FAQs on Stock Broker

Disclaimer: These FAQs are not the interpretation of law but provide only a simple explanation of terms / concepts related to the stock brokers. All information has been updated till February 28, 2023. For full particulars of laws governing the stock brokers, please refer to the Acts/Regulations/Guidelines/Circulars appearing under the 'Legal' Section.

1. What are Market Infrastructure Institutions (MIIs)?

Stock exchanges, Clearing Corporations and Depositories together constitute MIIs.

Stock exchange- Stock exchange is an institution which assists, regulates or controls the business of buying, selling or dealing in securities.

Clearing Corporation - Clearing Corporation is an institution which handles the activity of clearing and settlement of trades executed on the stock exchange platforms.

Depository- Depository is an institution which holds securities of investors in dematerialized form through a registered depository participant.

2. Who is a stock broker?

A stock broker is a registered intermediary with SEBI and is a member of a stock exchange, who is permitted to do trades on the stock exchange platforms.

3. What are the requirements to be a stock broker?

An applicant is considered eligible for registration as a stock broker after taking into account whether it, *inter alia*;

a) has the necessary infrastructure like adequate office space, equipment and man power to effectively discharge his activities;
b) has any past experience in the business of trading or dealing in securities;
c) is a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008;
d) has obtained certification in terms of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 or as may be specified by SEBI; and
e) satisfies the minimum net worth and deposit requirements as specified in Schedule VI of SEBI (Stock Broker) Regulations,1992.

4. How does an investor know if a broker is registered?

Investors can verify the registration details of stock brokers on the websites of SEBI and the respective stock exchanges. The details of all SEBI registered intermediaries may be seen here.

5. **What are the various accounts an investor should have for trading in securities market?**

Demat Account: It is an account opened with a SEBI registered depository participant in the name of investor for the purpose of holding and transferring securities.

Trading Account: It is an account which is opened by the SEBI registered stock broker in the name of investor for trading in securities.

Bank Account: An account in the name of the investor with a bank and is used for paying or receiving funds on account of trading in the securities market.

6. **What are the Know Your Client (KYC) requirements in opening a Trading account?**

The stock broker shall perform the initial KYC of its clients and upload the details on the system of the KYC registration Agency (KRA).

The account opening form for client is divided into two parts.

Part I of the form captures the basic KYC details about the client. Part II of the form is for obtaining the additional information specific to the area of activity of the stock broker. The details to be provided by the investor, *inter alia*, include proof of identity and proof of address.

7. **What is meant by Unique Client Code (UCC)?**

Once the onboarding process is completed, investors get a unique identity number for trading known as Unique Client Code (UCC). Investors must use this code for every trade that is carried out on their behalf by the broker. In order to facilitate maintaining database of their clients and to strengthen KYC norms, all brokers have been mandated to use UCC codes linked to PAN details of the respective investor.

8. **How can an investor place orders with the broker?**

Internet based trading - The eligible brokers give investors access to the market via their app/website. After logging in, investors can view live price quotes from the market and can place orders themselves.

Trading through Mobile - Similar to internet based trading, eligible brokers also provide application/tools which the investors can download on their mobiles to trade on stock exchanges.

Call and trade - An investor can call his broker, identify himself with the UCC code and place an order. The dealer at the other end will place the order and confirm the status of the same on the call.

Visit to broker's office – An investor can also choose to visit the office of the stock broker to place orders.

Broker is required to maintain recordings of order placement such as voice recordings / email / written communication, internet trading log etc. as prescribed.

9. What is Margin?

Margin is the amount of funds/securities that an investor has to deposit/re-pledge with the Clearing Corporation through stock broker in order to cover the risk of non-payment of dues or non-delivery of securities.

Stock brokers have been mandated to send margin related information to their clients on a daily basis. Additionally, every stock broker shall maintain proper records of collateral received from clients. The clients can also login to the website of the Clearing Corporation to view the respective collateral details.

10. What is pay-in and pay-out?

Pay-in is the process of transfer of funds or delivery of securities to the Clearing Corporation to settle a buy or sell trade obligation respectively. Pay-out is the process of transfer of funds or delivery of securities from the Clearing Corporation to settle a sell or buy trade respectively.

Pay-in and pay-out are part of settlement mechanism. The scheduled dates for the same are notified by the stock exchanges from time to time.

11. In case of purchase/sale of shares, when should one make payment of funds/delivery of shares?

The payment of funds/delivery of shares for the shares purchased/sold is required to be done on or before the date of pay-in for the relevant settlement.

12. What is Demat Debit and Pledge Instruction (DDPI)?

DDPI has been introduced to mitigate the misuse of Power of Attorney (PoA) by allowing the use of DDPI for the following four purposes:

i. Transfer of securities held in the demat accounts of the client towards settlement obligations;
ii. Pledging / re-pledging of securities in favour of stock broker / clearing member for the purpose of meeting respective client's margin requirements;
iii. Mutual Fund transactions being executed on stock exchange order entry platforms; iv. Tendering shares in open offers through stock exchange platforms.

The client may use the DDPI or opt to complete the settlement by issuing physical Delivery Instruction Slip (DIS) or electronic DIS (eDIS) themselves. Hence, with the implementation of DDPI, PoA shall no longer be executed for the purposes specified above. DDPI is not a mandatory requirement as per SEBI / stock exchanges.

However, the existing PoAs for respective clients shall continue to remain valid till the time they are revoked (Also refer FAQ 13).

13. What is Power of Attorney (PoA)?

A Power of Attorney (PoA) is a document executed by the client in favour of the stock broker to authorize the broker to operate the client's demat account and bank account for purposes as specified by SEBI from time to time. Power of Attorney is not a mandatory requirement as per SEBI / stock exchanges.

14. What is pledge/re-pledge mechanism?

Under pledge/re-pledge mechanism, margin obligations in form of securities are met by the client by way of pledge/re-pledge in the depository system and title transfer of securities to the client collateral demat account of the stock broker /clearing member for margin purposes is not permitted.

By creating pledge/re-pledge mechanism, the securities of client remain in respective client's demat account and entire trail of the securities utilised for margin purposes is available. Pledge is created with the consent of client and securities do not move out from the demat account of the client. Further, clients have complete visibility of collateral placed with clearing corporation on the website of respective clearing corporations.

15. How is a client's account settled?

Payout of funds to the clients should be done by the broker within 1 working day of the payout unless the client has opted for running account, in which case the account shall be settled on the first Friday of the relevant quarter/month based on client's preference.

16. When is the running account settlement of clients' funds carried out?

In case client has opted for a quarterly running account settlement, the settlement of running account of funds of the client shall be done by the stock broker after considering the End of Day (EoD) obligation of funds as on the date of settlement across all the stock exchanges on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan-Mar) for all the clients i.e. the running account of funds shall be settled on first Friday of January, April, July, October and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

For clients, who have opted for monthly settlement, running account shall be settled on first Friday of every month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

For clients who have not done any transaction in the 30 calendar days since the last transaction and are having credit balance, the credit balance shall be returned to the client by stock broker, within next three working days irrespective of the date when the running account was previously settled.

17. How does an investor know that his trade has been executed?

For every trade that takes place on the stock exchange, the stock broker needs to issue contract note within 24 hours from the date of execution of the trade. An investor may opt for either electronic contract notes (ECN) or physical contract notes during onboarding process.

In case of electronic contract notes issued by the brokers, the investors should ensure that the same is digitally signed. In case of inability to view the ECN, investor should communicate the same to the broker, upon which the broker shall ensure that the physical contract note reaches the client within the stipulated time.

Investor needs to check the contract notes and if any discrepancy is found, the same should be taken up with the stock broker immediately.

Further, stock exchanges send SMS/Email alerts to retail investors for their transactions on days they have traded. Investors should ensure that they have updated their email/ mobile number with their stock broker.

18. What is an auction?

If the seller defaults in delivery of the shares, the clearing corporation would put the undelivered shares for auction. The clearing corporation purchases the requisite quantity in the auction market and gives them to the buying stock broker. The shortages are met through auction process and the difference in price indicated in contract note and price received through auction is paid to the clearing corporation by the selling stock broker, which may be recovered from the client.

19. What is the maximum brokerage that a broker can charge?

The maximum brokerage that can be charged by a broker may differ across stock exchanges. As per the BSE & NSE Bye Laws, the brokerage that can be charged by a stock broker are as under:

Capital Market Segment:

The maximum brokerage chargeable by a stock broker shall be 2.5 % of the contract price exclusive of statutory levies. Where the sale / purchase value of a share is Rs.10/- or less, a maximum brokerage of 25 paise per share may be collected.

Futures contracts:

The maximum brokerage chargeable by a stock broker in relation to trades executed on the stock exchange shall be 2.5% of the contract value exclusive of statutory levies.

Option contracts:

The stock broker shall charge brokerage for option contracts on the premium amount at which the option contract was bought or sold and not on the strike price of the option contract. The brokerage on options contracts shall not exceed 2.5% of the premium amount or Rs.100/- (per lot) whichever is higher.

In the derivatives segment, brokerage can only be charged in respect of trades executed on the stock exchange, hence brokerage cannot be levied on expiry / exercise / assignment of contracts.

20. How do I know the charges that can be levied on the investor by a stock broker?

All stock brokers have been mandated to provide a tariff sheet to every client at the time of on-boarding. The tariff sheet shall include all charges that can be levied by a stock broker. Stock brokers can, *inter-alia,* charge the following:

1. Brokerage charges as per by stock broker.
2. Penalties arising on specific default on behalf of client.
3. Service tax as stipulated.
4. Securities Transaction Tax (STT) as applicable.
5. Stamp Duty as applicable

21. Who is an Authorised person (AP)?

Any person, individual, partnership firm, LLP or body corporate, who is appointed as such by a stock broker and who provides access to trading platform of a stock exchange as an agent of the stock broker is an Authorised Person. Details of the broker with whom the authorised person is registered may be checked on websites of the respective stock exchanges.

22. What is Margin Trading Facility?

Margin Trading Facility (MTF) refers to buying of shares and securities by paying a margin (funds / securities) from the resources available with the investor and paying the rest out of borrowed resources from stock brokers. It is essentially a leveraging mechanism which enables investors to take exposure in the market over and above what is possible with their own resources. SEBI prescribes eligibility conditions and procedural details regarding the MTF provided by stock brokers from time to time.

23. What are the major Dos and Don’ts of an investor?

a) Before entering into a contract with a broker, ensure that he is registered with SEBI.

b) Satisfy oneself about the credentials of the broker by asking for information/documents supporting his claims.
c) Read all documents and conditions being agreed upon before signing the account opening form.
d) Ensure that a copy of KYC, copy of account opening documents and UCC code are received.
e) Ensure to receive all information about brokerage, fees and other charges levied.
f) Furnish required details in full.
g) Ensure that a contract note is issued by the broker which contains complete records of every transaction within 24hrs of the execution of the contract.
h) In case pay-out of money and / or securities is not received on the next working day after date of pay-out, follow up with the concerned broker for its release. On nonreceipt of satisfactory reply / funds and securities, ensure to lodge a complaint immediately on SEBI Complaint Redress System (SCORES) or with the investors' grievance cell of the stock exchange.
i) Ensure that a copy of DDPI/PoA, if executed, is received. Note that PoA and DDPI are not mandatory requirements as per SEBI / stock exchanges and PoA is no longer to be executed for the purposes specified in FAQ no. 12. Before granting PoA/DDPI, carefully examine the scope and implications of powers being granted.
j) Ensure to receive a complete 'Statement of Accounts' for both funds and securities settlements weekly as well as on quarterly/monthly basis, as per preference in case of running account of settlement of funds.
k) Register mobile number and email ID in trading, demat, and bank accounts to get regular alerts on your transactions. Regularly check messages received on registered mobile no/ email ID with regard to trading activity.
l) Beware of fixed/guaranteed returns schemes. Brokers or any of their representatives are not authorized to offer fixed/guaranteed returns on your investment or enter into any loan agreement to pay interest on the funds/securities/commodities offered by you.
m) Check messages sent by stock exchanges on a weekly basis regarding funds / securities / commodities balances reported by the stock broker and immediately raise concern, if you notice a discrepancy.
n) Attend various investor awareness programs held by SEBI / stock exchanges / depositories.
o) Do not share account details i.e. username and password (internet account) with anyone.
p) Do not share OTPs received in connection with trading and demat account transactions.
q) Do not transfer securities to your stock broker for the purpose of margin. Under the pledge-repledge mechanism, securities remain in client's account only and the same are pledged to stock broker for margin purpose.

r) Do not fall prey to fraudsters sending emails and SMSs luring to trade in securities promising huge profits.
s) Ensure to go through the investor charter for stock brokers.

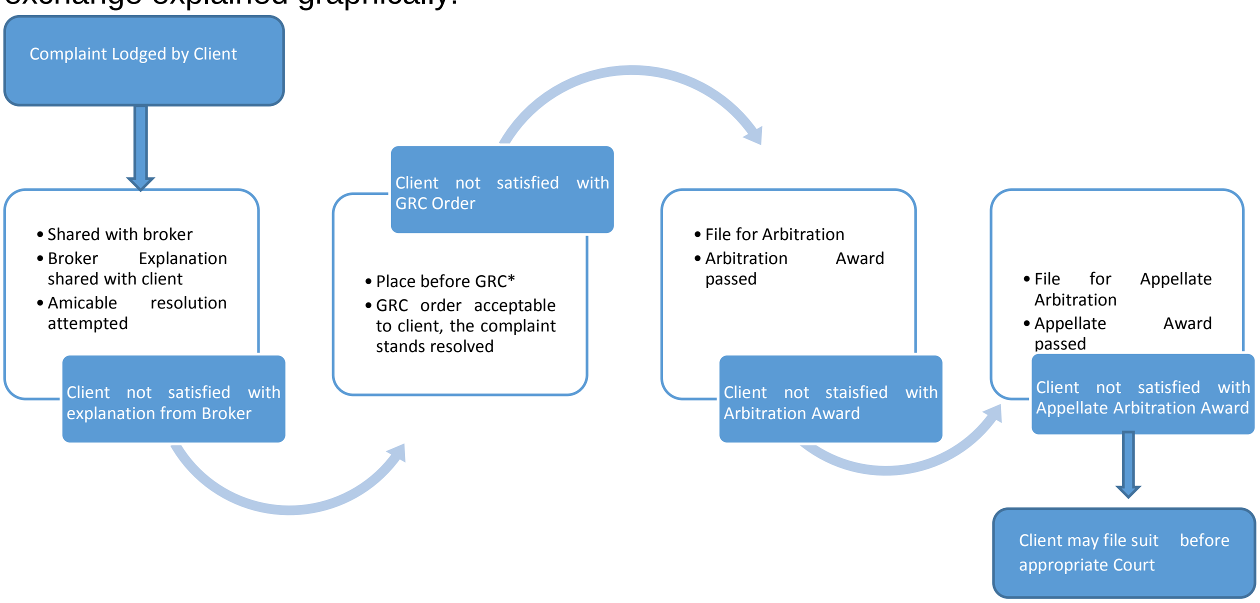
24. What is investor charter for stock brokers?

In order to facilitate investor awareness about various activities which an investor deals with such as opening of account, KYC and in person verification, complaint resolution, issuance of contract notes and various statements, process for dematerialization/rematerialization etc., SEBI, in consultation with the market participants, has prepared an investor charter for stock brokers, inter-alia, detailing the services provided to investors, rights of investors, various activities of stock brokers with timelines, Dos and Don'ts for investors and grievance redressal mechanism. All stock brokers are required to disclose the investor charter on their respective websites, and provide a copy of the same to respective clients through emails/letters etc. A copy of the investor charter for stock broker can be accessed here.

25. What avenues are available to the investor in order to redress his grievances?

Level 1 – Approach the stock broker as per the internal escalation matrix displayed on the website of the stock broker. The stock broker shall strive to redress the grievance immediately, but not later than 30 days of the receipt of the grievance.

Level 2 – Approach the stock exchange using the grievance mechanism mentioned on the website of the respective stock exchange. Complaints resolution process at stock exchange explained graphically:



*GRC refers to Grievance Redressal Committee

Level 3 – The complaint not redressed at stock broker / stock exchange level, may be lodged with SEBI on SCORES (a web based centralized grievance redressal system of SEBI) at https://scores.sebi.gov.in/scores-home.

26. What is Arbitration?

Arbitration is an alternative dispute resolution mechanism provided by stock exchanges for resolving disputes between the stock brokers and their clients in respect of trades done on the exchange.

27. What is the process for filing arbitration?

The byelaws of the stock exchange provide the procedure for arbitration mechanism. Investors can file arbitration application online / submit physical application form to the concerned stock exchange. The arbitration application forms are available on the respective stock exchanges website.

The parties to arbitration shall provide their preferred choice of arbitrators in the descending order of their preference from the panel of arbitrators. Taking into consideration the choices provided by the parties, a system having the common pool of arbitrators shall automatically appoint the requisite number of arbitrators in the matter.

28. What happens if an investor is aggrieved by the award of the arbitrator?

In case an investor is aggrieved by the arbitral award, he can take recourse to the appeal provisions within one month from the date of receipt of the Arbitral Award

In case an investor is aggrieved by the appellate arbitral award, he can challenge the Award u/s 34 of Arbitration and Conciliation Act, 1996 in the court of law.

29. What is Investor Protection Fund (IPF) of stock exchanges?

Every stock exchange is required to establish an Investor Protection Fund (IPF) with the objective of compensating investors in the event of defaulters' assets not being sufficient to meet the admitted claims of investors, promoting investor education, awareness, and research. The IPF is administered by way of registered trust created for the purpose.

The IPF Trust endeavors to make good claims for compensation which may be submitted by a stock broker’s investor who suffers any loss arising from the said stock broker declared as a defaulter by the stock exchange.

30. When can a broker be declared a defaulter and how can an investor file a claim with stock exchanges regarding such default?

A stock broker is declared as defaulter, *inter-alia,* when-

- he is not able to meet his payment obligations to its clients.
- he fails to deliver the required securities to the demat account of his client.
- when any other exchange declares any broker defaulter in case of fraudulent activities followed by the respective stock broker.

- he fails to abide by the arbitration proceedings as laid down under the Bye Laws, Rules and Regulations of stock exchange.

31. How can an investor file a claim with stock exchanges regarding such default?

The claims of investors in default matters are dealt with and settled by respective stock exchanges as per their rules, regulations, and byelaws of the stock exchanges. Public notice is issued in the newspapers inviting claims from the investors. Investors can file online claim through the stock exchange’s website and/or send offline claim form that can be obtained from the nearest investor service centres of the stock exchanges or can be downloaded from the stock exchange’s website.