

SEBI issues Consultation paper on Review of variable net worth for stock brokers

The **Securities and Exchange Board of India (SEBI)** has proposed shifting the calculation of brokers' variable net worth from a metric based on client funds retained with them to a composite formula based on client credit balances and the size of their client base. The requirement itself came in 2022, when brokers were asked to maintain net worth equal to ten percent of the average daily cash balance of client funds retained with them over the previous six months.

The SEBI said that such approach has become less effective after the upstreaming framework kicked in. Client funds are now transferred to clearing corporations, leaving brokers with little cash on their books and weakening the basis of the current calculation. The regulator now wants net worth requirements to better reflect the scale and risks of a broker's operations rather than the amount of client money held with them.

As per the draft guidelines, one part of the requirement would be linked to 10 percent of the average credit balance of clients over the previous six months, shifting the focus from cash retained to overall client exposure. Another layer ties capital to the number of active clients. Brokers with more than 10 thousand and up to 50 thousand direct clients would need to maintain Rs 50 lakh, with an additional Rs. 50 lakhs for every further block of 50 thousand clients or part thereof.

A separate slab applies to clients brought in through authorised persons. The proposal sets Rs. 5 lakhs for up to 2500 such clients, Rs. 25 lakhs for up to 10 thousand, and Rs. 50 lakhs for every additional 10 thousand clients or part thereof. SEBI has sought public comments on the proposal until May 15, 2026.