

SEBI seeks public comments on reviewing Variable Net Worth for Stock-Brokers

BACKGROUND

The Securities and Exchange Board of India (**SEBI**), vide consultation paper dated April 24, 2026, has proposed a review of the framework for the computation of variable net worth for stockbrokers.

The concept of variable net worth was introduced pursuant to the SEBI (StockBrokers) (Amendment) Regulations, 2022, under which brokers are required to maintain net worth as the higher of base net worth or variable net worth. Variable net worth is presently specified as 10% of the average daily cash balance of clients retained with the broker across segments/exchanges in the previous six months.

SEBI has noted that with the introduction of the upstreaming framework, under which clients' funds are upstreamed by brokers to clearing members/clearing corporations, there is a minimal amount of client funds retained with brokers. Accordingly, the existing method of calculating variable net worth based on such retained funds may not be effective, and there is a need to revisit the same.

KEY PROPOSALS

Pursuant to the recommendations of a Working Group comprising stock exchanges and broker associations, and subsequent internal deliberations, SEBI has proposed a revised method for the computation of variable net worth, as set out in the draft circular annexed to the consultation paper. Variable net worth is proposed to be calculated as an aggregate of the following parameters:

- **Average Credit Balance: 10% of the average credit balance of all clients** across segments/exchanges over the previous six months.
- **Number of Active Clients:**
 - **Direct Clients:** Rs. 50 lakhs, if the broker has more than 10,000 and up to 50,000 active clients and further Rs. 50 lakhs for every additional 50,000 active clients (or part thereof). The count of clients shall be across all segments across exchanges and shall not include clients through Authorised Persons (APs).
 - **Clients through Authorised Persons (APs):** Rs. 5 lakhs for up to 2,500 clients, Rs. 25 lakhs for more than 2,500 and up to 10,000 clients and Rs. 50 lakhs for every subsequent 10,000 active clients (or par thereof), across all segments across exchanges.

RATIONALE

SEBI has stated that net worth is considered a second line of defence (the first being margins) and sufficient capital is required to cover risks not covered by margins. It is therefore considered necessary that the net worth requirement be commensurate with the size and risks of operations of a broker, including aggregate clients' funds, number of direct active clients and number of clients through APs.

IMPLEMENTATION

The draft circular provides that the revised framework for the computation of variable net worth shall come into effect from a date to be specified. Stock exchanges are directed to bring the provisions of the circular to the notice of their members/participants and to make necessary amendments to the relevant byelaws, rules and regulations for implementation. SEBI has also invited public comments on the proposed framework, with the last date for submission being May 15, 2026.

**ELP Comments**

The proposal reflects SEBI's recognition that the existing variable net worth framework has become less effective due to the upstreaming of client funds. The shift to a multi-parameter approach, based on client balances and the number of clients, indicates an attempt to better align net worth requirements with the scale and nature of broker operations.

By framing net worth as a second line of defence, the consultation paper also underscores the need for adequate capital buffers beyond margins, suggesting a recalibration of the framework to remain relevant in the current regulatory environment.

We hope you have found this information useful. For any queries/clarifications, please write to us at insights@elp-in.com or write to our authors:

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