

**Reviewed on 03/01/2022**

**Policy on Pre-funded instruments / Electronic fund transfers**

The stock brokers, at times, have to accept Demand Drafts from their clients to meet pay-in obligations or margin requirements.

The stock brokers were not able to maintain documentation of the details of funds so received, such as the details of the name of the client and bank account-number from which this instrument was made as these details were not mentioned on such instruments. This gave rise to a possibility of flow of third party funds / unidentified money, which was not in accordance with the provisions of the SEBI Act. It would also have affected the integrity of the securities market.

So to consolidate these practices, on June 9, 2011, SEBI vide Circular No. CIR/MIRSD/03/2011 clarified the procedure by which any pre-funded instruments, such as, Pay Order, Demand Draft, Banker's cheque, etc., can be accepted. This is clarification to the earlier circular of SEBI (Circular No. SEBI / MRD / SE / Cir-33 / 2003 / 27 / 08 dated August 27, 2003), that has permitted Demand drafts as a valid mode of receipt and payment of funds.

In view of the above, the following procedures are to be followed and documented in our office when funds are received from the clients through pre-funded instruments, such as, Pay Order, Demand Draft, Banker's cheque, etc.:

- a. If the aggregate value of pre-funded instruments is 50,000/- or more, per day per client, accept the instruments only if the same is accompanied by the name of the bank account holder and number of the bank account from which this instrument is made, duly certified by the issuing bank.  
The certificate has to be retained and produced for audit/inspection purposes. Any of the document mentioned below would amount to a valid certificate for the above purposes:
  - i. Certificate from the issuing bank on its letterhead or on a plain paper with the seal of the issuing bank.
  - ii. Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.
  - iii. Certified copy of the passbook/bank statement for the account debited to issue the instrument.
  - iv. Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.
- b. Pay Order, Demand Draft, Banker's cheque will be accepted in the organization only after it is approved by the Compliance Officer.
- c. It will remain the primary responsibility of the compliance officer to maintain an audit trail of the funds received to ensure that the funds are received from our clients only.