

Department: Inspection

Segment: All Segments

Circular No: MSE/INSP/8210/2019

Date: October 09, 2019

Reminder: Half yearly System Audit Report requirement for the period April 1, 2019 to September 30, 2019

In terms of the provisions of Rules, Bye-Laws and Regulations of Metropolitan Stock Exchange of India Limited ('Exchange'), Members of the Exchange are notified as under:

1. As a part of compliance in continuation of Exchange Circular no. MSE/INSP/7555/2019 dated April 16, 2019, members who use Algorithmic Trading ('ALGO') facility are required to conduct System Audit on half yearly basis and submit System Audit report (SAR) to Exchange. This is a reminder to members approved for ALGO facility by Exchange to submit the System Audit Report for the period April 1, 2019 to September 30, 2019. The applicable Terms of Reference (TOR) to conduct half yearly system audit is provided in **Annexure I**.
2. The audit shall be conducted for the purpose of and with an objective of identifying the system inadequacies / deficiencies, if any, based on compliance requirements and the implications of such inadequacies. Members are advised to ensure complete compliance with the system audit requirements mentioned in Exchange and SEBI circulars.
3. Members are required to take corrective action for the observations made by the system auditor on non-compliance / non-conformities (NCs), if any and submit Action Taken Report (ATR) to Exchange. If the Follow on / Follow up audit has been recommended by the auditor in System Audit Report (SAR) then stock brokers/trading members are required to schedule the same after taking necessary corrective actions and submit the Follow on / Follow up report to Exchange. The due date for submission of SAR, ATR and Follow on/ Follow up audit report is as specified below:

Particulars	Due date for Preliminary Audit Report submission (Annexure I)	Due date for ATR submission (if applicable)	Due date for Follow on / Follow up report (Annexure II) submission (if applicable)
Half Yearly SAR (April-September)	November 30, 2019	February 28, 2020	May 31, 2020

Submission of system audit report shall be considered complete only after trading member submits the report to the Exchange after providing management comments.

The following penalty/disciplinary actions would be initiated against the Member for late/non submission of System Audit Report.

Particulars	Action
Submission within 1 month from the end of due date of submission.	Penalty of Rs. 200/- per day
Submission after 1 month but within 3 month from the end of the due date for submission.	Penalty of Rs. 500/- per day
Non-Submission within 3 months from the end of due date for submission	Disablement of trading facility across segments after giving 2 weeks notice. Disablement notice issued to the member shall be shared with all the Exchanges for

	information. Member will be enabled only after submission of system audit report.
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4. Auditor Selection Norms

The System Audit should be carried out by auditor as per the norms prescribed below:

- 4.1 The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. stock exchanges, clearing corporations, depositories, stock brokers, depository participants etc. The audit experience should cover all the major areas mentioned under Terms of Reference (ToR) of the system audit specified by SEBI / Exchange.
- 4.2 Resources employed for the purpose of system audit shall have relevant industry recognized certifications e.g. D.I.S.A. (ICAI) Qualification , CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
- 4.3 The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobIT.
- 4.4 The Auditor shall not have any conflict of interest in conducting fair, objective and independent audit of the member. Further, the directors / partners of Auditor firm shall not be related to any stock broker including its directors or promoters either directly or indirectly.
- 4.5 The Auditor shall not have any cases pending against its previous audited companies/firms, which fall under SEBI's jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.
- 4.6 A declaration stating that the auditor is in compliance with the requirements prescribed by SEBI vide its circular no. CIR/MRD/DMS34/2013 dated November 06, 2013 and clarifications/ guidelines issued by SEBI/ Exchange must be included in all the audit reports.
- 4.7 Auditor has not conducted more than 3 successive audits of the stock broker/trading member. Follow on / Follow up audits conducted by the auditor shall not be considered in the successive audits.
5. The SAR should be on the letterhead of system auditor. It may be noted that all the pages of SAR should be duly stamped and signed by the system auditor. The system auditor should categorically certify in the report about absence of conflict of interest as given in the format.
6. The members are once again advised to submit the a) System Audit Report along with Executive summary, b) Action Taken Report & c) Follow on / Follow up report, if applicable, as per the time line provided in the **Paragraph 3** to the following address:

Inspection Department

Metropolitan Stock Exchange of India Ltd
4th Floor, Vibgyor Towers, Plot No. C-62,
Opp. Trident Hotel, Bandra Kurla Complex,
Bandra (East), Mumbai – 400 098.



Please send your technical queries to CTCL@msei.in. For any other clarification kindly contact Customer Service on 022 - 61129010 or send an email to customerservice@msei.in.

**For and on behalf of
Metropolitan Stock Exchange of India Limited**

Mahendra Choudhari
Asst. Vice President – Inspection

In-case of any query kindly contact Inspection Department on 61129000 or mail on compliancemsx@msei.in