

## NSE Clearing Limited

### Circular

#### DEPARTMENT: COMPLIANCE

Download Ref No: NCL/CMPL/61662

Date: April 22, 2024

Circular Ref. No:10/2024

To All Clearing Members (Clearing for other Stock-Broker and/or Custodial Participants Code)

### **Sub: Submission of Half Yearly Internal Audit Report by Clearing Members for half year ended March 31, 2024**

This is further to NCL circular no. NCL/CMPL/61288 dated March 22, 2024 wherein it was informed that the process for submission of internal audit report (IAR) for the half year ended March 31, 2024 including format of Internal Audit Certificate, Format of Internal Audit Report, Guidelines on sample selection etc. shall be communicated separately through a circular.

The submissions shall be made to the email ID “internalaudit@nscl.co.in” with the subject line as “Internal Audit Report- Name of the Clearing Member (Clearing Member Code) – March 2024.”

Further, Internal Auditors are advised to take note of below while carrying out the Audit:

1. In cases where samples have been prescribed, auditors are required to procure the data from the clearing members. Auditors are advised to refer Annexure III carefully before initiating the audit. The samples for parameters/ criteria shall be as per the “Guidelines on sample selection” prescribed in Annexure III and the data required for the same may be sourced from the member.
2. For each “Not complied” observation, wherever applicable, the auditor shall mandatorily provide the “no. of instances verified” and “Amount/value involved where non-compliance is observed” while submitting the Report. Further, for each “Not Applicable” Points, appropriate justifying remarks are mandatory to be provided.
3. Internal auditors are required to give the details of the sample verified (sample date, shortlisted sample etc) wherever applicable. The formats for the same are given in Annexure V.
4. The Internal Audit Certificate (Annexure I) should be digitally signed by the auditor.

## NSE Clearing Limited

5. The Annexure II shall be submitted in excel file and as a PDF document. The PDF version of Annexure II shall be digitally signed by both the auditor and the clearing member along with management comments of the clearing member.

Please find enclosed the following Annexures applicable for the Internal Audit Report for half year ended March 31, 2024:

- Internal Audit Certificate - Annexure I
- Annexure II (Excel File-"IARNCLMAR24")
- Guidelines on sample selection & other points to be noted - Annexure III
- List of indicative SEBI/NCL/NSE circulars-Annexure IV
- List of samples verified - Annexure V

6. Please note that the internal audit report with complete annexures shall be treated as valid submission to NCL.

Further, as advised by SEBI and to enhance the ease of doing compliance and reduce operational difficulties faced by Members/Audit Firms, it has been decided that the auditors empanelled with any of the Exchange(s), shall be eligible to conduct internal audit of the Clearing Members of any of the Clearing Corporations.

Clearing members undertaking clearing activities for atleast one trade during the period from October 1, 2023 to March 31, 2024 for other stock-brokers and/or for custodian participants code (their direct trading clients or otherwise) are required to carry out Internal Audit and submit the report to NSE Clearing Ltd.

It is to be noted that the due date to submit the Internal Audit Report is within two months from the end of the half year ended March 31, 2024 that is May 31, 2024.

The penalties/disciplinary actions for late/non-submission of the Internal Audit Report shall be as per NCL/CMPL/ 58437 dated September 18, 2023. The penalties/disciplinary action for non-compliances reported in the Internal Audit Report shall be as prescribed by NCL circular no. NCL/CMPL/49286 dated August 13, 2021 or NCL/CMPL/ 59930 dated December 26, 2023 or any other relevant circular that may be issued by NCL from time to time.

## NSE Clearing Limited

**For and on behalf of  
NSE Clearing Limited**

Divya Potdar  
Senior Manager

Telephone No	Fax No	Email id
1800 266 0050	022-26598243	internalaudit@nsccl.co.in

## Annexure I

### CERTIFICATE FOR INTERNAL AUDIT

We have examined the relevant books of accounts, records and documents maintained by M/s. \_\_\_\_\_, (name of the clearing member) bearing SEBI registration number \_\_\_\_\_) a member of the NSE Clearing Limited for the following segments to fulfill the internal audit requirement as prescribed by SEBI vide Circulars dated August 22, 2008 and 21 October , 2008 for the half year ended\_\_\_\_\_.

Segment (Capital Market / Equity Derivatives Segment / Debt Segment /Currency Derivatives/Securities Lending & Borrowing segment/Commodity Derivative Segment)	Activity (Clearing)	SEBI registration number
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The purpose of this Audit is to examine that the processes, procedures followed, and the operations carried out by the Clearing Member are as per the applicable Acts, Rules, Regulations, Bye-laws and Circulars prescribed by SEBI and the Clearing Corporation.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of this Internal Audit. In our opinion proper books of accounts, records, and documents, as per the regulatory requirement have been maintained by the member, so far as it appears from examination of the books.

We have conducted the audit within the framework provided by SEBI/Clearing Corporation for the purpose of this Internal Audit.

Based on the scrutiny of relevant books of accounts, records and documents and to the best of our knowledge and explanations given to us, we certify that the Member has complied with the relevant provisions of SEBI Act, 1992, Securities Contracts (Regulation) Act 1956, Securities Contracts (Regulation) Rules 1957, SEBI (Stock Brokers) Regulations, 1992 and various circulars of SEBI and with the Rules, Bye laws, Regulations of NCL and various circulars issued by the Stock Exchange and Clearing Corporation except otherwise mentioned in the Annexure to this report.

We declare that the audit firm meets the eligibility criteria as prescribed vide Annexure A of Exchange Circular no. NSE/INSP/60986 dated March 4, 2024.

Further, we declare that we do not have any direct / indirect interest in or relationship with the member or its shareholders / directors / partners / proprietors / management, other than the proposed Internal Audit assignment and also confirm that we do not perceive any conflict of interest in such relationship / interest while conducting internal audit of the said member.

In our opinion and to the best of our information and according to the explanations given to us by the proprietor/partners/directors/ compliance officer, the Report provided by us as per the Annexure and subject to our observations, which covers the entire scope of the Audit, is true and correct.

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Company Secretary / Cost and Management Accountant / Chartered Accountant

(Seal & Signature)

(Name of the Proprietor / Partner)

Membership no. / CP. No.

UDIN No.

Place: -

Date:-

**PRESCRIBED SAMPLE SIZE**

<b>ID</b>	<b>Area of Verification</b>	<b>Indicative Sample Size</b>	<b>Methodology for Sample selection</b>	<b>Applicability</b>
A.	<b>MARGINS</b>			
1.	<p>The Clearing member has collected margins on Consolidated Crystallized Obligation from its respective TMs-Prop/CPs only in the form of Cash (and not in the form of FDRs/BGs or any other form of collateral) in the F&amp;O and Currency Segment (except for physical settlement component on expiry of the contract, as may be specified by Clearing Corporation) in terms of NCL/CMPL/44977</p> <p>Refer to Annexure V for format of samples verified to be provided by auditor.</p>	Refer Sampling Criteria	<p>6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)</p> <p>Verify whether the Consolidated Crystallized Obligation has been collected in cash</p>	All Members-Registered for other than Commodity Segment
2.	<p>The clearing member had collected appropriate and adequate margins (EOD margins and peak margins) in prescribed forms from respective trading members/custodial participants.</p> <p>Refer to Annexure V for format of samples verified to be provided by auditor.</p>	Refer Sampling Criteria	<p>6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)</p> <p>Margin verification shall be done for the sample.</p> <p>For Cash- Ledger balance may be verified</p> <p>For BG and FD- verify the supporting</p> <p>For securities- verify with Sec pledge file</p> <p>Further, within the ledger for bank receipt entries (verify with bank statements)</p>	All Members-Registered for Any Segment
3.	Margin collection reported to Clearing Corporation is in accordance with margins actually	Refer Sampling Criteria	6 Dates (one date in each month of the Audit period) with highest margin	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	<p>collected from trading member/custodial participant.</p> <p>Refer to Annexure V for format of samples verified to be provided by auditor</p>		<p>requirement (combined across all segments)</p> <p>Margin verification shall be done for the sample.</p> <p>For Cash- Ledger balance may be verified</p> <p>For BG and FD- verify the supporting</p> <p>For securities- verify with Sec pledge file</p> <p>Further, within the ledger for bank receipt entries (verify with bank statements)</p>	
B.	<b>DEALING WITH CLIENTS' FUNDS AND SECURITIES AND COMMODITIES</b>			
4.	Client (TM/CP) funds and securities & commodities are segregated from own funds and securities & commodities	Audit Period	<p>Verify client bank and own bank accounts.</p> <p>Verify client collateral and own beneficiary accounts</p>	All Members-Registered for Any Segment
5.	No Cash dealings with TM/CP	Audit Period	Cash book maintained by the Member to be verified	All Members-Registered for Any Segment
6.	Member has not pledged clients' securities to the Banks/NBFCs for raising funds, even with authorization by client as the same would amount to fund based activity which is in contravention of Rule 8(1)(f) & 8(3)(f) of Securities Contracts (Regulation) Rules, 1957	Audit Period	<p>1. Ascertain if any client securities are pledged from any of the demat accounts of the clearing member</p> <p>2. Ascertain the ownership of securities pledged as Proprietary securities of the clearing member</p>	All Members-Registered for Any Segment
7.	Member has not engaged in any activity involving any personal financial liability, other than of securities or commodities derivative	Audit Period		All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	or which is connected to or incidental to or consequential upon securities/commodities business			
8.	Whether member has availed loan facility based on Client Bank Account/Upstreaming Account	Audit Period	-	All Members-Registered for Any Segment
9.	Record of Monies borrowed or loaned including monies received in terms of NSE/COMP/50957 dated Jan 7, 2022 and NSE/COMP/53802 dated Sep 22, 2022	Audit Period	Check if loan/ICDs given to associates/subsidiaries.  Whether the same have been deducted while computing half yearly net worth.	All Members-Registered for Any Segment
10.	Statement of accounts has been sent to trading member/ custodial participants.	Audit Period	Verify the statement of accounts sent to all TMs	All Members-Registered for Any Segment
11.	Daily Margin statement is issued to the respective clients with the details as specified and Proof of delivery / dispatch/ log for dispatch is maintained.  Refer to Annexure V for format of samples verified to be provided by auditor	Refer Sampling Criteria	6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)	All Members-Registered for Any Segment
12.	Whether there was any delay in issuing the DMS?  Refer to Annexure V for format of samples verified to be provided by auditor	Refer Sampling Criteria	6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)	All Members-Registered for Any Segment
13.	In case of any transfer of funds between client account & proprietary account for legitimate purposes, member has maintained a daily reconciliation statement clearly indicating the details of funds transferred.	Audit Period	Verification of transfer/JV entries between client accounts and proprietary accounts.	All Members-Registered for Any Segment
C.	<b>MAINTENANCE OF BOOKS OF ACCOUNTS</b>			



ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
14.	Maintenance of a) Client/TM ledger b) Register of Securities (Client / TM wise scrip wise Register) (as applicable)	Audit Period	-	All Members-Registered for Any Segment
15.	Register of Securities maintained in the prescribed format (as applicable).	Audit Period	-	All Members-Registered for Any Segment
16.	All Entries for receipt and payment/transfer of securities & Commodities are duly recorded in the register of securities & commodities.	Audit Period	-	All Members-Registered for Any Segment
17.	CM has maintained prescribed books of accounts like general ledgers/Cash and Bank Book/Margin Deposit details/Register of complaints/Register of transaction/Register of commodity (as applicable)	Audit Period	-	All Members-Registered for Any Segment
D.	<b>REPORTINGS BY CLEARING MEMBERS</b>			
18.	Clearing member has undertaken adequate reconciliation before submitting TM wise securities details to Clearing corporation (Submission of collateral details by clearing member as per Clearing Corporation circulars)	Audit Period	Verify that the submission made by the member for the last Saturday of each month w.r.t securities balance is as per back office books maintained by the member.	All Members-Registered for Any Segment
19.	Clearing Member has correctly uploaded data of TM/CP wise weekly collateral balances basis for all calendar days of the week except Sunday on CC system within prescribed timelines.  Refer to Annexure V for format of samples verified to be provided by auditor	Refer Sampling Criteria	6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)	All Members-Registered for Any Segment
20.	Verification of T+1 segregated client collateral reporting	Refer Sampling Criteria	6 Dates (one date in each month of the Audit period) with highest margin	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	Refer to Annexure V for format of samples verified to be provided by auditor		<p>requirement (combined across all segments)</p> <p>Placed with CM, Retained by CM – figures reported to be verified from the books of the members.</p> <p>Placed with NCL (Cash/FD/BG)- for the shortlisted date, members can take aggregate of each column (cash/FD and BG) under “Placed with NCL” reported in T+1 and match with the COLLDTLS files issued by NCL.</p> <p>For securities placed with NCL, the same can be matched with Sec Pledge file value</p> <p>Verify whether Placed with CM is equal to sum of Retained by CM and Placed with NCL.</p>	
21.	<p>Member has correctly allocated the collaterals</p> <p>Refer to Annexure V for format of samples verified to be provided by auditor</p>	Refer Sampling Criteria	<p>6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)</p> <p>Verify that allocation of collateral at CC shall not be lower than the amount of collateral (except securities collateral repledged to CC) reported as having been passed on by the CM to the CC.</p>	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
			Verify that the amount of collateral allocated shall not exceed the amount of collateral received by the TM/CM from the client and reported as such in T+1 (excluding the securities collateral re-pledged to CC through margin pledge mechanism)	
22.	Member has reported all their Bank account details in terms of NCL/CMPL/47240	Audit Period	All bank accounts to be verified	All Members-Registered for Any Segment
E.	<b>STRENGTHENING OVERSIGHT ON CLEARING MEMBERS</b>			
23.	<p>Monitoring pay-in timelines by the TMs</p> <p>CM should monitor the payin timelines by the TM and regular delayed receipt of payins/ repeated instances of shortfalls be dealt with in accordance with the Risk Management Policy of the Clearing Member</p> <p>Refer to Annexure V for format of samples verified to be provided by auditor</p>	Refer Sampling Criteria	6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)	All Members-Registered for Any Segment
24.	<p>Monitoring penalties levied to clients of the Trading Members</p> <p>The CM should analyze the data of the Trading Members such as repeated instances of penalties being levied to the clients of TM for client margin reporting</p> <p>Refer to Annexure V for format of samples verified to be provided by auditor</p>	Out of number of members selected on the basis of the methodology given, select top 5 TMs on the basis of	No. of instances of penalty levied on trading members is greater than 3 instances during the audit period	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
		highest penalty		
25.	<p>Seeking data of debit balances of Trading Member's clients</p> <p>CM should seek data with respect to debit balances of clients from Trading Member and review the exposure allowed by the TM and direct the TM to restrict / reduce exposure for such clients</p>	Audit Period	-	All Members-Registered for Any Segment
26.	<p>Monitoring misuse of client collaterals by TM for proprietary trading</p> <p>The CM should ensure that the TM does not comingle client collateral with the proprietary collateral and that it provides separate collaterals for proprietary positions out of own funds only and not from the client collaterals. The inspection of TM should cover this aspect in compliance with NCL/CMPL/51038</p>	Audit Period	-	All Members-Registered for Any Segment
27.	<p>Correctness of data submitted by TMs to CM</p> <p>TMs submit various data to the CM, which may be submitted by the CM to CC. The CM should assess the correctness of the data submitted by the TMs to CM in compliance with NCL/CMPL/51038</p>	Audit Period	-	All Members-Registered for Any Segment
28.	<p>Inspection of TMs</p> <p>It is recommended that the CM carry out inspections of Trading Members, covering atleast 1/3rd of the TMs cleared by it each year in order to cover all TMs over a period of 3 years. Additionally, CM may</p>	Audit Period	-	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	also conduct surprise inspection based on any rumours / adverse news in the media about the TM or any other concern/ alerts as arising out of the above points by the CM during the course of business in compliance with NCL/CMPL/51038.			
29.	Formation of Risk Management Committee / Board Approved Committee for monitoring the risks The CMs should be required to form a Risk Management Committee / board Approved Committee to monitor the various risks in the business. A periodic report (monthly or atleast quarterly) for the TMs for which it has undertaken the clearing activity should be submitted to such Committee	Audit period	-	All Members-Registered for Any Segment
30.	Whether the member has placed any periodic reports before its Risk management Committee/Board Approved Committee during the audit period	Audit period	Details of the cases placed before the Committee to be sought.	All Members-Registered for Any Segment
31.	Reporting of alerts by Clearing Members Clearing Members should be reporting the concerns identified by them during the oversight over Trading Members to the concerned Clearing Corporation, which in turn would report the same to the concerned Exchange for further action	Audit period	-	All Members-Registered for Any Segment
32.	CMs should have a Risk Management policy duly approved by the Board / Board Approved Committee covering the below points:  i. Internal escalation matrix with respect to non-compliances / defaults by TMs/CPs	Audit period	-	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	<p>ii. Performance evaluation process of TMs/CPs registered with the CMs including its periodicity</p> <p>iii. Seeking data information from TMs/CPs in the event of repeated cases of shortfall in margins / margins on Consolidated Crystallised Obligation or governance issues</p> <p>iv. Procedures for segregation of TM proprietary and Client collaterals</p> <p>v. Inspection of TMs</p> <p>vi. Upper Cap for acceptance of securities from a member and / or across all members in absolute terms and / or on an overall basis to avoid concentration risk</p> <p>vii. List of banks from which FDRs and BGs shall be accepted</p> <p>viii. List of securities that shall be accepted as collaterals</p> <p>ix. Components of cash collateral and non-cash collateral</p> <p>x. Ratio of Cash and Non-cash component of collateral</p> <p>xi. Haircut percentage for all types of collaterals other than Cash, FDRs and BGs.</p> <p>xii. Securities subject to a minimum of VAR and other collateral shall be subject to minimum haircut of 10%</p>			

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	xiii. Timelines and threshold limits beyond which action such as square off of positions shall be undertaken by CM for non-payment of margins on Consolidated Crystallised Obligation by the TMs/CPs			
33.	Confirmation on reporting of TM/CP level fund shortfall beyond Rs 5 lacs to CC as per the timelines prescribed by CC	Audit period	-	All Members-Registered for Any Segment
34.	Invocation of pledged securities by the Clearing Member was carried out only in respect of debit balance clients	Audit period	-	All Members-Registered for Any Segment
F.	<b>OTHER COMPLIANCES</b>			
35.	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	All Members-Registered for other than Commodity Segment
36.	All the mandatory clauses have been included in CM - TM agreement (wherever applicable). Member has not executed trading member and clearing member agreement otherwise than in the prescribed format	Audit Period	CM-TM Agreements executed during the Audit period to be checked	All Members-Registered for Any Segment
37.	Compliance officer has obtained NISM-Series-III A/ prescribed certification.	Audit Period	-	All Members-Registered for Any Segment
38.	Member has complied with the Guidelines on Compliance Officers as issued in NSE/COMP/54600 dated November 25, 2022.	Audit Period		All Members-Registered for Any Segment
39.	Clearing 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.	All Members-Registered for Any Segment
40.	Prescribed policies are maintained (Risk Management Policy, PMLA Policy and SORM policy)	Audit Period	-	All Members-Registered for Any Segment

<b>ID</b>	<b>Area of Verification</b>	<b>Indicative Sample Size</b>	<b>Methodology for Sample selection</b>	<b>Applicability</b>
41.	Exclusive e-mail id for any complaints created	Audit Period	-	All Members-Registered for Any Segment
42.	Regular back up of data taken and maintained.	Audit Period		All Members-Registered for Any Segment
43.	Proper monitoring mechanism is in place to review the IT/Security related incidents detected and resolution of the same	Audit Period	Ascertain whether all the recommendations of system audit/cyber security audits have been closed during the audit period by taking corrective actions. Details of pending Recommendations to be provided separately	All Members-Registered for Any Segment
44.	Member has closed all existing demat accounts tagged as Client Collateral/ Client Margin Trading Securities/Client Beneficiary accounts in compliance with relevant SEBI Circular. If accounts are not closed due to reasons prescribed in NCL/NSE circular, whether the member has suspended or frozen the demat account.	Audit Period	-	All Members-Registered for Any Segment
45.	Member has closed Client Unpaid Securities (CUSA) in terms of SEBI/SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated Nov 11, 2022	Audit Period	-	All Members-Registered for Other than Commodity segment
46.	Member has opened client unpaid securities pledgee account in terms of SEBI/SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated Nov 11, 2022	Audit Period	-	All Members-Registered for other than commodity segment
47.	Member has accepted securities as margin obligation from clients only by way of margin pledge/repledge in the depository system by opening a separate demat account for accepting margin pledge which shall be tagged as "Client Securities Margin Pledge account" in accordance with SEBI circular no.	Audit Period	-	All Members-Registered for Any Segment



ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25,2020.			
48.	Member has ensured that all associated person as defined in SEBI Notification LAD-NRO/ GN/ 2010-11/ 21/ 29390 dated December 10, 2010 have valid NISM series VII certification – (Securities Operations and Risk Management Certification Examination)	Audit Period	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.	All Members-Registered for Any Segment
49.	Adverse comments in Statutory Audit Report of Corporate Member have been considered	Audit Period	Verify adverse Comments of Statutory Auditors	All Members-Registered for Any Segment
50.	Member has submitted Undertaking/Authorisation to Exchange to access the information/statements pertaining to all bank accounts (maintained by members) from Banks	Audit Period		All Members-Registered for Any Segment
G.	<b>NETWORTH REQUIREMENTS</b>			
51.	Networth is maintained as prescribed by the SEBI Gazette Notification No. SEBI/LAD-NRO/GN/2022/73 dated February 23, 2022 and submitted as per the CC prescribed norms.	As on 31st December/30th June of every year as applicable in the Audit period	Analyze the Net worth requirement as specified, report if there is shortfall of Net worth/erosion of more than 50% of the Net worth. In case of shortfall of Net worth comment on reason and date of recoupment of shortfall and in case of erosion, comment on reason of erosion.	All Members-Registered for Any Segment
52.	Last submitted net worth certificate to the CC is correctly submitted. In case of incorrect reporting of Networth that is leading to shortfall, please specify in remarks.	Audit Period	Ascertain the correctness of the Net worth calculation and report if there is an erosion of more than 50% of the Net worth submitted to the CC along with the reasons of such erosion. In case of shortfall of Net worth comment on reason and date of recoupment of shortfall and in case of erosion,	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
			comment on reason of erosion.	
H.	<b>BANK GUARANTEE (BG) MADE OUT OF CLIENT FUNDS</b>			
53.	No new BGs have been made out of client funds on or after May 1, 2023		Verify all the BGs created after May 1, 2023 comply with SEBI circular dated April 25, 2023	All Members-Registered for Any Segment
I.	<b>UPSTREAMING OF CLIENT FUNDS TO CLEARING CORPORATION</b>			
54.	Whether the member has opened the designated bank account(s) maintained with the nomenclature "Name of the CM –TM prop account" to receive/pay proprietary funds from/to stock brokers	Audit Period	-	All Members-Registered for Any Segment
55.	Whether the member has opened the Up Streaming Client Nodal Bank Account (USCNBA) and the Down streaming Client Nodal Bank Account (DSCNBA)	Audit Period	-	All Members-Registered for Any Segment
56.	Clear credit balances of all the clients in the book of account of the SBs/CMs at the end of a given day are placed with the CC in form of either cash, lien on Fixed Deposit Receipts (FDRs) created out of the clients' funds, or pledge of units of MFOS, created out of the clients' funds	Audit Period	-	All Members-Registered for Any Segment
57.	Member has ensured that any clear credit balance that could not be upstreamed to Clearing Corporations due to receipt of funds from clients beyond cut-off time has remained in UNSCBA and upstreamed to Clearing Corporation on the next day	Audit Period	-	All Members-Registered for Any Segment
58.	In case any clients' clear credit balances which are not placed by the SBs/CMs with the CC on account of	Audit Period	Verification for the quarter January to March 2024.	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	justifiable reasons as enumerated in NSE circular no.NSE/INSP/60369 dated Janaury 20, 2024 , the said clear credit balances are reported in the segregation file as ‘Retained with TM’ or ‘Retained with CM’ in the T+1 report			
59.	Clients’ balances reported as retained with the SBs/CMs should be either available in USCNBA/DSCNBA/Settlement account of the SBs/CMs and/or in transit to the CC.	Audit Period	-	All Members-Registered for Any Segment
60.	Member has not transferred funds from client bank account/DSCNBA/USCNBA to any third party or any other non-client account	Audit Period	All client bank accounts to be checked for the audit period.	All Members-Registered for Any Segment
61.	<p>The following conditions are met if any FDRs has been created out of clients funds:</p> <p>i)The FDR shall be created only with banks which satisfy the CC’s exposure norms as specified by CCs/SEBI from time to time.</p> <p>ii. FDRs created only from ‘Up Streaming Client Nodal Bank Account (USCNBA)’ and has been lien-marked to one of the Clearing Corporations at all times.</p> <p>iii. The tenor of FDRs created after July 01, 2023 are not more than one year and one day; and the FDRs is pre-terminable on demand.</p> <p>iv. The principal amount of the FDR is remained protected throughout the tenure, even after accounting for all possible pre-termination costs.</p> <p>v. Member has not availed any funded or non-funded banking</p>	Audit Period	Verification for the quarter January to March 2024	All Members-Registered for Any Segment

<b>ID</b>	<b>Area of Verification</b>	<b>Indicative Sample Size</b>	<b>Methodology for Sample selection</b>	<b>Applicability</b>
	<p>facilities based on FDRs created out of clients' funds</p> <p>vi. Existing FDRs (created out of clients' funds and having tenor of more than one-year) created prior to June 30, 2023 shall be allowed to be grandfathered till maturity.</p>			
62.	Payment for own trades (PRO) are not made from client bank accounts/DSCNBA/USCNBA	Audit Period	All client bank accounts to be checked for the audit period.	All Members-Registered for Any Segment
63.	Member has not transferred funds to its Group companies/ Associates from client bank accounts/DSCNBA/USCNBA	Audit Period	All client bank accounts to be checked for the audit period.	All Members-Registered for Any Segment
64.	Member has not transferred funds from client bank account/DSCNBA/USCNBA to any third party or any other non-client account	Audit Period	All client bank accounts to be checked for the audit period.	All Members-Registered for Any Segment
65.	Member has opened a separate Client Bank and set aside the funds and securities of Inactive/untraceable clients in such accounts and TM has upstreamed the untraceable/unclaimed clients funds to CC.	Audit Period	-	All Members-Registered for Any Segment
66.	Member has ensured that client funds have been invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Triparty Repo Dealing and Settlement (TREPS)	Audit Period	-	All Members-Registered for Any Segment
67.	Member has maintained a dedicated demat account to as "Client Nodal MFOS Account" for subscription/redemption of MFOS units in case they are investing clients funds in MFOS	Audit Period	-	All Members-Registered for Any Segment
68.	Member complied with the provisions of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December	Audit Period	-	All Members-Registered for Any Segment

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
	12, 2023 with respect to bank guarantees.			
J.	<b>COMPLIANCE WITH RESPECT TO SOP UNDERTAKING</b>			
69.	Clearing Member has submitted Undertaking cum Indemnity bond to CC empowering the CC to freeze the bank accounts of the Clearing Member in compliance to SEBI circular SEBI/HO/MIRSD/DPIEA/CIR/P/2 020/115 dated July 01, 2020, on the subject "Standard Operating Procedure in the cases of Trading Member /Clearing Member leading to default"	Audit Period		All Members-Registered for Any Segment
70.	Clearing member has submitted the undertaking for any new bank accounts opened within 7 days of opening the bank account in terms of NCL/CMPL/45608	Audit Period	All bank accounts to be verified	All Members-Registered for Any Segment
71.	Clearing member has submitted all bank account details in terms of NCL/CMPL/45608	Audit Period	All bank accounts to be verified	All Members-Registered for Any Segment
K.	<b>COMPLIANCE STATUS OF LAST INSPECTION CARRIED OUT BY SEBI/ CC/ INTERNAL AUDITOR</b>			
72.	Whether Member has placed the disciplinary action letter received from Exchanges/SEBI before Board for consideration.	Audit Period		All Members-Registered for Any Segment
73.	Member has taken corrective steps to rectify the deficiencies observed in the inspection carried out by SEBI. Further whether Member has complied with the qualifications/violations made in last SEBI inspection report	Audit Period	Last SEBI/CC Inspection Report	All Members-Registered for Any Segment
74.	Member has taken corrective steps to rectify the deficiencies observed in the inspection carried out by CC. Further Member has complied with	Audit Period	Last SEBI/CC Inspection Report/half yearly internal audit report	All Members-Registered for Any Segment

<b>ID</b>	<b>Area of Verification</b>	<b>Indicative Sample Size</b>	<b>Methodology for Sample selection</b>	<b>Applicability</b>
	the qualifications/violations made in last CC inspection report			
75.	Member has taken corrective steps to rectify the deficiencies observed in the latest half yearly internal audit report	Audit Period	Last half yearly internal audit Report	All Members-Registered for Any Segment
76.	Comments /observation on any other specific area which is not covered under any of the above area of verification.	Audit Period		All Members-Registered for Any Segment
77.	There are no repeat violations as per last inspection carried out by SEBI/CC and last half yearly Internal Audit	Audit Period	-	All Members-Registered for Any Segment

### **Sample Details**

Identify top 6 dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)

Out of the 6 dates selected, identify top clients in each segment, with highest margin obligation.

<b>No. of clients* for which CM clears the trades</b>	<b>Sample size</b>
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

**(\*Client for the purpose of shortlisting shall mean TM Prop or CP)**

## **POINTS TO BE NOTED**

The guidelines prescribed here are only indicative in nature and not exhaustive. It does not in any way limit the scope of the internal audit. The guidelines have been prepared based on the regulatory requirements (as per relevant Acts, Rules, Regulations and circulars) which keep on developing from time to time on best effort basis. The auditors should peruse them and update the scope of the audit. The auditors should clearly indicate 'Complied' indicating Compliance, 'Not Complied' indicating Non-compliance and 'N.A' wherever 'Not Applicable'.

The audit report shall also include the following:

### **1. Management comments**

In case of any non-compliances/findings/observations/qualifications by the auditor the management responses should be given to the CC against each point.

### **2. Points to be noted by the Internal Auditor**

- a. No remarks will be allowed by Auditor in case of "complied" status. In case the auditor is of the opinion that the relevant checklist point has not been complied by the Member in full, Auditor shall indicate "Non-compliance" against such points.
- b. For each "Not complied" observation, wherever applicable the auditor shall mandatorily provide the "no. of instances verified", "% of instances where non-compliance is observed" and "Amount/value involved where non-compliance is observed" while submitting the Audit report.
- c. A statement by the auditor that the provisions of SCRA 1956, SEBI Act 1992, SEBI (Stock Brokers) Regulations 1992, SCRR 1957, Rules, Bye laws, Regulations, circulars of SEBI, agreements, Bye laws of Clearing Corporation, data security.
- d. Auditor shall specifically declare about direct / indirect interest in or relationship with the member or its shareholders / directors / partners / proprietors / management if any and also confirm that they do not perceive any conflict of interest in such relationship / interest while conducting internal audit of the said member.
- e. Sample size indicated in the format above is minimum sample size. The guidelines for selection of sample is given in Annexure III. All Auditors are advised to adhere to the guidelines while verifying the respective areas. The auditor may increase the sample size as it may deem fit.
- f. For each theme/area of audit, auditor shall clearly specify the sample size verified and in case of any non-compliance, the number of instances where adverse observations is noted including the details of the adverse observations in the space provided.
- g. The internal audit report should be submitted to the CC as per the report format specified above.



- h. In case where internal audit report submitted is incomplete and not as per the prescribed guidelines like non-adherence to sample size guidelines same would be treated as non-submission of internal audit report. NCL reserves the right to advise a Member to change its auditor if quality of the report is not satisfactory or the audit is not carried out as per guidelines.

## Annexure IV

### List of indicative SEBI/NCL/NSE circulars

<b>Particulars</b>	<b>References</b>	<b>Date</b>
Maintenance of books of accounts and other documents / advertisement issued by member	Regulation 17 of SEBI (Stock Broker and Sub-brokers) Regulation 1992, Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 8.1, 8.2 of NCL (F & O segment)	NA
Agreements in the capacity of Clearing Member with constituents as applicable only to Trading Members and Custodial Participants	Regulation 8.2 of NCL Regulation (F & O segment)	NA
Provisions of PMLA	Anti-Money Laundering Act, 2002	-
NISM/SORM	SEBI notification no. LAD-NRO/GN/2010-11/21/29390 dated December 10, 2010, SEBI vide its notification no. LAD-NRO/GN/202-13/33/1103, NSE/INSP/27495 dated September 2, 2014, NSE/INSP/22924 dated March 12, 2013	March 12, 2013
Guidelines on Outsourcing of Activities by Intermediaries	SEBI circular CIR/MIRSD/24/2011	December 15, 2011
Statement of Account-FAQ on Actual Settlement of Client Accounts	NSE/INSP/36889	February 02, 2018
Handling of Clients' Securities by Trading Members/Clearing Members	SEBI CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019	-
Rationalization of imposition of fines for false/incorrect reporting of margins or non-reporting of margins by Clearing Member in all segments	NCL/CMPL/42946	December 19, 2019
Margin obligations to be given by way of Pledge/Re-pledge in the Depository System	SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 and SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020	February 25, 2020 and July 29, 2020
Standard Operating Procedure in the cases of Trading Member /Clearing Member leading to default	NCL/CMPL/44871	July 2, 2020

<b>Particulars</b>	<b>References</b>	<b>Date</b>
Guidelines/clarifications on margin collection & reporting	NCL/CMPL/44977	July 10, 2020
Penalty structure related to the provisions of Handling of Clients' Securities by Clearing Members	NCL/CMPL/44976	July 10, 2020
Submission of undertaking pursuant to Standard Operating Procedure in the cases of Clearing Member leading to default	NCL/CMPL/45608	September 08, 2020
Reporting of Bank Accounts	NCL/CMPL/47240	February 04, 2021
Undertaking/Authorisation to Stock Exchanges and NSE Clearing Ltd. to access the information/statements pertaining to all bank accounts (maintained by members) from Banks	NCL/CMPL/47228	February 04, 2021
Reporting of Bank Account Balances	NCL/CMPL/47241	February 04, 2021
Uniform penalty structure for Clearing Members	NCL/CMPL/49286 NCL/CMPL/59930	August 13, 2021 December 26, 2023
Strengthening oversight on Clearing Members	NCL/CMPL/49287	August 13, 2021
Clarification to the Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957	NSE/COMP/50957	January 07, 2022
Guidelines to Clearing Members for effective oversight over trading members cleared by Clearing Members – Clarifications	NCL/CMPL/51038	January 14, 2022
Clarification to the Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957	NSE/COMP/53802	September 22, 2022
Settlement of Running Account-Release of collateral	NCL/CMPL/53953	October 6, 2022
Consolidated circular of NCL	NCL/CMPT/57254 NCL/CMPT/57320 NCL/CD/57322 NCL/CMPT/57325	June 28, 2023 and June 30, 2023

<b>Particulars</b>	<b>References</b>	<b>Date</b>
	NCL/MFSS/57340 NCL/COM/57351	
Daily submissions of bank balances by Clearing Members	NCL/CMPL/55352	January 24, 2023
Clarification to Gazette Notification of SEBI (Stock Brokers) (Amendment) Regulations, 2022	NCL/CMPL/55460	February 01, 2023
Bank Guarantees (BGs) created out of clients' funds	NCL/CMPL/56488	April 25, 2023
Reporting of Bank Guarantees (BGs) created out of clients' funds	NCL/CMPL/56847	May 26, 2023
Reporting of Bank Guarantees (BGs) created out of clients' funds	NCL/CMPL/56900	May 31, 2023
Daily reporting of Short collection /Non-collection of client margin	NCL/CMPL/56624	May 5, 2023
<b>UPSTREAMING OF CLIENT FUNDS BY STOCK- BROKERS/CLEARING MEMBERS</b>		
Operational guidelines and SOP on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	NSE/INSP/60369	January 20, 2024
Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	NCL/CMPL/59724	December 12, 2023
Penalty Structure related to provisions of Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) and Bank Guarantees (BGs) created out of clients' funds	NCL/CMPL/58148	August 30, 2023
FAQ on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to	NCL/CMPL/58134	August 30, 2023

<b>Particulars</b>	<b>References</b>	<b>Date</b>
Clearing Corporations (CCs)		
FAQ on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	NCL/CMPL/57962	August 14, 2023
Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) Segregation and Monitoring of Collateral at Client Level	NCL/DS/57401	July 01, 2023
Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) Segregation and Monitoring of Collateral at Client Level	NCL/CMPT/57400	July 01, 2023
Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) Segregation and Monitoring of Collateral at Client Level	NCL/CD/57399	July 01, 2023
Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) Segregation and Monitoring of Collateral at Client Level	NCL/COM/57398	July 01, 2023
Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) Segregation and Monitoring of Collateral at Client Level	NCL/CMPT/57397	July 01, 2023

<b>Particulars</b>	<b>References</b>	<b>Date</b>
Upstreaming of clients' funds by Stock brokers (SBs)/Clearing Members (CMs) to Clearing Corporations (CCs) Segregation and Monitoring of Collateral at Client level	NCL/CMPT/57396	July 01, 2023
Implementation of circular on upstreaming of clients funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	NCL/CMPL/57374	June 30, 2023
FAQ on Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	NSE/INSP/57250	June 22, 2023
Upstreaming of client funds by stock brokers / clearing members to clearing corporation segregation and monitoring of collateral at client level	NCL/CMPT/57227	June 21, 2023
Upstreaming of clients funds by stock brokers / clearing members to clearing corporations segregation and monitoring of collateral at client level	NCL/CMPT/57226	June 21, 2023
Upstreaming of clients funds by stock brokers/ clearing members to clearing corporations segregation and monitoring of collateral at client level	NCL/DS/57225	June 21, 2023
Upstreaming of clients funds by stock brokers/ clearing members to clearing corporations segregation and monitoring of collateral at client level	NCL/COM/57224	June 21, 2023

<b>Particulars</b>	<b>References</b>	<b>Date</b>
Upstreaming of client funds by stock brokers / clearing members to clearing corporations segregation and monitoring of collateral at client level	NCL/CMPT/57223	June 21, 2023
Upstreaming of clients funds by Stock brokers / clearing members to clearing corporations segregation and monitoring of collateral at client level	NCL/CD/57222	June 21, 2023
Upstreaming of clients funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)	NCL/CMPL/57037	June 09, 2023
<b>Segregation and Monitoring of Client Collateral</b>		
Segregation and Monitoring of Collateral at Client Level - Reporting Format	NCL/CMPL/49348	August 20, 2021
Segregation and Monitoring of Collateral at Client Level - Reporting Format	NCL/CMPL/49640	September 17, 2021
Segregation and Monitoring of Collateral at Client Level - Penalty	NCL/CMPL/50662	December 17, 2021
Segregation and Monitoring of Collateral at Client Level	NCL/CMPL/53287	August 12, 2022
Segregation and Monitoring of Collateral at Client Level	NCL/CMPL/54214	October 27, 2022
Segregation and Monitoring of Collateral at Client Level	NCL/CMPL/54389	November 11, 2022
Segregation and Monitoring of Collateral at Client Level	NCL/CMPL/ 56655	May 09, 2023
<b>Weekly Reporting of collaterals</b>		
Reporting of Trading Member-wise, client-wise Collateral details by Clearing Members	NCL/COMP/41068	May 20, 2019

<b>Particulars</b>	<b>References</b>	<b>Date</b>
Reporting of Trading Member-wise, client-wise Collateral details by Clearing Members - Revised	NCL/COMP/41500	July 03, 2019
Submission of Collateral details by Clearing Members	NCL/COMP/41725	July 26, 2019
Change in File format for reporting of Trading Member-wise, client-wise Collateral details by Clearing Members	NCL/CMPL/43201	January 10, 2020
Change in File format for reporting of Trading Member-wise, Custodial Participant wise Collateral details by Clearing Members	NCL/CMPL/46450	November 25, 2020
Clarification in the File format for reporting of Trading Member-wise, Custodial Participant wise Collateral details by Clearing Members	NCL/CMPL/50196	November 3, 2021