

**GENERAL MANAGER**  
**MARKET REGULATION DEPARTMENT**  
**DIVISION FOR MARKET SUPERVISION**  
Tel: 26449260, Fax: 26449021/31  
Email : [manojk@sebi.gov.in](mailto:manojk@sebi.gov.in)

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**The Managing Director / Executive Director**  
**Stock Exchanges and Depositories**

Dear Sir / Madam,

**Sub: Annual System Audit**

Keeping in view the rapid technological developments in the Securities Markets should not overshadow the risks that these innovations pose to the efficiency and integrity of markets, SEBI vide circular no. MIRSD/DPS-III/ Cir-22 /2008 dated July 23, 2008, had mandated that exchanges shall conduct an annual system audit by a reputed independent auditor. Similar framework was also prescribed for depositories vide letter no. MIRSD/DPS-III/132833/2008 dated July 23, 2008.

Based on the discussions with stock exchanges and depositories, and recommendations of Technical Advisory Committee (TAC), the present system audit framework has been reviewed encompassing the System Audit Process, Auditor Selection Norms, Terms of Reference (TOR), and Audit Report Guidelines.

You are advised to conduct an annual System Audit as per the enclosed System Audit Framework. The Systems Audit Reports and Compliance Status should be placed before the Governing Board of the Stock Exchanges / Depositories and the system audit report along with comments of Stock Exchanges / Depositories should be communicated to SEBI. Further, along with the audit report, Stock Exchanges / Depositories are advised to submit a declaration from the MD / CEO certifying the security and integrity of their IT Systems.

In case the exchanges / depositories have commenced their Annual System Audit, they may follow existing annual system audit framework of SEBI Circular issued in 2008. Further, the exchanges / depositories who are yet to commence Annual System Audit would carry out their Annual System Audit as per the framework given in this circular.

This circular supercedes the abovementioned circular no. MIRSD/DPS-III/ Cir-22 /2008 dated July 23, 2008 and 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.

**Yours faithfully,**

**Manoj Kumar**

Encl.: System Audit Framework (Pages 1 to 6)