

Department: Inspection	Segment: All Segments
Circular No: MSE/INSP/11840/2022	Date : May 18, 2022

Subject:- System Audit of Stock Brokers / Trading members

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. SEBI vide its Circular No. CIR/MRD/DMS/34/2013 dated November 06, 2013 laid down guidelines for system audit of stock brokers / trading members. The stock brokers / trading members using trading software are required to conduct system audit of their systems and submit system audit report in accordance with the system audit guidelines which includes system audit process, auditor selection norms, Terms of Reference (ToR) issued by SEBI and Exchange.

2. Separate ToRs are specified for the following categories of members:

Category of Member	Members using CTCL Facility (Non-Algo terminals) with presence in ≤ 10 locations or have ≤ 50 terminals		Members using CTCL Facility (Non-Algo terminals) with presence in > 10 locations or have > 50 terminals		Members who use Algo facility	
	Terms of Reference (ToR)	Frequency of audit	Terms of Reference (ToR)	Frequency of audit	Terms of Reference (ToR)	Frequency of audit
Stock Brokers / Trading Members	Type - II	Once in 2 years	Type - II	Annual	Type - III	Half Yearly
Stock Broker/ Trading Members who are also depository participants or are involved in offering any other financial services	Type - II	Annual	Type - II	Annual	Type - III	Half Yearly

3. TWS software provided by Exchange and software provided by empanelled Application Service Provider (ASP) shall not be covered in the system audit.

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4. 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 this circular and afore said SEBI circular.

5. Stock brokers / trading 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:

Audit Period	Due date for SAR (Annexure I) submission	Due date for ATR submission (if applicable)	Due date for Follow on / Follow up report (Annexure II) submission (if applicable)
Half Yearly (October 21 –March 22)	June 30, 2022	September 30, 2022	December 31, 2022
Annual SAR (April 21 – March 22)			
Once in 2 years SAR (April 21 – March 23(for 24 months)			

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

6. Auditor Selection Norms

6.1 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 / Stock Exchange.

6.2 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).

6.3 The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT .

6.4 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.

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6.5 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.

6.6 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.

7. 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.

8. 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, in the given format as per the time line provided in the Paragraph 5 to the following address:

Inspection Department

Metropolitan Stock Exchange of India Ltd
205A, 2nd Floor, Piramal Agastya Corporate Park,
Kamani Junction, LBS Road,
Kurla (West), Mumbai – 400 070.

9. 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 the 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.	<p>Disablement of trading facility across segments after giving 2 weeks' notice.</p> <p>Disablement notice issued to the member shall be shared with all the Exchanges for information.</p> <p>Member will be enabled only after submission of system audit report.</p>

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.

Metropolitan Stock Exchange of India Limited

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

Mahendra Choudhari
Asst. Vice President – Membership & Inspection

In-case of any query kindly contact Inspection Department on 6112 9000 or mail on compliancemsx@msei.in

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