



Policy on inspection of Authorised Persons / Branch Offices

Ref Circular

SEBI circular MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009, NSE Circular no. NSE/INSP/42448 dated October 18,2019 & BSE Circular no. 20191018-43 dated October 18,2019,NSE Circular no NSE/INSP/63628 dated August 28, 2024 on the supervisory framework with respect to Member's branches and Authorised Persons (AP) network.

Inspection Criteria

1. 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:
2. The top 50% of registered APs/Branches based on AP/Branch turnover for the previous year.
3. APs/Branches against whom one or more unauthorised trading complaints have been received.
4. 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.
5. Sudden increase in AP Turnover/clients/commission paid by Member.

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 as per regulations. 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.



Scope and Indicative Methodology for Branch /AP Inspections by Members

KLFS 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 / unauthorized 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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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 / Unauthorized 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 authorization 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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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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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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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:	To verify the process followed by the AP in carrying out its daily operations.
		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.



		b) Notice Board and applicable SEBI registration certificates are immediately put up at the new location.	To ensure that displays comply with the prescribed guidelines.
		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.	Maintenance of trail of reporting of terminals / Communication for change in location.
		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.	To verify if the system is installed in the main office & all branches of the AP if any.
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.

We will review the inspection reports and take suitable actions to ensure non-recurrence of any irregularities observed. We shall on an annual basis place an MIS before the Board on the number of inspections undertaken, irregularities observed and action taken.

All the inspection reports will be uploaded to respective exchanges as per procedure prescribed on quarterly basis.