



**CIRCULAR**

CIR/MRD/DP/ 20 /2012

August 02, 2012

The Managing Director and CEO  
Bombay Stock Exchange Limited  
Phiroze Jeejeebhoy Towers  
Dalal Street  
Mumbai - 400001

The Managing Director  
National Stock Exchange of India Ltd.  
Exchange Plaza, Bandra Kurla Complex  
Bandra (E)  
Mumbai - 400 051

Dear Sir,

**Sub: Direct Market Access - Clarification**

1. SEBI, vide circular no. MRD/DoP/SE/Cir-7/2008 dated April 03, 2008 introduced Direct Market Access (hereinafter referred to as "DMA"). Further, SEBI vide circular no. MRD/DoP/SE/Cir-03/2009 dated February 20, 2009 permitted institutional investors to use DMA through the Investment Managers.
2. In light of the feedback received from the market participants and the several measures prescribed by SEBI to simplify and rationalize the "Trading Account Opening Process", the abovementioned SEBI circulars on DMA stands modified to the following extent:
  - a. The facility of DMA provided by the stock broker shall be used by the client or an investment manager of the client. A SEBI registered entity shall be permitted to act as an investment manager on behalf of institutional clients. In case the facility of DMA is used by the client through an investment manager, the investment manager may execute the necessary documents on behalf of the client(s).
  - b. The point 3 on **Client Authorization and Broker Client Agreement** of the SEBI circular no. MRD/DoP/SE/Cir-7/2008 dated April 03, 2008 shall be deleted.



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- c. In order to bring uniformity on the requirement of documentation for trading account opening process, in view of the SEBI circular no CIR/MIRSD/16/2011 dated August 22, 2011, the specific **Broker – Client Agreement** for the purpose of DMA shall be replaced with the “Terms and Condition” document as specified at **Annexure I**. The “Terms and Conditions” shall be provided to the client or investment manager acting on behalf of a client (s) for availing the DMA facility. In case the DMA facility provided by the stock broker is used by the client the paragraphs one to eighteen of **Part A of Annexure-I** shall be applicable. In case the DMA facility provided by the stock broker is used by the client through an investment manager the paragraphs one to eighteen of **Part B of Annexure-I** shall be applicable and additionally, the investment manager shall provide to the stock broker the details as specified at **Annexure-II**.
  - d. Exchange shall specify from time to time the categories of investors to whom the DMA facility can be extended. Currently, this facility is available for institutional clients. Brokers shall specifically authorize clients or investment managers acting on behalf of clients for providing DMA facility, after fulfilling Know Your Client requirements and carrying out necessary due diligence. The broker shall maintain proper records of such due diligence.
  - e. The para 2 (a) and 2 (b) of SEBI circular no MRD/DoP/SE/Cir-03/2009 dated February 20, 2009 shall be deleted.
  - f. The other provision specified in SEBI circular no MRD/DoP/SE/Cir-7/2008 dated April 03, 2008 and SEBI circular no. MRD/DoP/SE/Cir-03/2009 dated February 20, 2009 shall remain applicable.
3. Stock Exchanges are advised to:
- a. take necessary steps and put in place necessary systems for implementation of the above.
  - b. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.



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- c. bring the provisions of this circular to the notice of the member of the stock exchange and also to disseminate the same on the website.
  - d. communicate to SEBI, the status of implementation of the provisions of this circular in the Monthly Development Report.
4. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

**Harini Balaji**  
**Deputy General Manager**  
**022-26449372**  
[harinib@sebi.gov.in](mailto:harinib@sebi.gov.in)

**Encl:**

- 1) Annexure – I: Terms and Conditions**
- 2) Annexure – II: Format for details of investment manager and client.**



## ANNEXURE I – TERMS AND CONDITIONS

### PART – A: DMA FACILITY USED BY THE CLIENT

1. The client is expected to be fully aware of the risks associated with the market and the financial instruments being traded on stock exchanges through DMA. The client shall be responsible for complying with laws, rules, regulations, notifications etc issued by regulatory authorities as may be applicable from time to time.
2. The client shall ensure that DMA facility provided by the Broker is used only to execute the trades of the client and shall not be used for transactions on behalf of any other person / entity.
3. The client shall be responsible for ensuring that, only persons authorized by it shall access and use the DMA facility provided by the Broker. All orders originating from such facility / system shall be deemed to be authorized by the client.
4. Where the client accesses or proposes to access the Broker's DMA platform through external applications, including but not restricted to services of third party service provider(s), own application(s), etc., the client shall ensure that such applications have adequate security features including but not limited to access controls, password protection etc; and that appropriate agreement(s) with such third party service provider(s) etc. for ensuring secured access and communication has been executed and are in place.
5. The client shall ensure that no person authorized by them to place orders through DMA facility provided by the broker has been / is involved in any adverse action by any regulatory authorities in any jurisdiction.
6. The client shall provide the names of authorized individual users to the broker prior to placing DMA orders.
7. The client shall not use or allow the use of DMA facility to engage in any form of market misconduct including insider trading and market manipulation or conduct that is otherwise in breach of applicable laws, rules and regulation.
8. The client is aware that Algorithmic trading i.e. generation of orders using automated execution logic is governed by Algorithmic trading guidelines issued by SEBI and Exchanges and requires prior approval of the exchanges. The client shall ensure that new algorithms and changes to existing approved algorithms are not used through the DMA facility without prior approval of concerned stock exchanges. The client shall ensure that it has necessary checks and balances, in place to identify and control dysfunctional algorithms and the Broker shall have the right to shut down the DMA facility and remove any outstanding client orders in case of any suspected dysfunctional algo.
9. The client is aware that authentication technologies and strict security measures are required for routing orders through DMA facility and undertakes to ensure that the password of the client and/or his representative are not revealed to any third party.



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10. The client acknowledges that all DMA orders placed by them through the DMA facility would be validated by the risk management system of the broker. The Broker has the right to accept or reject any DMA order placed by the client at its sole discretion.
11. The client shall be solely responsible for all acts or omissions of any person using a DMA facility and shall be bound to accept and settle all transactions executed through the DMA facility provided by the Broker notwithstanding that such order(s) may have been submitted erroneously or by an unauthorized user, or that its data is inaccurate or incomplete when submitted, or the client subsequently determines for whatever reason that the order should not have been submitted.
12. The client shall notify the Broker in the event of DMA facility being compromised. Upon receipt of this notice, client's DMA facility shall be promptly disabled but the client shall continue to be responsible for any misuse of the DMA facility or any orders placed through the DMA facility as a result of the compromise of the DMA facility at their end. The Broker shall not be liable for any loss, liability or cost whatsoever arising as a result of any unauthorized use of DMA facility at the client's end.
13. In the event of winding-up or insolvency of the client or his otherwise becoming incapable of settling their DMA obligation, broker may close out the transaction of the client as permissible under bye-laws, rules, regulations of the exchanges. The client shall continue to be liable for any losses, costs, damages arising thereof.
14. The client is fully aware of the risks of transmitting DMA orders to the Broker's DMA facility through vendor systems or service providers and the Broker is not responsible for such risks.
15. The client should be aware of the fact that neither the DMA facility will be uninterrupted nor error free nor the results that may be obtained from the use of the service or as to the timeliness, sequence, accuracy, completeness, reliability or content of any information, service or transaction provided through DMA. The DMA service is provided on an "as is", "as available" basis without warranties of any kind, either express or implied, including, but not limited to, those of information access, order execution, merchantability and fitness for a particular purpose. The Broker shall not be liable for any loss, damage or injury including but not limited to direct lost profits or trading losses or any consequential, special, incidental, indirect, or similar damages from the use or inability to use the service or any part thereof.
16. The Broker shall have the right to withdraw the DMA facility in case of:-
  - Breach of the limits imposed by the broker or any regulatory authority.
  - On account of any misuse of the DMA facility by the client or on instructions from SEBI/Exchanges.
  - Any other reason, at the discretion of the broker

Broker shall endeavor to give reasonable notice to the client in such instances.



17. The Broker shall not be liable or responsible for non-execution of the DMA orders of the client due to any link/system failure at the client/ Broker/ exchange(s) end.
18. This document shall not be altered, amended and /or modified by the parties in a manner that shall be in contravention of any other provisions of this document. Any additional terms and conditions should not be in contravention with rules / regulations /bye-laws/circulars, of the relevant authorities including applicable stock exchanges as amended from time to time.

**PART – B: DMA FACILITY USED BY THE CLIENT THROUGH AN INVESTMENT  
MANAGER**

1. The client shall be solely responsible for all acts or omissions of any person using a DMA facility and shall be bound to accept and settle all transactions executed through the DMA facility provided by the Broker to the investment manager acting on behalf of the client, notwithstanding that such order(s) may have been submitted erroneously or by an unauthorized user, or that its data is inaccurate or incomplete when submitted, or the client subsequently determines for whatever reason that the order should not have been submitted.
2. The investment manager is expected to be fully aware of the risks associated with the market and the financial instruments being traded on stock exchanges through DMA. The investment manager shall be responsible for complying with laws, rules, regulations, notifications etc issued by regulatory authorities as may be applicable from time to time.
3. Where the DMA facility provided by the Broker is used to execute trade on behalf of one or more clients, by the investment manager, then it is represented and warranted that, at each time an order is placed by such investment manager through the DMA facility of the Broker -
  - a) The investment manager has due authority to deal on behalf of the client(s) through the Broker, specifying the roles and responsibilities of the investment manager in execution of transactions on behalf of the client(s).
  - b) The investment manager shall comply with any applicable laws, rules and regulations affecting or relating to trading operations.
  - c) The investment manager and the client(s) are bound by the terms and conditions hereof;
  - d) The investment manager using the DMA facility for routing client(s) orders shall not cross trades of their client(s) with each other. Accordingly, all orders should be offered in the market.
  - e) The stock exchange or SEBI may at any time call for any information from a client(s) or an investment manager acting on behalf of the client(s) with respect to any matter relating to the activity of the investment manager. The investment manager shall also furnish any information specifying the roles and



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responsibilities of the investment manager in execution of transactions on behalf of the client(s), as and when required by the exchanges or SEBI.

4. The investment manager shall be responsible for ensuring that, only persons authorized by it shall access and use the DMA facility provided by the Broker. All orders originating from such facility / system shall be deemed to be authorized by the client.
5. Where the investment manager accesses or proposes to access the Broker's DMA platform through external applications, including but not restricted to services of third party service provider(s), own application(s), etc., the investment manager shall ensure that such applications have adequate security features including but not limited to access controls, password protection etc; and that appropriate agreement(s) with such third party service provider(s) etc. for ensuring secured access and communication has been executed and are in place.
6. The investment manager shall ensure that no person authorized by them to place orders through DMA facility provided by the broker has been / is involved in any adverse action by any regulatory authorities in any jurisdiction.
7. The investment manager shall provide the names of authorized individual users to the broker prior to placing DMA orders.
8. The investment manager shall not use or allow the use of DMA facility to engage in any form of market misconduct including insider trading and market manipulation or conduct that is otherwise in breach of applicable laws, rules and regulation.
9. The investment manager is aware that Algorithmic trading i.e. generation of orders using automated execution logic is governed by Algorithmic trading guidelines issued by SEBI and Exchanges and requires prior approval of the exchanges. The investment manager shall ensure that new algorithms and changes to existing approved algorithms are not used through the DMA facility without prior approval of concerned stock exchanges. The investment manager shall ensure that it has necessary checks and balances, in place to identify and control dysfunctional algorithms and the Broker shall have the right to shut down the DMA facility and remove any outstanding client orders in case of any suspected dysfunctional algo.
10. The investment manager is aware that authentication technologies and strict security measures are required for routing orders through DMA facility and undertakes to ensure that the password of the investment manager and/or his representative are not revealed to any third party.
11. The investment manager acknowledges that all DMA orders placed by them through the DMA facility would be validated by the risk management system of the broker. The Broker has the right to accept or reject any DMA order placed by the investment manager at its sole discretion.
12. The investment manager shall notify the Broker in the event of DMA facility being compromised. Upon receipt of this notice, client's DMA facility shall be promptly disabled but the client shall continue to be responsible for any misuse of the DMA facility or any orders placed through the DMA facility as a result of the compromise





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of the DMA facility at their end. The Broker shall not be liable for any loss, liability or cost whatsoever arising as a result of any unauthorized use of DMA facility at the client's end.

13. In the event of winding-up or insolvency of the client or his otherwise becoming incapable of honoring their DMA obligation, broker may close out the transaction of the client as permissible under bye-laws, rules, regulations of the exchanges. The client shall continue to be liable for any losses, costs, damages arising thereof.
14. The investment manager is fully aware of the risks of transmitting DMA orders to the Broker's DMA facility through vendor systems or service providers and the Broker is not responsible for such risks.
15. The investment manager should be aware of the fact that neither the DMA facility will be uninterrupted nor error free nor the results that may be obtained from the use of the service or as to the timeliness, sequence, accuracy, completeness, reliability or content of any information, service or transaction provided through DMA. The DMA service is provided on an "as is", "as available" basis without warranties of any kind, either express or implied, including, but not limited to, those of information access, order execution, merchantability and fitness for a particular purpose. The Broker shall not be liable for any loss, damage or injury including but not limited to direct lost profits or trading losses or any consequential, special, incidental, indirect, or similar damages from the use or inability to use the service or any part thereof.
16. The Broker shall have the right to withdraw the DMA facility in case of:-
  - Breach of the limits imposed by the broker or any regulatory authority.
  - On account of any misuse of the DMA facility by the client/ investment manager or on instructions from SEBI/Exchanges.
  - Any other reason, at the discretion of the broker

Broker shall endeavor to give reasonable notice to the client in such instances.

17. The Broker shall not be liable or responsible for non-execution of the DMA orders of the client due to any link/system failure at the client/ Broker/ exchange(s) end.
18. This document shall not be altered, amended and /or modified by the parties in a manner that shall be in contravention of any other provisions of this document. Any additional terms and conditions should not be in contravention with rules / regulations /bye-laws/circulars, of the relevant authorities including applicable stock exchanges as amended from time to time.

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**Annexure II**

**On the letter head of the Investment manager**

**PART A**

DETAILS OF THE INVESTMENT MANAGER:

NAME OF THE  
INVESTMENT MANAGER:

NAME OF THE HOME  
REGULATOR

COUNTRY OF  
JURISDICTION OF HOME  
REGULATOR

REGISTERED  
/REGULATED IN HOME  
JURISDICTION AS:

SEBI REGISTRATION  
NUMBER:

**PART B**

CLIENT(s) DETAILS:

S. No.	NAME OF THE ENTITY	NAME OF THE REGULATOR	REGULATED IN INDIA AS	REGISTRATION NUMBER	PAN