

**National Stock Exchange Of India Limited****Department : Inspection**

Download Ref No: NSE/INSP/43029

Date : December 26, 2019

Circular Ref. No: 49/2019

To All Trading Members,

**Sub: Clarification on incentives/referral schemes**

It has come to the notice of Exchange that various incentive schemes are prevalent in the Market with respect to client referrals. Exchange has received representations from Members seeking guidance and clarifications on the said client incentive/referral schemes.

As the above has implications on the selling practices of Members and with a view to safeguard the interest of the investors, the following guidelines are being issued:

1. The rate of the incentive should be flat (i.e. not slab based) and a single rate should be applied across all persons referring the clients.
2. The referring person should not undertake any form of selling/advisory activities w.r.t securities and should not manage the portfolio of any person who is being referred. He/she should strictly limit his/her role to “Referral” only.
3. The referred client shall not be subjected to any kind of trade inducement by the referring person and it shall be ensured that all instructions for placement of orders are obtained from the respective clients only.
4. All the details/information pertaining to the client shall be maintained confidentially and the same should not be disclosed to any person except as required under any law/regulatory requirements or with the express written permission of the client.
5. All correspondences viz. contract notes, daily margin statement, statement of accounts, Annual global transaction statements etc. should be sent to the respective client only and under no circumstances will go to the referring person.
6. The referring person cannot conduct IPV/OSV.

7. Incentive amount should not be recovered from the client being referred and no obligation whatsoever should be cast on such client. There should be no financial transaction between the referred client and the referring person under the arrangement.
8. Member shall be directly and wholly liable in case of any dispute w.r.t. referral program/incentive scheme or calculation of referral income between broker-referred/referring person. Such disputes/grievances will not be covered under investor protection or grievance redressal measures of the Exchange.

Members should comply with code of conduct prescribed for Stock Brokers under Regulation 9 of SEBI (Stock Brokers) Regulations, 1992 and all relevant Byelaws, rules & regulations and of SEBI/Exchange w.r.t. sharing of Brokerage, account opening, inducement to trade, sales practices, orders placement etc issued from time to time.

Members shall frame an internal policy w.r.t. quantum/maximum limit on the incentive to be provided to the referring person in line with the aforementioned guidelines. Such policy shall be duly approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be. Members shall take adequate steps to review and monitor the adherence to the said policy on a regular basis, at such intervals not later than one year.

Authorised Persons (A.P) and SEBI Registered Portfolio Managers shall continue to be governed by the existing regulatory provisions including any changes issued from time to time.

All Members are advised to adhere to the above guidelines while offering such incentives/referral schemes. Any existing schemes which are not in compliance with the aforesaid guidelines, should be withdrawn immediately or suitably modified immediately to comply with the aforesaid guidelines.

**For and on behalf of**

**National Stock Exchange of India Limited**

**Srijith Menon**

**Chief Manager-Inspection**

In case of any clarifications, Members may contact our below offices:

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