



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/CDMRD/DEICE/CIR/P/2016/70

August 11, 2016

To

**The Managing Directors
All National Commodity Derivatives Exchanges**

Sir/Madam,

Subject: Annual System Audit of Stock Brokers / Trading Members of National Commodity Derivatives Exchanges

1. Pursuant to Section 131 of the Finance Act, 2015 and Central Government notification F.No. 1/9/SM/2015 dated August 28, 2015, all recognized associations under the Forward Contracts (Regulation) Act, 1952 are deemed to be recognized stock exchanges under the Securities Contracts (Regulation) Act, 1956 with effect from September 28, 2015. This circular applies to National Commodity Derivatives Exchanges (Exchanges) as defined in the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2015.
2. Various technological developments and innovations, while bringing efficiency to the markets, may also pose certain risks. In order to bring stability and integrity in the securities market, SEBI vide Circular No. CIR/MRD/DMS/34/2013, dated November 06, 2013, has prescribed stock broker system audit framework and mandated Stock Exchanges to ensure conduct of system audit of its members as per the prescribed framework and monitor the same.
3. It has been decided to make the provisions of the aforesaid circular applicable to the Brokers / Trading Members of the National Commodity Derivatives Exchanges. The major provisions / framework of System audit for Brokers / Trading members covered are as under:
 - a) Audit Process
 - b) Auditor selection norms
 - c) Terms of Reference (TOR) for Type I, Type II, Type III Brokers
4. Based on the representations made by stock exchanges on the aforesaid circular, regarding exemption of system audit for Type I Brokers, matter was examined by Technical Advisory Committee (TAC) and it was decided that such brokers may be exempted from system audit and the development of



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

NEAT / BOLT / Exchange provided terminals be included in the scope of Annual System Audit of Exchanges prescribed vide circular dated CIR/MRD/DMS/13/2011 dated November 29, 2011.

5. In view of above, the provisions relating to Type I Brokers, as mentioned in this circular, shall not be applicable to Type I Brokers. However, such provisions shall be included in the TOR of the Annual System Audit for National Commodity Derivatives Exchanges as prescribed vide SEBI circular dated CIR/CDMRD/DEICE/01/2015 dated November 16, 2015.
6. The provisions of this circular shall be applicable from financial year 2016-17 onwards. For the financial year 2015-16, the Brokers / Trading Members who have commenced their annual system audit, may follow existing annual system audit framework prescribed by exchanges, if any. However, stock brokers/ trading members who are yet to commence annual system audit should carry out their system audit as per the prescribed framework as mentioned in this circular.
7. The Exchanges are advised to:-
 - Make necessary amendments to relevant bye-laws/rules for the implementation of this circular.
 - Communicate SEBI, the status of implementation of the provisions of this circular.
8. The circular is issued in exercise of the powers conferred under section 11(1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
9. The circular is available on SEBI website at i.e. www.sebi.gov.in.

Yours faithfully,

B J DILIP
GENERAL MANAGER
Division of Exchange Inspection and Complaints against Exchanges
Commodity Derivatives Market Regulation Department
dilipbj@sebi.gov.in