

National Stock Exchange Of India Limited**Department : Inspection**

Download Ref No: NSE/INSP/47278

Date : February 09, 2021

Circular Ref. No: 07/2021

To All Trading Members,

Sub: Financing of securities transactions

This has reference to the SEBI circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 and Exchange circular No. NSE/INSP/45072 dated July 21, 2020, on the subject “Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments” wherein members were required to report the peak margin collected during the day from each client with effect from December 01, 2020.

In this regard, attention of the trading members is drawn to Exchange’s circular no. NSE/INSP/6938 dated December 09, 2005 wherein Trading members were advised not to indulge in practice of financing the Securities Transactions. Further members were also advised to desist from acting as a conduit or front for financing any secondary market transactions entered by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing. Further, attention is also drawn to SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 which states that clients’ securities lying with the TM/CM cannot be pledged to the Banks/NBFCs for raising funds, even with authorization by client as the same would amount to fund based activity by TM/CM which is in contravention of Rule 8(1)(f) & 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.

Recently it has come to the notice of the Exchange that in order to fund the peak margin requirement of the clients, members have entered into arrangement with NBFCs for facilitating loan/credit facilities to the clients by NBFCs. Such financing arrangements are in violation of the SCRA/SEBI guidelines. In view of the same, members are again advised to ensure the following:

- Trading members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group or associate company, to fund any secondary market transactions or margin requirements in respect of transactions executed by the trading members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered into by the trading members’ clients with any person.

- Trading members shall not entertain any instructions to trade in securities or transfer funds or securities, from any entity other than the clients, by prior arrangement or otherwise to facilitate financing of clients' transactions or margin requirements in respect of the transactions. Any financing arrangement with a general authorization by the clients are not permitted.
- Trading members shall not otherwise finance or act as a conduit or front for financing any secondary market transactions or margin requirements in respect of the transactions entered into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.

All members are advised to take note of the same and comply.

**For and on behalf of
National Stock Exchange of India Limited**

**Subhankar Chowdhury
Senior Manager-Inspection**

In case of any clarifications, Members may contact our below offices:

Regional Office	E MAIL ID
Ahmedabad (ARO)	inspectionahm@nse.co.in
Chennai (CRO)	inspection_cro@nse.co.in
Delhi (DRO)	delhi_inspection@nse.co.in
Kolkata (KRO)	inspection_kolkata@nse.co.in
Mumbai(WRO)	compliance_wro@nse.co.in
Central Help Desk	compliance_assistance@nse.co.in