

National Stock Exchange Of India Limited**Department : MEMBER SERVICE DEPARTMENT**

Download Ref No: NSE/MSD/41332

Date : June 17, 2019

Circular Ref. No: 23/2019

All Members,

Sub: Non Neat Systems - Operational Guidelines for approval of Non NEAT Front End (NNF) software for Members

NSE offers a facility to its trading members by which members can use their own trading front-end software in order to trade on the NSE trading system. This software may be developed either by in-house teams/non-empanelled vendors or procured through Exchange Empanelled Vendors. A member may also opt to avail the services provided by Application Service Providers (ASPs) empanelled with the Exchange for providing such services. This facility referred to as 'Non NEAT Front End' (NNF facility) is available to all members of the Exchange.

The term 'Software' shall mean electronic systems or applications used by trading members for connecting to the Exchange and for the purposes of trading and real-time risk management, including software used for Computer to Computer Link (CTCL), Internet Based Trading (IBT), Securities Trading through Wireless Technologies (STWT), Direct Market Access (DMA), Smart Order Routing (SOR), Algorithmic Trading (AT), etc.

- Computer to Computer Link (CTCL) - Members can use their own software running on any suitable hardware/software platform of their choice. This software will be a replacement of the NEAT front-end software that is currently used by members to trade on the NSE trading system. The dealers of the member may trade using the software, through the member's own private network, subject to approvals from Department of Telecommunication etc. as may be required in this regard.
- Internet Based Trading (IBT) including Securities Trading through Wireless Technologies (STWT) - Internet based trading can take place through order routing systems, which will route client orders, to exchange trading systems, for execution of trades on the existing stock exchanges. Securities Trading using Wireless technology shall include devices such as mobile phone, laptop with data card, etc, that use Internet Protocol (IP).
- Direct Market Access (DMA) - Direct Market Access (DMA) is a facility which allows brokers to offer clients direct access to the exchange trading system through the broker's infrastructure without manual intervention by the broker.
- Smart Order Routing (SOR) - Smart Order Routing allows the brokers trading engines to systematically choose the execution destination based on factors viz. price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.
- Algorithmic Trading (AT) - Any order that is generated using automated execution logic shall be known as algorithmic trading.

In our continuous endeavor to facilitate members, the comprehensive operational guidelines with respect to NNF software approval are being provided in this circular. The relevant existing SEBI/NSE circulars and communications issued from time to time shall continue to be applicable.

Members shall apply to the Exchange in the prescribed formats. Exchange shall consider only those applications that are complete in all respect. It may be noted that the approval granted by the Exchange to the NNF software do not, in any manner, represent or warrant that the said software shall be free of any error, omission, defect, bugs, shortcoming or limitation of any nature whatsoever. The Member is solely responsible for ensuring that the NNF software does not result in any market

abruptions, aberrations or disturbs/affects the integrity of the market / sanctity of price discovery mechanism. Further, the Member shall be solely liable for all/any dysfunctional, erroneous or disorderly functioning of the NNF software and for the consequences arising out of such functioning and the Exchange shall not be responsible for any consequences arising out of such functioning of the NNF software. The Member shall at all times ensure that the NNF software shall not be used for any purpose that is contrary to applicable Circulars, Byelaws, Rules and Regulations of the Exchange and/or SEBI.

This circular shall be effective immediately and shall supersede all previous NSE circulars albeit only to the extent of approval process and its related forms/formats. For the convenience of members applications received till EOD of June 18, 2019, shall continue to be processed as per the existing practice. Applications received thereafter shall be considered only as per the new formats. Existing applicants may also opt for the revised process by providing documents in the new formats.

**For and on behalf of
National Stock Exchange of India Limited**

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Operational guidelines for members developing software in-house/non-empanelled vendors

1. Members wishing to avail of the Non Neat Front-End (NNF) facility are required to submit an undertaking stating that they will abide by all the conditions and / or requirements mentioned in the comprehensive scheme governing use of facility relating to NNF. List of documents to be submitted through the online portal ENIT and through physical copy is enclosed:

List of documents	Annexure
Format of the Initial Undertaking to be given by the members applying for NNF facility	Annexure I
Comprehensive scheme governing use of facility relating to Non Neat Front-End (NNF)	Annexure II
Checklist of documents to be submitted along with the initial undertaking	Annexure III
Notarized Network Diagram	-

2. Members developing the NNF software through in-house teams / procuring software from non-empanelled vendors, shall seek In-house registration by applying to the Exchange as per Annexure IV. A one-time charge of Rs.1,50,000 and annual charge of Rs.50,000 (recurring charges) + applicable taxes shall be payable at the time of application.
3. In case of new software/systems of CTCL, AT, IBT, STWT, DMA or SOR developed in-house /non-empanelled vendors, member shall submit a one-time system audit report in the prescribed format. In this report, the system auditor shall cover the following areas of audit and submit their findings:
 - a. Risk Management
 - b. Security Policy and implementation
 - c. Capacity Management
 - d. Disaster Recovery and Backups
 - e. Vulnerability Test

The format of the System auditor report is enclosed as Annexure A. This report may be submitted along with the application for NNF product approval.

4. Members seeking approval for new software/systems of CTCL, AT, IBT, STWT or DMA shall provide the following documents through the online portal ENIT (for SOR, member shall submit the application in physical form as per circular download No: NSE/CMTR/17073 dated February 24, 2011 along with below mentioned documents) :
 - Product brief including write up on Risk Management Systems.
 - Network diagram
 - Auditor's certificate – in this report, the auditor shall inter alia certify satisfactory test undertaken in User Acceptance Test (UAT) at Member end, Exchange Test Environment and Mock Testing (or Simulated, as applicable). The format is enclosed as Annexure B1
 - Auditor's certificate – in this report, the auditor shall duly certify that software to be used by trading members for connecting to the stock exchanges and for the purposes of trading and real-time risk management, is in compliance with the various SEBI/Exchange circulars relevant at the time of application, more specifically with respect to Order Management, Systems and Network, Access and Security controls, Cyber Security & Cyber Resilience framework and Risk checks. This format is enclosed as Annexure B2.
5. Members seeking approval for modified software/systems of CTCL, AT, IBT, STWT or DMA shall provide the following documents through the online portal ENIT (for SOR, member shall submit the application in physical form along with below mentioned documents) :
 - Auditor's certificate (Annexure B1)
 - No change letter (Annexure D)

Operational guidelines for members procuring software from Exchange empanelled vendors

1. Members wishing to avail of the Non Neat Front-End (NNF) facility are required to submit an undertaking stating that they will abide by all the conditions and / or requirements mentioned in the comprehensive scheme governing use of facility relating to NNF. List of documents to be submitted through the online portal ENIT and through physical copy is enclosed:

List of documents	Annexure
Format of the Initial Undertaking to be given by the members applying for NNF facility	Annexure I
Comprehensive scheme governing use of facility relating to Non Neat Front-End (NNF)	Annexure II
Checklist of documents to be submitted along with the initial undertaking	Annexure III
Notarized Network Diagram	-

2. In case of new software/systems of CTCL, AT, IBT, STWT, DMA or SOR procured through Exchange empanelled vendors, member shall submit a one-time system audit report in the prescribed format. In this report, the system auditor shall cover the following areas of audit and submit his findings:
 - a. Risk Management
 - b. Security Policy and implementation
 - c. Capacity Management
 - d. Disaster Recovery and Backups
 - e. Vulnerability Test

The format of the System auditor report is enclosed as Annexure A. This report may be submitted along with the application for NNF product approval.

3. Members seeking approval for new software/systems of CTCL, AT, IBT, STWT or DMA shall provide the following documents through the online portal ENIT (for SOR, member shall submit the application in physical form as per circular download No: NSE/CMTR/17073 dated February 24, 2011 along with below mentioned documents) :
 - Auditor's certificate – in this report, the auditor shall inter alia certify satisfactory test undertaken in User Acceptance Test (UAT) at Member end, Exchange Test Environment and Mock Testing (or Simulated, as applicable). The format is enclosed as Annexure B1
 - Network diagram
 - Vendor confirmation letter (Annexure E to be provided only in case of AT)
4. Members seeking approval for modified software/systems of CTCL, AT, IBT, STWT or DMA shall provide the following documents through the online portal ENIT (for SOR, member shall submit the application in physical form along with below mentioned documents) :
 - Auditor's certificate (Annexure B1)
 - Vendor confirmation letter (Annexure E to be provided only in case of AT)

Operational guidelines for Members availing the services provided by Application Service Providers (ASPs)

- Members wishing to avail of the Non Neat Front-End (NNF) facility are required to submit an undertaking stating that they will abide by all the conditions and / or requirements mentioned in the comprehensive scheme governing use of facility relating to NNF. List of documents to be submitted is enclosed:

List of documents	Annexure
Format of the Initial Undertaking to be given by the members applying for NNF facility provided by ASP	Annexure V
Comprehensive scheme governing use of facility relating to Non Neat Front-End (NNF)	Annexure II
Checklist of documents to be submitted along with the initial undertaking	Annexure III
Notarized Network Diagram	-

- Members seeking approval for software/systems provided by ASP shall submit the following documents :

List of documents	Annexure
Application form for availing CTCL using ASP	Annexure VI
Agreement letter executed between ASP & member for availing CTCL using ASP	Annexure VII
Application form for availing IBT using ASP	Annexure VIII
Agreement letter executed between ASP & member for availing IBT using ASP	Annexure IX
Application form for availing STWT using ASP	Annexure X
Agreement letter executed between ASP & member	Annexure XI
Service provider agreement between Member & ASP (to be submitted to ASP)	Annexure XII
NCFM certificates for IBT (2 per segment)	-

List of Annexures

Sr. No.	Subject	Annexure
1.	Format of the Initial Undertaking to be given by the members applying for NNF facility developed in-house or procured from empanelled vendor	I
2.	Comprehensive scheme governing use of facility relating to Non Neat Front-End (NNF)	II
3.	Checklist of documents to be submitted along with the initial undertaking	III
4.	In-house registration form	IV
5.	Format of the Initial Undertaking to be given by the members applying for NNF facility provided by ASP	V
6.	Application form for availing CTCL using ASP	VI
7.	Agreement letter executed between ASP & member for availing CTCL using ASP	VII
8.	Application form for availing IBT using ASP	VIII
9.	Agreement letter executed between ASP & member for availing IBT using ASP	IX
10.	Application form for availing STWT using ASP	X
11.	Agreement letter executed between ASP & member for availing STWT using ASP	XI
12.	Service provider agreement between Member & ASP	XII
13.	Auditor's report	A
14.	Auditor's certificate	B1
15.	Auditor's certificate	B2
16.	Auditor Selection Norms	C
17.	No change letter	D
18.	Vendor confirmation letter	E