

# THE ECONOMIC TIMES

## Brokers work overtime to meet Sebi order on broker-client pact

### Brokers To Return Unspent Client Money Every Quarter, To Comply By Mar-End

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**T**HE Security and Exchange Board's (Sebi) move to introduce a new model agreement between investors and brokers, in an attempt to curb malpractices such as misuse of funds, has broking firms grumbling about increased cost and extra work even as their clients look forward to increased transparency.

In a circular issued in December, the market regulator had said changes had to be implemented "immediately" and the process had to be completed by March 31, 2010. As the deadline approaches, broking houses are burning the midnight oil to meet the new regulatory requirements.

The new Sebi norms make it mandatory for the broking firm to return the unspent money to the client at the end of a month or a quarter. The alleged misuse of these funds by broking firms was one of the major causes for disputes and litigation between brokers and their clients. Experts say that the new norms will significantly curb the misuse of client money by brokers, but add that the cost of compliance is considerable.

Many broking firms plan to fully implement the new format by April. Last week, Sebi came out with clarifications on its circular regarding client registration procedure, after brokers said that the December circular lacked clarity regarding many changes.

"The biggest challenge that would be faced is reaching out to existing clients and informing them about the changes in the documentation by way of an ad-



RACE AGAINST TIME

dendum. Settling clients account on monthly/quarterly basis, and at the same time, ensuring uninterrupted trading will be a challenge, for the time being, for brokers with a mass retail client base. In order to return the unspent money, brokers will have to pay out a huge quantum of funds and securities and also ensure that these are brought back in timely manner to allow fresh positions for the client, notwithstanding the risk of bad deliveries of securities," says Amit Majumdar, executive director and chief strategy officer, Angel Broking.

Brokers say that while most of the changes will serve the interest of the clients, some changes like having documents in compulsory font size of 11 would involve large printing and stationery cost. Modification to the back office and operational systems carry out quarterly/monthly settlement of funds/securities would

also involve higher costs.

Praveen Malik, vice-president in charge of compliance at FCH Centrum Wealth Managers, says that while the spirit of the new norms is good, it will be difficult to implement the new agreement in such a short timeframe.

"Instead, if the onus of providing this information is on the customers, it will result in better implementation. Even though it is a good step, its implementation may get difficult due to competitive pressures," adds Mr Majumdar. "People may not be willing to part with financial information initially, but they will understand that is required to trade in the derivatives segment. Any large broking may also face problem in settling accounts once a quarter but any new change will have challenges in its implementation," says Trivikram Kamath, executive vice-president, Kotak Securities.

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### CHECKS & BALANCES

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