
NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange

Circular No : NCDEX/COMPLIANCE- 119/2023

Date : October 27, 2023

Subject : System Audit by the members of the Exchange – ATS (ALGO Trading)

Further to the Exchange circular no. NCDEX/COMPLIANCE-009/2016/184 dated August 04, 2016, NCDEX/COMPLIANCE-010/2016/191 dated August 16, 2016, on “System Audit by the members of the Exchange”, the members having Exchange Approved Algo Trading Software (ATS) are required to carry out System audit of their trading facility for the period April 2023 to September 2023 and submit system audit report to the Exchange with in the timeline as mentioned in the table given below

Audit Period	Criteria	Type of Broker	Preliminary Audit & Executive Summary Report (Annexure – A & B)	Action taken Report (ATR) (if applicable)	Follow-on Audit Report (if applicable) (Annexure - C)
Half Yearly (April 2023 to September 2023)	All Members using ATS Facility	Type of broker – III	November 30, 2023	February 29, 2024	May 31, 2024

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 III Broker as given in **Annexure – A**. The same is available in the “Downloads section” on the Exchange website under ALGO System Audit Annexures September 2023. (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 ALGO System Audit Annexures September 2023. (https://ncdex.com/quick_links/download)

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

If the follow-on audit has been recommended by the auditor in System audit report, then schedule the same after taking necessary corrective actions and submit the Follow-on Audit Report as per **Annexure - C** to the Exchange. The same is available in the “Downloads section” on the Exchange

Auditor Selection Norms – for Type III Brokers (Member using ATF Facility):

1. The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. stock exchanges, clearing corporations, depositories, stock brokers, 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 from time to time.
2. Resources employed for the purpose of system audit shall have relevant industry recognized certifications e.g. D.I.S.A. (ICAI) Qualification, CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
3. The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.
4. The Auditor shall not have any conflict of interest in conducting fair, objective and independent audit of the Stock Broker. Further, the directors / partners of Audit firm shall not be related to any stock broker including its directors or promoters either directly or indirectly.
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. **Auditor has not conducted more than 3 successive audits of the member.** Follow-on audits conducted by the auditor shall not be considered in the successive audits.

The members are advised to submit the following documents **digitally signed soft copy in PDF format** to the Exchange

- System Audit Report (Annexure A) along with Executive summary (Annexure B)
- Action Taken Report, if applicable.
- Follow-on report with management comments (Annexure C) if applicable, as per the time line provided

Penalty/disciplinary action for Delay/Non-submission of Preliminary Audit Report / Corrective Action Taken Report/ Follow on audit 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 / 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 System audit report	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

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