

CHAPTER 2 – MEMBERSHIP COMPLIANCE

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ITEM No.1: MEMBERSHIP ELIGIBILITY REQUIREMENTS**A. ELIGIBILITY REQUIREMENTS**

- (1) The following persons shall be eligible to become Clearing Members of the Clearing Corporation:
- a) Individuals;
 - b) Registered Firms;
 - c) Limited Liability Partnership;
 - d) Bodies corporate;
 - e) Companies as defined in the Companies Act, 1956;
 - f) Companies as defined in the Companies Act, 2013;
 - g) Trusts registered or recognised under any Act; and
 - h) Any Scheduled Commercial Banks or Scheduled Co-operative Banks authorised by Reserve Bank of India to participate in the relevant market as prescribed by it.
- (2) No person shall be admitted as a Clearing Member of the Clearing Corporation if such proposed member:
- a) is an individual who has not completed 21 years of age;
 - b) has been adjudged bankrupt or a receiving order in bankruptcy has been made against the person or the person has been proved to be insolvent even though he has obtained his final discharge;
 - c) has compounded with his creditors for less than full discharge of debts;
 - d) has been convicted of an offence involving a fraud or dishonesty;
 - e) is a body corporate which has committed any act which renders it liable to be wound up under the provisions of the law;
 - f) is a body corporate which has had a provisional liquidator or receiver or official liquidator appointed to the person;
 - g) has been at any time expelled or declared a defaulter by any other stock exchange or clearing corporation;
 - h) has been previously refused admission to Clearing Membership of the Clearing Corporation unless the period of one year has elapsed since the date of rejection.
- (3) No Limited Liability Partnership shall be eligible to be admitted to the clearing membership of the Clearing Corporation unless:
- a) The Limited Liability Partnership is formed and registered under the Limited Liability Partnership Act, 2008.
 - b) The Limited Liability Partnership complies with the conditions of Rule 8(6) of the Securities Contract (Regulation) Rules, 1957 pertaining to Limited Liability Partnership.
- (4) Additional Eligibility Criteria - No person shall be eligible to be admitted to the Clearing Membership of the Clearing Corporation unless the person satisfies such additional eligibility criteria as the Board or relevant authority may prescribe from time to time for different classes of Clearing Members and clearing segments;

Provided however that the relevant authority may waive compliance with any or all of the admission conditions and at its discretion waive the requirements set out as above, if it is of the opinion that the person seeking admission is considered by the relevant authority to be otherwise qualified to be admitted as a Clearing Member by reason of his means, position, integrity, knowledge and experience of business in securities.

B. TYPES OF MEMBERSHIP

1. Self Clearing Member (SCM): This category of membership entitles a member to execute trades and to clear and settle the trades executed on his own account as well as on account of his clients
2. Clearing Member (CM): This category of membership entitles a member to execute trades on his own account as well as on account of his clients and to clear and settle trades executed by themselves as well as by other trading members who choose to use clearing services of the member.
3. Professional Clearing Member (PCM): This category of membership entitles a member to clear and settle trades of such members of the Exchange who choose to clear and settle their trades through this member.

C. ADMISSION PROCESS

1. Any person desirous of becoming a Clearing Member shall apply to the Clearing Corporation for admission to the Clearing Membership of the relevant segment of the Clearing Corporation. Every application shall be dealt with by the relevant authority who shall be entitled to admit or reject such applications at its discretion.
2. The application for admission of Clearing Members to each segment shall be made in such formats as may be specified by the relevant authority from time to time.
3. The application shall have to be submitted along with such fees, security deposit and other monies in such form and in such manner as may be specified by the relevant authority from time to time.
4. The applicant shall have to furnish such declarations, undertakings, certificates, confirmations and such other documents or papers as may be specified from time to time by the relevant authority.
5. The relevant authority shall have the right to call upon the applicant to pay such fees or deposit such additional security in cash or kind, deposit or contribution to Core Settlement Guarantee Fund and any other fund that may be maintained by the Clearing Corporation from time to time, to furnish any additional guarantee or to require contribution to computerisation fund, training fund or fee, if any, as the relevant authority may prescribe from time to time.
6. The relevant authority may provisionally admit the applicant to Clearing Membership provided that the applicant satisfies the eligibility conditions and other procedures and requirements of application subject to such terms and conditions as may be specified by the relevant authority. Upon the relevant authority being satisfied that all other terms and conditions and other requirements for the Clearing Membership have been complied with, the applicant may be admitted as a Clearing Member. The granting of provisional membership shall not entitle the applicant to any privileges and rights of Clearing Membership.
7. The relevant authority may at its absolute discretion reject any application for admission without communicating the reason thereof.
8. If for any reason the application is rejected, the application fee or admission fee if any as the case may be or part thereof as may be decided by the relevant authority may at its discretion be refunded to the applicant, without any interest.
9. The relevant authority may at any time from the date of admission to the Clearing Membership of the Clearing Corporation withdraw the admission and expel a Clearing Member if he has in or at the time of his application for admission to membership or during the course of the inquiry made by the relevant authority preceding his admission:
 - a) made any willful misrepresentation; or
 - b) suppressed any material information required of him as to his character and antecedents; or

- c) has directly or indirectly given false particulars or information or made a false declaration
10. a) The membership admission does not confer any ownership right as a member of the Clearing Corporation and shall not be transferable or transmittable except as here in mentioned.
- b) Subject to such terms and conditions as the relevant authority may prescribe from time to time and to the prior written approval of the relevant authority, transfer of the Clearing Membership, may be effected as follows:
 - i. by making nomination under these Rules
 - ii. by an amalgamation or merger of a Clearing Member company
 - iii. by takeover of a Clearing Member company
 - iv. by transfer of the Clearing Membership of a Clearing Member firm to a new firm, in which, all the existing partners are not partners; and
 - v. by two or more Clearing Members / Clearing Member firms coming together to form a new partnership firm/company.
 - c) A Clearing Member or his successor(s) may make a nomination to Clearing Membership. The nomination(s) made by a Clearing Member or successor(s) of a Clearing Member shall be subject to the following conditions, namely:
 - i. The nominee(s) shall, at the time when the nomination becomes effective, be person(s) who shall be qualified to be admitted as Clearing Member(s) of the Clearing Corporation.
 - ii. The nominee(s) shall give to the relevant authority his/their unconditional and irrevocable acceptance of his/their nomination.
 - iii. A Clearing Member shall nominate one or more of his successor(s) as per the applicable succession laws. If the Clearing Member has no successor(s) willing to carry on the Clearing Membership, then the Clearing Member may nominate person(s) other than his successor(s);
 - iv. If the Clearing Member has not nominated any person and is rendered incompetent to carry on his business on the Clearing Corporation on account of physical disability, then the Clearing Member may, within a period of six months, make a nomination as per the provisions of sub-clause (iii) above.
 - v. If the Clearing member has not nominated any person, the successor(s) of the Clearing Member may nominate one or more persons from among themselves within six months from the date of the death of the Clearing Member.
 - vi. If the nomination of the Clearing Member is such that it cannot be given effect to by the relevant authority, at the time when the nomination would have become effective, then the successor(s) of such a Clearing Member may nominate any other person(s) within six months from the date on which the nomination would have become effective.
 - vii. If more than one person(s) are nominated by the Clearing Member or the successor(s), then such nominated person(s) shall be required to form a company to carry on the Clearing Membership;
 - viii. A nomination made by a Clearing Member or successor(s) may be revoked with the prior written approval of the relevant authority and subject to such terms and conditions as the relevant authority may prescribe from time to time. No such revocation shall be permitted after the nomination becomes effective and
 - ix. The nomination shall become effective in the case of a nomination made by a Clearing Member, from the date of his death or physical disability or from the date of approval by the relevant authority, whichever is later and in the case of a nomination made by successor(s), from the date on which such nomination is made or from the date of approval by the relevant authority, whichever is later.

The Admission Process, Eligibility Criteria and Deposits and Networth requirement is available at the link:
<https://www.nsclindia.com/admission-process>

- d) The relevant authority may permit the transfer of Clearing Membership in the following circumstances: -
- (i) death of a Clearing Member.
 - (ii) if in the opinion of the relevant authority, the Clearing Member is rendered incompetent to carry on his business on the Clearing Corporation on account of physical disability.
 - (iii) upon amalgamation or merger of a Clearing Member company.
 - (iv) upon takeover of a Clearing Member company; and
 - (v) upon the death of or resignation or notice of dissolution by a partner of a Clearing Member firm, and re-alignment, if any, by the partners in such firm or by the partners in such firm and the nominee(s)/successor(s) of the outgoing partner or by the partners in such firm and person(s) other than the nominee(s)/successor(s) of the outgoing partner in a new firm, within a period of six months from the date of such death or resignation or notice of dissolution.

The process/requirement for merger/amalgamation membership transfer is available at the link:
<https://www.nsclindia.com/membership/ongoing-membership-compliances-other-documents>

D. TERMINATION OF MEMBERSHIP

- (1) Any Clearing Member may cease to be a member, if one or more apply:
 - (a) by resignation.
 - (b) by death.
 - (c) by expulsion in accordance with the provisions contained in the Bye Laws, Rules and regulations.
 - (d) by being declared a defaulter in accordance with the Bye Laws, Rules and Regulations of the Clearing Corporation.
 - (e) by dissolution in case of partnership firm.
 - (f) by winding up or dissolution in the case of a limited company.

(1A) Notwithstanding anything contained in the Byelaws and Rules of Clearing Corporation, a clearing member shall ipso facto cease to be clearing member of the Clearing Corporation, on cessation of his membership/ trading membership on one or more stock exchanges in accordance with the provisions contained in the Byelaws, Rules and Regulations of such stock exchange(s) and in such cases, such clearing member shall not be entitled for any opportunity of being heard or explanation in such an event.

(2) The termination of Clearing Membership shall not in any way absolve the Clearing Member from any obligations and liabilities incurred by the Clearing Member prior to such termination.

E. SURRENDER OF MEMBERSHIP

(1) A Clearing Member who intends to resign from the Clearing Membership of the Clearing Corporation shall intimate to the Clearing Corporation a written notice to that effect.

(2) Any Clearing Member of the Clearing Corporation objecting to any such resignation shall communicate the grounds of his objection to the relevant authority by letter within such period as may be specified by the relevant authority from time to time.

(3) The relevant authority may accept the resignation of a Clearing Member either unconditionally or on such conditions as it may think fit or may refuse to accept such resignation and in particular may refuse to accept such resignation until it is satisfied that all outstanding transactions with such Clearing Member have been settled.

(4) A non-defaulting Clearing Member may resign unconditionally within a period of 30 calendar days in the circumstances specified in explanation 2 to Bye Law 8 of Chapter XII of NCL Bye-Laws after making additional contribution as required by Clearing Corporation to Core Settlement Guarantee Fund. In such resignation cases, the provisions of clause (2)

above shall not be applicable.

(5) The resignation under clause (4) above shall be subject to fulfillment of the following conditions:

- a) The non-defaulting Clearing Member has closed out/settled outstanding positions
- b) The non-defaulting Clearing Member has paid the capped additional contribution to the Clearing Corporation
- c) The non-defaulting Clearing Member has paid outstanding dues to SEBI

The document format for Surrender of Membership is available at the link : <https://www.nscclindia.com/membership/surrender-of-membership>

Further, as provided in Circular Ref No. NCL/CMPL/61314 dated March 26, 2024, in case of receipt of application for surrender of membership received on or after April 01, 2024, following would be the process of refund of membership deposits.

- In case of Clearing Member clearing for other Trading Members or CP Codes (across segments) during the previous 3 years from the date of application for surrender:

On approval of application for surrender of Clearing Members registration by SEBI, the CC shall release Deposits of the Clearing Member (engaged in Clearing for other Trading Members or CP Codes) after the lock in period mentioned at point a) or b), whichever is earlier:

- (a) Three years from the date of receipt of surrender application by CC from the Clearing Member, or
- (b) Five years from the date of disablement of Clearing Membership

- In case of Self Clearing Member (across segments) during the previous 3 years from the date of application for surrender:

On approval of application for surrender of Self Clearing Member's registration by SEBI, the Clearing Corporation shall release Deposit of the Clearing Member after the lock in period mentioned at point a) or b), whichever is earlier:

- (a) one year from the date of receipt of surrender application by CC from the Self Clearing Member, or
- (b) three years from the date of disablement of Self Clearing Membership

Members are requested to note the following points:

- 1) The Clearing member will have to maintain Rs. 1,00,000/- in cash with NSE Clearing Limited and balance deposit shall be substituted in the form of FDRs
- 2) The deposit of the clearing member will be directly remitted to its Clearing Bank and the clearing Bank will issue FDRs in lieu of the said deposits lien marked to NSE Clearing Limited in denomination of Rs. 5,00,000/- or below
- 3) The FDRs shall be in custody of NCL
- 4) On completion of lock-in period instructions shall be provided to the bank by NCL for releasing the FDRs along with lien removal letters, post receipt of NOC from NCL internal departments.
- 5) The lock-in of deposits shall be applicable only for Cash Deposits (IFSD) remitted by the members.
- 6) In case of segmental surrender of membership with NCL, there shall be no lock-in of deposits.

Members are hereby directed make the applications for member admission/surrender to NCL at membership@nsccl.co.in

The formats are available on NCL website at link under the section “MEMEBRSHIP”

ITEM No.2: CONTINUED ADMITTANCE REQUIREMENTS**A. DEPOSITS AND NET WORTH REQUIREMENTS**

- (1) All Members are required to ensure that the conditions and requirements for continued admittance to membership, prescribed from time to time, including maintenance of minimum net-worth and capital adequacy are adhered to. The clearing membership of any person who fails to meet these requirements shall be liable to be terminated.
- (2) The Deposits and the net-worth requirements for each category of Membership is specified at <https://www.nscclindia.com/membership/fees-deposits--networth-requirements>
- (3) Trading members / Clearing members of the Exchange/NCL are required to maintain net worth as prescribed by the Exchange/ NCL at all points of time as per the continuing membership norms of the Exchange/NCL.
- (4) As per Regulation 9 of SEBI (Stockbrokers) Regulations, 1992 and the continuing membership norms of the Exchange/CC, all Members are required to maintain the prescribed minimum net-worth all times and submit the Net- worth certificate on a half yearly basis to the Exchange.
- (5) Member shall be required to submit the half yearly net-worth within 2 months from the end of the respective half year i.e. for the Half year ending March, the due date shall be May 31st and for the Half year ending September, the due date shall be November 30th.
- (6) As per NCL Circular Ref No. NCL/CMPL/57386 dated June 30, 2023, the Net-worth is required to be computed as per the method of computation specified by Dr. L.C. Gupta Committee Report.
- (7) Revised Base Net worth for various classes of members as per SEBI Gazette Notification No. SEBI/LADNRO/GN/2022/73 dated February 23, 2022, is as under:

| Type of Member_ | Base Network {within 2 years of the date of notification of the Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2022} (in ₹) | Variable Network {within 1 year of the date of notification of the Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2022} # |
|------------------------------|--|--|
| Self-Clearing Member | 5 crore | 10% of average daily cash balance of clients retained with the member across segments/ exchanges in the previous 6 months |
| Clearing Member | 15 crore | - |
| Professional Clearing Member | 50 crore | - |

The Member should ensure that its Base Network / Variable Network (whichever is higher) is maintained throughout the year.

ITEM No 3: CC APPROVALS

A. CHANGE IN SHAREHOLDING / PROFIT SHARING PATTERN/CHANGE IN CONTROL

All Members of the Clearing Corporation are required to seek prior approval of both SEBI and CC in case of any change in shareholding, with change in control and prior approval of the CC in case of any change in shareholding without change in control.

Accordingly, with effect from April 1, 2024, an approval is required to be obtained from the Clearing Corporation for any change in shareholding, with change in control and prior approval of the Clearing Corporation in case of any change in shareholding without change in control.

A.1. Submission of list of Promoters, Non-Promoters/Partners:

- i. Members will be required to submit shareholding/ sharing pattern and list of promoters, non-promoters, partners at the time of seeking prior approval and through periodical submissions as may be sought from time to time.
- ii. Members will provide a list of promoters, non-promoters, partners along with their interest, if any (shareholding/ partnership share) in the stock broking/Clearing entity. The promoters can be identified as under:

| Constitution | Details |
|----------------------------------|--|
| Corporate (Listed entity) | <p>The promoter shall be as per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.</p> <p>Regulation 2 (oo) “promoter” shall include a person:</p> <p>i) who has been named as such in a draft offer document or offer document or is identified by the issuer in the annual return referred to in section 92 of the Companies Act, 2013; or</p> <p>ii) who has control ¹ over the affairs of the issuer, directly or indirectly whether as a shareholder, director or otherwise; or</p> <p>iii) in accordance with whose advice, directions, or instructions the board of directors of the issuer is accustomed to act.</p> <p>Provided that nothing in sub-clause (iii) shall apply to a person who is acting merely in a professional capacity.</p> <p>Provided further that a financial institution, scheduled commercial bank, foreign portfolio investor other than Category III foreign portfolio investor, mutual fund, venture capital fund, alternative investment fund, foreign venture capital investor, insurance company registered with the Insurance Regulatory and Development Authority of India or</p> |

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| | |
|---------------------------------------|--|
| | <p>any other category as specified by the Board from time to time, shall not be deemed to be a promoter merely by virtue of the fact that twenty per cent or more of the equity share capital of the issuer is held by such person unless such person satisfy other requirements prescribed under these regulations;</p> <p>¹ Control as defined under SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 2011 Further, persons having controlling interest in the entity in terms of SEBI (Stock Broker) Regulations shall also be treated as promoters.</p> |
| Corporate (Unlisted) | <p>The promoter shall be as per Section 2(69) of Companies Act, 2013</p> <p>“promoter” means a person—</p> <ul style="list-style-type: none"> a) who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or b) who has control¹ over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or c) in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act <p>Provided that nothing in clause (c) shall apply to a person who is acting merely in a professional capacity;</p> <p>¹Control as defined under SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 2011</p> <p>Further, persons having controlling interest in the entity in terms of SEBI (Stock Broker) Regulations 1992 shall also be treated as promoters.</p> |
| Partnership Firms/LLP | All partners |
| Individual/Sole Proprietorship | Individual /sole Proprietor |

A.2. CHANGE IN CONTROL

As per Regulation 9 (c) of SEBI (Stock Brokers) Regulations, 1992, one of the conditions of registration is that Members have to obtain prior approval of the SEBI for any change in control. SEBI circular CIR/MIRSD/2/2011 dated June 03, 2011, CIR/MIRSD/14/2011 dated August 02, 2011, SEBI/HO/MIRSD/ MIRSD-PoD- 2/P/CIR/2022/163 dated November 28, 2022, requires all Members of the CC to take prior approval of SEBI and CC for any change in control. Additionally, with effect from April 1, 2024, member are also required to obtain prior approval of the Clearing Corporation for any change in control.

A.2.1. The following scenarios will amount to change in control:

| Sr. No. | Change in Control scenarios | Whether required | Approval |
|---------|---|--|----------------|
| 1 | Any change in the promoters/partners resulting in change in control of the member as defined in SEBI (Stockbrokers) Regulations, 1992 ² & SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 2011 (SAST) ³ | NOC from, Corporation & Approval of SEBI | Clearing Prior |
| 2 | Change in legal formation or ownership w.r.t Partnership/ LLP/ individual members | NOC from, Corporation & Approval of SEBI | Clearing Prior |

² **SEBI (Stock Brokers) Regulations, 1992 ("SB Regs") defines "change in control" as under:**

(ac) "change in control" –

(i) in case of a body corporate –

(A) if its shares are listed on any recognised stock exchange, shall be construed with reference to the definition of control in terms of regulations framed under clause (h) of sub-section (2) of section 11 of the Act;

(B) in any other case, shall be construed as change in the controlling interest in the body corporate;

Explanation:

For the purpose of para (B) of this sub-clause, the expression "controlling interest" means an interest, whether direct or indirect, to the extent of at least fifty-one percent of voting rights in the body corporate.

(ii) in a case other than that of a body corporate, shall be construed as any change in its legal formation or ownership.

³SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 2011 (SAST) defines "control" as under:

"Control" includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert⁴, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

⁴ Persons Acting in concert shall have the same meaning as defined under 2 (q) of Chapter I of SEBI (SAST) Regulations, 2011

A.2.2. Exception to the aforementioned rule for change in control

In view of the SEBI circular Ref No. SEBI/HO/MIRSD/DOR/CIR/P/2021/42 dated March 25, 2021, in the following the scenarios the change in shareholding will not be construed as change in control and hence SEBI prior approval shall not be required:

- In case of unlisted body corporate
 - Transfer of shareholding among immediate relatives (as defined under Regulation 2(l) of SEBI (SAST) Regulations.
 - Transfer of shareholding by way of transmission.
- In case of partnership firm
 - Transfer of interest amongst the partners.
 - Transfer of interest by way of transmission to a legal heir of a deceased partner provided the same is mentioned in partnership deed.

A.2.3. Ultimate Beneficiary Owner (UBO) Identification

In accordance with the provisions of Prevention of Money Laundering Act (PMLA) and SEBI circular CIR/MIRSD/2/2013 dated January 24, 2013, the beneficial owner shall be identified as per below criteria:

- i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company; or
- ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
- iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.
- iv. In case of a trust, the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust.
- v. In case of non-individuals except listed entities, details of the immediate promoter / partner and the Ultimate Beneficial Owner should be provided.

A.2.4. Exceptions where UBO is/are not to be identified:

- i. Where the client or the owner of the controlling interest is a company listed on a stock exchange or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of ultimate beneficial owner of such companies.
- ii. If in the opinion of the CC, it is evident that the identification of promoters/promoter group is not practically possible in terms of the aforesaid norms, then the CC, at its sole discretion, reserves the right on deciding on identification of promoters/promoter group by adding certain conditions, if required.

- iii. Where all the promoters in a Scheduled Bank or any Financial Institution registered with or regulated by any regulatory authority such as RBI, SEBI, IRDA, PFRDA or as decided by the CC from time to time.
- iv. Where all the promoters are central/state government owned financial institutions

A.2.5. Scheme of arrangement which require sanction of the National Company Law Tribunal ("NCLT") involving change in control

- i. The application seeking approval for the proposed change in control of the intermediary shall be filed with SEBI prior to filing the application with NCLT.
- ii. Upon being satisfied with compliance of the applicable regulatory requirements, an in-principle approval will be granted by SEBI.
- iii. The validity of such in-principle approval shall be three months from the date issuance, within which the relevant application shall be made to NCLT.
- iv. Within 15 days from the date of order of NCLT, the intermediary shall submit an online application along with the following documents to SEBI for final approval:
 - a. Copy of the NCLT Order approving the scheme;
 - b. Copy of the approved scheme;
 - c. Statement explaining modifications, if any, in the approved scheme vis-à-vis the draft scheme and the reasons for the same; and
 - d. Details of compliance with the conditions/ observations, if any, mentioned in the in-principle approval provided by SEBI.

A.2.6. Other Important points:

- i. Promoters shall meet the condition of fit and proper person similar to the criteria envisaged in the SEBI (Intermediaries) Regulations, 2008 and being applied to intermediaries seeking registration from SEBI.
- ii. Members shall provide reasons for any change in shareholding of promoter (member entity, holding company, corporate promoter etc.); whether or not constituting change in control
- iii. Promoters who are foreign investors' viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, may be guided by the clarifications issued vide SEBI circular CIR/MIRSD/11/2012 dated September 5, 2012, for the purpose of identification of beneficial ownership of the client.
- iv. Foreign citizens/nationals cannot be identified as dominant promoter
- v. Foreign entities are allowed to become promoter/part of promoter group of an existing/new clearing member provided they meet the relevant guidelines and they also need to comply with FIPB norms/RBI norms and any other requirements of the CC/SEBI as may be applicable from time to time.

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- vi. The promoting foreign entities shall hold, directly or indirectly and individually or collectively not less than 51 % of the controlling stake in the applicant company proposing to take the trading membership of the Exchange/Clearing membership of NCL.
 - vii. The identified foreign entities have to comply with any of the following norms and identification of Ultimate Promoter will not be required:
 - a) The promoting foreign entity or any of its holding company/subsidiary should be either a bank or insurance company regulated by the Central Bank or such other relevant regulatory authority of that respective country and has a network of at least Rs. 50 Crores.
 - b) The promoting foreign entity or any of its holding company/subsidiary should be broking house/participant in the securities market that is registered or regulated by the relevant regulatory authority of that respective country and that the relevant authority should be a member of International Organization of Securities Commission (IOSCO). The promoting foreign entity should have network of at least Rs. 50 Crores.
 - c) The promoting foreign entity or any of its holding company/subsidiary should be Government owned Finance and/or Development Institution and has a network of at least Rs. 50 Crores.
 - d) The promoting foreign entity or any of its holding company/subsidiary should be Pension fund, Sovereign Wealth Fund, Broad Based Investment Fund which are registered or regulated by relevant regulatory authority of that respective country or specifically exempt from such registration. Pension fund, Sovereign Wealth Fund or broad-based investment fund should have minimum of USD 50 million Asset Under Management (AUM). The ultimate fund needs to be a large fund having AUM of at least USD 200 million and the direct investing fund/scheme having AUM of USD 50 million.
 - e) The promoting foreign entity is one whose domestic arm or subsidiary is registered with or regulated by any regulatory authority such as RBI, SEBI, IRDA, PFRDA or as decided by the CC from time to time and has a network of at least Rs. 50 Crores.
 - viii. The nominated list of promoters may or may not be holding any shareholding/partnership interest in entity
 - ix. Members are required to obtain prior approval of the Clearing Corporation for any change in shareholding pattern and change in composition of Promoter Group of Member entity:

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- a) In case of change in ultimate beneficial owner of Corporate Promoter / Holding Company/ Ultimate Holding Company the same needs to be intimated to the CC, if such changes do not lead to change in control. In case such changes results in change in control of the member entity (directly or indirectly), the same would require prior approval from Clearing Corporation & SEBI.
- b) In case of unlisted entity, if there is a change in less than 2% shareholding in promoter/ non- promoter group, then only intimation will be required to be done to Clearing Corporation.
- c) In case of Member being a listed company, or corporate shareholder being listed, it is not required to take prior approval for any changes in non- promoter holdings or for changes in holdings of promoter group, if it does not lead to change in control. However, Members are required to inform about such changes to the Clearing Corporation on quarterly basis to the membership department. In any case, any change leading to change in control would require prior approval from the Clearing Corporation & SEBI.

B. TRANSFER OF BUSINESS BY SEBI REGISTERED INTERMEDIARIES TO OTHER LEGAL ENTITY

- B.1.** As per SEBI circular CIR/MIRSD/2/2011 dated June 03, 2011, Members shall be required to seek prior approval of the CC in case of any amalgamation, demerger, consolidation, or any kind of corporate restructuring falling within the Companies Act, 2013 or the corresponding provision of any other law for the time being in force. In addition to the same, w.e.f. April 1, 2024, Clearing members are required to obtain prior approval from Clearing Corporation for transfer of business.
- B.2.** SEBI vide its circular Ref no. SEBI/HO/MIRSD/DOR/CIR/P/2021/46 dated March 26, 2021, has issued the following clarifications with respect to transfer of business/membership by SEBI registered intermediaries to other legal entity: -
- i. The transferee shall obtain fresh registration from SEBI in the same capacity before the transfer of business if it is not registered with SEBI in the same capacity. SEBI shall issue new registration number to transferee different from transferor's registration number in the following scenario:

"Business is transferred through regulatory process (pursuant to merger / amalgamation / corporate restructuring by way of order of primary regulator /govt/ NCLT, etc) or non-regulatory process (as per private agreement /MOU pursuant to commercial dealing / private arrangement) irrespective of transferor continues to exist or ceases to exist after the said transfer."
 - ii. In case of change in control pursuant to both regulatory process and non-regulatory process, prior approval and fresh registration shall be obtained. While granting fresh registration to same legal entity pursuant to change in control, same registration number shall be retained.
 - iii. If the transferor ceases to exist, its certificate of registration shall be surrendered.
 - iv. In case of complete transfer of business by transferor, it shall surrender its certificate of registration.
 - v. In case of partial transfer of business by transferor, it can continue to hold certificate of registration.

In case any of the aforementioned arrangement results in transfer of control, prior approval of SEBI shall also be sought.

The process/ requirement is available at the link:
<https://www.nscclindia.com/membership/ongoing-membership-compliances-other-documents>

C. CHANGE IN DIRECTORS

C.1. SEBI circular CIR/MIRSD/2/2011 dated June 03, 2011, requires all Members to seek prior approval of the CC for change in Directors. In addition to the same w.e.f. April 1, 2024, prior approval of the Clearing Corporation shall be required for change in Directors.

C.2. Eligibility requirements of Designated Directors: -

- i) There shall be atleast 2 Designated Directors in a Corporate Member who would be managing its day-to-day operations
- ii) Minimum age of designated director(s) shall be 21 years
- iii) Each of the Designated Directors should be at least HSC or equivalent qualification
- iv) Each of the Designated Directors should have a minimum of 2 years' experience in an activity related to dealing in securities or as portfolio manager or as investment consultant or as a merchant banker or in financial services or treasury, broker, sub broker, authorised agent or authorised clerk or authorised representative or remisier or apprentice to a member of a recognised stock exchange, dealer, jobber, market maker, investor/client or in any other manner in dealing in securities or clearing and settlement thereof.
- v) All Directors of the Member shall meet the condition of fit and proper person like the criteria envisaged in the SEBI (Intermediaries) Regulations, 2008
- vi) The directors are not disqualified for being members of a stock exchange under clause (1) of rule 8 of SCRR [except sub-clauses (b) and (f) thereof] or clause (3) of rule 8 of SCRR [except sub-clauses (a) and (f) thereof] of the Securities Contracts (Regulation) Rules, 1957 and the directors had not held the offices of the directors in any company which had been a member of the stock exchange and had been declared defaulter or expelled by the stock exchange/ceased by CC.

D. CHANGE IN NAME OF CLEARING MEMBERS

- D.1.** With effect from April 1, 2024, members are required to obtain prior approval from the Clearing Corporation for change in name.
- D.2.** Members are requested to note that change in the name of the Trading Member/Clearing Member by addition/deletion of word 'Private' would be tantamount to change in status or constitution as laid down under Securities and Exchange Board of India (Stock brokers), 1992. Accordingly, Members are required to seek prior approval of the Exchange/CC applying with documents listed under Stage 1. Exchange shall in turn seek prior approval of SEBI and communicate approval to the Members. On receipt of approval from the Exchange, Member may go ahead with requisite formalities with the Registrar of Companies and submit Stage 2 documents to the Exchange/CC for incorporating name change in the SEBI Registration Certificate(s).
- D.3.** The name of Member should reflect the registration held by the entity and should not in any way create an impression of performing a role for which the entity is not registered. Members are advised to ensure that their name and the name of their registered Authorized Person should not contain such words unless these entities have registered themselves in that capacity with SEBI/other regulators.

E. APPLICATION FOR ADDITIONAL SEGMENT MEMBERSHIP/CHANGE IN CATEGORY OF CLEARING MEMBERSHIP OF THE CLEARING CORPORATION.

In case a registered Member opts for membership in an additional segment of the Clearing Corporation/Change in Category from Self Clearing to Clearing or vice versa, Member can apply to the Clearing Corporation for registration in the Category/Segment as per formats available on the NCL website.

F. UPGRADATION OF MEMBERSHIP

- F.1.** Clearing Members desirous of upgrading their membership from individual or partnership firm to a corporate etc. should take note of the following:
- A request has to be sent by the Member of the scheme of upgradation and the proposed shareholding/profit sharing pattern of the upgraded entity
 - In case of an upgradation from individual to corporate, the individual should hold at least 51% of the paid-up capital of the proposed corporate.
 - In case of an upgradation from partnership firm to corporate, the original partners should hold at least 51% of the paid-up capital of the proposed corporate.
 - There should be at least 2 qualified designated directors/designated partners, as the case may be, who should have at least HSC or equivalent qualification with minimum 2 years' experience in stock broking related activities.
 - In case of upgradation to corporate, the proposed corporate should have a

minimum paid up capital of Rs. 30 lakhs and meet the net worth requirements of the CC from time to time.

- After the upgradation is approved, the Member will have to pay the differential deposits as applicable to corporate Members.

G. APPOINTMENT OF COMPLIANCE OFFICER

- G.1. As per Regulation 18A of Chapter IV of SEBI (Stock-Broker) regulation, 1992 all Members are required to appoint a Compliance Officer. Members are required to submit the details of appointment/change in Compliance officer to the CC

G.2. GUIDELINES ON COMPLIANCE OFFICERS

As per Regulation 18A of SEBI (Stockbroker) Regulation, 1992, all registered Members of the CC are required to appoint a Compliance Officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by SEBI or Central Government or CCs for redressal of investors' grievances. The Compliance Officer is required to immediately and independently report to SEBI/CCs any non-compliance observed by him.

Further, as per the current regulatory requirement, compliance officers are required to clear the NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination, within one year from the date of their employment, in terms of Gazette of India notification dated March 11, 2013, issued by SEBI. The certification is valid for a period of 3 years. The recertification can be undertaken either by clearing the NISM exam or attending the CPE program of NISM. Currently there are no guidelines prescribed by SEBI/CC w.r.t the eligibility of compliance officers, tenure, and their continued suitability on an ongoing basis.

In order to have a robust compliance system, Members should have an effective compliance culture and a strong compliance risk management programme. The Compliance Officer plays an important role in facilitating compliance by promoting strong regulatory practices that ensure risk management, investor protection and market integrity. Hence, the Compliance Officer should be selected through a suitable process with an appropriate 'fit and proper' evaluation/selection criteria to manage the compliance risk effectively. In this regard, the following guidelines are proposed:

Applicability:

The below mentioned guidelines are applicable to the employee designated as Compliance officer:

- Eligibility criteria for appointment of Compliance Officers:

a) Educational qualification: An individual shall be eligible to be appointed as

Compliance Officer if he/she has passed graduation or an equivalent examination from a Government recognized institution. All the existing Compliance Officer of Members on record of the CC having experience of 2 years or more shall be exempted from the above- mentioned criteria for educational qualification.

b) Experience: At the time of appointment, the candidate should at least have 2 years of prior work experience in banking or financial services, handling Audit/Finance/Compliance/ Legal/Operations/Risk Management functions.
Continuation Sheet

c) Skills: The eligible candidate should have good understanding of securities market industry, risk management, knowledge of regulations, legal framework and regulatory expectations.

- **Certification Requirement:**

a) Compliance officers shall be required to pass the NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination within 1 year from the date of employment in terms of SEBI notification dated March 11, 2013. The Compliance Officer shall ensure that the certification is renewed before the completion of its validity, as per the procedure specified by NISM, from time to time.

b) In order to ensure that the Compliance Officer is well informed of all relevant laws and amendments thereof, it is essential that there should be a continuing education program for him/her. In this regard, Members shall impart half-yearly training to their compliance officers which will cover subject-wise key regulatory requirements and regulatory changes made in the last six months.

- **Tenure:**

Members shall ensure that any transfer / removal of Compliance Officer is done with explicit prior approval of the Board/ Partners as the case may be and, after following a well-defined and transparent internal administrative procedure and reasons be recorded in writing. In case of any change in Compliance Officer due to any reasons beyond the control of the Member such as death, resignation etc., Members are required to intimate the CC within 7 working days of such a change. In case of such unforeseen change, the Compliance Officer should be appointed within three months from the date of death/resignation of the erstwhile Compliance Officer and confirm the same to the CC. Notwithstanding the above, the office of the Compliance Officer shall not remain vacant for more than 15 calendar days. In the event of resignation/demise etc. Member should appoint an interim Compliance Officer till such time a regular Compliance Officer is appointed within 3 months from the date of vacation of office.

- **Due diligence requirements:** Members shall ensure that the person appointed as Compliance Officer is “fit and proper” in terms of Schedule II of SEBI Intermediaries Regulations, 2008.

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- **Familiarization program:** Members shall provide half yearly compliance training program to all the compliance officers including newly appointed officials. It will be mandatory to attend the said program. Individuals who have served as compliance officers for more than a year and have joined another Member in the same capacity, shall be excluded from the aforesaid program. The training content will include all compliance requirements with respect to trading, Clearing/settlement, inspections, Membership compliance, investor grievance redressal mechanism, surveillance related compliance requirements.
 - **Authority:** The Compliance Officer shall have the ability to independently exercise judgement in all matters of compliance and regulations. The Compliance Officer should have the freedom and sufficient authority to interact with regulators/supervisors directly and ensure compliance. In addition, he/she shall have the necessary authority to communicate with any staff member and have access to all records or files that are necessary to carry out entrusted responsibilities in respect of the compliance issues. It should be ensured that the Compliance Officer or any staff of his office is not assigned any responsibility which brings elements of conflict of interest, especially any role relating to business development/sales. The Compliance Officer shall under no circumstances act in such a dual capacity.
 - **Action by CC:** The CC shall also reserve the right to seek necessary explanations from the Compliance Officer or record his/her statements in terms of the relevant rules/regulations of the CC and initiate suitable disciplinary action against him/her including debarment or directing the Member for removal, if he/she is found to have failed to carry out his/her responsibilities in a reasonable manner. All actions shall be initiated by the CC, after following due process and providing an opportunity of hearing to the Member /Compliance officer.

H. **GUIDELINES FOR SEEKING NOC BY CLEARING MEMBERS FOR SETTING UP WHOLLY OWNED SUBSIDIARIES, STEP DOWN SUBSIDIARIES, JOINT VENTURES IN GIFT IFSC**

SEBI vide Circular ref. no. SEBI/HO/MIRSD/DoR/P/CIR/2022/61 dated May 13, 2022 issued guidelines for granting NOCs for setting up Wholly Owned Subsidiaries, Step Down Subsidiaries, Joint Ventures, etc. in GIFT IFSC.

Stock Brokers and Clearing Members shall apply through a Stock Exchange where the applicant is a member, along with the required information, documents and NOC received from all Stock Exchanges/Clearing Corporations/Depositories in which the applicant is a member/participant. The format of the application is provided at Annexure A of the said SEBI Circular.

Submission of application at NCL

The members are required to submit the below documents along with the documents prescribed by SEBI (Annexure A of SEBI circular) to obtain NOC:

1. Request Letter addressed to CC on the letter head of the member
 2. Board Resolution
 3. Status Report of Stock Exchanges where applicant is a member.
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Members are hereby directed to comply with the above membership processes, on-going compliances, and corresponding documentation with respect to NCL membership and make application to NCL at membership@nsccl.co.in

The formats are available on NCL website at below mentioned link, under the section “Ongoing Membership Compliances & Other Documents” Tab:

<https://www.nscclindia.com/membership/ongoing-membership-compliances-other-documents>

ITEM No.4: MANDATORY SUBMISSIONS

A. SUBMISSION OF HALF YEARLY NET-WORTH CERTIFICATE

1.1. As per Regulation 9 of SEBI (Stockbrokers) Regulations, 1992 and the continuing membership norms of the Exchange/CC, all Members are required to maintain the prescribed minimum net worth at all times and submit the Net-worth certificate on a half yearly basis to the Exchange/CC. Networth requirement as stated in SEBI Gazette Notification No. SEBI/LAD-NRO/GN/2022/73 dated February 23, 2022 would be applicable to the members. Members may also be guided by Circular No. NCL/CMPL/55460 dated February 1, 2023 with respect to Clarification to Gazette Notification of SEBI (Stock Brokers) (Amendment) Regulations, 2022.

1.2. Member shall be required to submit the half yearly net worth within 2 months from the end of the respective half year i.e., for the Half year ending March, the due date shall be May 31st and for the Half year ending September, the due date shall be November 30th. Circular NCL/CMPL/57386 dated June 30, 2023, stipulates the disciplinary action in case of Net worth shortfall and non-submission of Net worth. The details are as under:

a. Action for reporting shortfall in Net worth

| ACTION FOR REPORTING SHORTFALL IN NETWORTH | |
|---|--|
| For Trading members and Trading cum Self-clearing members | <p>Requirement: In case of a Net Worth shortfall as on 31st March / 30th September, Members shall be required to mandatorily submit a revised certificate (as on a later date) along with the submission, meeting the minimum net worth requirement.</p> <p>Action in case of shortfall and failure to submit revised certificate with adequate Net worth: Member's trading rights shall be immediately disabled within 2 working days from the date of submission, in all segments of the Exchange.</p> |

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|---|--|
| For Trading cum Clearing members | <p><u>Requirement:</u> In case of a Net Worth shortfall as on 31st March / 30th September, Members shall be required to mandatorily submit a revised certificate (as on a later date) along with the submission, meeting the minimum net worth requirement.</p> <p><u>Action in case of shortfall and failure to submit revised certificate with adequate Net worth:</u></p> <p>A. <u>In the capacity of Trading Member</u></p> <p>Member's trading rights shall be immediately disabled within 2 working days in all segments of the Exchange.</p> <p>B. <u>In the capacity of Clearing Member</u></p> <p>One-month notice to be given to recoup the Net worth and submit the revised Net worth, failing which the following action shall be initiated:</p> <ul style="list-style-type: none"> • Total deposits shall be blocked in accordance to % of shortfall as given in Section C below. No Exposure shall be permitted on such blocked deposit • Restriction on onboarding new Trading Members. • 2-months' notice to be given to the TMs affiliated with the Clearing member to associate with another Clearing member. |
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| For PCM | <p><u>Requirement:</u> In case of a Net Worth shortfall as on 31st March / 30th September, Members shall be required to mandatorily submit a revised certificate (as on a later date) along with the submission, meeting the minimum net worth requirement.</p> <p><u>Action in case of shortfall and failure to submit revised certificate with adequate Net worth:</u></p> <p>One-month notice to be given to recoup the Net worth and submit the revised Net worth. Upon failure:</p> <ul style="list-style-type: none"> • Total deposits shall be blocked in accordance to % of shortfall (See note-1 below). No Exposure shall be permitted on such blocked deposit • Restriction on onboarding new Trading Members. • 2-months' notice to be given to the TMs affiliated with the Clearing member to associate with another Clearing member. |
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| Members providing Margin Trading Facility | <p>Requirement: In case of a Net Worth shortfall as on 31st March / 30th September, Members shall be required to mandatorily submit on ENIT, a revised certificate (as on a later date) along with the submission, meeting the minimum net worth requirement.</p> <p>Action in case of shortfall and failure to submit revised certificate with adequate Net worth: Immediate withdrawal of Margin Trading facility within 2 working days from the date of submission.</p> |
|---|--|

Note-1:

| Category | Deposit to be blocked |
|--|---|
| Net worth shortfall less than or equal to 10% of the prescribed minimum | 10% of Total Deposits (cash and collateral) |
| Net worth shortfall less than or equal to 20% of the prescribed minimum. | 25% of Total Deposits (cash and collateral) |
| Net worth shortfall less than or equal to 50% of the prescribed minimum | 50% of Total Deposits (cash and collateral) |
| Net worth shortfall greater than 50% | 90% of Total Deposits (cash and collateral) |

b. Action for non-submission of Net worth

| ACTION FOR NON-SUBMISSION | |
|--|--|
| For Trading members and Trading cum Self-clearing members | Immediate disablement within two working days from the date of submission, in case of non-submission of Net worth within 2 months from the end of the half year |
| For Trading cum Clearing member | <p>The following actions shall be taken on immediate basis if the Net worth is not submitted within 2 months from the end of the half year.</p> <p>A. <u>In the capacity of Trading Member</u></p> <p>Member's trading rights shall be immediately disabled in all segments of the Exchange.</p> <p>B. <u>In the capacity of Clearing Member</u></p> <ul style="list-style-type: none"> 90% of Clearing deposits shall be blocked. No Exposure shall be permitted on such blocked deposit Prohibition on onboarding new Trading Members. <p>2-month's notice to be given to the TMs affiliated with the Clearing member to associate with another Clearing member.</p> |
| For PCM | <p>The following actions shall be taken on immediate basis w.e.f. the following working day post the due date.</p> <ul style="list-style-type: none"> 90% Total deposits shall be blocked Restriction on onboarding new Trading Members. <p>2-months' notice to be given to the TMs affiliated with the Clearing member to associate with another Clearing member.</p> |

1.3. As per Circular NCL/CMPL/57386 dated June 30, 2023, the Net worth is required to be computed as per the method of computation specified by Dr. L.C. Gupta Committee Report.

1.4 The half yearly Net worth certificate is required to be submitted through ENIT.

SUBMISSION OF ANNUAL RETURNS

All Clearing Members are required to submit Annual Returns i.e. Audited Balance sheet, Profit & Loss Account, details in respect of Shareholding, Directors, Net-worth Certificate etc. for the financial year ending on 31st March on or before October 31 of the subsequent financial year or such due date as may be specified from time to time. The annual returns shall be submitted through the ENIT portal (<https://enit.nseindia.com/MemberPortal/>). Members may be further guided by the circulars issued by the Exchange on Submission of Annual Return from time to time.