भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/MRD/DRMNP/CIR/P/2018/83 May 24, 2018

All recognized Stock Exchanges and recognized Clearing Corporations in IFSC

Dear Sir/Madam

Segregated Nominee Account Structure in International Financial Service Centre (IFSC)

With a view to further facilitate ease of market access for foreign investors in IFSC and based on feedback received from market participants, it has been decided to permit Segregated Nominee Account Structure in IFSC wherein orders of foreign investors may be routed through eligible Segregated Nominee Account Providers (hereinafter referred to as 'Providers'), for trading on stock exchanges in IFSC while adhering to regulatory requirements, inter alia, relating to identification of end-client, Unique Client Code, order placement at client level, client level margining and position limits.

2. The broad features of the Segregated Nominee Account Structure are given in Annexure, enclosed herewith.

3. It shall be obligatory on the stock exchanges, brokers and 'Providers' to furnish to SEBI, inter alia, information relating to trades on stock exchanges in IFSC originated by/through 'Providers', including KYC details of their end-clients, as and when requested.

4. Stock exchanges in IFSC shall ensure that the provisions of Prevention of Money Laundering Act, 2002 (PMLA) and the rules thereof, including those relating to capturing the KYC information for sharing with the Central KYC Registry (CKYCR) to the extent applicable to FPIs, are adhered to by 'Providers' for their end-clients.

5. Stock Exchanges and Clearing corporations are directed to:
   a) take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;
   b) bring the provisions of this circular to the notice of their members and also disseminate the same on their websites; and
   c) communicate to SEBI, the status of implementation of the provisions of this circular in the Monthly Report.

6. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully

(Sanjay Purao)
General Manager
Market Regulation Department
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Encl: a/a

Annexure

A. Entities eligible to offer Segregated Nominee Account Structure

i. SEBI-registered brokers in IFSC,

ii. SEBI registered FPIs (Category I and II), and

iii. Trading / Clearing members of international stock exchanges / clearing corporations that are regulated by a member of Financial Action Task Force (FATF)

Such eligible entities shall be called Segregated Nominee Account Providers.

B. Registration of 'Provider'

'Providers' shall be registered with Stock Exchange / Clearing Corporation in IFSC for providing Segregated Nominee Account services to their end-clients

C. Eligibility criteria/norms for ' Providers'

Stock Exchanges shall lay down eligibility criteria/norms for 'Providers', including 'net worth', which shall not be less than that prescribed by other leading stock exchanges offering similar structures. The conditions for registration shall include clauses/provisions for obtaining information relating to the end-clients of 'Providers', as and when sought.

D. KYC of end-clients

i. 'Providers' shall be required to ensure appropriate due diligence of end-clients as per global standards including KYC and AML compliance before on-boarding clients for offering Segregated Nominee Accounts to them.

ii. An end-client shall open Segregated Nominee Account with only one 'Provider'. Legal Entity Identifier (LEI) code may be used to ensure that the end-client does not open Segregated Nominee Account with more than one 'Provider' and trades of an end-client are cleared and settled only through one clearing member.

iii. Each end-client shall be assigned a Unique Client Code (UCC), which shall be unique across all end-clients of all 'Providers', by Stock exchange/clearing corporation in IFSC.

E. Order entry

Unique Client Code shall be used at the time of order entry by the 'Providers' for their end-clients.

F. Margin Computation and Reporting

i. Margins shall be computed at the end-client level of 'Provider'.
ii. Margins shall be grossed up at and collected from 'Provider'.
iii. Margin reporting shall be at the level of the 'Provider'.

G. Margin Collection

i. Margin shall be payable by the end-client to the Segregated Account Provider. However, the margins may be funded by the 'Provider' based on clearly defined bilateral agreement between 'Provider' and the end-client.
ii. Stock Exchanges shall ensure that commercial terms and documentation / agreement entered into between 'Provider' and the end-client contains the clause regarding the aforesaid arrangement.

H. Monitoring of Position Limits

Position limits shall be monitored at end-client level by stock exchanges / clearing corporations.

I. Other Risk Management Framework

All other provisions relating to risk management as applicable in IFSC shall also be applicable to end-clients of 'Providers', unless otherwise specified.