



**nairobi
securities
exchange**
Discover Opportunity

Internal Control Guidelines for Clearing and Trading Members

ADEQUACY OF SYSTEMS

1. Introduction

- 1.1 In accordance with the Rules, a Member must ensure that its systems and connections to the Markets operate properly, and have adequate and scalable capacity to accommodate trading volume levels.
- 1.2 A Member Firm must, to ensure compliance with these guidelines and with the Rules, at all times have:
 - i. Adequate trade execution, recording, reporting and clearing and settlement procedures and systems and, if relevant, order and quote management procedures and systems;
 - ii. Sufficient staff with adequate knowledge, experience, training and competence;
 - iii. Adequate internal procedures and controls; and
 - iv. One or more compliance officers who shall be identified to the Exchange and be competent to advise the Member Firm and its employees on the application of these guidelines and the Rules.

2. Planning and Assessment Programs to Ensure Adequacy

- 2.1 In ensuring the adequacy of systems and connections to the Markets, Members should establish comprehensive planning and assessment programs to test system operation, capacity and security. Members should also have in place arrangements for the employment of appropriate technical expertise to maintain and operate systems and connections to the Markets.
- 2.2 The scope of such programs should cover:
 - i. The establishment of capacity estimates for systems performing automated order routing, execution and market data functions. Such estimates should be based on a suitably long look-back period and historical activity;
 - ii. Assurance that the system and its functions, including risk controls and error-prevention alerts, have been tested in accordance with prudent business practices before use and following any material change;
 - iii. Periodically conducting capacity stress tests to determine the behaviour of automated systems under a variety of simulated conditions;
 - iv. Seeking on a periodic basis the assessment of independent reviewers with regard to whether Members' systems are performing adequately and whether these systems have adequate security. Such independent reviewers may be any persons not involved in the operation of Members' systems who have sufficient technical expertise; and
 - v. Implementation of policies for the hiring and training of qualified technical personnel.

2.3 The programs described in paragraph 2.2 may be established under outsourcing arrangements where appropriate. Members continue to be responsible for ensuring that the respective requirements are adequately met under the outsourcing arrangements.

3. Audit Trails and Records

3.1 Introduction

3.1.1 In accordance with the Rules, a Member is required to maintain complete and accurate records and audit trails to evidence compliance with the Rules, and in accordance with the requirements in the Act and the Regulations

3.2 Storage of Audit Trail Data

3.2.1 The Member should keep data and records such that they are easily retrievable by authorised personnel and are stored securely such that no tampering occurs. Backups of records must be kept at a location separate from the original records.

3.2.2 The Member must check data and records for quality and accuracy on an on-going basis and correct any quality or accuracy defects detected.

3.2.3 The following are examples of proper procedures in maintaining records and audit trails:

a) For electronic storage of audit trail data:

- i. The Member is able to store or download the data in a format that is readable by the Exchange;
- ii. The Member is able to print out the data in hard copies;
- iii. The Member has proper back-up controls for its data and records; and

b) For non-electronic storage of audit trail data, the Member has paper records showing all the actions of an order (from the point the order is entered) and the respective times and dates, and there are paper records to reflect the print time and date.

4. Audit Trail of Transactions

4.1 A Member shall produce to the Exchange, if asked, a complete audit trail of transactions, from the receipt of an order to its settlement. Unless otherwise required by the Exchange, for trades and orders which occurred within the 6 month period immediately before the request, the records must be provided to the Exchange immediately, and for trades and orders which occurred more than 6 months prior to the request, the records must be provided to the Exchange no later than two business days from the date of request.

5. Disciplinary Guidelines

5.1 Where the Exchange has reason to believe that a Member Firm is not conducting, or may not conduct, its operations in a business-like manner, and that requirements or restrictions are reasonably necessary to ensure that it does so, the Exchange may at any time:

- i. Suspend, either in part or in full, a Member Firm's membership of the Exchange's Derivatives Market or its access to any of the Exchange's services;
- ii. Impose on the Member Firm requirements relating to the Member Firm's level of staffing, training, internal procedures and controls or any other matter relevant to the continuing suitability of the Member Firm; or
- iii. Restrict the scope of business conducted on the Exchange's Derivatives Market by the Member Firm.

5.2 A Member Firm shall notify the Exchange immediately of any matter that is material to the Member Firm's suitability as a Member Firm.

5.3 Such matters shall include, but are not limited to:

- i. The presentation of a petition for the winding up of the Member Firm or of a company which is a subsidiary or holding company of the Member Firm;
- ii. The appointment of a receiver, administrator or trustee of the Member Firm;
- iii. The making of a composition or arrangement with creditors of the Member Firm;
- iv. Where the Member Firm is a partnership, an application or the giving of notice to dissolve the partnership;
- v. The imposition of disciplinary measures or sanctions on the Member Firm or any employee by any statutory, professional or other body exercising a regulatory or disciplinary jurisdiction, whether within the Kenya or elsewhere;
- vi. An event equivalent to those identified in (i) to (v) above under overseas legislation; and
- vii. Any material change to any matter previously notified to the Exchange that is pertinent to the Exchange's consideration of a Member Firm's authorization.