

**The policy for receipts\payments of Funds\Securities to the clients of INVESTSMART STOCK BROKERS PVT.LTD.**

Company will not accept cash from the client whether against obligations or as margin for purchase of securities and also company will not give cash against sale of securities to the clients.

All payments shall be received / made by the company from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through RTGS or NEFT, or any other mode allowed by RBI. The company will accept cheques drawn only by the clients **from their designated bank a/c with us** and also issue cheques in favor of the clients only, for their transactions. However, in exceptional circumstances the company may receive the amount in cash, to the extent not in violation of the Income Tax requirement as may be in force from time to time.

SEBI vide Circular No. SEBI / MRD / SE / Cir-33 / 2003 / 27 / 08 dated August 27, 2003, while specifying the mode of receipt and payment of funds, has permitted the stock brokers to accept Demand Drafts from their clients.

But it was observed that the stock brokers were unable to maintain an audit trail of the funds so received, as the details of the name of the client and bank account-number were not mentioned on such instruments. This may have resulted in flow of third party funds / unidentified money, which was not in accordance with the provisions of the aforesaid circular and would also affect the integrity of the securities market.

So, on June 9, 2011, SEBI vide Circular No. CIR/MIRSD/03/2011 clarified the procedure by which any pre-funded instruments, such as, Pay Order, Demand Draft, Banker's cheque, etc., can be accepted.

In view of the above, following procedures and documentation to be maintained while receiving funds from the clients through pre-funded instruments, such as, Pay Order, Demand Draft, Banker's cheque, etc.:

- a. If the aggregate value of pre-funded instruments is ` 50,000/- or more, per day per client, accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:
  - i. Certificate from the issuing bank on its letterhead or on a plain paper with the seal of the issuing bank.
  - ii. Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.

- iii. Certified copy of the passbook/bank statement for the account debited to issue the instrument.
- iv. Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.

When amount is received through RTGS\EFT, client name and the name of the branch where account of the client is there is checked from the back office.

Similarly in the case of securities also, giving / taking delivery of securities in “demat mode” should be directly to / from the “beneficiary accounts” of the clients except delivery of securities to a recognized entity under the approved scheme of the stock exchange and / or SEBI.

Any payment made by the company electronically to the clients should be only given to the accounts which are mapped in the back office.

All the payments received from the clients and payments made to the client should be from the client account maintained for segregating the client money

A register has to be maintained for the Pre-Funded Instruments/RTGS/NEFT received from clients and has to be checked for accuracy.

It is the duty of the compliance officer to ensure that no Pay Order, Demand Draft, Banker's cheque should be accepted in the organization if the above mentioned criteria is not fulfilled. The compliance officer will also maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from our clients only.

This policy is to be reviewed as & when management thinks fit or whenever changes are mandated by statutory authorities.

Circulars on the subject are as attached

## **DEPUTY GENERAL MANAGER**

Market Regulation Department

E-mail: [sundaresanvs@sebi.gov.in](mailto:sundaresanvs@sebi.gov.in)

SEBI/MRD/SE/Cir- 33/2003/27/08

August 27, 2003

**The Executive Directors/Managing Director/Administrators  
Of All Stock Exchanges**

Dear Sir / Madam,

**Sub:- Mode of payment and delivery**

1. Please refer to SEBI circular No.SMD/SED/CIR/93/23321 and letter No. SMD-1/23341 dated November

18, 1993 regarding regulation of transactions between clients and brokers.

2. It is reiterated that brokers and sub-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients.

3. All payments shall be received / made by the brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through EFT, or any other

mode allowed by RBI. The brokers shall accept cheques drawn only by the clients and also issue cheques in

favour of the clients only, for their transactions. However, in exceptional circumstances the broker or subbroker

may receive the amount in cash, to the extent not in violation of the Income Tax requirement as may be in force from time to time.

4. Similarly in the case of securities also giving / taking delivery of securities in " demat mode" should be

directly to / from the "beneficiary accounts" of the clients except delivery of securities to a recognized entity

under the approved scheme of the stock exchange and / or SEBI.

5. The undersigned has been authorized to direct the exchanges to

5.1. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately.

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5.2. bring the provisions of this circular to the notice of the member brokers/clearing members of the Exchange and also to disseminate the same on the website.

5.3. communicate to SEBI, the status of the implementation of the provisions of this circular in Section II,

item no. 13 of the Monthly Development Report for the month of August, 2003.

6. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and

Exchange Board of India Act, 1992, read with Section 10 of the Securities Contracts (Regulation) Act 1956,

to protect the interests of investors in securities and to promote the development of, and to regulate the

securities market.  
Yours faithfully,  
**V S SUNDARESAN**

**Ref . SMD-1/23341**  
**November 18, 1993**

To,  
The Presidents/Executive Directors  
of all recognised Stock Exchanges in India  
Dear Sir,

**Regulation of transaction between clients and members**

I am enclosing with this letter a note listing a set of precautions to be exercised by the member-brokers of recognised Stock Exchanges while selling shares on behalf of clients, entertaining new clients, etc. We are of the opinion that the cautions listed in the enclosed note, if exercised by the member-brokers of the Exchanges, will benefit them as well as investors immensely and also contribute to the healthy working of the Secondary Market. It is requested that the enclosed note be placed before the Governing Board of your Exchange at their next meeting and their suggestions / views in this regard communicated to us by January 1, 1994. This will enable us to finalise the set of guidelines for incorporating the same in the relevant rules, regulations and bye-laws of the different Stock Exchanges in the country to ensure uniformity in dealings with the clients.

Yours faithfully,

sd/-

( C. B. BHAVE )

Sr. Executive Director

Encl :a/a

cc : Regional Offices

**SECURITIES AND EXCHANGE BOARD OF INDIA**

Precautions to be exercised by member-brokers of recognised Stock Exchanges while selling shares on behalf of clients, entertaining new clients, etc.

It is expected that the member-brokers of Stock Exchanges know their clients through a proper introductory procedure

and exercise due precaution while dealing with the clients. However, it is observed that in certain recent cases, such

precautions in dealing with the clients have not been exercised by a few member-brokers resulting in serious problems

for the market as well as investors. It is, therefore, considered necessary that these precautions may be listed so as to

be uniformly followed by member-brokers of all the recognised Stock Exchanges across the country. This will protect

the interests of the member-brokers, instil transparency and discipline in the deal between clients and brokers and will

contribute to the healthy working of the Secondary Capital Market. Some of the precautions to be exercised by the

member-brokers are listed below. These precautions are classified into two categories as [a] Mandatory and [b] precautions by way of a guideline.

SEBI is of the view that member-brokers of the Exchanges should compulsorily follow the precautions suggested in

Part [a] below which should form a part of their operating system, whereas those suggested in Part [b] may be treated

as guidelines and followed as and when circumstances warrant.

[a] Mandatory -

(i) Ensure that the client is personally known to the member-broker or has been introduced to him by a person known to him.

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(ii) A record of introduction of all clients may be kept by member-brokers and they should insist on their sub-brokers

also to maintain a similar record. The following data on the clients can be maintained :

a) Name, address, telephone number, age

b) Status - whether in employment / business.

c) If in business - Nature of business and business address.

d) Banker & bank account numbers through which operations are to be done.

e) Name, address of contact through whom client has been introduced.

f) Names of all persons on whose behalf the client is operating and necessary legal documents authorising the client to act on behalf of such persons.

g) In case a private limited company or a public company or a trust is a client, the details such as its authorised / subscribed capital, total trust funds and the resolution duly authorising the person acting on behalf of the company.

(iii) A satisfactory bank reference of client may be insisted upon before doing business on behalf of new clients.

(iv) Due care may be exercised when a member-broker is introducing / delivering broker for shares in the market.

In all

such cases, the transferor(s) or seller(s) signature(s) should be witnessed either by the member-broker himself or by

any of his SEBI authorised sub-brokers through whom concerned sale has been effected. If transfer deeds are witnessed by a third party, insist on signature of sellers being witnessed by the concerned sub-broker also. Do not make payment by issuing a cheque in a name other than the name of the shareholder when a member-broker is an

introducing broker.

(v) Proper enquiries may be made when the names of the selling clients and names appearing on share certificates

delivered against sales are different. Proper record should be kept for explaining the reasons for difference.

(vi) If shares given by a client are frequently received under objection, there is a need for more caution. The memberbroker

should inform the Stock Exchange authorities, names of such clients, who, in turn, will communicate such names to other member-brokers.

(vii) List of names of black-listed / defaulter clients may be forwarded to the Stock Exchange authorities for communicating such names to other member-brokers of the Exchange as well as other Stock Exchanges.

(viii) Member-brokers should insist on clients to return the duplicate copy of contract notes duly signed by them in token

of their having received the contract notes.

(ix) No adjustment between one client account to another should be made unless express authority has been obtained

from the clients. Such authority should be preserved by the broker.

[b] Guidelines :

(i) Each client must give full particulars in writing including the member(s) through whom he is currently / was previously operating in the market in the prescribed form. The broker should contact the previous broker to get an opinion from him about the dealings of the client.

- (ii) Member-brokers may insist on getting additional details such as Income Tax PAN G.R. No. Etc., on the clients placing large orders (i.e. more than Rs. 1,00,000/-) even if they are clients of his sub-brokers or have been introduced by him.
- (iii) Member-brokers may exercise due caution while executing big orders on behalf of clients at the initial stage of their introduction.
- (iv) Extra caution may be exercised when clients are dealing with more than one broker.
- (v) If a client frequently delays payments and / or disputes the deals put on his behalf, further caution needs to be exercised while dealing with him. In case a client habitually delays the payment, member-broker must insist on advance payment or larger cash margin before executing his orders.
- (vi) Member-brokers should not accept cash for purchases of securities and / or give cash against sales of securities.
- All payments received / made should be strictly by "Crossed - Payee A/c" cheques.
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**SR. EXECUTIVE DIRECTOR**

**November 18, 1993**

**Ref.:SMD/SED/CIR/93/23321**

TO,  
THE PRESIDENTS/EXECUTIVE DIRECTORS  
OF ALL THE STOCK EXCHANGES

Dear sir,

**Regulation Of Transactions Between Clients And Brokers**

This has reference to SEBI's letter No.SMD/SED/2913/93 dated March 9, 1993. On receiving the comments from various stock exchanges on the norms circulated by us it has been decided that the norms as set out in the annexure

shall be made applicable to the stock brokers in all the stock exchanges. You are, therefore, hereby directed to make

necessary provisions in your Bye-laws and Regulations for the purpose. The amendments to be made to the Bye-laws

and Regulations should be forwarded to us for formal approval.

The norms are required to be made applicable in all the stock exchanges with effect from January 1, 1994 onwards.

These may be widely circulated amongst member-brokers so that they are made aware of the proposed measures.

Yours faithfully,

sd/-

C.B. BHAVE

encl: a/a

cc: Shri S.T. Gerela (SURESH B. MENON)

Officer

SEBI

Bombay

## **REGULATION OF TRANSACTIONS BETWEEN CLIENTS AND BROKERS**

1. It shall be compulsory for all Member brokers to keep the money of the clients in a separate account and their own

money in a separate account. No payment for transactions in which the Member broker is taking a position as a principal will be allowed to be made from the client's account. The above principles and the circumstances under which transfer from client's account to Member broker's account would be allowed are enumerated below.

A] Member Broker to keep Accounts: Every member broker shall keep such books of accounts, as will be necessary, to

show and distinguish in connection with his business as a member -

- i. Moneys received from or on account of each of his clients and,
- ii. the moneys received and the moneys paid on Member's own account.

B] Obligation to pay money into "clients accounts". Every member broker who holds or receives money on account of a

client shall forthwith pay such money to current or deposit account at bank to be kept in the name of the member in the

title of which the word "clients" shall appear (hereinafter referred to as "clients account"). Member broker may keep one

consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit: Provided that

when a Member broker receives a cheque or draft representing in part money belonging to the client and in part money

due to the Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down below in para D (ii).

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C] What moneys to be paid into "clients account". No money shall be paid into clients account other than -

- i. money held or received on account of clients;
- ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;
- iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;
- iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.

D] What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than -

- i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;
- ii. such money belonging to the Member as may have been paid into the client account under para 1 C [ii] or 1 C [iv] given above;
- iii. money which may by mistake or accident have been paid into such account in contravention of para C above.

E] Right to lien, set-off etc., not affected. Nothing in this para 1 shall deprive a Member broker of any recourse or right,

whether by way of lien, set-off, counter-claim charge or otherwise against moneys standing to the credit of clients account.

2. It shall be compulsory for all Member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities. Such accounts for

client's securities shall, inter-alia provide for the following:-

- a. Securities received for sale or kept pending delivery in the market;
- b. Securities fully paid for, pending delivery to clients;



- c. Securities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s);
  - d. Securities that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;
  - e. Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.;
  - f. Securities given on Vyaj-badla. Member shall obtain authorization from clients for the same.
3. Member Brokers shall make payment to their clients or deliver the securities purchased within two working days of pay-out unless the client has requested otherwise. Stock Exchange shall issue a Press Release immediately after the pay-out.
4. Member Brokers shall buy securities on behalf of client only on receipt of margin of minimum 20 percent on the price of the securities proposed to be purchased, unless the client already has an equivalent credit with the broker. Member may not, if they so desire, collect such a margin from Financial Institutions, Mutual Funds and FI's.
5. Member brokers shall sell securities on behalf of client only on receipt of a minimum margin of 20 percent on the price of securities proposed to be sold, unless the member has received the securities to be sold with valid transfer documents to his satisfaction prior to such sale. Member may not, if they so desire, collect such a margin from Financial Institutions, Mutual Funds and FI's.
6. Member brokers shall issue the contract note for purchase/sale of securities to a client within 24 hours of the execution of the contract.
7. In case of purchases on behalf of clients, Member brokers shall be at liberty to close out the transactions by selling the securities, in case the client fails to make the full payment to the Member Broker for the execution of the contract within two days of contract note having been delivered for cash shares and seven days for specified shares or before pay-in day (as fixed by Stock Exchange for the concerned settlement period), whichever is earlier; unless the client already has an equivalent credit with the Member. The loss incurred in this regard, if any, will be met from the margin money of that client.
8. In case of sales on behalf of clients, Member broker shall be at liberty to close out the contract by effecting purchases if the client fails to deliver the securities sold with valid transfer documents within 48 hours of the contract note having been delivered or before delivery day (as fixed by Stock Exchange authorities for the concerned settlement period), whichever is earlier. Loss on the transaction, if any, will be deductible from the margin money of that client.

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