



R.B.JAJU SECURITIES INDIA Pvt.Ltd.

#3-5-141/3/A/1, opp. Rukmini Apartments, Ramkoti, Eden Bagh, Hyderabad, Telangana 500001

CLIENT CODE MODIFICATION/ ERROR ACCOUNT POLICY

Objective: The objective is to frame standard policy for handling the mistakes on part of the Dealers while executing trades and rectification thereupon.

Stock Exchanges provide a facility to modify client code after the trade has been executed to rectify any error or wrong data entry at the time of punching orders. However, such Client Code Modification is subject to certain guidelines issued by SEBI and the Stock Exchanges in this regard.

“**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. The Exchange(s) has provided the facility of client code modification only with a view to rectify genuine errors.

The facility is mainly to provide a system for modification of client codes in case of 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 Stock Exchange(s) take appropriate action for all non-institutional client code modifications.

This policy is applicable to all Client Code Modifications carried out / to be carried out in any of the client accounts, subject to guidelines issued by the SEBI / Stock Exchanges from time to time, in any segment of any exchange of which the company is a Member.

Details about Genuine Error:

The following trades shall be modified / allowed to be modified & shall be treated as genuine error and transferred to “**ERROR ACCOUNT**”.

- 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.
- Modification within relatives (‘Relative’ for this purpose would mean as defined under Companies Act, 2013).
- Allocation to related schemes / sub-accounts
- Trade entered for wrong client due to any miscommunication from the client /authorized representative of the client.
- Selecting wrong scrip while placing order.
- Placing the order for a wrong quantity.
- Placing buy order instead of sale and vice versa.
- Institutional trades modified to broker error / pro account.

Modification shall not allowed under any circumstances:

- If a wrong trade has been done intentionally.
- If the wrong trade is not reported within the timeline.
- Surveillance / RMS / Compliance department has not recognised mistake.
- Technical glitches
- Partial Client Code modifications
- Any other as may be prescribed by regulator from time to time.

Timeline and Process of Reporting:

As per the relevant circulars and guidelines issued by the exchanges/SEBI from time to time, the broker has to transfer the trades from the client's code to a specifically designated code viz. "**Error Account**". The same needs to be squared off / liquidated within 3 working days (including the day of the trade).

Client Code Modification requests must be received from the client pertaining to shifting of trade to error account must be received on or before the close of Trading Session of that day.(i.e.15.30 P.M).

Dealers are instructed to remain careful while executing the Trades. Dealers are required to take adequate precautions while placing the orders. All Staff members are advised to take note of the same and ensure necessary compliance.

Penalty

The penalty or fine, if any, levied for any wrong trade occurred due to any miscommunication from then client / authorized representative of the client may be borne by the client.

Profit & loss arising out of these transactions are either debited/credited to client or borne by the Company depending on the nature of the error.

Surveillance

A record for client code modification cases will be maintained on every financial year basis.

Review of the policy:

The policy will be reviewed, in accordance with the circulars that the regulatory authorities may issue from time to time, and changes will be incorporated in consultation with the Board Members / Compliance officer and concerned Head of Department.



CIRCULAR

SEBI/HO/CDMRD/DMP/CIR/P/2016/73

August 19, 2016

To,

**The Managing Directors / Chief Executive Officers
of All Commodity Derivatives Exchanges**

Dear Sir / Madam,

**Sub: Modification of Client Codes post Execution of Trades on National and
Regional Commodity Derivatives Exchanges– Clarification**

1. This circular is in reference to the SEBI circular No. [SEBI/HO/CDMRD/DMP/CIR/P/2016/43](#) dated March 29, 2016 on the captioned subject. In connection with the directives issued under the said circular, following clarifications are issued:
 - (i) **Classification of genuine errors:** The following shall be classified as genuine errors for the purpose of client code modification:-
 - a. 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.
 - b. Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013)
 - (ii) **Error Account:**
 - a. Shifting of trades to the 'Error account' of broker would not be treated as modification of client code, provided that trades in 'Error account' are subsequently liquidated in the market and not shifted to some other code.
 - b. Further, broker shall disclose the codes of accounts which are classified as 'Error accounts' to the Exchanges. Each broker should have a well-documented error policy approved by the management of the broker. Exchanges shall periodically review the trades flowing to the error accounts of the brokers.



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Securities and Exchange Board of India

2. The above clarifications and earlier norms prescribed by SEBI vide Circular dated March 29, 2016 with regard to client code modifications are consolidated and placed as Annexure-A.
3. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
4. This circular is available on SEBI website at www.sebi.gov.in under the category "Circulars" and "Info for Commodity Derivatives".

Yours faithfully,

Vikas Sukhwai
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Division of Market Policy
Commodity Derivatives Market Regulation Department
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Annexure-A

1. Exchanges may allow modifications of client codes of non-institutional trades only to rectify a genuine error in entry of client code at the time of placing/ modifying the related order in all segments.
2. For this purpose the following shall be classified as genuine errors:
 - a. 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.
 - b. Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013)
3. **Error Account:**
 - a. Shifting of trades to the 'Error account' of broker would not be treated as modification of client code, provided that trades in 'Error account' are subsequently liquidated in the market and not shifted to some other code.
 - b. Further, broker shall disclose the codes of accounts which are classified as 'Error accounts' to the Exchanges. Each broker should have a well-documented error policy approved by the management of the broker. Exchanges shall periodically review the trades flowing to the error accounts of the brokers.
4. If Exchange wishes to allow trading members to modify client codes of non-institutional trades, it shall
 - a. lay down strict objective criteria (in line with the Para '2' above), with the approval of its Governing Board, for identification of genuine errors in client codes which may be modified, and disclose the same to market in advance,
 - b. set up a mechanism to monitor that the trading members modify client codes only as per the strict objective criteria, and
 - c. ensure that modification of client codes is covered in the internal audit of trading members.
 - d. shall not allow proprietary trades to be modified as client trades and vice versa.



- e. shall levy a penalty and collect from trading members and credit the same to its Investor Protection Fund as under:

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

Where

a = Value (turnover) of 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.

- f. shall undertake stringent disciplinary actions against brokers who undertake frequent client code modifications. If 'a' as % of 'b', as defined above, exceeds 1% during a month, then the Stock Exchange shall conduct a special inspection of the trading member to ascertain whether the modifications of client codes are being carried on as per the strict objective criteria set by the Stock Exchange. Appropriate disciplinary action shall be taken by the Exchange, if any deficiency is observed.

5. Waiver of Penalty

- a. Exchanges may waive penalty for a client code modification where broker is able to produce evidence to the satisfaction of the exchange to establish that the modification was on account of a genuine error. However, not more than one such waiver per quarter may be given to a broker for modification in a client code.

Explanation: If penalty waiver has been given with regard to a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the stock broker in the quarter for modifications related to client codes AB and BA.

- b. Exchanges shall submit a report to SEBI every quarter regarding all such client code modifications where penalties have been waived.