

## **FAQ on Gazette Notification of SEBI (Stock Brokers) (Amendment) Regulations, 2022**

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### 1. Net worth submissions are based on which guidelines?

SEBI circular number SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and SEBI Gazette Notification No. SEBI/LAD-NRO/GN/2022/73 dated February 23, 2022.

### 2. From when the revised net worth guidelines will be applicable?

Within 1 year of the date of notification of the Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2022 dated 23<sup>rd</sup> February 2022 i.e., February 23, 2023. Further the reporting requirement will be applicable from Half Yearly Networth submission for March 31, 2023 onwards.

### 3. What is the revised Base Networth and Variable Networth requirement as per the Gazette Notification of SEBI (Stock Brokers) (Amendment) Regulations, 2022?

Type of Member	Base Networth {within 1 year of the date of notification of the Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2022} (in ₹)	Base Networth {within 2 years of the date of notification of the Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2022} (in ₹)	Variable Networth {within 1 year of the date of notification of the Securities and Exchange Board of India (Stock Brokers) (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 crore*	5 crore	
Clearing Member	10 crore*	15 crore	
Professional Clearing Member	25 crore	50 crore	

\* In Currency Derivative Segment, Self-Clearing Member and Clearing Member shall have minimum networth of Rs. 5 crore and Rs. 10 crore respectively.

# The Member should ensure that its Base Networth / Variable Networth (whichever is higher) is maintained throughout the year.

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#### 4. What is the Member's Base Network?

The Base Network is specified by the SEBI as per the type of membership of the member entity. Wherever the SEBI has not prescribed Base Network, the net worth specified by exchanges according to current Network guidelines would be applicable. The Revised Network requirements will be updated on the Exchange website.

**For Example-** For the trading member registered in Capital Market Segment only, the Network requirement for both Corporate/LLP and Individual / Partnership Firm will be 75 lacs each whereas Trading Member with F&O segment only, the Network requirement will be 75 Lacs for Individual / Partnership Firm and 1 Crores for Corporate/ LLP.

#### 5. What is Variable Network?

Variable Network shall be calculated as specified in this SEBI Notification. It is 10% of the average daily cash balance (including Cash/FDRs/BGs) of clients retained with the member across segments and across the exchanges in the previous 6 months.

<b>Variable Network for March 31, 2023 Submission</b>				
<b>Details of cash/FDR/BG balance of all clients retained with member across segments/exchanges for the previous six months period</b>				
	<b>A</b>	<b>B</b>	<b>C</b>	<b>A+B+C</b>
<b>Date</b> (To be given for all days in previous 6 months)	<b>Cash Retained</b>	<b>FDR Retained</b>	<b>BG Retained</b>	<b>Total Deposits retained by member</b>
1st October 2022	X	Y	Z	X+Y+Z
.	X	Y	Z	X+Y+Z
.	X	Y	Z	X+Y+Z
.	X	Y	Z	X+Y+Z
.	X	Y	Z	X+Y+Z
31st March 2023	X	Y	Z	X+Y+Z
<b>Total</b>				<b>Total</b>
<b>Average of 'Total Cash/FDR/BG'</b>				<b>Total/ N*</b>
<b>Variable Net worth</b>				<b>10% of Average</b>

#This given calculation is for an understanding of members.

\*N - Number of total days during the period of submission.

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**For Example – Number of days to be considered to calculate Average of 'Total Cash/FDR/BG'-**

Period	Number of Days
October 01, 2022 to March 31, 2023	182 days
April 01, 2023 to September 30, 2023	183 days

In the case of Leap Year, the number of calendar days will increase by 1 day.

**For Example - Number of days to be considered to calculate Average of 'Total Cash/FDR/BG'-**

Period	Number of Days
October 01, 2023 to March 31, 2024	183 days

## 6. What does the Cash Balance Include? Which amount of Cash Balance to be considered to arrive at Variable Networth?

Cash Balance Includes 'Client Cash / FDR / BG' retained by the member (across the Exchanges/ segments) which will be a consolidation of daily reporting by the member to Clearing Corporations in Segregation and Monitoring of Collateral at Client Level.

As per the membership type (TM/TCM/STCM/PCM) the following fields submitted under Segregation and Monitoring of Collateral at Client Level are to be considered by the members while calculating their variable net worth

22	Cash Retained by TM	Number (20)	<ul style="list-style-type: none"> <li>Value in Rs.</li> <li>Decimals shall be allowed upto 3 digits.</li> <li>The details will pertain to collateral retained by the TM from client</li> </ul>
23	Bank Guarantee (BG) Retained by TM	Number (20)	<ul style="list-style-type: none"> <li>Value in Rs.</li> <li>Decimals shall be allowed upto 3 digits.</li> <li>The details will pertain to collateral received from client and retained with the TM</li> </ul>
24	Fixed Deposit Receipt (FDR) Retained by TM	Number (20)	<ul style="list-style-type: none"> <li>Value in Rs.</li> <li>Decimals shall be allowed upto 3 digits.</li> <li>The details will pertain to collateral received from client and retained with TM. It should not contain details of FDR passed on to the CM in any other form of collateral.</li> </ul>

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38	Cash Retained with CM	Number (20)	<ul style="list-style-type: none"> <li>Value in Rs.</li> <li>Decimals shall be allowed upto 3 digits.</li> <li>The details will pertain to collateral received from TM/CP and retained by the CM</li> </ul>
39	Bank Guarantee (BG) retained with CM	Number (20)	<ul style="list-style-type: none"> <li>Value in Rs.</li> <li>Decimals shall be allowed upto 3 digits.</li> <li>The details will pertain to collateral received from TM/CP and retained by the CM.</li> </ul>
40	Fixed deposit receipt (FDR) retained with CM	Number (20)	<ul style="list-style-type: none"> <li>Value in Rs.</li> <li>Decimals shall be allowed upto 3 digits.</li> <li>The details will pertain to collateral received from TM/CP and retained by the CM.</li> <li>It should not contain details of FDR passed on to the CC in any other form of collateral.</li> </ul>

## 7. What are the guidelines to be followed while ascertaining the Variable net worth of the member?

### For TM/ Self Clearing Member-

- 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.

**For Example** - Suppose the client has deposited Rs. 10 crores with the trading member and that trading member further deposits 3 crores out of that 10 crores with clearing member/ professional clearing member/ clearing corporation then variable net worth would be required to be maintained to the extent clients fund retained by the trading member that is Rs. 7 crores.

### For Clearing Member/ PCM-

- 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.

**For Example** - As mentioned in the above example, clearing member/ professional clearing member receives 3 crores from trading member/self-clearing member, then the computation of variable net worth at the level of clearing member/ professional clearing member shall also include those 3 crores.

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- 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 network at the level of the self-clearing member/ clearing member/ professional clearing member.

**For Example -** In continuation to the above example, suppose clearing member/ professional clearing member deposits out of that 3 crores, 1 crore with the clearing corporation. The same shall be excluded while calculating the variable network at the level of the clearing member/ professional

clearing member. In that case funds for calculating variable network at the level of the self-clearing member/ clearing member/ professional clearing member is (3 crores- 1 crores =2 crores).

Summary of cash balance of clients to be considered are as under –

For TM/SCM	For Trading member and Clearing member	For Professional Clearing member
Cash Retained by TM/SCM + BG Retained by TM /SCM + Fixed Deposit Receipt (FDR) Retained by TM/ SCM	Cash Retained by TM + BG Retained by TM + Fixed Deposit Receipt (FDR) Retained by TM+ Cash Retained with CM + Bank Guarantee (BG) Retained with CM + Fixed deposit receipt (FDR) Retained with CM	Cash Retained with PCM + Bank Guarantee (BG) Retained with PCM + Fixed deposit receipt (FDR) Retained with PCM

#### 8. How many days to be considered to take an average of daily cash balance (including Cash/FDRs/BGs) of clients retained with the member across segments and across the exchanges?

As the SEBI notification states previous six months to take an average of daily cash balance (Cash/FDRs/BGs) of clients retained with the member across segments and across the exchanges therefore the number of calendar days in that six months are to be considered.

**For Example –** Number of days to be considered to calculate **Average of 'Total Cash/FDR/BG'-**

Period	Number of Days
October 01, 2022 to March 31, 2023	182 days
April 01, 2023 to September 30, 2023	183 days

**9. Which 6 months need to be considered for computation of Variable Network?**

The previous 6 months to be considered for computation of Variable Network as below-

Submissions	Period
Half Yearly Network Submission as on March 31, 2023	October 01, 2022 to March 31, 2023
Half Yearly Network Submission as on September 30, 2023	April 01, 2023 to September 30, 2023

**10. Which members do not need to report variable network?**

Members who do not have any registered client and is engaged in proprietary trading only are not required to report variable network.

**11. Should the Network Certificate be CA/CS certified?**

Yes, the Network Certificate shall be duly certified by the practicing Chartered Accounts / Company Secretary.

**12. What will be the applicable Network requirement as per the revised Network guidelines?**

‘Base Network’ or ‘Variable Network’ whichever is higher.

**For example** - If a member has a Base Network of Rs. 3 crores and if Variable Network of the member is Rs. 5 crores then the applicable Network for the member is Rs. 5 crores (Higher of 3 crores or 5 crores)

**13. How will a member compute their own Network?**

Post understanding the Base Network and ascertaining Variable Network, the Network whichever is higher is to be considered as applicable Network.

Further, the computation of network shall be in accordance with method of computation prescribed by Schedule VI of SEBI (Stock Brokers) (Amendment) Regulations, 2022.