**ANNEXURE-III**

**PRESCRIBED SAMPLE SIZE**

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| **Sr. No.** | **Particulars** | **Indicative Sample Size** | **Methodology for Sample selection** |
| **1** | **Client registration documentation /Anti Money Laundering compliance** |
| a | All relevant Client Registration Documents executed with clients in compliance with SEBI circulars and supporting collected from the clients are available and are easily retrievable. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| b | UCC is allotted to all the clients registered during the audit period & the same is timely uploaded to the Exchange. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| c | No clauses are included in any of the documents executed with the clients-a) which dilutes responsibility of member or b) which is in conflict with any of the clauses in mandatory documents, Rules, Bye-laws, Regulations, Notices, Guidelines & Circulars issued by SEBI & Exchanges orc) which is not in the interest of the Investor. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| d | All the mandatory clauses/documents and Annexures such as KYC, details relating to trading account , rights and Obligation, Dos and Don’ts , RDD and Tariff sheet as stipulated by SEBI/Exchanges have been included in the mandatory section of the Account opening kit executed with the clients. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| e | In-person verification is done by Employee, Sub broker or Authorised person only and the date of verification, name, designation and signature of the official who has done in-person verification and the Rubber Stamp is incorporated in the client registration form. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| In case, in-person verification of non- resident clients is not done, attestation of KYC documents is done by Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy/ Consulate General in the country where the client resides. |
| f | Any changes in address, bank account or demat account is carried out on receipt of written request along with documentary proof from the respective client. | 25 clients or 100% whichever is lower, wherever changes have been made. | Client accounts where changes have been made by the Member**.** |
| g | Trading member has taken documentary evidence in support of financial information provided by the client for derivatives segment. | Refer Sampling Criteria 1 | Clients registered during the audit period in derivative segment. Refer Sampling Criteria 1 |
| h | Client details including financial details are reviewed periodically and updated for clients in compliance with Exchange circulars. | Refer sampling criteria 3. | Top traded clients during the audit period. |
| i | Trading code and the unique client code allotted to a client and the e-mail furnished by the client for the purpose of receiving ECN and other details, are communicated by the trading member through the client account opening form or otherwise in writing to the client. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| j | Member has identified the beneficial owners of the client ( non-individuals) and has taken reasonable measures to verify the identity of such person as per SEBI Circular CIR/MIRSD/2/2013 dated January 24, 2013. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| k | Member has a process to identify the authority of the person who is placing orders on behalf of the client. | Refer Sampling Criteria 3 | Top traded clients during the audit period. |
| l | Risk profiling of the clients has been done as per the written down policy of the trading member as per the PMLA master circular. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| m | Member has adopted sufficient due diligence process for clients according to their risk profile as per the PMLA master circular. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| n | Member is having a clearly defined policy for acceptance of clients and has ensured that an account is not opened where the member is unable to apply appropriate client due diligence measures/KYC Policies. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| o | Member has identified clients of special category (CSC) as per the PMLA master circular. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| p | The Client has opted and signed against stock exchange as well as market segment where he intends to trade/traded during the year. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| q | Copies of complete set of client registration documents including POA executed by the client was delivered to the client free of charge and within 7 days of upload of UCC. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| r | Authorizations from the client sought in non-mandatory document are separate & do have client’s specific consent. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| s | Trading members had displayed the set of standard documents/policies on their own website for information. | Audit Period | - |
| t | The member has uploaded the E mail ID and the Mobile number of the client in the UCI database as per the details given by the client in the client registration documents. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| u | The member has uploaded the same E mail ID & the Mobile number of the client in the Exchange UCC records and in the Member’s back office records and there are no variations. | All clients registered as at the end of the Audit period | Step-1 – Obtain the UCC records uploaded to the Exchange containing the client code, name, PAN, segment, E mail ID and mobile number etc.Step-2 - Obtain the back office record of client list containing the client code, name, PAN, segment, E mail ID and mobile number etc.Step- 3 Compare whether the mobile numbers & E mail ID updated in both the list are same for each client. |
| v | Member has displayed the following message on their respective website:Attention Investors "Prevent unauthorised transactions in your account --> Update your mobile numbers/email IDs with your stock brokers. Receive information of your transactions directly from Exchange on your mobile/email at the end of the day” | Member's Website | Examination of Member website (if any) |
| w | Member has complied with the requirement of uploading the KYC information with the SEBI registered KRAs for all the clients on a continuous basis within the prescribed time limit as per SEBI circular MIRSD/Cir-26/2011 dated December 23, 2011 and MIRSD/Cir-5/2012 dated April 13, 2012 and complied with the provisions of the Circular. | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| x | Member has downloaded KYC information from KRA system for new clients who are already registered with KRA | Refer Sampling Criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| xi | Member has uploaded the KYC data with CKYCR, in respect of all individual accounts opened on or after August 1, 2016 by October 31, 2016. | Audit Period | 1.      Check whether KYC date of the sample clients (Refer Sampling Criteria 1) registered during the Audit period are uploaded2.      Check whether KYC data of the clients registered on or after August 1, 2016 are pending to be uploaded. |
| xii | Member has uploaded the KYC data of individual clients registered prior to August 01, 2016 with CKYC by December 31, 2016. | All clients | Identify whether there are any clients registered prior to August 01, 2016 whose KYC details are yet to be uploaded with CKYC |
| xiii | Trading Member has prominently displayed on account opening kits, Website Advertisement, publication, notice board and display board, portal website (if any) the following details-i) name of the member as registered with SEBI,ii) its own logo, if any, iii) its registration number,iv) its complete address with telephone numbers. | Audit Period | - |
| xiv | Member has made available the documents relating to rights & obligations, uniform risk disclosure document, do’s & don’t to the clients (registered after August 01, 2016) either in electronic or physical mode as per the preference of the client. | Refer Sampling Criteria 1 ( Applicable for clients registered on or after August 1, 2016) | Clients registered during the audit period. Refer Sampling Criteria 1 |
| xv | Member has maintained appropriate logs in case the documents relating to rights & obligations, uniform risk disclosure document, do’s & don’t are sent electronically to the clients, registered after August 01, 2016 | Refer Sampling Criteria 1 ( Applicable for clients registered on or after August 1, 2016) | Clients registered during the audit period. Refer Sampling Criteria 1 |
| xvi | Members have displayed the documents relating to rights & obligations, uniform risk disclosure document, do’s & don’t in vernacular languages on their own website. | As on day of Audit | - |
| **2.** | **Order management and risk management systems** |
| a | Trading member has well documented risk management policy including policy on Margin collection from clients/Trading members. | Audit Period | - |
| b. | Member has a sound system for collecting and reporting client margin collection to the Exchange as per the Exchange/Clearing Corporation requirement. In case of any irregularity observed, mentioned in remarks the instances where false reporting is observed. | Refer Sampling Criteria 2 | Top clients in each segment (F&O and CD Segment) with highest upfront margin obligation.**Step-1**: Identify top 6 dates (one date in each month of the Audit period) with highest upfront margin requirement in each segment (FO and CD Segment).**Step-2 :** Out of the 6 dates selected, identify top clients ( sample size to be based on sampling criteria 2) in each segment, with highest margin obligation |
| c. | Member has not funded its clients in contravention to SEBI requirement.  | Refer Sampling Criteria 3 | * 50 % of the minimum sample should be the top debit balance clients (across all segments) as on the end of the Audit period.
* At least 25% of the minimum sample should be out of top clients in FO segment with highest upfront margin requirement.
* At least 25% of the minimum sample should be out of top clients in CD segment with highest upfront margin requirement.

In case the minimum number is not available in a particular criterion, then clients shall be selected based on the remaining criteria. |
| d | Member has correctly reported details of client funding, if any, to the exchange. | Audit Period | - |
| e | Trading member has not undertaken or was not party to or has not facilitated any fund based activity through financier including any associate, related or third party entities. | Audit Period | **Methodology** :1. Identify instances where Member has taken instruction from any financer to execute trades in client accounts or transfer client’s funds/securities
2. Check whether member is a party to any agreement/ arrangement, directly or indirectly, entered into between their clients and any person to fund the client transactions
3. Check whether the member has obtained any authorisation or POA, for operating the depository/bank accounts of clients or has operated such accounts under a financing arrangement between the client and any person.
4. Whether member has acted as a conduit or front for financing any secondary market transactions entered into by their clients, directly or indirectly.
 |
| f | Checks are in place to ensure that no unauthorized orders are executed from any of the terminals. | Audit Period | Check whether adequate systems/measures are in place to ensure that orders are received from respective clients only. Undertake a process walkthrough to understand the order placing mechanism and the process of issuing trade/order confirmations. |
| g | In case of dormant accounts, if the account is reactivated then there are checks in place to ensure that account is operated by the relevant client only. | Audit Period | Check whether an appropriate inactive account policy is in place and appropriate documentation is taken / process is adopted for reactivation of a dormant account. |
| h | Initial and other margins are collected from respective clients in the prescribed form of funds, fixed deposit receipts, bank guarantees and approved/liquid securities with appropriate haircut. | Refer Sampling Criteria 2 | Select clients based on the methodology stipulated in point 2 (b). Verify whether the margin reported as collected is available with the Member in approved forms only and as stipulated by Exchange/SEBI from time to time. |
| i | Proper systems are in place to ensure timely collection for pay-in from the respective client as per settlement schedule. | Audit Period | 1. Identify instances of client defaults during the audit period. In case of frequent defaults seek reasons from Member and identify any process gaps.
2. Ascertain the process adopted by the Member to recover outstanding balances from their clients
 |
| j | Proper monitoring mechanism is in place to review long outstanding debit balances in clients’ account and recovery of the same. | Top 25 (or 100% whichever is lower) clients with debit balance | 1. Undertake an ageing analysis of the outstanding debit balance of the sample clients as on the last day of the Audit period.
2. Ascertain the process adopted by the Member to recover outstanding balances from their clients
3. Report if more than 50% of the debit balance is outstanding for more than 3 months.
 |
| k | Trading member has implemented proper internal code of conduct and adequate internal controls to ensure that proper checks and balances are in place with respect to SEBI Circular Cir/ ISD/1/2011, dated March 23, 2011 and Cir/ISD/2/2011 dated March 24, 2011 on the subject ‘Unauthenticated news circulated by SEBI registered market intermediaries through various modes of communication. | Audit Period | Verify whether the Member has put in place adequate internal controls as per SEBI Circular Cir/ ISD/1/2011, dated March 23, 2011 and Cir/ISD/2/2011 dated March 24, 2011 to control the circulation of Unauthenticated news. |
| l | Trading member has not outsourced their core business activities and compliance functions and adhered to the provisions of SEBI circular CIR/MIRSD/24/2011 dated 15th Dec 2011. | Audit Period | Report if Member has not adhered to the provisions of SEBI circular CIR/MIRSD/24/2011 dated 15th Dec 2011 relating to outsourcing of their core business activities and compliance functions. |
| m | The member has not recovered from the clients excess amount towards short margin penalty levied by the Exchange / Clearing Corporation in the derivative segment. | Audit Period | 1. Identify maximum 25 instances where short margin reporting penalty has been levied on the Member during the audit period.
2. Check how the Member has passed on the penalty to the concerned clients
3. While passing on the penalty check whether relevant supporting documents has been provided to the client
4. Report in case any excess penalty amount is levied on the client.
 |
| n | In case the member has passed on the short margin penalty to the clients, the member has provided the relevant supporting documents to the clients. | Audit Period | 1. Identify maximum 25 instances where short margin reporting penalty has been levied on the Member during the audit period.
2. Check how the Member has passed on the penalty to the concerned clients.
3. While passing on the penalty check whether relevant supporting documents has been provided to the client.
4. Report in case any excess penalty amount is levied on the client.
 |
| o | Member has drafted and implemented Surveillance policy as per the Exchange Circular no. MCX-SX/ID/1053/2013 dated March 08, 2013. | Audit Period | 1. Check whether the Member has drafted a Surveillance policy as per the Exchange Circular no. MCX-SX/ID/1053/2013 dated March 08, 2013
2. Check whether the policy is approved by its Board/Partners/Proprietor.
3. Verify whether the member has implemented the provisions of the policy and taken adequate steps to monitor and report the alerts generated
4. The Member has prepared a quarterly MIS for the alerts generated/disposed/pending and the same is placed before the Board/Partners/Proprietor
 |
| p | Member has implemented appropriate checks for value and / or quantity based on the respective risk profile of their clients as per the provisions of SEBI Circular CIR/MRD/DP/34/2012 dated December 13, 2012. | Audit Period | - |
| q | The member has put-in place a mechanism to limit the cumulative value of all unexecuted orders placed from their terminals to below a threshold limit set by them as per the provisions of SEBI Circular CIR/MRD/DP/34/2012 dated December 13, 2012. | Audit Period | - |
| r | Where the Member or its group entities holds more than 1% of share capital of a listed company, the same has been disclosed to the Exchange as per Exchange circular No. MCX-SX/ID/1613/2013 dated November 29, 2013 | Audit Period | - |
| s | Member has taken adequate documentary evidences as specified in SEBI circular CIR/MRD/DP/20/2014 dated June 20, 2014 in case of participants taking positions in CD segment in excess of the applicable position limits based on underlying exposure specified in the said circular. | 10 clients who have taken positions during the audit period | Top 10 clients who have taken positions during the Audit Period |
| **3** | **Contract notes, Client margin details and Statement of accounts** |
| a | Contract notes are sent in the prescribed format and within prescribed time limit. | 10 days per segment | 1. Obtain trade data for 10 dates (each segment) and PODs/e logs for the corresponding dates.
2. The dates shall be the top 10 dates with highest clientele turnover during the Audit period.
3. Compare the trade data with the PODs/ E logs to see that contract notes have been issued to all the traded clients within 24 hrs.
 |
| b | Trading member has issued contract notes only for trades done under the rules, byelaws & regulations of the Exchange and not otherwise. | 10 days per segment | 1. Examine as per methodology specified under point 3(a).
2. Check whether any contract notes have been issued without any corresponding trades
 |
| c | All prescribed details including running serial number, name and signature of authorized signatory, dealing office details and brokerage are contained in contract note. | Audit Period | Obtain sample contract note issued by the Member during the inspection and verify whether the same complies with the format specified by MSEI/SEBI from time to time and applicable for the audit period. |
| d | Daily Margin statement is issued to the respective clients with the details as specified. | 10 days per segment | 1. Obtain PODs/e logs for sending the daily margin statement in derivative segment for sample 10 dates.
2. Check from the POD/ E logs whether daily margin statement have been issued to all clients who have traded/have open positions in FO/Segments on those dates
 |
| e | Proof of delivery / dispatch/ log for dispatch of Contract Notes/ Statement of Accounts/ daily margin is maintained. | 1. ays per segment
 | 1. Obtain PODs/e logs for sending the daily margin statement in derivative segment for sample 10 dates.
2. Check from the POD/ E logs whether daily margin statement have been issued to all clients who have traded/have open positions in FO/Segments on those dates
 |
| f | Member has complied with regulatory requirements related to Electronic contract notes (ECN) if the contract notes are sent electronically. | Audit Period | Check whether electronic contract notes are sent :1. To those clients who have opted for the same
2. Electronic contract notes are sent on the E mail IDs provided by the client
3. Check whether the logs maintained by the Member clearly states the status of the issue of contract notes
 |
| g | Trail of bounced mails is maintained and physical delivery is ensured in case of bounce mails for ECNs. | Audit Period | 1. In case the Member has a practice of sending ECNs, verify whether bounced mail logs are maintained
2. In case there are no bounce mails, it needs to be checked whether system has a provision to generate bounce logs in case any ECNs gets undelivered.
3. In case of any bounce mails, ascertain whether Member has re-send the same or issued physical contract notes to such clients.
 |
| h | Complete statement of accounts for funds and securities are issued on a quarterly basis to clients (wherever applicable), with error reporting clause. | Quarterly statement for the quarter ended June 2017 & September 2017 | Check for sample 25 clients for each quarter |
| i | Details regarding appointment of Compliance Officer and changes there in, if any, have been informed to the exchange. | Audit Period | - |
| j | Trading Member has prominently displayed on contract notes, statement of funds and securities, correspondences with the clients the following details-i) name of the member as registered with SEBI,ii) its own logo, if any, iii) its registration number, iv) its complete address with telephone numbers,v) the name of the compliance officer, his telephone number and e-mail address. | Audit Period | Obtain sample contract note issued by the Member during the inspection and verify whether the same complies with the format specified by MSEI/SEBI from time to time and applicable for the audit period. |
| k | Trading member has not created / provided e-mail ids for clients. | E-Logs for 10 days per segment | Steps to be followed :1. Obtain the E logs for sample 10 days for each segment
2. The dates shall be the top 10 dates with highest clientele turnover during the Audit period.
3. Additionally, from the client registration documents, check for sample 10 clients whether Emails on which the contract notes have been sent are provided by the client only.
 |
| l | Member has collected physical letters from the clients who have requested for change in e-mail id. | Audit Period | Check for all instances of changes in E mail IDs by the Member |
| m | In case facsimile signatures are used on physical contract notes, Member has maintained well-documented & approved policy regarding its use | Audit Period | - |
| n | Member has sent text of **Regulation 19 & 20 of SECC Regulations, 2012** to clients dealing with listed Stock Exchanges along with the contract notes | Audit Period | Transaction undertaken in the Audit Period |
| o | Member has sent text **of Schedule II of the SEBI (Intermediaries) Regulations, 2008** to clients listed depositories along with the contract notes | Audit Period | Transaction undertaken in the Audit Period |
| **4** | **Dealing with clients’ funds and securities** |
| a | Client’s funds are used only for the purpose of the respective client’s transactions. If not instances to be provided in remarks column. | 10 days | 1. Top 10 dates with highest clientele funds pay-in obligation and top 10 dates with highest clientele securities deliverable obligation (Value-wise)
2. Check for each dates whether respective client funds/securities were used for meeting their obligations on the Exchange
 |
| Client’s securities are used only for the purpose of the respective client’s transactions. If not instances to be provided in remarks column. |
| b | Pledge of client securities is done only through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996. (Applicable from July 01, 2017 onwards) | Audit Period | To be verified from the client beneficiary account of the Member |
| c | Member has pledged securities of only those clients who have a debit balance in their ledger. (Applicable from July 01, 2017 onwards) | Audit Period | Obtain the list of clients whose securities have been pledged, its value and the funds raised for each client. Check whether such clients had debit balances in their account during the Audit period when funds were raised by pledging their securities |
| d | Member has credited the funds raised against the pledged client securities only to client bank account of the Member. (Applicable from July 01, 2017 onwards) | Audit Period | Verify as to where the funds raised after pledging of client securities are being credited. |
| e | Funds raised by pledging client securities were utilised for respective client only. List of instances to be provided in remarks column in case of non-utilisation of proceeds for respective client. | Mention the date checked | 1. Identify the date on which maximum funds were raised by the Member after pledging the client securities.
2. Check on the date, whether the funds raised were used for respective client only.
3. In case funds are raised from multiple sources, then the date on which maximum funds are raised, taking all sources together, shall be identified.
 |
| f | Member has sent statement of pledge & funds raised to clients as and when their securities are pledged/unpledged (Applicable from July 01, 2017 onwards) | Audit Period | 1.     Obtain the client wise list of securities pledged from the Member ( quantity wise) as on the last working date of each month ( w.e.f July 2017).2.     Check whether there is any change in the quantity of securities pledge of any client.3.     Whether Member has sent the pledge statement to such clients. |
| g | Constituent beneficiary accounts are used for authorized purposes only. In case of any irregularity observed, mention the instances in remarks column. | Audit Period | All Constituent beneficiary account and client bank accounts to be checked |
| Client bank accounts are used for authorized purposes only. In case of any irregularity observed, mention the instances in detail in remarks column. |
| h | No cash dealings with clients are done in violation of the prescribed norms. | Audit Period | Cash book maintained by the Member to be verified |
| i | In case where aggregate value of banker’s cheque / demand draft / pay order is of Rs 50,000 or more per client per day, then the same are accompanied with name of bank account holder and number of bank account debited, duly certified by issuing bank as per the provisions of SEBI Circular CIR/MIRSD/03/2011, dated June 9, 2011. | Audit Period | All instances of receipt of banker’s cheque / demand draft / pay order aggregate is of Rs 50,000 or more per client per day. |
| j | Member maintains audit trail of the funds received and systems are in place to ensure that the funds are received from their respective clients only. | Audit Period | Select 10 clients with maximum fund payments to the Member during the Audit period. |
| k | Receipts/payment of funds are received/transferred from/to respective clients only. | Audit Period | - |
| Receipt/delivery of securities are received/transferred from/to respective clients only. |
| l | Payment to clients are not made from proprietary bank accounts. | Audit Period | - |
| m | In case of any transfer of funds between client account/s & proprietary account/s for legitimate purposes, Member has maintained a daily reconciliation statement clearly indicating the details of funds transferred. (Applicable from July 01, 2017 onwards) | (Applicable from July 01, 2017 onwards) | Verification of transfer/JV entries between client accounts and proprietary accounts. |
| n | In case of any transfer of securities between client account/s & proprietary account/s for legitimate purposes, Member has maintained a stock transfer register clearly indicating the day-wise details of securities transferred. (Applicable from July 01, 2017 onwards) | (Applicable from July 01, 2017 onwards) | Verification of transfer of securities between client beneficiary accounts and proprietary accounts. |
| o | Client’s funds / securities are transferred to respective clients within one working day of payout from Exchange in case of no running account authorization. | 5 days | Top 5 days with highest turnover during the audit period |
| p | Constituent securities received as margin is not utilized for execution of proprietary trades or trades in the name of Directors/ Key Promoters/ shareholders. | Audit Period | Verify 5 settlement dates with highest PRO obligations during the audit period |
| q | The Delivery of securities to constituent is not made from Proprietary account. | 5 days | Top 5 dates with highest clientele securities delivery obligation ( value-wise) |
| r | Excess Brokerage was not charged on trades executed on the Exchange. | 10 days per segment | Top 10 dates with highest clientele turnover during the Audit period. |
| s | Separate code for buy and sell for NRI clients are used. | Audit Period | - |
| si | Not more than one client code is allotted to a single client. | Audit Period | - |
| t | Member’s Bank books and bank statements for each bank account are reconciled and reconciliation statement for the same is prepared periodically and there are no long pending outstanding reconcilable items. | Audit Period | To be checked as on the last date of the Audit period |
| u | Register of Securities and Holding statement from depositories for each DP account are reconciled and reconciliation statement for the same is prepared periodically. | Audit Period | To be checked whether reconciliation has been done on quarterly basis. |
| v | Dividend and other corporate benefits received on behalf of clients are paid/credited/passed on to the respective clients account without any delay. | Audit Period | Delays in excess of 90 days to be reported |
| w | Trading member has taken consent from the client regarding monthly /quarterly settlement in the running account authorisation. | Refer sampling criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| x | Trading member has done actual settlement of funds & securities as consented by the client (monthly/quarterly) in the running account authorisation. | Refer sampling criteria 3 | * 50 % of the minimum sample should be out of top credit balance clients as at the end of the audit period who have traded during the audit period.
* Remaining clients to be selected who have highest credit balance (fund balance & value of securities) as at the end of the audit period but have done no transactions during the audit period.

In case the minimum number is not available in a particular criteria, then clients shall be selected based on the remaining criteria |
| y | Trading member has sent statement of accounts for funds/securities containing an extract from the client ledger for funds & securities displaying all receipts/deliveries of funds/securities while settling the account explaining retention of funds/securities. (Applicable for settlement of accounts undertaken prior to July 01, 2017) | Refer Sampling Criteria 3(Applicable for settlement of accounts undertaken prior to July 01, 2017) | * 50 % of the minimum sample should be out of top credit balance clients as at the end of the audit period who have traded during the audit period.
* Remaining clients to be selected who have highest credit balance (fund balance & value of securities) as at the end of the audit period but have done no transactions during the audit period.

In case the minimum number is not available in a particular criteria, then clients shall be selected based on the remaining criteria |
| z | Trading member has sent a statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities, within five days from the date when the account is considered to be settled. (Applicable w.e.f. July 01, 2017 onwards) | Refer Sampling Criteria 3(Applicable for settlement of accounts undertaken prior to July 01, 2017) | * 50 % of the minimum sample should be out of top credit balance clients as at the end of the audit period who have traded during the audit period.
* Remaining clients to be selected who have highest credit balance (fund balance & value of securities) as at the end of the audit period but have done no transactions during the audit period.

In case the minimum number is not available in a particular criteria, then clients shall be selected based on the remaining criteria |
| aa | Trading member has not done any inter-client adjustment for the purpose of client level quarterly/monthly settlement. | Refer sampling criteria 3 | * 50 % of the minimum sample should be out of top credit balance clients as at the end of the audit period who have traded during the audit period.
* Remaining clients to be selected who have highest credit balance (fund balance & value of securities) as at the end of the audit period but have done no transactions during the audit period.

In case the minimum number is not available in a particular criteria, then clients shall be selected based on the remaining criteria |
| ab | While settling the client accounts, Member has ensured that funds have been transferred to the clients through electronic transfer mode only except where the electronic payment instructions have failed or have been rejected by the bank (Applicable w.e.f. July 01, 2017 onwards) | Refer Sampling Criteria 3(Applicable for settlement of accounts after July 01, 2017) | * 50 % of the minimum sample should be out of top credit balance clients as at the end of the audit period who have traded during the audit period.
* Remaining clients to be selected who have highest credit balance (fund balance & value of securities) as at the end of the audit period but have done no transactions during the audit period.

In case the minimum number is not available in a particular criteria, then clients shall be selected based on the remaining criteria |
| ac | The following statutory levies/ fee/ charges are not collected from clients in excess of actuals levied on the members. Such as- i) Securities Transaction Tax, ii) SEBI turnover fees, iii) Exchange Transaction ChargesIf Excess is collected, please give complete details. | Audit Period | - |
| ad | The running account authorization taken by trading member from client(s) is dated and contains a clause which explicitly allows a client to revoke the said running account authorization at any time and would continue until such revocation. | Refer sampling criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1 |
| ae | Member has put in place systems for dealing with conflict of interest as per SEBI circular CIR/MIRSD/5/2013 dated August 27, 2013. | Audit Period | - |
| af | Member has not transferred funds from client bank account to any third party or any other non-client account | Audit Period | All client bank accounts to be checked for the audit period. |
| ag | Member has not transferred funds to its Group companies/ Associates from client bank accounts. | Audit Period | All client bank accounts to be checked for the audit period. |
| ah | Payment for own trades (PRO) are not made from client bank accounts. | Audit Period | All client bank accounts to be checked for the audit period. |
| ai | Member is not operating any assured returns schemes and mobilizing deposits from investors. If yes, please provide details. | Audit Period | - |
| aj | Member has not taken securities from any client for purposes other than margin or meeting the client’s obligation. | Audit Period | - |
| ak | Member has ensured that the funds & securities available in the client bank/s and client beneficiary account/s together with balances available with clearing Member and funds with clearing corporation are not less than the funds and securities payable to the client at all times. | Audit Period | Verification to be done based on the balances as on the last day of the Audit period |
| **5** | **Banking and Demat account operations** |
| a | Member maintains separate bank account for client funds and own funds. | Audit Period | - |
| Separate beneficiary account for clients securities and own securities are maintained by the member. | - |
| b | Clients funds are segregated from own funds . | Audit Period | - |
| Clients securities are segregated from own securities. | - |
| c | Member has reported all their Bank & DP account details to the Exchange as required by SEBI circular dated September 26, 2016 & MSEI circulars dated September 28, 2016, October 20, 2016 & October 27, 2016 | Audit Period | Check the following :1. Correctness of the details reported
2. Completeness i.e. all accounts used for trading have been reported
 |
| d | Member has named/tagged their Bank & DP accounts details as required by SEBI circular dated September 26, 2016, June 22, 2017 & MSE Circular dated September 28, 2016, October 27, 2016 and June 27, 2017 | Audit Period | Check the status of the compliance as on the date of Audit. |
| **6** | **Terminal operations and systems** |
| a | Trading terminals are located in the head office, branch office of the Member or the office of sub broker only. | 100% | - |
| b | Trading terminals are operated by approved persons/approved users with valid NCFM/BCSM/NISM certification. | 100% | - |
| c | Correct Terminal details are reported to the Exchange. | 100% | - |
| d | Member has ensured that associated persons functioning as compliance officer employed has obtained NISM series III A certification: - Within one year from the date of his/her employment after March 11, 2013.- By March 10, 2015 for compliance offices employed as on the date of SEBI notification (i.e. March 11, 2013) | Verification of Certificate for compliance officers employed after March 11, 2013 | - |
| e | Member has ensured that all associated person as defined in SEBI Notification LAD-NRO/GN/2010-11/21/29390 dated December 10, 2010 and Exchange circular no. MCX-SX/INSP/2181/2014 dated September 3, 2014 have valid NISM series VII certification – (Securities Operations and Risk Management Certification Examination). | Verification of Certificate | To be checked for all associated person except for persons handling the basic clerical/elementary functions and whose work is supervised by NISM Series VII certified personnel. |
| f | Member has taken adequate steps as specified by SEBI circular MIRSD/ DR-1/Cir-16/09 dated November 06, 2009 to review & monitor the Trading Terminals mapped to its branch/AP/Sub Broker | Audit Period | - |
| **7** | **Management of branches / sub brokers and internal control** |
| a | In case of closure of branch (if any), advance notice of the same is sent to clients. | All branches closed during the period | All branches closed during the audit period |
| b | There is a monitoring mechanism to identify sudden increase / decrease in client level turnover from any specific branch. | Audit Period | - |
| c | Periodic inspection of branch / sub broker/ AP is conducted and reports are maintained. | Audit Period | Check that at least 10% of its active sub-brokers/APs/branches are inspected by Members every year and that each active sub-broker /AP branch is inspected at least once in every 5 years. An active sub-broker /AP/ branch would mean one whose turnover is above 1/10th of the turnover of the Trading Member during the previous financial year (viz. April to March ) |
| d | Member has adequate follow up mechanism in case of adverse observations during branch/ sub-broker/ AP inspections. | Audit Period | Compliance status of the adverse observations made during branch / sub broker/AP inspections by Member to be checked. |
| e | Trading member has not dealt with unregistered intermediaries for transactions on the Exchange. | Audit Period | - |
| f | The member has not shared commission/ brokerage with entities with whom trading members are forbidden to do business / another trading member / employee in the employment of another trading member. | Audit Period | - |
| **8** | **Investor grievance handling** |
| a | Member is maintaining a register of investor complaints. | Audit Period | Check that all investor complaints registered at Exchanges/Scores are entered in the register of complaints |
| b | Member has a sound system of resolution of investor complaints in a time bound manner. | Audit Period | - |
| c | A designated email id for investor grievance is created and informed to the investors and exchange. | Audit Period | - |
| d | Complaints received on the designated email ID are being looked into to address the same. | Audit Period | - |
| e | The member has informed the Stock Exchange/ Investor about the actions taken for the redressal of grievances of the investor. | Audit Period | - |
| f | The member has to take adequate steps to resolve the complaints within 30 days from the date of receipt of the complaint. | Audit Period | - |
| g | Information about the grievance redressal mechanism as specified by SEBI circular CIR/MIRSD/3/2014 dated August 28, 2014 is displayed at all the offices of the Member for information of the investors | Requirement to be adhered w.e.f. October 27, 2014 | - |
| **9** | **Maintenance of Books of Accounts** |
| a | Prescribed books of accounts, registers, records and client master are maintained with the required details and for the stipulated period as per regulatory requirements. | Audit Period | - |
| b | Register of securities is maintained client wise-scrip wise. | Audit Period | - |
| c | All Entries for receipt and payment/transfer of securities are duly recorded in the register of securities. | Audit Period | - |
| d | Exchange wise separate books of accounts are maintained. | Audit Period | - |
| e | Prior approval has been obtained by member for change in shareholding / directors / constitution. | Audit Period | - |
| f | Prior approval has been obtained in case the member has traded with another member of the Exchange. | Audit Period | - |
| g | Member has intimated the Exchange in case they have traded with member of another stock exchange. | Audit Period | - |
| h | All advertisements are issued after prior permission of the Exchange and specifically comply with MSE circular MSEI/INSP/4711/2016 dated November 21, 2016 and MSE/INSP/5255/2017 dated June 19, 2017. | Audit Period | - |
| i | The Member, its Group companies/ third party or its associate has not offered any schemes/ leagues/ competitions and has not issued any advertisement for the same. Further, the stock broker has not carried out advertisements in which celebrities form part of the advertisement. | Audit Period | - |
| j | Notice board & SEBI registration certificate of the Trading Member was displayed at the location of audit. | Audit Period | - |
| k | Trading member has not dealt with suspended/defaulter/expelled members and entities prohibited from accessing market. | Audit Period | - |
| **10** | **Systems & Procedures pertaining to Prevention of Money Laundering Act, PMLA, 2002** |
| a | Details of appointment of Principal Officer and Designated Director are intimated to FIU-India. | Audit Period | - |
| Change in Principal Officer & Designated Director, if any, are intimated to FIU-India. | - |
| b | The member has adopted and implemented written guidelines prescribed under PMLA, 2002. | Audit Period | - |
| c | The Member has adequate system in place that allows continuous monitoring of transactions and generates alerts based on set parameters for suspicious transactions. | Audit Period | - |
| d | Member has adequate systems & procedures in place to scrutinize the alerts for arriving at suspicious transactions and reporting same to FIU | Audit Period | - |
| e | Member has adequate systems & procedures in place to ensure screening of employees while hiring. | Audit Period | - |
| f | As per the provision of Prevention of Money Laundering Act 2002 record of transactions, its nature and its value are maintained and reserved by the member as prescribed under Rules 3, 7 & 8 of PMLA. | Audit Period | - |
| g | Member has ongoing training program for employees so that staff are adequately trained in AML & CFT procedure. | Audit Period | - |
| h | Member has taken adequate measures to carry out & document risk assessment to identify, assess and mitigate its money laundering and terrorist financing risk. | Audit Period | - |
| i | Member has complied with the requirements of the various FATF public statements and updated UNSC lists which are circulated by the exchanges | Audit Period and new clients registered during the Audit Period | - |
| j | Member has done the online registration with FIU-India and has got the FIU Registration no. (FIU-REID) | Audit Period | - |
| **11** | **Transfer of trades** |
| a | Trades were executed in respective clients account and are not transferred from one client code to another client code or from client code to pro or vice-versa in the back office of the member. In case of such transfers, if any specific pattern is observed instances to be provided in remarks column. | 30 dates across all segments | 30 dates (with highest turnover during the Audit period) across all segments (CM, FO & CD) i.e. 10 dates for each segment if TM enabled for all segments. In case TM is enabled in only two segments then 15 dates shall be selected in each segment and 30 dates shall be selected in case of TM enabled in a single segment. |
| b | All client code modifications were done to rectify a genuine error in entry of client code and no patterns were observed. If any pattern is observed, please give details. | Audit Period | All modifications during the audit period |
| c | Systems are put in place to monitor/ prevent the use of client code modification facility for purposes other than correcting mistakes arising out of client code order entry. | Audit Period | All modifications during the audit period |
| d | The trades modified by the member to the “ERROR” code have been settled in ERROR account and not shifted to some other client code. If not complied, please provide the details. | Audit Period | All modifications during the audit period |
| e | Trading Member has a well-documented error policy to handle client code modifications, approved by their board/management. | Audit Period | - |
| **12** | **Proprietary Trading** |  |  |
| a | If member is doing pro trading, then member has disclosed this information to his clients. | Refer sampling criteria 1 | Clients registered during the audit period. Refer Sampling Criteria 1.Check whether the client has disclosed this information in the client registration document. |
| b | If member is doing pro trading from multiple locations, the member has obtained prior approval from the Exchange in this regard. | Audit Period | - |
| **13** | **Internet Trading** |
| a | Member has obtained specific approval from the exchange, in case he is providing internet trading facility to his clients. | Audit Period | - |
| b | Member has complied with regulatory requirements related to internet trading. | Audit Period | - |
| **14** | **Execution of Power of Attorney (POA)** |
| a | The POA executed with the client (if any) is in the favor of the member and it is not in favor of any other person. | Refer sampling criteria 1 | POAs executed (if any) for the clients registered during the audit period. Refer Sampling Criteria 1 |
| b | The Power of Attorney executed in favour of trading member is only limited to the purposes as allowed and adheres to the Provisions of SEBI Circular CIR/MRD/DMS/13/2010 and CIR/MRD/DMS/28/2010. | Refer sampling criteria 1 | POAs executed (if any) for the clients registered during the audit period. Refer Sampling Criteria 1 |
| c | The PoA executed does not prohibit operation of trading account by client(s). | Refer sampling criteria 1 | POAs executed (if any) for the clients registered during the audit period. Refer Sampling Criteria 1 |
| d | The Member has adopted sufficient internal controls to ensure that POA is not mis-utilised. | Refer sampling criteria 1 | POAs executed (if any) for the clients registered during the audit period. Refer Sampling Criteria 1 |
| **15** | **Operations of Professional Clearing member/ Members clearing trades of other trading members** |
| a | All the mandatory clauses have been included in CM - TM agreement (wherever applicable). | Audit Period | CM-TM Agreements executed during the Audit period to be checked |
| b | The Clearing member custodial participant agreements are executed in prescribed formats (wherever applicable). | Audit Period | CM-CP Agreements executed during the Audit period to be checked |
| c | Statement of accounts has been sent to trading member/custodial participants. | Audit Period | - |
| d | The clearing member had collected appropriate and adequate margins in prescribed forms from respective trading members. | 5 days | 5 Dates with highest Margin requirement during the Audit Period |
| e | Margin collection reported to Exchange is in accordance with margins actually collected from trading member. | 5 days | 5 Dates with highest Margin requirement during the Audit Period |
| f | Exposure allowed to trading members was based on requisite margins available with the clearing member. | 5 days | 5 Dates with highest Margin requirement during the Audit Period |
| **16** | **Compliance status of last inspection carried out by SEBI/ Exchanges/ Internal Auditor** |
| a | Member has complied with the qualifications / violations made in last SEBI inspection report. If not complied then give status of compliance. |  | Last SEBI inspection report. |
| b | Member has complied with the qualifications / violations made in last Exchange inspection report. If not complied then give status of compliance. |  | Last Exchange inspection report. |
| c | Member has complied with the qualifications / violations made in last half yearly Internal Audit report. If not complied then give status of compliance. |  | Latest half yearly Internal Audit report. |
| **17** | **Comments of the auditor on any other area** |  |  |
| **18** | **The last half years Internal Audit Report was placed/ approved by the Board/ Proprietor/ partners.** |  |  |

**SAMPLE DETAILS**

**Sampling Criteria 1**

|  |  |  |
| --- | --- | --- |
| **Particulars**  | **Sample Size**  | **Selection criteria** |
| Less than 100 clients registered during the audit period | Minimum of 15 clients or the total number of clients registered during the audit period. | Clients registered during the audit period & to be selected , on a minimum as per the below category :* 40%-Individuals
* 20% corporate
* 20% partnership
* 20% HUF/Trusts

In case client of a particular category is less than the stipulated, the balance can be met from other category. |
| Between 100 to 500 clients registered during the audit period | Minimum of 25 clients registered during the audit period. |
| Between 500 to 1000 clients registered during the audit period | Minimum of 40 clients registered during the audit period. |
| More than 1000 clients registered during the audit period | Minimum of 75 clients registered during the audit period. |

*In case no clients have been registered during the audit period, then clients registered in prior audit periods may be selected provided they have not been verified earlier.*

**Sampling Criteria 2**

**No. of days to be verified : 6 dates**

|  |  |
| --- | --- |
| **Particulars** | **Sample Size** |
| Less than 100 active clients during the audit period | Minimum of 25 clients or the total number of clients per segment whichever is lower. |
| Between 100 to 500 active clients during the audit period | Minimum of 50 clients per segment |
| More than 500 active clients during the audit period | Minimum of 100 clients per segment |

**Sampling Criteria 3**

|  |  |
| --- | --- |
| **Particulars** | **Sample Size**  |
| Less than 100 active clients during the audit period | Minimum of 15 clients or the total number of clients traded during the audit period. |
| Between 100 to 500 active clients during the audit period | Minimum of 25 clients traded during the audit period. |
| Between 500 to 1000 active clients | Minimum of 40 clients traded during the audit period. |
| More than 1000 active clients | Minimum of 75 clients traded during the audit period. |