

Policy for Upstreaming and Downstreaming of Client Funds

This policy defines the procedure for managing the Upstreaming and Downstreaming of client funds by Stock Brokers (SBs) and Clearing Members (CMs) to maintain compliance with SEBI regulations. The aim is to ensure secure fund handling, prevent misuse, and align with regulatory requirements. As per the SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P ICIRI2023/187 dated December 12, 2023, and subsequent circular issued by the Exchanges.

1. Scope and Applicability

- This policy applies to Stock Brokers (SBs) that also operate as Self-Clearing Members (SCMs) handling client funds. .
- Exemptions:
 - o Proprietary funds of the Stock Broker/SCM in any segment.
 - o Proprietary funds deposited with the Clearing Member in the capacity of a client.
 - o Bank-CMs and custodian entities that are banks.

2. Permissible Forms for Upstreaming Client Funds

Client funds may be up streamed to Clearing Corporations (CCs) only in the following forms:

- Cash
- Lien-marked Fixed Deposit Receipts (FDRs):

All FDRs created from client funds must be lien-marked to a CC, providing the CC precedence over other stakeholders.

Existing FDRs created from client funds must have a residual maturity of up to one year starting July 1., 2023.

- Pledged Mutual Fund Overnight Schemes (MFOS) Units:

MFOS investments must be restricted to funds deploying in risk-free government bond overnight repo markets or Tri-party Repo Dealing and Settlement (TREPS).

All MFOS units used as collateral must remain pledged to a CC.

3. Structure and Management of Bank Accounts

- SBs operating as SCMs must maintain designated bank accounts for efficient upstreaming and downstreaming transactions. The account structure should be as follows:
- **Upstreaming Client Nodal Bank Account (USCNBA):**

This account is exclusively for collecting client funds intended for upstreaming to CCs.

Transactions involving the creation of FDRs and MFOS investments must originate from this account.

- **Downstreaming Client Nodal Bank Account (DSCNBA):**

This account is dedicated to client payouts following the receipt of funds from the CC

Any residual balance in the DSCNBA at the end of the day must be transferred back to the USCNBA for further upstreaming to the CC.

- **Account Limits and Segment Sharing:**

SBs/SCMs may maintain up to 30 USCNBA and DSCNBA accounts combined, which may be used across all trading segments, including Equities (EQ), futures & Options (F&O), and Currency Derivatives (CDS).

4. Cut-off Time and Acceptance Rules for Client Funds

- All clients fund received in upstream bank account needs to be transferred to CC at 5 pm on all working days.
- Funds received post cut-off should be managed per SEBI's guidelines and may be upstreamed at the beginning of the next business day.

5. Transparency and Disclosure Requirements

- **Website Disclosure:**

SBs/SCMs must display details of all USCNBA accounts on their websites, including bank names, account numbers, and IFSC codes.

- A clear note should be added, advising clients to transfer funds only to these designated USCNBA accounts and to verify them through the "Know Your Stock Broker" section on the Stock Exchange's website.

- **Exchange Reporting:**

SBs/SCMs must submit account details to the Exchange and label the USCNBA and DSCNBA accounts accurately per SEBI and NSE requirements.

6. Processing of Client Fund Release Requests

- **Release Request Handling:**

Client release requests received before the cut-off time (i.e. 4.30 pm) must be processed on the same day.

Funds received from CCs for these requests should either be paid to clients on the same day or re-upstreamed to CCs by day's end, ensuring compliance with SEBI's standards.

7. Policy Review, Updates, and Continuous Improvement .

- **Annual Review:**

This policy shall be reviewed annually, or as required, in response to regulatory changes from SEBI or NSE that impact upstreaming practices.

- **Regulatory Updates:**

The policy will be promptly updated to reflect any new SEBI or Exchange directives, ensuring the SB/SCM remains in full compliance.