



CIRCULAR

SEBI/HO/CDMRD/DMP/CIR/P/2016/73

August 19, 2016

To,

The Managing Directors / Chief Executive Officers
of All Commodity Derivatives Exchanges

Dear Sir / Madam,

Sub: Modification of Client Codes post Execution of Trades on National and Regional Commodity Derivatives Exchanges– Clarification

1. This circular is in reference to the SEBI circular No. [SEBI/HO/CDMRD/DMP/CIR/P/2016/43](#) dated March 29, 2016 on the captioned subject. In connection with the directives issued under the said circular, following clarifications are issued:
 - (i) **Classification of genuine errors:** The following shall be classified as genuine errors for the purpose of client code modification:-
 - a. 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.
 - b. Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013)
 - (ii) **Error Account:**
 - a. Shifting of trades to the 'Error account' of broker would not be treated as modification of client code, provided that trades in 'Error account' are subsequently liquidated in the market and not shifted to some other code.
 - b. Further, broker shall disclose the codes of accounts which are classified as 'Error accounts' to the Exchanges. Each broker should have a well-documented error policy approved by the management of the broker. Exchanges shall periodically review the trades flowing to the error accounts of the brokers.



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Securities and Exchange Board of India

2. The above clarifications and earlier norms prescribed by SEBI vide Circular dated March 29, 2016 with regard to client code modifications are consolidated and placed as Annexure-A.
3. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
4. This circular is available on SEBI website at www.sebi.gov.in under the category "Circulars" and "Info for Commodity Derivatives".

Yours faithfully,

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Annexure-A

1. Exchanges may allow modifications of client codes of non-institutional trades only to rectify a genuine error in entry of client code at the time of placing/ modifying the related order in all segments.
2. For this purpose the following shall be classified as genuine errors:
 - a. 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.
 - b. Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013)
3. **Error Account:**
 - a. Shifting of trades to the 'Error account' of broker would not be treated as modification of client code, provided that trades in 'Error account' are subsequently liquidated in the market and not shifted to some other code.
 - b. Further, broker shall disclose the codes of accounts which are classified as 'Error accounts' to the Exchanges. Each broker should have a well-documented error policy approved by the management of the broker. Exchanges shall periodically review the trades flowing to the error accounts of the brokers.
4. If Exchange wishes to allow trading members to modify client codes of non-institutional trades, it shall
 - a. lay down strict objective criteria (in line with the Para '2' above), with the approval of its Governing Board, for identification of genuine errors in client codes which may be modified, and disclose the same to market in advance,
 - b. set up a mechanism to monitor that the trading members modify client codes only as per the strict objective criteria, and
 - c. ensure that modification of client codes is covered in the internal audit of trading members.
 - d. shall not allow proprietary trades to be modified as client trades and vice versa.



- e. shall levy a penalty and collect from trading members and credit the same to its Investor Protection Fund as under:

'a' as % of 'b'	Penalty as % of 'a'
≤ 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 month.

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

- f. shall undertake stringent disciplinary actions against brokers who undertake frequent client code modifications. If 'a' as % of 'b', as defined above, exceeds 1% during a month, then the Stock Exchange shall conduct a special inspection of the trading member to ascertain whether the modifications of client codes are being carried on as per the strict objective criteria set by the Stock Exchange. Appropriate disciplinary action shall be taken by the Exchange, if any deficiency is observed.

5. Waiver of Penalty

- a. Exchanges may waive penalty for a client code modification where broker is able to produce evidence to the satisfaction of the exchange to establish that the modification was on account of a genuine error. However, not more than one such waiver per quarter may be given to a broker for modification in a client code.

Explanation: If penalty waiver has been given with regard to a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the stock broker in the quarter for modifications related to client codes AB and BA.

- b. Exchanges shall submit a report to SEBI every quarter regarding all such client code modifications where penalties have been waived.