

## **SCOPE OF AUDIT – Non Broker Clearing Members & Custodian Clearing Members**

### **1) GENERAL - NBCM & CCM**

- 1.1 Review that there are no changes during the review period in the documents submitted by the NBCMs and/or CCMs at the time of admission in pursuance of their admission criteria including but not limited to list of authorized signatories, Board Resolution or General Power of Attorney used for authorizing the employees and the rating reports etc. Where changes have been identified, review to ensure that the same were reported to the Company on a timely basis
- 1.2 Review and confirm that the Technical and Performance Requirement given under Regulation 5.4, Capacity Requirements given under Regulation 5.5, Business Integrity Requirements given under Regulation 5.6 of the NCCPL Regulations have been continuously met.
- 1.3 Where the NBCM/CCM is also admitted as a Margin Financing Participant, Margin Trading Participants and/or Securities Lending and Borrowing Participants, review that there are no changes during the review period in the documents submitted by the NBCMs and/or CCMs at the time of admission in pursuance of respective admission criteria. Where changes have been identified, review to ensure that the same were reported to the Company on a timely basis.
- 1.4 Where the NBCM/CCM is also admitted as a Securities Lending and Borrowing Participants or a Trading Financier or a Margin Financier, review and confirm that the eligibility criteria for SLB Participants given under Regulation 7.A.2, eligibility criteria for Margin Financier given under Regulation 7.B.2.1, eligibility criteria for Trading Financier given under Regulation 7.C.2.1, as the case may be, have been continuously met.
- 1.5 Review and confirm that the NBCM/ CCM has ensured at all times that: (Rule 4.2.1)
  - i. it has the capacity to communicate reliably with the NCC Systems; and
  - ii. it employs or retains such personnel that are familiar with NCCPL regulations and the procedures as are necessary to allow it to carry out its obligations in accordance with NCCPL regulations and the procedures and to generate, receive and obtain reports in accordance with the procedures.

## **NCCPL Regulations**

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- Review and confirm that there are no changes in the authorized persons determined under Regulation 9.4 of the NCCPL Regulations during the review period. Where any change has been identified, review to ensure that the same were reported to the Company on a timely basis.
- 1.6 Check the records kept to document following instances and corrective measures taken to reduce their occurrence:
    - i. Authorization for use of global terminal and the reason for the use
    - ii. Time overrides requested during the period and the reason for making such requests.
    - iii. Any failure to deposit the mark-to-market losses and the exposure margin within the stipulated time
  - 1.7 In case where Irrevocable Undertaking is issued, review and confirm Board Resolutions adopted during the review period to ensure that the Specific Approval for submission of Irrevocable Undertaking against Exposure Margins of NBCM has not been withdrawn.
  - 1.8 Review and confirm that none of the events given under Regulation 19.2.1 of the NCCPL Regulations have occurred during the period that shall lead to declare the NBCM or CCM as an insolvent. Further, where any such event has occurred, review and confirm that the Notice required under Regulation 19.2.1 has been issued on a timely basis.

### **2) Client level verification related to Clearing and Settlement through NCSS – CCMs Only**

- 2.1 Review the movements of Securities from clients' Sub-accounts with NCSS clearing and settlement i.e. buying and selling with client wise movement of securities maintained by the Custodian Clearing Member.
- 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, Custodian commissions charged, payable and receivable pertaining to the clients account are recorded timely in a manner verifiable on Investor basis.

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- 2.3 Check the records of evidence for NCSS clearing and settlement obligations in respect of the amount received in Client's account.
- 2.4 Check the records of evidence for NCSS clearing and settlement obligations in respect of the disbursement of amount from Client's accounts.
- 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. (CCM)
- 2.6 Verify that the clients' funds and securities are not used by the Custodian 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 clients 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 written request for UIS by Clients that have applied through their CCM.
- 2.9 Review forms & documents filed by the clients of CCM at time of admission.
- 2.10 Check for constant update in authorize signatory of clients with CCM with valid identification (CNIC, NICOP, Passport Number / Board Resolution, Power of Attorney)
- 2.11 Review documentation sent by CCM to CDC and confirmation of CDC Custodian Account from CDC.
- 2.12 To review that necessary action taken by the CCMs to complete the compliance reporting through NCSS in accordance with various Gazette of Pakistan Statutory Notification (SRO).

### **3) Verification of Unique Identification Number (UIN)**

- 3.1 Ensure that Custodian Clearing Members obtain from and maintain the documentary evidence of UIN registered in NCSS for each of his clients.
- 3.2 The Custodian Clearing Member shall be responsible for the correctness and completeness of the Client UIN Registration Details provided to the Auditors.
- 3.3 In order to obtain assurance as to the accuracy of UIN records maintained by Custodian Clearing Members and obtaining confirmation from UIN holders to ensure that unauthorized records do not exist in UIN database, following guidelines and methodology will be performed:
  - 3.3.1 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 Email address.
  - 3.3.2 For obtaining confirmation an email will be sent to the respective client for confirming the details and the client will be requested to reply within 7 working days where no such response or reply is received it will be assumed that the information provided through the email is accepted and therefore is correct and authorized.