CIRCULAR

CIR/CDMRD/DEICE/03/2015 December 11, 2015

To,

The Managing Directors / Chief Executive Officers
All National Commodity Derivatives Exchanges

Sir/Madam,

Subject: Testing of software used in or related to Trading and Risk Management

1. Pursuant to Section 131 of the Finance Act, 2015 and Central Government notification F.No. 1/9/SM/2015 dated August 28, 2015, all recognized associations under the Forward Contracts (Regulation) Act, 1952 are deemed to be recognized stock exchanges under the Securities Contracts (Regulation) Act, 1956 with effect from September 28, 2015. This circular applies to National Commodity Derivatives Exchanges (Exchanges) as defined in the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2015.

2. Due to technological developments and innovations, currently the members of exchanges have multiple options for using software i.e. either exchange provided or in-house developed software which is being used for trading and risk management related activities.

3. In the securities market, in order to avoid any disruption like event due to malfunctioning of software used by the trading members / brokers, it was felt necessary to strengthen the process of testing of software before deployment. In this regard, based on the recommendations of Technical Advisory Committee (TAC), SEBI had specified guidelines for testing procedures vide circulars CIR/MRD/DP/24/2013 dated August 19,2013 and circular CIR/MRD/DP/06/2014 February 07, 2014 which are made applicable to the securities market.

4. Since new software or changes to the existing software without proper testing may affect the integrity of the markets, it has been decided to make the provisions of the aforesaid circular also applicable to commodity markets. The major provisions covered are as under:

    a. Testing of Software
    b. Approval of Software of brokers/members

c. Undertaking to be provided by the brokers/members
d. Sharing of Application Programming Interface (API) specifications by the brokers/members
e. Penalty on malfunction of software used by brokers/members

5. The circular shall be applicable for Exchanges with effect from April 01, 2016.

6. The Exchanges are advised to:-

   - Make necessary amendments to relevant bye-laws/rules for the implementation of this circular
   - Communicate SEBI, the status of implementation of the provisions of this circular

7. The circular is issued in exercise of the 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.

8. The circular is available on SEBI website at i.e. www.sebi.gov.in.

Yours faithfully,

B J DILIP
GENERAL MANAGER
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