

Frequently Asked Questions on Inspection of the Members

1. Why there is a need to conduct an Inspection?

Inspection is a tool which helps the Exchanges to verify the compliance level of the members with regards to the requirements stipulated by SEBI, Stock Exchanges and other Regulators.

2. Is the Inspection mandated by any Regulation?

SEBI vide letter no. MIRSD-2/27394/2012 dated December 07, 2012 formulated a policy for annual inspection of members segment on a yearly basis.

3. What is the frequency of Inspection for a Member?

Vide the above mentioned letter dated December 07, 2012 SEBI has specified criteria for selection of members for inspection. Accordingly, the members are selected for inspection.

4. Who conducts the inspection?

The Exchange has its own team of officials who conduct inspections.

5. How will a member know that he is going to be inspected?

The Exchange will send a letter of intimation to the member in advance, giving the member a date on or after which the inspection will be carried out.

6. What preparations the members should do before the Inspection starts?

The Exchange will send an Inspection Data Requisition and a list of documents to member, which the member has to submit to the inspection team prior to inspection/ keep ready for verification at the time of on sight inspection.

7. What is the scope of Inspection?

Scope of Inspection is given below.

Sr. No.	Verification of compliance of following areas
1	Membership Requirements
2	Books of Accounts, Records and Documents
3	Client account opening
4	Power of Attorney and related compliance
5	Handling of Investor Grievances
6	Management of clients' funds

Metropolitan Stock Exchange of India Limited

(Formerly known as MCX Stock Exchange Ltd.)

Registered Office: 4th Floor, Vibgyor Towers, Plot No. C - 62, Opp. Trident Hotel, Bandra Kurla Complex, Bandra East, Mumbai 400098.

Tel: +91-22-6112 9000 | Fax: +91-22-6112 9009 | customerservice@msei.in | www.msei.in

CIN: U65999MH2008PLC185856

7	Management of clients' securities
8	Risk Management processes / Margin reporting
9	Contract Notes and related compliances
10	Trading System and related compliances
11	Pro- Account trading and related compliances
12	Authorized Persons and related compliances
13	Dealings with Intermediaries and Members of Others Exchanges
14	Provisions of prevention of Money Laundering Act, 2002 & Combating of Terrorism (CFT) under Unlawful Activities (Prevention) Act, 1967
15	Office Management
16	Other Compliances
17	Verification of observations (Internal Audit Report Observations/ Previous Exchange Inspections/ SEBI Inspections)

Apart from the above, exchange may at its own discretion verify any other requirement.

8. What happens once the onsite inspection process is completed?

- a) Once the onsite inspection process is completed, the Exchange will send a letter of observation (if applicable) to the member. This letter would contain the discrepancies observed, circular references for those observations and the deadline for submitting the reply.
- b) In case of no discrepancies observed, no observation letter is issued and the inspection process is closed.
- c) Member has to submit his reply within the stipulated time,. In case the member has a contrary view on the violations pointed out, he should reply with the relevant documents, if any.
- d) Once the reply is received, it is analyzed at the Exchange and the course of action, if any, is decided.
- e) The action is then communicated to member in line with the penalty structure prescribed by the Exchange vide circular no. MCX-SX/INSP/1277/2013 dated June 28, 2013 of the Exchange

9. What is the time period in which the inspection process is to be closed?

All the onsite inspections are to be completed within the financial year in which they were scheduled. SEBI vide circular no. SEBI/MIRSD/Master Cir-04/2010, dated March 17, 2010 advised the Exchanges to complete the post inspection action process within 6 months from the conclusion of the inspection of a Member.

Metropolitan Stock Exchange of India Limited

(Formerly known as MCX Stock Exchange Ltd.)

Registered Office: 4th Floor, Vibgyor Towers, Plot No. C - 62, Opp. Trident Hotel, Bandra Kurla Complex, Bandra East, Mumbai 400098.

Tel: +91-22-6112 9000 | Fax: +91-22-6112 9009 | customerservice@msei.in | www.msei.in

CIN: U65999MH2008PLC185856