

# National Stock Exchange of India Limited

## Circular

DEPARTMENT: INSPECTION	
Download Ref No: NSE/INSP/57250	Date: June 22, 2023
Circular Ref. No: 58/2023	

To All Members,

**Sub: FAQ on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)**

This has reference to the SEBI Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 08, 2023, and Exchange circular NSE/INSP/57041 dated June 09, 2023, on "Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)".

Based on representations received from Members, Exchange is pleased to issue guidelines/ clarifications on the subject in the form of frequently asked questions (FAQs). The FAQs are enclosed as **Annexure-A** for your reference.

All Members are advised to take note of the contents of the circular and comply.

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

**Jayalakshmi Iyer**  
**Chief Manager**

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

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## 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?**

Yes. The residual maturity of existing FDRs would need to be upto one year from July 1, 2023.

**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?**

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.

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

SBs/CMs shall ensure that client funds are invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Tri-party Repo Dealing and Settlement (TREPS).

### 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 Circular NSE/INSP/52724 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 Stock Exchanges on their website under “Know/ Locate your Stock Broker.”*

Accordingly, the provision of Exchange Circular NSE/INSP/55402 dated January 27, 2023 shall stand modified to this extent with effect from July 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.

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**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 – USC NBA" and "Name of the SB/CM – DSC NBA" or whether nomenclature of existing accounts reported as "Name of SB/CM - Client Account" can be changed? Further can member open multiple USC NBA or DSC NBA?**

SBs/CMs may change the nomenclature of existing client accounts to "Name of the SB/CM – USC NBA" and/or "Name of the SB/CM – DSC NBA". 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 – USC NBA" and "Name of the SB/CM – DSC NBA". However, member can maintain USC NBA or DSC NBA up to 30 only as per the guidelines issued by the Exchange on maintenance of client bank accounts.

**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 shall be allowed to input "Up streaming Client Nodal Bank Account (USC NBA)" and "Down streaming Client Nodal Bank Account (DSC NBA)" for all existing client bank accounts in a separate column in the existing Bank account reporting structure through the Inspection module of the Member portal. The detailed process for reporting of revised nomenclature of bank account shall be communicated to members through a separate circular. Similarly, one more category i.e., "Client Nodal MFOS Account", for reporting of demat account shall be made available in the existing DP account reporting structure through the Inspection module of the Member 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 shall report 0 in "CLIENT BANK ACCOUNT NO." column of Cash & Cash equivalent submission.

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 (USC NBA)" and "Down streaming

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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 on Upstreaming of client funds, SB/CM shall not accept any fresh client funds from 30 minutes before SB upstreaming cut off time.

**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) What time can broker start receiving the funds from clients on next day?**

It is reiterated that as per para (V) of Part C of SEBI Circular dated June 8, 2023 on Upstreaming of client funds, the SBs shall not accept any fresh client funds from 30 minutes before the SB upstreaming cut off time. Thereafter, SBs shall accept funds from the clients next day from the beginning of the day.

**18) 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.

**19) 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

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encashment/maturity of the FDR, the funds shall necessarily be received in the same USCNB account.

**20) 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.

**21) 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.

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

As per Para II (a) of Part C of SEBI Circular dated June 08, 2023 on Upstreaming of Clients’ funds, SB/CM shall receive clients’ funds in USCNBA for further upstreaming to the CCs. Further Para II (b) of Part C of the said Circular prescribes that payment to clients should be done by SBs only from DSCNBA account post receiving of funds from CC/CM same day. Any balance left in the account post cutoff time should be transferred by SBs to USCNBA for further upstreaming it to the CCs. 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.

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

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

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**24) 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.

**25) Is there any collateral benefit provided by NCL 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".

**26) How to deal with funds received from clients post upstreaming cut off time.**

As per Para V of Part C of SEBI Circular dated June 8, 2023, SBs shall not accept any fresh client funds from 30 minutes before the SB upstreaming cut-off time.

**27) 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.

**28) 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.

**29) Since, there shall be no balance in USCNB / DSCNB accounts, whether the balance of the Settlement account shall be considered under Weekly Enhanced Reporting?**

As per the upstreaming framework, no client funds shall be retained by SBs/CMs on End of Day (EOD) basis. All client funds received in USCNB accounts shall be upstreamed to CCs. In view of the same, balance of the Settlement account shall not be considered and hence, members shall not report the same under Weekly Enhanced Reporting. Accordingly, the provision of Exchange Circular NSE/INSP/52724 dated June 24, 2022 shall stand modified to this extent with effect from July 1, 2023.



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**30) 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.