

National Stock Exchange Of India Limited**Department :**

Download Ref No: NSE/INSP/42448

Date : October 18 , 2019

Circular Ref. No: 37/2019

To All Members,

Sub: Framework for Supervision of Authorised Persons (APs) & Branches by Members

Member's attention is drawn to SEBI circular MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009 and Exchange circulars NSE/INSP/3685 dated October 17, 2002 & NSE/INSP/28434 dated December 24, 2014 on the supervisory framework with respect to Member's branches and Authorised Persons (AP) network.

Members have been formerly issued guidelines with regard to monitoring and review of trading activities of the APs & branches including periodic inspection of branches assigned to APs and records of the operations carried out by them. There has been an increase in the number of registered APs in the recent past stipulating a need for a more structured risk based supervisory framework.

In order to enhance the effectiveness of the supervision and ensure uniformity & standardisation across all Members, the following guidelines, framed in joint consultation with SEBI & other Exchanges, are being issued:

- i. Every Trading Member shall be required to inspect every year at least 30% of its active Authorized Persons/ Branches and also ensure that each active AP/ Branches is inspected at least once in every three years. For this purpose, an active AP/ Branches would mean one who have executed even a single transaction during financial year and is engaged in servicing the clients.
- ii. APs/Branches meeting any of the below criteria shall be inspected annually, irrespective of when the last inspection was carried out:
 - a) APs/Branches with more than 500 registered clients across Exchanges
 - b) APs with more than 20 trading terminals and Branches with more than 50 trading terminals, across all segments/Exchanges.
 - c) APs/Branches against which more than 3 complaints have been received during the previous year.

In case of any inputs/alerts about any suspicious transactions/dealing/assured returns etc. by an AP or a Branch, Members shall carry out an immediate inspection, irrespective of when the last inspection was carried out and initiate appropriate action.

- iii. The indicative scope of the Inspection to be carried out is outlined in **Annexure A**.

The aforesaid guidelines applicable with immediate effect, however for the **current FY i.e. FY 2019-20**, Members shall cover **15% of their active Authorized Persons/ Branches**.

Members are advised to put in place adequate mechanisms to review the inspection reports and take suitable actions to ensure non-recurrence of any irregularities observed. Members shall on an annual basis place an MIS before their Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of inspections undertaken, irregularities observed and action taken.

All members are advised to take note of the contents of the circular and comply.

For and on behalf of

National Stock Exchange of India Limited

Srijith Menon

Chief Manager-Inspection

Enclosed: **Annexure A**

In case of any clarifications, Members may contact our below offices:

Regional Office	CONTACT NO.	E MAIL ID
Ahmedabad (ARO)	079-49008632	inspectionahm@nse.co.in
Chennai (CRO)	044- 66309915/17	inspection_cro@nse.co.in
Delhi (DRO)	011-23459127 / 38 / 46	delhi_inspection@nse.co.in
Kolkata (KRO)	033-40400411 / 06	inspection_kolkata@nse.co.in
Mumbai(WRO)	022-25045264/259/224	compliance_wro@nse.co.in
Central Help Desk	compliance_assistance@nse.co.in	

Annexure-A**INDICATIVE SCOPE OF BRANCH /AP INSPECTION BY MEMBERS**

Members while undertaking the inspection of Branches and AP offices shall examine that all applicable regulatory requirements have been complied with including following indicative parameters:

1. Whether all clients are registered directly with stock broker only.
2. Adequate systems, including voice recording (wherever applicable) are put in place for recording of order placement from clients
3. There is no movement of Funds and securities between the client and AP/branch official for settlement of trades on the Exchange. Demat statement and bank accounts of the AP to be examined to verify such instances.
4. There are no cash dealings at the AP/Branch office.
5. Documents like contract note, statement of funds, daily margin statement are not generated and issued by the AP/Branch. However, the AP/Branch may provide administrative assistance in procurement of documents after maintaining proper records of the same.
6. All terminals observed at the inspection location is as per the information reported to the Exchange
7. Trading terminals situated at the place of inspection are operated by approved and certified users.
8. Notice board of the Trading Member containing the all details/information prescribed from time to time, is displayed at the inspection location.
9. SEBI registration certificate of the Trading Member and registration letter issued by the Exchange is displayed at the inspection location.
10. As required by SEBI circular CIR/MIRSD/3/2014 dated August 28, 2014, information about the grievance redressal mechanism available to investors is prominently displayed at the location.
11. The Authorised Person/Branch is not involved in any fund based activities / collecting deposits from investors / dabba trading / chit funds or any other such schemes.
12. The Branch/AP has not dealt with any other trading member/AP on behalf of its clients / self on the same Stock Exchange.
13. The Branch/AP has not dealt with any unregistered intermediary on behalf of its clients / self.
14. The AP/Branch is not involved in accepting deposits from the public and giving assured returns.
15. Advertisements soliciting business are not issued by the Authorised Person/Branch in newspapers / pamphlets / journals / magazines etc. without appropriate approvals.
16. Complaints received at the AP/Branch location are handled and records are maintained as per the regulatory requirement

17. Trading activities/Turnover at the AP/Branch location is monitored and necessary actions/investigations are undertaken in case of inactive AP/Branch location. Member shall, wherever required, de-activate all trading terminals extended to AP/Branch location which are inactive for more than 6 months & update Exchange records. Appropriate due diligence to be undertaken in case of re-activation of such terminals.
18. The Branch/AP has the necessary infrastructure like adequate office space, equipment and manpower to effectively discharge the activities on behalf of the member.
19. Proper segregation and demarcation is maintained at AP/Branch office in case terminal of a different Member is operated or any permissible activity other than the broking business is carried out.
20. The Branch/AP records/data are properly maintained with confidentiality in a secure manner including sufficient backup.
21. In case of change/shifting of location of AP/Branch, the following is ensured:-
 - a) All clients mapped to the AP/Branch have been notified at least thirty days before the change.
 - b) Notice Board and applicable SEBI registration certificates should be immediately be put up at the new location.
 - c) The new location shall be duly reported to the Exchange and the old location should be deactivated. New terminal details shall also be uploaded to the Exchange.
22. The Report of Inspection shall, in addition to the above clearly comment on the following:-
 - a) The functioning of the AP/Branch. The various activities undertaken by the AP/Branch.
 - b) Number of Employees of the AP/Branch.
 - c) Number of clients mapped to the AP/Branch.
 - d) Process of Client registration and on boarding.
 - e) Order placing mechanism at AP /Branch level.
 - f) Role of Branches/APs with respect to pay-in & pay-out of funds/securities with clients.

Members shall retain the report of the inspection/visit conducted for a period of not less than five years. The inspection reports shall be made available for verification by SEBI/Exchanges as and when required including any related information/details that may be sought.