC database with the PAN of the first holder with the bank where the clients account is held (for primary as well as

- additional accounts). Exchanges shall similarly verify the PAN maintained in the UCC database with the PAN of the first holder in the demat account with the depositories. Only after successful validation of both Bank and Demat accounts, will the client be allowed to avail the said Facility. Accounts wherein PAN details are not available with the banks / depositories accounts cannot be registered and would not be able avail the Facility.
9. Exchanges shall also provide a mechanism for a client to de-register from the Facility. De-registration from the Facility shall be subject to the approval of the designated clearing corporation (CC) of the clearing member (CM) of the TM in the equity cash segment. A TM may deregister a client at the request of such client, or in case the client does not meet the conditions set by the TM for participation in the Facility.
  10. The TM may register a client using the UCC database of all exchanges. CCs shall receive data from all exchanges and shall only consider the latest available data.
  11. Registration and de-registration requests received by 21:00 hours on a “T” day and subject to successful validation will be effected from T+2 day (BOD). In case of registration request, the trades done on account of the client on “T” as well as “T+1” will be settled as per the prevalent process, while trades done on “T+2” day will be settled under the Facility. Similarly, in case of de-registration, trades done on “T” and “T+1” will be settled under the Facility and the trades done on “T+2” will be settled as per the prevailing regular process. Requests received after 21:00 will be effected from “T+3” day, subject to successful validation. The de-registration requests shall also be subject to CC approval.

#### Creation of UPI Block in favor of the CC

12. The CC shall appoint one or more sponsor banks for the purpose of integration with the UPI platform. The CC shall provide the virtual payment address(es) (VPAs) of the accounts maintained with the sponsor bank.
13. TMs desirous of providing the Facility shall put in place appropriate systems to integrate with UPI applications and to allow the client to initiate a request for UPI block in favor of the CC, in accordance with the standards and procedures specified by National Payments Corporation of India (NPCI) – UPI from time to time. The clients will initiate the request in the TM’s application/online portal. The TMs shall assign a unique reference number (refID) as per the guidelines provided by the CC. The block can be created in favor of any of the VPAs provided by the CC.
14. The block created in favor of CC shall be with an expiry of 30 years from the date of creation. Other restrictions such as amount, number of instructions etc. specified by NPCI-UPI or the customer’s bank, as the case may be, shall be applicable.

15. Upon successful block creation in the UPI system and receipt of such information from the respective sponsor bank, the CC shall add the block as collateral. The CC shall intimate addition of the block, using application program interface (API) specification provided by CC, to the TM as well as the CM of the TM. The TM will confirm successful creation of the block to the client. In case of any failures during block creation, the same shall also be intimated to the TM/CM, with appropriate response codes as received from UPI/Sponsor bank.
16. The CC shall provide an API mechanism to enquire the status of the block using refID. If the TM does not receive intimation of block creation within 5 minutes, the TM should query the status of the block using the API.
17. As specified in the SEBI Circular, the block will support multiple debits, and can be used towards margin as well as settlement related obligations of the client.
18. In case the CC receives a block from non-registered accounts or otherwise not meeting the required conditions (e.g., bank exposure limit of CC being breached), such block shall be released by the CC and not added to the collateral. The CC shall intimate the TM and CM of the TM regarding such release.

#### Collateral management

19. Clients registered for the facility shall be permitted to provide collateral only in the form of UPI block, or group I equity shares from the approved list of securities published by the CC.
20. Collateral provided through UPI block shall be treated as cash-equivalent collateral without any haircut.
21. The CMs shall not be permitted to allocate any collateral to the clients using the Facility. The CC shall calculate the value of collateral for UPI clients by considering the amount of UPI block and value of re-pledged securities.
22. The prudential norms for acceptance of collateral for securities shall continue to apply, and clients using the Facility shall receive benefit of re-pledged securities subject to such norms. For the purpose of calculation of short allocation penalty, full value of collateral of the clients, even if exceeding prudential limits will be considered. For removal of doubt, this provision is only for penalty calculation and the proprietary collateral of the TM/CM will be used as per the existing practice in case of shortfall of client collateral after considering prudential norms.

**Illustration:** Suppose a client has pledged stock A to an SCM who has onward repledged it to the CC. However, the prudential limit (member-wise or overall) for stock A is exhausted and therefore no benefit is provided against repledged securities. The member

is also not allowed to allocate collateral since the client is using the Facility. In such a case, the member will be permitted to execute trades on behalf of the client to the extent of UPI block plus value of repledged securities. If the margin exceeds the amount of UPI block available, the same will be blocked from the proprietary collateral of the member. Although repledged securities are not available towards margin requirements, CC will consider their value while calculating short allocation. If the minimum margin collection requirement does not exceed the value of UPI block and repledged securities, the same shall not be considered as short allocation.

23. In case of short allocation, members shall have an opportunity to report amount of client collateral available against such segment wise short allocation only due to below mentioned reasons (other reasons cannot be reported for clients using the Facility):

Reason Code	Particulars
02	Value of securities sold for which EPI has been done by end of day to CC
03	Trades executed in wrong client code codes (Applicable only for intra-day shortfall where snapshot field is other than E)
05	UPI block successfully created however accepted later (Applicable only for intra-day shortfall where snapshot field is other than E)
06	Securities are repledged by CM to CC in the depository but not yet processed by CC. (Applicable only for intraday shortfall where snapshot field is other than E)
08*	Credit in lieu of successful early pay-in of securities to CC

\*The reason code “08” shall be available only for the clients using the Facility and shall not be available to other clients.

24. UPI block can be created in favor of CC by the clients only from their accounts with the banks that form part of the approved list of banks for acceptance of UPI block. CC shall monitor its exposure towards banks inclusive of UPI block amount, in addition to other exposure. In case the exposure of CC to a bank exceeds the limit set by the CC, the CC shall not accept any additional UPI block from the next day onwards. Any new blocks sought to be created shall be released and not added to collateral.

Release of UPI Block

25. Request of release of UPI block can be made to CC by the CM using the API provided by the CC. The CC shall perform necessary validations and process the release requests on immediate basis.
26. The TM/CM may require maintenance of UPI block based on their risk management requirements which may be more conservative than CC’s requirements. Upon request by CM, the CC shall release the UPI block based on adequacy of clearing member collateral.

Risk management

27. In the prevailing framework, client collateral (comprising of allocation and value of repledged securities) is assessed against the client margins. For clients using the Facility, client level collateral shall be considered as (including value of UPI Block and group I securities provided by client that are re-pledged to CC). There shall be no change in rest of the risk management procedures.
28. CCs shall put in place appropriate systems so that the UPI block can be utilized towards margin requirements as well as pay-in requirements.

Calculation of obligations on account of clients using the Facility

29. The funds obligations on account of clients using the facility shall be arrived at as follows:
- 29.1. Considering all the cash market positions to be settled on net basis (e.g., normal market, SME market), a single net funds obligation will be arrived at for client.
- 29.2. Considering all the cash market positions to be settled on gross basis (e.g., trade for trade securities), if any, one pay-in obligation for gross settlement and/or one pay-out obligation for gross settlement will be arrived at for each direct clearing client.
- 29.3. If the funds obligation for net settlement is a pay-in obligation, the same can be set off against funds pay-out for the gross settlement. Conversely, if the funds obligation for net settlement is a pay-out obligation, the same can be set off against the funds pay-in for the gross settlement.
- 29.4. There will be no set off between the pay-in and pay-out transactions for gross settlement.
- 29.5. There will be no set off across clients who have opted for the Facility.
- 29.6. The STT, stamp duty and TM charges (see para 48-50) payable by the client will also form part of the obligation. The STT, stamp duty and TM charges shall be consolidated with the funds obligations of client in the following order:
- 29.7. If the client has any pay-out due, then the STT/stamp duty/TM charges payable will be set off against the pay-out transaction of the client.
- 29.8. Residual amount of STT/Stamp duty/TM charges, if any, will be added to the pay-in transaction of the client
- 29.9. Thus, for each client, there can be up to one pay-in transaction and up to one pay-out transaction in the cash market segment.
30. The securities obligations for the clients using the Facility, shall be calculated on a net or gross basis, as per the settlement procedure applicable for that security. The net settlement

will involve netting of trades done by the same client in the relevant security, and there will be no set-off against clients.

#### Settlement of obligations on account of clients using the Facility

31. The clients using the Facility shall be required to ensure availability of sufficient amount of UPI block to the extent of their funds pay-in obligation by 8:00 PM on the trade date, or such time as specified by the CCs. The actual debit to the client account and receiving the funds in CC's account shall be effected after 8:00 PM on the trade date.
32. The CC shall debit one or more UPI blocks, fully or partially, to the extent of funds pay-in obligation of the client (inclusive of STT/Stamp duty/TM charges). The CC shall instruct the relevant sponsor bank for this purpose, who will in turn receive the money on behalf of CC through the UPI system.
33. The clients using the Facility shall be required to ensure provision of adequate early pay-in of securities using the early pay-in block functionality provided by depositories by 8:00 PM on the trade date. The securities shall not be debited on the trade date and the CC shall receive the securities as per prevailing procedure.
34. The securities must be provided by the cut-off time, and any securities accepted after the cutoff shall not be considered by the CC towards settlement. On failure to provide securities through early pay-in block mechanism by 8:00 PM, the same shall be considered as short delivered and CC shall initiate the shortage handling process. Any securities provided subsequently, using early pay-in through block mechanism or otherwise, subsequent to the CC having initiated the shortage handling process, shall be reversed to the client's account.

#### Handling of shortages

35. In case of funds shortage, i.e., if funds pay-in requirement on account of trades executed by clients cannot be met through the UPI block by the cut-off time, the same shall form part of the consolidated funds pay-in obligation of the clearing member (net or gross, as the case may be). This shall also include the STT and stamp duty requirements but exclude the TM charges.
36. In case of securities shortage, i.e., if adequate securities are not provided as early pay-in through block mechanism by the cutoff time, the CC shall treat the securities as short delivered and calculate the valuation debit amount in lieu of securities. The valuation debit amount will be:
  - 36.1. First adjusted against the pay-out due to the client

- 36.2. Any residual amount will be recovered by debit to the UPI block of the client to the extent of availability.
- 36.3. Any residual amount shall be recovered from the CM.
37. The CC shall conduct auction to purchase the securities delivered short. Incremental amount of auction pay-in over the valuation debit amount shall be recovered from the UPI block, and any residual amount shall be debited to the CM.
38. In case of shortfall on account of reasons such as attachment or debit freeze on customer account the obligation shall devolve on the respective clearing member.

#### Obligations to be settled by clearing members

39. The CM obligations shall be calculated as per the prevailing process and shall include obligations on account of proprietary trading, trading by clients not using the Facility, and the obligations on account of clients using the Facility to the extent of funds or securities shortage.

#### Pay-out of funds and securities to the clients using the Facility

40. Any funds pay-out due to the clients using the Facility shall be provided by the CC directly in the primary bank of the client, as maintained in the UCC database.
41. CC will instruct depositories to transfer any securities pay-out to the clients using the Facility to the primary demat account of the clients as maintained in the UCC database. Depositories shall transfer the securities to client primary demat account along with appropriate entries recorded in the CM/TM pool account. The CM/TM will not have control over such securities at any time.

#### Recovery of shortages by Member

42. The following procedure shall be followed in case of funds shortage:
- 42.1. CC shall provide pay-out to the client primary demat account and instruct the depository to auto-pledge the securities to the CM's "client unpaid securities pledgee account".
- 42.2. CC shall maintain the shortage amount of client. The obligation shall devolve on TM's CM, who will settle the same with the CC.
- 42.3. If client provides additional UPI blocking subsequently, the CC shall debit the amount to the extent of shortfall and provide the same to the CM.
- 42.4. In case client fails to provide the amount, then CM can invoke and sell the shares. Out of the 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. If the sale proceeds are not sufficient to meet the shortfall, then the short amount of the



- client will be revised to the extent of sale proceeds, which will continue to be maintained by the CC till recovered completely. Such shortfall amount may adjusted towards any future funds pay-out, or any UPI block created in future, and revised appropriately.
- 42.5. Alternatively, the CM may also recover the shortfall by selling securities provided by client through the margin pledge mechanism. CMs shall use the respective client's UCC to sell such securities. CM shall invoke the margin pledge towards the delivery obligation of the client. On invocation, the securities shall be marked for early pay-in using the block mechanism in the client's demat account. As per the process described, the securities will be used towards pay-in obligation of client. The pay-out due to the client will be first utilized towards the shortfall amount and residual amount if any, shall be credited to the client's account, similar to the process described earlier.
- 42.6. The shortage amount of the client, as maintained above, will be reset to zero if the client de-registers from the Facility. The members should take due care while de-registering clients, since the shortage amount will be made zero and outstanding UPI blocks will be released.
43. The following procedure shall be followed in case of securities shortage:
- 43.1. Funds pay-out will not be provided to the client. The amount will be utilized by CC towards auction pay-in/valuation debit.
- 43.2. If the funds pay-out due to the client is greater than valuation debit, the same shall still be retained for utilization towards auction pay-in/square-off.
- 43.3. If valuation debit is in excess of funds pay-out, such additional amount will be debited from block amount of client. In case of shortfall, the same will be collected from clearing member.
- 43.4. Auction will be conducted to buy the short securities by the CC (except in cases of direct closeout)..
- 43.5. Auction pay-in, in excess of valuation debit (due to auction success or close-out, as the case may be) will be debited first from remaining pay-out due, if any, followed by the client block amount. In case of shortfall, the same will be collected from the clearing member. In case the auction debit is less than valuation price, the difference will be credited to Core SGF.
- 43.6. In case of any shortfall collected from CM, the short amount of client will be maintained and in case any blocking is done in future, the block will be debited to the extent of shortfall and provided to the CM.

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 will not provide the pay-out of Rs. 100 to the client and in addition will debit Rs. 5 from the block amount of the client. In case the blocked amount is insufficient, then CC will debit this amount to CM. The CC will then attempt to purchase the share through auction.

#### Client payout that could not be credited

44. In case the CC is unable to process funds payout to a bank account of the client for any reason, the same will be withheld with the CC until the resolution of the problem. The payout will not be provided to the member. The CC will maintain a designated account for such retained pay-out. Similarly, in case of inability to process securities pay-out to the depository account of the client, such payout shall be withheld by the CC in its pool account. The clients will be expected to rectify the issue with the account or request the TM to update the primary account details in the UCC database. The CC will periodically attempt to credit the payout to the primary account.

#### Release of unutilized blocks

45. In case of a client having created UPI block in favor of the CC, but not having trading activity for a quarter, any outstanding UPI blocks for such clients shall be released by the CC at the end of the quarter.

#### Change in CM of TM

46. In case of change of CM by TM, the collateral allocation for the remaining UPI blocks shall be migrated under the new CM. Any shortfall of obligation corresponding to the prior trading day will be settled by the old CM. Upon shifting, the residual short amount maintained for the client, will be reset.

#### Change of designated CC by CM

47. Upon change in CC by CM, the UPI blocks shall not be re-assigned to the new CC. The old CC will release all UPI blocks in its favor. CM will continue to be responsible to fulfill any shortfall of obligation corresponding to the prior trading day. Upon change in designated CC, the residual short amount maintained for the client will be reset.

#### Trading Member charges

48. Following options shall be available for the member for collection of charges other than trade obligations, stamp duty and STT.

48.1. Option 1: Collect the charges directly from the client

48.2. Option 2: Collect the charges using an optional mechanism provided by CC.

49. The features of aforementioned optional mechanism (Option 2) shall be as under:
- 49.1. The mechanism will be optional. TM charges will not be debited if not specified by the TM.
  - 49.2. The charges will be expressed as a percentage of gross turnover, which shall be specified by the TM. On an ongoing basis, the charges may be modified by the TM only once per quarter.
  - 49.3. Since the mechanism provides for a fixed percentage, even if the mechanism is used, the TM may request for payment of any additional charges (or reverse any additional charges) to the clients beyond the Facility, as per the charges agreed with the client.
  - 49.4. The charges shall be inclusive of brokerage as well all other fees and levies (except STT/stamp duty) that the TM wishes to recover from the client. The CC shall debit UPI blocks to the extent of obligation arising out of purchase/sale of securities, STT, stamp duty and TM charges.
  - 49.5. The charges for each TM will be publicly disclosed by the CC.
  - 49.6. TM charges applicable for a client for a given day will be calculated and adjusted from pay-out due to the client or debited from UPI block to the extent of availability. In case of such charges exceeding the pay-out for the client and/or available UPI blocking after debit of settlement obligations, there will be no devolvement of such dues to the CM of the TM, unlike the case of regular pay-in obligations. However, the same will be reflected in funds shortage amount for the client and the same may be recovered any time in future, except de-registration of client, change of CM by TM, change of CC by CM etc.
  - 49.7. The TM charges will be debited if and only if the block amount after debit of settlement obligations will be sufficient to adjust such dues. In other words, the settlement of client-level obligations arising out of trades, STT and stamp duty will take priority over TM charges.
50. The TM charges collected from the clients will be paid out to the CM of respective TMs along with the pay-out.