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**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**

Circular to all members of the Exchange

Circular No : NCDEX/COMPLIANCE-035/2024

Date : May 03, 2024

Subject : System Audit by the members of the Exchange

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This is with reference to the SEBI circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013, and Exchange circulars NCDEX/COMPLIANCE-009/2016/184 dated August 04, 2016 and NCDEX/COMPLIANCE-010/2016/191 dated August 16, 2016 on “System Audit by the members of the Exchange” trading members using trading software / having exchange approved Algo Trading Software (ATS) shall be required to carry out System audit of their trading facility as per applicability criteria.

Periodicity of System Audit  (Audit Period)	Criteria	Type of Broker	Due date for Submission of Reports	
			Preliminary Audit & Executive Summary Report (Annexure – A & B)	Action taken Report (ATR) (if applicable)
Half Yearly (October 2023-March 2024)	All Members using ATS Facility	Type of broker – III	June 30, 2024	September 30, 2024
Annually (April 2023 - March 2024)	1. Members having CTCL/ IBT/ STWT and presence in > 10 locations or have > 50 terminals 2. Trading Members who are also depository participants or are involved offering any financial services	Type of broker – II	June 30, 2024	September 30, 2024
Bi-Annual (April-2022 to March-2024)	Members having CTCL/ IBT/ STWT and presence in ≤ 10 locations and have ≤ 50 terminals	Type of broker – II	June 30, 2024	September 30, 2024

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The System audit report is now required to be submitted to the Exchange in digitally signed soft copy within the timeline as mentioned in the table given below by way of sending the same as an attachment only to email ID: **sar\_submission@ncdex.com**

Preliminary audit will be conducted as per the Terms of reference (ToR) specified for Type II and Type III Broker as given in **Annexure – A**. The same is available in the “Downloads section” on the Exchange website under System Audit Annexures March 2024. ([https://ncdex.com/quick\\_links/download](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 System Audit Annexures March 2024. ([https://ncdex.com/quick\\_links/download](https://ncdex.com/quick_links/download))

The audit report should be submitted to the Exchange with management comments on non-compliance / non-conformities (NCs) observations mentioned in the report. Further, auditor has to provide compliance status for each TOR item i.e., Compliant/Non-Compliant and Not Applicable and in case of any TOR item which is not applicable, auditor is required to provide justification for the non-applicability of said TOR.

All Trading members are requested to take note that, for each non-compliance/ non-conformities (NCs) reported by the auditor, trading members are required to submit corrective Action Taken Report (ATR) as per above mentioned timelines. On review of details of corrective action submitted by trading member, the auditor shall submit the status of compliance as Compliant or Non-Compliant

### **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 minimum 3 years of experience in IT audit of securities market participants e.g. Stock Exchanges, Clearing Corporations, Depositories, Trading Members, 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 the 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.
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.

The members are advised to submit the following documents **digitally signed soft copy in PDF format** to the Exchange as per the time line provided:

- System Audit Report (Annexure A) along with Executive summary (Annexure B)
- Details of Auditor (Annexure C)
- Action Taken Report, if applicable.

**Penalty/disciplinary action for Delay/Non-submission of Preliminary Audit Report / Corrective Action Taken Report 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 / 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 1st day to 7th 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 8th day to 21st day:	Charges of Rs. 2,500/- per day for Non QSB & Rs. 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.	Levy of applicable monetary penalty along with an escalation of 50%.
	From 22nd 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 trading member will be shared with all the Exchanges for information.
	After 28th day:	In case of non-submission of report by 28th calendar day, Trading 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 System 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 risk 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	QSB Trading Members
High Risk	₹ 15,000	₹ 30,000
Medium Risk	₹ 7,500	₹ 15,000
Low Risk	₹ 2,500	₹ 5,000

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

It may be noted that submission of Systems Audit Report shall be considered complete only after Member submits the report to the Exchange with **digitally signed soft copy by the auditor in PDF format.**

For and on behalf of  
**National Commodity & Derivatives Exchange Limited**

Pranesh Shetty  
 Vice President – Inspection & Enforcement

For further information/clarifications, please contact

- Customer Service Group on toll free number: 1800 26 62339
- Customer Service Group by e-mail to : [askus@ncdex.com](mailto:askus@ncdex.com)