To,
Customers, RMs, Dealers, Sub-brokers,
Account Opening & RMS team

Please refer to the SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. Owing to this circular, sweeping changes will be seen in the way a broking company operates. In this letter, we have attempted to explain the changes brought in by SEBI, the way new system will operate and its impact on the client.

1. Regulation related to **exposure limits for debit customers**:

Clause No. 2.6 (pg no: 9) of the above circular states as below:

> *"Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in."*

Owing to the above clause, we will not be able to give any limit to customers if the debit continues beyond fifth day of pay-in (effectively T+7) even if the customer has sufficient margin by the way of huge collaterals or securities in the pool. It is important to understand that no further exposure also means that intra-day trades as well as delivery based buying cannot be allowed. Any violation of the above clause will attract severe penalties and hence we will be following the regulation strictly.

Understanding the actual working:
Table I

Ledger = BSE CM + NSE CM + NSE FO + NSE CDS					
Day		**Narration**	**Debit**	**Credit**	**Running Balance**
Monday	T	Delivery based buy of Rs. 500000	500000	0	500000 Dr
Tuesday	T+1	Delivery base sell of Rs. 200000 and buying of Rs 202500	2500	0	502500 Dr
Wednesday	T+2	NSE FO M2M	0	50000	452500 Dr
Thursday	T+3	Cheque receipt	0	60000	392500 Dr
Friday	T+4	• Suppose client has not entered into any transaction • Limits will be available but need to compulsorily square-off or make payment of Rs 190000. • Computation of the amount marked for compulsory square-off : **Rs 500000 debit of T day** **Less Rs 200000 delivery based sell on T+1** **Less Rs 50000 MtoM credit in NSE FO on T+2** **Less Rs 60000 Cheque received** **Rs 500000 – (Rs 200000 + Rs 50000 + Rs 60000) = 190000 Dr**			
Saturday	-	-			
Sunday	-	-			
Monday	T+5	Only Intraday and delivery based selling limit available			
Tuesday	T+6	Only Intraday and delivery based selling limit available			
Wednesday	T+7	No further exposure until debit gets cleared. Only delivery based selling limit available.			

So one needs to sell stock worth Rs 190000 or deposit cheque of equivalent amount to avoid locking from Monday i.e. T+5.

2. Regulation related to **monitoring of Clients' Funds lying with the Stock Broker by the Stock Exchanges**

Page 11 point 3.3.1 of the circular states as follows:

"Principle:
The total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C) maintenance of balance in Clients' Account."

Where C is: (page no: 10 – C)

"C - Aggregate value of Credit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)"

Let us understand this regulation using notional data:

Table II

	Case 1	**Case 2**
Total of client credit balance	15 Crore	20 Crore
Total of client debit balance	(20 Crore)	(15 Crore)
Net Balance	(5 Crore)	5 Crore

Till now, in case I, broker's client account can have zero balance and there will not be violation of any SEBI norm. Whereas in case II, it was necessary to have minimum balance of Rs 5 cr in client's account to avoid violating SEBI regulation.

Post implementation of this circular, in first case, broker will need to have at least Rs 15 cr in client's account whereas in second scenario, broker will need to maintain at least Rs 20 cr in client's account (subject to adjustment as per other clauses).

It can be seen that cost of doing business will shoot up drastically owing to the higher interest burden that a broker will need to bear.

Due to this reason, delayed payment charges will be levied @ 18% for all the customers who are having qualifying debit balance as shown in the table I. We are afraid that this delayed payment charges may not cover the cost and hence we may have to start charging them from T+2 going forward.

CRMs will be able to see the debit qualifying for compulsory square-off in the web login. It is not available on mobile app and customer logins. We plan to shortly make this available for customers on the web as well as mobile app and for CRMs on app.

We believe that the steps taken by SEBI are good for long term health of the market and makes capital market safer. As this regulation brings drastic changes in the back end software and the system, we seek your co-operation for smooth transition.

Regards,

R Wadiwala Securities Private Limited

P.S: Please note that we the above mentioned changes will come into effect from 25th Dec 2016.