

SEBI panel moots raising minimum net worth criteria for BSE brokers to ₹1 cr

Updated on November 26, 2020

The Secondary Markets Advisory Committee (SMAC), appointed by market regulator SEBI, has agreed on a number of proposals including raising the capital adequacy ratio of a stockbroker from around ₹50 lakh (base minimum capital) to ₹1 crore, hiking the minimum net worth criteria for stockbrokers to ₹1 crore from ₹10 lakh on the BSE, and upping the net worth of trading-cum-clearing members to ₹25 crore.

It has been nearly a decade that SEBI has kept the net worth criteria for brokers so low. The regulator now believes that it should be hiked so that there is some check on the quality of brokers being given registration. Also, SEBI will hike both capital adequacy and net worth of a broker further and link it with the maximum leverage they can be given.

The committee, which met on Thursday, was divided over reducing the settlement cycle to T+1 as foreign portfolio investors (FPIs) are strongly against the move.

Simply put, if you bought or sold stocks today, the settlement involving final money payment and transfer of shares is now done on the third day. For a few months now, SEBI has been deliberating on the idea of cutting down the settlement cycle to early morning of the next day of the trade.

FPIs told SEBI that they would face practical issues with a T+1 settlement cycle as they operate across multiple time zones and their custodians may not be able to handle settlements since the person in one time zone may be asleep when traders in India are punching orders. SEBI on Thursday discussed the issue of faster trade settlement with the SMAC, which comprises members from stock exchanges, brokers and FPIs. The SMAC was divided in its opinion on the issue, the sources said.

But the market regulator is set to raise the minimum net worth criteria for stock brokers to ₹1 crore from ₹10 lakh on the BSE, the sources said. On the National Stock Exchange, the net worth requirement for a stock broker is already ₹1 crore. SEBI is also thinking on linking the leverage of a stock broker to net worth and liquid or disposable assets, the sources said.

SEBI is also likely to raise the capital adequacy ratio of a stock broker from around ₹50 lakh (base minimum capital) now to ₹1 crore.

Self-clearing members

Similarly, SEBI will raise the net worth criteria for self-clearing members to ₹10 crore, from ₹3-5 crore. The net worth criteria for trading-cum-clearing members is likely to be hiked to ₹25 crore. A clearing member is one who also takes the responsibility of settling client trades.