National Stock Exchange Of India Limited

DEPARTMENT: COMPLIANCE	
Download Ref No : NSE/COMP/47555	Date: March 08, 2021
Circular Ref. No : 25/2021	

To All Members,

Sub: Clarification on Dr. L.C. Gupta Net worth computation

This has reference to Networth certificate submitted by the Members on a half yearly basis as part of the continuing membership norms of the Exchange. As per NSE Circular Ref No. NSE/COMP/29604 dated April 30, 2015, the Networth is required to be computed as per the method of computation specified by Dr. L.C. Gupta Committee Report.

With a view to provide better clarity and uniformity in the computation of the Net-worth, Exchange is pleased to provide a clarification on the various components of the Net worth computation using the Dr. L.C. Gupta formula. The same is enclosed as **Annexure-A**.

The clarifications have been prepared in order to provide broad guidelines to the members while computing the Networth. It may, however, be noted that the interpretation of the relevant authority of the Exchange on the same shall be final and binding on the members.

All members are advised to take note of the same

For and on behalf of
National Stock Exchange of India Limited

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Annexure-A

Clarification on Networth Components

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
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. 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: -

S.No.	Components of Net worth	Remarks
		• 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 need not be deducted from the Net worth
4	**Pledged Securities**	Entire value of own securities pledged with the Banks / NBFC or any Financial Institution for raising funds
5	**Non-allowable securities**	This shall include: - • Value of all unlisted securities 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.
6	**Doubtful Debts and advances**	This shall include: - • Debts or advances overdue for more than three months. • 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 etc to the associates including subsidiaries / group companies of the member, irrespective of time period shall be considered • 'Associate' shall have the meaning as per the definition provided under SEBI (Intermediaries) Regulations, 2008 "associate" means any person controlled, directly or indirectly, by the intermediary, or any person who controls, directly or indirectly, the intermediary, or any entity or person under common control with such intermediary, and where such intermediary is a natural person will include any relative of such intermediary and where such intermediary is a body corporate will include its group companies (as defined in the Monopolies and Restrictive Trade Practices Act, 1969 (Act No. 54 of 1969) or any re-enactment thereof) or companies under the same management

S.No.	Components of Net worth	Remarks
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
8	**Intangible Assets**	Net book value of intangible assets such as goodwill, patents, copyrights, trademarks, etc. as per Balance Sheet / Trial Balance.
9	**30% of Marketable Securities**	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 lower of total Book Value or Market Value of all the securities. 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) for the purpose of collecting collaterals from members. NCL vide its circular no. NCL/CMPT/39983 dated January 21, 2019 stipulated different hair cut on different type of approved securities. Based on this, instead of deducting 30% value for all marketable securities from net worth, such approved securities can be aligned with the percentage hair cut applied by the clearing corporation on collaterals. 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 L C 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 TM dealing with shall be taken for valuation of such securities. In case any securities are not available in any Clearing Corporation's circular i.e. unapproved securities, then minimum of the following values shall be reduced from Capital & Free Reserves:

S.No.	**Components of Net worth**	**Remarks**
		(a) Applicable VAR rate of the respective securities; or (b) 30% of marketable securities