

PRESCRIBED SAMPLE SIZE

ID	Area of Verification	Indicative Sample Size	Methodology for Sample selection	Applicability
A.	MARGINS			
1.	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&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 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) Verify whether the Consolidated Crystallized Obligation has been collected in cash	All Members-Registered for other than Commodity Segment
2.	The clearing member had collected appropriate and adequate margins (EOD margins and peak margins) in prescribed forms from respective trading members/custodial participants. 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) Margin verification shall be done for the sample. For Cash- Ledger balance may be verified For BG and FD- verify the supporting For securities- verify with Sec pledge file Further, within the ledger for bank receipt entries (verify with bank statements)	All Members-Registered for Any Segment

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3.	Margin collection reported to Clearing Corporation is in accordance with margins actually collected from trading member/custodial participant. 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) Margin verification shall be done for the sample. For Cash- Ledger balance may be verified For BG and FD- verify the supporting For securities- verify with Sec pledge file Further, within the ledger for bank receipt entries (verify with bank statements)	All Members- Registered for Any Segment
B.	DEALING WITH CLIENTS' FUNDS AND SECURITIES AND COMMODITIES			
4.	Client (TM/CP) funds and securities & commodities are segregated from own funds and securities & commodities	Audit Period	Verify client bank and own bank accounts. Verify client collateral and own beneficiary accounts	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	1. Ascertain if any client securities are pledged from any of the demat accounts of the clearing member 2. Ascertain the ownership of securities pledged as Proprietary securities of the clearing member	All Members- Registered for Any Segment

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7.	Whether member has availed loan facility based on Client Bank Account/Upstreaming Account	Audit Period	-	All Members-Registered for Any Segment
8.	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
9.	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
10.	Daily Margin statement is issued to the respective clients with the details as specified and within the prescribed time limit 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
11.	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.	MAINTENANCE OF BOOKS OF ACCOUNTS			
12.	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
13.	Register of Securities maintained in the prescribed format (as applicable).	Audit Period	-	All Members-Registered for Any Segment

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14.	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
15.	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.	REPORTINGS BY CLEARING MEMBERS			
16.	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
17.	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
18.	Member has correctly reported day-wise balance (as per the bank statement) of all bank accounts on weekly/daily basis for all the calendar days of that week except Sunday within prescribed timelines	Audit Period	Last week of Sep	All Members-Registered for Any Segment

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19.	Verification of T+1 segregated client collateral reporting 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) Placed with CM, Retained by CM and Placed with NCL – verify the correctness of figures reported in each column. Verify whether Placed with CM is equal to sum of Retained by CM and Placed with NCL.	All Members-Registered for Any Segment
20.	Member has correctly allocated the collaterals 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) 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. 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)	All Members-Registered for Any Segment
21.	Member has reported all their Bank account details in terms of NCL/CMPL/47240	Audit Period	All bank accounts to be verified	

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E.	STRENGTHENING OVERSIGHT ON CLEARING MEMBERS			
22.	Monitoring pay-in timelines by the TMs 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 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
23.	Monitoring penalties levied to clients of the Trading Members 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 Refer to Annexure V for format of samples verified to be provided by auditor	Out of number of members selected on the basis of the methodology given, select top 5 TMs on the basis of highest penalty	No. of instances of penalty levied on trading members is greater than 3 instances during the audit period	All Members-Registered for Any Segment
24.	Seeking data of debit balances of Trading Member's clients 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	Audit Period	-	All Members-Registered for Any Segment
25.	Monitoring misuse of client collaterals by TM for	Audit Period	-	All Members-Registered for Any Segment

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	proprietary trading The CM should ensure that the TM does not commingle 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			
26.	Correctness of data submitted by TMs to CM 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	Audit Period	-	All Members-Registered for Any Segment
27.	Inspection of TMs 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 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.	Audit Period	-	All Members-Registered for Any Segment

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28.	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
29.	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
30.	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
31.	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 ii. Performance evaluation process of TMs/CPs registered with the CMs	Audit period	-	All Members-Registered for Any Segment

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	including its periodicity 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 iv. Procedures for segregation of TM proprietary and Client collaterals v. Inspection of TMs 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 vii. List of banks from which FDRs and BGs shall be accepted viii. List of securities that shall be accepted as collaterals ix. Components of cash collateral and non-cash collateral x. Ratio of Cash and Non-cash component of collateral xi. Haircut percentage for all types of collaterals other than Cash, FDRs and BGs. xii. Securities subject to a minimum of VAR and other collateral shall be subject to minimum haircut of 10%			

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	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			
32.	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
33.	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.	OTHER COMPLIANCES			
34.	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
35.	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
36.	Compliance officer has obtained NISM-Series-III A/ prescribed certification.	Audit Period	-	All Members-Registered for Any Segment
37.	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
38.	Prescribed policies are maintained (Risk	Audit Period	-	All Members-Registered for Any Segment

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	Management Policy, PMLA Policy and SORM policy)			
39.	Exclusive e-mail id for any complaints created	Audit Period	-	All Members-Registered for Any Segment
40.	Regular back up of data taken and maintained.	Audit Period		All Members-Registered for Any Segment
41.	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
42.	Member has closed all existing demat accounts tagged as Client Collateral/ Client Margin Trading Securities/Client Beneficiary accounts in compliance with relevant SEBI Circular	Audit Period	-	All Members-Registered for Any Segment
43.	Member has closed Client Unpaid Securities (CUSA) on or before April 15, 2023 in terms of SEBISEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated Nov 11, 2022	Audit Period	-	All Members-Registered for Other than Commodity segment
44.	Member has opened client unpaid securities pledgee account on or before April 15, 2023 in terms of SEBISEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated Nov 11, 2022	Audit Period	-	All Members-Registered for other than commodity segment
45.	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	Audit Period	-	All Members-Registered for Any Segment

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	"Client Securities Margin Pledge account" in accordance with SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25,2020.			
46.	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
47.	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
G.	NETWORTH REQUIREMENTS			
48.	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
49.	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, comment on reason of erosion.	All Members-Registered for Any Segment
H.	BANK GUARANTEE (BG) MADE OUT OF CLIENT FUNDS			

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50.	Verify whether BGs as on Sep 30, 2023 are made out of prop funds. Refer to Annexure V for format of samples verified to be provided by auditor	Audit Period	Verify for the period between April 1, 2023 to September 30, 2023 whether all the BGs comply with SEBI circular dated April 25, 2023.	All Members-Registered for Any Segment
51.	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.	UPSTREAMING OF CLIENT FUNDS TO CLEARING CORPORATION			
52.	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	-	
53.	Whether the member has opened the Up Streaming Client Nodal Bank Account (USCNBA) and the Down streaming Client Nodal Bank Account (DSCNBA)	Audit Period	-	
J.	COMPLIANCE WITH RESPECT TO SOP UNDERTAKING			
54.	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/CI R/P/2020/115 dated July 01, 2020, on the subject "Standard Operating Procedure in the cases of Trading Member	Audit Period		All Members-Registered for Any Segment

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	/Clearing Member leading to default"			
55.	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
56.	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.	COMPLIANCE STATUS OF LAST INSPECTION CARRIED OUT BY SEBI/ CC/ INTERNAL AUDITOR			
57.	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	
58.	Member has taken corrective steps to rectify the deficiencies observed in the inspection carried out by CC. Further Member has complied with the qualifications/violations made in last CC inspection report	Audit Period	Last SEBI/CC Inspection Report/half yearly internal audit report	
59.	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	
60.	There are no repeat violations as per last inspection carried out by SEBI/ CC and last half yearly Internal Audit	Audit Period	-	

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.

No. of clients* for which CM clears the trades	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

(*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.