

CIRCULAR

SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110

June 30, 2023

To,
Stock Brokers through recognized Stock Exchanges
Depository Participants through recognized Depositories
Clearing Members through recognized Clearing Corporations

Dear Sir/Madam,

Subject: Implementation of circular on upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)

1. SEBI, vide circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/084 dated June 08, 2023 (herein after referred to as "circular"), has specified the framework for upstreaming of clients' funds by SBs/CMs to CCs, which *inter-alia* states the following:

"As per the framework, no clients' funds shall be retained by SBs/ CMs on End of Day (EoD) basis. The clients' funds shall all be upstreamed by SB/ CMs to CCs only in the form of either cash, lien on FDR (subject to certain conditions enumerated below), or pledge of units of Mutual Fund Overnight Schemes (MFOS)."

2. Representations have been received from various stakeholders viz. MIs, stock brokers, and associations that the changes to the systems are still under progress, and that there are certain practical difficulties in implementation of the proposal framework, including around opening of bank accounts. In view of the same, while the SBs/CMs shall adhere to the basic requirement of upstreaming of clients' funds to CCs, as stated in clause 1 above, the provisions of the circular stand modified as under:

2.1. Clause 3.C.V of the circular may be read as follows:

"SBs/CMs may receive funds from clients beyond the prescribed cutoff time for upstreaming subject to the condition that there shall not be any further movement of funds from that account (i.e., a debit freeze) till the opening of upstreaming window on the next day.

Further, stock exchanges shall ensure that such funds remaining in bank accounts of SB/CM are minimal and are for legitimate purposes."

2.2. Clause 3.A.I.d of the circular may be read as follows:

“The tenor of such FDRs shall not be more than one year and one day; and the FDRs should be pre-terminable on demand.”

2.3. It is clarified that existing FDRs (created out of clients’ funds and having tenor of more than one-year) created prior to issuance of the circular shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions specified at clause 3.A.I of the circular.

2.4. The provisions of the circular stated at clause 3.C.II, 3.C.III, 3.C.V, 3.C.IX, 3.C.XI shall come into effect from September 01, 2023.

3. Stock exchanges, Clearing Corporations and Depositories are directed to bring the provisions of this circular to the notice of their members/participants and also disseminate the same on their websites.
4. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

Yours faithfully,

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