

ANNUAL SYSTEM AUDIT OF STOCK BROKERS/TRADING MEMBERS

CIRCULAR NO. MRD/DMS/34/2013, DATED 6-11-2013

- 1.** Technological advancements and various market events have necessitated reviewing the existing system audit framework for Stock Brokers/Trading Members. Accordingly, system audit guidelines have been revised which includes System Audit Process, Auditor Selection Norms and Terms of Reference (TOR).
- 2.** The stock exchanges should ensure that system audit of stock brokers/trading members are conducted in accordance with the prescribed guidelines enclosed Annexure in this circular.
- 3.** Exchanges are advised to keep track of findings of system audits of all brokers on quarterly basis and ensure that all major audit findings, specifically in critical areas, are rectified/complied in a time bound manner failing which follow up inspection of such brokers may be taken up for necessary corrective steps/actions thereafter, if any.
- 4.** Stock Exchange should report all major non-compliances/observations of system auditors, broker wise, on a quarterly basis to SEBI.
- 5.** For the current year, in case the stock brokers have commenced their annual system audit, they may follow existing annual system audit framework prescribed by exchanges. However, stock brokers who are yet to commence annual system audit should carry out their annual system audit as per the framework given in this circular.
- 6.** Stock Exchanges are directed to:
 - a.* take necessary steps and put in place necessary systems for implementation of the above.
 - b.* make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision, wherever applicable.
 - c.* bring the provisions of this circular to the notice of the stock brokers/trading members of the stock exchange and also disseminate the same on their website.
- 7.** This circular is being issued in exercise of the powers conferred by Section 11(1) of Securities and Exchange Board of India Act, 1992 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.