

Department: Inspection	Segment: All
Circular No: MSE/INSP/17088/2025	Date : April 28 2025

Subject: System Audit of Stock Brokers / Trading Members

To All 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. In accordance with SEBI circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013, and Exchange circular no. MCX-SX/CTCL/1570/2013 dated November 08, 2013, on the Annual System Audit of Stock Brokers / Trading members. Further, Exchange has issued Circular no. MSE/INSP/13286/2023 dated April 03, 2023, on Uniform format of System Audit Report. Accordingly, Stock Brokers / Trading Members are required to conduct system audit for period ended March 31, 2025, as per applicable criteria given in Annexure A from the auditor appointed by member as per selection criteria given in Annexure B and submit the report to the Exchange as per the following timelines:

Audit Period	Due Date for Submission	
	Preliminary Audit Report Submission	Corrective Action Taken Report (ATR) Submission (If applicable)
Half Yearly (October 2024 – March 2025)	June 30, 2025	September 30, 2025
Yearly Submission (April 2024 – March 2025)	June 30, 2025	September 30, 2025
Once in 2 years (April 2023 – March 2025)	June 30, 2025	September 30, 2025

2. TWS software provided by Exchange and software provided by empanelled Application Service Provider (ASP) shall not be covered in the system audit.
3. 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.
4. 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. Further, the auditor shall provide compliance status for each TOR item as Compliant/Non-Compliant/Not Applicable and in case of any TOR item which is not applicable, the auditor is required to provide justification for the non-applicability of said TOR.
5. Submission of system audit report shall be considered complete only after trading member submits the report to the Exchange after providing management comments.

Metropolitan Stock Exchange of India Limited



METROPOLITAN STOCK EXCHANGE

6. Trading Members are requested to take note of the Exchange circular MSE/INSP/14262/2023 dated October 06, 2023, regarding “Revised Penalties/disciplinary action(s)/charges for System Audit Report and Cyber Security & Cyber Resilience Audit Report related submissions”. The details of Penalties/disciplinary action(s)/charges have been provided in **Annexure C**.

The members are once again advised to submit the (a) System Audit Report along with Executive summary, (b) Action Taken Report, if applicable, in the given format as per the time line provided in the Paragraph 1 to the Exchange mail ID compliancemsx@msei.in.

Stockbrokers are requested to refer to the following documents while submitting the system audit report.

Annexure A – Applicability Criteria

Annexure B – Auditor Selection Norms.

Annexure C - Penalty/disciplinary action for Delay/Non-submission of Preliminary Audit Report / Corrective Action Taken Report and non-Closure of observations.

Annexure D– Term of Reference (word file)

Annexure E – Action Taken Report (ATR), if applicable

All Members are advised to take note of the contents & comply.

In case of any query kindly contact Inspection Department on (022) 6112 9000, Extn. 9039, 9040 & 9041 or mail on 'compliancemsx@msei.in' or 'inspectionmsx@msei.in'.

For and on behalf of

Metropolitan Stock Exchange of India Limited

Chirag Sodawaterwalla

AVP – Inspection and Membership Department

Annexure A - Applicability Criteria

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 using Algo facility & Qualified Stock Brokers (QSBs)	
	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

Auditor Selection Norms

1. The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like COBIT 5/ISO 27001.
2. The Auditor shall have a minimum of 3 years of experience in IT audit of securities market participants e.g., Stock Exchanges, Clearing Corporations, Depositories, Trading Member, 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.
3. The Auditor/Auditor firm can perform a maximum of 3 successive audits of the Trading Member. However, such an auditor shall be eligible for re-appointment after a cooling-off period of one year.
4. Resources employed for the purpose of system audit should possess at least one of the following certifications:
 - CISA (Certified Information System Auditors) from ISACA.
 - DISA (Post Qualification Certification in Information Systems Audit) from Institute of Chartered Accountants of India (ICAI).
 - CISM (Certified Information Security Manager) from ISACA.
 - CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC)2.
5. The Auditor, as being appointed by Trading Member must not have any conflict of interest in conducting fair, objective, and independent audit. Further, the directors / partners of Audit firm shall not be related to any Directors/Promoters/Proprietor of the said Trading Members either directly or indirectly.
6. Auditor should not have been engaged over the last three years in any consulting engagement with any departments / units of the Trading Member.
7. 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.
8. The trading members and auditors are required to retain records of physical visits conducted during audits like name, qualification & date of visit/s of auditor, along with audit artifacts, proofs of concept (POCs), and evidence related to terms of reference (TOR) points for a minimum duration of three years. At time of auditor registration, trading members are requested to provide & upload details of auditor appointment and auditor qualification certificate.

Annexure C

Penalty/disciplinary action for Delay/Non-submission of Preliminary Audit Report / Corrective Action Taken Report and non-Closure of observations.

The following penalty/disciplinary actions as provided in Table A would be initiated against the Trading Member for Delay/Non-submission of Preliminary Audit Report and Corrective Action Taken Report.

Table – A

Details of Violation	Period of violation	Penalty/disciplinary actions	Penalty/disciplinary action in case of repeated violation
Delay / Non-submission of Preliminary audit/ATR	From 1 st day to 7 th day:	Charges Rs. 1,500/- per day for Non QSB & Rs. 3,000/- per day for QSB from the due date till first 7 calendar days or submission of report, whichever is earlier.	In case of a repeat instance by the Member, levy of applicable monetary penalty along with an escalation of 50%.
	From 8 th day to 21 st day:	Charges of Rs. 2,500/- per day for Non QSB & Rs. 5,000/- per day for QSB from 8 th calendar day after the due date to 21 st calendar day or submission of report, whichever is earlier.	Levy of applicable monetary penalty along with an escalation of 50%.
	From 22 nd day onwards:	In case of non-submission of report till 21 st calendar days, new client registration shall be prohibited and notice of 7 calendar days for disablement of trading facility till submission of report, shall be issued. The disablement notice issued to the member will be shared with all the Exchanges for information.	
	After 28 th day:	In case of non-submission of report by 28 th calendar day, Member shall be disabled in all segments till submission of report.	

Further, members are required to submit closure status of all the non-compliances reported in System Audit Report by submitting Action Taken Report (ATR) within the prescribed timelines. To ensure strict adherence for closure of non-compliances within the prescribed timelines, following penalty as provided in Table-B shall be applicable for non-closure of observations reported in ATR submissions.

Table-B:

Risk rating reported by auditor	Applicable penalties for each High/Medium/Low risk non-closure of non-Compliances, which has not been closed in ATR (i.e., within prescribed timelines of submission of due date of preliminary audit report)	
	<u>Non QSB Members</u>	<u>QSB Members</u>
High Risk	₹ 15,000	₹ 30,000
Medium Risk	₹ 7,500	₹ 15,000
Low Risk	₹ 2,500	₹ 5,000
<ul style="list-style-type: none"> In case observations are not closed by members within three weeks from the due date for submission of Action Taken Report (ATR), new client registration to be prohibited and notice of 7 days for disablement of trading facility till closure of observation(s). The disablement notice issued to the member shall be shared with all the Exchanges for information. In case of non-closure of observation(s) within four weeks from the due date of submission of ATR, Member shall be disabled in all segments until closure of observations(s). 		