

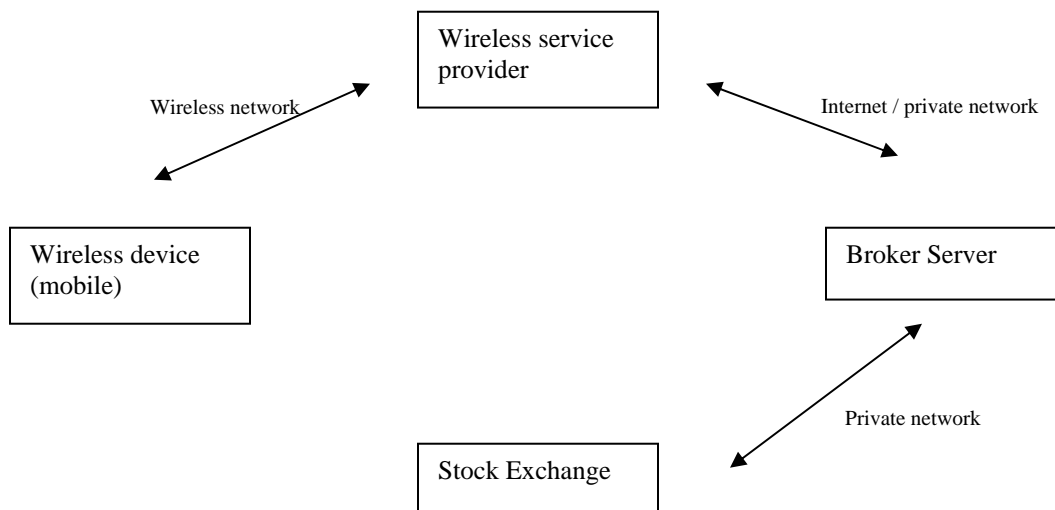
Annexure 'A'

Proposed framework for Securities trading using wireless technology.

SEBI registered brokers who provide Internet based trading as specified by SEBI circular no.SMDRP/POLICY/CIR-06/2000 dated Jan 31, 2000 shall be eligible to provide securities trading using wireless technology. All the relevant requirements applicable for internet based trading shall also be applicable for securities trading using wireless technology.

SEBI Registered Brokers can introduce the service of securities trading using wireless technology after obtaining permission from respective Stock Exchanges.

Information flow in wireless trading is depicted below:



The existing internet trading framework has been modified to incorporate proposed framework for trading using wireless technology. The consolidated framework for trading using wireless technology is given below.

Application for Permission by Brokers

SEBI registered Stock Brokers who provide Internet based trading services shall be eligible to provide securities trading using wireless technology. Brokers who desire to provide trading facility through wireless medium will be required to take approval from respective exchanges.

The stock exchange should grant approval or reject the application as the case may be, and communicate its decision to the member within 30 calendar days of the date of completed application submitted to the exchange.

The stock exchange, before giving permission to brokers to start securities trading using wireless technology shall ensure the fulfillment of the following minimum conditions:

Networth Requirement

The broker must have a minimum net worth of Rs.50 lacs if the broker is providing the Internet based facility on his own. However, if some brokers collectively approach a service provider for providing the internet trading facility, net worth criteria as stipulated by the stock exchange will apply. The net worth will be computed as per the SEBI circular no FITTC/DC/CIR-1/98 dated June 16, 1998.

Operational and System Requirements

Operational Integrity: The Stock Exchange must ensure that the system used by the broker has provision for security, reliability and confidentiality of data through use of encryption technology. (Basic minimum security standards are specified in following paras). The Stock Exchange must also ensure that records maintained in electronic form by the broker are not susceptible to manipulation.

For wireless network there should be secure access, end to end encryption and security of communication from hand held device to server.

System Capacity: The Stock Exchange must ensure that the brokers maintain adequate backup systems and data storage capacity. The Stock Exchange must also ensure that the brokers have adequate system capacity for handling data transfer, and arranged for alternative means of communications in case of Internet link failure.

In case of failure of the wireless network, alternative means of communication such as telephone or Internet should be available.

Qualified Personnel: The Stock Exchange must lay down the minimum qualification for personnel to ensure that the broker has suitably qualified and adequate personnel to handle communication including trading instructions as well as other back office work which is likely to increase because of higher volumes.

Written Procedures: Stock Exchange must develop uniform written procedures to handle contingency situations and for review of incoming and outgoing electronic correspondence.

Signature Verification/ Authentication: It is desirable that participants use authentication technologies. For this purpose it should be mandatory for participants to use certification agencies as and when notified by Government / SEBI. They should also clearly specify when manual signatures would be required.

Adequate measures should be taken for user identification, authentication and access control using means such as user id, passwords, smart cards, biometric devices or other reliable means to prevent misuse of facility by unauthorized persons

Client Broker Relationship

Know Your Client: The Stock Exchange must ensure that brokers comply with all requirements of "Know Your Client" and have sufficient, verifiable information about clients, which would facilitate risk evaluation of clients.

Broker-Client Agreement: Brokers must enter into an agreement with clients spelling out all obligations and rights. This agreement should also include inter-alia, the minimum service standards to be maintained by the broker for such services specified by SEBI/Exchanges for the internet trading / wireless technology from time to time.

Exchanges will prepare a model agreement for this purpose. The broker agreement with clients should not have any clause that is less stringent/contrary to the conditions stipulated in the model agreement.

Investor Information: The broker web site providing the internet based trading facility should contain information meant for investor protection such as rules and regulations affecting client broker relationship, arbitration rules, investor protection rules etc. The broker web site providing the Internet based trading facility should also provide and display prominently, hyper link to the web site/page on the web site of the relevant stock exchange(s) displaying rules/regulations/circulars. Ticker/quote/order book displayed on the web-site of the broker should display the time stamp as well as the source of such information against the given information.

It may not be possible to give detailed investor information on hand held devices. In such cases, minimum information may be given with addresses of the Internet web site/web page where detailed information would be available.

Order/Trade Confirmation: Order/Trade confirmation should also be sent to the investor through email at client's discretion at the time period specified by the client in addition to the other mode of display of such confirmations on real time basis on the broker web site. The investor should be allowed to specify the time interval on the web site itself within which he would like to receive this information

through email. Facility for reconfirmation of orders which are larger than that specified by the member's risk management system should be provided on the internet based system.

Order confirmation should be provided to the user on submitting the order. Order modification/ cancellation facilities should also be provided. Trade confirmation should be provided to the user, along with history of trades.

Information made available on the hand held device should be timely and should not put the user at a disadvantage vis-à-vis other means of communication

Handling Complaints by Investors: Exchanges should monitor complaints from investors regarding service provided by brokers to ensure a minimum level of service. Exchange should have separate cell specifically to handle Internet trading / wireless trading related complaints. It is desirable that exchanges should also have facility for on-line registration of complaints on their web-site.

Risk Management

Exchanges must ensure that brokers have a system-based control on the trading limits of clients, and exposures taken by clients. Brokers must set pre-defined limits on the exposure and turnover of each client.

The broker systems should be capable of assessing the risk of the client as soon as the order comes in. The client should be informed of acceptance/rejection of the order within a reasonable period. In case system based control rejects an order because of client having exceeded limits etc., the broker system may have a review and release facility to allow the order to pass through.

Reports on margin requirements, payment and delivery obligations, etc. should be informed to the client through the system.

Contract Notes

Contract notes must be issued to clients as per existing regulations, within 24 hours of the trade execution.

Cross Trades

As in the case of existing system, brokers using Internet based systems / wireless technology for routing client orders will not be allowed to cross trades of their clients with each other. All orders must be offered to the market for matching.

It is emphasised that in addition to the requirements mentioned above, all existing obligations of the broker as per current regulation will continue without changes. Exchanges may also like to specify more stringent

standards as they may deem fit for allowing Internet based trading facilities / Securities trading using wireless technology to their brokers.

Network Security Protocols and Interface Standards

Network Security

The following security features are mandatory for all Internet based trading systems:

- i. User id
- ii. First Level password (Private code)
- iii. Automatic expiry of passwords at the end of a reasonable duration. Reinitialise access on entering fresh passwords
- iv. All transaction logs with proper audit facilities to be maintained in the system.
- v. Secured Socket Level Security for server access through Internet
- vi. Suitable Firewalls between trading set-up directly connected to an Exchange trading system and the Internet trading set-up.

The following advanced security products are advisable.

- a. Microprocessor based SMART cards
- b. Dynamic Password (Secure ID Tokens)
- c. 64 bit/128 bit encryption **
- d. Second Level password (personal information e.g. village name, birth date etc.)

**DOT policy and regulations will govern the level of encryption.

For wireless trading systems, network security protocols and interface standards should be as per prevalent industry standards and sound audit trails should be available for all transactions conducted using wireless devices.

Standards for Web Interfaces and Protocols

Between a Trading Web Server and Trading Client Terminals, Interfaces Standards as per recommendations of IETF (Internet Engineering Task Force) and W3C (World Wide Web Consortium) may be adopted. E.g.: HTTP Ver 4 or above HTML Ver 4/XML.

Systems Operations

- a. Brokers should follow the similar logic/priorities used by the Exchange to treat client orders
- b. Brokers should maintain all activities/ alerts log with audit trail facility

- c. Broker Web Server should have internally generated unique numbering for all client order/trades
- d. Brokers should seek permission from the Exchange before commencement of Internet trading facility / Securities trading using wireless technology after providing complete details of the features of implemented systems.
- e. Brokers should make periodic reporting to the Exchange as specified by the Exchange.

Stock exchanges may arrange for periodic systems audits of broker systems to ensure that requirements specified herein are being met.

Stock exchanges may take such other measures and implement such other safeguards as they deem fit to ensure security and integrity of transactions conducted using wireless technology.