

# Guidelines: Audit of participants

SIX Exchange Regulation Ltd

22 June 2020

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## **A. BACKGROUND INFORMATION**

Pursuant to art. 27 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA) and in accordance with section 19 of the Rule Book of SIX Swiss Exchange Ltd ("SIX Swiss Exchange") all participants of SIX Swiss Exchange are required, whether domiciled within or outside Switzerland, to appoint a recognized firm of auditors - or upon written request to be approved by SIX Exchange Regulation Ltd, the participant's internal auditors - to verify compliance with the provisions of the applicable rules and to submit an audit report, setting out the findings to SIX Exchange Regulation Ltd by the end of March of each year.

In special circumstances, SIX Exchange Regulation Ltd may also require participants at any time to have certain procedures and transactions reviewed with regard to their conformity with the SIX Swiss Exchange Rule Book and to submit a summary report of this audit to SIX Exchange Regulation Ltd (see section 19 (2) SIX Swiss Exchange Rule Book).

## **B. APPOINTED AUDITORS**

A recognized firm of auditors for the purposes of section 19 (1) of the SIX Swiss Exchange Rule Book means a firm of auditors which has been authorized to audit banks and financial firms and/or securities dealers, i.e. auditors that are recognized by the competent Swiss or foreign supervisory authority or under applicable Swiss or foreign law.

Participants who intend to appoint their internal auditors to conduct the audit of participants must submit a request in writing, including all the documents required, to SIX Exchange Regulation Ltd by no later than 30 September of the audit year in question. Further information may be obtained by contacting the e-mail address provided in lit. F "Contact Details for SIX Exchange Regulation Ltd".

## **C. REPORT AND TIMING OF SUBMISSION**

The auditors must prepare a report on the findings of their audit in accordance with the guidelines laid down in this document and based on the sample report, and forward the report to the participant. The participant or the auditors must submit the report to SIX Exchange Regulation Ltd (address provided in lit. F "Contact Details for SIX Exchange Regulation Ltd"). The deadline for submitting the audit report is 31 March of the calendar year immediately following the reporting year. Any requests for an extension of the deadline must be justified and submitted to SIX Exchange Regulation Ltd prior to the deadline. SIX Exchange Regulation Ltd will take a decision on whether to approve any such request.

## **D. AUDIT COSTS**

All costs incurred in connection with the audit as well as any further costs for additional audit work and the relevant reports are to be borne by the participant (section 19 (5) SIX Swiss Exchange Rule Book).

## **E. AUDITS**

The auditing work carried out for the purposes of the SIX Exchange Regulation Ltd participants' audit must be conducted in accordance with the audit standards laid down in the Financial Market Auditing Ordinance (FINMA-AO), in FINMA-Circular 2013/3 "Auditing" (margin nos. 35 to 43) as well as in accordance with the requirements laid down in the present guidelines (appendix: audit procedures).

In conducting its audit, the firm of auditors appointed may rely on facts that have been determined by the participant's internal auditors, provided that the audit performed by the internal auditors provides a sufficient and appropriate basis, both in terms of content and scope, for the auditors to conduct their auditing work. Any reliance on the auditing work of the internal auditors must be indicated in the audit report. The auditors remain responsible for the audit and must issue the audit opinion.

Further information on audit procedures (risk analysis, audit strategy / planning, audit depth and reports) is set out in the Appendix to these Guidelines.

## **F. CONTACT DETAILS FOR SIX EXCHANGE REGULATION LTD**

The report must be submitted electronically in pdf-format to: sveenc@six-group.com

SIX Exchange Regulation Ltd supports the Transport Layer Security (TLS)-protocol for purposes of secure data transmission by email. Therefore it is possible to submit the audit report using a secure connection. The responsibility for the timely submission of the report remains with the participant. If an electronic submission is not possible, the audit report can still be sent by mail(SIX Exchange Regulation AG, Enforcement & Compliance, Hardturmstrasse 201, Postfach, CH-8021 Zurich).

Notifications and inquiries regarding participant audits may also be submitted to the mentioned e-mail address or address.

## **G. EXAMINATION POINTS**

The following matters must be audited, as laid down in the rules and guidelines of SIX Swiss Exchange:

- Access to the Exchange System
- Trader substitutions
- Customers with direct market access (DEA) and/or Sponsored Access (SA)
- Market conduct
- Algorithmic trading
- Reporting obligation I: Trade Report
- Reporting obligation II: Transaction Report
- Time of execution
- Designation
- Market information

SIX Exchange Regulation Ltd may at any time adjust the points that must be examined as part of the participant audit or add points to the list as required. The for the auditing work decisive version is always the latest version of the guidelines uploaded to SIX Exchange Regulation Ltd's website by 30 June.

## 1. Access to the Exchange System

*Basis:*

- Section 4.3.1 (1) (d) of the SIX Swiss Exchange Rule Book
- Section 4.3.2 of the SIX Swiss Exchange Rule Book
- Section 4.3.3 of the SIX Swiss Exchange Rule Book
- SIX Swiss Exchange Directive 1 "Admission of Participants"

Participants are required to register all traders who trade on the Exchange and reporting agents who report off-order-book trades to the Exchange with SIX Swiss Exchange.

SIX Swiss Exchange assigns a personal identification number to each registered trader and each registered reporting agent. The Exchange System records all system entries together with the identification number of the respective trader or reporting agent. The identification number of the reporting agent is personal and may not be passed on. For each individual order, participants must supply the identification number of the trader who entered the order into the Exchange system and who is therefore responsible for that particular order. Participants are not permitted, for example, to use the identification number for substitution of a single registered trader to cover all orders.

**It must be examined how the participant ensures that only registered traders respectively only registered reporting agents have access to the Exchange System respectively to the Reporting System using their personal identification number.**

## 2. Trader Substitutions

*Basis:*

- Section 4.3.2 (3) of the SIX Swiss Exchange Rule Book

The trader identification number is personal but may be given to other registered traders within the same organization to allow for representation during absences. In such instances, participants are required to ensure the traceability of these substitutions (e.g. by keeping a log).

**It must be examined whether the participant's registered traders are represented in their absence by other registered traders within the same organization and, if this is the case, how such substitutions are recorded to ensure traceability.**

## 3. Customers with direct market access (Direct Electronic Access; DEA) and/or Sponsored Access

### 3.1. Customers with direct market access (Direct Electronic Access; DEA)

*Basis:*

- Section 4.3.4 of the SIX Swiss Exchange Rule Book

*Tick the box:*

- DEA is not being offered (no further comments to this examination point necessary)
- DEA is being offered

Participants may grant their customers direct access to the Exchange System (Direct Electronic Access, DEA). In such instances, the participant remains liable to the Exchange for all actions and omissions of its DEA customers.

Participants must have suitable systems in place to monitor and filter the orders of DEA customers. They must be entitled and able at any time to delete DEA customer orders from the order book if so instructed by the Exchange.

It is necessary to document the type of checks and controls performed by the participant for DEA-orders before the orders are forwarded to the Exchange System and after trades have been concluded.

**It must be examined whether the participant has suitable systems in place to monitor and filter the orders of its DEA customers and which criteria are applied for this purpose.**

**It must also be examined whether the participant has the technical means to stop the order flow of its DEA customers at any time.**

### 3.2. Sponsored Access (SA)

*Basis:*

- Section 4.3.5 of the SIX Swiss Exchange Rule Book
- SIX Swiss Exchange Directive 8 "Sponsored Access"

*Tick the box:*

- SA is not being offered (no further comments to this examination point necessary)
- SA is being offered

Participants may permit their clients ("Sponsored Users") to transmit orders electronically and directly to the Exchange under the participant's member ID without the orders being routed through the participant's internal trading systems. The participant remains liable to the Exchange for all actions and omissions on the part of its Sponsored Users.

The participant bears sole responsibility for monitoring the orders of its Sponsored Users and managing the risks associated therewith. In particular, the participant is obliged to use, configure and monitor the mandatory risk management controls provided by the Exchange. The participant is also obliged to monitor all orders transmitted by its Sponsored Users appropriately.

**It must be examined whether the participant uses, has adequately configured and appropriately monitors the risk management controls provided by the Exchange, and whether the participant has taken proper account of the nature and complexity of the order flow of each Sponsored User.**

**It must also be examined whether the participant has suitable systems in place to allow orders transmitted by Sponsored Users to be appropriately monitored, and whether the participant has the technical means to delete the orders of its Sponsored Users at any time and to prevent the entry of new orders.**

## 4. Market conduct

*Basis:*

- Art. 143 FMIA
- FINMA Circular 2013/8 "Market conduct rules"
- Section 10.3 of the SIX Swiss Exchange Rule Book

The participant as well as its traders and reporting agents must comply with applicable market codes of conduct, in particular those laid down in art. 143 FMIA and the FINMA Circular "Market Conduct Rules" (FINMA Circ. 2013/8), uphold the integrity of the market at all times and refrain from unfair trading practices. The participant must take appropriate precautions.

The audit firm must, in particular, assess the appropriateness of the internal directives as well as the processes and controls with which the participant ensures compliance with market conduct rules.

**It must be examined how the participant ensures that it is compliant with the applicable codes of market conduct, that market integrity is maintained at all times and that unfair trading practices are omitted.**

## 5. Algorithmic trading

*Basis:*

- Art. 31 of the Financial Market Infrastructure Ordinance (FMIO)
- FINMA Circular 2013/8 "Market conduct rules"
- Section 11.1.4 of the SIX Swiss Exchange Rule Book
- Directive 3 „Trading“ SIX Swiss Exchange
- Directive 5 „Trading Without Pre-Trade Transparency“ SIX Swiss Exchange

Participants that pursue algorithmic trading are required to flag the orders generated in this manner, record and store all entered orders, including order cancellations.

**It must be examined whether orders generated by algorithmic trading have been flagged correctly and whether a separate identification for each algorithm is used. It must be examined whether the orders generated by algorithmic trading are recorded by the participant, and whether the orders including order cancellations are stored.**

## 6. Reporting obligation I: Trade Report

*Basis:*

- Art. 38 FMIA
- Art. 39 FMIA
- Art. 37 FMIO
- Art. 2 et seq. Ordinance of the Swiss Financial Market Supervisory Authority on Financial Market Infrastructure and Market Conduct in Securities and Derivatives Trading (FMIO-FINMA)
- FINMA Circular 2018/2 "Disclosure requirements for securities transactions"
- Section 4.4 of the SIX Swiss Exchange Rule Book
- Section 12.1 of the SIX Swiss Exchange Rule Book
- Reporting Office Rules of SIX Swiss Exchange
- Directive 3 "Trading" SIX Swiss Exchange

Participants must report all of the information necessary for transparent securities trading as per art. 39 FMIA in connection with art. 37 FMIO, art. 15 SESTA in connection with art. 31 SESTO, art. 2-5 FMIO-FINMA and FINMA Circular 2018/2 "Disclosure requirements for securities transactions".

On-exchange off-order-book trades must be reported to the exchange as per section 12 of the Rule Book SIX Swiss Exchange.

**It must be examined whether reportable trades have been reported completely, correctly and in due time by Trade Reports, and whether the entries recorded in the participant's record of securities transactions match the information contained in the reports submitted to SIX Swiss Exchange.**

## 7. Reporting obligation II: Transaction Report

### *Basis:*

- Art. 39 FMIA
- Art. 37 FMIO
- Art. 2-5 FMIA-FINMA
- FINMA Circular 2018/2 „Disclosure requirements for securities transactions“
- Section 4.4 of the SIX Swiss Exchange Rule Book
- Section 10.7 of the SIX Swiss Exchange Rule Book
- Section 13 of the SIX Swiss Exchange Rule Book
- Reporting Office Rules of SIX Swiss Exchange
- Directive 3 "Trading" SIX Swiss Exchange

Participants must report all of the information necessary for transparent securities trading as per art. 39 FMIA in connection with art. 37 FMIO, art. 15 SESTA in connection with art. 31 SESTO, art. 2-5 FMIO-FINMA and FINMA Circular 2018/2 "Disclosure requirements for securities transactions". In particular the details necessary to identify the beneficial owner per art. 37 paragraph 1 lit. d FMIO must be reported.

According to section 2.4 paragraph 3 in connection with section 2.6.2 Reporting Office Rules of SIX Swiss Exchange the Transaction Report can be submitted in full in the Swiss format as described in FINMA Circular 2018/2 „Disclosure requirements for securities transactions“ margin numbers 27 onwards or in full in the European Union format as specified in the regulatory and technical implementing standards (RTS 22).

**It must be examined whether reportable trades have been reported completely, correctly and in due time by Transaction Reports in a format accepted by the Reporting Office.**

## 8. Time of execution

### *Basis:*

- Section 12.1.1 (f) of the SIX Swiss Exchange Rule Book

For on-exchange, off-order-book trades, the actual time of execution must be reported (agreed time), not the time at which the transaction was entered into the system (system time). Times must be reported in CET (Central European Time).

**It must be examined whether, in the case of on-exchange, off-order-book trades, the actual time of execution has been reported, and if this corresponds to the time reported to SIX Swiss Exchange.**

## 9. Designation

### *Basis:*

- Section 11.1.3 of the SIX Swiss Exchange Rule Book
- Section 12.1.1 (h) of the SIX Swiss Exchange Rule Book

Orders must be flagged as client trades (R), if trading takes place in the participant's own name but for the account of a client and as proprietary trades (P), if trading takes place in the participant's own name and for his own account.

To ensure appropriate transparency and monitoring, the report must indicate whether on-exchange trades, executed on- or off-order-book, are undertaken for clients or for proprietary trading purposes.



**It must be examined whether the on-exchange orders and trades executed on- or off-order-book have been correctly designated as client or proprietary transactions (R, P).**

## 10. Market information

### *Basis:*

- Section 14 of the SIX Swiss Exchange Rule Book
- SIX Swiss Exchange Directive 6 "Market Information"
- SIX Exfeed Data Distribution Agreement (DDA)
- SIX Exfeed Non Display Information Usage Agreement (NDIU)

Participants will not be charged for the use by registered traders of market information for trading purposes. Any further use of marketing information is subject to prior approval by SIX Exfeed and is also subject to market data fees. "Further use" means use by non-display applications, including automated trading systems, or the forwarding of information to third parties.

**It must be examined whether and to what extent market information has been used and passed on, and more specifically, whether there has been any further use of market information by the participant, i.e. whether there was a use for Non Display Applications including automated trading systems and/or whether the participant forwarded any information to third parties. In this regard, it must also be examined if such further use is consistent with the requirements laid down by SIX Swiss Exchange and SIX Exfeed**

**It must be examined whether prior approval has been duly obtained from SIX Exfeed Ltd., whether the market data fees have been paid and whether the participant has duly signed a data delivery agreement, a Data Distribution Agreement (DDA) and/or a Non Display Information Usage Agreement (NDIU) with SIX Exfeed Ltd. regarding the use of market data of SIX Swiss Exchange.**

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## Appendix: Audit procedures

### 1. Preliminary remarks

This appendix is intended for independent auditors and internal auditors (hereinafter referred to solely as the "auditors"). The purpose of this appendix is to define the audit procedures and methodology applicable to SIX Exchange Regulation Ltd participant audits, in order to allow auditors to perform the required audit in accordance with the audit standards laid down in the FINMA-AO and in FINMA-Circular 2013/3 "Auditing" (margin nos. 35 to 43).

### 2. Risk analysis

The auditors must prepare a risk analysis for each SIX Swiss Exchange participant to be audited, which must be tailored to the scope of the audit required by SIX Exchange Regulation Ltd. The risk analysis is an independent assessment of the participant's risk situation, in which the auditors indicate, from their perspective, the risks to which the participant is exposed.

### 3. Audit strategy / planning

The audit strategy determines the depth of audit required for each point to be examined in relation to the participant. The auditors must prepare an audit plan based on the audit strategy defined.

It is therefore important that the auditors acquire an adequate understanding of the internal organization and business activities that are relevant to trading on SIX Swiss Exchange. For this purpose, the auditors should, as a minimum, familiarize themselves with the participant's organization, the strategies and products traded, applicable internal rules and regulations, the IT set-up and internal controls, as they relate to trading on SIX Swiss Exchange, as well as compliance issues. Auditors are also advised to ask the participant about any incidents (e.g. proceedings) that took place in connection with trading on SIX Swiss Exchange during the reporting year.

Samples shall be taken from all markets as per chapter II section 2 Guidelines „Trading Parameters“ SIX Swiss Exchange Ltd., in which the participants is active on SIX Swiss Exchange. These are the following markets: Equity Market, Fund Market, Bond Market, Structured Products Market, and Market for "Other Financial Products". This concerns the following examination points:

- examination point 6: Reporting obligation I: Trade Report
- examination point 7: Reporting obligation II: Transaction Report
- examination point 8: Time of execution
- examination point 9: Designation

The samples shall be taken from every quarter in which the participants was active in a relevant market. The sample size must be determined by professional judgment of the auditor based on the market volume in the audited market.

### 4. Audit depth

The audit depth is determined on the basis of the audit strategy. Two audit depths are defined:

#### **Audit:**

In conducting an *audit*, the auditors are required to obtain a comprehensive overview of the matters to be audited and provide a clear opinion as to the extent of compliance with regulatory rules ("positive assurance").

*Example: The auditors confirm compliance with the reporting obligations.*

**Critical assessment:**

In conducting a *critical assessment*, the auditors obtain an adequate overview of the matters to be audited. The auditors state in writing that in the course of undertaking their auditing work (inspection of documents, interviews, etc.) nothing came to their attention which would indicate non-compliance with regulatory rules ("negative assurance").

*Example: The auditors confirm that, in the course of their critical assessment, nothing came to their attention that suggested non-compliance with the market information rules.*

**5. Reports**

The format of the report is defined by SIX Exchange Regulation Ltd and must be strictly adhered to by auditors. The report includes the following elements:

- Summary of the audit results (notice of reservations for the reporting year / prior year; summary of material findings)
- Statements of the auditors regarding compliance with selected provisions of the rules and regulations of SIX Swiss Exchange
- Statement of the auditors on any other auditing work carried out for the organization concerned on the instructions of SIX Exchange Regulation Ltd
- Additional information

Notices of reservation in the audit report are basically necessary if there has been a systematic misconduct with regard to the rules and regulations of SIX Swiss Exchange. Findings of less importance, i.e. irregularities detected in isolated cases, should be mentioned under section 1.3 "Summary of important findings" of the report.

In making its various statements, the auditors must record the audit depth applied as well as its audit findings. The audit depth applied will determine the way in which the assurance is worded.

A template (sample report) is available on the SIX Exchange Regulation Ltd website. The template provides the format of the report and includes selected comments.

The report must be signed by the lead auditor.