

NCCPL Regulations

CHAPTER 31: ANNUAL REGULATORY COMPLIANCE AUDIT AND INSPECTION OF CLEARING MEMBERS

In order to ensure compliance with the NCCPL Regulations and Rules, the Company shall conduct an Annual Regulatory Compliance Audit and Inspection of Clearing Members.

31.1 Definitions

When used in these Regulations and, where applicable, in the Procedures, the following expressions shall, unless the context otherwise requires, have the meanings herein below specified:

Act means the Securities Act, 2015

Audit means the Audit of Clearing Members conducted as per these Regulations.

Auditor(s) in case of Broker Clearing Members means the Auditor(s) appearing on the penal of auditors formed by Stock Exchanges under their relevant regulatory framework

In case of Non Broker Clearing Members and Custodian Clearing members, the statutory auditors appointed under the relevant provisions of the applicable rules and regulations

Company means National Clearing Company of Pakistan Limited

CRO means the Chief Regulatory officers of the exchanges and include any other person designated by the SRO for the purpose.

Days shall have the same meaning as defined under the Joint Inspection Regulations, 2015

Inspection Team means as defined under Joint Inspection Regulations, 2015

Inspection Report means as defined under the Joint Inspection Regulations, 2015

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Joint Inspection Regulations	means Joint Inspection Regulations, 2015.
Joint Inspection	means inspection of Broker Clearing Members carried out under the Joint Inspection Regulations, 2015.
Leveraged Markets	means the Leveraged Markets as defined in the Securities (Leveraged Markets and Pledging) Rules, 2011
Oversight Committee	means as defined under the Joint Inspection Regulations, 2015
Procedures	means procedures of NCC system made under Regulation 3.5, and include any amendment, modification, revision and/or substitution thereof.
Regulation	means National Clearing Company of Pakistan Limited Regulation 2003
Record	shall have the same meaning as defined under Section 2 of the Securities Act, 2015
Report	means the compliance report submitted by the Auditor under these Regulations
SRO	means Self Regulatory Organizations and includes all securities exchanges, Central Depository and NCCPL

31.2 Panel of Auditors

31.2.1 The auditors appearing on the panel of auditors formed by Stock Exchange under its relevant regulatory framework for conducting the System Audit shall also be eligible for conducting the audit of the Broker Clearing Members. However, in case of the NBCMs and the CCMs the statutory external auditors appointed under the applicable rules and regulations shall be eligible for conducting the Audit.

31.2.2 An officer designated by the Chief Executive Officer shall liaise with the Clearing Members(s) and the Auditor(s) conducting the Audit of the Clearing Members.

31.2.3 The Broker Clearing Members that have been selected for Joint Inspection under the Joint Inspection Regulations, 2015 shall be audited by the Inspection Team formed by the Oversight Committee under the provisions of the Joint Inspection Regulations, 2015.

31.3 Eligibility for Audit

- 31.3.1 The Clearing Member who has been admitted as a Broker Clearing Member by the Company for a period of at least one year preceding the ballot, shall be eligible for the Audit.
- 31.3.2 The Non-Broker Clearing Members and Custodian Clearing Members who has been admitted as such for a period of one year shall also be eligible for audit.
- 31.3.3 The Broker Clearing Members selected for Joint Inspection during the period shall not be considered for the Regulatory and Compliance Audit under these Regulations. The eligibility of a Broker Clearing Member for Joint Inspection shall be as per the provisions stipulated under the Joint Inspection Regulations, 2015

31.4 Selection of Clearing Members for Audit/inspection

- 31.4.1 All the Broker Clearing Members that have been selected for the System Audit under the selection criteria of Stock Exchange's Regulations shall also be liable for Audit under these Regulations. However, the Broker Clearing Members served with an inspection order under the Joint Inspection Regulations, 2015 during the period of selection, shall be excluded from the selection process.
- 31.4.2 All the Non-Broker Clearing Members and Custodian Clearing Members shall be liable to assign the Audit to their statutory auditors in accordance with these Regulations and inform the Company accordingly on or before 31st July or 31st January on the basis of their financial year end i.e. June or December, respectively.

31.5 Scope of Audit

The Auditor shall carry out the Audit / inspection of Clearing Members to ensure compliance of NCCPL Regulations and Procedures including any modification or amendments made therein, any new Rules and/or Regulations made from time to time, and the directives/circulars/guidelines issued by the Commission/Company from time to time. However, the scope of Audit shall at least include the minimum activities as specified in Annexure A and Annexure B hereof.

Provided that the Broker Clearing Members, selected for Joint Inspection under the Joint Inspection Regulations, 2015 shall be subject to inspection as per the scope defined under the Appendix III of the Joint Inspection Regulations, 2015.

31.6 Audit Period

The Audit period shall be preceding twelve months as specified by the Company. However, for the Broker Clearing Members selected for Joint Inspection under the Joint Inspection Regulations, 2015, the inspection period shall be as per the period determined under the Joint Inspection Regulations, 2015.

31.7 Audit Process

- 31.7.1 All Clearing Members shall appoint an Auditor as mentioned in Clause 31.4.1 and 31.4.2 and submit the information to the Company regarding the appointment of the Auditor.
- 31.7.2 If any Clearing Member fails to provide the information to the Company regarding the appointment of the Auditor within the stipulated time period, the Company shall proceed to appoint the Auditor for such Clearing Member within 14 days after expiry of the requisite time period and may take appropriate enforcement action including issuing warnings, imposing fines, suspension of clearing and settlement services with the approval of the Board.
- 31.7.3 Such Clearing Member shall provide required access to the information and documents needed by the Auditor for the Audit and co-operate with the Auditor for timely and smooth completion of the Audit.
- 31.7.4 Such Clearing Member shall require the Auditor for submission of the Report directly to the Chief Executive Officer of the Company, within two months from the date of appointment of the Auditor. The Inspection Report of the Broker Clearing Members selected for Joint Inspection shall also be submitted to the Chief Executive Officer by the Oversight Committee within the time period stipulated under the Joint Inspection Regulations, 2015.
- 31.7.5 If the Report contains any non-compliance(s), the Clearing Member shall rectify the same immediately. In order to ensure compliance, a limited scope review may be conducted to ensure that the observations highlighted in the recent audit have been amicably resolved. However, any such audit shall be conducted on the basis of the significance of the non-compliances reported in the last Audit Report and the Company has the sole discretion to decide conducting the limited scope audit of any Clearing Members. The Commission may also direct the Company to carry out any such limited scope review. The Company may appoint the auditors that have conducted the last audit of the Clearing Members for performing the limited scope audit. Further, the period for limited scope audit shall not be

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less than 3 months ensuring the discrepancies identified in the Report are rectified and the Clearing Member has remained compliant during the said period.

In case where a BCM has been selected for inspection under the Joint Inspection, the non-compliances observed in the report forwarded by the Oversight Committee shall be immediately considered and the respective BCM shall be directed to rectify the same. The limited scope inspection of the BCM is also conducted under the Joint Inspection Regulations, 2015, any such limited review report shall be immediately considered for ensuring that the observations highlighted under the Joint Inspection Report are either resolved or an effort is being made to attain compliance. However, where no significant progress is reported in resolving the highlighted issues in the limited scope inspection. The Company shall accordingly proceed to take appropriate action against the concerned BCM in a timely manner.

31.7.6 Any limited scope audit shall not alter or affect the Broker Clearing Member's normal selection process or timing through random balloting done by the exchange. Similarly, the pendency of any such limited scope review shall not have any impact on the periodic audit of the NBCM and CCM.

31.7.7 The Company shall forward to the Commission copies of the Reports of the Clearing Members audited, along with the views, counter views and comments of the Clearing Members and the Company on the discrepancies/observations, within 45 days of submission of the Reports. Audit report of any limited scope audit shall also be submitted to the commission within 15 days from the date of receipt of the limited scope audit report.

Provided that, if the Report highlights any material non-compliance by the Clearing Member, such Report shall be immediately forwarded to the Commission.

Provided further that the provisions of this Regulation shall not apply to Brokers Clearing Members that have been selected for Joint Inspection under the Joint Inspection Regulations, 2015.

31.8 Enforcement Actions

If the Report identifies any non-compliance(s) including that of the Rules, Regulations and directives/notices/circulars/ guidelines of the Commission, Company etc., the Company may, after giving the Clearing Member an opportunity of being heard and considering the severity and materiality of the non-compliances, take appropriate enforcement action including issuing warnings, imposing fines, suspension of clearing and settlement services with the approval of the Board.

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Provided that in case of Broker Clearing Members selected for Joint Inspection, the enforcement action shall be taken on the basis of the observations put forward by the Oversight Committee.

For this purpose the Company shall also define a schedule of penalties to be imposed on the CMs.

31.9 Costs

All the expenses pertaining to the Audit including but not limited to audit fee, out of pocket expenses and all such other cost incurred to successfully conduct and complete the audit shall be paid by the Clearing Member. Where any limited scope review is conducted the cost of the limited scope review shall also be paid by the Clearing Member.

The cost incurred on the Joint Inspection by the Company shall be recovered through the share of the inspection fee received from the stock exchange on the basis of the fee sharing ratio determined by the Oversight Committee in pursuance of Regulation 16 of the Joint Inspection Regulations, 2015.

31.10 Participation in the Oversight Committee

31.10.1 In accordance with the provisions of the Joint Inspection Regulations, 2015, the Company shall nominate the Chief Compliance and Risk Officer or the Chief Internal Auditor or any other person performing any of these roles within the Company as its representative on the Oversight Committee.

31.10.2 The Company shall also determine the person(s) that will be eligible to represent the Company on the Oversight Committee as a substitute in the absence of the person(s) actually nominated for the Oversight Committee. Any such person(s) so nominated shall possess the relevant education and work experience as determined under the Joint Inspection Regulations, 2015.

31.11 Role of the Company with respect to the Joint Inspection of the BCM

31.11.1 The Company shall be responsible for providing required number of the staff as per the qualification, education and experience level determined by the Oversight Committee.

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31.11.2 The number of staff including their availability shall be determined by the Oversight Committee the Company shall be responsible to provide the required staff to ensure seamless conduct of the inspection of the BCM.

31.11.3 The Company shall also be responsible to provide any logistic support or make necessary arrangements for making available any work space requested by the Oversight Committee.