Consultation Paper on "Modification of Unique Client Code by Market Makers (MMs) of ETFs and certain institutional and non-institutional clients including clients clearing through custodians without levy of penalty"

1. Objective

1.1. To solicit comments/ suggestions/ views from public on permitting client code modification by the Market Makers (MMs) to the Asset Management Company (AMC), viz. associated ETF scheme(s), without levy of any penalty, in order to enable MMs to transact in the basket for securities underlying the ETF against equivalent transaction in units of ETF and to transfer the net obligation of such transactions to the ETF for unit creation/ redemption.

1.2. Further, comments/ suggestions/ views are also sought on the issue of client code modification by Institutional clients (viz. Banks, Domestic Financial Institutions (DFIs), Insurance Companies, Pension Funds, Statutory Bodies (Liquidator appointed under IBC) and by certain category of non-institutional clients clearing their trades through custodians (viz. Portfolio Management Services (PMSs), Non Resident Indians (NRIs), individuals/ proprietorship firms, Hindu Undivided Families (HUFs), body corporates, etc., who have more than one UCC under the same Permanent Account Number (PAN), without attracting any penalty.

2. Background:

2.1. The extant provisions with respect to client code modification has been dealt with at para 14.3 of Chapter 1 of the Master Circular for Stock

Exchanges and Clearing Corporations. An extract of the same is reproduced below:

"*14.3.1.1. Stock 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 (derivatives as well as cash).*

14.3.1.2. The following shall be classified as genuine errors for the purpose of client code modification:

14.3.1.2.1. 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.

14.3.1.2.2. Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013).

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14.3.3.1. Shifting of trades to the error account of broker would not be treated as modification of client code, provided the trades in error account are subsequently liquidated in the market and not shifted to some other code."

2.2. Further, MFs and FPIs have been permitted to undertake client code modification as per para 14.2.1 of the aforesaid Master Circular which states as follows:

"*14.2.1 MFs and the FPIs shall enter the unique client codes pertaining to the parent MF and parent FPI at the order entry level and do allocation to the individual schemes of the MFs and the FPIs in the post-closing session.*"

2.3. Accordingly, it may be noted that no exemption has been granted with respect to the client code modification by MMs or Institutional clients (viz. Banks, Domestic Financial Institutions (DFIs), Insurance Companies, Pension Funds, Statutory Bodies (Liquidator appointed under IBC) and by certain category of non-institutional clients (viz. Portfolio Management Services (PMSs), Non Resident Indians (NRIs), individuals/ proprietorship firms, HUFs, body corporates, etc., who have more than one UCC under the same Permanent Account Number (PAN).

3. **Need for Review:**

3.1. As per para 3.6.1.5 of the Master Circular for Mutual Funds dated June 27, 2024, MMs have been permitted to transact in the basket for securities underlying the ETF against equivalent transaction in units of ETF and transfer the net obligation of such transaction in ETFs for unit creation/ redemption.

3.2. Therefore, in order to enable the net settlement by the MMs, change in client code without levy of any penalty needs to be permitted.

3.3. Accordingly, representations have been received from the Stock Exchanges to permit client code modification from the MMs to the AMC, viz. associated ETF scheme(s), without levy of any penalty.

3.4. Furthermore, it has been noted that the Stock Exchanges allow multiple UCCs for a single PAN for the following category of investors:

Sr. No.	UCC Category	UCC Type	Rationale
1	FPI Category I	Institutions	Certain FPI engage with multiple Investment Managers (IMs) for managing their funds. In such cases, these IMs may be trading through single Trading Member for these FPIs. Therefore, these FPIs will have multiple UCCs mapped to the same
2	FPI Category II		

			PAN. They are compulsorily settled through a custodian.
3	Mutual Fund		Mutual Funds have multiple schemes with unique UCC. However, their schemes do not have a PAN. Hence, their UCC is mapped to the PAN issued to the AMC. They are compulsorily settled through a custodian.
4	Domestic Financial Institution (other than Banks & Insurance)		Domestic regulated financial institutions like NIIF, IFCI, LIC have multiple investment funds. They are compulsorily settled through a custodian.
5	Insurance		Insurance companies have multiple plans with unique UCC. However, their schemes do not have a PAN. Hence, their UCC is mapped to the PAN issued to the insurance company. They are compulsorily settled through custodian.
6	New Pension Scheme (NPS)		NPS has Tier 1 and Tier 2 schemes which necessitates the need for multiple UCCs under the same PAN which is issued to the NPS organization. They are compulsorily settled through custodian.
7	Banks		RBI regulated financial institutions like SBI, HDFC, PNB etc. have multiple UCCs mapped to the same PAN. They are compulsorily settled through custodian.
8	Statutory Bodies	Non-Individuals	Statutory Bodies have multiple UCCs since they end up holding shares in companies for varied regulatory reasons. They also require segregation of such holdings in accordance of the purpose for which they have acquired the shares. An example would be a Liquidator appointed under IBC for

			multiple companies.
9	PMS	Non - Individuals	The need for multiple UCCs under a single PAN may be required where a client trades through PMS and as well as individually in own account through the same stock broker. They are compulsorily settled through custodians.
10	NRI	Individuals	NRIs can have 2 bank accounts NRE and NRO. Depending upon the account through which they trade based on the source of funds, there is a differential tax treatment. Hence, the need for multiple UCCs against a single PAN.
11	Individuals/ Proprietorship Firms, HUFs, Body Corporates, etc.	Individuals/ Non-Individuals	Multiple UCCs under a single PAN with the same stock broker may be required by clients if they trade on their own account both directly as well as through custodians
12	Hedge limit utilisation in commodity derivative segment		Maximum of 2 UCCs for a client with the same Stock Broker is required to enable taking of hedge positions in addition to the normal position limits in the commodity derivative segment. This also enables the Stock Exchanges to monitor the hedge limits of a client separately from the normal position limits, to ensure compliance with the regulatory requirements of ensuring the hedge positions being within the permissible limits and no churning of the said positions.

3.5. Stock Exchanges have submitted that if the PAN of the original client code and the PAN of modified client code is same then there is no change with respect to trade obligation / ownership pre and post client code modification. The same principle is currently applied in permitting client code modification for FPIs and for the different schemes under the same Mutual Funds, without levy of any penalty.

3.6. Accordingly, penalty on Client Code Modification by institutions viz. Banks, DFI, Insurance Companies, Pension Funds and certain non-institutions like PMSs, NRIs, individuals/ proprietorship firms, HUFs, body corporates, etc., may also not be made applicable if the client code modification is carried out from one UCC to another provided that the UCCs are under the same PAN.

4. Proposals:

4.1. In order to ensure compliance with the relevant regulations and to enable ease of doing business, the following is proposed:

4.1.1. client code modifications may be permitted from the MMs to the AMC, viz. associated ETF scheme(s), without levy of any penalty to enable the net settlement by the MMs.

4.1.2. Penalties on Client Code modification by certain category of clients as stated at para 3.4 above, may also not be made applicable if the client code modification is carried out from one UCC to another provided that the UCCs are under the same PAN.

5. Public Comments

5.1. In view of the above, comments from public are sought on the following proposals:

5.1.1. Whether the client code modification from the MMs to the AMC, viz. associated ETF scheme(s) may be enabled under para 14.2.1 of Chapter 1 of the Master Circular on Stock

Exchanges and Clearing Corporations for creation of units or redemption of units of ETFs?

5.1.2. Whether the client code modification may be permitted without levy of any penalty, for certain category of clients as stated at para 3.4 above, provided that the same is carried out from one UCC to another subject to the fact that the UCCs are under the same PAN?

5.1.3. Any other comments in the matter along with rationale.

5.2. Considering the implications of the said proposals on market participants, public comments are invited latest by July 11, 2025 via online platform at the following link: https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes

5.3. In case of any technical issue in submitting your comment through web based public comments form, you may e-mail your comments to mrd_consultation@sebi.gov.in. While sending the e-mail kindly mention the subject as: "Comments on modification of Unique Client Code by Market Makers (MMs) of ETFs and certain institutional and non-institutional clients clearing through custodians without levy of penalty".

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