

SPECIAL AUDIT ASSIGNMENTS

Question 1

Write short notes on the following:

- (a) *Circuit filters/Circuit breakers.* (4 Marks) (November 2008) , (November 2010)
- (b) *Purpose of appointing Inspecting officer of a Depository.* (4 Marks) (November 2008)

Answer

Short Notes

(a) Circuit Filters/Circuit Breakers:

- (i) This is the price band that set the upper and lower limit within which a stock can fluctuate on any particular day.
 - (ii) A price band for a day is a function of the previous days closing price.
 - (iii) According to SEBI directions circuit filter is applied on scrips traded in rolling settlement, if their price fluctuate more than 10% of the closing price of scrip on the previous day.
 - (iv) Thus circuit filters restrict extreme price movement and resist price manipulation.
 - (v) This also protects investor from extreme fluctuations.
- (b) SEBI appoints inspecting officers to investigate or inspect the affairs of a depository for any of the following purposes.**
- (1) To ensures that the books of accounts are maintained in the names specified in the regulations
 - (2) To look into the complaints received from depositors' participant, beneficial owners or other persons.
 - (3) To ascertain whether the provisions of the Act, bye-laws agreements and these regulations are being complied.

- (4) To ascertain whether the systems, procedures and safeguards are being followed in the interests and to secure the market.
- (5) To *suo motu* ensure that the affairs are being conducted in the interest of the Investors / Securities markets.

Question 2

Write short notes on Probable format of Environmental Statement. (4 Marks) (June 2009)

Answer**Probable format of “Environmental Statement**

The following are the main aspects which may be covered in the probable format of “Environmental Statement”.

- (a) Name/address of owner/occupier of the industry, operation or process.
- (b) Date of last environmental audit report submitted
- (c) Consumption of water and other raw materials as input during current and previous year.
- (d) Pollution generated in air and water with output and types of pollutants and deviation from standard.
- (e) Generation of hazardous waste in current year and previous year from processes or from pollution control facility.
- (f) Quantity of solid waste generated during current year and previous year from process/es from pollution control facility and from recycling or reutilization of waste, etc.
- (g) The disposal practice for different type waste.
- (h) The practice of conservation of natural resources.
- (i) The additional investment proposal for environmental protection including abatement of pollution.

Question 6

Write short notes on the Mark to Market margins. (4 Marks) (May 2010)

Answer**Mark to Market Margin (MTM)**

MTM margin is the notional loss, which a stock member or his client would incur, if the net cumulative outstanding positions in all securities were closed out at the closing price of the relevant trading day, which is different from the price at which the transaction had been

entered into. For each security, this is worked out by multiplying the difference between the closing price and the price at which the trade was executed by the cumulative buy and sell open position (for buy position the close price being lower than actual trade price and for sell position the close price being higher than actual trade price). The aggregate amount computed across all securities is MTM margin payable by a member. The mark-to-market margin is payable with reference to net position at client's level.

Question 7

Write short note on Volatility margin.

(4 Marks) (May 2011)

Answer**Volatility Margin**

Volatility margin is imposed to curb excessive volatility in the market and to act as a deterrent to building up of excessive outstanding positions. Price variations on account of calls, bonuses, rights, mergers, amalgamations and schemes of arrangements are adjusted for determining volatile securities and adjustments in prices is made for the purpose of computation of volatility, when securities are traded ex-benefits. Securities that attract volatility margin and the applicable margin rates are announced on the last day of the trading cycle and are applicable from the first day of the succeeding trading cycle. The volatility margin is levied on the net outstanding positions of the member, in each security, based on the respective margin rates.