



14 May 2026

To: SEBI

Dear Sirs/Madams

SEBI - Consultation Paper on Review of Variable Net Worth for Stock Brokers

FIA¹ appreciates the opportunity to provide comments to SEBI's consultation paper on "Review of variable net worth for stock brokers".

We strongly support SEBI's commitment to enhancing market stability and strengthening risk management frameworks. We recognise that SEBI's proposed revised framework for variable net worth requirements for stock brokers (**Proposals**) is intended to ensure that net worth operates as an effective "second line of defence" alongside margin requirements.

We also believe that certain aspects of the Proposals would benefit from recalibration to ensure that the resulting framework remains risk-based, proportionate, and aligned with the structure of the Indian market.

KEY OBSERVATIONS ON THE PROPOSALS

1. Proposals Should Reflect Existing Risk Safeguards

India's exchange-traded derivatives framework already provides a strong and coherent framework for aligning client risk, collateral usage and market-wide default protection. The framework materially reduces the risk that a broker or clearing member default would transmit losses to the CCP or result in the loss of client assets.

Client risk is currently addressed through a combination of front-end and real-time controls, including mandatory pre-funding of margins, real-time mark-to-market and collateral recalculation, trading restrictions where utilisation thresholds are breached, and conservative initial margin requirements that materially limit leverage

¹ FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers. FIA's mission is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's clearing firm members play a critical role in the reduction of systemic risk in global financial markets. Further information is available at www.fia.org.



At the clearing house level, systemic risk is further mitigated through robust default management arrangements, including NSE Clearing's Cover-3 default fund framework. This provides a mutualised layer of protection for extreme but plausible default scenarios.

Separately, client asset protection in India is achieved structurally through segregation and upstreaming arrangements, rather than through reliance on broker balance sheets. As brokers do not hold client collateral in the same manner as in certain other jurisdictions, the risk of client assets being exposed to broker insolvency is materially reduced.

Taken together, these features mean that client positions are pre-funded and managed in real time, leverage and uncovered exposures are tightly constrained, tail risk is addressed at the CCP level, and client assets are protected through structural safeguards.

Against this background, we respectfully suggest that any revised variable net worth framework should be calibrated to the residual risks that remain at the broker level. It should avoid duplicating protections already embedded in the Indian market structure, including pre-funded margins, real-time collateral controls, upstreaming of client funds and CCP-level default resources.

2. Client Balances Should Not Define Broker Risk

The proposal to link broker net worth requirements to client deposits or client scale does not accurately reflect the location of residual risk within the current market structure.

Client deposits are not broker assets. They are subject to segregation and upstreaming requirements, and function primarily as collateral to support client obligations. In that sense, they operate as risk mitigants, rather than as sources of broker exposure.

Accordingly, increasing broker net worth requirements by reference to client deposits risks requiring capital against exposures that have already been substantially reduced or removed from the broker's balance sheet. It may also have the effect of penalising brokers for maintaining or encouraging higher client collateral buffers, even where those buffers strengthen default resilience.

Further, the Proposals risk conflating client-driven risk with house proprietary trading risk although the two are conceptually distinct. Client risk is already constrained through pre-funded margins, real-time collateral monitoring and trading controls. If proprietary trading risk is the relevant regulatory concern, it should be addressed directly and calibrated by reference to the broker's proprietary exposures, rather than through proxies such as client deposits or client count.



3. Proportionality and Risk Based Calibration

Any increases in variable net worth requirements should be proportionate to the residual risks that remain at the broker level, taking into account the protections already provided by India's margining, collateral and upstreaming framework. They should also be supported by a clear identification of the specific risk or regulatory gap it is intended to address.

This is particularly important given India's pre-funding and upstreaming framework. These arrangements are intended to protect clients by ensuring that collateral is segregated, monitored and transferred away from the broker balance sheet. Against that backdrop, a 10% requirement is material and should be justified by reference to the residual risk actually borne by brokers.

International comparisons should also be treated with caution. We understand that many US futures commission merchants hold residual interest materially below 10% of total assets under segregation, notwithstanding that the US framework does not include the same combination of pre-funding and upstreaming requirements that applies in India. This reinforces the need for any 10% requirement to be carefully calibrated to actual residual broker-level risk.

In addition, these costs may ultimately be passed on to clients through higher trading costs, and may disproportionately affect smaller or growing intermediaries. This will have implications for competition, market access and liquidity.

If SEBI considers that additional safeguards are necessary, more targeted tools may be available, including:

- enhanced concentration margins for large or correlated positions;
- calibrated adjustments to default fund contributions, where the relevant risk is mutualised at the CCP level; and
- explicit capital-linked limits on house proprietary trading, if proprietary risk is the relevant concern.

These measures would more directly target the source of risk, while preserving alignment between capital requirements, market incentives and financial stability.

For these reasons, FIA respectfully suggests that the Proposals be recalibrated so that any additional variable net worth requirement is clearly linked to residual broker-level risk, avoids duplicating protections already embedded in the existing framework, and remains proportionate to the risks that net worth requirements are intended to address.



We welcome the opportunity to work with SEBI to address these comments. Please feel free to contact me at bherder@fia.org or TzeMin Yeo, Head of Legal & Policy, Asia Pacific at tmyeo@fia.org should you wish to further discuss.

Yours

A handwritten signature in black ink, appearing to read 'Bill Herder', is written over a light grey horizontal line.

Bill Herder
Head of Asia-Pacific