STOCK BROKERS HAVE TO MAINTAIN AN AUDIT TRAIL

As we know that while specifying the mode of receipt and payment of funds, SEBI has permitted the stock brokers to **accept Demand Drafts** from their clients [vide Circular No. SEBI / MRD / SE / Cir-33 / 2003 / 27 / 08 dated August 27, 2003,]

Further-more while receiving funds from the clients through pre-funded instruments, such as, Pay Order, Demand Draft, Banker's cheque, etc., it is observed that the stock brokers are **unable to maintain an audit trail** of the funds so received, as the details of the name of the client and bank account-number are not mentioned on such instruments. This may result in flow of third party funds / unidentified money, which is not in accordance with the provisions of the aforesaid circular and also affects the integrity of the securities market.

Therefore, with a view to address the aforesaid concerns, it has been decided in consultation with the major stock exchanges and associations of stock brokers, as under:

A) If the aggregate value of **pre-funded instruments is ₹ 50,000/- or more**, per day per client, the stock brokers may accept the instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:

a) Certificate from the issuing bank on its letterhead or on a plain paper with the seal of the issuing bank.

b) Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.

c) Certified copy of the passbook/bank statement for the account debited to issue the instrument.

d) Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.

B) Maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only

C) Stock Exchanges are advised to :

i) issue necessary instructions to bring the provisions of this Circular to the notice of their constituents and also disseminate the same on their websites;

ii) make amendments to the relevant bye-laws, rules and regulations for the implementation of the above, as deemed necessary;

iii) communicate to SEBI, the status of the implementation of the provisions of this Circular **by June 30, 2011**; and

iv) Develop the monitoring mechanism **through internal audit and inspections**.

[CIRCULAR No. CIR/MIRSD/03/2011 June 9, 2011]

For More Details [http://www.sebi.gov.in/circulars/2011/cirmirsd032011.pdf]