

National Stock Exchange of India

Circular

Department: MEMBER COMPLIANCE	
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To All Members,

Sub: Framework for Supervision of Authorised Persons (APs) & Branches by Members

Member's attention is drawn to SEBI circular ref. no. MIRSD/DR-1/Cir – 16/09 dated November 6, 2009, and various circulars issued by Exchange vide reference nos. NSE/INSP/28434 dated December 24, 2014, NSE/INSP/42448 dated October 18, 2019, NSE/COMP/48536 dated June 09 2021, NSE/COMP/49509 dated September 03, 2021, NSE/COMP/50030 dated October 21, 2021, NSE/COMP/ 56947 dated June 02, 2023 and NSE/COMP/58438 dated September 18, 2023 wherein a supervisory framework was provided governing market access through Authorised Persons (APs), by SEBI registered stock brokers of the Exchange.

Guidelines with regard to monitoring and review of trading activities of the APs & branches, including periodic inspection of APs and branches assigned to APs and maintaining records of their operations, have been prescribed in the aforementioned circulars.

To enhance the effectiveness of supervision and ensure uniformity and standardisation across all Members, the minimum / indicative scope, criteria and guidelines of AP Inspections, along with indicative methodology, in joint consultation with other Exchanges have been revised and are attached as **Annexure A**.

Trading Members are hereby advised to perform enhanced due diligence to ascertain the suitability of an AP for their role. This includes in-person verification, site visits, PAN validation, background checks, scrutiny of all demat and bank account statements of the APs, continuous screening / verification that they are not debarred by SEBI & Exchanges, and including any other verification as deemed fit by the Member.

Further, the details of AP such as address, contact details, details of directors/ Partners of AP, terminals allocated, no. of clients etc. need to be updated in Exchange records from time to time. In cases where APs are operating from member branch/offices the members ought to maintain appropriate segregation of the space allocated to such AP. Such Member locations should also have the mandatory display pertaining to a particular AP in addition to that of the Member.

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Members shall ensure adequate scanning of social media to identify any mis-selling/ assured returns or unauthorised schemes operated by AP including loan transactions. It is hereby reiterated that Members shall be mandatorily required to report any observed incidents related to assured returns or unauthorised schemes operated by the AP to the Exchange within one working day. On identification of any such case the Member shall inspect the AP concerned/ investigate the matter and take appropriate actions as required. Additionally, as communicated in Exchange circular ref no. NSE/COMP/ 56947 dated June 02, 2023, Members are required to take necessary actions, including withdrawal of approval on disciplinary grounds, withholding funds due to the APs until investor issues are resolved, sending alert messages to investors in the APs location, filing complaints with the relevant police station, and implementing all necessary measures to safeguard the interests of investors and the market. Members are required to maintain and provide documentary evidence of police complaints, press releases, advertisements issued to the market, communication logs of alert messages sent to investors, and other measures taken to safeguard interest of investors including disciplinary actions taken against the APs.

All Members are advised to take note of the same and ensure compliance. The provisions of this circular shall come into effect from immediate basis.

For and on behalf of
National Stock Exchange of India Limited

Ankit Kothari
Senior Manager

National Stock Exchange of India

Annexure A

i. Scope and Indicative Methodology for Branch /AP Inspections by Members

Members while undertaking the inspection of Branches and AP offices shall ensure that all applicable regulatory requirements including circulars issued by SEBI and Exchanges from time to time have been complied with, including but not limited to the following parameters:

Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
1	Dealing with clients	Whether all clients are registered directly with the Trading Member only.	Examine the books of account (demat and bank statements) during the inspection period to identify any clients not registered with the Trading Member.
2	Dealing with clients	There is no movement of Funds and securities between the clients and AP.	i) Examine all Demat statements and bank accounts of the AP during the inspection period. ii) Obtain a written confirmation from the AP that all their demat and bank accounts have been disclosed to the Trading Member. iii) If any other account of an AP is identified while examining bank and demat accounts, seek details of those accounts as well.
3	Dealing with clients	There are no fixed payments at regular intervals to the clients mapped to AP.	Examine all client's ledgers during the inspection period to identify any fixed periodic payments.
4	Dealing with clients	There are no cash dealings done with clients by AP.	Examine all bank accounts of the AP during the inspection period for any cash deposits / dealings with clients.
5	Dealing with clients	The AP is not involved in any fund-based activities / collecting deposits from investors / unauthorised trading or any other such schemes.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
6	Dealing with clients	The AP is not involved in any illegal/dabba/paper trading.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
7	Dealing with clients	The AP has not dealt with any unregistered intermediary on behalf of its clients/self.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
8	Dealing with clients	The AP is not involved in accepting deposits from the public and giving assured returns to their clients.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
9	Dealing with clients	Complaints received against AP pertaining to Assured Returns / Unauthorised Trading / Dabba Trading / associated with unregistered intermediary.	Review all complaints received against the AP and conduct an analysis.
10	Dealing with clients	The AP does not offer any incentives to clients for opening trading accounts.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.
11	Dealing with clients	AP has sought any authorisation to trade on behalf of its clients.	Conduct mystery shopping, surprise visits, web searches, and take regular feedback from the clients of the AP to detect any irregularities.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
12	Management of branches / AP and internal control	Advertisements for soliciting business are not issued by the APs in newspapers / pamphlets / journals / magazines / emails including social media like Facebook, Instagram, telegram channels etc., without seeking appropriate approvals from the Exchange, through the Trading Member. This includes not publishing performance returns etc.	Scan all social media accounts, newspapers, and print media platforms etc.
13	Terminal operations and related systems	All AP terminals are as per the information reported to the Exchange.	To verify that all terminals in the main office and all branches of the AP aligns with the details reported to the Exchange.
14	Terminal operations and related systems	Trading terminals are operated by approved and certified users.	To verify that all terminals in the main office and all branches of the AP are operated by individuals approved/certified as reported to the Exchange.
15	Terminal operations and related systems	Adequate systems, including voice recording, have been put in place, with a view to ensure recording of order placement from clients. Trading Members must ensure that APs who do not have trading terminals assigned to them, cannot place trades on behalf of the Trading Member's clients.	To verify if the system is installed in the main office & all branches of the AP if any.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
16	Management of branches / AP and internal control	Documents like contract notes, statement of funds, daily margin statement are not generated and issued by the AP. However, AP may provide administrative assistance in procurement of documents from the Trading Member, after maintaining proper records of the same.	To verify the process followed by the AP to fulfil its daily operations.
17	Management of branches / AP and internal control	The AP has not dealt with / or associated with any other Trading Member/AP on behalf of its clients/self on the same Stock Exchange.	i) To review all bank accounts of AP during the inspection period. ii) Member to seek declaration signed by the AP and retain it for the future reference.
18	Management of branches / AP and internal control	Trading activities/Turnover of AP/Clients mapped with the AP are monitored, and necessary actions/investigations are undertaken on a timely basis.	Analysis of client trading patterns and detecting unusual activities if any.
19	Management of branches / AP and internal control	The AP has the necessary infrastructure like adequate office space, equipment, and manpower to effectively discharge the activities on behalf of the Trading Member.	Physical verification during Inspection.
20	Management of branches / AP and internal control	Complaints received by and against the APs are handled appropriately and proper records are maintained.	Review all complaints received by and against the AP are handled appropriately and within stipulated TAT.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular inspection period)	Indicative Methodology
21	Management of branches / AP and internal control	Proper segregation and demarcation are maintained at AP office.	Physical verification during Inspection.
22	Management of branches / AP and internal control	Notice board of the Trading Member containing all details/information prescribed from time to time, are displayed at the AP/s location.	To ensure that displays in the main office and all branches of the AP adhere to the prescribed guidelines.
23	Management of branches / AP and internal control	SEBI registration certificate of the Trading Member and registration letter issued by the Exchange is displayed at the location.	To ensure that displays in the main office and all branches of the AP adhere to the prescribed guidelines.
24	Management of branches / AP and internal control	As required by SEBI circular CIR/MIRSD/3/2014 dated August 28, 2014, information about the grievance redressal mechanism available to investors is prominently displayed at the location.	To ensure that displays in the main office and all branches of the AP adhere to the prescribed guidelines.
25	Management of branches / AP and internal control	Branch/AP records/data are properly maintained with confidentiality in a secure manner including sufficient backup.	To verify the process followed by the AP in carrying out its daily operations.
26	Management of branches / AP and internal control	In case of change/shifting of location of AP/Branch, the following is ensured:	
		a) All clients mapped to the AP/Branch are notified at least thirty days before the change.	Maintenance of logs of communication sent to all clients.

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Sr. No.	Area of Inspection	Scope of Inspection (for a particular Inspection period)	Indicative Methodology
		<p>b) Notice Board and applicable SEBI registration certificates are immediately put up at the new location.</p> <p>c) The new location, including details of terminals if any, have been duly reported to the Exchange, and the old location, including terminals at the old location if any have been deactivated.</p> <p>d) At the new location, adequate systems including voice recording, display of Notice Board and SEBI Registration certificates, and terminals etc. have been promptly installed to ensure the smooth functioning of business operations and the recording of order placements from clients.</p>	<p>To ensure that displays comply with the prescribed guidelines.</p> <p>Maintenance of trail of reporting of terminals / communication for change in location.</p> <p>To verify if the system is installed in the main office & all branches of the AP if any.</p>
27	Management of branches / AP and internal control	Any changes in the AP's contact details, such as registered / communication address, email address, mobile number or any changes in the Directors/ Partners of AP, are not reported/ incorrectly reported to the Members.	Maintenance of communication by AP to Member.
28	Management of branches / AP and internal control	The AP's mobile number, and email address are not mapped to any of its client in UCC uploaded to Exchange.	To verify with the Member database of all the clients of the APs.

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ii. Inspection Criteria

All Members are required to inspect at least 50% of their registered APs/Branches every year, irrespective of the AP/Branch inspections conducted in the previous year and ensure that each registered AP/Branch is inspected at least once every two years. APs/Branches meeting any of the below criteria shall be inspected annually, irrespective of when the last inspection was carried out:

1. The top 50% of registered APs/Branches based on AP/Branch turnover for the previous year.
2. APs/Branches against whom one or more unauthorised trading complaints have been received.
3. Market intelligence/ Scanning of social media: In the case of any inputs or alerts about suspicious transactions, dealing, assured returns, mis-selling etc. by an AP or a Branch, Members shall carry out an immediate inspection, irrespective of when the last inspection was conducted, and initiate appropriate action.
4. Sudden increase in AP Turnover/clients/commission paid by Member.

iii. Inspection Guidelines

Members shall ensure availability of adequate resources – both human and technological to effectively monitor their APs and comply with regulatory requirements.

It is recommended to distribute AP inspections evenly throughout the year to ensure better quality of inspection. Members shall conduct mystery shopping and surprise visits, wherever required.

Inspections conducted throughout the financial year, including their scope, criteria, and indicative methodology, shall adhere to the guidelines specified in this circular. Additionally, Members are required to conduct inspections of APs covering the period from the end of last inspection period, ensuring the entire calendar month is included. For instance, if an AP is inspected on June 15, 2024, the inspection should cover the period from the end of last inspection period to May 31, 2024.

Members shall maintain trail of communication with the APs inspected and shall retain the report of the inspection/visit conducted for a period of not less than five years. The inspection reports shall be made available for verification by SEBI/Exchanges as and when required including any related information/details that may be sought.

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iv. Submission Timelines

Inspections undertaken during each quarter shall be reported within one month from end of the said quarter. For instance:

Inspections undertaken during the FY	Due date of reporting
Inspections done during the Quarter-1	July 31, XXXX
Inspections done during the Quarter-2	Oct 31, XXXX
Inspections done during the Quarter-3	Jan 31, XXXX
Inspections done during the Quarter-4	April 30, XXXX

Further, in case no inspection is undertaken during a particular quarter, Members will have to mandatorily submit a “Nil” declaration for the said quarter.

v. Reporting Platform

All reports should be submitted through the online system in ENIT (Electronic NSE Interface Terminal).

vi. Disciplinary Action

Failure to conduct, submit, or delayed submission of AP inspections within the specified timelines will be considered as non-compliance. In such instances, the appropriate penalty or disciplinary action, in accordance with the prevailing rules, shall be initiated.