



CONTENTS

	PAGE
<i>Foreword</i>	<i>I-3</i>
<i>Acknowledgement</i>	<i>I-5</i>
<i>About NISM Certifications</i>	<i>I-7</i>
<i>About the Certification Examination for Internal Auditors of Stock Brokers</i>	<i>I-9</i>

CHAPTER 1

INTRODUCTION TO INTERNAL AUDIT

1.1	Scope	1
1.2	Objective	2
1.3	Who can conduct Internal Audit?	2
1.4	Audit Report	3

CHAPTER 2

FINANCIAL SYSTEM AND REGULATORY FRAMEWORK

2.1	Financial System - Role in the Economy	5
2.2	Securities Market Intermediaries	7
2.3	Financial Securities	12
2.4	Regulatory System	18
2.5	Financial Market Regulators	19

	PAGE
2.6 Role of other Regulators/Agencies in the Financial Market	27
2.7 Appellate Authority	31

CHAPTER 3

SEBI ACT, 1992, SCRA, 1956 AND SCRR, 1957

3.1 Securities and Exchange Board of India Act, 1992	35
3.2 Securities Contracts (Regulation) Act, 1956	43
3.3 Securities Contracts (Regulation) Rules, 1957	47

CHAPTER 4

SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015

4.1 Definitions	51
4.2 Restriction on communication and trading by insiders	55
4.3 Disclosure of trading by insiders	59
4.4 Code of fair disclosure and conduct	61

CHAPTER 5

SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003

5.1 Fraud and Fraudulent	70
5.2 Prohibition of Fraudulent and Unfair Trade Practices	71
5.3 Prohibition of manipulative, fraudulent and unfair trade practices	71
5.4 Power of SEBI to order investigation	73
5.5 Submission of report and enforcement	74
5.6 Suspension or cancellation of registration	75

CHAPTER 6

THE PREVENTION OF MONEY LAUNDERING ACT, 2002 (PMLA)

6.1	Money Laundering	77
6.2	Prevention of Money Laundering	78
6.3	Offence of money-laundering	85
6.4	Adjudicating Authorities, composition, powers, etc.	88
6.5	Agreement with foreign countries	90
6.6	SEBI Procedures	90

CHAPTER 7

SEBI (STOCK BROKERS) REGULATIONS, 1992

7.1	Introduction to SEBI (Stock Brokers) Regulations, 1992	105
------------	--	-----

CHAPTER 8

INTRODUCTION TO STOCK BROKING OPERATIONS

8.1	Securities Trade Life Cycle	131
8.2	Front Office Operations	132
8.3	Middle Office Operations	148
8.4	Back Office Operations	150
8.5	Margin trading	180
8.6	Securities Lending and Borrowing Program (SLB)	184
8.7	Computer Assisted Audit Techniques (CAAT)	189

CHAPTER 9

RISK MANAGEMENT

9.1	Risk Management Framework for Cash Segment	<i>191</i>
9.2	Risk Management Framework for F&O Segment	<i>199</i>
9.3	Risk Management Requirements for Commodity Derivatives	<i>204</i>
9.4	Annual Compliance Requirements	<i>211</i>
9.5	Quarterly Compliance Requirements	<i>217</i>
9.6	Other Compliances	<i>222</i>

CHAPTER 10

CLEARING AND SETTLEMENT PROCESS

10.1	Clearing and Settlement Process for Cash Market	<i>227</i>
10.2	Clearing and Settlement Process for Futures & Options Market	<i>236</i>
10.3	Clearing & Settlement Process for Commodity Derivatives	<i>242</i>
10.4	Interoperability among Clearing Corporations (CCPs)	<i>243</i>
10.5	Core Settlement Guarantee fund	<i>247</i>
10.6	Investor Protection Fund	<i>250</i>
10.7	SEBI Investor Protection and Education Fund	<i>253</i>
10.8	Outsourcing by Intermediaries	<i>254</i>

CHAPTER 11

INVESTOR GRIEVANCE REDRESSAL

11.1	Investor Grievance	<i>261</i>
11.2	Investor Protection	<i>261</i>
11.3	Investor Grievance Redressal Mechanism	<i>264</i>
11.4	Arbitration Mechanism	<i>270</i>

CHAPTER 12**FORENSIC AUDIT**

12.1	Introduction to Forensic Audit	279
12.2	Fraud and its definitions	281
12.3	Frauds in relation to financial markets	281
12.4	Financial Audit Vs. Forensic Audit	283
12.5	Forensic Auditing Procedure	284
12.6	Forensic Audit - Case Study	287
Annexure I :	Certificate for Internal Audit	297
Annexure II :	Guidance for verification in the Respective Areas	333
Annexure III :	Operational Mechanism for Margin Pledge	335
Annexure IV :	Framework for Utilisation of Client's Pledged Securities for Exposure and Margin	339