

## National Stock Exchange of India

### Circular

Department: Investigation	
Download Ref No: NSE/INVG/56395	Date: April 17, 2023
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**To All NSE Members**

#### **Sub: Modification of Client Codes (All Segments) - Update**

This is with reference to SEBI circular dated CIR/DNPD/6/2011 dated July 5, 2011 and further to Exchange Circulars - NSE/INVG/2011/18484 dated July 29, 2011, NSE/INVG/2011/18716 dated August 26, 2011, NSE/INVG/24045 dated July 31, 2013, NSE/SURV/27878 dated October 21, 2014, NSE/INVG/31729 dated February 12, 2016, NSE/INVG/35398 dated July 19, 2017, NSE/INVG/41356 dated June 20, 2019, NSE/INVG/41459 dated June 28, 2019, NSE/INVG/42106 dated September 11, 2019, regarding modification of Client Codes of Non-Institutional Trades.

With an objective to reduce order entry mistakes and to discourage client code modifications, levy of penalty in all cases of client code modification as applicable was considered appropriate and accordingly a penalty structure was implemented.

The framework for Client Code Modification monitoring and penalty is as under:

**1. Penalty on Client Code Modification where either original code or modified client code is non-institutional client category:**

1.1 As per Exchange circulars - NSE/INVG/2011/18484 dated July 29, 2011, NSE/INVG/2011/18716 dated August 26, 2011, and NSE/INVG/35398 dated July 19, 2017, any client code modification from a non-institutional client category to non-institutional / institutional client category shall be subject to penalty. Further, client code modification from an institutional client category to non-institutional client category shall be subject to penalty.

1.2 The following penalty structure will be applicable:

<b>“a” as % of “b”</b>	<b>Penalty as % of “a”</b>
≤ 5	1
> 5	2

Where:

**“a”** = Value (turnover) of non-institutional trades where client codes have been modified by a trading member in a segment during a calendar month.

**“b”** = Value (turnover) of non-institutional trades of the trading member in the segment during the calendar month.

**2. Designated ERROR account**

2.1 As per Exchange circular - NSE/INVG/2011/18716 dated August 26, 2011, Trading members would be required to disclose the client codes which are classified as ‘Error Accounts’ to the Exchange at the time of UCC upload.

2.2 It is proposed to standardize the naming convention of the designated error account. The naming convention w.r.t classification of Error Accounts by the Trading Member will be as under:

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- 2.2.1 The client code of the designated error account should have the nomenclature as “ERROR” or “ERROR%” where % is a number.
- 2.2.2 The name of the designated error account should have the nomenclature as “TM Name - Error Account”.
- 2.3 In cases where the trading member fails to maintain a single active designated “ERROR” account, a penalty of Rs. 10,000 per month of violation will be applicable. Further, after 3 months disciplinary action shall be initiated.
- 3. Modification to ERROR client code category and Liquidation of trades transferred to ERROR account.**
- 3.1 As per Exchange circular - NSE/INVG/2011/18716 dated August 26, 2011, shifting of any trade (institutional or non-institutional) to the error account of the trading member shall not be treated as modification of client code provided the positions arising out of trades in error account are subsequently liquidated / closed out in the market and not shifted to some other client code.
- 3.2 Trading Members will be provided with a timeline of 3 working days (including the day of trade) to square off / liquidate their trades flowing into error account. In case trades / open positions are not liquidated or squared off within the prescribed time limit, a penalty as prescribed in para 1.2 would be applicable. This timeline is subject to availability of liquidity in the scrip/contract. In case the liquidity is not sufficient, the Trading Member should approach the Exchange within one trading day if sufficient liquidity is not available at the Exchange. The square off / liquidation must be done at the earliest. The decision of the Exchange on the question of “Availability of liquidity” will be final and binding.

- 3.3 In case from the ERROR account, modification is done to some other client code, a penalty at the rate of 2% of traded value will be levied. In case of such repeated instances, in addition to the penalty levied further disciplinary action as deemed fit would be initiated.
  - 3.4 Exchange will periodically review the trades flowing to “error accounts” of the brokers. For suspicious or unusual modifications observed, suitable disciplinary action would be initiated.
  - 3.5 Trading Members are required to implement internal controls to minimize the instance of modifications into Error account to avoid disciplinary action proceedings from the Exchange. Internal controls implemented by brokers will be checked as a part of Inspection.
4. In addition to the above, client code modifications wherein both the two client codes (original code and modified code) are of institutional category the framework for monitoring and penalty will be as under:
  - 4.1 Modification between client codes of two entities which are of the institutional category will be allowed only if the modification from both client codes is from different schemes / sub-accounts of / managed by the same Institution. Such modifications shall not be subject to penalty. For FPIs, the group will be considered as uploaded by Members under the facility of “FPI Client Mapping – File Upload” as provided in “16.5 OTR allocation for Foreign Portfolio Investor (FPI)” under “Part B” of circular “NCL/CMPT/50876 dated January 03, 2022”.
  - 4.2 With respect to trades settled through DVP mechanism, Trading Members would need to report the name of entities to whom the trades were settled. The original client would be the client in whose client code the trades were executed, and the modified client code will be the PAN in whose name trades were settled through DVP mechanism. In the event that, the

Exchange finds that modified client code is not of / managed by the same institution, penalty shall be levied.

- 4.3 Any modification between two client codes which are of institutional category and do not satisfy the criteria mentioned in para 4.1 above i.e., modification between two unrelated institutional clients will be subject to penalty.

For 4.2 and 4.3, the applicable penalty on such modifications will be computed as below:

<b>“a” as % of “b”</b>	<b>Penalty as % of “a”</b>
≤ 5	1
> 5	2

Where:

**“a”** = Value (turnover) of institutional trades where client codes (unrelated institutional clients) have been modified by a trading member in a segment during a calendar month.

**“b”** = Value (turnover) of institutional trades of the trading member in the segment during a calendar month.

## 5. Reasons for client code modification and error trades.

- 5.1 As per Exchange circular - NSE/INVG/41459 dated June 28, 2019, and NSE/INVG/42106 dated September 11, 2019, Trading members would be required to provide the reasons for client code modification and error trades.

- 5.2 The facility of providing the reasons based on objective criteria have been provided in ENIT portal at:  
Compliance => Client Code Modification => Client Code Modification Reason

- 5.3 The reason for modification is mapped as following:

Reason Code	Description
0	Modified to Error
1	Error due to communication or Punching / Typing Error such that the original client code / name and the modified client code / name are similar to each other
2	Modification with Relatives (as per Companies Act, 2013)
3	Allocation to related schemes / sub-accounts

## 6. Frequent Client Code Modifications.

- 6.1 In addition to the penalty levied as stated above, Exchange shall undertake disciplinary actions as deemed fit in terms of Rules, Byelaws and Regulations of the Exchange against Trading Members who undertake frequent client code modifications.
- 6.2 For para 6.1, such instances of client code modification mentioned below shall not be considered while computing the frequency of client code modifications.
- 6.2.1 Modification to ERROR account which is liquidated within 3 working days.
- 6.2.2 Modification between two client codes which are of institutional client category and belong to same group as specified in para 4.1 above.

## 7. Procedure of waiver of penalty

- 7.1 With reference to Exchange Circular - NSE / INVG / 2011 / 18484 dated July 29, 2011, the following will be classified as genuine errors for the purpose of client code modification:

- 7.1.1 Error due to communication and / or punching or typing such that the original client code / name and the modified client code / name are similar to each other.
  - 7.1.2 Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013).
- 7.2 Subject to the reasons mentioned above, Trading Members may kindly note that the request for waiver of penalty along with reasons and relevant supporting documents should be submitted to the Exchange within a period of 3 calendar months from the date of levy of penalty failing which request for waiver shall not be accepted.

Trading members are required to take note of the same and take adequate precautions while placing the orders.

The provisions of the circular shall be effective from June 01, 2023.

In case of any clarification, members may contact Mr. Ashish Tiwari or Mr. Sareesh Koroth on +91 22-26598417 / 18.

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

**Bireshwar Chatterjee  
Vice President**