
NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all trading members of the Exchange

Circular No. : NCDEX/Member Tech Compliance-007/23

Date : October 27, 2023

Subject : Cyber Security and Cyber Resilience Audit of the Members of the Exchange
(Type III)

In accordance with SEBI circular no. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, SEBI/HO/MIRSD/DOP/CIR/P/2019/109 dated October 15, 2019, SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022 and SEBI/HO/MIRSD/TPD/P/CIR/2022/93 dated June 30, 2022 and Exchange circular no. NCDEX/TECHNOLOGY-065/2018 dated December 4, 2018, NCDEX/TECHNOLOGY011/2019 dated March 25, 2019, NCDEX/RISK- 002/2019 dated October 18, 2019, NCDEX/COMPLIANCE-023/2023 dated March 06, 2023 and NCDEX/Member Tech Compliance-005/23 dated October 09, 2023 in relation to Cyber Security & Cyber Resilience framework for Stock Brokers / Depository Participants, trading members using algorithm software (Type - III) are required to conduct cyber security and cyber resilience audit for the period April 01, 2023 to September 30, 2023 and submit the report to the exchange as per following timelines.

The Cyber Security and Cyber Resilience audit report is required to be submitted to the Exchange in digitally signed soft copy within the timelines indicated below. The said reports are to be sent as an attachment only to email ID: infosec@ncdex.com

Last date for Submission			
Type of Trading Members	Preliminary Audit Report	Action Taken Report (ATR) (If applicable)	Follow on Audit Report (if applicable)
QSB and Non QSB	November 30, 2023	February 29, 2024	May 31, 2024

All trading members are requested to take a note that, for each non-compliance report by the auditor, trading members are required to submit corrective action taken report as per the above mentioned timelines. On review of details of corrective action submitted by trading member, auditor shall submit the status of compliance as Compliant/Non-Compliant/ Not Applicable. The process for submitting the details for corrective action taken by the trading member through ATR and auditor's confirmation on compliance status of ATR shall be provided through separate circular.

Further based on audit findings and related risks auditor should indicate if a follow-on audit is required to review the status of NC's (non-compliance). To ensure that the timely corrective actions are taken by the trading members, follow-on-audit, if any, shall be scheduled by the trading member as per above mentioned timelines.

Submission of Cyber Security and Cyber Resilience Audit Report shall be considered complete only after trading member submits the report to Exchange after providing management comments. Further, auditor must provide compliance status for each TOR item as Compliant/Non-Compliant/Not Applicable and in case of any TOR is not applicable, auditor is required to provide justification for non-applicability of said TOR.

Preliminary audit will be conducted as per the Terms of reference (ToR) specified for all the members as given in Annexure – A. The same is available in the downloads section on the Exchange website under Cyber Security and Cyber Resilience Audit - Annexure A - Terms Of Reference

https://ncdex.com/quick_links/download

For findings / observations during the preliminary audit, the auditor must also report such findings in 'EXECUTIVE SUMMARY REPORT' as per format given in Annexure – B highlighting the major findings of the preliminary audit. The same is available in the downloads section on the Exchange website under Cyber Security and Cyber Resilience Audit - Annexure B - Executive summary report format

https://ncdex.com/quick_links/download

The audit report should be submitted to the Exchange with management comments on any noncompliance / non-conformities (NCs) and observations mentioned in the report and take corrective action for the observations made by the auditor on each non-compliance / non-conformities (NCs) and submit Action Taken Report (ATR), if applicable.

If Follow-on audit has been recommended by the auditor, the same may be carried out after taking necessary corrective actions. The Follow-on Audit Report is to be submitted as per Annexure – C to the Exchange. The same is available in the downloads section on the Exchange website under Cyber Security and Cyber Resilience Audit - Annexure C - Follow on Audit Report format

https://ncdex.com/quick_links/download

Auditor Selection Norms

1. The audit shall be conducted by **CERT-In Empaneled Organization/entity**
2. The Auditor/Auditor firm can perform a maximum of 3 successive audits of the trading members. Follow-on audit conducted by the auditor shall not be considered in the successive audit. However, such an auditor shall be eligible for re-appointment after a cooling-off period of one year.
3. The Auditor, as being appointed by trading member, shall 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.
4. Auditor should not have been engaged over the last three years in any consulting engagement with any departments/ units of the trading members.
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. 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 concepts (POCs), and evidence related to terms of reference (TOR) points for a minimum duration of three years.

Penalty/Disciplinary action for Delayed / Non-submission of Preliminary audit / ATR / Follow-on audit Report

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 / Corrective Action Taken Report and Follow-on audit 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 / Follow on audit report as recommended by the auditor in case of cyber security and cyber resilience audit report.	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.	Levy of applicable monetary penalty along
		5,000/- per day for QSB from 8th calendar day after the due date to 21st calendar day or submission of report, whichever is earlier.	with an escalation of 50%.
	From 22 nd day onwards:	In case of non-submission of report till 21st 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 28th calendar day, Member shall be disabled in all segments till submission of report.	

Further, trading members are also required to submit closure status of all the non-compliances reported in Cyber Audit by submitting Corrective Action Taken Report (ATR) i.e., within 3 months from the due date of submission of Preliminary Audit Report. In Order to ensure strict adherence for closure of non-compliances within the prescribed timelines, following penalty as provided in Table-B shall be applicable for each High/Medium/Low risks non-compliance, which has not been closed in ATR as per prescribed timelines.

Table - B

Risk rating reported by auditor	Applicable penalties for each High/Medium/Low risk non-closure of non-Compliances, which have not been closed in ATR (i.e., within prescribed timelines of submission of due date of preliminary audit report)	
	Non QSB Trading Members (In Rs.)	QSB Trading Members (In Rs.)
High Risk	50,000	100,000
Medium Risk	25,000	50,000
Low Risk	5,000	10,000

- In case observations are not closed by member 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 trading members 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, Trading Member shall be disabled in all segments until closure of all observations(s).

National Commodity & Derivatives Exchange Limited

Ravindra Shetty
Senior Vice President – Member Tech Compliance

For further information / clarifications, please contact

1. Customer Service Group on toll free number: 1800 26 62339
2. Customer Service Group by e-mail to : askus@ncdex.com