

## **PROPOSED POLICY FOR CLIENT REGISTRATION & TRADING OPERATIONS**

### **INTRODUCTION**

This is a proposal for framing guidelines for handling Running Account authorisation taken by the brokers and issuance of Electronic Contract notes (ECN). The matter has been discussed with the representatives of Stock Exchanges, Depositories, Brokers and Investors associations.

### **BACKGROUND**

There is market practice of taking 'Running Account Authorisation' by the brokers from their clients. By virtue of such authorisation taken from the clients, the broker gets the right to retain the funds and securities of the clients with itself on ongoing basis which are supposed to be utilized for meeting the settlement / margin obligations of the clients as and when required. Such funds and securities are expected to be paid/transferred over to the clients as and when they desire/request. However, it has been observed that such practice is being misused by some of the brokers. The funds and securities of the clients lying with the brokers are prone to several risks.

Further, most brokers are forcing clients to opt for ECN and are also creating email ids instead of using the email ids created and provided by the clients. There are also concerns regarding actual receipt of e-mail id and password by clients.

SEBI has been receiving many complaints on the above aspects.

### **PROPOSALS**

It is proposed to stipulate a set of guidelines to prevent the possible misuse of the above mentioned practices.

**A. Running Account Authorisation**

The 'running account authorisation' should be dated and also contain a clause that the client can revoke the authorization at any time. There should be a clause in the authorisation mentioning that actual settlement of funds and securities should be done by both the parties, on the last day of every calendar month. However, some clients may be having outstanding transactions/positions in cash/derivative segment on the running account settlement date. In such cases, the broker may make due adjustment by retaining the requisite securities/funds from the running account towards such obligations of clients and may also retain the funds expected to be required to meet margin obligations for next 5 working days by which time the client would replenish/supplement the funds with the broker.

In addition to the settlement of the running account, the broker should send all the clients a monthly statement to that effect. The retention of funds/securities, if any, by the broker (in the case as stated above) should be duly explained in the statement. In case of any dispute arising out of the settlement so made, the client should bring it to the notice of the broker within 7 working days of receiving the statement. The broker/client may decide not to take any fresh position pending the dispute.

Further, if the client requests for return of securities/funds lying to his credit with the broker, at any time in the interim period, the same shall be transferred by the broker within one working day from the date of receipt of the client's request. There shall be no inter-client adjustments for the purpose of settlement of the running account.

## **B. Issuance of Electronic Contract Notes (ECN)**

The practice of creating the email id by the broker may be discontinued. The authorization for receiving ECN should be signed by the client only and not by any authorised entity or attorney holder. The authorization should have a clause mentioning that any change in the email-id will be communicated by the client through a physical letter to the broker. In respect of clients trading through the internet, the request for change of email id may be made through the secured access by way of client-specific user id and password.

Comments are invited from the public on the above proposal. The comments may be sent up to August 15, 2009 by e-mail at [anuradhag@sebi.gov.in](mailto:anuradhag@sebi.gov.in) or [ankurb@sebi.gov.in](mailto:ankurb@sebi.gov.in). A hard copy may also be sent at the given address with the subject line indicating '**Comments on proposed policy for Client Registration & Trading Operations**' so as to reach the SEBI office latest by August 15, 2009:

The General Manager

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