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CHAPTER VI

MISCELLANEOUS

38. INVESTOR (CLIENT) PROTECTION FUND

1. REVISED THRESHOLD LIMIT[1]

The compensation paid in respect of claims against each Defaulter member shall not exceed Rs.2,00,00,000/- (Rupees Two Crores only) or any other amount as may be determined by the Exchange, from time to time, with the prior approval of the Forward Markets Commission.

[2][39. TESTING OF SOFTWARE USED IN OR RELATED TO TRADING AND RISK MANAGEMENT

***"Testing of software used in or related to Trading and Risk Management"**, approval process for CTCL/IBT/WT/ATF facility (hereinafter referred as 'CTCL Software') has been modified as specified herein after. The revised approval process will be applicable to members applying for CTCL facility of empanelled ISVs software and / or in-house developed software.*

Categorization of CTCL Software
CTCL software is classified in the following two categories:

Category I:

a) *Empanelled ISV's 'CTCL software' that has already been tested in the Exchange's mock environment by at least 10 Trading Members or*
b) *Changes / updates in the CTCL software that intends to modify the 'look and feel' and do not affect the risk management system of the member or the connectivity of the software with the Exchange's trading system.*

Category II:

a) *In-House developed CTCL software / CTCL software developed or procured from non- empanelled ISV*
   Or
   Empanelled ISV's 'CTCL software' that has been tested in the Exchange's mock environment by less than 10 Trading Members.

b) *Any changes/modifications in the approved 'CTCL software' other than that is specified in Category I.*

[1] Inserted as per Exchange Circular No. MCX/IPF/086/2015 dated 20/3/2015
[2] Inserted vide Exchange Circular Ref. MCX/CTCL/080/2016 dated 21/03/2016 (Ref. SEBI Circular Ref. CIR/CDMRD/DEICE/03/2015 dated 11/12/2015.

Revised Approval Process for CTCL Software

1. *Documentation*

   Apart from existing documentation (Refer Annexure-6 of Annexure XXXIV) required to be submitted for respective 'CTCL software' application, the Member will be required to give an additional Undertaking to the Exchange as per format specified in Annexure-1 of Annexure XXXIV, Application form as specified in Annexure-3 of Annexure XXXIV (only for modification of existing approved CTCL Software), System Audit Report and System Audit Certificate (Annexure-4 and Annexure-5 of Annexure XXXIV).

   Testing, Mock Participation, System Audit and Demonstration requirements for CTCL Software

Requirements	*Category I*	*Category II*
Testing of CTCL Software	*No*	*Yes*
Mock Trading Participation	*No*	*Yes*
System Audit *a) Audit Report (Annexure-4 of Annexure XXXIV)* *b) Audit Certificate (Annexure-5 of Annexure XXXIV)*	 *No* *Yes*	 *Yes* *Yes*
Demonstration of the software	*Yes*	*Yes*

2. *Testing of CTCL Software*

   The member will have to test the software on the test environment provided by the Exchange before putting into use and testing is mandatory for all the applications falling under category-II. The member should ensure that the software meets the minimum requirements outlined in Annexure-2 of Annexure XXXIV. 'Testing' shall include but not limited to, unit testing, functional testing (both integration and regression testing), non-functional testing, and acceptance testing. Functional testing must include all applicable pre-trade risk controls, post-trade reports and other measures and system safeguards. Non-functional testing must include testing under stressed market conditions. For the purpose of testing in Exchange Test environment a User Id on the test environment should be requested from the Exchange.

3. *Mock Trading Participation*

   The testing of software shall also include successful participation by member in at least one Mock Trading session conducted by the Exchange. It may also be noted that for any testing of software in Mock trading session prior to approval, the Exchange requires the participation by member in the Mock trading session which is mandatory for Algo User Ids participation.

4. *System Audit*

Trading members seeking approval for new/modified CTCL software shall be required to engage system auditor(s) to examine reports of tests performed in test environment, mock participation, UAT (User Acceptance Test) and to certify that the tests were satisfactorily undertaken. Trading members are required to submit the original copy of the report / certificate of the system audit conducted of their software and system to the Exchange along with the application to the Exchange at the time of seeking approval for the software. Members should ensure that the audit report / certificate submitted by them is strictly in accordance with the formats specified. Any deviation in the format of the report would lead to rejection of submission. The system audit report should be on the letter head of the system auditor. It may be noted that all the pages of the System Audit Report / certificate should be duly stamped and signed by the system auditor. The system audit report / certificate must contain the name and registration number of system auditor along with their stamp, place and date at the end of report. The system auditor should categorically certify in the report about absence of conflict of interest as given in System Audit Report format.

The system audit to be conducted by a system auditor who possess at least one of the following certifications:

a) *CISA (Certified Information System Auditors) from ISACA*
b) *DISA (Post Qualification Certification in Information Systems Audit) from Institute of Chartered Accountants of India (ICAI)*
c) *CISM (Certified Information Securities Manager) from ISACA*
d) *CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC)*

The system audit charges shall be negotiated and paid directly by the member to the system auditor.

5. *Demonstration*

The Exchange may require the demonstration of the software before granting an approval. Member shall arrange to provide demonstration of the software after taking a prior appointment.

After successful demonstration of the software and on being satisfied with the documents submitted by the member, the Exchange may grant permission to Member for the usage of 'CTCL Software' or any part thereof.

Member shall deploy the CTCL software in Live Environment only after complying with all requirements of the Exchange as contained herein and after receiving formal approval from the Exchange.

The approval procedure shall be applicable for first time approval to member and for vendor change for their respective 'CTCL Software'. Members already approved by the Exchange for respective 'CTCL Software' will not be required to submit system audit report while applying for additional User ID for using same software.

6. *Penalty for the Malfunctioning of software*

   The Exchange will examine the cases of malfunctioning of CTCL Software used by trading members and apply deterrent penalties in form of fines or suspension on the trading member for software malfunctions in accordance with Rules, Bye-Laws and Business Rules of the Exchange.

7. *Applicability*

   7.1. This Circular shall be effective from April 01, 2016 for members opting for the CTCL facility for the first time.

   7.2. Members who are currently availing the 'CTCL Facility' shall submit an Undertaking in the format given in Annexure-1 of Annexure XXXIV latest by April 30, 2016 and shall ensure compliance.

   7.3. ***Members may also note that it will be mandatory for members to participate in periodic mock trading sessions conducted by the Exchange using all User Ids approved for Algo trading on an ongoing basis, irrespective of the algorithm having undergone change or not. The details of such participation have to be covered in the periodic system audit report. In case the member fails to participate in such mock trading sessions, the Exchange shall call for reasons for non-participation and if the reason is found to be unsatisfactory, the Exchange shall suspend the proprietary trading rights of the member for a minimum period of one trading day***]