Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra East, Mumbai – 400 051
held on June 19, 2023

In the matter of the Trading Member – M/s. Axis Securities Limited

CORAM:

Ms Mona Bhide	-	Chairperson
Mr S Ravindran	-	Committee Member
Mr Ranganayakulu Jagarlamudi	-	Committee Member
Mr Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT:

Ms Priya Subbaraman	-	Chief Regulatory Officer
Dr Dinesh Kumar Soni	-	Senior Vice President – Regulatory
Ms Renu Bhandari	-	Vice President – Inspection
Mr Janardhan Gujaran	-	Vice President – Enforcement
Mr Shailesh Adukia	-	Vice President – Enforcement

BACKGROUND

1. **M/s. Axis Securities Limited ("Axis")** is a Trading Member registered with the National Stock Exchange of India Limited **("Exchange"/"NSEIL")** and enabled for trading in the Capital Market **("CM")** and Futures & Options **("F&O")** segments since April 2007 and Currency Derivatives **("CD")** segment since November 2008.

2. The Exchange vide circular ref. no. NSE/COMP/54876 dated December 16, 2022, on framework to address 'technical glitches', mandates the Members to inform the Exchange in case any technical issues are encountered for a period of five minutes (5 minutes) or more.

3. As per the requirements of the circular, Members are required to intimate the Exchange about the glitch in the prescribed formats as under:

   3.1. inform the technical glitch to stock exchanges immediately but not later than 1 hour from the time of occurrence of the glitch.

3.2. submit a Preliminary Incident Report to the Exchange within T+1 day of the incident ('T' being the date of the incident). The report shall include the date and time of the incident, details of the incident, the effect of the incident, and immediate action taken to rectify the problem.

3.3. submit a Root Cause Analysis (RCA) Report of the technical glitch to the stock exchange, within 14 days from the date of the incident. The RCA report, for all technical glitch incidents greater than 45 minutes, shall also be verified by an independent auditor appointed by the Member.

4. Axis reported three (3) technical glitches in the month of April 2023 as per the table given below:

Sr. No.	Date and time of Incident (T Day)	Incident description as reported by Axis	Time of Intimation to the Exchange	Date of Submission of Preliminary Incident Report (T + 1Day Report)	Date of Submission of RCA (T+14)
1	April 6, 2023; 11:33 AM	Software Issue - Issue observed in order selling from DP	5:47 PM	April 27, 2023	April 27, 2023
2	April 17, 2023; 9:15 AM	Software Issue-Over the weekend, Axis had a TCS system migration to 600K. In the initial hours of Monday i.e., 17th April, between 9:15 and 9:49 am, intermittent issues observed with Broadcast and buy/sell orders in TWS terminal. Clients were unable to place buy and sell orders intermittently.	10:19 AM	April 19, 2023	April 28, 2023
3	April 18, 2023. 9:15 AM	Software Issue-Over the weekend, Axis had a TCS system migration to 600K. Intermittent issues observed with Broadcast and buy/sell orders in TWS terminal. Clients were unable to place buy and sell orders intermittently.	10:02 AM	April 19, 2023	May 2, 2023

5. The Exchange observed non-compliance on the part of Axis pursuant to Exchange circular ref. no. NSE/COMP/54876 dated December 16, 2022, on framework to address 'technical glitches'.

6. Pursuant to such technical glitches, the Exchange issued a Show-Cause Notice dated May 17, 2023 **("SCN")**, to Axis seeking an explanation for the non-compliance observed with the regulatory provisions. Axis, vide its letter dated June 6, 2023, responded to the SCN.

OBSERVATIONS/ALLEGED VIOLATIONS

7. The observations/violations mentioned in the SCN issued by the Exchange, are summarized hereunder:

   7.1. Non-adherence to the timeline and format of reporting prescribed by the circular for incidents of the technical glitch encountered in the month of April 2023.

   7.2. Failure to implement the necessary software testing and change management process which in turn caused the technical glitches.

REGULATORY PROVISIONS

8. At the outset, it is appropriate to refer to the relevant regulatory provisions violated by Axis; extracts of which are reproduced below:

   Exchange circular NSE/COMP/54876 dated December 16, 2022

   Annexure – A, Clause 2 requires as under:

   Reporting Requirements for Technical Glitch Incidents:

   All Members shall be required to report to the Exchange any technical glitches as under:

   i. All Members shall inform about the technical glitch to the stock exchanges immediately but not later than 1 hour from the time of occurrence of the glitch.

ii. Members shall submit a Preliminary Incident Report to the Exchange within T+1 day of the incident ('T' being the date of the incident). The report shall include the date and time of the incident, details of the incident, effect of the incident, and immediate action taken to rectify the problem.

iii. Members shall submit a Root Cause Analysis (RCA) Report of the technical glitch to the stock exchange, within 14 days from the date of the incident. The RCA report, for all technical glitch incidents greater than 45 minutes, shall also be verified by an independent auditor appointed by the Member."

Submission of all the above three reports shall be as per the format provided in 'Annexure B' of this circular.

Annexure A- clause 4 requires as under.

Software testing and change management:

i. Software applications are prone to updates/changes and hence, it is imperative for the Members to ensure that all software changes that are taking place in their applications are rigorously tested before they are used in production systems….."

PRESENT PROCEEDINGS BEFORE MCSGFC

9. The Exchange vide its email dated June 12, 2023, granted Axis an opportunity of a personal hearing before the Committee in its meeting dated June 19, 2023. On behalf of Axis, Mr. Pranav Haridasan, Managing Director, Mr. Prasannan Keshavan, Chief operating Officer, Ms. Mangalam Ganesh, Chief Technology Officer, Mr. Baiju Budhwani, Internal Control Officer and Mr. Jatin Sanghani, Compliance Officer attended the personal hearing and made the following oral submissions:

i. Axis reiterated its written submissions with respect to migration of its software. The said migration went live on April 14, 2023, for which it undertook a mock with the Exchange on April 15, 2023.
ii. As of April 17, 2023, there was a downtime of 34 minutes due to which the speed of placing the orders was reduced. Few changes of OS parameters were made on the same day for better optimization.
iii. On April 18, 2023, Axis noticed that its TCS app as well as the website was not functioning properly. However, the offline dealing set up was working properly. 82% to 85% of the clients were satisfied in terms of client

engagement. 20 complaints were received from the clients, out of which 8 complaints were received by the Exchange itself. With respect to the said complaints, the arbitration went in the favour of Axis since there were alternative channels for the clients to place the order.

CONSIDERATION AND FINDINGS

10. The observations/violations, reply of Axis, and the findings of the Committee are as under:

10.1. Axis has not adhered to the timeline and format of reporting prescribed by the circular issued for incidents of the technical glitches encountered in the month of April 2023 as per the details given below:

10.1.1. Technical Glitch as of April 06, 2023

a. Observations in T day's intimation of the incident

i. Axis reported the glitch at 5:47 PM, the reporting was delayed for more than 6 hours.
ii. Axis failed to report the incident details as per the prescribed format.
iii. Exchange vide email dated April 10, 2023, informed Axis on specific requirements as per the circular, however, Axis has failed to respond.
iv. Axis has failed to provide the required information to the Exchange on intimation to clients on technical glitch.

b. Observations in Preliminary Incident Report

i. Axis failed to submit the Preliminary Incident Report within the prescribed timeline i.e., delayed by 19 days.
ii. Axis failed to provide the required information on Business impact, available alternate channels, and continuity of operation from the Disaster Recovery (DR) site.

c. Observations in RCA Report

i. Axis failed to submit the RCA Report within the prescribed timeline i.e., delayed by 6 days.

ii. Axis failed to provide the required information on Business impact, Clients' complaints, and architecture diagram.

10.1.2. Technical Glitch as of April 17, 2023

a. Observations in T day's intimation of the incident

i. Axis reported the glitch at 10:19 am and thus, failed to intimate the incident within the prescribed timeline.
ii. Axis failed to report the incident details as per the prescribed format.
iii. Axis failed to provide the required information to the Exchange on intimation to clients on the technical glitch.

b. Observations in Preliminary Incident Report

i. Axis has failed to submit the Preliminary Incident Report within the prescribed timeline i.e., delayed by 1 day.
ii. Axis has failed to provide the required information on Business impact.

c. Observation in RCA Report

i. Axis failed to provide the required information on Business impact.

10.1.3. Technical Glitch as of April 18, 2023

a. Observation in T day's intimation of the incident

Axis failed to provide the required information to the Exchange on intimation to clients on the technical glitch.

b. Observation in Preliminary Incident Report

Axis failed to provide the required information on Business impact.

c. Observation in RCA Report

Axis failed to provide the required information on Business impact.

10.2. For the Technical glitches observed on April 17 and 18, 2023, Axis reported that the issue occurred post migration and upgradation of Axis's system. Thus, it is observed that Axis failed to implement necessary software testing and change management process which in turn caused the technical glitches.

10.3. In response to the SCN, Axis submitted as under:

10.3.1. Technical Glitch as of April 06, 2023

i. Delay in intimating the incident to the Exchange and failure to submit the incident report in the prescribed format

a) This was the first incident of technical glitch wherein the reporting format considered for submission was as per SEBI circular dated November 25, 2022. The reporting requirement was seeking more information.
b) The intimation was sent to the Exchange to a designated email id on April 6, 2023, at 5:47 pm. The reporting was delayed as Axis took considerable time for the analysis and internal procedural sign-off to submit the information which was required by the SEBI prescribed format. Being the first instance after introduction of the technical glitch framework, the T Day reporting was delayed from Axis's end.
c) However, Axis has submitted the revised Annexure B as prescribed by the Exchange for all the reporting i.e., T Day, T+1 Day, and T+14 Day.
d) Accordingly, it is requested to consider the aforesaid submission and pardon the instance of delay and incorrect format for reporting of a technical glitch.
e) As specified in the reporting, the issue was pertaining to the hold for clients who wanted to sell their holdings held through their demat accounts. Considering the assurance of its internal teams for resolution and to avoid panic situation among all the clients, it was contemplating of sending intimation to the clients/display of notification in the app. It could not ascertain the customer who intended to sell their holdings and issue was fixed in 34 minutes. As per assessment of Axis, the intimation in this case was not applicable.

ii. Observations in Preliminary Incident Report

a) Being the first incident of the technical glitches faced by the organization, there was a delay in collation and submission of the information in the prescribed format.
b) Upon receipt of the reminder email on April 27, 2023, at 11:51 am from the Exchange, Axis submitted the required report on the same day.
c) Regarding the details requested for Business impact, available alternate channels, and continuity of operation from the Disaster Recovery (''DR'') site, it is stated that as specified in the reporting done by Axis, the issue was pertaining to clients who wanted to sell their holdings held through their Axis Securities demat account. As the issue was limited to sell transactions, Axis identified that it needed a resolution and also concluded that the requirement of continuity of operations from the DR site in this case was not applicable.
d) Axis could not ascertain the count of customers who intended to sell their holdings, as the clients were able to sell the shares held in the demat account post the resolution of the issue.

iii. Observations in RCA Report

Being the first incident of technical glitches faced by the organization, there was delay in collation and submission of the information in the prescribed format and it apologize for the oversite. Required report submitted on the day of reminder from Exchange.

Since the services resumed, there was no/minimal Business Impact. Axis inadvertently skipped to provide the architecture diagram in the RCA report.

10.3.2. Technical Glitch as of April 17, 2023

i. Delay in intimating the incident to the Exchange and failure to submit the incident report in the prescribed format

a) There was a delay of only 4 minutes in submitting the T-day report.

b) Axis has submitted a gist of the system migration which it had undertaken since December 2022 and was fully implemented on April 13, 2023. Axis was unable to report the exact issue to the Exchange immediately. However, the vendor eventually identified the specific problem with the customer-facing channels for order placement. It was then promptly reported to the Exchange, but with a delay of 4 minutes.
c) Axis has submitted the revised Annexure B as prescribed by the Exchange.
d) Axis has sent intimations to the client regarding the issues and the steps to be followed in case they face challenges to login.
e) The SMS screenshot having the required information for communication on technical glitch is enclosed. Axis acknowledges, that the required information on intimation to clients was missed in its reporting.

ii. Observations in Preliminary Incident Report

a) The due date for submitting T+1 day report for the technical glitch as of April 17, 2023, was on April 18, 2023. However, on April 18, 2023, Axis faced another technical glitch, and the teams were engaged in resolving the issues.

b) At the same time, focus was on T-day reporting for the technical glitch of April 18, 2023.
c) The Exchange is requested to consider the time constraints and take a lenient view on the delayed submission by 1 day.

iii. Observations in RCA Report

a) With reference to the required information of Business impact, is it stated that due to a broadcast issue, there was an intermittent issue in order placement in the Trading Work Station ("**TWS**") terminals. Therefore, Axis could not ascertain the exact count of customers who were attempting to login on its platforms.
b) In such cases, it is indeed difficult to forecast the actual count of impacted customers as the orders were not successfully routed. Hence, the information was not shared. The Exchange is requested to provide guidance on the computation of impacted clients in this case.
c) The average revenue for the month of March per day was approximately Rs.79 Lakhs. The actual revenue for April 17,

2023, was Rs. 77 Lakhs. The gross business impact was of only Rs. 2 lakhs.

10.3.3. Technical Glitch as of April 18, 2023

i. Delay in intimating the incident to the Exchange

With respect to the failure to provide the required information to the Exchange on intimation to clients, it is submitted that at about 10:00 AM, Axis initiated communication to the clients via SMS and notification in the mobile app. Axis submitted the sample screenshot in support of its contention. Axis acknowledges that the required information on intimation to clients was missed in its reporting.

ii. Observation in Preliminary Incident Report and RCA Report

a) With reference to the required information of Business impact, it is submitted that since the orders were not placed on the platforms, Axis could not ascertain the exact count of customers who were attempting to login on its platforms. In such cases, it is indeed difficult to forecast the actual/approximate count of impacted customers as the orders could not be successfully routed.

b) Additionally, in accordance with the Exchange circular dated December 16, 2023, the independent auditor certificate is submitted, wherein the RCA report is verified by the auditor, since the issue persisted for more than 45 minutes on April 18, 2023.

c) Axis shared information on Business Impact in the brokerage revenue. The average revenue for the month of March per day was approximately Rs. 79 Lakhs. The actual revenue for April 18, 2023, was Rs.61 Lakhs. The Business Impact was of Rs. 18 lakhs.

10.3.4. Improper software testing and change in management process

Axis had an upgradation and migration plan which was executed in a phased manner, necessary for providing proper and uninterrupted services to the clients. As per its internal governance framework and guidance

received from the vendor, it had tested 102 scenarios rigorously. Testing was done on internal UAT setup as well as on the Exchange mock environment. The Roll back/back up plan was also in place, in case of the failure of the migrated system. The issue was reported to the vendor (TCS) wherein the vendor suggested to optimize the Database parameters, based on which the issue was then resolved and the time taken for entire system to be up and running was 34 minutes. The Business Continuity plan was triggered wherein the issue was pertaining to the TWS and as an alternate mechanism, the option of website login and Call N Trade was available, additional certified resources were deployed for Call N Trade order placements.

10.4. The Committee finds as under:

a. Axis has agreed to the Exchange's observations related to non-adherence to the timeline and format of reporting the technical glitches provided in 'Annexure B' of the Exchange Circular No. NSE/COMP/54876 dated December 16, 2022. Axis has attributed the observation to various reasons i.e. first incident of technical glitches, analysis and internal procedural sign-off, delay in collation and submission of the information in the prescribed format and inadvertent omission of the architecture diagram in the RCA report.
b. Axis failed to report the incident details as per the prescribed format of the circular and missed essential details requested in the format i.e., intimation to clients on the technical glitch. The Committee observes that Axis has acknowledged the omission of details on intimation to clients about the glitch. The Committee also notes that Axis has provided the same as an annexure to the reply of the SCN.
c. The Committee notes Axis's submission that on April 06, 2023, the issue was pertaining to the hold for clients who wanted to sell their positions, on April 17, 2023, the issue was with the customer facing channel for order placement and on April 18, 2023 the issue was due to change in default parament of application from NSE to BSE, which impacted the functioning of application on April 18, 2023. Further, technical glitch reported on April 06, 2023, was fixed within 34 minutes by Axis. For the issues faced on April 17 and 18, 2023, Axis has performed the database optimization activities and has removed the dependency on parameters. Axis's System has not faced further technical glitch post April 18, 2023, till date.

d. The Committee further notes that for the incident dated April 18, 2023, Axis submitted its risk user mistakenly changed one of the default parameters (from NSE to BSE) while enabling off market orders. Axis Internet trading System and Mobile application has dependency on this parameter on startup and hence it could not login. As per Axis's submission, the trading systems would not have been responded through DR site as well, as the trading systems were dependent on the said parameter for login, and it would have also resulted in disruption in the functioning of alternate channels.

e. The Committee observes procedural lapses on the part of Axis in terms of the provisions of the Exchange circular no. NSE/COMP/54876 dated December 16, 2022. The Committee also notes that the said circular has been effective from April 1, 2023. However, Committee is of the view that while calculating the days for submissions, working days to be considered. Accordingly, submission of RCA of the incident dated April 6, 2023 is within the timeline of 14 days and hence, no action is required for the same.

f. The Committee observes that Preliminary Incident Report for the incident dated April 6, 2023, was submitted on April 27, 2023. Considering working days calculation, there was a delay of 11 working days.

g. On April 17, 2023, a delay of 4 minutes was observed in reporting the incident to the Exchange. Since the delay was of only 4 minutes, the Committee opines to take a lenient view and not to impose a monetary penalty for the same.

h. Considering the multiple glitches in the month of April 2023 encountered in the trading system of Axis, and its consequent impact on the investors, the Committee decided to levy a monetary penalty on Axis for the observed violations in terms of the Exchange circular no. NSE/COMP/54876 dated December 16, 2022.

11. **MCSGFC Decision –**

In view of the findings as mentioned above, the Committee levies the following penalties in terms of the Exchange circular no. NSE/COMP/54876 dated December 16, 2022:

Sr. No.	Date of Incident	Details of Violation	Applicable Penalties as per the Annexure C of the Framework	Penalty	Total penalty
1	6-Apr-23	Not reported within 1 hour	Rs. 50,000/-	Rs. 50,000/-	Rs. 3,75,000/-
		Delay in reporting of Preliminary Incident report (T + 1)	Rs.50,000/-, + Rs. 25,000/- per day till failure continues.	Rs. 50,000/- + Rs. 2,75,000/- (11 working days delay)	
2	17-Apr-2023	Delay in reporting of Preliminary Incident report (T + 1)	Rs.50,000/-, + Rs. 25,000/- per day till failure continues.	Rs.50,000/- (1 day delay)	Rs.50,000/-
3	18-Apr-2023	Encountering third glitch during the financial year	Rs.50,000/-	Rs.50,000/-	Rs.50,000/-
Total					**Rs. 4,75,000/-**

a. Axis is directed to pay a monetary penalty of Rs. 4,75,000/- (Rupees Four Lakhs, Seventy-Five Thousand only).

b. Axis is further directed to conduct an exhaustive system audit along with a process audit to ensure non-recurrence of similar glitches in the future and submit a report to the Exchange.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
S.Ravindran
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: September 14, 2023