

SEBI brings new system audit norms for exchanges, clearing corporations and depositories

Taking into account the rapid technological developments in the securities market and the entailing risks that these developments pose to the efficiency and integrity of markets, SEBI vide Circular no. CIR/MRD/DMS/13/2011 dated November 29, 2011 had mandated that stock exchanges and depositories should conduct an Annual System Audit by a reputed independent auditor. Subsequently, the framework was also extended to clearing corporations.

In order to keep pace with the technological advancements in the securities market, it is felt that there is a need to revise the aforementioned Circular. Accordingly, based on discussions with Stock Exchanges, Clearing Corporations, Depositories (hereinafter referred as 'Market Infrastructure Institutions – MIIs), and recommendations of Technical Advisory Committee (TAC) of SEBI, the existing System Audit Framework has been reviewed.

MIIs are advised to conduct an Annual System Audit as per the framework enclosed as in Annexure 1 and Terms of Reference (TOR) enclosed as Annexure 2 of circular dated 7th January 2020 which includes audit process, auditor selection norms, audit report guidelines, among others. MIIs are also advised to maintain a list of all the relevant SEBI circulars/ directions/ advices, etc. pertaining to technology and compliance thereof and the same shall be included under the scope of System Audit.

Audit Process: For the Annual System Audit, the following broad areas shall be considered in order to ensure that the audit is comprehensive and effective:

- The Audit shall be conducted according to the Norms, Terms of Reference (TOR) and Guidelines issued by SEBI.
- The Governing Board of the Market Infrastructure Institution (MII) shall appoint the Auditors based on the prescribed Auditor Selection Norms and TOR.

- An Auditor can perform a maximum of 3 successive audits. However, such auditor shall be eligible for re-appointment after a cooling-off period of two years.

Auditor Selection Norms: MII shall ensure compliance with the following norms while appointing System Auditor: The Auditor must have minimum 3 years of demonstrable experience in IT audit of Securities Industry i.e. Stock Exchanges, Clearing Corporations, Depositories, intermediaries etc. and/ or Financial Services Sector i.e. Banking, Insurance, Fin-tech.

Audit Report Guidelines : The Audit report should cover each of the major areas mentioned in the TOR and compliance with SEBI circulars/directions/advices, etc. related to technology. The Auditor in the Audit Report shall give its views indicating the Non-Compliances (NCs) to the standards or observations or suggestions. For each section, auditors should also provide qualitative inputs/suggestions about ways to improve the processes, based upon the best industry practices

Further, MIIs are advised to submit information with regard to exceptional major Non-Compliances (NCs)/ minor NCs observed in the System Audit as per format enclosed as Annexure 4 of the circular and are advised to categorically highlight those observations/NCs/suggestions pointed out in the System Audit (current and previous) which remain open

The Systems Audit Report including compliance with SEBI circulars/ guidelines and exceptional observation format along with compliance status of previous year observations shall be placed before the Governing Board of the MII and then the report along with the comments of the Management of the MII shall be communicated to SEBI within a month of completion of audit. Further, along with the audit report, MIIs are advised to submit a declaration from the MD / CEO certifying the security and integrity of their IT Systems.

This circular supersedes the abovementioned Circular no. CIR/MRD/DMS/13/2011 dated November 29, 2011.

SEBI circular SEBI/HO/MRD1/ICC1/CIR/P/2020/03 on Annual System Audit is enclosed for your kind reference.

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