

SCOPE OF AUDIT - Broker Clearing Members

1. General

- 1.1 Review that all the requirement are fulfilled by the BCMs to meet their admission criteria in accordance with Company's Regulations such as continuous and timely information to the Company regarding its current Authorized Persons together with, in case the BCM is a body corporate, Board Resolutions or attested Powers of Attorney pursuant to which the appointment of such Authorized Persons was made.
- 1.2 Review that BCM meets or continues to meet the Technical and Performance requirement for operating NCSS as required by NCCPL Regulation and Procedures.
- 1.3 Check that the cash deposited by the BCM to the Company for the margins and MTM Losses and segregated towards a client is done with accuracy and in accordance with the provisions of Regulation 12.7.9 of the NCCPL Regulations.
- 1.4 Check to ensure that where a BCM has authorized in writing the Company to utilize excess Margin Eligible Securities available in his house account, cash and Bank Guarantee deposited with the Company for meeting any shortfall in the margin and MTM Losses requirement of his client, such BCM collects the margin from its clients in accordance with the provisions of Regulation 12.7.11 of the NCCPL Regulations.
- 1.5 Where an authorization has been provided by a director, chief executive officer of a corporate Clearing Member or any other individual holding at least 10% shares of the corporate Clearing Member in accordance with the provision of the Regulation 12.7.12 of the NCCPL Regulations, check to ensure that such person was acting as a director, CEO or holding 10% shares of the corporate brokerage house and in case of any change same has been timely reported to the Company.
- 1.6 Check to ensure that in pursuance of Regulation 12.9.2, the BCM has not created any charge or lien on the assets deposited with the Company against exposure margin and MTM Losses.
- 1.7 Check that BCM has collected exposure margin, market-to-market losses, markup etc. for all markets from its clients in accordance with the Requirement of Regulation 12.9.3.

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- 1.8 Check that in pursuance of Regulation 12.9.4 there exists no arrangements that will lead to evasion of or assistance in evasion of requirements stipulated under the NCCPL Regulations.
- 1.9 Check that the BCM has submitted the Net Capital Balance Certificate as per the prescribed format and at such intervals as determined under the NCCPL Regulations and Procedures. Further, ensure that the BCM maintains the prescribed minimum capital requirements at all times and deviation has been duly reported to the Company.
- 1.10 Check that Broker Margin Financier's Clearing Members only provides Margin Financing to its clients and has executed an agreement with such client on the conditions described in NCCPL Regulation and in accordance with the Rules.
- 1.11 Check that Margin Financier's Clearing Member has executed an agreement with their client for the purposes of availing Margin Financing. Such agreement shall clearly specify that such client takes the risk that his securities may be sold by the Margin Financier, in case of any default by such Margin Financier including the default on any margin call made by the respective Margin Financier.
- 1.12 Check that each Broker Clearing Member of Margin Financier shall provide the Company, on monthly basis, information regarding Margin Financing provided to its clients out of own resources in accordance with the procedures. Also verify the accuracy of detail provided to the Company.
- 1.13 To review that necessary action taken by the BCMs to complete the compliance reporting through NCSS in accordance with various Gazette of Pakistan Statutory Notification (SRO).
- 1.14 Check that once the Client Code is issued by a Broker Clearing Member, the same Client Code (either closed) will not be assigned to another client of the same CM ID and Trader ID.
- 1.15 Check that where Clearing Member has multiple CDS house and sub-accounts for the single UIN, in such case CM shall be required to map any one active CDS house and sub-account with each Client Code of such UIN through NCSS UIN Registration Screen.

2. Client level verification related to Clearing and Settlement through NCSS

- 2.1 Review the movements of Securities from clients' Sub-accounts with NCSS clearing and settlement i.e. buying and selling and client wise movement of securities maintained by the Clearing Member's, if any.
- 2.2 Check in respect of selected clients that money obligation related to NCSS clearing and settlement for buying, selling in all markets, margins, payments, receipts, brokerage commissions charged, payable and receivable pertaining to the clients account are recorded timely, adequate, proper, identifiable and in a manner verifiable on UIN / Client Code basis.
- 2.3 Check the records of evidence for NCSS clearing and settlement obligations i.e. receiving of amount in Client's account and disbursement of amount from Client's accounts i.e. paid to the Client.
- 2.4 Check that Client code/UIN of the persons/investors shall not be closed until and unless such persons/investors obtain a clearance certificate from the Company confirming discharge of all CGT liability.
- 2.5 Check the evidence of client's receiving of Annual Certificate (issued by the Company) showing computation/determination of capital gains or loss and CGT thereon, if any, and payment thereof to each client/ investor.
- 2.6 Verify that the clients' funds and securities are not used by the Clearing Members for any purpose other than as authorized by the client in writing.
- 2.7 The minimum suggested sample size for client level compliance is.
 - 50% or UINs holders who had traded average volume of more than or equal to 50,000 shares in a week, over a period of 12 weeks, whichever is lower.
 - Minimum ten days of active NCSS settlement of each selected client are checked / confirmed with complete trail of steps from the date of trade till settlement of securities in their respective client accounts.
- 2.8 Review to ensure that in pursuance of Regulation 9.16 of the NCCPL regulations the BCM has provided valid mobile numbers for individual clients and valid email address for foreign clients/corporate clients for all new account opened during the

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- period. Further, check that similar data is provided for the existing clients within the time stipulated by the Company.
- 2.9 Review to ensure that effective and efficient procedures have been put in place by the BCM to ensure that the information entered in the UIN registration screen is authentic and correct. Further, check on a sample basis the evidences maintained by the BCM to ensure the authenticity of client registration details.
 - 2.10 Check that if the BCM has received any notice from the Company in accordance with the requirement of Regulation 9.1.6 for providing mobile number that are not registered in the name of the clients, what efforts are made to resolve the matter.
 - 2.11 Check that the BCM has ensured ensure that a particular mobile number and/or email address is not used for more than one UIN.
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 - 2.12 Further, check that the BCM has not use its own mobile number(s) or email address(es) or the mobile number(s) or email address(es) of any of its agents, traders or other employees for the UIN Registration Details of a client, unless it is for the account of Broker Clearing Member or its agents, traders or other employees.
 - 2.13 Check to ensure that appropriate and adequate procedures have been put in place to ensure compliance of the point 2.11 and 2.12 above.
 - 2.14 Check to ensure that the BCM has disclosed to the client and has obtained its permission to provide the mobile number and the email address as the case may be to the Company.

3. Verification of Unique Identification Number (UIN)

- 3.1 Ensure that Broker Clearing Members obtain from and maintain the documentary evidence of UIN registered in NCSS for each of his clients.
- 3.2 Ensure that all employees of Broker Clearing Members are registered into the NCCPL's UIN database with all required registration details as per Procedures as an employee of a brokerage house.
- 3.3 The Broker Clearing Member shall be responsible for the correctness and completeness of the Client UIN Registration Details provided to the Auditors.

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- 3.4 In order to obtain assurance as to the accuracy of UIN records maintained by Broker Clearing Members (BCMs) and obtaining confirmation from UIN holders to ensure that unauthorized records do not exist in UIN database, following guidelines and methodology will be performed:
- 3.4.1 The Auditor sent a request to the BCMS where they will be asked to provide, the supporting documentary evidence for establishing the authenticity of the UINs pertaining to the UIN holders and their Postal address.
- 3.4.2 For obtaining confirmation, a confirmation letter will be sent to the UIN holders. (Refer Annexure 'C' and 'D' for the specimen letters). All the letters will be printed on the letterhead of the Auditor's Company.
- 3.4.3 The UIN holders will be required to provide the response in 15 days from the date of the letter. Where the reply is not received within 18 days, the Auditor will send a reminder to the UIN holders. The UIN holder will have seven days to reply the reminder. Where no reply has been provided within the stipulated time period it will be assumed that the UIN holder has agreed to the information provided in the confirmation letter.
- 3.4.4 If postal address was incorrect and confirmation letter was not delivered to the concerned Client/UIN holder, then upon receiving of undelivered confirmation letter, the Auditor has contacted BCM for providing revised/correct address and resend the said letter.
- 3.4.5 If confirmation letter still not delivered in second attempt then Auditor's reported as observations in the report.
- 3.4.6 The selection criteria for verification UIN records will be based on:
- The volumes transacted through the Broker Clearing Member during the period under review. The Auditor get the information from NCSS for UINs holders (BCMs wise) who had traded average volume of more than or equal to 100,000 shares in a week, over a period of 12 weeks. Attached herewith format (Annexure – 'E') of the information which will be generated from NCSS.
 - The above mentioned information will be generated for UIN type '*Individual*', '*Corporate-Company*' and '*Foreigners*' only.

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- 3.4.7 The Auditor will ensure strict confidentiality of the all the UIN registration details.
- 3.4.8 The cost to be incurred on the printing and dispatching of the letter will be calculated and recovered from the Broker Clearing Members.