

## **Annexure IV**

### **Indicative Processes/guidance for verification of respective areas:**

#### **Client registration and documentation/Anti Money Laundering Compliance:**

- Checks and balances in place for registration of constituents as per SEBI guidelines.
- Systems and procedures put in place by member for verification of PAN before opening account
- Procedure followed by the member for informing UCC to the clients & uploading to the Exchange
- Mechanism to ensure financial details of clients
- Procedure adopted for in person verification of clients
- Procedure adopted by relationship managers, if any, for procuring new clients
- Storage of client registration documents and retrieval mechanism
- Procedure adopted for obtaining clients' consent for electronic contract notes
- Periodic review of client related information and updation of the same in system
- Acquaintance procedure for new clients
- Customer acceptance policy and customer due diligence measures
- Processes for verification of alerts with KYC details
- Trading allowed only after validation of client KYC by KRA
- Trading preferences has been obtained from the new clients
- Maintenance of website and reporting of URL to the Exchange by Trading Member

#### **Order management and risk management systems**

- Procedure adopted for receipt of orders from clients
- Mechanism for order management and execution
- Procedure adopted for setting Limits at client level / Terminal level/Dealer level
- Policy on Margin collection mechanism and the modes of margin money
- Procedure adopted for reporting of client margin collection to clearing corporation
- Procedure adopted for calculation and reporting client funding
- Procedure adopted for providing Direct Market Access (DMA) facility
- Display of Risk Disclosure on the login page of trading account in F&O segment

#### **Contract notes, Client margin details and Statement of accounts**

- Procedure adopted for issuance of contract notes.
- Adherence to electronic contract note norms, if applicable.
- Procedure adopted for sending statement of accounts.
- Procedure adopted for sending margin details to clients.
- Procedure for maintaining acknowledgement/proof of delivery of contract notes/statement of accounts/margin details to the clients.
- Procedure for using facsimile signature on physical contract notes.

### **Dealing with clients' funds and securities and commodities**

- Verification of internal controls adopted by the member while accepting banker's cheque / demand draft from clients
- Procedure for ensuring that receipts and payment of funds/securities are from/to respective client only
- Verification of following books of accounts/records
  - Register of Securities
  - Bank Statements
  - Depository accounts maintained by member
  - Client ledgers
  - Cash Book
  - Bank Book
  - Details of records of client securities pledged, if any.
  - Underlying for any overdraft/loan account.
- Verification of dividend and other corporate benefits credited to clients account without any delay.
- Verification of settlement of all client funds
- Verification of data reported to the Exchange under Enhanced supervision, risk based supervision, cash and cash equivalent and bank balances, security holding balances and segregation & monitoring of collateral at client level
- Verification of compliance with the provisions related to upstreaming of client funds by Members to CM/CCs

### **Banking and Demat account operations**

- Procedure for segregation of own and clients' funds and securities (in separate accounts)
- Internal controls for use of client bank and client beneficiary accounts only for authorized purposes.

### **Terminal operations and systems**

- Procedure and policy adopted by member before allotment of trading terminals
- Due diligence adopted for password security
- Procedure in place for audit of systems and software
- Periodic updating of version and back up mechanism
- System adopted for data storage, security and access

### **Management of branches / APs and internal control**

- System and Policy followed for opening / closing of branch

- Procedure adopted to inform the same to clients
- Periodicity and procedure adopted for inspection of branches / Aps
- Reporting mechanism and mode of informing the inspection observations to branches / authorised person and Follow up action plan
- Policy of fixing of roles and responsibilities of officials in head office, branches and authorised person's office
- Process laid out so as to prevent unregistered intermediation
- Documentation of Internal controls and Comments on Internal controls in place
- Verification of Stock broker indemnity insurance policy
- Sharing of commission/brokerage
- Verification of AP inspection reports for completeness of indicative scope and whether Member has reported the action taken on APs to the Exchange

### **Investor grievance handling**

- Mechanism to monitor complaints lodged with branches/Authorised Person
- Maintenance of complaints register
- Redressal mechanism for complaints registered against the member
- Verification of investor grievance register and email id
- Internal control for verification of complaints received through the designated email –id
- Creation of separate page on Member website for Investor Charter
- Compliance with the mechanism of Online Dispute resolution

### **Maintenance of Books of Accounts**

- Prescribed books of accounts, registers and records are maintained Exchange wise, with the required details and for the stipulated period as per regulatory requirement
- Internal controls on the process for taking approval of the Exchange
- Analysis of financial reports
- Display the documents in vernacular languages on website
- Compliance with Fit and Proper Criteria as prescribed by SEBI/Exchange from time to time
- Intimation of details of Politically Exposed Persons (PEP)

### **Systems & Procedures pertaining to Prevention of Money Laundering Act, PMLA, 2002**

- Customer acceptance policy and customer due diligence measures
- System in place that allows continuous monitoring of transactions
- Process of generation and monitoring alerts
- Process for identifying STR (Suspicious Transaction Report) and reporting the same to FIU-India
- Processes for verification of alerts with KYC details

### **Transfer of trades**

- Procedure and system adopted for transfer of trades in the back office
- Internal controls for transfer of trades

### **Margin Trading**

1. Procedure and systems in place as per regulatory requirements with respect to execution of agreements and sources of funds for the Member.

### **Proprietary Trading**

- Member has disclosed to his clients about pro trading
- Proprietary losses have been met with own funds

### **Internet Trading**

- Procedure followed for allotting of user id and password, change of password etc.
- Internal controls for internet trading

### **Execution of Power of Attorney (POA )**

- Process adopted for execution of POA
- Internal control adopted by the member to ensure that POA is not misutilised.

### **Securities Lending & Borrowing Scheme**

- Member has opted specific approval and complied all the regulatory requirement related to SLBM

### **Other items**

- Changes related to address and contact details of trading member intimated to Exchange
- Exchange market data has been used for legitimate purpose
- Information related to Directors/KMP has been correctly provided
- Adverse comments in Statutory Audit report have been considered
- Member is not Involved in fund lending/borrowing activities except other than in connection with or incidental to or consequential upon the commodities business
- Updation of details of KMP to the Exchange
- Compliance with provisions related to Execution only platforms

### **Compliances related to Online Bond Platform**

- Appointment of Company Secretary as Compliance Officer

- Appointment of at least two qualified key managerial personnel with experience of at least three years in the securities market
- Compliance with Know Your Client (KYC) requirements and verify the identity of its investors and sellers
- compliance with the minimum disclosure requirements as specified in SEBI circular SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2022/154 dated November 14, 2022
- Adequate grievance redress mechanism for redressal of grievances of the investors within 30 days from the date of the receipt of the complaint.

## **SEBI and BSE References**

### **SEBI references**

Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/110 dated August 09, 2024

### **BSE references**

Notice no. 20240429-39 dated April 29, 2024

### **Note:**

Auditors/members are advised to refer to the circulars issued by SEBI/BSE from time to time.