

Annexure A
FAQ on Upstreaming of Client's Funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporation (CCs)

1) In which forms the client funds can be upstreamed by SB/CM?

The client funds shall be upstreamed by SBs/CMs to CCs only in the form of either cash, lien on FDR or pledge of units of Mutual Fund Overnight Schemes (MFOS).

2) To whom the framework of upstreaming of client funds is applicable?

The framework is applicable to all SBs/CMs/non-bank Custodians. Bank-CMs (including custodians that are banks) and proprietary funds of SBs/CMs in any segment and SB's proprietary funds deposited with CM in the capacity of a client are exempt from the scope of this circular.

3) Whether the tenure of existing FDRs is required to be reduced upto one year and one day?

There is no tenure restriction of FDRs created out of proprietary funds. Existing FDRs (created out of clients' funds and having tenor of more than one-year and one day) created prior to issuance of the circular (before June 08,2023) shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions as mentioned below:

- The tenor of such FDRs shall not be more than one year and one day; and the FDRs should be pre-terminable on demand.
- SBs/ CMs may create FDRs out of clients' funds only with those banks which satisfy the CC's exposure norms as specified by SEBI or CCs from time to time.
- Every FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.
- Through this lien, CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
- The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination costs.
- SBs/CMs shall not avail any funded or non-funded banking facilities based on FDRs created out of clients' funds.

4) Is it required to wind up the existing bank guarantees (BGs) created out of client funds and placed with CCs/CMs before June 30, 2023?

As per SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061 dated April 25, 2023, all the existing BGs created out of client funds and placed with CCs/CMs shall be wound down by September 30, 2023.

5) Whether FDR can be created by SB in favour of CM including bank CM?

No. FDRs created out of client funds shall necessarily be lien-marked to one of the CCs at all times. Through this lien, the CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing FDR.

6) Can FDRs be made from multiple USCNB accounts?

Yes. Client FDRs may be created from the USCNB accounts across the multiple bank accounts.

7) In which kind of MFOS can the client funds be invested?

SBs/CMs shall ensure that client funds are invested only in such eligible MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri-party Repo Dealing and Settlement (TREPS). The list of such eligible MFOS would be published from time to time.

8) Whether the MFOS can be considered as collateral with CC/CM under Enhanced Supervision reporting?

MFOS can be included in collateral available with CC/CM for the purpose of reporting under Enhanced Supervision. Accordingly, the provision of Exchange notice no. 20220624-45 dated June 24, 2022 shall stand modified to this extent with effect from July 1, 2023.

9) Which bank accounts to be displayed on website?

Name of Bank Account, Bank Account number and IFSC of Only USCNB accounts along with following note shall be displayed on website.

“Investors are requested to note that Stock broker (name of stock broker) is permitted to receive money from investor through designated bank accounts only named as Up streaming Client Nodal Bank Account (USCNBA). Stock broker (name of stock broker) is also required to disclose these USCNB accounts to Stock Exchange. Hence, you are requested to use following USCNB accounts only for the purpose of dealings in your trading account with us. The details of these USCNB accounts are also displayed by the Stock Exchange on their website under “Member Directory”.

Accordingly, the provision of Exchange notice no. 20230127-42 dated January 27, 2023 and 20230201-5 dated February 01, 2023 shall stand modified to this extent with effect from September 1, 2023.

10) Can the member maintain FDR/MFOS that are not lien marked/pledged with CC?

FDR created out of client funds shall necessarily be lien-marked to one of the CCs at all the times. Further, SBs/CMs shall provide MFOS units as collateral to the CC. While providing the units as collateral, SBs/CMs shall identify the end clients. In order to implement the same, a pledge shall be created from the Client Nodal MFOS account to SB/CM margin pledge account of the SB/CM. SB/CM shall further repledge the same to CC using the existing pledge re-pledge mechanism.

11) Whether any client funds remaining after making FDR or investment in MFOS are required to be upstreamed?

Yes. As per Para I of Part C of the SEBI circular dated June 8, 2023 on Upstreaming of clients funds, other than the FDRs (liened to CCs) and MFOS (pledged to CCs), any remaining client funds with SBs/CMs shall be upstreamed to a CC before a stipulated cut-off time.

12) Is it mandatory to open new bank account with nomenclature "Name of the SB/CM – USCNBA" and "Name of the SB/CM – DSCNBA" or whether nomenclature of existing accounts reported as "Name of SB/CM - Client Account" can be changed? Further can member open multiple USCNBA or DSCNBA?

SBs/CMs may change the nomenclature of existing client accounts to "Name of the SB/CM – USCNBA" and/or "Name of the SB/CM – DSCNBA". All

other bank accounts named as "Name of SB/CM - Client Account" shall be closed.

Further, member may also open new bank account with nomenclature "Name of the SB/CM – USCNBA" and "Name of the SB/CM – DSCNBA. However, member can maintain USCNBA or DSCNBA up to 30 only as per the guidelines issued by the Exchange on maintenance of client bank accounts. Member shall comply the same by August 31,2023.

13) How shall member inform revised nomenclature of existing client bank accounts to the Exchange? What will be the impact of this circular on Daily Bank balance reporting, Holding Statement, and weekly cash & cash equivalent submission by member to Exchange?

Member can input “Up streaming Client Nodal Bank Account (USCNBA)” and “Down streaming Client Nodal Bank Account (DSCNBA)” for all existing client bank accounts in the existing Bank account reporting structure through the Enhance Supervision menu in BEFS portal. The detailed process for reporting of revised nomenclature of bank account has been communicated to members vide Exchange notice no. 20230623-64 dated June 23, 2023. Similarly, one more category i.e., “Client Nodal MFOS Account”, for reporting of demat account has been made available in the existing DP account reporting structure through Enhanced Supervision Menu of the BEFS portal.

Members shall not report holding lying in “Client Nodal MFOS Account" to the Exchange. Therefore, there shall not be any impact on reporting format of Holding statement submission.

Since the members shall also upstream unclaimed client funds to CC, member is required to report “0” in “CLIENT BANK ACCOUNT NO.” column of Cash & Cash equivalent submission with effect from July 01,2023.

Further, there is no change in the existing reporting format of daily bank balances to the Exchange as both “Up streaming Client Nodal Bank Account (USCNBA)” and “Down streaming Client Nodal Bank Account (DSCNBA)” bank accounts shall continue to be reported with purpose “CLIENT BANK ACCOUNT” under Bank account type column.

14) Whether requirement pertaining to running account settlement of client funds continue after implementation of this circular?

Yes. Compliance with respect to running account settlement of client funds shall continue.

15) How to treat the funds which are received after CM upstreaming cut off time?

As per Para (V) of Part C of SEBI Circular dated June 8, 2023 which has been further modified by SEBI circular dated June 30, 2023 on Upstreaming of client funds, 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. However, such funds should be received for legitimate purpose. The said provision is applicable with effect from September 1, 2023.

16) Whether the funds received by SB for OFS issues also have to be upstreamed?

Yes. All the funds received from clients by SBs shall be upstreamed to CC. These funds may also be upstreamed as EPI to CCs since OFS is 100% pre margins.

17) Can funds be retained by SB in USCNBA and directly transferred to DSCNBA in case of intraday trades? (Trades squared off on the same day)

No. All client funds received in USCNBA shall be first upstreamed to CCs through settlement account and then the same can be received back from CC to settlement account and settlement account to DSCNBA from which, funds shall be released to the client.

18) For management of FDR (creation, renewal, and maturity), which bank account (USCNBA or DSCNBA) should be utilized?

SBs/CMs may create FDRs out of clients' funds from USCNB account only. Such FDRs created out of client funds shall necessarily be lien-marked to one of the CCs at all the times. Upon encashment/maturity of the FDR, the funds shall necessarily be received in the same USCNB account.

19) For management of MFOS (subscription/redemption), which bank account (USCNBA or DSCNBA) should be utilized?

As per Para III of Part B of SEBI Circular dated June 8, 2023, SBs/CMs shall maintain a dedicated demat account (hereinafter referred to as “Client Nodal MFOS Account”) for subscription/ redemption of MFOS units. The depositories shall allow subscription/redemption transactions only in the said account.

Further, SBs/CMs shall subscribe for MFOS units out of clients’ funds from USCNB account only. Such MFOS units should be in dematerialized (demat) form and must necessarily be pledged with a CC at all times. Upon redemption of MFOS units, the funds shall necessarily be received in the same USCNB account.

20) How does the SB/CM consider / process the release requests received from the clients before the client release request cut-off time?

The release requests received from the clients before “client release request cut off time” must be processed the same day. Further, such funds received from the CC must either be paid out to the clients on the same day or upstreamed back to the CC on the same day.

21) Whether any fund movements between USCNBA and DSCNBA be allowed?

As per Para II (b) of Part C of the SEBI circular dated June 8,2023, payment to clients should be done by SBs only from DSCNBA account post receiving of funds from CC/CM same day. Therefore, no fund movements from USCNBA to DSCNBA shall be allowed. However, funds from one USCNBA can be moved to another USCNBA. Similarly, funds from one DSCNBA can be moved to another DSCNBA, and from DSCNBA to USCNBA. The aforesaid provision is applicable from September 01,2023.

22) Can one common USCNB account and one common DSCNB account be maintained across all segments (EQ, F&O & CDS)?

Yes. one common USCNB account and one common DSCNB account can be maintained across all segments.

23) Is there any restriction on the count of USCNBA and DSCNBA?

Members may have multiple USCNBA and DSCNBA; however, the count of all USCNBA and DSCNBA shall not exceed 30 bank accounts.

24) Is there any collateral benefit provided by the CCs on the up-streamed funds?

Collateral benefit shall be provided to the respective client based on the segment wise collateral allocated to the clients and reported by the Trading Member in accordance with the provisions of the SEBI Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 on "Segregation and Monitoring of Collateral at Client Level".

25) Is there any impact on maintenance of a separate client bank account maintained for keeping untraceable/unclaimed clients funds?

Funds lying in a separate client bank account maintained for keeping untraceable/unclaimed clients funds shall be upstreamed to CC.

26) What if Self Clearing Member (SCM) in Capital market segment, Trading Member (TM) in Derivative segment(s) – Can the member maintain the common USCNBA & DSCNBA or Separate for SCM & TM?

Yes, one common USCNBA and one common DSCNBA across segments may be maintained.

27) Whether the balance of the Settlement account shall be considered under Weekly Enhanced Reporting?

Balance of the Settlement account shall not be considered. Accordingly, members shall not report the same under Weekly Enhanced Reporting. Accordingly, the provision of Exchange notice no. 20220624-45 dated June 24, 2022 shall stand modified to this extent with effect from July 1, 2023. However, amount to the extent of client funds credited back to settlement account of member by CC on account of Offer for Sale (OFS) release after cut off time can be considered while reporting Enhanced supervision data to Exchange.

28) Whether the SBs/CMs are required to submit any reconciliation statement? If so, what is the periodicity?

Members shall maintain the reconciliation statement for withdrawal of client funds from CCs on a daily basis and provide the same as and when sought by the relevant authority.

29) Whether member is required to upstream the funds received from client on pay in day for the purpose of pay in obligation?

Member is not required to upstream the funds to CC which are received from clients on settlement/pay in date itself before funds pay in time against their funds pay in obligation as such funds shall be taken by CC during the settlement process against settlement obligation .e.g. if time for funds pay in to CC is 11:00 AM and client transfers funds before 11:00 AM against its funds pay in obligation to be settled today, then funds received from such client in USCNB account shall be transferred to settlement account from which CC shall take the same as part of settlement process. However, funds received which would not be needed for CC pay-in and used by member for internal settlement shall need to be upstreamed.

30) Whether member is required to upstream the funds payout received from CC before releasing it to clients?

No, funds received in form of payout from CC can directly be transferred to DSCNB account for onward transfer to clients.

31) In case of TM/CM investing in MFOS, should TM take consent of the client?

TM/CM is not required to take consent of the client.

32) What would be the impact of variable net worth computation due to SEBI circular of Upstreaming?

There is no change in the method of calculation of variable net worth by the members.

33) To which accounts will the member transfer the funds released by CC?

Sr. No.	Reason for collateral withdrawal	Transferred from settlement account to
1	CM Prop (only for PCMs)	CM Own Account
2	TM Prop (for PCMs, TCMs and SCMs)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
3	TM - Client unpaid securities obligations / MTF Obligations	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
4	TM - Loss due to sale of unpaid securities	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
5	TM - Penalties	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
6	TM - Statutory levies (STT / Stamp Duty / SEBI Turnover Fee)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
7	TM - Brokerage (including exchange transaction fee)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.
8	TM - Other charges (DP charges, etc.)	CM Own Account if it is not required to pass on to TM else CM DSCNBA to CM-TM prop account to TM own account.

9	TM - Funds to be released to client on account of regulatory requirements such as running account settlement	CM DSCNBA for onwards transfer to client if it is not required to pass on to TM else CM DSCNBA to TM DSCNBA for onwards transfer to client.
10	TM - Funds withdrawal request from client	CM DSCNBA for onwards transfer to client if it is not required to pass on to TM else CM DSCNBA to TM DSCNBA for onwards transfer to client.
11	Reconverting to another form of Collateral	DSCNBA for onward transfer to USCNBA
12	Giving to Other CC	Other CC Settlement account
13	Pay-in purpose	No action

34) In which account will the CM receive the funds of TMs (Pro) and the funds of TM clients?

CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature “Name of the CM – TM prop account” to receive/pay proprietary funds from/to stock brokers. Further, the CM should also ensure that Stock broker Prop funds are received only from “Name of Stock- Broker -Proprietary Account”.

CMs shall receive clients’ funds in USCNBA for further upstreaming it to the CC.

35) In case of receipt of payout to CM by CC for TMs (only doing Pro trades), how the fund flow will happen?

The withdrawal request/payout shall be transferred from CC to CM settlement account and from there to DSCNBA. The CM may further transfer it to “Name of the CM –TM prop account” for onward transfer to “Name of Stock-Broker -Proprietary Account”.

- 36) Is there a requirement for SBs to open USCNBA/DSCNBA if SBs are only trading and/or clearing for their prop/own trades and do not have any clients/CPs?**

No. There is no mandate to open USCNBA/DSCNBA if SBs are only trading and/or clearing for their prop/own trades and do not have any clients/CPs

- 37) Fixed Deposit created out of client's monies but could not be lien marked to CC within operating hours, would there be any implications?**

In accordance with SEBI circular dated June 8, 2023, Every FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.

- 38) For the purpose of upstreaming of clients' funds, do clients' funds mean net of brokerage / debits / charges to be recovered etc. or upstreaming is expected on Gross basis for receipt of any funds from the clients?**

All funds received from client is required to be up streamed as per SEBI circular. Further, the SBs/CMs may seek withdrawal of client funds from CCs only under scenarios as mentioned with appropriate reason code.

- 39) Do we need to allocate all the funds upstreamed to CC?**

Yes, in order to comply with SEBI Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 on "Segregation and Monitoring of Collateral at Client Level".

- 40) For FDR's created towards base capital / interest free security deposit given to CC, whether this can be placed for more than one year and one day?**

Yes, as membership deposit requirement is required to be placed out of own funds from members.

- 41) Whether the cut off prescribed by the CCs are for USCNBA or for settlement account?**

In terms of SEBI circular, the CM shall transfer to CC any time during the day but not later than the respective cut off time prescribed by the CC. Hence, CMs are required to ensure that all client funds are transferred from USCNBA to Settlement to CC before cut off time.

42) What shall be the flow of funds received in CM-TM prop account?

Proprietary funds received from the Stock Broker by the Clearing Member in the CM-TM prop account should be transferred to USCNBA for onward upstreaming to CC. Further, the CM should also ensure that proprietary funds of the Stock broker are received in the said CM – TM prop Account only from Stock broker proprietary account named as “Name of Stock Broker – Proprietary account.

43) Is the clause 2.3 of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 applicable to existing FDRs which are placed with CM by SBs (created out of client funds) and such FDRs are not placed with CC?

No. As 2.3 clause of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/110 dated June 30, 2023 is applicable only for FDRs which are placed with CCs. Therefore, CM shall not retain any FDRs which are created out of client funds and submitted by SBs to them.