
NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange

Circular No. : NCDEX/MEMBERSHIP-032/2022

Date : November 29, 2022

Subject : Guidelines on Compliance Officers

As per Regulation 18A of SEBI (Stockbroker) Regulation, 1992, all the registered Members of the Exchange are required to appoint a compliance officer who shall be responsible for monitoring the compliance relating to the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by SEBI or Central Government or Exchanges for redressal of investors' grievances.

To have a robust compliance system, all the members should have an effective compliance culture and a strong compliance risk management program. Compliance Officer plays an important role in facilitating compliance by promoting strong regulatory practices that ensure risk management, investor protection and market integrity. Hence, Compliance Officers should be selected through a suitable process with an appropriate 'fit and proper' evaluation/selection criteria to manage the compliance risk effectively.

In this regard, guidelines on Compliance Officers with respect to the eligibility of Compliance Officers, tenure and continued suitability on an ongoing basis etc. are issued. These guidelines are detailed in Annexure A and the same shall be effective from December 01, 2022.

All the members are requested to take note of the same and comply with these guidelines.

For and on behalf of

National Commodity & Derivatives Exchange Limited

Bhavna Kariwala

Assistant Vice President-Membership

Encl: Annexure A

For further information / clarifications, please contact

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Annexure-A

Guidelines on Compliance Officers

As per Regulation 18A of SEBI (Stockbroker) Regulation, 1992, all registered Members of the Exchange are required to appoint a Compliance Officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by SEBI or Central Government or Exchanges for redressal of investors' grievances. The Compliance Officer is required to immediately and independently report to SEBI/Exchanges any non-compliance observed by him.

Further, as per the current regulatory requirement, compliance officers are required to clear the NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination, within one year from the date of their employment, in terms of Gazette of India notification dated March 11, 2013, issued by SEBI. The certification is valid for a period of 3 years. The recertification can be undertaken either by clearing the NISM exam or attending the Continuing Professional Education program of NISM. Currently there are no guidelines prescribed by SEBI/Exchange w.r.t the eligibility of compliance officers, tenure, and their continued suitability on an ongoing basis.

In order to have a robust compliance system, Members should have an effective compliance culture and a strong compliance risk management programme. The Compliance Officer plays an important role in facilitating compliance by promoting strong regulatory practices that ensure risk management, investor protection and market integrity. Hence, the Compliance Officer should be selected through a suitable process with an appropriate 'fit and proper' evaluation/selection criteria to manage the compliance risk effectively. In this regard, the following guidelines are prescribed:

1. Applicability:

The below mentioned guidelines are applicable to the employee designated as Compliance officer.

2. Eligibility criteria for appointment of Compliance Officers post January 01, 2023:

- a) **Educational qualification:** An individual shall be eligible to be appointed as Compliance Officer if he/she has passed graduation or an equivalent examination from a Government-recognized institution.

All the existing Compliance Officer of Members on record of the Exchange having experience of 2 years or more shall be exempted from the above-mentioned criteria for educational qualification.

- b) **Experience:** At the time of appointment, the candidate should at least have 2 years of prior work experience in banking or financial services, handling Audit/Finance/Compliance/Legal/Operations/Risk Management functions.

- c) **Skills:** The eligible candidate should have good understanding of securities market industry, risk management, knowledge of regulations, legal framework and regulatory expectations.

3. **Certification Requirement:**

- a) Compliance officers shall be required to pass the NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination within 1 year from the date of employment in terms of SEBI notification dated March 11, 2013.

The Compliance Officer shall ensure that the certification is renewed before the expiry of its validity, as per the procedure specified by NISM, from time to time.

- b) In order to ensure that the Compliance Officer is well informed of all relevant laws and amendments thereof, it is essential that there should be a continuing education program for him/her. In this regard, Members shall impart half-yearly training to their compliance officers which will cover subject-wise key regulatory requirements and regulatory changes made in the last six months.

4. **Tenure:** Members shall ensure that any transfer / removal of Compliance Officer is done with explicit prior approval of the Board/ Partners as the case may be and after following a well-defined and transparent internal administrative procedure and reasons be recorded in writing.

In case of any change in Compliance Officer due to any reasons beyond the control of the Member such as death, resignation etc., Members are required to intimate the Exchange within 7 working days of such a change. In case of such unforeseen change, the Compliance Officer should be appointed within three months from the date of death/resignation of the erstwhile Compliance Officer and confirm the same to the Exchange.

Notwithstanding the above, the office of the Compliance Officer shall not remain vacant for more than 15 calendar days. In the event of resignation/demise etc. Member should appoint an interim Compliance Officer till such time a regular Compliance Officer is appointed within 3 months from the date of vacation of office.

5. **Due diligence requirements:** Members shall ensure that the person appointed as Compliance Officer is "fit and proper" in terms of Schedule II of SEBI Intermediaries Regulations, 2008.
6. **Familiarization program:** Members shall provide half yearly compliance training program to all the compliance officers including newly appointed officials. It will be mandatory to attend the said program. Individuals who have served as compliance officers for more than a year and have joined another Member in the same capacity, shall be excluded from the aforesaid program. The training content will include all compliance requirements with respect to trading, Clearing/settlement, inspections, Membership compliance, investor grievance redressal mechanism, surveillance related compliance requirements.

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7. **Authority:** The Compliance Officer shall have the ability to independently exercise judgement in all matters of compliance and regulations. The Compliance Officer should have the freedom and sufficient authority to interact with regulators/supervisors directly and ensure compliance. In addition, he/she shall have the necessary authority to communicate with any staff member and have access to all records or files that are necessary to carry out entrusted responsibilities in respect of the compliance issues.

It should be ensured that the Compliance Officer and his staff are not assigned responsibility which brings elements of conflict of interest, especially any role relating to business development/sales. The Compliance Officer shall under no circumstances act in such a dual capacity.

All the existing Compliance Officers who are not in compliance with clause no. 7 shall have time till March 31, 2023, to comply with the requirement. All members are required to confirm compliance with clause no. 7 vide their Internal Audit Report (IAR) submissions from March 2023 onwards.

8. **Allotment of Trading Terminals:** Members shall ensure that no trading terminal is allotted to the Compliance Officer or any staff of his office except for the purpose of risk management /monitoring/testing or for view only purpose and no trades shall be executed from such terminals.
9. **Action by Exchange:** The Exchange shall also reserve the right to seek necessary explanations from the Compliance Officer or record his/her statements in terms of the relevant rules/regulations of the Exchange and initiate suitable disciplinary action against him/her including debarment or directing the Member for removal, if he/she is found to have failed to carry out his/her responsibilities in a reasonable manner. All actions shall be initiated by the Exchange, after following due process and providing opportunity of hearing to the Member /Compliance officer.