

	SYSTEM AUDIT REQUIREMENTS	HOW TO COMPLY WITH
1	Check that the Broker has not utilized funds of Clients for and on behalf of another Client or himself. Also ensure that the Broker has appropriate systems and controls in place to prevent from using funds of its Clients.	CSR Reports are available to Brokers and Exchange also provides client portal system to clients for verification of funds. Apart from this, once funds are allocated from Brokers, this step can't be reversed. The trader on the other hand receive funds allocation confirmation from Exchange
2	Check that the Broker deposited such amount as initial margin, including special, variation and additional margin on behalf of Clients, as specified by the Exchange.	System does not allow Brokers to take position(s) on behalf of clients without depositing requisite margin.
3	Confirm that the Broker furnished to his selected Clients in writing such reports and at such intervals as specified by the Exchange.	Brokers normally send trade confirmation and relevant trading detail through E-Books system of the Exchange. Apart from this, Exchange sends regular trade confirmations to every client immediately upon execution of trade. Clients also have access to client portal system to verify their money flow.
4	Check that the Broker closed out an open position of a Client when a margin call or any other payment due is not complied with by the Client within time period specified by the Exchange.	The Exchange has made mandatory the function of auto liquidation to close out position where requisite margin levels are not maintained.
5	Check that the Broker has maintained separate records of all his proprietary account transactions and those of his clients, including orders from Clients for execution of transactions in all Future Contracts as well as acknowledgement thereof for five years. For the Clients on whose behalf orders are executed by the Broker, the Broker has preserved the records of orders for transactions for such Client separately with the time and date of receipt of order, details of executed transactions and books of accounts relating to the same, for a period of last five years.	Please view CSR Reports to check orders and trade details. Our system does not allow commingling of funds in two or more accounts.
6	Check that the Broker is compliant with the minimum Net Capital Balance & minimum Net Worth requirement.	Brokers are required to submit Net capital Balance every year whereas Net worth statement is required to be submitted at the time of membership and first time registration with an undertaking to maintain throughout the time. The PMEX has power to check such financial requirements from time to time.

7	Confirm that the Broker has segregated for each of his clients all monies, securities and property received to margin and to guarantee or secure the trades on Commodity Futures Contracts of his Clients, including delivery obligations.	Brokers maintain two bank accounts to comply with the requirements. Exchange only guarantees financial obligations.
8	Check that the Broker maintained the necessary administrative and other systems, facilities, resources and expertise as required under Regulation 3.13 of the PMEX General Regulations of 2007.	Brokers should maintain this and provide this to Auditor when required
9	Check that the Broker has complied with the conditions stipulated in the notice of approval of its Membership and/or the certificate of registration as Broker.	Brokers should maintain this and provide this to Auditor when required
10	Confirm that the Broker has provided any information in respect of any of his key employees as required by the Exchange as and when applicable.	Brokers should maintain this and provide this to Auditor when required
11	Confirm that the broker has paid to the Exchange contributions in respect of the settlement guarantee fund.	Brokers under the Regulations pays Clearing deposit and client margin unless the broker is inactive. It is the responsibility of the Exchange to keep such funds in Settlement Guarantee Fund.
12	Confirm that the Broker immediately notified the Exchange in writing upon happening of any of the instances as mentioned in Regulation 3.21 of the PMEX General Regulations of 2007.	See relevant Regulation: Broker has to immediately notify the events to the Exchange and keep evidence of the same for auditor verification.
13	Check that the Broker is carrying on the business under his own name only.	All communication channels including receipts and payment vouchers; with the clients should possess the broker's name and address and verify the name appearing outside office with the name under Membership certificate from PMEX. Individual broker carry on business under his name only, the auditor will verify the same from member's record and office display.

14	<p>Check that the Broker has deposited the minimum security deposit amounts for obtaining the clearing privileges and in such manner as determined by the Exchange and any other requirements. Confirm that in respect of all Commodity Futures Contracts executed by the Brokers, it paid all applicable statutory fee, stamp duty, service tax, taxes and levies, in respect of all deliveries as well as Commodity Futures Contracts directly or indirectly to the concerned Government Departments.</p>	<p>Broker before starting trading activities and to take clearing privileges are required to pay minimum clearing deposit of Rs. 500,000 of all applicable taxes and duties is the responsibility of Broker under the Regulations.</p>
15	<p>Check that the Broker has not entered into a Commodity Futures Contract before trading therein had been commenced or after trading therein had been ended.</p>	<p>Broker has to follow trading timings.</p>
16	<p>Confirm that the Broker has maintained a record of all his transactions in all Commodity Futures Contracts for five years. Further, that is has separate records of all proprietary account transactions and those of the Clients including orders from Clients for execution of transactions in Commodity Futures Contracts as well as acknowledgements thereof.</p>	<p>The broker has to preserve records of client orders separately with date, time, transaction details & books of accounts for 5 years. Maintenance of record for 5 years:- The Exchange has provided CSR facilities to the Brokers. The Brokers may download certain data which are recorded and maintained in said CSR system to comply with this requirement. For clarification, please contact IT department of the Exchange.</p>
17	<p>Check that for the Clients on whose behalf orders are executed by the Broker, he preserves the records of orders for transactions for such Client separately with the time and date of receipt of order, details of executed transactions and books of accounts relating to the same, for a period of five years.</p>	<p>The broker has to preserve records of client orders separately with date, time, transaction details & books of accounts for 5 years. Maintenance of record for 5 years:- The Exchange has provided CSR facilities to the Brokers. The Brokers may download certain data which are recorded and maintained in said CSR system to comply with this requirement. For clarification, please contact IT department of the Exchange.</p>
18	<p>Check that the Broker has segregated trading by him on his own account from that of his Clients in such manner as the Exchange has provided.</p>	<p>Broker maintains two accounts; house account and client account where from it can easily be identified whether or not segregation is made. CSR Reports are available to Brokers and Exchange also provides client portal system to clients for verification of funds. Apart from this, once funds are allocated from Brokers, this step can't be reversed. The traders on the other hand receive funds allocation confirmation from Exchange.</p>

19	Confirm that for transaction entered into on behalf of the Director or an employee of the Broker or for transactions in which the Director or employee has beneficial interest, have been considered as proprietary trades of the Broker and margins were collected for each such transaction separately.	Trades on behalf of Director / Employee of Broker are considered as Proprietary trades with separate margining requirements. Broker maintains two accounts; house account and client account wherefrom it can easily be identified whether or not segregation is made.
20	Confirm that the Broker has remained compliant with such terms and conditions as the Exchange has determined for granting permission to use the ETS.	Broker compliant with terms and conditions for usage of ETS. Vide Regulation 5.7 which deals with said clause.
21	Check that the Direct Feed (from the trading system) is not marketed by the Broker or his employees to any person for any financial consideration or otherwise.	Broker's website should not display direct feed of PMEX under his own name.
22	Check that the Broker has allowed only his Authorized persons to operate ETS.	Every employee of Broker dedicated for trading on behalf of clients should be authorized. All Authorized person whether of Head office or Branch office are displayed in PMEX official website or CSR.
23	Check that the Broker and his Authorized persons have ensured to maintain complete secrecy of their passwords/pin codes.	Define a policy and procedure for password security & ensure its compliance. Check whether the computer systems used in trading meet all the Exchange specified requirements as mentioned in point no. 26 below.
24	Check that the Broker and his Authorized persons have ensured complete safety against misuse of the software provided by the Exchange.	As per Broker policy of software security. Ensure safety of Exchange provided software. Check whether the computer systems used in trading meet all the Exchange specified requirements as mentioned in point no. 27 & 28 below.
25	Check that the Broker has not appointed a person as authorized person who is already appointed in this capacity by any other Broker.	Obtain undertaking from authorized person and background check. Registered Authorized Persons information is available on PMEX's official website including the branch office address for which they are responsible.

26	<p>Check that the Broker is compliant with the specifications/descriptions of hardware, software and equipment and the specifications to carry out the required testing thereof in such manner and time as specified by the Exchange from time to time, which a Broker is required to strictly adhere to have connectivity with, or use of the ETS or any other trading system of the Exchange, to ensure compatibility and minimize/avoid technical issues arising out of incompatibility of hardware, software and equipment.</p>	<p>Ensure compliance of Exchange specified hardware & software vide following circular of PMEX "Requirements for Trading Terminal (NEXT) as follows: 01. A branded system (desktop/laptop) dedicated for PMEX NEXT terminal. 02. CPU 2.0 GHz or above. 03. 2 GB RAM or above. 04. Licensed Windows 7 with latest OS patches. 05. Internet Explorer 9.0 with latest patches. 06. Licensed Antivirus Software / Microsoft Security Essential. 07. High speed/reliable internet connection. 08. Port 80, 443, and 9090 must be open on firewall, if hardware/software firewall is installed. 09. Antivirus software must be updated daily for latest virus definitions. 10. Operating System must be updated at least once in a month for security patches".</p>
27	<p>Check that the Broker has not collected the margins from the Clients not less than specified by the Exchange against their open positions within such time as may be specified by the Exchange.</p>	<p>Margin requirements to be complied with as specified by the Exchange. Please note that system does not allow anyone to trade without having sufficient margin whether it's proprietary or client trade. No one can take position in the absence of sufficient funds required to take position this is pre-trade system check.</p>
28	<p>Check that Margin deposits received by the Broker from his Clients in any form as specified by the Exchange are accounted for and maintained separately in completely segregated accounts without any commingling between his own funds and his Clients funds, or between any of his Client's, and used solely for the benefit of the respective Client's positions.</p>	<p>Do not commingle clients funds between own/other client funds and used solely for respective client position. Broker maintains two accounts; house account and client account where from it can easily be identified whether or not segregation is made. Broker can only keep his money in client group account for providing facility of quick fulfillment of margin requirements to clients only.</p>
29	<p>Check that the Broker accepted margin deposits only in such form as permitted by the Exchange.</p>	<p>Accept margins only in Exchange specified form. Margin is received in the form of cash via banking channel and Gold as the case may be.</p>
30	<p>Confirm that the Broker maintained such banking arrangements with the designated clearing banks as specified by the Exchange so as to permit the transfer of funds and to maintain funds in a segregated manner between his own funds and the funds of his Clients.</p>	<p>Maintain banking arrangements as specified by the Exchange, Broker before taking clearing privileges use to open two bank accounts to comply with this requirements i.e. House Account & Client Group Account.</p>

31	Check that the Broker obtained written request in advance from the Client for each account of such Client on the Broker's books that all open positions are to be completed by delivery which were not offset on the last day of trading. If any Client is unwilling or unable to provide such evidence, then the Broker liquidated the position on or before the last day of trading.	Obtain written request in advance from each client for open positions to be completed by delivery. In case of no evidence, liquidate the positions before expiry date. This is not required in cash settled transaction. Everything to be complied as per contract specification.
32	Confirm that the Broker notified the Exchange of any incident, which may have endangered the Brokers' financial soundness or interfere with the Brokers ability to conduct his business in the best interest of the Exchange.	Brokers are required to confirm this to Auditors.
33	Confirm that the Broker maintained such Books of Accounts, Registers, Statements and other Records, in physical form or electronically, as specified by the Exchange, or the Commission. All such documents and records are kept in good order and preserved at least for such period, as specified by the Commission.	Maintain soft & hard copy records as prescribed by the Exchange & Commission. CSR Reports are available to download. To comply with this requirement and to take further clarification, Please contact IT department of the Exchange.
34	Review that the Broker's correspondence/contract notes relating to the transactions of business bear the name of the Broker along with address of principal place of business.	Ensure compliance on stationery and communication. All communication channels with the clients possess the broker's name and address
35	Check that the Broker has not, without the special permission of the Commission, shared brokerage with or carried on business or made any deal for or with any Broker who had been suspended, expelled or declared a defaulter.	Don't do business with a suspended/expelled/defaulted member without permission of Commission. Suspended brokers/Members information is available in members data on PMEX's official website.
36	Confirm that the Broker has not transacted business directly or indirectly for or with or executed a deal for an Authorized person of another Broker without the written consent of such employing Broker.	Don't transact or execute for authorized person of other broker. Registered Authorized Persons information is available on PMEX's official website including the branch office address for which they are responsible.
37	Check that the Broker has not advertised for business purposes or issued regularly circular(s) or other business communication to persons other than his own Clients, without the inclusion of the Exchange specified disclaimer, as specified by the Exchange from time to time.	Obtain prior approval of the Exchange for advertisements. Source could be "advertisement expenses" and then tracking by paper media or social media marketing as the case may be to ensure that it possess proper risk disclosure statement.

Risk Management

38	Check that the Broker has contributed to and provided a minimum security deposit, as determined by the Board from time to time, to the settlement Guarantee Fund.	Ensure contribution to SGF. Every broker is required to pay Rs. 500,000/- as deposit for taking Clearing privileges. No broker is allowed to execute even a single trade without first depositing this amount. This is system based requirement and system does not allow any one transact without depositing this amount.
39	Check that the Broker has paid to the Investor Protection Fund upon execution of his trades such charges as decided by the Board.	Ensure payment of charges as decided by the Board. IPF deduction is the responsibility of the Exchange via system on execution of each trade.
40	Check that the Broker deposited initial, variation, or any additional margin or deposits with the Clearing House/Exchange through the designated Clearing Bank(s), as directed by the Exchange, within the specified time and in the specified manner.	Ensure margin payments within the specified time and manner. Brokers are required to pay margin based upon VAR calculation methodology which changes from time to time. Auto liquidation facility is also made compulsory for brokers.