

Consultation paper on “Review of variable net worth for stock brokers”

1. As part of comprehensive risk management framework and to protect the interest of investors by aligning the net worth requirement with the operational risk being taken by the stock broker (“broker”) with respect to its clients, the concept of variable net worth was introduced vide SEBI (Stock Brokers) (Amendment) Regulations, 2022. As per the said amendment, variable net worth was specified as 10% of average daily cash balance of clients retained with the broker across segments/exchanges in the previous 6 months.
2. However, with the introduction of upstreaming framework mandating that clients’ funds shall be up-streamed by broker to clearing members/clearing corporations, there is minimal amount of cash balance of clients which is retained by broker. Consequently, calculation of variable net worth of the brokers based on availability of funds with them may not be an effective way of calculating variable net worth. Accordingly, a need was felt to revisit the existing method for calculation of variable net worth of brokers.
3. In order to ensure consultative approach, a Working Group (“WG”) was constituted (consisting of NSE, BSE and Broker Associations), to provide recommendations on an effective and relevant method for calculation of variable net worth. Based on the report of the WG and subsequent internal deliberations, a draft circular containing the proposed method for calculation of variable net worth is placed at **Annexure** for public comments. The comments/suggestions should be submitted latest by **May 15, 2026**, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>
4. In case of any technical issue in submitting your comment through web based public comments form, you may write to consultationMIRSD@sebi.gov.in with the subject "Consultation paper on review of variable net worth for Stock Brokers".

Issued on: April 24, 2026

DRAFT CIRCULAR**SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2026/****DD-MM-YYYY****To,****All recognized Stock Exchanges****All Stock Brokers**

Madam / Sir,

Sub: Review of variable net worth for Stock Brokers

1. SEBI introduced the concept of variable net worth for stock brokers ("brokers"), vide (Stock Brokers) (Amendment) Regulations, 2022. In accordance with the said amendment, brokers were required to maintain net worth as higher of base net worth or variable net worth. For this purpose, variable net worth was specified as 10% of average daily cash balance of clients retained with the broker across segments/exchanges in the previous 6 months.
2. However, with the introduction of upstreaming framework under which clients' funds are up-streamed by broker to Clearing Corporations, there is minimal amount of cash balance of clients which is retained by a stock broker. In view of the same, the calculation of variable net worth based on availability of funds with stock broker may not be effective way of calculating variable net worth.
3. In light of net worth being considered as second line of defence (first being margin) wherein sufficient capital is needed to cover the risk that is not covered by margins, it is imperative that the second line of defence should be strengthened by making the net worth requirement commensurate with the size and risks of operations of a broker in terms of aggregate clients' funds with broker, number of direct active clients as well as number of clients through Authorised Persons ("AP").
4. Accordingly, as part of comprehensive risk management framework and to protect the interest of investors as well as to ensure that the brokers serving large number of direct clients as well as clients through APs shall have large financial cushion to

absorb losses or other unforeseen circumstances, it has been decided to prescribe variable net worth, as an aggregate of the following parameters:

4.1. Average credit balance: 10% of average credit balance of all clients of previous six months across segments/exchanges.

4.2. Number of Active clients:

(i) **Direct clients:** Rs. 50 lakhs, if the broker has more than 10,000 and up to 50,000 active clients and further Rs. 50 lakhs for every additional 50,000 active clients (or part thereof). The count of clients shall be across all segments across exchanges and shall not include clients through APs.

(ii) **Clients through APs:** Rs. 5 lakhs for up to 2,500 clients, Rs 25 lakhs for more than 2,500 and up to 10,000 clients and Rs 50 lakhs for every subsequent 10,000 active clients (or part thereof), across all segments across exchanges.

5. The provisions of this circular shall come into effect from DD-MM-YYYY.

6. Stock Exchanges are directed to:

6.1. bring the provisions of this circular to the notice of their members / participants and also disseminate the same on their websites;

6.2. make necessary amendments to the relevant Bye-laws, Rules and Regulations for the implementation of the above decision;

7. This circular is issued in exercise of powers conferred under Section 11(1) of Chapter IV of the Securities and Exchange Board of India Act, 1992 read with Regulation 50 of Chapter VII of SEBI (Stock Brokers) Regulations, 2026 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

8. This circular is available on SEBI website at www.sebi.gov.in under the category: 'Legal → Circulars'.