

Department: Inspection	Segment: All
Circular No: MSE/INSP/16191/2024	Date : October 18, 2024

Subject: System Audit of Trading members (TYPE-III) for the half year ended September 30, 2024

To All Members,

In accordance with SEBI circular no. CIR/MRD/DMS/34/2013 dated November 6, 2013, and Exchange circular no. MCX-SX/CTCL/1570/2013 dated November 08, 2013 on the Annual System Audit of Stock Brokers / Trading Members wherein half yearly system audit has been prescribed for stock brokers who use Algorithmic Trading or provide their clients with the facility of Algorithmic Trading as per SEBI Circular CIR/MRD/16/2013 dated May 21, 2013 and Exchange Circular no. MSE/INSP/13286/2023 dated April 03, 2023 on Uniform format of System Audit Report.

Accordingly, Trading Members using algorithm software (Type III) are required to conduct system audit for period April 01, 2024, to September 30, 2024 and submit the report to the Exchange as per the following timelines.

Audit Period	Due Date for Submission	
Half Yearly (April 24-September 24)	Preliminary Audit Report	Action Taken Report (ATR) (If applicable)
	November 30, 2024	February 28, 2025

All Trading Members are requested to take note that, for each non-compliance reported by the auditor, trading members are required to submit corrective action taken report 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.

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

The members are advised to submit the digitally signed soft copy of the System Audit Report in PDF format to the Exchange through email at compliancemsx@msei.in or members may also submit the signed physical copy of the report to the Exchange.

In case of physical copy of the System Audit Report, it may be noted that all the pages of audit report should be duly stamped and signed by the auditor. Auditor should categorically certify in the report about absence of conflict of interest as given in the format. The members are advised to submit the Cyber Security audit report to the following address:

Inspection Department

Metropolitan Stock Exchange of India Ltd
205-A, 2nd Floor, Piramal Agastya Corporate Park,
Kamani Junction, LBS Road,
Kurla (West), Mumbai - 400070.

Metropolitan Stock Exchange of India Limited

Trading members shall comply with any non-compliance/ non-conformities (NCs) pending submissions for system audit report for the previous audit period by submitting ATR and/or Follow-on audit report as the case maybe through email at compliancemsx@msei.in.

Members are requested to take note of the Exchange circular MSE/INSP/14262/2023 dated October 06, 2023, regarding “Revised Penalties/disciplinary action(s)/charges for System Audit Report and Cyber Security & Cyber Resilience Audit Report related submissions”.

All Members are advised to take note of the above and comply.

Please find enclosed the following Annexures applicable for the System Audit Report for half year ended September 30, 2024:

- Auditor Selection Norms – **Annexure A**
- Penalty/disciplinary action for Delay/Non-submission of Preliminary Audit Report / Corrective Action Taken Report/ Follow on audit report and non-Closure of observations – **Annexure B**
- Terms of Reference (TOR) for System Audit, Executive Summary Report (Part B) & (Part C) and Action Taken Report (ATR) – **Annexure C (Excel File)**

Members are requested to take note of the contents of the circular and ensure compliance

In case of any query kindly contact Inspection Department on (022) 6112 9000 or mail on compliancemsx@msei.in.

**For and on behalf of
Metropolitan Stock Exchange of India Limited**

**Sunil Shendge
Manager – Inspection Department**

Annexure A

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 a minimum of 3 years of experience in IT audit of securities market participants e.g., Stock Exchanges, Clearing Corporations, Depositories, Trading Member, 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 Trading Member must 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.

Annexure B

Penalty/disciplinary action for Delay/Non-submission of Preliminary Audit Report / Corrective Action Taken 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 and 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 Report and ATR as recommended by the Auditor	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. 5,000/- per day for QSB from 8 th calendar day after the due date to 21 st calendar day or submission of report, whichever is earlier.	Levy of applicable monetary penalty along with an escalation of 50%.
	From 22 nd day onwards:	In case of non-submission of report till 21 st 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 28 th calendar day, Member shall be disabled in all segments till submission of report.	

Further, members are required to submit closure status of all the non-compliances reported in System Audit Report by submitting Action Taken Report (ATR) within the prescribed timelines. To ensure strict adherence for closure of non-compliances within the prescribed timelines, following penalty as provided in Table-B shall be applicable for non-closure of observations reported in ATR submissions.

Table-B:

Risk rating reported by auditor	Applicable penalties for each High/Medium/Low risk non-closure of non-Compliances, which has not been closed in ATR (i.e., within prescribed timelines of submission of due date of preliminary audit report)	
	<u>Non-QSB Members</u>	<u>QSB Members</u>
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 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 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, Member shall be disabled in all segments until closure of observations(s).