

**TOPIC : Issues in Audit of Stock
brokers / Commodity brokers /
Depository participants**

Seminar on Audit & Compliance applicable to
Stock Broker & Depository Participants

Venue : WIRC, MUMBAI

Date: Saturday, 15th March 2014

Presented by : CA Kaushik Jethwa

Objective / Need

- Mandatory Internal Audit
 - All the Stock Broker - once in half year
 - All the DP (CDSL/NSDL) – once in half year
- Submission of Annual Compliance Report (ACR)
 - By Every Commodity Trading Member – once in year

Submission of Report

- Stock Broker – in electronic format
- DP – in hard form or in electronic format
- Commodity Broker (ACR) – in hard form or in electronic format

Requirements and Area need to be consider during Security and Commodity Audit / Inspection

- Format of Internal Audit / ACR
- Area to be covered
- Actions For Non-compliance

Client Registration

- Content of Client Registration Kit
 - Mandatory Documents
 - Know your Client Form
 - Rights And Obligations Of Stock Brokers, Sub-Brokers And Clients
 - Risk Disclosure Document For Capital Market And Derivatives Segments
 - Do's And Don'ts For Trading On The Exchange(S) For Investors
 - Policies and Procedures
 - Tariff Sheet
 - Non-Mandatory Documents
 - Running Account Authorization
 - ECN Declaration (if any)

Client Registration continue

- Verification of Client Registration form and docket
 - Proof of Address
 - Proof of Identity (PAN)
 - Proof of Bank Account
 - Proof of Demat Account
 - Proof of Income, Net-Worth or declared source of Funds (compulsory for F&O and CD)
 - PMLA Verification
- Risk Classification
- Clients of Special Category (CSC)
- In Person Verification (IPV)
- Verification of Original Documents
- Unique Client Code (UCC)

Client Registration continue....

- KYC Registration Agency (KRA) (applicable to stock broker)
- Issue Copies of Completed Forms to Clients

Dealing with clients

- Banking and Demat
 - Type of Bank and Demat Accounts
 - Use of Bank & Demat Accounts
- Mode of payment and delivery
- Receipt of funds in the form of Pre-funded instruments / Electronic fund transfers
- Actual settlement for funds & securities on monthly / quarterly basis
- Statement of Accounts
- Financing of securities transactions and transfer of securities & funds

Contract Notes

- Time limit for sending the Contract Note
- Mode of issue of Contract note
 - Physical
 - Electronic
- Records to be kept
- Change in E-mail ID
- Compliance to be followed when ECN Bounce
- Digital Signature of Contract note
- STT

Brokerage:

- Maximum Brokerage can be charged in CM and Future segment is 2.5%
- Maximum Brokerage in option segment is 2.5% of the premium amount or Rs 100/- (per lot) whichever is higher.

Margin Collection

- Collection Reporting of Margin in Future and Option
 - Form of Margin Collection
 - Compliance when cheque received on T Day
 - Margin collected/available in approved form from entities related to the client
- False reporting of Margins (Non-compliance)
- Penalty structure in case of margin reporting

False reporting of Margins (Non-compliance)

100% of falsely reported amount
+
suspension of trading for 1 day in respective
segment

- Penalty in case of short reporting of margin to be passed on to the clients
- Daily Margin Statement

Terminal and User ID management

- Connectivity
- CTCL / IML
- Procedure and policy adopted by member before allotment of trading terminals
- Due diligence adopted for password security
- Certification
- System Audit
- Due diligence adopted for password security
- System adopted for data storage, security and access
- Pro Trading

Dealings with Intermediaries

- Various Types of Intermediaries
 - Branch
 - Sub-Broker
 - Authorised Person
 - Remisier
- Compliance at Intermediaries office
- Brokerage sharing with Sub-Broker, AP, Remisier
- Annual Inspection of Intermediaries by Trading Member
- Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication
- Outsourcing of Activities

Books of accounts and other documents

- Maintenance of books of accounts and other documents / Preservation of records
- Maintenance of client-wise, scrip-wise Register of Securities
- Advertisement
- Client Dividend
- Display of details by stock brokers
- Execution of Orders
- Transfer of Trade
- Systems & Procedures pertaining to Prevention of Money Laundering Act, PMLA, 2002
- Indicative list of penalties/actions to be initiated regarding audit observations in Internal Audit Reports

Requirements and Area need to be consider during DP Audit

- Format of Internal Audit
- Area to be covered
- Actions For Non-compliance

Account Opening and Account Modifications (DP):

- KRA
 - Uploading the KYC information with proper authentication on the system of the KRA within due date
 - Downloads/fetches the documents from KRA system in case of KRA approved / verified cases and maintains electronic records of KYCs of BOs.
 - Difference in Correspondence Address as per KRA
 - Difference in permanent Address as per KRA
- Verification of Client Registration form and docket
 - Address Proof
 - 3rd party address as correspondence address
 - Identity Proof (PAN)
 - Bank Proof

Account Opening and Account Modifications continue.....

- Procedure for Demat account opened for illiterate / disabled person
- Scanning of BO Signature (special care in Non-individual BO)
- Modification
 - Type of Modification
 - Change in Address
 - Change in Bank Details
 - Change in Name
 - Change in Signature
 - Change in Mobile No / E-mail ID
- DP account for Partnership and Proprietorship

Dematerialization / Destatementization:

- Maintain inward of Demat request (DRF) / MF-DRF
- Keeping the physical securities under safe custody
- Dispatch of demat / destat to the Issuer/RTA/AMC within seven days
- Record of Dispatch
- Securities lost in transit

Instruction Slip (Off-market, On-market, Inter-depository, and Early pay-in)

- Inventory Control Mechanism
- Issuance of DIS Booklet
 - 1st DIS Booklet
 - DIS Booklet on the basis of requisition slip
 - DIS booklet without requisition slip
- Loose DIS and limit thereon
- Acceptance of DIS
- Punching the DIS
- Maker Checker and Verification of DIS

Account Closure and Other Area

- Account close request
 - Sending transaction statement with the words “Account Closed / Marked for Closure”.
 - Procedure for account closed by the BO
 - Procedure for account closed by the DP
- Rematerialisation
- Freez / Unfreez
- PMLA Policy
- System Requirement
- Back-up of data

Thank You

- **Presented : CA Kaushik N Jethwa**
- *B. Com, ACA*