

# Guidelines: Audit of participants

SIX Exchange Regulation Ltd

June 2021

**TABLE OF CONTENTS**

<b>A.</b>	<b>Background information.....</b>	<b>3</b>
<b>B.</b>	<b>Appointed auditors.....</b>	<b>3</b>
<b>C.</b>	<b>Report and timing of submission.....</b>	<b>3</b>
<b>D.</b>	<b>Audit costs.....</b>	<b>3</b>
<b>E.</b>	<b>Audits.....</b>	<b>3</b>
<b>F.</b>	<b>Simultaneous Participation on SDX Trading and SIX Swiss Exchange.....</b>	<b>4</b>
<b>G.</b>	<b>Contact details for SIX Exchange Regulation.....</b>	<b>4</b>
<b>H.</b>	<b>Examination points.....</b>	<b>4</b>
1.	Access to the Exchange System.....	5
2.	Trader substitutions.....	5
3.	Market conduct.....	5
4.	Algorithmic trading.....	6
5.	Reporting obligation: Transaction Report.....	6
6.	Market information.....	6
	Appendix: Audit procedures.....	8
1.	Preliminary remarks.....	8
2.	Risk analysis.....	8
3.	Audit strategy / planning.....	8
4.	Audit depth.....	8
5.	Reports.....	8

## **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 17 of the Rule Book of SDX Trading Ltd ("SDX Trading") all participants of SDX Trading 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 ("SIX Exchange Regulation") 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 by the end of March of each year.

In special circumstances, SIX Exchange Regulation may also require participants at any time to have certain procedures and transactions reviewed with regard to their conformity with the SDX Trading Rule Book and to submit a summary report of this audit to SIX Exchange Regulation (see section 17 (2) SDX Trading Rule Book).

## **B. APPOINTED AUDITORS**

A recognized firm of auditors for the purposes of section 17 (1) of the SDX Trading Rule Book means a firm of auditors which has been authorized to audit banks and financial firms and/or securities firms, 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 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. G "Contact Details for SIX Exchange Regulation".

## **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 (address provided in lit. G "Contact Details for SIX Exchange Regulation"). 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 prior to the deadline. SIX Exchange Regulation 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 17 (5) SDX Trading Rule Book).

## **E. AUDITS**

The auditing work carried out for the purposes of the SIX Exchange Regulation 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. SIMULTANEOUS PARTICIPATION ON SDX TRADING AND SIX SWISS EXCHANGE**

Participants of SDX Trading, which are simultaneously participants of SIX Swiss Exchange Ltd («SIX Swiss Exchange») can submit a consolidated audit report with the same audit frequency, covering all examination points in the scope of the audit of participants of SIX Swiss Exchange as well as all examination points in the scope of the audit of participants of SDX Trading.

The audit frequency (yearly, every two years or every three years) regarding the audit of participants of SDX Trading, thereby, is also based on the risk class allocation made within the audit of participants of SIX Swiss Exchange. New participants of SDX Trading, which are not simultaneously participants of SIX Swiss Exchange, are required to submit an audit report annually at least until the next risk allocation. Thereafter, it depends on the risk class allocation whether an audit report must be submitted annually.

## **G. CONTACT DETAILS FOR SIX EXCHANGE REGULATION**

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

SIX Exchange Regulation 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 Ltd, 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.

## **H. EXAMINATION POINTS**

The following matters must be audited, as laid down in the rules and guidelines of SDX Trading:

- Access to the Exchange System
- Trader substitutions
- Market conduct
- Algorithmic trading
- Reporting obligation: Transaction Report
- Market information

SIX Exchange Regulation 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's website by 30 June.

## 1. Access to the Exchange System

*Basis:*

- Section 4.3.1 (1) (d) of the SDX Trading Rule Book
- Section 4.3.2 of the SDX Trading Rule Book
- SDX Trading Directive 1 "Admission of Participants"

Participants are required to register all traders who trade on the Exchange with SDX Trading.

SDX Trading assigns a personal identification number to each registered trader. The Exchange System records all system entries together with the identification number of the respective trader. 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 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 SDX Trading 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. Market conduct

*Basis:*

- Art. 143 FMIA
- FINMA Circular 2013/8 "Market conduct rules"
- Section 9.1 of the SDX Trading Rule Book

The participant as well as its traders 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.**

#### 4. Algorithmic trading

*Basis:*

- Art. 31 of the Financial Market Infrastructure Ordinance (FMIO)
- FINMA Circular 2013/8 "Market conduct rules"
- Section 10.4 of the SDX Trading Rule Book
- Directive 3 „Trading“ of SDX Trading

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.**

#### 5. Reporting obligation: Transaction Report

*Basis:*

- Art. 39 FMIA
- Art. 37 FMIO
- Art. 2-5 FMIA-FINMA
- FINMA Circular 2018/2 „Duty to report securities transactions“
- Section 4.4 of the SDX Trading Rule Book
- Section 11 of the SDX Trading Rule Book
- Reporting Office Rules of SDX Trading

Participants must report all of the information necessary for transparent securities trading as per art. 39 FMIA in connection with art. 37 FMIO, art. 2-5 FMIO-FINMA and FINMA Circular 2018/2 "Duty to report 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 7.2 Reporting Office Rules of SDX Trading 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.**

#### 6. Market information

*Basis:*

- Section 12 of the SDX Trading Rule Book
- SDX Trading Directive 5 "Market Information" of SDX Trading
- 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 Ltd ("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 SDX Trading and SIX Exfeed**

**It must be examined whether prior approval has been duly obtained from SIX Exfeed, 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 regarding the use of market data of SDX Trading.**

Nothing contained in this document shall be construed as creating any obligation of any kind on the part of SIX Group Ltd or any companies associated with SIX Group Ltd (hereinafter referred to as SIX Group Ltd) and may be altered by SIX Group Ltd at any time without further notice. To the extent permitted by law, SIX Group Ltd accepts no liability whatsoever for any errors contained in this document. SIX Group Ltd is under no obligation whatsoever to draw attention to such errors. Technical documentation must be used only in conjunction with the correct software version and may be used and copied only in accordance with the terms of the license. All software described in the technical documentation is supplied on the basis of a license agreement and may be used or copied only in accordance with the terms of the said license agreement.

© Copyright SIX Group Ltd, 06. 2021. All rights reserved. All trademarks observed.

## 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 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 SDX Trading participant to be audited, which must be tailored to the scope of the audit required by SIX Exchange Regulation. 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 SDX Trading. 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 setup and internal controls, as they relate to trading on SDX Trading, 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 SDX Trading during the reporting year.

### 4. Audit depth

The audit depth is determined on the basis of the audit strategy. Two audit approaches 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 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

- Statements of the auditors regarding compliance with selected provisions of the rules and regulations of SDX Trading
- Statement of the auditors on any other auditing work carried out for the organization concerned on the instructions of SIX Exchange Regulation
- 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 SDX Trading. 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 website. The template provides the format of the report and includes selected comments.

The report must be signed by the lead auditor.