

MIRSD/ DPSIII/ Cir-26/ 08
August 22, 2008

The Managing Director / Executive Director
of all Stock Exchanges

Dear Sir,

Sub: Internal Audit for stock brokers/clearing members

In continuation with the Circular No.F.1/5/SE/83 dated May 31, 1984 of Government of India, Ministry of Finance, Department of Economics Affairs, Stock Exchange Division, you are advised to direct your stock brokers/clearing members to carry out complete internal audit on a half yearly basis by independent qualified Chartered Accountants.

The scope of such audit shall cover, interalia, the existence, scope and efficiency of the internal control system, compliance with the provisions of the SEBI Act, 1992, Securities Contracts (Regulation) Act 1956, SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, circulars issued by SEBI, agreements, KYC requirements, Bye Laws of the Exchanges, data security and insurance in respect of the operations of stock brokers/clearing members. The first such audit period should be from October 1, 2008 to March 31, 2009.

The exchanges shall ensure compliance of the above mandatory requirements by all the stock brokers/clearing members.

The Stock Exchanges are advised to:

1. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately,
2. bring the provisions of this circular to the notice of the member brokers /clearing members of the Exchange and also to disseminate the same on the website, and
3. communicate to SEBI, the status of the implementation of the provisions of this circular in the Monthly Development Report.

This circular is being issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

MANOJ KUMAR