NATIONAL COMMODITY CLEARING LIMITED

Circular to all Members of the Clearing Corporation

Circular No. : NCCL/INSPECTION-002/2025

Date : March 11, 2025

Subject : Guidelines for appointment of internal Auditors by all Clearing Members (PCM, STCM and TCM for clearing activities)

This is with reference to SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, NCCL Circular no. NCCL/COMPLIANCE-008/2023 dated September 27, 2023 and NCCL Circular no. NCCL/Compliance- 002/2024 dated March 28, 2024, wherein it was informed that all Clearing Members undertaking clearing activities, for other stockbrokers and/or for custodian participants code (their direct trading clients or otherwise) are required to carry out the half yearly Internal Audit and submit the report to National Commodity Clearing Limited (NCCL).

Further, as advised by SEBI and to enhance the ease of doing compliance and reduce operational difficulties faced by Members/Audit Firms, it has been decided that the auditors empaneled with any of the Exchange(s), shall be eligible to conduct internal audit of the Clearing Members of any of the Clearing Corporations.

Members are advised to adhere to the norms prescribed under clause 4.2 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, w.r.t Appointment and Rotation of Internal auditors.

The relevant provisions of clause 4.2. of the said SEBI circular dated September 26, 2016 is reproduced below:

4.2. Appointment and Rotation of Internal auditors

4.2.1. Stock Exchanges shall ensure that;

4.2.1.1. Stock Broker obtains from the internal auditor the following details and shares the same with the Stock Exchange:

a. Declaration stating that the internal auditor or its directors/partners have no interest in or relation with the stock broker concerned other than the proposed internal audit assignment, and

b. Details of the internal auditor viz., Name, Address, PAN, Designation of Auditor, Name & Address of the Audit Firm, registration number of the

Auditor and the Audit firm, any regulatory action taken against internal auditor/partner/director, if any, etc.

4.2.1.2. No stock broker shall appoint or re-appoint—

a) an individual as internal auditor for more than one term of five consecutive years; and

b) an audit firm as internal auditor for more than two terms of five consecutive years:

Provided that—

4.2.1.3. An individual internal auditor who has completed his term under clause 4.2.1.2 (a) above shall not be eligible for re-appointment as internal auditor for the same stock broker for five years from the completion of his term;

4.2.1.4. An audit firm which has completed its term under clause 4.2.1.2 (b) above, shall not be eligible for re-appointment as internal auditor for the same stock broker for five years from the completion of such term;

Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a stock broker immediately preceding the financial year, shall be appointed as internal auditor for the same stock broker for a period of five years:

Accordingly, all Clearing Members are advised to ensure the above provisions relating to appointment and rotation of Internal auditors while appointing Internal Auditor.

Further, all Clearing Members are advised to take note that auditor meeting the following eligibility criteria is qualified to conduct the Internal Audit of the Clearing Members:

a) Auditor in the Audit Firm should be an independent qualified Chartered Accountant or Company Secretary or Cost and Management Accountant who is in practice and who does not have any conflict of interest.
b) The Audit Firm should have at least two partners at all times.
c) The Auditor / Audit firm or at least one of the partners should have a minimum of 5 years' experience in carrying out audits.
d) The Auditor/ Audit firm is not debarred or restrained from issuing any certificate by ICAI, ICSI, ICMAI, RBI, SEBI or by other regulator/law enforcement agency.

e) Auditor and/or its employee or partner signing the Internal Audit Report shall have a valid NISM Series-XIV: Internal Auditors for Stockbrokers Certification or NISM Series III-A: Securities Intermediaries Compliance Certification or ICAI Certificate Course on Financial Markets and Securities Laws or any other equivalent examination.

f) In addition to the above, the Audit Firm which undertakes the Internal Audit of Qualified Stock Brokers ("QSBs") should have at least five partners at all times; of which at least two partners should be full time partners.

For and on behalf of
National Commodity Clearing Limited

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For further information / clarifications, please contact

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