

CONSULTATION PAPER ON SETTLEMENT AND RISK MANAGEMENT- FOR PUBLIC COMMENTS

Measures for ease of doing business for MIs- " Modifications to Master Circular for Stock Exchanges and Clearing Corporations, Master Circular for Commodity Derivatives Segment on 'Settlement' and 'Risk Management'

THE BACKGROUND AND OBJECTIVE

1.1 This consultation paper is the fifth and last part in the series of consultation papers issued for review of the regulatory norms pertaining to Stock Exchanges and Clearing Corporations. In terms of the extant modalities for policy formulation, SEBI, *inter-alia*, prior to issuing a circular under the Acts or regulations generally undertakes public consultation.

1.2 Accordingly, the objective of this consultation paper is to seek comments/views/suggestions from public on the modifications to-

1.2.1 Chapter 3 (Settlement), Chapter 4 (Comprehensive Risk Management for cash market and Debt segment) and Clearing Corporation/Risk management related provisions covered in Chapters 1, 5 and 6 of Master Circular for Stock Exchanges and Clearing Corporations(MSECC) dated December 30, 2024,

1.2.2 Chapter 9(Risk Management), Chapter 11(Delivery and Settlement) and Chapter 12(Warehousing norms for Agriculture and Agri-processed commodities and Non-Agricultural Goods) of Master Circular for Commodity Derivatives Segment(MCCD) dated August 04, 2023,

through, *inter-alia*, simplification of regulatory requirements, removal of redundant provisions, discontinuation of duplication, in order to promote ease of doing business and reduce the compliance burden on clearing corporations.

1.3 The approach to review broadly entails the below activities-

1.3.1 Chapter-wise review of Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024;

1.3.2 Entity-wise review of Master Circular, in terms of having a Master Circular for Exchanges and separate Master Circular for Clearing Corporations;

Accordingly, the consultation paper is for combined guidelines for Clearing Corporations on the aforementioned Chapters mentioned at para 1.2 and shall also incorporate all the applicable provisions till the 30th of June, 2026 in respect of Clearing Corporations.

2. SUMMARY OF CHANGES SUGGESTED

The current provisions, changes proposed and rationale for the changes are briefly mentioned as under:

Sr. No	Current Provisions	Changes proposed	Rationale for change
2.1	Paragraph 1.1.17.2 of Chapter 4 (Risk Management) in MSECC deals with 'shortfall of pay-in of funds' which states that: <i>i. In cases where the amount of shortage in a settlement for a trading member is in excess of the base minimum capital (BMC) specified, the trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld.</i> <i>ii. In cases where the amount of shortage exceeds 20% of the BMC but less than the BMC on six occasions within a period of three months, then also the trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld.</i> <i>iii. Upon recovery of the complete shortages, the member shall be permitted to trade subject to his providing a deposit equivalent to his cumulative funds shortage as the 'funds shortage collateral'. Such deposit shall be kept with the Exchange for a period of ten rolling</i>	It is proposed to link action in case of pay-in shortfall to a standardized amount, other than BMC: i. Calculation of settlement amount shortage for a single instance benchmarked to (1% of the Base net-worth specified for Self-Clearing Member or Rs 5 lacs) whichever is lower ii. Calculation of settlement amount shortage on six occasions within a period of three months benchmarked to (0.4% of the Base Net-worth specified for Self-Clearing Member	Simplification of norms 1. Currently CCs have to monitor pay-in shortfall but has no view of BMC as BMC stays with Exchange. Similarly, exchanges have no visibility of shortages but they have to impose penalty for shortfall. This creates an anomaly in regulatory oversight. 2. The current practice of shortfall monitoring

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	<i>settlements and shall be released thereafter. Such deposit shall not be available for adjustment against margin liabilities and also not earn any interest. The deposit may be by way of cash, fixed deposit receipts or bank guarantee.</i> <i>iv. The exchange may levy a penal interest of not less than 0.07% per day on the pay-in shortage of the member.</i>	or Rs. 2 lacs) whichever is lower iii. Such deposit shall be kept with the CC (instead of Exchange) for a period of ten rolling settlements and shall be released thereafter. iv. The CC (instead of Exchange) may levy a penal interest of not less than 0.07% per day on the pay-in shortage of the member.	relies on 5 lacs and 2 lacs as benchmarks which is more stringent than the minimum BMC for any member category i.e. 10 lacs. Hence, the proposed change aligns with extant practice and does not dilute the extant norms. It only delineates the regulatory obligation. 3. Further, CCs are better positioned to manage and impose penalties related to pay-in shortfall as they have greater visibility of shortfall.
2.2	Paragraph 1.1.8, 1.1.11, 1.1.12, 1.1.14, 1.1.20, 1.1.21, 1.2, 1.4, 1.8.1 of Chapter 4(Risk Management) in MSECC and Paragraph 11.1, 11.3, 11.4, 11.6,	It is proposed to replace the references to 'Stock Exchanges' with	Segregation of responsibility In the extant norms, the

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	11.9, 11.10, 11.11 of Chapter 11(Delivery and Settlement) in MCCD	'Clearing Corporations'	compliance requirements related to margin reporting, monitoring shortfall, imposition and collection of penalties has been mandated on both Exchanges and Clearing Corporations. However, in practice all these activities are being handled by Clearing Corporations, with the exception of monitoring instances of false reporting of margins during inspection of Trading Members/margin shortfall instances translating into inspections, which are being done by exchanges.
2.3	Paragraph 1.1.11.6 of Chapter-4(Risk Management) of MSECC and Paragraph 9.5.1(iii) & Paragraph 9.5.1(vi) of Chapter 9(Risk Management) of MCCD which deals with 'Collection and	It is proposed to discontinue this reporting requirement for TM/CMs	Removal of Redundancies The Clearing Corporations have

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	Reporting of margins by TM/CM' states that- <i>The TMs/CMs shall report to the Stock Exchange on T+5 day the actual short-collection/non-collection of all margins from clients.</i>		represented that with the implementation of segregation and reporting of client collateral, TMs and CMs are required to report disaggregated collateral information to Clearing Corporation on a daily basis to provide visibility of client-wise cash and non-cash collateral at all levels viz TM, CM and Clearing Corporation.
2.4	Annexure-2 in Chapter-4(Risk Management) of MSECC which deals with framework to enable verification of upfront collection of margins, inter-alia, states that- <i>The verification of availability of margins with TM/CM shall be done by exchanges/clearing corporations on a weekly basis by verification of the balances in the books/ledgers of the TM/CM in respect of the client</i>	It is proposed to modify this provision as under: <i>The verification of availability of margins with TM and SCM/TMCM/PCM shall be done by exchanges and clearing corporations respectively <u>on a periodic basis</u> by verification of the balances in the books/ledgers of the TM or SCM/TMCM/PCM in respect of the client. In this</i>	Segregation of responsibility and standardization 1. Currently, supervision of margin related area for SCM, TMCM and PCM are being undertaken either independently by CCs or jointly by exchange and CCs and only in case of one CC, the

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		<i>regard, the clearing corporations in consultation with the exchanges shall formulate an SOP for supervision of Clearing members.</i>	inspection of SCMs is being done by exchanges. This is a step towards standardization of supervisory mechanism across Clearing Corporations for different categories of CMs. 2. As the verification of margins is being undertaken on a periodic basis as part of inspections covering other areas of operations as well, hence, the frequency of verification is being aligned with the current implementation.
2.5	Paragraph 9.5.1(xi) of MCCD which deals with 'mechanism for regular monitoring of and penalty for short-collection/non-collection of margins from clients' states that-	It is proposed to modify this requirement as: Report on the penalties as collected by the	Rationalization of periodic filings The report is in the nature of aggregate,

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	<i>Report on the penalties as collected by the Stock Exchanges shall be submitted to SEBI by the 10th day of the following month</i> Paragraph 1.1.14.1 of Chapter 4-Risk management states that- <i>Stock Exchanges shall levy following penalty on trading members for short-collection/non-collection of margins:</i>	<u>Clearing Corporations</u> shall be <u>disclosed on their website</u> by the 10th day of the following month	cumulative information and non-confidential in nature. Further, CCs handle the responsibility of levying and collecting penalties for short collection/non-collection of margins from clients.
2.6	Paragraph 2.18.5 of Chapter 6(Administration) in MSECC which deals with 'Risk based capital and Net-worth requirements for Clearing Corporations' states that: <i>The CCPs shall regularly review their net worth requirement and ensure that the net worth does not fall below the prescribed threshold. A certificate to this effect, as signed by the Managing Director of the CCPs, shall be submitted to SEBI within 15 days from the end of every quarter. The first such submission shall be made applicable for the April 2019 – June 2019 quarter</i>	It is proposed to discontinue the requirement of submission of quarterly Net-worth certificate and modify this provision as: The CCPs shall regularly review their net worth requirement and ensure that the net worth does not fall below the prescribed threshold. In case the net worth falls below prescribed threshold at any point in time, the same shall be intimated to SEBI immediately.	Rationalization of periodic filings 1. SECC Regulation 14(5) already mandates submission of an annual net worth certificate from the statutory auditor by 30th September each year. While the annual net worth certification by the statutory auditor provides comprehensive financial position of a Clearing corporation

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			the requirement of quarterly submission certified by MD results in duplication of compliance requirements 2. Exception based reporting of net-worth shortfall balances oversight with ease of compliance.
2.7	Paragraph 10.7 of Chapter 6(Administration) in MSECC which deals with Principles of Financial Market Infrastructures (PFMIs) states that: <i>FMIs shall be monitored and assessed against the PFMIs on annual basis by the Regulatory Oversight Committee (ROC) of the FMI and the ROC shall submit a report to the governing board of the FMI and SEBI within 90 days from the end of the financial year.</i>	It is proposed to discontinue the requirement of submission of report on PFMIs to SEBI.	Rationalization of periodic filings Submission of report on PFMIs to SEBI may be dispensed with as the report continues to be reviewed by ROC and placed before the Governing board of clearing corporation and is also subject to SEBI annual inspection.
2.8	Paragraph 1.2.16 of Chapter 5(Exchange Traded Derivatives) in MSECC which deals with index futures states that:	It is proposed to modify this requirement as under:	Rationalization of periodic filings The requirement on

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	<i>The derivatives exchange and clearing corporation shall submit quarterly reports to SEBI regarding the functioning of the risk estimation methodology highlighting the specific instances where price moves have been beyond the estimated 99% VaR limits.</i> <i>The clearing corporation / clearing house shall disclose the details of incidences of failures in collection of margin and/or the settlement dues on a quarterly basis. Failure for this purpose means a shortfall for three consecutive trading days of 50% or more of the liquid net worth of the member</i> Paragraph 5.2.13, 6.2.13 and 8.2.10 of Chapter-5 in MSECC which deals with risk management in case of currency futures, options and interest rate futures states that: <i>The Clearing Corporation of the Exchange shall on an ongoing basis and at least once in every six months, conduct back testing of the margins collected vis-à-vis the actual price changes. A copy of the study shall be submitted to SEBI along with suggestions on changes to the risk containment measures, if any.</i>	1. Assign responsibility for the reporting on Clearing Corporation 2. Quarterly/Half-yearly reports to be submitted to the Regulatory Oversight Committee of the Clearing Corporation	index futures has its genesis in SEBI circular dated July 28, 1999 when risk containment measures were introduced for the first time for derivatives market in India. Subsequently, SEBI Circular dated August 06,2008 read with RBI-SEBI Standing Technical Committee report dated May 29,2008 envisaged the periodic disclosure requirement for currency derivatives. As considerable time has elapsed since its introduction, in order to reduce cost of compliance and towards delegating more responsibility to the Clearing Corporation, the same is being recommended.
2.9	Paragraph 5.2 of Chapter 3(Settlement) in MSECC deals with 'Settlement in case of unscheduled holidays' which states that:	It is proposed to insert the below provision for	Delegation of responsibility

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	<i>5.2.1 If the settlement holiday is unscheduled (on account of strike etc.) the clubbing of settlement at the last minute may not be possible and hence there will be no alteration or clubbing of any trading cycle.</i> <i>5.2.2. Margins for the concerned trading period will not be released before completion of the pay-in for that trading period.</i> <i>5.2.3. CCs may charge higher margins to deal with enhanced risk arising out of the payment delays caused by unscheduled holidays.</i>	unscheduled holidays: To manage the impact of unscheduled holidays on operational activities related to settlement, the Clearing Corporations shall formulate an SOP in consultation with exchanges, Depositories and other market participants. The SOP shall be updated whenever a new scenario is encountered.	Currently, the CCs have internal SOPs for dealing with settlement in case of unscheduled holidays. As unscheduled holidays lead to impact on various scheduled events such as expiry of contracts, settlement operations etc. across different stakeholders, a coordinated approach to handle such unforeseen events ensure completion of activities in a timely manner. Copy of draft SOP prepared is at Annexure-C.
2.10	Paragraph 1.1.19.3, 1.1.19.4 and 1.1.19.5 of Chapter-4 in MSECC which deals with 'BMC requirement for stock exchange having average daily turnover of less than Rs 1 Crore' states that: 1.1.19.3. BMC requirement for stock exchanges having average daily turnover of less than Rs. 1 crore <i>Stock Exchanges shall maintain the BMC at Rs. 1 lakh if the average</i>	It is proposed to discontinue this requirement and remove the same from MSECC.	Obsolete provisions 1. These requirements have its genesis in SEBI circulars dated January 19, 1996 and February 23, 2005

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	<i>daily turnover is less than Rs.1 crore for any three consecutive months.</i> 1.1.19.4. Refund of excess BMC over Rs. 1 lakh <i>The excess of the BMC over Rs 1 lakh may be refunded to the members of the exchange subject to the following conditions:</i> <i>a. The member has been inactive at the stock exchange for the past 12 months, i.e. he has not carried out any transaction on that stock exchange during the past 12 months.</i> <i>b. There are no investor complaints pending against the member.</i> <i>c. There are no arbitration cases pending against the member.</i> <i>d. The exchange shall retain/deduct/debit from the BMC to be refunded, the amount of any complaints/claims of the investors against the member and for dues crystallized and contingent to the exchange/SEBI arising out of pending arbitration cases, appealed arbitration awards, administrative expenses, SEBI turnover fees, etc.</i> <i>e. The exchange shall ensure that the member has paid the SEBI turnover fees and has obtained a No-Objection Certificate (NoC) from SEBI in this regard.</i> 1.1.19.5. Re-enhancement of BMC <i>If the average daily turnover of the exchange exceeds the specified level of Rs.1 crore for a period of one month at any time, the exchange shall enhance the requirement of the BMC of the members back to the level as</i>		wherein, inter-alia, BMC was prescribed at the exchange level with exchanges classified into three cohorts: 1. BSE, NSE and CSE with BMC Rs 10 lakhs 2. Ahmedabad Stock Exchange and Delhi Stock Exchange with BMC Rs 7 lakhs 3. Other Stock Exchanges with BMC Rs 4 lakhs 2. Subsequently, vide circular dated December 19, 2012, BMC requirement was aligned with risk profile of stock brokers in cash/derivative segment of exchanges

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	<i>specified in Para 1.1.19.1 above and shall obtain undertaking to this effect from the members.</i>		and BMC deposits were prescribed for 4 different categories of brokers viz. only proprietary trading without algo, trading on behalf of client without algo, prop and client trading without algo, all brokers with algo. In view of the same, the requirement of BMC based on average daily turnover of stock exchanges is no longer applicable.
2.11	Paragraph 1.2 and 1.3 of Chapter-4 of MSECC deals with 'Risk Management framework for dedicated debt segment on stock exchanges' and 'Deposit requirement for Clearing member(CM)/SCM in debt segment respectively.	It is proposed to delete the provisions under paragraph 1.2 and 1.3 and insert the below: Risk management framework with respect to debt segment shall be prepared by CCs in consultation with SEBI.	Redundancy 1. As there were no trades in the dedicated debt segment and since removal of the segment / provisions has also been suggested by

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			exchanges, trading related norms have been removed from MSECC. In the absence of dedicated debt segment for trading, the risk management framework serves no other purpose, which has also been suggested by the Clearing corporations. 2. Further, the Clearing Corporations have informed that the request for quote (RFQ) platform as the OTC trades of debt securities have no dependency on this risk management framework.
2.12	Paragraph 1.2 of Chapter 3 on 'Settlement' of the MSECC deals	It is proposed to:	Obsolescence

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	with 'introduction of T+1 rolling settlement on an optional basis' states that- 1.2.1. <i>SEs may choose to offer T+1 settlement cycle on any of the scrips, after giving an advance notice of at least one month, regarding change in the settlement cycle, to all stakeholders, including the public at large, and also disseminating the same on its website.</i> 1.2.2. <i>After opting for T+1 settlement cycle for a scrip, the SE shall have to mandatorily continue with the same for a minimum period of 6 months. Thereafter, in case, the SE intends to switch back to T+2 settlement cycle, it shall do so by giving 1-month advance notice to the market.</i> 1.2.3. <i>Any subsequent switch (from T+1 to T+2 or vice versa) shall be subject to minimum period and notice period as mentioned in Para 1.2.2 above.</i> 1.2.4. <i>There shall be no netting between T+1 and T+2 settlements.</i> 1.2.5. <i>The settlement option for security shall be applicable to all types of transactions in the security on that SE. For example, if a security is placed under T+1 settlement on a SE, the regular market deals as well as block deals will follow the T+1 settlement cycle on that SE.</i> Further, paragraph 1.4 of MSECC, inter-alia, deals with activity schedule for T+1 rolling settlement which tabulates the day, timing and	1. Modify para 1.2 as 'Introduction of T+1 rolling settlement' 2. Delete the provisions stipulated under para 1.2.1, 1.2.2, 1.2.3, 1.2.4 requirement from MSECC 3. Move the activity schedule to para 1.2 from para 1.4	1. <u>Genesis:</u> The requirement has its genesis in circular dated September 07, 2021 wherein T+1 rolling settlement was introduced on an optional basis and exchanges were permitted to offer either T+1 or T+2 settlement cycle. 2. <u>Mandatory T+1:</u> Vide circular dated March 21, 2024, T+0 rolling settlement cycle was introduced on optional basis wherein it was also indicated that T+1 settlement has been fully implemented w.e.f January 27, 2023.

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	description of activity to be undertaken for settlement.		Pursuant to full implementation of T+1, T+2 rolling settlement cycle has been discontinued 3. <u>Obsolete provisions:</u> The provision primarily deals with procedure to be followed by exchanges for switch between T+1 and T+2 settlement cycles, which are not relevant after full implementation of T+1 rolling settlement cycle.
2.13	Paragraph 1.4.1, 1.4.2 and 1.4.3 of Chapter 3 of MSECC on 'Activity Schedule for T+1 Rolling settlement' states that- <i>1.4.1. SEBI vide circular reference number SEBI/HO/MIRSD/MIRSDPoD1/P/C IR/2024/75 dated June 5, 2024, has mandated that the pay-out of securities be credited directly to the client account by the Clearing Corporations (CC).</i>	It is proposed to modify and merge para 1.4.1, 1.4.2 and 1.4.3 into a single para 1.2.1 and move it to para 1.2 as: <i>In T+1 settlement, the securities for pay-out in the equity cash segment (including netted</i>	Duplication The extant provisions are overlapping and essentially envisages the direct payout of securities by clearing corporation to clients demat account and

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	1.4.2. As prescribed in the aforementioned Circular, under Phase -1, the securities for pay-out in the equity cash segment (including netted cash and F&O Physical Settlement) shall be credited directly to the respective client's demat account by the Clearing Corporations. 1.4.3. As a consequence of the above, the timing of the payout of securities shall be revised from 1:30 PM to 3:30 PM. Thus, as a result of Direct Payout, the securities shall be credited to the clients' demat account on the same settlement day instead of one working day from the receipt of pay-out from the Clearing Corporation	cash and F&O Physical Settlement) shall be credited directly to the respective client's demat account on the same settlement day by the Clearing Corporations.	timing for the payout.									
2.14	Paragraph 1.6.1 of MSECC deals with 'Activity schedule for Auction Session' wherein, inter-alia, a table on auction settlement for T day trade under T+2 settlement cycle is also provided- <table><tr><th colspan="3">Auction settlement for T day trade under T+2 Settlement Cycle</th></tr><tr><td>1</td><td>By T+2</td><td>Auction session</td></tr><tr><td>2</td><td>By T+3</td><td>Pay-in/pay-out and close-out of auction</td></tr></table>	Auction settlement for T day trade under T+2 Settlement Cycle			1	By T+2	Auction session	2	By T+3	Pay-in/pay-out and close-out of auction	It is proposed to delete this table from para 1.6.1	Obsolescence Vide circular dated March 21, 2024 T+0 rolling settlement cycle was introduced on optional basis wherein it was also indicated that T+1 settlement has been fully implemented w.e.f January 27, 2023. Pursuant to full implementation of T+1, T+2 rolling settlement cycle has been discontinued.
Auction settlement for T day trade under T+2 Settlement Cycle												
1	By T+2	Auction session										
2	By T+3	Pay-in/pay-out and close-out of auction										
2.15	Paragraph 1.5.1.4 of Chapter 3 of MSECC on 'Systems for effecting settlement on T+2 or T+1 basis'-	It is proposed to modify this requirement as-	Obsolescence 1. <u>Extant</u> procedure:									

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	1.5.1.4 The SEs would also amend their byelaws to mandate the pay out of funds and securities to the clients by the broker within 24 hours of the payout.	The SEs would also amend their byelaws to mandate the <u>pay out of funds</u> to the clients by the broker within 24 hours of the payout.	In terms of SEBI circulars dated October 10, 2024 read with circular dated June 05, 2024, the pay-out of securities has to be credited directly to the client account by the Clearing Corporations (CC) and not the broker. 2. <u>Current Payout timelines:</u> Further, the securities have to be credited to the clients' demat account on the same settlement day instead of one working day from the receipt of pay-out from the Clearing Corporation.
2.16	Paragraph 1.5.1.6 of Chapter 3 of MSECC on 'Systems for effecting settlement on T+2 or T+1 basis'-	It is proposed to modify this requirement as-	Obsolescence In terms of SEBI circulars dated

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	CCs would encourage members to adopt automatic downloading of pay-in files for securities and funds. The members would also be encouraged to adopt direct transfer of securities/ funds to clients' account on pay-out.	CCs would encourage members to adopt automatic downloading of pay-in files for securities and funds. The members would also be encouraged to adopt <u>direct transfer of funds</u> to clients' account on pay-out	October 10, 2024 read with circular dated June 05, 2024, the pay-out of securities has to be credited directly to the client account by the Clearing Corporations (CC) and not the broker/member.
2.17	Paragraph no. 8.1.1 of Chapter 3 of MSECC deals with 'Transfer of funds and securities' which states that- 1. The member shall transfer Funds and Securities from their respective pool account to the respective beneficiary account of their client within 1 working day after the pay-out day. 2. The securities lying in the pool account beyond the above period would not be eligible for delivery in the subsequent settlement(s) and would also be not eligible for pledging or stock lending purpose, until the same is credited to the beneficiary accounts. 3. The Securities lying in the pool account beyond the stipulated 1 day shall attract a penalty at the rate of 6 basis point per week on the value of securities. The penalty so	It is proposed to modify this requirement as- <i>The member shall transfer Funds from their pool account to the beneficiary account of their client within 1 working day after the pay-out day</i> <i>The CC of the SEs shall provide the settlement-wise details of securities to the depositories and the depositories shall maintain the settlement-wise records for the purpose.</i>	Obsolescence 1. <u>Extant procedure:</u> In terms of SEBI circulars dated October 10, 2024 read with circular dated June 05, 2024, the pay-out of securities has to be credited directly to the client account by the Clearing Corporations (CC) and not the broker. 2. <u>Current Payout timelines:</u> Further, the securities have to be credited to

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	<i>collected by the depositories shall be credited to “Investor Protection Fund” of depository and earmarked for defraying the expenses in connection with the investors’ education and awareness programs conducted by the depositories.</i> <i>4. The securities, which are lying in these accounts beyond the specified time period, shall be identified based on the settlement number basis. The CC of the SEs shall provide the settlement-wise details of securities to the depositories and the depositories shall maintain the settlement-wise records for the purpose.</i>		the clients’ demat account on the same settlement day instead of one working day from the receipt of pay-out from the Clearing Corporation.
2.18	Paragraph 2.1.2 of Chapter 3 of MSECC deals with “Abolition of no delivery period which states that- <i>As all scrips are compulsorily being traded in dematerialized mode with effect from April 01, 2019, the ‘no-delivery period’ for all types of corporate actions has been done away with.</i>	It is proposed to delete this requirement from MSECC	Obsolescence This provision deals with a requirement which has already been discontinued and may have been retained only for transitional purposes.
2.19	Paragraph 1.5.2 of Chapter 3 of MSECC on ‘Systems for effecting settlement on T+2 or T+1 basis’- <i>1.5.2. The CCs may also provide the following facilities desirable for further smoothing clearing and settlement process, though these may not be preconditions for introduction of T+2 or T+1 rolling settlement:</i>	It is proposed to modify para 1.5.2 as- <i>The CCs <u>shall provide the following facilities</u> for smoothing clearing and settlement process</i>	Clarification This requirement has its genesis in circular dated February 06, 2003 and at that point in time putting in place systems for

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	<i>1.5.2.1. Facility of online confirmation of trades by custodians.</i> <i>1.5.2.2. System to capture the details of the client's depository account and bank account.</i> <i>1.5.2.3. System for online transmitting the client wise pay-in obligation to depository so that the depository in turn could download the security pay-in instructions to depository participants in respect of the investor maintaining account with them.</i> <i>1.5.2.4. System wherein the pay-out files could be sent to the clearing banks with a request to online credit to the bank accounts of the clients.</i> <i>1.5.2.5. The SEs would support development of front end software for brokers to map the Client ID through abbreviated keys to facilitate faster order entry for inserting the unique client code speedily</i>		effecting settlement may have been desirable but not mandatory requirement for Clearing Corporation(CC). But currently, all these processes are being handled through systems at the CC level.
2.20	Paragraph 11.8 deals with identification and selection of location as a delivery centre(s). Paragraph 11.8.2 of MCCD deals with Review of delivery centre states that- <i>i. The stock exchanges shall carry out a review of the delivery centre(s) already designated and</i>	It is proposed to discontinue the requirement of submission of comprehensive review report to PAC by stock exchanges. Further the provisions related	Rationalization of periodic filings and Simplification. The provision on review of delivery centre was issued through a circular dated

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	<i>notified for the existing commodity derivatives contracts, based on the aforesaid guidelines.</i> <i>ii. The review shall also include those locations which though satisfy the above-mentioned guidelines but have not been selected as the delivery centre(s) by the stock exchanges and examine reasons for not selecting these locations as delivery centre.</i> <i>iii. The stock exchanges shall submit their assessment in the form of a comprehensive review report to their Product Advisory Committee ("PAC") constituted for respective commodity for consideration and advice.</i>	to Identification and selection of location as a delivery centre is moved to Exchange Traded Derivatives chapter of Master Circular for Stock Exchanges.	May 26, 2020, which mandated all Exchanges to conduct a comprehensive review of delivery centers and submit a report to the regulator. This requirement was intended as a one-time exercise to ensure alignment with regulatory expectations. Further, delivery centres are comprehensively reviewed during PAC committee meetings. Hence as an EODB measure submission of comprehensive review report by the exchanges to PAC may be discontinued. Further as the review of delivery centers is the obligation of Exchanges it is being moved to Exchange Traded Derivatives Chapter of

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			Master Circular for Stock Exchanges
2.21	Annexure O of MCCD states that <i>CCs and SEs are directed to make the following details available on its website:</i> <i>i. Policy on composition and contributions to be made to the Core SGF;</i> <i>ii. Break up of funds contributed into SGF will be updated on quarterly basis</i> <i>iii. Investment policy for Core SGF;</i> <i>iv. Default waterfall for each segment along with the quantum of resources available in each layer of default waterfall;</i>	It is proposed that the disclosures on websites which are generic in nature may be extended to all segments and shall be disclosed on the respective websites of the CC.	Standardization of norms Currently these disclosure requirements are part of MCCD but not part of MSECC. As these disclosure requirements are generic in nature and pertains to activities of CCs the disclosure requirements may be made applicable to all segments.
2.22	Periodic submissions of Clearing Corporations which are registered as Depository Participants(DP) to the Depositories.	The requirement for submission of periodic DP-related reports/filings to depositories shall not be applicable to Clearing Corporations registered as Depository participants.	Rationalization of periodic filings and Obsolete requirement 1. Prior to Clearing Corporations being recognized as MIIIs they were registered as DPs with the depositories for establishment of connectivity, for the purpose of clearing and settlement activities.

Sr. No	Current Provisions	Changes proposed	Rationale for change
			2. Subsequently, upon being classified as MII, the DP registration is still being continued in capacity of CCs for limited purpose of establishing connectivity with depositories. By virtue of their DP registration, CCs are required to submit periodic reports to depositories. 3. Further, CCs are not performing any retail client transactions like any other DP. They were not permitted to open BO(Beneficiary Owner) accounts for investors or clearing member accounts and their account opening module has also been restricted by depositories.

Sr. No	Current Provisions	Changes proposed	Rationale for change
			4. Hence notwithstanding their registration as DPs, CCs may not be required to submit DP-related periodic submissions to depositories, as the relevant periodic submissions are already being submitted to SEBI.
2.23	1. Paragraph 4.1 of Chapter 3 of MSECC deals with 'Mode of payment and Delivery', which states that- <i>4.1.1 Brokers and Associated Persons shall not accept cash from the client whether against obligations or as margin for purchase of securities and/ or give cash against sale of securities to the clients.</i> <i>4.1.2. All payments shall be received or made by the brokers from or to the clients strictly by account payee crossed cheques or demand drafts or by way of direct credit into the bank account through NEFT, or any other mode allowed by RBI. The brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions.</i> <i>4.1.3. Similarly, in case of securities also, giving or taking</i>	It is proposed to demerge these requirements from MSECC as the same are already covered in Master Circular for Stock Brokers dated June 17, 2025	Redundancy These regulatory provisions pertain to obligations of Stock Brokers which and currently forms part of the Master Circular for Stock Brokers dated June 17, 2025 issued by MIRSD-SEBI. Further, MRD may not be privy to the amendments if any related to these provisions and the same can be updated in a timely manner by the

Sr. No	Current Provisions	Changes proposed	Rationale for change
	<i>delivery of securities in “demat mode” should be directly to or from the “beneficiary accounts” of the clients, except delivery of securities to a recognized entity under the approved scheme of the SE and/ or SEBI</i> 2. Paragraph 4.2 of Chapter 3 of MSECC deals with ‘Block mechanism for early pay-in’ which covers process flow for block mechanism, matched orders, unblocking of securities, margining of trades etc. 3. Paragraph 4.3 of Chapter 3 of MSECC deals with ‘Pay-in validation which covers validation of transfer instruction details with CC obligation details, Matched Instruction, Unmatched instruction, Trades confirmed by Custodians etc. 4. Paragraph 1.6 of Chapter 4 of MSECC deals with ‘Collateral deposited by Clients with brokers’ 5. Paragraph 1.7 of Chapter 4 of MSECC deals with Securities as margin obligation to be given by way of pledge/re-pledge in the depository system.		concerned department.
2.24	1. Paragraph 1.5.1.5 of Chapter 3 of MSECC on ‘Systems for effecting settlement on T+2 or T+1 basis’- <i>1.5.1.5 The SEs shall not normally permit changes in the Client ID and shall keep a strict vigil on cases of client code modification and shall implement a monetary penalty structure that would escalate with</i>	It is proposed to delete these requirements as the same are already covered in separate chapter of MSECC	Duplication 1. Provisions at para 1.5.1.5 are already covered in detail under Para 14.3, of Chapter 1(Trading) of MSECC.

Sr. No	Current Provisions	Changes proposed	Rationale for change
	<i>the number of such incidences. Besides, the SEs may take necessary action against members making repeated changes. However, genuine mistakes may be allowed to be rectified.</i> 2. Paragraphs 1.9.2 and 1.9.3 of Chapter 4 in MSECC deals with Order-level checks and Dynamic Price Bands respectively. 3. Paragraph 1.1.19 of Chapter 4 in MSECC and 9.1.9 of MCCD deals with 'Base Minimum Capital'		2. Similarly, provisions pertaining to Order level checks ,Dynamic Price Bands are norms related to Exchanges and hence are covered in 'Trading' Chapter of MSECC. 3. Provisions related to 'Base Minimum Capital' is already covered in detail in chapter 'Exchange Traded Derivatives'.
2.25	1. Paragraphs 1.1.7 of Chapter-4 deals with calculation of mean impact cost, 2. Paragraphs 1.9.4 of Chapter-4 in MSECC and Paragraphs 9.1.10 in MCCD deals with Risk Reduction mode 3. Paragraph 9.1.3 I(b)(ii) of Chapter-9 in MCCD deals with determination of lean period by Exchanges.	It is proposed to merge these requirements to 'Trading Chapter', 'Exchange Traded Derivatives Chapter' in the Master Circular for Exchanges	Simplification The responsibility for computation of mean impact cost is vested on exchanges and role of CCs is to utilize the calculated information for categorization of securities. Similarly, the activity related to placement of brokers in risk reduction mode

Sr. No	Current Provisions	Changes proposed	Rationale for change
			is obligated on exchanges for which only the collateral utilization levels are being taken from CCs. As the exchanges have been assigned the primary responsibility w.r.t these activities, the same is being moved to the Master Circular for Exchanges
2.26	Paragraphs 2.5, 2.6, 2.8, 2.16, 2.18 and 4 of Chapter-6(Administration of Exchanges) in MSECC and Chapter 11 of Master Circular for Commodity Derivatives on 'Delivery and Settlement' deals with provisions related to Clearing Corporations. Similarly, paragraphs 1.2, 2.2, 3.2, 4.2, 5.2, 6.2, 7.2, 8.2, 12.15, 13.5, 14.3, 14.4, 14.5, 14.12, 14.13 of Chapter-5 (Exchange Traded Derivatives) in MSECC and Paragraphs 5.2, 6.2, 7.3, 8.2, 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7 of MCCD covers risk management framework for different derivative contracts.	Merge these requirements in the Master Circular for Clearing Corporations	Merger Provisions pertaining to Clearing Corporations present in the current Master Circular for Commodity Derivatives (MCCD) as well as MSECC are being merged into the proposed Master Circular for Clearing Corporations.
2.27	Certain regulatory norms issued by MRD did not form part of latest MSECC dated December 30, 2024 as the cut-off date for compilation of the Master Circular was October	Modification to paragraphs	New Circulars & Communication Inclusion of provisions

Sr. No	Current Provisions	Changes proposed	Rationale for change
	31, 2024. Similar, there are provisions not forming part of MCCD dated August 04, 2023 as cut-off date for the same was March 31, 2023. Therefore, such circulars pertaining to this section-are also being incorporated herein. Summary of such new requirements/amendments are as under- 1. Review of Coverage of SFG for commodity derivatives segment 2. Modification in requirement of inspection of accredited warehouses by Clearing Corporations 3. Calendar Spread margin benefit for Single Stock Derivatives on expiry day 4. Provisions relating to Strengthening Governance of MIs 5. Timeline for mandatory implementation of systems and processes by Qualified Stock Brokers (QSBs) with respect to T+0 settlement cycle 6. Review, Appeal of waiver of penalty requests emanating out of actions taken by the Member Committee 7. Norms for Internal Audit Mechanism and composition of the Audit Committee of MIs 8. Enhancement in the scope of optional T+0 rolling settlement cycle in addition to the existing T+1 settlement cycle in Equity Cash Markets 9. Guidelines to Stock Exchanges, Clearing Corporations, Depositories 10. Modification in Staggered Delivery period in Commodity Futures Contracts 11. Clarification with respect to applicability of the benefit of		containing in the following circulars/communications: 1. SEBI circular no: HO/47/16/14 (1)2026-MRD-POD1/I/7115 /2026dated March 16, 2026 2. SEBI Circular no: SEBI/HO/MRD-MRD-PoD-1/P/CIR/2024/64 dated May 29, 2024 3. SEBI Circular no: HO/47/15/11 (2)2025-MRD-TPD1/I/4226/2026 dated February 5, 2026 4. SEBI Circular no: HO/47/12/11 (5)2025-MRD-POD3/I/196/2025 dated December 12, 2025 5. SEBI Circular no: HO/47/11/12 (1)2025-MRD-POD3 I/72/2025

Sr. No	Current Provisions	Changes proposed	Rationale for change
	early pay-in in Commodity Derivatives Segment 12. Letter on variable pay to KMP of MIs 13. SEBI letter dated Feb 25, 2026 on seeking clarity on appointment of ED		dated October 30, 2025 and Circular No SEBI/HO/M RD/MRD-POD-3/P/CIR/2025/58 dated April 29, 2025 6. SEBI Circular no: SEBI/HO/M RD/POD-III/CIR/P/2025/112 dated August 05, 2025 7. Circular no: SEBI/HO/M RD/POD 3/P/CIR/2025/69 dated May 19, 2025 8. Circular no: SEBI/HO/M RD/MRD-PoD-3/P/CIR/2024/172 dated December 10, 2024 9. Circular no: SEBI/HO/M RD/POD-3/P/CIR/2024/162 dated November 22, 2024 10. Circular no: SEBI/HO/M RD/MRD-PoD-1/P/CIR/2024/57 dated

Sr. No	Current Provisions	Changes proposed	Rationale for change
			May 24, 2024 11. Circular no: HO/47/16/13 (4)2026-MRD-POD1/I/1426 6/2026 dated June 19, 2026 12. SEBI letter dated Feb 17, 2026 13. SEBI letter dated Feb 25, 2026

3. PUBLIC COMMENTS

3.1 Kindly provide your comments for the below items along with supporting rationale:

- 3.1.1 Whether provisions covered under Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024 and the Master Circular for Commodity Derivatives dated August 04, 2023 be merged?
- 3.1.2 Whether provisions related to Stock exchanges and Clearing Corporations covered in Master Circulars dated December 30, 2024 and August 04, 2023 be separated?
- 3.1.3 Wherever the above two is proposed, whether any risks or issues are envisaged? Safeguards to protect against possible risks?
- 3.1.4 Whether there is any discrepancy w.r.t merged provisions being made applicable to a segment/MII, they are not intended to?
- 3.1.5 Whether provisions from MCCD pertaining to Risk management and settlement are adequately covered in merged provisions in Circular for Clearing Corporation?
- 3.1.6 Whether any other circular/communication needs to be incorporated in the Master Circular for Clearing Corporation?

3.1.7 Specific comments on the detailed provisions in this consultation paper.

3.2 Public comments are also invited on the draft circular and draft circular in track change annexed to this consultation paper as [Annexure A](#) and [Annexure B](#) respectively. The comments/suggestions should be submitted latest by **August 27, 2026**, through the online web-based form which can be accessed using the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

The instructions to submit comments on the consultation paper are as under:

- 3.2.1 *Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.*
- 3.2.2 *Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.*
- 3.2.3 *All fields in the form are mandatory.*
- 3.2.4 *Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.*
- 3.2.5 *If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box. vi. There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.*
- 3.2.6 *If you want to provide your comments for the selected proposal, please select*
- 3.2.7 *“Yes” from the dropdown under “**Do you want to comment on the proposal**” and use the text boxes provided for the same.*
- 3.2.8 *After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt*

you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.

*3.2.9 If you do not want to react on any proposal, please select that proposal from the dropdown and click on “**Skip this proposal**” and move to the next proposal.*

*3.2.10 After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “**Check your response before submitting**” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.*

3.2.11 The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper.

3.3 In case of any technical issue in submitting your comment through the web based public comments form, you may contact the following through email with the subject: "**Modifications to Master Circular for Stock Exchanges and Master Circular for Commodity Derivatives Segment- on ‘Settlement’ and ‘Risk Management’**

a) Lamber Singh, GM (lammers@sebi.gov.in)

b) Pratik Kumar, AGM (pratikk@sebi.gov.in)

c) Sharaffkhana V S Vamsi Kiran, AM (vamsikiransvs@sebi.gov.in)

Encl.: [Annexure A](#), [Annexure B](#), and [Annexure C](#)

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