Client Code Modification and Error Code Policy

1. **Objective:** The objective of the policy is to deal with modification of client code post execution of trade and to create an awareness amongst the relevant staff such as dealers, Branch In charge, Compliance Officer and authorized Person.

2. **Background**

   SEBI vide its circular no. CIR/DNPD/6/2011 dated July 5, 2011 and NSE circular no. NSE/INVG/2011/18484 dated July 29, 2011 and BSE Notice No. and other circulars issued by Exchanges decided that Exchange may allow modifications of client codes of non-institutional trades are done only to rectify a genuine error in entry of client code at the time of placing / modifying the related order.

3. **Brief Criteria about Client Code Modification**

   Client Code Modification means modification / change of the client codes after execution of trades. Stock Exchanges provide a facility to modify any client code after the trade has been executed to rectify any error or wrong data entry done by the dealers at the time of punching orders. However, such Client Code modification is subject to certain guidelines as to the time limit within which the client code modification is to be carried out, terminal / system on which such modifications can be done etc.
   The facility is mainly to provide a system for modification of client codes in case genuine errors in punching / placing the orders. It is to be used as an exception and not a routine. To prevent misuse of the facility, any client code modification from a non-institutional client category to non-institutional / institutional client category shall be subject to penalty.

4. **Error Trades** means the trades which will be modified / to be modified / allowed, to be modified subject to guidelines of the SEBI / Stock Exchange(s) and this policy.

5. **Genuine Errors**

   The following trades shall be modify/ allowed to be modify, shall be treated as genuine error:
   1. Punching error / typing error of client codes due to genuine error or mistake in order entry, while punching the order, by any of dealer.
   2. Trade entered for wrong client due to any miscommunication from the client / authorized representative of the client.
   3. Modification within family members
   4. Institutional trades modified to broker error account
   5. Error due to communication and/or punching or typing such that the original client code/name and the modified client code/name are similar to each other.
   6. Modification within relatives ('Relative' for this purpose would mean "Relative" as defined under the Companies Act, 1956).

6. Penalty on Client Code Modification where either original code or modified client code is non institutional client category.

The following penalty structure will be applicable:

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2

Where,
a = Value (turnover) non-institutional trades where client codes have been modified by a trading member in a segment during a month.
b = Value (turnover) of non-institutional trades of the trading member in the segment during the month.

7. Modification to ERROR client code category and Liquidation of trades transferred to ERROR account.

i. Shifting of any trade (institutional or non-institutional) to the error account of the trading member shall not be treated as modification of client code provided the positions arising out of trades in error account are subsequently liquidated / closed out in the market and not shifted to some other client code.

ii. Timeline of 3 working days (including the day of trade) to square off / liquidate the trades flowing into error account will be provided. In case trades / open positions are not liquidated or squared off within the prescribed time limit, a penalty would be applicable. This timeline is subject to availability of liquidity in the scrip/contract. In case the liquidity is not sufficient, the Trading Member should approach the Exchange within one trading day if sufficient liquidity is not available at the Exchange. The square off / liquidation must be done at the earliest. The decision of the Exchange on the question of "Availability of liquidity" will be final and binding.

iii. In case of modification from original client code to ERROR account and then from ERROR account to some other client code, a penalty at the rate of 2% of traded value will be levied. In case of such repeated instances, in addition to the penalty levied further disciplinary action as deemed fit would be initiated.

iv. Exchange will periodically review the trades flowing to "error accounts" of the brokers. For suspicious or unusual modifications observed, suitable disciplinary action would be initiated.

v. Internal Controls are required to be implemented in order to minimize the instance of modifications into Error account to avoid disciplinary action proceedings from the Exchange.

8. Reasons for client code modification and error trades.

i. Reasons for client code modification and error is to be provided.
ii. Modification of client codes are permitted for the following objective criteria only:

Description
Modified to Error
Error due to communication or Punching / Typing Error such that the original client code / name and the modified client code / name are similar to each other.
Modification with Relatives (as per Companies Act, 2013)
Allocation to related schemes / sub-accounts

9. Frequent Client Code Modifications

i. In addition to the penalty levied, Exchange shall undertake disciplinary actions as deemed fit in terms of Rules, Byelaws and Regulations of the Exchange against Trading Members who undertake frequent client code modifications.

ii. Client code modification mentioned below shall not be considered while computing the frequency of client code modifications.
   a. Modification to ERROR account which is liquidated within 3 working days.
   b. Modification between two client codes which are of institutional client category and belong to same group.

10. Framework for monitoring and penalty for modification between client codes of two entities classified under the Institutional category will be as under.

i. Modification between client codes of two entities which are of the institutional category will be allowed only if the modification from both client codes is from different schemes / sub-accounts of /managed by the same Institution. Such modifications shall not be subject to penalty. For FPIs, the group will be considered as uploaded by Members under “File upload facility on Extranet system for uploading Foreign Portfolio Investors (FPI) allocation details

ii. With respect to trades settled through DVP mechanism, Trading Members would need to report the name of entities to whom the trades were settled. The original client would be the client in whose client code the trades were executed, and the modified client code will be the PAN in whose name trades were settled through DVP mechanism. In the event that, the Exchange finds that modified client code is not of / managed by the same institution, penalty shall be levied.

iii. Any modification between two client codes which are of institutional category and do not satisfy the criteria mentioned in para i. above i.e., modification between two unrelated institutional clients will be subject to penalty.

For i and ii, above, the applicable penalty on such modifications will be computed as below:

‘a’ as % of ‘b’	Penalty as % of ‘a’
≤ 5	1
> 5	2

Where,

a = Value (turnover) of institutional trades where client codes (unrelated institutional clients) have been modified by a trading member in a segment during a month.
b = Value (turnover) of institutional trades of the trading member in the segment during the month.

11. Reporting

i. Client code modification issues should be reported to the Operation-Head and can be done only after getting approval after knowing it's genuinely as per exchange directives.
ii. Any client code modification shall be subjected to this policy be carried at Head Office of the company.

12. Review of the policy

This policy may be reviewed as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy due to business needs