



भारतीय प्रतिभूती और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

CIR/HO/MIRSD/MIRSD2/CIR/P/2017/73

June 30, 2017

To
The Managing Directors / Chief Executive Officers
All Recognized Stock Exchanges
All Clearing Corporations

Dear Sir / Madam,

Sub: Policy of Annual Inspection of Members by Stock Exchanges/Clearing Corporations

1. As per SEBI circulars MIRSD/Master Cir-04/2010 dated March 17, 2010, CIR/MIRSD/13/2012 dated December 07, 2012 and SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/92 dated September 23, 2016, stock exchanges are required to formulate a policy for annual inspection of their members in consultation with SEBI.
2. In terms of aforementioned circulars, the policy for annual inspection of members, as decided in consultations with Stock Exchanges/Clearing Corporations, is enclosed herewith at Annexure - I for necessary action.
3. The Stock Exchanges/Clearing Corporations are directed to:
 - a. Make amendments to the relevant bye-laws, rules and regulations for the implementation of the above directions.
 - b. Communicate the implementation thereof to SEBI within 15 days from the date of the circular.
4. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Debashis Bandyopadhyay
General Manager

Annexure - I

1. The criteria for selection of members for annual inspection are as follows:
 - a. Stock brokers servicing investors, getting disabled on account of funds shortages on more than 3 times in a month shall be inspected irrespective of the fact of when they were last inspected.
 - b. Stock brokers servicing investors, having overnight disablement on account of margin shortage for more than 2 days shall be inspected irrespective of the fact of when they were last inspected.
 - c. Top 25 stock brokers paying high and recurring penalties for non-reporting or short reporting of margin/Client Code modification/CTCL mismatch fines or any other similar high risk compliance issue shall be inspected irrespective of when they were last inspected.
 - d. Top 25 stock brokers in terms of investor complaints and arbitration cases filed by investors shall be inspected irrespective of the fact of when they were last inspected.
 - e. Stock brokers having adverse observations in the internal audit report on high risk issues like wrong reporting of margins, transfer of trades, pledging of client securities, dealing with unregistered intermediaries etc., shall be inspected irrespective of the fact of when they were last inspected.
 - f. Subsidiaries of Regional Stock Exchanges shall be inspected every year.
 - g. Stock Exchange shall frame internal policy for selection of stock brokers for inspection based on inputs/alerts from Risk Based Supervision.
 - h. Besides the above, the special purpose/limited inspections shall be carried out based on any triggers like patterns found during investor complaint resolution/Arbitration, complaints on specific malpractices of a broker or references from various authorities. The inspection shall be irrespective of the fact of when the last inspection was carried out.
 - i. Apart from the above few stock brokers shall be selected by the Stock Exchanges on a random basis for inspection.
 - j. Stock brokers who do not fall under any of the above category shall be inspected by the Stock Exchanges at least once in three years.
 - k. Stock brokers selected on the above category shall be inspected for all segments and also for clearing activity if the stock broker is undertaking clearing for other stock brokers.
 - l. Inspections of Professional Clearing Members shall be conducted by Clearing Corporations once in two years.
2. Clearing activity undertaken by stock brokers for other stock brokers shall be inspected by Clearing Corporations. Other activities of stock brokers shall be inspected by Stock Exchanges. If Stock Exchanges and Clearing Corporations so desire, they can conduct joint inspections of stock brokers. Where Clearing Corporation has not been set up, Stock Exchange shall inspect all activities of stock brokers including activity of clearing for other stock brokers.

3. The Stock Exchanges/Clearing Corporations are advised to continuously assess the risks posed by their members and review/revise the policy of annual inspection, as and when required, in consultation with SEBI.
4. The Stock Exchanges shall establish an information sharing mechanism with one another on the important outcome of inspection of members who hold multiple memberships of the exchanges in order to improve the effectiveness of supervision and shall also bring cases of repetitive and / or serious violations to the notice of SEBI.