

Stock Brokers Internal Audit of Checklist

(Sample)

1. REGULATORY COMPLIANCE

1.1 SEBI Registration & Licensing

- Valid SEBI registration certificate maintained
- Registration renewal done on time
- All required licenses (NSE, BSE, MCX, etc.) are current
- Trading member agreements signed and updated
- Clearing member agreements (if applicable) maintained
- Professional clearing member documentation verified

1.2 SEBI Compliance Requirements

- SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 compliance verified
- SEBI (Research Analysts) Regulations, 2014 compliance (if applicable)
- SEBI (Investment Advisers) Regulations, 2013 compliance (if applicable)
- SEBI (Prohibition of Insider Trading) Regulations, 2015 compliance
- SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 compliance

1.3 Exchange Compliance

- NSE/BSE bye-laws and circulars compliance verified
- Exchange membership fees paid on time
- Compliance with exchange trading rules and regulations
- Proper margin requirements maintained
- Risk management systems as per exchange norms

2. FINANCIAL COMPLIANCE

2.1 Net Worth Requirements

- Minimum net worth of ₹25 lakhs maintained (cash market)
- Additional net worth for F&O segment (₹50 lakhs) verified
- Currency derivatives net worth requirements (₹25 lakhs) checked
- Monthly net worth calculations reviewed
- Net worth certificate from CA obtained annually

2.2 Capital Adequacy

- Base minimum capital maintained
- Liquid assets computation verified
- Adjusted net worth calculations reviewed
- Capital adequacy ratio maintained as per norms
- Stress testing of capital adequacy performed

2.3 Client Security Deposits

- Client security deposits collected as per norms
- Segregation of client funds maintained
- Client protection fund contributions made



- Bank guarantees/fixed deposits for client protection maintained
- Interest on client deposits calculated and paid correctly

3. CLIENT MANAGEMENT

3.1 Client Onboarding (KYC)

- KYC documentation complete for all clients
- In-Person Verification (IPV) conducted and documented
- PAN card verification completed
- Bank account verification done
- Income proof collected where required
- Risk profiling of clients completed
- Client registration forms signed and maintained

3.2 Client Agreements

- Client agreements executed in prescribed format
- Risk disclosure documents signed by clients
- Rights and obligations document provided to clients
- Tariff sheet provided and acknowledged by clients
- Policy and procedure document shared with clients

3.3 Client Fund Management

- Client funds kept in separate bank accounts
- No mixing of client and proprietary funds
- Daily reconciliation of client funds
- Proper accounting of client securities
- Client-wise ledger maintenance
- Running account settlement properly managed



4. TRADING & OPERATIONS

4.1 Trading Systems & Controls

- CTCL (Connectivity, Trading, Clearing & Settlement) systems operational
- Pre-trade risk management systems functioning
- Position limits and exposure limits set appropriately
- Real-time monitoring of client positions
- Circuit breakers and auto-square off mechanisms working
- Audit trail of all trading activities maintained

4.2 Order Management

- Order entry procedures documented and followed
- Time stamping of orders as per regulations
- Order modification and cancellation procedures compliant
- Unauthorized trading controls in place
- Client authorization for orders verified

4.3 Settlement & Clearing

- Settlement obligations met on time
- Pay-in and pay-out processes followed correctly
- Delivery instructions processed accurately
- Failed settlement handling procedures in place
- Corporate action processing verified



5. RISK MANAGEMENT

5.1 Risk Management Framework

- Board-approved risk management policy in place
- Risk management committee constituted
- Risk management systems and procedures documented
- Regular risk assessment and monitoring
- Stress testing procedures established

5.2 Credit Risk Management

- Client credit evaluation procedures in place
- Exposure limits set based on client financials
- Margin collection and monitoring systems
- Collateral management procedures
- Default management procedures established

5.3 Market Risk Management

- Position limits set and monitored
- Value-at-Risk (VaR) calculations performed
- Concentration risk monitoring
- Sector and scrip-wise exposure limits
- Derivative positions risk monitoring

5.4 Operational Risk Management

- Business continuity plan in place
- Disaster recovery procedures tested



- System downtime management procedures
- Employee fraud prevention measures
- Cyber security measures implemented

6. TECHNOLOGY & SYSTEMS

6.1 IT Infrastructure

- Trading systems certified by exchanges
- System capacity adequate for business volume
- Network connectivity redundancy maintained
- Data backup and recovery procedures in place
- System security measures implemented

6.2 Data Management

- Client data security and confidentiality maintained
- Data retention policies implemented
- Regular data backup performed
- Data integrity checks conducted
- Access controls and user management

6.3 Cyber Security

- Firewall and antivirus systems updated
- Intrusion detection systems in place
- Regular security audits conducted
- Employee cyber security training provided
- Incident response procedures documented



7. FINANCIAL REPORTING & ACCOUNTS

7.1 Books of Accounts

- Proper books of accounts maintained as per Companies Act
- Client-wise ledgers maintained
- Daily cash and position reconciliation
- Monthly financial statements prepared
- Annual audited financial statements prepared

7.2 Regulatory Reporting

- Monthly returns filed with SEBI/exchanges on time
- Annual compliance report submitted
- Quarterly financial results filed
- Event-based disclosures made as required
- Client complaint reports submitted

7.3 Internal Financial Controls

- Segregation of duties maintained
- Authorization limits defined and followed
- Bank reconciliation performed daily
- Investment of surplus funds as per regulations
- Related party transaction approvals obtained



8. COMPLIANCE MONITORING

8.1 Compliance Function

- Dedicated compliance officer appointed
- Compliance manual prepared and updated
- Regular compliance training conducted
- Compliance monitoring and testing performed
- Non-compliance issues tracked and resolved

8.2 Internal Controls

- Internal control systems documented
- Regular internal audits conducted
- Management information systems in place
- Exception reporting mechanisms established
- Corrective action procedures defined

8.3 External Compliance

- Statutory auditor appointment and reports
- Exchange inspection compliance
- SEBI inspection preparedness
- Tax compliance (GST, Income Tax, etc.)
- Other regulatory compliance (RBI, MCA, etc.)



9. CLIENT GRIEVANCES

9.1 Grievance Handling

- Client grievance policy documented
- Grievance officer appointed
- Complaint registration and tracking system
- Timely resolution of complaints
- Escalation procedures for unresolved complaints

9.2 Investor Protection

- Investor grievance mechanism published
- Client education programs conducted
- Investor awareness initiatives undertaken
- Client feedback system implemented
- Regular client satisfaction surveys

10. HUMAN RESOURCES & GOVERNANCE

10.1 Personnel Management

- Qualified and experienced personnel employed
- Regular training programs conducted
- Performance evaluation systems in place
- Code of conduct for employees
- Background verification of employees

10.2 Corporate Governance

- Board meetings conducted as per regulations
- Independent directors appointed where required
- Audit committee constituted and functional
- Annual general meetings conducted
- Statutory registers maintained

11. ANTI-MONEY LAUNDERING (AML)

11.1 AML Compliance

- AML policy document prepared and implemented
- Customer Due Diligence (CDD) procedures followed
- Suspicious transaction monitoring system in place
- STR/CTR filing with FIU-IND as required
- AML training provided to employees

11.2 Know Your Customer (KYC)

- KYC norms as per PMLA regulations followed
- Periodic KYC updates conducted
- Enhanced due diligence for high-risk clients
- PEP (Politically Exposed Persons) identification
- Record maintenance as per AML requirements



12. SPECIFIC SEGMENT COMPLIANCE

12.1 Equity Cash Marke

- T+1 settlement compliance
- Delivery vs. Payment mechanism followed
- Corporate action processing compliance
- Bonus, dividend, and rights issue handling

12.2 Derivatives Market

- F&O segment compliance requirements met
- Position limits and client limits monitored
- Physical delivery procedures for derivatives
- Options exercise and assignment handling

12.3 Currency Derivatives

- Currency derivatives trading compliance
- Client suitability and appropriateness verified
- Position limits for currency derivatives
- Settlement and delivery procedures

12.4 Commodity Derivatives

- MCX/NCDEX membership compliance
- Commodity derivatives risk management
- Warehouse receipt procedures
- Physical delivery compliance

