भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CHAPTER 2: TRADING SOFTWARE AND TECHNOLOGY

1. INTERNET TRADING

1.1. Conditions to be met by Broker for providing Internet Based Trading Service[1]

1.1.1. To provide Internet Based Trading Service, the broker will be required to apply along with details of the features of the implemented systems to the respective stock exchange for a formal permission. The stock exchange should grant approval or reject the application as the case may be, and communicate its decision to the member within 7 calendar days of the date of completed application submitted to the exchange.

1.1.2. However before giving permission to broker to start internet based services, stock exchange shall ensure that the broker meets the minimum conditions/ criteria as mentioned below:

1.1.2.1. **Net worth Requirement**

The broker must have a minimum net worth as specified in Securities and Exchange Board of India (Stock Brokers) Regulations, 2026 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.

1.1.2.2. **Operational and System Requirements**:

Stock Exchanges must ensure:

1.1.2.2.1. **Operational Integrity** – 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). Further, the records maintained in electronic form by the broker shall not be susceptible to manipulation.

1.1.2.2.2. **System Capacity -** The brokers maintain adequate backup systems, data storage capacity, system capacity for handling data transfer, and have arranged for alternative means of communications having adequate capabilities for client identification, authentication, placing orders etc. in case of Internet link failure.

[1] Circular No. SMDRP/POLICY/CIR- 06/2000 dated January 31, 2000 and Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/68 dated May 30, 2024

1.1.2.2.3. **Qualified Personnel -** Laying 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.

1.1.2.2.4. **Written Procedures – Development of uniform written** procedures to handle contingency situations and for review of incoming and outgoing electronic correspondence.

1.1.2.2.5. **Signature Verification/ Authentication -** 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.

1.1.2.3. **Network Security Protocols and Interface Standards**

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.

1.1.2.3.1. **Network Security** –

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

i. User id
ii. First Level password (Private code) with adequate security and encryption features
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. Strong and latest Security/Cryptographic Protocols for server access through Internet
vi. Suitable Firewalls between trading set-up directly connected to and Exchange trading system and the Internet trading set-up including but not limited to following:
    a) Practice of whitelisting of ports based on business usage to be implemented
    b) Network Segmentation between public-facing systems and core trading infrastructure

c) Audit of firewall configuration, Web Application Firewall (WAF) and channel identification, Intrusion Detection/Prevention Systems (IDS/IPS)

vii. The following advanced security products are advisable:

a) Dynamic Password (Secure ID Tokens, Mandatory Two-factor authentication)
b) Access Control through use of biometric devices or other reliable means
c) 64 bit/128 bit encryption **

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

1.1.2.3.2. **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.

1.1.2.3.3. **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. Further, Exchanges would publish IBT statistics on the basis of details of IBT terminals provided by the stock brokers. Exchanges, in this regard, may obtain information/declaration about IBT terminals from stock brokers as deemed fit by them.

1.1.3. In addition to the requirements mentioned above, all existing obligations of the broker as per current regulations will continue without changes.

1.2. Securities Trading using Wireless Technology[2]

1.2.1. SEBI registered brokers who are eligible to provide Internet Based Trading as specified by SEBI, shall also be eligible to provide securities trading using wireless technology. All relevant requirements applicable to internet based trading shall be applicable to securities trading using wireless technology.

[2] Circular No. CIR/MRD/DP/ 25/2010 dated August 27, 2010

1.2.2. Securities Trading using Wireless technology shall include devices such as mobile phone, laptop with data card, etc, that use Internet Protocol (IP).

1.2.3. In addition, the stock exchange shall ensure that the broker complies with the following:

1.2.3.1. There shall be secure access, encryption and security of communication for internet based trading and securities trading using wireless technology. The policy and regulation of the Department of Telecommunications ("DOT") shall govern the level of encryption.

1.2.3.2. Unique identification number as given in case of internet based trading shall be made applicable for securities trading using wireless technology.

1.2.3.3. Additional provisions specifying possible risks, responsibilities and liabilities associated with securities trading using wireless technology should be brought to the notice of clients, who are desirous of availing such facility, and taking their concurrence on the same.

1.2.3.4. As it may not be possible to give detailed information to the investor on a hand held device e.g. mobile phones, it may be ensured that minimum information may be given with addresses of the Internet web site/web page where detailed information would be available.

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

1.2.3.6. Sensitive personal/investor authentication information such as user IDs, passwords, keys, hashes, hard coded reference, session login details etc. shall not be stored/retained on devices used for internet based trading and securities trading using wireless technology.

1.2.3.7. The broker's server routing orders to the exchange trading system shall be located in India.

1.2.3.8. Stock exchanges shall arrange for periodic systems audits of broker systems to ensure that requirements specified in the circulars are being met.

1.3. Additional Requirements for Internet Based Trading (IBT) and Securities trading using Wireless Technology (STWT)[3]

1.3.1. The stock exchange shall ensure that the broker comply with the following:

[3] Circular No. CIR/MRD/DP/08/2011 dated June 30, 2011

1.3.1.1. The broker shall capture the IP (Internet Protocol) address (from where the orders are originating), for all IBT/ STWT orders.

1.3.1.2. The brokers system should have built-in high system availability to address any single point failure.

1.3.1.3. There should be secure end-to-end encryption for all data transmission between the client and the broker through a Secure Standardized Protocol. A procedure of mutual authentication between the client and the broker server should be implemented.

1.3.1.4. The broker system should have adequate safety features to ensure it is not susceptible to internal/ external attacks.

1.3.1.5. Two-factor authentication for login session may be implemented for all orders emanating using Internet Protocol. Public Key Infrastructure (PKI) based implementation using digital signatures, supported by one of the agencies certified by the government of India, is advisable. Further the two factors in the Two-factor authentication framework should not be same.

1.3.1.6. In case of no activity by the client, the system should provide for automatic trading session logout.

1.3.1.7. The back-up and restore systems implemented by the broker should be adequate to deliver sustained performance and high availability. The broker system should have on-site as well as remote site back-up capabilities.

2. DIRECT MARKET ACCESS FACILITY[4,5]

2.1. 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.

2.2. While ensuring conformity with the provisions of the Securities Contracts (Regulation) Act, 1956 (42 of 1956), Stock Exchanges may facilitate Direct Market Access for investors subject to the following conditions:

2.2.1. Application for Direct Market Access (DMA) facility

2.2.1.1. Brokers interested to offer DMA facility shall apply to the respective stock exchanges giving details of the software and systems proposed to be used, which shall be duly certified by a Security Auditor as reliable.

2.2.1.2. 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.

2.2.1.3. The stock exchange, before giving permission to brokers to offer DMA facility shall ensure the fulfillment of the conditions specified hereinafter.

2.2.2. Operational specifications

2.2.2.1. All DMA orders shall be routed to the exchange trading system through the broker's trading system. The broker's server routing DMA orders to the exchange trading system shall be located in India.

2.2.2.2. The broker should ensure sound audit trail for all DMA orders and trades, and be able to provide identification of actual user-id for all such orders and trades. The audit trail data should be available for a period as prescribed in SEBI (Stock Brokers) Regulations, 2026.

2.2.2.3. Exchanges should be able to identify and distinguish DMA orders and trades from other orders and trades. Exchanges shall maintain statistical data on DMA trades.

2.2.2.4. The DMA system shall have sufficient security features including password protection for the user ID, automatic expiry of passwords at the end of a

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[4] Circular No. MRD/ DoP/SE/Cir- 7 /2008 dated April 03, 2008.

[5] Circular No. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2023/68 dated May 10, 2023.

reasonable duration, and re-initialisation of access on entering fresh passwords.

2.2.2.5. In case where the clients access the DMA server of the broker through a third party service provider, the password maintenance and authentication can be done either by the broker of by third party network service provider, so long as the exchange/broker ensures secured access and communication and a sound audit trail for all DMA orders/ trades. The authorized user and client details should be part of the order details received and authenticated at the DMA server of the broker.

2.2.2.6. Brokers should follow the similar logic/priorities used by the Exchange to treat DMA client orders. Brokers should maintain all activities/ alerts log with audit trail facility. The DMA Server should have internally generated unique numbering for all such client order/trades.

2.2.2.7. A systems audit of the DMA systems and software shall be periodically carried out by the broker as may be specified by the exchange

2.2.2.8. The exchanges and brokers should provide for adequate systems and procedures to handle the DMA trades.

2.2.3. **Terms and Conditions**[6]

2.2.3.1. Exchange shall specify from time to time the categories of investors to whom the DMA facility can be extended. 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.

2.2.3.2. The DMA facility shall be subject to “Terms and Conditions” 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 through an investment manager, the investment manager shall additionally provide to the stock broker the details as specified at Annexure II.

2.2.4. **DMA Facility through Investment Manager**[7]

2.2.4.1. The facility of DMA provided by the stock broker shall be used by the client or an investment manager of the client. An entity, permitted to act as an

[6] Circular No. CIR/MRD/DP/20/2012 dated August 02, 2012
[7] Circular No. MRD/ DP/20/2012 dated August 02, 2012

investment manager on behalf of institutional clients, may execute the necessary documents on behalf of client(s).

2.2.4.2. The exchange/ broker shall ensure that proper audit trails are available to establish identity of the ultimate client and their investment managers at all times.

2.2.5. **Risk Management**

2.2.5.1. The broker shall ensure that trading limits/ exposure limits/ position limits are set for all DMA clients based on risk assessment, credit quality and available margins of the client. The broker system shall have appropriate authority levels to ensure that the limits can be set up only by persons authorized by the risk / compliance manager.

2.2.5.2. The broker shall ensure that all DMA orders are routed through electronic/automated risk management systems of the broker to carry out appropriate validations of all risk parameters including Quantity Limits, Price Range Checks, Order Value, and Credit Checks before the orders are released to the Exchange.

2.2.5.3. All DMA orders shall be subjected to the following limits:

2.2.5.3.1. Order quantity / order value limit in terms of price and quantity specified for the client.

2.2.5.3.2. All the position limits which are specified in the derivatives segment as applicable.

2.2.5.3.3. Net position that can be outstanding so as to fully cover the risk emanating from the trades with the available margins of the specific client.

2.2.5.3.4. Appropriate limits for securities which are subject to limits on Foreign Portfolio Investors (“FPIs”) as specified by the Reserve Bank of India (“RBI”).

2.2.5.4. The broker may provide for additional risk management parameters as they may consider appropriate.

2.2.6. **Broker to be liable for DMA trades**

2.2.6.1. The broker shall be fully responsible and liable for all orders emanating through their DMA systems. It shall be the responsibility of the broker to ensure that only clients who fulfill the eligibility criteria are permitted to use the DMA facility.

2.2.7. **Other legal provisions**

2.2.7.1. In addition to the requirements mentioned above, all existing obligations of the broker as per current regulations and circulars will continue without change. Exchanges may also like to specify additional safeguards / conditions as they may deem fit for allowing DMA facilities to their brokers.

3. STRAIGHT THROUGH PROCESSING

3.1. Mechanism[8]

3.1.1. Straight Through Processing ("STP") is generally understood to be a mechanism that automates the end to end processing of transactions of financial instruments through use of a system to process or control all elements of the work flow of a financial transaction of the Front, Middle, Back office and General Ledger. In other words, STP allows electronic capturing and processing of transactions in one pass from the point of order origination to final settlement. STP thus streamlines the process of trade execution and settlement and avoids manual entry and re-entry of the details of the same trade by different market intermediaries and participants. Usage of STP enables orders to be processed, confirmed, settled in a shorter time period and in a more cost effective manner with fewer errors as well as e-business expansion through online processing and access to enterprise data.

3.1.2. It has been mandated that all the institutional trades executed on the stock exchanges (except in Commodity Derivatives Segment) would be processed through the STP System**.**

3.2. The system flow of the STP framework[9]

3.2.1. While several STP Service Providers provide STP service to the market participants to resolve the issue of inter-operability between the STP Service Providers it was decided that a STP Centralised Hub would be setup.

3.2.2. The system flow for the STP framework shall be as follows:

3.2.2.1. STP user intending to send an instruction would send the message to his STP service provider after digitally signing the same.

3.2.2.2. The STP service provider would verify the signature of the STP user and forward it to the

- recipient STP user, if the recipient STP user is availing services of the same STP service provider or the
- STP centralized hub if the recipient STP user is not with the same STP service provider. In such a case the STP service provider would be required to prepare a message as per the STP centralized hub prescribed message

[8] Circular No. DNPD/Cir- 22 /04 dated April 01, 2004
[9] Circular No. DNPD/Cir-23/04 dated April 27, 2004

format, enclose the user's message, digitally sign the message and then send it to the STP centralized hub.

3.2.2.3. On receipt of the message by the STP centralized hub, the STP centralized hub would:

3.2.2.3.1. verify the signature of the sending STP service provider only.
3.2.2.3.2. send an acknowledgment to the sending STP service provider.

3.2.2.4. The STP centralized hub would forward the message to the recipient STP service provider after digitally signing on the message.
3.2.2.5. The recipient STP service provider on receipt of the message from the STP centralized hub shall verify the signature of the STP centralized hub, verify if the recipient STP user is associated with it and send an appropriate acknowledgment with digital signature to the STP centralized hub. The STP centralized hub would in turn forward the acknowledgment (received from the recipient STP service provider) duly signed to the sending STP service provider.
3.2.2.6. The recipient STP service provider shall forward the message to the recipient STP user. The recipient STP user would receive the message and verify the signature of the recipient STP service provider and sending STP user.

3.2.3. To enable inter-operation, the STP centralized hub would provide a utility / client software to the STP service provider. The STP service provider's point of interface with the STP centralized hub would be through this utility / client software. The PKI (Public key infrastructure) system for the interface shall be implemented at a later stage.
3.2.4. The block diagram of the entire STP System is placed at Annexure IV.

3.3. SEBI (STP centralised hub and STP service providers) Guidelines, 2004[10]

3.3.1. SEBI in order to regulate the STP service has issued the SEBI (STP centralised hub and STP service providers) Guidelines, 2004 (herein referred to as "STP Guidelines") which also prescribe the model agreement between the STP centralised hub and the STP service providers.

[10] Ref.No. DNPD/Cir-24/04 dated May 26, 2004 (STP Guidelines)

3.3.2. The STP guidelines specify the eligibility criteria and conditions of approval for the STP centralised hub and the STP service providers, obligations and responsibilities of the STP centralised hub and the STP service providers and code of conduct for the STP service providers. The STP centralised hub and the STP service providers shall abide by these Guidelines. The guidelines are given as ANNEXURE V.

3.3.3. To prescribe contractual obligations between the STP centralised hub and the STP service providers and to facilitate standardisation of service, a model agreement between the STP centralised hub and the STP service providers has also been prescribed by SEBI and is prescribed as Schedule II of the STP Guidelines. The agreement between the STP centralised hub and the STP service provider shall include the provisions included in the model agreement.

3.4. **Work flow for institutional investors[11],[12]**

3.4.1. All institutional investors shall follow the following transaction work flow on a mandatory basis:

3.4.1.1. A contract note in electronic form in the prescribed format (IFN 515 messaging format) shall be issued by the broker & sent to the custodian and/ or the institutional investor.

3.4.1.2. In case the contract note is processed directly by the institutional investor, the institutional investor shall send the trade confirmation of acceptance or rejection of the contract note to the broker by using the IFN 598 messaging format. The custodian shall also send the confirmation of acceptance or rejection of such contract note to the broker using the messaging standard IFN 548.

3.4.1.3. In case the contract note is processed by the custodian on behalf of the institutional investor, the custodian shall send the confirmation of acceptance or rejection of the contract note to the broker by using the IFN 548 messaging format.

3.4.1.4. The institutional investor shall send settlement instructions to its custodian in IFN 540 to IFN 543 messaging formats to the custodian for the following trade types:

3.4.1.4.1. IFN 540: settlement instruction for a buy trade free of payment

3.4.1.4.2. IFN 541: settlement instruction for a buy trade against payment

[11] Ref.No. DNPD/Cir-25/04 dated June 10, 2004

[12] Ref. No. DNPD/14785/04 dated July 08, 2004

3.4.1.4.3. IFN 542: settlement instruction for a sell trade free of payment

3.4.1.4.4. IFN 543: settlement instruction for a sell trade against payment

3.4.1.5. The custodian shall confirm/ reject the execution of the settlement instructions to the institutional investor in IFN 544 to IFN 547 messaging formats in the following manner:

3.4.1.5.1. IFN 544: confirmation of a settlement instruction for a buy trade free of payment (response to IFN 540)

3.4.1.5.2. IFN 545: confirmation of a settlement instruction for a buy trade against payment (response to IFN 541)

3.4.1.5.3. IFN 546: confirmation of a settlement instruction for a sell trade free of payment (response to IFN 542)

3.4.1.5.4. IFN 547: confirmation of a settlement instruction for a sell trade against payment (response to IFN 543)

3.4.1.6. It is clarified that if a message (for the activities mentioned above) is sent using the STP centralised hub framework from one user to another user, then the confirmation / rejection for such a message shall also be sent using the STP centralised hub framework.

3.4.1.7. It is also clarified that in the IFN 515 message, if the trade is intended to be settled by the custodian with the Clearing Corporation (by accepting the settlement obligation), then it shall be termed as "FREE" and if the trade is intended to be settled by the broker with the Clearing Corporation then it shall be termed as "APMT" (meaning against payment) in the tag 22H of the IFN 515 message.

3.4.2. Please refer to the format for the electronic contract note prescribed at Annexure III. After deliberation with the STP service providers and the market participants, the following changes have been incorporated to the existing messaging format (IFN 515):

3.4.2.1. The mandatory requirement of mentioning the relevant bye-laws / rules / regulations of the exchange subject to which the said contract note is being issued on each contract note stands modified in the following manner:

3.4.2.1.1. The requirement is not mandatory but optional.

3.4.2.1.2. The broker shall ensure that the relevant bye-laws / rules / regulations of the exchange subject to which the contract note is being issued, is mentioned in the broker-client agreement and the tripartite agreement between the broker-AP-client agreement (if applicable).

3.4.2.1.3. The existing field for the above provision shall not be deleted and may be used as a free text field for one constituent to communicate remarks (if any) to another constituent.

3.4.2.2. The clause of 'payment of consolidated stamp duty' for each contract note shall be mentioned in the broker-client agreement and the tripartite agreement between the broker-AP-client agreement (if applicable). The said clause may be stated in the free text field (as mentioned in point 2 (a) (iii) above) of each contract note.

3.4.2.3. In the field "market type" (field 70E) a category of 'TT' i.e. trade for trade and 'OT' i.e. Others shall be added to represent the supplementary categories of market types.

3.4.2.4. The order time was prescribed as a mandatory field in the contract note. The order time shall now be included in the optional fields.

3.4.2.5. There are certain securities which are not de-materalised and hence do not have an ISIN code. For such securities (where ISIN number is not available) the STP users would be required to input the security code given by the exchange in the ISIN number field. In case the number length of the exchange scrip code is shorter than the prescribed field length of 12 characters, the code shall be prefixed with zeros.

3.4.2.6. In order to maintain a complete audit trail, it is clarified that in case an electronic contract note is rejected, the custodian (in messaging format IFN 548) or the fund manager (in messaging format IFN 598) shall be required to send a rejection message to the broker. Only on receipt of the rejection message, the broker shall cancel the rejected contract note and issue a fresh contract note bearing a new number.

3.4.2.7. In order to bring in standardisation in the input of the identification codes in the prescribed messaging standards, it is clarified that the following codes shall be used by the various entities:

3.4.2.7.1. **Brokers**: SEBI registration number

3.4.2.7.2. **Mutual Funds and schemes of Mutual Funds:** SEBI registration number for Mutual Funds and Unique client code issued by the exchanges for schemes

3.4.2.7.3. **FPIs:** SEBI registration number for the Foreign Portfolio Investors ("FPIs")

3.4.2.7.4. **Custodians:** SEBI registration number

3.4.2.7.5. **STP service providers and STP centralised hub:** PAN

3.4.2.7.6. **Depositories and exchanges / clearing house / clearing corporation:** PAN

3.4.2.7.7. **Other Institutional Investors like financial institutions, banks etc.:** Unique client code issued by the exchanges

3.4.2.8. All market participants shall issue the electronic contract note for institutional trades in the modified format**.**

3.4.3. After consultation with the market participants and confirming their preparedness, it has been decided to make the messaging formats for IFN 540, IFN 541, IFN 542, IFN 543, IFN 544, IFN 545, IFN 546, IFN 547, IFN 548 and IFN 598 (in addition to IFN 515) mandatory for all institutional trades.

3.4.4. It is reiterated that the STP system shall be initially mandatory for all institutional trades in the equity segment.

3.4.5. The standard terms of contract as are required to be mentioned in the Contract Notes as per the Bye-laws and Regulations of exchanges, which are not contained in electronic contract notes, shall be incorporated in the Client Broker Agreement or where applicable, the Tripartite Agreement between the stock broker, AP and the client. The stamp duty in respect of the electronic contract notes shall be paid by the broker.

3.5. Modifications in the prescribed messaging formats[13]

In order to integrate the STT in the STP system, it would be necessary to provide for necessary fields in the appropriate messaging standards. Accordingly, it has been decided to make the following modifications in the prescribed messaging formats:

3.5.1. Message Types that shall be modified are **IFN515, IFN540, IFN541, IFN542 and IFN543**

A Qualifier shall be used to identify Securities Transaction Tax Amount: "**COUN**", Country, National Federal Tax.

3.5.2. The change in the ISO Structure for the impacted message types shall be as follows:

M	16R		AMT	Start of block	

[13] Ref. No. DNPD/Cir-28/04 dated September 28, 2004

M	19A	Amount	:4!c//3!a11d	To identify the Securities Transaction Tax Amount	Format: (Qualifier) //(Currency Code) (Amount) For: Securities Transaction tax Amount Qualifier: "COUN" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: Up to 10 digits (only Integer value allowed) followed by a comma (used as decimal sign) . Comma is mandatory. Amount can be zero or greater than zero.
M	16S		AMT	End of block	

3.5.3. Securities Transaction Tax Block shall be placed before the Settlement Amount Block in the stated Message Types. (**IFN515, IFN540, IFN541, IFN542 and IFN543)**

3.5.4. Securities Transaction Tax block will be **mandatory amount block** in IFN515 and **optional amount block** in IFN540, IFN541, IFN542 and IFN543.

3.5.5. If the Contract Note (issued by means of IFN 515) is rejected on the basis of Securities Transaction Tax amount, then the reason for the rejection shall be specified in the "Tag70D Narrative" field and "Tag 24B Reason" specified should be “NARR”.

4. TRADING TERMINALS AND TESTING OF SOFTWARE

4.1. Testing of software used in or related to Trading and Risk Management [14]

4.1.1. Meaning

For the purpose of this section, 'Software' shall mean electronic systems or applications used by stock brokers / trading members for connecting to the stock exchanges and for the purposes of trading and real-time risk management, including software used for Internet Based Trading ("IBT"), Direct Market Access ("DMA"), Securities Trading using Wireless Technology ("STWT"), Smart Order Routing ("SOR"), Algorithmic Trading ("AT"), etc.

4.1.2. Testing of Software

In addition to the testing and approval requirements specified through various circulars issued by SEBI, stock exchanges shall frame appropriate testing policies for functional as well as technical testing of the software. Such framework shall at the minimum include the following:

4.1.2.1. **Testing in a simulated test environment**: Stock exchanges shall provide suitable facilities to market participants / software vendors to test new software or existing software that have undergone change. Subjecting the new software or existing software that have undergone change to such testing facility shall be mandatory for market participants, before putting it in use.

4.1.2.2. **Mock testing**

4.1.2.2.1. Stock exchanges shall organize mock trading sessions on regular basis, at least once in a calendar month, to facilitate testing of new software or existing software that has undergone any change of functionality, in a close-to-real trading environment. Stock exchanges shall suitably design and plan such mock trading sessions to ensure maximum participation and sufficient trading volumes for the purpose of testing.

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[14] Circular No. CIR/MRD/DP/24/2013 dated August 19, 2013, CIR/MRD/DP/06/2014 dated February 07, 2014 and Circular No. CIR/CDMRD/DEICE/03/2015 dated December 11, 2015

4.1.2.2.2. Stock exchanges shall mandate a minimum time period for such testing in the mock trading sessions.

4.1.2.2.3. In order to improve the efficacy of the mock trading sessions, all stock brokers / trading members shall ensure that all approved algorithms and related application servers, irrespective of the algorithm having undergone change or not, shall be part of the mock trading sessions.

4.1.2.2.4. User Acceptance Test ("UAT"): The stock broker/ trading member shall undertake UAT of the software to satisfy itself that the newly developed/ modified software meets its requirements.

4.1.2.2.5. The requirement of mandatory mock trading sessions to facilitate testing of new software or existing software that has undergone any change of functionality shall be optional, if a Stock Exchange provides suitable simulated test environment to test new software/algorithm or existing software/algorithm that has undergone any change of functionality and ensures the following[15]:

4.1.2.2.5.1. The test environment shall be made available to all the members.

4.1.2.2.5.2. The test environment shall be made available for at least two hours and at least on two trading days in a week.

4.1.2.2.5.3. For the purpose of testing, Stock Exchange shall make available data from at least one trading day in all segments and the same shall not be older than one month from the day of the testing environment.

All trading members (excluding those who use only Exchange provided front end and/or ASP services) having approved Algorithms available with the member, irrespective of the algorithm having undergone change or not, shall participate in the Simulated Environment at least on one trading day during each calendar month at all the exchanges where they are members. This shall be audited and reported in the System Auditors report.

4.1.2.2.5.4. Exchange shall provide a daily log, including Algos used, of members' participation in Simulated Environment to all participating members. The Exchange shall provide summary report of such activity to SCOT.

4.1.2.3. With respect to testing of software related to (a) fixes to bugs in the software, (b) changes undertaken to the stock brokers' software/ systems pursuant to a change to any stock exchange's trading system, and (c) software purchased from a software vendor that has already been tested in the mock

[15] Circular No. SEBI/HO/MRD1/DSAP/CIR/P/2020/234 dated November 24, 2020

environment by certain number of stock brokers, stock exchanges may prescribe a faster approval process to make the process of approval expeditious.

4.1.3. Stock exchanges shall monitor compliance of stock brokers / trading members, who use trading algorithm, with regard to the requirement of participation in mock trading session as mandated with this circular. In cases where stock exchanges find that the stock broker / trading member has failed to participate in such mock trading sessions, stock exchange shall call for reasons and if found unsatisfactory, shall suspend the proprietary trading rights of the stock broker/ trading member for a minimum period of one trading day.

4.1.4. Stock exchanges shall also ensure that the system auditors examine the compliance of stock broker / trading member, who use trading algorithms, with regard to the requirement of participation in mock trading session, as mandated with this circular, and provide suitable comments in the periodic system audit report. In cases where the system audit report indicate that the stock broker / trading member has failed to participate in such mock trading sessions, stock exchange shall call for reasons from the stock broker/trading member and if found unsatisfactory, shall suspend the proprietary trading rights of the stock broker / trading member for a minimum period of one trading day.

4.1.5. For pre-approval / periodic system audit of Computer-to-Computer Link ("CTCL") or Intermediate Messaging Layer ("IML") or Enhanced Trading Interface (ETI), IBT, DMA, STWT, SOR and AT, stock brokers / trading members shall engage a system auditor with any of the certifications as specified in Clause 6.1.6 of this Circular for Stock Exchanges. While finalizing the system auditor, stock brokers / trading members shall ensure the system auditor does not have any conflict of interest with the stock broker and the directors/promoters of the system auditor are not directly or indirectly related to the current directors or promoters of stock broker / trading member.

4.1.6. **Approval of Software of stock broker / trading member**

4.1.6.1. Stock brokers / trading members shall seek approval of the respective stock exchanges for deployment of the software in the securities market by submitting necessary details required by stock exchange including details of software, tests undertaken and certificate / report provided by the system auditor. Stock exchange may seek additional details as deemed necessary for evaluating the application of the stock broker / trading member.

4.1.6.2. Stock exchanges shall grant approval or reject the application of the stock broker as the case may be, and communicate the decision to the stock broker / trading member within fifteen working days from the date of receipt of completed application (or within any other such time period specified vide SEBI circulars on DMA, IBT, STWT, SOR, AT, etc.). In case of rejection of the application, the stock exchange shall also communicate reasons of rejection to the stock broker / trading member within such time period.

4.1.6.3. Before granting approval to use software in securities market, stock exchange shall ensure that the requirements specified by SEBI / stock exchange with regard to software are met by the stock broker / trading member.

4.1.6.4. Stock exchanges may suitably schedule the requirements of mock testing, certification of test reports by system auditor(s) and the software approval process, so as to facilitate a speedy approval and a smooth transition of the stock brokers to the new / upgraded software.

4.1.7. In order to ensure that stock brokers are not using software without requisite approval of the stock exchanges, stock exchanges are advised to put in place suitable mechanism to prevent any unauthorized change to the approved software.

4.1.8. **Undertaking to be provided by stock brokers / trading members**

4.1.8.1. Stock brokers / trading members shall submit an undertaking to the respective stock exchanges stating the following at the minimum:

4.1.8.2. M/s (name of the stock broker / trading member) will take all necessary steps to ensure that every new software and any change thereupon to the trading and/or risk management functionalities of the software will be tested as per the framework prescribed by SEBI / stock exchange before deployment of such new / modified software in securities market.

4.1.8.3. M/s (name of the stock broker / trading member) will ensure that approval of the stock exchange is sought for all new / modified software and will comply with various requirements specified by SEBI or the stock exchange from time to time with regard to usage, testing and audit of the software.

4.1.8.3.1. The absolute liability arising from failure to comply with the above provisions shall lie entirely with M/s (name of the stock broker / trading member).

4.1.8.4. Stock exchanges may include additional clauses as deemed necessary in the undertaking.

4.1.9. Sharing of Application Programming Interface (API) specifications by the stock exchange with stock brokers / trading members

4.1.9.1. Stock exchanges shall provide relevant API specifications to all stock brokers / trading members and software vendors who are desirous of developing software for the securities market, after establishing their respective credentials.

4.1.9.2. In case of refusal to share APIs, stock exchanges shall provide reasons in writing to the desirous stock brokers / trading members or software vendors within a period of fifteen working days from the date of receipt of such request for sharing of API.

4.1.9.3. Further, stock exchanges shall not selectively release updates / modifications, if any, of the existing API specifications to few stock brokers / trading members or software vendors ahead of others and shall provide such updated / modified API specifications to all stock brokers / trading members and software vendors with whom the earlier API specifications were shared.

4.1.10. **Penalty on malfunction of software used by stock broker/ trading member:**

Stock exchanges shall examine the cases of malfunctioning of software used by stock brokers / trading members and apply deterrent penalties in form of fines or suspension to the stock broker/trading member whose software malfunctioned. In addition, stock brokers/trading members shall implement various mechanisms including the following to minimize their losses in the event of software malfunction:

4.1.10.1. include suitable clauses in their agreement with the software vendors to define liabilities of software vendor and stock broker / trading member in case of software malfunction, and / or,

4.1.10.2. consider taking suitable insurance cover to meet probable losses in case of software malfunction.

4.1.11. With regard to changes / updates to stock broker's trading software that intend to modify the 'look and feel' and do not affect the risk management system of the stock broker or the connectivity of the trading software with stock exchange's trading system, it is clarified that mock testing and consequent system audit may not be insisted upon by the stock exchanges.

4.1.12. Stock exchanges shall direct their stock brokers to put in place adequate mechanism to restore their trading systems to 'production state' at the end of testing session so as to ensure integrity of stock brokers' trading system.

4.2. Expansion of trading terminals[16]

The stock exchanges are allowed to set-up terminals at any place in the country, subject to:

4.2.1. adequate monitoring and surveillance mechanism for such outstation terminals in order to oversee the trades.

4.2.2. adherence to all applicable regulatory requirements pertaining to a trade.

4.3. Broad Guidelines for opening Trading Terminals abroad[17]

The Stock Exchanges/ Members shall follow the following guidelines for opening and maintaining the trading terminals abroad:

4.3.1. **Eligibility Criteria -** Such trading terminals shall be opened only by the Stock Brokers of the stock exchanges registered with SEBI after due approval of stock exchanges. Opening of terminals through APs shall not be permitted.

4.3.2. **RBI Permission -** Such terminals abroad would be opened subject to the guidelines laid down by the RBI from time to time.

4.3.3. **Permission by the Foreign Regulatory Authorities -** The installation of such trading terminals shall be subject to the prior permission of the concerned regulatory authorities of the respective foreign countries, wherever required.

4.3.4. **Operation of the terminals -** Any investor abroad who is permitted to invest in India i.e. NRIs/OCBs/FPIs/PIOs shall be able to place orders on the trading terminal of the Exchange available at the office of the Indian broker maintained abroad. The order fed on the live terminal shall be executed on the computer of the

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[16] Circular No. SMD/POLICY CIR-33/99 dated October 15, 1999
[17] Circular No. SMDRP/POLICY/TTA-14072/CIR-23/99 dated July 12, 1999

Exchange in India. These terminals shall include any of other options that the respective exchange may provide for connecting its trading terminal abroad to its trading system in India.

4.3.5. **Contract Note -** The contract note in favour of the client abroad shall be issued in India, however the same could be printed in the broker's office abroad and shall be subject to the jurisdiction of the respective stock exchanges.

4.3.6. **Capital Adequacy, Margins System, Brokerage and Monitoring & Surveillance-** All trades through such trading terminals shall be subject to all applicable regulatory requirements and rules etc. prescribed by SEBI and the stock exchanges including those for margins, capital adequacy, intra-day trading, brokerage, monitoring and surveillance etc.

4.3.7. **Jurisdiction -** The agreement between the trading member and constituent should, inter alia, state that, all trades, transactions and contracts are subject to the Rules, Bye Laws and Regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the city of _________, India and the parties to such trade shall be deemed to have submitted to the jurisdiction of the Courts in _________, India for the purpose of giving effect to the provisions of the Rules, Bye Laws and Regulations of the Exchange.

4.4. Safeguards to avoid trading disruption in case of failure of software vendor[18]

In order to ensure continuity of services from software vendors, stock exchanges may advise the stock brokers to take the following measures:

4.4.1. Explore the possibility of establishing a 'software escrow arrangement' with their existing software vendors.

4.4.2. In case of large stock brokers, consider reducing dependence on a single software vendor for trading and risk management systems, by engaging more than one software vendor.

4.4.3. Consider including the following in their contracts with the software vendors:

[18] Circular No. CIR/MRD/DP/07/2014 dated February 11, 2014

4.4.3.1. access to documents related to design and development specifications in the event software vendor fails to provide continuous and timely services to the stock broker;

4.4.3.2. development of expertise at the end of the stock broker through appropriate training with regard to software usage and maintenance;

4.4.3.3. appropriate penalty clauses for cases of disruptions to the trading system of the stock broker on account of (a) software vendor failing to provide continuous and timely services to the stock broker or (b) glitches to the software provided by the software vendor;

4.4.3.4. obligation on the part of the software vendor to cooperate in case of audit of software including forensic audit, if required.

4.5. Advisory on Systems of Trading Members certified/qualified by MIIs for deployment[19]

Exchanges shall ensure that for any system of Trading Members which has been certified/qualified for deployment, it has a mechanism to ensure that after a patch is deployed in that system, the system is consistent in its behaviour and it complies with testing conducted earlier during certifying/qualifying the system.

[19] Email dated November 11, 2024 on "Systems of Trading Members/Clearing Members/Depository Participants certified/qualified by MIIs for deployment"

5. SMART ORDER ROUTING

5.1. Introduction of Smart Order Routing[20]

5.1.1. Smart Order Routing ("SOR") 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. Stock Exchanges are advised to ensure the following conditions with regard to SOR:

5.1.1.1. Stock Brokers interested to offer SOR facility shall make an application through a common portal providing details of all the stock exchanges where they intend to provide SOR facility. The application shall be approved by only one of the exchanges and the allocation of application among exchanges shall be on round robin basis. The aforesaid portal and an SOP for its operationalization shall be developed by Stock Exchanges in consultation with Industry Standard Forum within 3 months..

5.1.1.2. Stock broker shall submit a third party system audit of its SOR system and software. Stock exchanges shall disseminate to its stock brokers a list of approved system auditors (shall at least possess any of the certifications as specified in Clause 6.1.6 of this Circular for MIIs) qualified to undertake such system audits.

5.1.1.3. Stock broker shall provide the following to the respective stock exchange:

5.1.1.3.1. An undertaking to the respective stock exchange that SOR shall route orders in a neutral manner.

5.1.1.3.2. Provide the features of the SOR to stock exchange.

5.1.1.4. Stock exchange shall communicate its decision of acceptance or rejection with detailed reasons to the broker within 30 calendar days from the date of receipt of complete application by the stock exchange. Stock exchange shall not consider testing and demonstration of the SOR system/software as a criterion for declaring the application of the broker as 'complete'. Further, testing and demonstration of SOR system/software, if required, shall be suitably scheduled within the aforesaid period of 30 calendar days.

Further, the decision of the stock exchange on the SOR application of the stock broker and reasons for rejection of the SOR application shall also be

[20] Circular No. CIR/MRD/DP/26/2010 dated August 27, 2010

communicated to all the other stock exchanges where the broker's SOR facility intends to route orders.[21]

5.1.1.5. Brokers adhere to the best execution policy while using SOR.

5.1.1.6. SOR facility shall be provided to all class of investors.

5.1.1.7. Stock Broker shall communicate to all clients the features, possible risks, rights, responsibilities and liabilities associated with the smart order routing facility in the "Rights and Obligations" document, as applicable.[22]

5.1.1.8. Stock broker shall maintain logs of all activities to facilitate audit trail. Broker shall maintain record of orders, trades and data points for the basis of decision.

5.1.1.9. In case the client has availed Smart Order Routing facility and does not want to use the same for a particular order, the same shall be well documented by the stock broker.

5.1.1.10. System audit of the SOR systems and software shall be periodically carried out by the brokers as may be specified by the exchange and certificate in this regard shall be submitted to the exchange.

5.1.1.11. SOR is not used to place orders at venues other than the recognised stock exchanges.

5.1.1.12. The stock broker shall carry out appropriate validation of all risk parameters before the orders are placed in the SOR system.

5.1.1.13. Stock exchange shall provide unique identification number for the orders placed through SOR system. Further, stock exchanges shall maintain data on SOR orders and trades.

5.1.1.14. Stock exchange shall have necessary surveillance mechanism in place to monitor trading done through SOR.

5.1.1.15. Stock broker shall ensure that alternative mode of trading system is available in case of failure of SOR facility.

5.1.1.16. Stock exchange shall ensure that within a period of three months from implementation of SOR, a system is put in place to time stamp market data feed that is disseminated to the market, if the same is not already available.

5.1.1.17. The broker server routing orders placed through the SOR system to the exchange trading system shall be located in India. Stock exchange shall permit SOR approved brokers to offer SOR facility through all their servers irrespective of their location in India.[23]

5.1.1.18. All other existing obligations for the broker as per current regulations and circulars will continue.

5.1.1.19. Stock exchange may specify additional safeguards as they deem fit for allowing SOR facility to their brokers.

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[21] Circular No. CIR/MRD/DP/ 36 /2010 dated December 09, 2010

[22] Circular No. CIR/MRD/DP/ 36 /2010 dated December 09, 2010

[23] Circular No. CIR/MRD/DP/ 36 /2010 dated December 09, 2010

5.1.1.20. Stock exchange shall permit smart order routing for all orders, without restricting to any specific type of order. The choice on order types shall be left to the client.[24]

5.1.1.21. If stock exchange desires to advise its brokers to seek re-approval, it may do so only in case of [25]

5.1.1.21.1. Inclusion of a new stock exchange for offering SOR facility; and/or,

5.1.1.21.2. Material changes in the software/system of the SOR facility.

[24] Circular No. CIR/MRD/DP/ 36 /2010 dated December 09, 2010

[25] Circular No. CIR/MRD/DP/ 36 /2010 dated December 09, 2010

6. ALGORITHMIC TRADING

6.1. Broad Guidelines on Algorithmic Trading[26,27]

Definition

6.1.1. **Algorithmic Trading:** Any order that is generated using automated execution logic shall be known as algorithmic trading.

Guidelines to the stock exchanges and the stock brokers

6.1.2. Stock exchanges shall ensure the following while permitting algorithmic trading:

6.1.2.1. The stock exchange shall have arrangements, procedures and system capability to manage the load on their systems in such a manner so as to achieve consistent response time to all stock brokers. The stock exchange shall continuously study the performance of its systems and, if necessary, undertake system upgradation, including periodic upgradation of its surveillance system, in order to keep pace with the speed of trade and volume of data that may arise through algorithmic trading.

6.1.2.2. While approving the algorithmic trading, the stock exchanges shall ensure that:

I. There is clear classification of algorithmic orders in terms of CTCL terminal code/ATS User ID approved by the stock exchange for algorithmic trading.

II. The orders of clients are routed through member server only and client orders are not placed directly to the stock exchange system.

III. The stock exchanges shall not approve algorithms that may not be conducive to efficient price discovery or fair play.

IV. The stock exchanges shall subject the systems of the members to initial conformance tests and ensure that the checks mentioned in these guidelines are in place.

6.1.2.3. In order to ensure maintenance of orderly trading in the market, stock exchange shall put in place effective economic disincentives with regard to high daily

[26] Circular No. CIR/MRD/DP/09/2012 dated March 30, 2012 and Circular No. CIR/MRD/DP/16/2013 dated May 21, 2013

[27] SEBI circular no SEBI/HO/CDMRD/DMP/CIR/P/2016/97 dated September 27, 2016

order-to-trade ratio of algo orders of the stock broker. Further, the stock exchange shall put in place monitoring systems to identify and initiate measures to impede any possible instances of order flooding by algos.

6.1.2.4. In order to discourage repetitive instances of high daily order-to-trade ratio, stock exchanges shall impose an additional penalty in form of suspension of proprietary trading right of the stock broker for the first trading hour on the next trading day in case a stock broker is penalized for maintaining high daily order-to-trade ratio, provided penalty was imposed on the stock broker on more than ten occasions in the previous thirty trading days.

6.1.2.5. The stock exchange shall ensure that all algorithmic orders are necessarily routed through broker servers located in India and through specified CTCL ID/ATS User–ID approved by the stock exchange for algorithmic trading. The stock exchanges shall also ensure that these have no interlink with any system or ID located/ linked outside India.

6.1.2.6. The stock exchange has appropriate multi-layer risk controls mechanism to address the risk emanating from algorithmic orders and trades.

6.1.2.7. In the interest of orderly trading and market integrity, the stock exchange shall put in place a system to identify dysfunctional algos (i.e. algos leading to loop or runaway situation) and take suitable measures, including advising the member, to shut down such algos and remove any outstanding orders in the system that have emanated from such dysfunctional algos. Further, in exigency, the stock exchange should be in a position to shut down the broker's terminal.

6.1.2.8. Terminals of the stock broker that are disabled upon exhaustion of collaterals shall be enabled manually by the stock exchange in coordination with Clearing Corporations in accordance with its risk management procedures.

6.1.2.9. The stock exchange may seek details of trading strategies used by the algo for such purposes viz. inquiry, surveillance, investigation, etc.

6.1.2.10. Stock Exchanges shall have an effective surveillance mechanism to ensure that only approved algorithmic strategies are used and shall take necessary steps to prevent market manipulation by ensuring effective monitoring and surveillance of orders and trades resulting from trading algorithms. Stock exchanges shall periodically review their surveillance arrangements in order to better detect and investigate market manipulation and market disruptions.

6.1.2.11. The stock exchange shall submit a report on algorithmic trading on the stock exchange to its Standing Committee on Technology (SCOT) inter-alia incorporating turnover details of algorithmic trading, algorithmic trading as percentage of total trading, number of stock brokers / clients using algorithmic trading, action taken in respect of dysfunctional algos, status of grievances, if any, received and processed, etc. These details shall also be published by the stock exchange on its website.

6.1.3. Stock exchange shall ensure that the stock broker shall provide the facility of algorithmic trading only upon the prior permission of the stock exchange. While considering such approval, the stock exchanges shall ensure that the controls specified in these guidelines are fully implemented by the member.

6.1.4. Stock exchange shall subject the systems of the stock broker to initial conformance tests to ensure that the checks mentioned below are in place and that the stock broker's system facilitate orderly trading and integrity of the securities market. Further, the stock exchange shall suitably schedule such conformance tests and thereafter, convey the outcome of the test to the stock broker.

6.1.5. Stock exchange shall ensure that the member's trades routed through algorithmic trading are not in the nature of abnormal / manipulative trades.

6.1.6. The stock brokers that provide the facility of algorithmic trading shall subject their algorithmic trading system to a system audit every six months in order to ensure that the requirements prescribed by SEBI / stock exchanges with regard to algorithmic trading are effectively implemented. Such system audit of algorithmic trading system shall be undertaken by a system auditor who possess any of the following certifications[28]:

6.1.6.1. CISA (Certified Information System Auditors) from ISACA;

6.1.6.2. DISA (Post Qualification Certification in Information Systems Audit) from Institute of Chartered Accountants of India (ICAI);

6.1.6.3. CISM (Certified Information Securities Manager) from ISACA;

6.1.6.4. CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC)^2.

6.1.7. Deficiencies or issues identified during the process of system audit of trading algorithm / software shall be reported by the stock broker to the stock exchange immediately on completion of the system audit. Further, the stock broker shall take immediate corrective actions to rectify such deficiencies / issues.

6.1.8. In case of serious deficiencies / issues or failure of the stock broker to take satisfactory corrective action, the stock exchange shall not allow the stock broker to use the trading software till deficiencies / issues with the trading software are rectified and a satisfactory system audit report is submitted to the stock exchange. Stock exchanges may also consider imposing suitable penalties in case of failure of the stock broker to

[28] SEBI circular no SEBI/HO/CDMRD/DRMP/CIR/P/2018/60 dated April 03, 2018.

take satisfactory corrective action to its system within the time-period specified by the stock exchanges. Further, the stock exchange shall subject the stock broker systems to more frequent system audits, if required.

6.1.9. The stock exchange shall satisfy itself that stock broker, desirous of placing orders generated using algos, shall implement the following minimum levels of risk controls at its end-

6.1.9.1. *Price check* – Algo orders shall not be released in breach of the following:

6.1.9.1.1. price bands defined by the exchange for the security.

6.1.9.1.2. daily price limit defined in the contract specification, as applicable for commodity derivatives segment.

6.1.9.1.3. any other limit which may be prescribed by the stock exchange.

6.1.9.2. *Quantity check* – Algo orders shall not be released in breach of the quantity limit as defined by the exchange for the security or the maximum order size limit defined in the contract specification.

6.1.9.3. *Position limit*: The net position of the client / member are not in violation of the position limits prescribed for the respective commodity.

6.1.9.4. *Order Value check* - Algo orders shall not be released in breach of the 'value per order' as defined by the stock exchanges.

6.1.9.5. *Cumulative Open Order Value check* – The individual client level cumulative open order value check, may be prescribed by the broker for the clients. Cumulative Open Order Value for a client is the total value of its unexecuted orders released from the stock broker system.

6.1.9.6. *Automated Execution check* – An algo shall account for all executed, un-executed and unconfirmed orders, placed by it before releasing further order(s). Further, the algo system shall have pre-defined parameters for an automatic stoppage in the event of algo execution leading to a loop or a runaway situation. The member shall have system to identify dysfunctional algorithms.

6.1.9.7. All algorithmic orders are tagged with a unique identifier provided by the stock exchange in order to establish audit trail.

6.1.9.8. In order to ensure enhanced surveillance, stock exchanges shall allot a unique identifier to each algorithm approved by them. Stock exchanges shall ensure that every algorithm order reaching on exchange platform is tagged with the unique identifier allotted to the respective algorithm and that such unique identifier tags are part of the data set sent / shared with SEBI for surveillance purpose.

6.1.10. Net open position check: The stock exchanges shall have appropriate risk control to ensure that the quantity quoted in the order shall not violate the position limits at member level and client level.

6.1.11. The other risk management checks already put in place by the exchange shall continue and the exchange may re-evaluate such checks if deemed necessary in view of algo trading.

6.1.12. The respective stock exchange shall ensure that stock broker, desirous of placing orders generated using algos, shall submit an undertaking that -

6.1.12.1. The stock broker has proper procedures, systems and technical capability to carry out trading through the use of algorithms and to safeguard algorithms from misuse or unauthorized access.

6.1.12.2. The stock broker has real-time monitoring systems to identify algorithms that may not behave as expected. Stock broker shall keep stock exchange informed of such incidents immediately.

6.1.12.3. The stock broker shall maintain logs of all trading activities to facilitate audit trail. The stock broker shall maintain record of control parameters, orders, trades and data points emanating from trades executed through algorithm trading.

6.1.12.4. The stock broker shall inform the stock exchange on any modification or change to the approved algos or systems used for algos. Further, in case of commodity derivatives segment, the stock broker shall obtain prior approval of the stock exchange on any modification or change to the approved algorithms or systems used for algorithms.

6.1.13. The stock exchange shall ensure conformance of such modified algo or systems to the requirements specified in these guidelines.

Economic Disincentives on Order to Trade Ratio (OTR) (excluding Commodity Derivatives Segment)[29]

6.1.14. In order to ensure orderly trading in the market, as mentioned in Clause 6.1.2.3 above, stock exchanges were advised to put in place effective economic disincentives for high daily order-to-trade ratio (OTR) of algo orders placed by trading members. In order to encourage algo traders to place more orders closer to the last traded price (LTP), the following modification shall be carried out in the existing OTR framework:

6.1.14.1. Orders placed within the range of ±0.75% of the LTP shall be exempted from the framework for imposing penalty for high OTR. However, for equity option contracts, orders placed within the range of ±40% of LTP (premium) or ±INR 20, whichever is higher, shall be exempted from the framework for imposing penalty for high OTR.

[29] Circular No. SEBI/HO/MRD/DP/CIR/P/2018/62 dated April 09, 2018 and HO/47/11/16(2)2025-MRD-POD2/I/4113/2026 dated February 04, 2026

6.1.14.2. OTR framework shall be applicable to the orders placed in the cash segment and the derivative segment, including the orders placed under the liquidity enhancement schemes. However, the algorithmic orders placed by Designated Market Makers for market making activity shall be exempted from the framework for imposing penalty for high OTR.

6.1.15. Further, on the basis of request received from the stock exchange(s), the following modification shall be carried out in the existing OTR framework[30]:

6.1.15.1. Stock exchanges may be permitted to introduce additional slabs upto OTR of 2000 (from existing OTR of 500), and for OTR more than 2000. Such slabs can be introduced with deterrent incremental penalty, which stock exchanges may decide jointly.

6.1.15.2. On the third instance of OTR being 2000 or more, in last 30 days (rolling basis), the concerned member shall not be permitted to place any orders for the first 15 minutes on the next trading day as a cooling off action.

Economic Disincentives on Order to Trade Ratio (OTR) (Commodity Derivatives Segment)

6.1.16. Exchanges shall put in place the following economic disincentives for daily algorithmic order–to–trade ratio:

Member-wise Daily Order-to-Trade Ratio (X)	***Charges (Per order)***
Up to 50	NIL
50 to less than 250 (on incremental basis)	1 paise
250 to less than 500 (on incremental basis)	5 paise
500 or more than 500 (on incremental basis)	5 paise

I. In case the ratio is 500 or more than 500 during a trading day, the concerned member shall not be permitted to place any order for the first 15 minutes on the next trading day (in the continuous trading session) as a cooling off action. However, the trading member shall be permitted to enter transaction in risk reducing mode during such a cooling off period.

[30] Circular No. SEBI/HO/MRD1/DSAP/CIR/P/2020/107 dated June 24, 2020

II. For the purpose of calculation of daily Order-to-trade ratio, all algorithmic orders, i.e. order entry, order modifications and order cancellation shall be considered.

III. The algorithmic orders entered and /or modified within 1 % of the last traded price ("**LTP**") of the respective contract shall not be included in the calculation of the Order-to-Trade ratio for the purpose of arriving at the penalty for higher order-to-trade ratio.

IV. The penalty structure will be applicable for only those members who have placed 10,000 orders or more in a day.

Additional guidelines for algorithmic trading in Commodity Derivatives Segment

6.1.17. The algorithms which will 'take liquidity' away from the market shall not be approved. While approving algorithmic strategies, stock exchanges shall record the reason as to why such strategy is allowed and how it will induct more liquidity in the contract system. Stock Exchanges shall also make half yearly review of effect of the approved strategies on liquidity and would discontinue / disapprove any strategy which fails to induct liquidity.

6.1.18. As mini and micro contracts are targeted towards small participants, while allowing algorithmic trading in mini and micro contracts, stock exchange should exercise caution and permit algorithmic trading only after ascertaining that it will not put small participants in disadvantage.

6.1.19. Algorithmic trading shall not be permitted from stock exchange hosted CTCL terminals.

6.1.20. Immediate or Cancel ("IOC") and Market orders shall not be allowed to be placed using algorithmic trading. Only limit orders shall be allowed.

6.1.21. The Stock Exchange shall place a limit (X) on the numbers of orders per second from a particular CTCL ID/ATS User-ID not exceeding one hundred and twenty orders per second. Compliance with the limit "X" so set by a particular CTCL ID/ATS User-ID shall be measured over a rolling period of five seconds (i.e., 5X orders for 0th –5th second, 5X orders for 1st-6th second, 5X orders for 2nd to 7th second and so on).

For number of orders exceeding the limit (X) set by the Stock Exchange, the Stock Exchange shall prescribe economic disincentives and shall inform the same to SEBI.

Further, Stock Exchange shall ensure that the limits provided is subject to its ability to handle the load. [31]

6.1.22. The limit on OPS may be further relaxed by the Stock Exchanges based on the increased peak order load observed and corresponding upgrade of infrastructure capacity to ensure that the capacity of trading system of the Stock Exchange remains at least two times of the projected peak load. The relaxation in limit shall be subject to approval of SEBI.

[31] SEBI Circular No. SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2022/30 dated March 17, 2022.

7. CO-LOCATION / PROXIMITY HOSTING

7.1. Co-location / proximity hosting facility offered by stock exchanges[32]

7.1.1. The facility of co-location or proximity hosting (or by whatever name called) is offered by the stock exchanges to stock brokers and data vendors whereby their trading or data-vending systems are allowed to be located within or at close proximity to the premises of the stock exchanges, and are allowed to connect to the trading platform of stock exchanges through direct and private network.

7.1.2. In order to ensure fair and equitable access to the co-location facility, stock exchanges shall:

7.1.2.1. provide co-location / proximity hosting in a fair, transparent and equitable manner.

7.1.2.2. ensure that all participants who avail co-location / proximity hosting facility have fair and equal access to facilities and data feeds provided by the stock exchange.

7.1.2.3. ensure that all stock brokers and data vendors using co-location / proximity hosting experience similar latency with respect to exchange provided infrastructure.

7.1.2.4. ensure that the size of the co-located / proximity hosting space is sufficient to accommodate all the stock brokers and data vendors who are desirous of availing the facility.

7.1.2.5. provide the flexibility to avail rack space in the co-location / proximity hosting so as to meet the needs of all stock brokers desirous of availing such facility.

7.1.2.6. expeditiously decide on the request of the desirous stock brokers / data vendors for availing co-location / proximity hosting and communicate the decision within fifteen working days from the receipt of the request from the stock brokers / data vendors. In case of a rejection, stock exchanges shall also provide reasons in writing to the stock brokers / data vendors.

7.1.2.7. facilitate stock brokers to receive data feeds from other recognised stock exchanges at the co-location facilities and allow routing of orders to other recognised stock exchanges from the co-location facilities.

7.1.2.8. make available on their websites description of the co-location / proximity hosting, including requirements to be fulfilled by stock brokers / data vendors who avail the facility, details on fees / charges associated with the facility, etc.

[32] Circular No. CIR/MRD/DP/07/2015 dated May 13, 2015

7.1.2.9. publish on their websites suitable quarterly reports on latencies observed at the exchange.

7.1.2.10. be able to identify orders emanating from the co-located servers of stock brokers and the resultant trades. Suitable statistics relating to such orders and trades shall be disseminated by the stock exchanges.

7.1.3. In order to ensure that the facility of co-location / proximity hosting does not compromise integrity and security of the data and trading systems, stock exchanges shall:

7.1.3.1. implement suitable mechanism to protect their systems and systems of stock brokers and data vendors at co-location / proximity hosting from unauthorized access.

7.1.3.2. frame guidelines on access and conduct of the personnel of stock brokers / data vendors in the premises of the stock exchange, including in the co-located space.

7.1.3.3. not provide access in any form to the personnel of stock brokers/ data vendors to the stock exchange's trading platform and databases.

7.2. **Measures to strengthen Co-location/ proximity Hosting Framework**[33]

7.2.1. It has been decided to introduce the following measures in connection with algorithmic trading and co-location/ proximity hosting framework facility offered by stock exchanges.

Managed Co-location Service

7.2.2. In order to facilitate small and medium sized Members, who otherwise find it difficult to avail colocation facility, due to various reasons including but not limited to high cost, lack of expertise in maintenance and troubleshooting, etc. to avail co-location facility, stock exchanges shall introduce 'Managed Co-location Services'. Under this facility, space/rack in co-location facility shall be allotted to eligible vendors by the stock exchange along with provision for receiving market data for further dissemination of the same to their client members and the facility to place orders (algorithmic / non-algorithmic) by the client members from such facility.

7.2.3. The vendors shall provide the technical knowhow, hardware or software or both and other associated expertise as services to trading members and shall be responsible for upkeep and maintenance of all infrastructure in the racks provided to them.

7.2.4. Stock exchanges shall supervise and monitor such facilities on a continuous basis. While allowing such services, stock exchanges shall continue to abide

[33] Circular No. SEBI/HO/MRD/DP/CIR/P/2018/62 dated April 09, 2018

by the provisions at Para 7.1 and 7.3 of this Chapter of Circular for Stock Exchanges including remaining responsible and accountable for actions of vendors providing Managed Co-location Services and ensuring integrity, security and privacy of data, being handled at the facility.

7.2.5. Further, in order to have fair competition, stock exchanges are advised to ensure that multiple vendors are permitted for providing Managed Co-location Services at their co-location facility.

Measurement of Latency for Co-location and Proximity Hosting

7.2.6. Currently, latency is measured by the Stock Exchange as the time taken to complete the round trip from the Core Router (Core Router is the place where both Colo-location orders and Non-colocation orders meet) to the matching engine and back. In order to bring in greater transparency, stock exchanges shall additionally publish minimum, maximum and mean latencies and latencies at 50th and 99th percentile.

7.2.7. Stock Exchanges shall also publish reference latency, which is the time taken for an order message to travel between a reference rack in the Colocation facility and the Core Router.

Free of Charge Tick-by-Tick Data feed (TBT Feed)

7.2.8. Tick-by-Tick (TBT) data feed offered by stock exchanges provides a detailed view of the entire order-book, which includes details relating to addition, modification and cancellation of orders and trades on a real-time basis.

7.2.9. In order to create a more level playing field among the different types of market participants, Stock Exchanges shall provide TBT Feeds to all the trading members, free of cost, subject to trading members creating the necessary infrastructure for receiving and processing it.

7.2.10. After assessing the needs of the market participants, stock exchanges may increase the depth of snapshot of 5 best bid and ask quotes currently being provided by them.

7.3. Review of guidelines for Co-location / proximity hosting facility offered by stock exchanges[34]

7.3.1. Stock exchanges are advised to allow:

7.3.1.1. direct connectivity between colocation facility of one recognised stock exchange and the colocation facility of other recognized stock exchanges.

7.3.1.2. direct connectivity between servers of a stock broker placed in colocation facility of a recognized stock exchange and servers of the same stock broker placed in colocation facility of a different

[34] Circular No. CIR/HO/MRD/DP/CIR/P/2016/129 dated December 01, 2016

recognized stock exchange. This facility should be available to all the colocated brokers, who are desirous to avail such connectivity, in a fair and equitable manner.

7.3.2. In addition to the above, in order to ensure fair and equitable access to the co-location facility it is clarified as under:

7.3.2.1. Colocation services provided by a third party or outsourced from a third party (including Colocation services / data centre facilities entirely/ partially provided and managed by a third party data centre service provider) is deemed to be provided by the stock exchanges. Stock exchange shall ensure complete control and jurisdiction over the matters related to its co-location facility. Further, stock exchange will remain responsible and accountable for actions of such outsourced entity with respect to colocation services.

7.3.2.2. Stock exchanges shall submit a quarterly compliance report to SEBI regarding the outsourcing services after placing it before the SCOT of the respective stock exchange.

7.3.2.3. Facility that allows stock brokers/ data vendors to connect to the stock exchange trading system over a Local Area Network (LAN) shall fall within the definition of "Colocation / proximity hosting".

7.3.3. Further, it is clarified that all provisions at Para 7.1 of this Chapter of Circular for Stock Exchanges on "Colocation / proximity hosting provided by stock exchanges" shall be made applicable, including for cases such as colocation facility entirely/ partially managed by a third party and facility available to stock brokers / data vendors to connect to stock exchange's system over LAN.

7.4. **Co-Location in Commodity Derivatives Segment** [35]

7.4.1. Co-Location, Co–Hosting or any other facility or arrangement which puts some members in disadvantageous position vis-à-vis other members is not allowed in the commodity derivatives segment.

[35] SEBI circular no SEBI/HO/CDMRD/DMP/CIR/P/2016/97 dated September 27, 2016

8. DATA FEEDS

8.1. Fair and transparent access to data feeds of the stock exchanges[36]

8.1.1. Stock exchanges shall formulate a comprehensive policy document for providing stock market related data to the market participants in a fair and transparent manner, irrespective of the type of mechanism used by the stock exchanges for broadcasting of data.

8.1.2. In this context, stock exchanges shall ensure that:

8.1.2.1. Appropriate tools are deployed so as to monitor service quality of data feeds;

8.1.2.2. Appropriate mechanism (viz. load balancers, randomizers, etc.) to manage load across systems disseminating data in order to ensure consistent response time to all market participants;

8.1.2.3. All communication to the market participants, especially on all technology related matters such as Monitoring Tool, Load Balancer, Randomisation etc., are abundantly clear and precise providing all necessary details related to the concerned facility / service, including information on features, benefits, risks, etc. of the concerned facility / service, particularly for participants who have opted for colocation facility.

8.1.3. Stock exchanges shall synchronize their system clocks with the atomic clock before the start of market such that their clocks have precision of at least one microsecond and accuracy of at least +/-one millisecond. In this regard, the stock exchange should ensure that all clocks of the servers and other related systems are synchronized. Stock exchanges may adopt suitable mechanism to ensure such synchronization of system clocks.

[36] Circular No. SEBI/HO/MRD/DP/CIR/P/2017/08 dated January 20, 2017

9. **REFERENCE: List of Circulars**

1. *Circular no. FITTC/DC/CIR-1/98 dated June 16, 1998*
2. *Circular No. SMDRP/POLICY/TTA-14072/CIR-23/99 dated July 12, 1999*
3. *Circular No. SMD/POLICY CIR-33/99 dated October 15, 1999*
4. *Circular No. SMDRP/POLICY/CIR- 06/2000 dated January 31, 2000*
5. *Circular No. SMDRP/Policy/Cir-48/2000 dated October 11, 2000*
6. *Circular No. SMDRP/POLICY/CIR-56/00 dated December 15, 2000*
7. *Circular No. SEBI/SMD/SE/15/2003/29/04 dated April 29, 2003*
8. *Circular No. SEBI/MRD/Policy/SE/15864/2003 dated August 21, 2003*
9. *Circular No. DNPD/ Cir-9/04 dated February 03, 2004*
10. *Circular No. SEBI/MRD/SE/Cir-11/2004 dated February 25, 2004*
11. *Ref. No. DNPD/Cir- 22 /04 dated April 01, 2004*
12. *Ref. No. DNPD/Cir-23/04 dated April 27, 2004*
13. *Ref. No. DNPD/Cir-24/04 dated May 26, 2004 (STP Guidelines)*
14. *Ref. No. DNPD/Cir-25/04dated June 10, 2004*
15. *Ref. No. DNPD/14785/04 dated July 08, 2004*
16. *Ref. No. DNPD/Cir-28/04 dated September 28, 2004*
17. *Circular No. MRD/DoP/SE/Cir-20/2005 dated September 8, 2005*
18. *Circular No. MRD/DoP/SE/Cir- 14/2006 dated September 28, 2006*
19. *Circular No. MRD/ DoP/SE/Cir- 7 /2008 dated April 03, 2008*
20. *Circular No. MRD/ DoP/SE/Cir- 03 /2009 dated February 20, 2009*
21. *Circular No. CIR/MRD/DP/ 25/2010 dated August 27, 2010*
22. *Circular No. CIR/MRD/DP/26/2010 dated August 27, 2010*
23. *Circular No. CIR/MRD/DP/ 36 /2010 dated December 09, 2010*
24. *Circular No. CIR/MRD/DP/8/2011 dated June 30, 2011*
25. *Circular No. CIR/MRD/DP/09/2012 dated March 30, 2012*
26. *Circular No. CIR/MRD/DP/20/2012 dated August 02, 2012*
27. *Circular No. CIR/MRD/DP/16/2013 dated May 21, 2013*
28. *Circular No. CIR/MRD/DP/24/2013 dated August 19, 2013*
29. *Circular No. CIR/MRD/DMS/34/2013 dated November 06, 2013*
30. *Circular No. CIR/MRD/DP/06/2014 dated February 07, 2014*
31. *Circular No. CIR/MRD/DP/07/2014 dated February 11, 2014*
32. *Circular No. CIR/MRD/DP/07/2015 dated May 13, 2015*
33. *Circular No. CIR/MRD/DP/13/2015 dated July 06, 2015*
34. *Circular No. CIR/MRD/DP/17/2015 dated October 08, 2015*
35. *Circular No. CIR/CDMRD/DEICE/03/2015 dated December 11, 2015*
36. *SEBI circular no SEBI/HO/CDMRD/DMP/CIR/P/2016/97 dated September 27, 2016*
37. *Circular No. CIR/HO/MRD/DP/CIR/P/2016/129 dated December 01, 2016*
38. *Circular No. SEBI/HO/MRD/DP/CIR/P/2017/08 dated January 20, 2017*

39. *SEBI circular no SEBI/HO/CDMRD/DRMP/CIR/P/2018/60 dated April 03, 2018*
40. *Circular no. SEBI/HO/MRD/DP/CIR/P/2018/62 dated April 09, 2018*
41. *Circular No. CIR/MRD/CSC/151/2018, dated December 14, 2018*
42. *Circular No. SEBI/HO/MRD1/DSAP/CIR/P/2020/107 dated June 24, 2020*
43. *Circular No. SEBI/HO/MRD1/DSAP/CIR/P/2020/234 November 24, 2020*
44. *SEBI Circular No. SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2022/30 dated March 17, 2022*
45. *Circular No. SEBI/HO/MRD1/MRD1_DTCS/P/CIR/2022/68 dated May 20, 2022*
46. *Circular No. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2023/68 dated May 10, 2023*
47. *Circular No. SEBI/HO/MRD/TPD/P/CIR/2023/147 dated August 24, 2023*
48. *Circular No. SEBI/HO/MRD/ TPD/P/CIR/2023/146 dated August 29, 2023*
49. *Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/68 dated May 30, 2024*
50. *Circular No. SEBI/HO/MRD/TPD/P/CIR/2024/84 dated June 20, 2024*
51. *Email dated November 11, 2024 on "Systems of Trading Members/Clearing Members/Depository Participants certified/qualified by MIIs for deployment"*
52. *Circular No. HO/47/11/16(2)2025-MRD-POD2/I/4113/2026 dated February 04, 2026*

Annexure I

TERMS AND CONDITIONS

DMA FACILITY USED BY THE CLIENT/CLIENT THROUGH AN INVESTMENT MANAGER

1. The client/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 client/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.

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

3. The client/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.

4. Where the client/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 client/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.

5. The client/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.

6. The client/investment manager shall provide the names of authorized individual users to the broker prior to placing DMA orders.

7. The client/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.

8. The client/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 client/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 client/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.

9. The client/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 client and/or his representative are not revealed to any third party.

10. The client/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 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 to the client/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.

12. The client/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 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/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 client/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 client/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:-
    a. Breach of the limits imposed by the broker or any regulatory authority.
    b. On account of any misuse of the DMA facility by the client/investment manager or on instructions from SEBI/Exchanges.
    c. 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.

19. The client shall ensure, including through an agreement with the investment manager appointed by him/her that the investment manager complies with the terms and conditions mentioned hereinabove. The client shall also initiate appropriate independent action including legal action if required, against the investment manager for breach of the terms and conditions notwithstanding any action to be taken by Exchanges/the Board.

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, if any:

PART B

CLIENT(s) DETAILS:

S. No.	Name of the entity	Name of the regulator	Regulated in India as	Registration Number	PAN

Annexure III

Message IFN 515 - Broker to Custodian – Contract Note – Equity

Format Sequence
Mandatory Block A (General Information)

Status	**Field**	**Field Name**	**Content and Options**	**Remarks**	**Rules**
M	16R		GENL	Start of block	
M	20C	Reference	:4!c//16x	Type of CN, Exchange number and CN No.	Format: (Qualifier)//(References) Qualifier: "SEME" (4 Uppercase Characters) References: (Contract Type/ Exchange No. / Contract Number) Contract Type: A or B (1 Character Set) Exchange number (2 digits – e.g. Calcutta Stock Exchange will be 03) Contract Number: xxxxxxxxxx (13Characters) The reference should not start or end with slash '/' and must not contain two consecutive slashes '//'.
M	23G		4!c	To indicate new message or cancellation of a previous message	Format: (Function) Function: "NEWM" or "CANC"

O	98A	Date	:4!c//8!n	Preparation Date	Format: (Qualifier)//(Date) Qualifier: "PREP" (4 Uppercase Characters) Date: YYYYMMDD (8 Digits)
M	22F	Indicator	:4!c//4!c	*Dummy (taken since mandatory)*	Format: (Qualifier)//(Indicator) Qualifier: " TRTR" (4 Uppercase Characters) Indicator: "TRAD" (4 Uppercase Characters)

Mandatory Subsequence A1 Linkages

M	16R		LINK	Start of block	
M	20C		:4!c//16x	To indicate the cancelled contract note (CANC). In case of NEWM, the field should contain "DUMMY" ,	Format: (Qualifier) //(Reference) Qualifier: " PREV" (4 Uppercase Characters) Reference: The reference no. as given in field SEME of the earlier contract note that is being cancelled. (16 Characters) *[In case of NEWM, the field should contain "DUMMY"]*
M	16S		LINK	End of Block	

End of Mandatory Subsequence A1 Linkages

M	16S		GENL	End of block	

Mandatory Block C (Confirmation details)

M	16R		CONFDET	Start of block	
M	98A	Trade Date	:4!c//8!n	To give details of the trade date.	Format: (Qualifier)//(Date) Qualifier: "TRAD" (4 Uppercase Characters) Date: "YYYYMMDD" (8 Digits)
M	98A	Settlement Date	:4!c//8!n	To give details of the settlement date.	Format: (Qualifier) / (Date) Qualifier: "SETT" (4 Uppercase Characters) Date: "YYYYMMDD" (8 Digits)
M	90B	Price	:4!c//4!c/3!a15d	To indicate the trade rate	Format: (Qualifier)//(Amount Type Code)/(Currency Code) (Price) Qualifier: "DEAL" (4 Uppercase Characters) Amount Type Code: "ACTU" (4 Uppercase Characters) Currency Code: "INR" (3 Uppercase Alphabets) Price: Upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.

O	**92A**	**Price**	**:4!c//[N]15d**	**To indicate brokerage rate per share**	**Format: (Qualifier)/ /(Amount Type Code)/ (Currency Code) (Price)** **Qualifier: "CORA" (4 Uppercase Characters)** **Sign (-/+)** **Price: Upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.**
M	94B	Place	:4!c//4!c/30x	To identify the exchange	Format:(Qualifier)/ /(Place Code)/(Bic code / Narrative) Qualifier: "TRAD" (4 Uppercase Characters) Place Code: "EXCH" (4 Uppercase Characters) BIC code of the exchange will be used. Where BIC code is not available, please indicate full name of the Stock Exchange

M	22H	Indicator	:4!c//4!c	To indicate whether the trade is Buy [BUYI] / Sell [SELL]	Format: (Qualifier)//(Indicator) Qualifier: "BUSE" (4 Uppercase Characters) Indicator: "BUYI" or "SELL" (4 Uppercase Characters)

M	22H	Indicator	:4!c//4!c	To indicate where the trades is against payment [APMT] or free of payment [FREE]	Format: (Qualifier) //(Indicator) Qualifier: "PAYM" (4 Uppercase Characters) Indicator: "FREE" or "APMT" (4 Uppercase Characters)

Mandatory Sub Block C1 (Confirmation Parties)

M	16R		CONFPRTY	Start of block	
M	95Q	Party	:4!c//4*35x	To give details of the client as mentioned on the contract note.	Format: (Qualifier) //(Name, SEBI Regn No., Pan No.& Address of client.) Qualifier: "INVE" (4 Uppercase Characters) Name, SEBI Regn No., Pan No. &Address

O	97A	Account	:4!c//35x	To identify the safekeeping account. All clients need to obtain a custodian participant code. Exchange will be identified based on 94B value in Confirmation Details irrespective of which exchange's Cust participant	Format: (Qualifier) //(Custodian Participant Code) Qualifier: "SAFE" (4 Upper Characters) Custodian Participant Code: (35 Characters)

				code is mentioned.	

M	16S		CONFPRTY	End of block	

End of Mandatory Subsequence C1 (Confirmation Parties)

M	36B	Quantity of Financial Instrument	:4!c//4!c/15d	To define the trade quantity	Format: (Qualifier)//(Quantity Type Code) /(Quantity) Qualifier: "CONF" (4 Uppercase Characters) Quantity Type Code: "UNIT" (4 Uppercase Characters) Quantity: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.
M	35B	Identification of Security	[ISIN1!e12!c] [4*35x]	To identify the ISIN of the Scrip and company name.	Format: (Identification of Security) (Description of Security) Identification of Security: "ISIN" followed by the ISIN Code Description of Security: Description of the instrument(4 lines of 35 Charactersss)

M	70E	Narrative	:4!c//10*35x	To identify	Format: (Qualifier)

				Segment Type i.e. Rolling (DR) or Inter FII (DI) or Auction Rolling (AR) /Settlement Number	//(Narrative) Qualifier: "TPRO" (4 Upper Characters) Narrative: Line 1: "DR" or "DI" or "AR" / Settlement Number as mentioned on Stock Exchange system (35 Character Sets)
M	98C	Date/Time	:4!c//8!n6!n	To Identify order time	Format: (Qualifier) /(Date)/ (Time) Qualifier: "PROC" (4 Upper Characters) Date: YYYYMMDD Time : HHMMSS
M	16S		CONFDET	End of block	

End of Sequence C (Confirmation Details)
Mandatory Sequence D (Settlement Details)

M	16R		SETDET	Start of block	
M	22F	Indicator	:4!c//4!c	Dummy (since mandatory)	Format: (Qualifier) //(Indicator) Qualifier: "SETR" (4 Upper Characters) Indicator: "TRAD" (4 Upper Characters)

Mandatory Subsequence D1 (Settlement Parties)

M	16R		SETPRTY	Start of block	
M	95P	Party	:4!c//4!a2!a2!c[3!c]	Indicates the contracting	Format: (Qualifier)//(BIC code

	95Q	Party	:4!c//4*35x	broker Broker BIC code is used **In case the BIC code doesn't exist** Indicates the Broker	of broker) Qualifier: "BUYR" in case of a Sale "SELL" in case of a Purchase BIC Code of the contracting broker Format: (Qualifier)//(Name of broker) Qualifier: "BUYR" in case of a Sale "SELL" in case of a Purchase Name: of the contracting broker
O	70C	Narrative	:4!c//4*35x	To provide additional broker contact details	Format: (Qualifier) //(Narrative) Qualifier: "PACO" (4 Uppercase Upper Characters) Narrative: Exchange Broker code! SEBI Registration Number! Address of the Broker (140 Characters)
M	70E	Narrative	:4!c//10*35x	To provide for Declaration	Format: (Qualifier) //(Narrative) Qualifier: "DECL" (4 Uppercase Upper Characters) Narrative: Arbitration

					Clause (10 lines of 35 char each) Line 1: This contract is subject to Rules, Line 2: Byelaws and Regulations and Line 3: usages of (name of the exchange). In event Line4: of any claim (whether admitted or Line 5: not), difference or dispute arising Line 6: between you and me/us out of these Line 7: transactions, the matter shall be Line 8: referred to arbitration as provided Line 9: in the Rules, Byelaws and Line 10: Regulations of (name of the exchange).

M	16S		SETPRTY	End of block	

M	16R		SETPRTY	Start of block	

M	95P	Party	:4!c//4!a2!a2!c[3!c]	Indicates who will be delivering / receiving the securities. In case of	Format: (Qualifier)//(BIC code of broker) Qualifier: "REAG" in case of a Sale "DEAG" in case of a

	95Q	Party	:4!c//4*35x	Clearing House Trades bic code of the Clearing Corporation will be used else in case of Hand Delivery Trade the BIC of the broker will be used. **In case the BIC code doesn't exist** Indicates the Delivery Type. The name of the clearing corporation is to be used in case of a clearing house trade. In case of a hand delivery trade, the brokers name is to be used.	Purchase BIC Code of the Clearing House (For Clearing House Trades) else BIC Code of the Broker (For Hand Delivery Trades) Format: (Qualifier)//(Name of Clearing House) Qualifier: "REAG" in case of a Sale "DEAG" in case of a Purchase Name of the Clearing House (For Clearing House Trades) else Name of the Broker (For Hand Delivery Trades)

M	16S		SETPRTY	End of block	

End of Subsequence D1 (Settlement Parties)

Mandatory Subsequence D3 (Amounts)

M	16R		AMT	Start of block	

M	19A	Amount	:4!c//3!a15d	To identify the Deal Amount	Format: (Qualifier) //(Currency Code) (Amount) For: Deal Amount Qualifier: "DEAL" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.

M	16S		AMT	End of block	

M	16R		AMT	Start of block	

M	19A	Amount	:4!c//3!a15d	To identify the brokerage	For Brokerage: Qualifier: "EXEC" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.

M	16S		AMT	End of block	

M	16R		AMT	Start of block	

M	19A	Amount	:4!c//3!a15d	To identify the service tax	For Service Tax: Qualifier: "TRAX" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.

M	16S		AMT	End of block	

M	16R		AMT	Start of block	

M	19A	Amount	:4!c//3!a15d	To identify the settlement amount	For Settlement Amount Qualifier: "SETT" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.

M	16S		AMT	End of block	

End of Mandatory Subsequence D3 (Amounts)

M	16S		SETDET	End of block	

End of Sequence D Settlement Details

Optional Sequence E (Other Parties)

M	16R		OTHRPRTY	Start of block	

M	95Q	Party	:4!c//4*35x	Dummy (since mandatory)	Format: (Qualifier) //(Narrative) Qualifier: "EXCH" (4 Upper case Characters) Narrative: "ORDER DETAILS"

O	70D	Party	:4!c//6*35x	To identify the trade Ref. Number. The same field can be repeated multiple times to identify different order numbers	Format: (Qualifier) //(Narrative) Qualifier: "PART" (4 Upper case Characters) Narrative: Trade Ref. No (15Digits) Trade Ref. Qty (15 Digits) Trade Ref. Rate (15 Digits comma at appropriate place) Date: YYYYMMDD HHMMSS (15 Character Sets)

O	20C	Reference	:4!c//16x	To identify the Order number	Format: (Qualifier) //(Reference)

					Qualifier: "PROC" (4 Character Reference : Order number (16 Character Sets)
M	16S		OTHRPRTY	End of block	

-----| End of Sequence E Other Parties
Illustration - (IFN 515) Broker to Custodian – Contract Note – Equity

{IFN515}{ SENDERADDRS }{ RECVERADDRS }{

:16R:GENL

:20C::SEME//A0212345

:23G:NEWM

:98A::PREP//20020828

:22F::TRTR//TRAD

:16R:LINK

:20C::PREV//DUMMY

:16S:LINK

:16S:GENL

:16R:CONFDET

:98A::SETT//20020902

:98A::TRAD//20020828

:90B::DEAL//ACTU/INR200,00

:94B::TRAD//EXCH/XNSEINB1XXX

:22H::BUSE//SELL

:22H::PAYM//APMT

:16R:CONFPRTY

:95Q::INVE// Client Name , Sebi Reg No

Other Details

:97A::SAFE//CLNT_CODE

:16S:CONFPRTY

:36B::CONF//UNIT/1000,00

:35B:ISIN INE009A01021

INFOSYS TECH DEM INR5.00

:70E::TPRO//DR

:16S:CONFDET

:16R:SETDET

:22F::SETR//TRAD

:16R:SETPRTY

:95P::BUYR//Broker BIC Code

:70C::PACO// Exchange Broker code

Sebi Registration Number Address of the Broker

:16S:SETPRTY

:16R:SETPRTY

:95P::REAG//CCILINB1XXX

:16S:SETPRTY

:16R:AMT

:19A::DEAL//INR200000,00

:16S:AMT

:16R:AMT

:19A::EXEC//INR2000,00

:16S:AMT

:16R:AMT

:19A::TRAX//INR100,00

:16S:AMT

:16R:AMT

:19A::SETT//INR197900,00

:16S:AMT

:16S:SETDET

:16R:OTHRPRTY

:95Q::EXCH//ORDER DETAILS

:70D::PART//000000000001234

000000001000,00

000000000200,00

20020822 10:20:33

:20C::PROC//123123123

:16S:OTHRPRTY

-}

Illustrative Example Explained - IFN 515 - Broker to Custodian – Contract Note – Equity

Block GENL gives General information	**:16R:GENL**	
	:20C::SEME//A0212345	Indicates the contract note no Contract Type (1 Char) Exchange No. (2 Char) Contract Number
	:23G:NEWM	Indicates it is a new message
	:98A::PREP//20020828	Message preparation date
	:22F::TRTR//TRAD	
	:16R:LINK	
	:20C::PREV//DUMMY	For new message
	:16S:LINK	
	:16S:GENL	
Block	**:16R:CONFDET**	

CONFDET provides details about the trade being confirmed		:98A::SETT//20020902 :98A::TRAD//20020828	Settlement date (Value date) Trade Date
		:90B::DEAL//ACTU/INR200,00	Deal rate
		:94B::TRAD//EXCH/XNSEINB1XXX	Identifies the Exchange
		:22H::BUSE//SELL	Indicates that it's a sale transaction
		:22H::PAYM//APMT	Indicates that the transaction is against payment
	Confirmation Party details	**:16R:CONFPRTY**	
		:95Q::INVE// Client Name , Sebi Reg No Other Details	Provides details like client name, sebi reg no etc as provided in contract note
		:97A::SAFE//CLNT_CODE	Indicates the client code
		:16S:CONFPRTY	
		:36B::CONF//UNIT/1000,00	Indicates Quantity of security
		:35B:ISIN INE009A01021 INFOSYS TECH DEM INR5.00	Name of the security (ISIN if available)
		:70E::TPRO//DR	Type of Trade
		:16S:CONFDET	
Block		**:16R:SETDET**	

SETDET provides settlement details		:22F::SETR//TRAD	
	Block SETPRTY provide details about settlement parties	**:16R:SETPRTY**	
		:95P::BUYR//Broker BIC Code :95P::REAG//CCILINB1XXX	Broker Code and that the trade is to be settled with Clearing House (CCIL)
		:70C::PACO// Exchange Broker code, Sebi Registration Number ,Address of the Broker	Broker details as provided in Contract Note
		:16S:SETPRTY	
	Block AMT provides details about the amounts involved	**:16R:AMT**	
		:19A::DEAL//INR200000,00 :19A::EXEC//INR2000,00 :19A::TRAX//INR100,00 :19A::SETT//INR197900,00	Deal amount Broker's commission Service tax Settlement amount
		:16S:AMT	
		:16S:SETDET	
Block OTHRPRTY provided details about the trade executed on the exchange		**:16R:OTHRPRTY**	
		:95Q::EXCH//ORDER DETAILS	Exchange order Number
		:70D::PART// 000000000001234 000000001000,00 000000000200,00	Trade details

	20020822 10:20:33	
	:20C::PROC//123123123	
	:16S:OTHRPRTY	

FN 515 - Broker to Custodian – Contract Note – Debt

Format Sequence

Mandatory Sequence A General Information

Status	**Tag**	**Generic Field Name**	**Content/Options**	***Remarks***	**Rules**
M	16R		GENL	Start of block	
M	20C	Reference	:4!c//16x	Type of CN CN, Exchange number and CN No.	Format: (Qualifier)//(References) Qualifier: "SEME" (4 Uppercase Characters) References: (Contract Type/ Contract Number) Contract Type: A or B (1 Character) Exchange number (2 digits – e.g. Calcutta Stock Exchange will be 03) Contract Number: xxxxxxxxxx (13 Characters) The reference should

					not start or end with slash / and must not contain two consecutive slashes //.
M	23G		4!c	To indicate new/cancellation.	Format: (Function) Function: "NEWM" or "CANC"
O	98A	Date	:4!c//8!n	Preparation Date	Format: (Qualifier)//(Date) Qualifier: "PREP" (4 Uppercase Characters) Date: YYYYMMDD (8 Digits)
M	22F	Indicator	:4!c//4!c	Dummy (taken since mandatory)	Format: (Qualifier) /(Indicator) Qualifier: " TRTR" (4 Uppercase Characters) Indicator: "TRAD" (4 Uppercase Characters)

Mandatory Subsequence A1 Linkages

M	16R		LINK	Start of block	
M	20C		:4!c//16x	To indicate the cancelled contract note (CANC). In case of NEWM, the field should contain	Format: (Qualifier) /(Reference) Qualifier: " PREV" (4 Uppercase Characters)

				"DUMMY" ,	Reference: The reference no. as given in field SEME of the earlier contract note that is being cancelled. (16 Characters) *[In case of NEWM, the field should contain "DUMMY"]*
M	16S		LINK	End of Block	

End of Mandatory Subsequence A1 Linkages

M	16S		GENL	End of block	

End of Sequence A General Information

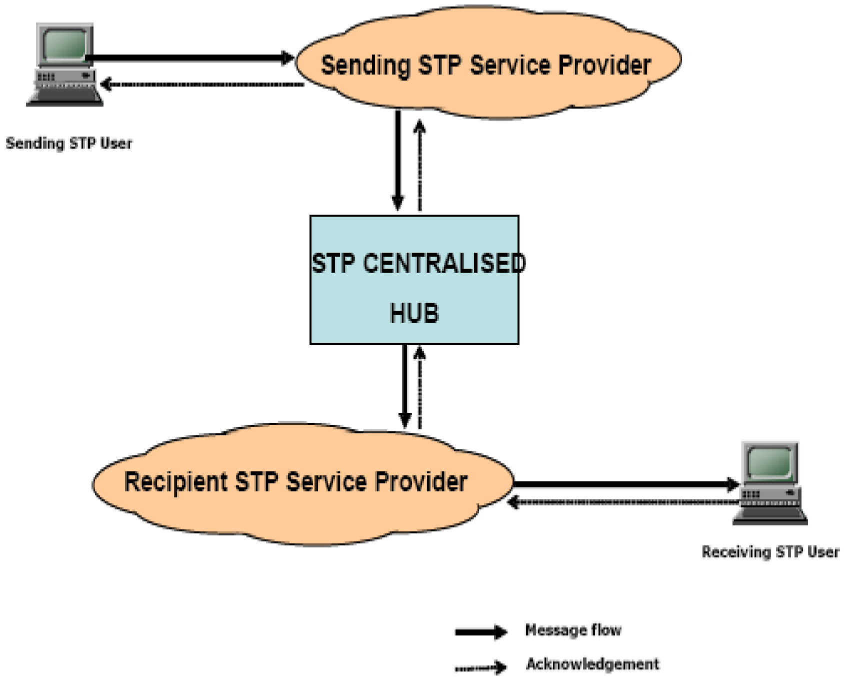
Mandatory Sequence C Confirmation Details

M	16R		CONFDET	Start of block	

Annexure IV

Annexure IV

Block Diagram of the STP System for inter STP Service Provider Transfer of messages



Annexure V

SECURITIES AND EXCHANGE BOARD OF INDIA (STP CENTRALISED HUB AND STP SERVICE PROVIDERS) GUIDELINES, 2004

1) PRELIMINARY

(1) These Guidelines shall be called the Securities and Exchange Board of India (STP Centralised Hub and STP Service Providers) Guidelines, 2004.

(2) These Guidelines are being issued under section 11 of the Securities and Exchange Board of India Act, 1992 to promote the development of the securities market.

(3) They shall come into force on 26th day of May, 2004

2) DEFINITIONS

(1) In these Guidelines, unless the context otherwise requires:-

(a) "Act" means the Securities and Exchange Board of India Act, 1992;

(b) "Certifying Authority" means a certifying authority who has been granted a license under section 24 of the Information Technology Act, 2000;

(c) "SEBI" means the Securities and Exchange Board of India established under Section 3 of the Act;

(d) "STP" means straight through processing;

(e) "STP centralised hub" means an infrastructure set-up by a person or entity for the purpose of rendering STP service by providing a platform for communication between different STP service providers;

(f) "STP message" means and includes all the messages for electronic trade processing with a common messaging standard as may be defined by SEBI from time to time;

(g) "STP service" means the setting up and maintaining of infrastructure to create an electronic communication network to facilitate information exchange with respect to securities market transactions between various market participants from the stage of trade initiation to final settlement through a STP system flow as may be determined by SEBI from time to time;

(h) "STP service provider" means a person or entity providing STP service to STP users to the extent of conveying messages between a STP user and the STP centralised hub and/or between two STP users;

(i) "STP user" means all the users of the STP service and includes such users as are stipulated by SEBI; and,

(j) "TRAI" means the Telecom Regulatory Authority of India established under the Telecom Regulatory Authority of India Act, 1997.

(2) Words and expressions used and not defined in these Guidelines, but defined in the Act or in the Securities Contracts (Regulation) Act, 1956 or in any rules or

regulations made thereunder, shall have the meanings respectively assigned to them in such Acts, rules or regulations.

3) ELIGIBILITY CRITERIA FOR STP CENTRALISED HUB AND STP SERVICE PROVIDERS

(1) No person shall act as an STP centralised hub or a STP Service provider unless it obtains approval from SEBI to provide such service.

(2) For the grant of a certificate of approval SEBI shall take into account the following:

i. whether the applicant is a person or entity with a minimum networth as may be prescribed from time to time.

ii. whether the applicant has adequate infrastructure facilities setup in India like office space, equipment and manpower with adequate experience in dealing in securities market and adequate expertise in providing necessary services and software solutions.

4) OBLIGATIONS AND RESPONSIBILITIES OF STP CENTRALISED HUB

(1) The STP centralised hub shall comply with the following:-

i. The STP centralised hub shall at all times comply with the requirement of eligibility criteria, specified by SEBI.

ii. The STP centralised hub shall abide by all the provisions of the Act, Rules, Regulations, Guidelines, Resolutions, Notifications, Directions, Circular, etc. as may be issued by the Government of India / TRAI / Department of Telecommunications and SEBI from time to time as may be applicable to the STP centralised hub.

iii. The STP centralised hub shall obtain such approval/s from such authorities as may be necessary to function as a centralised hub.

iv. The STP centralised hub shall obtain a digital signature certificate from a Certifying Authority and shall ensure that such digital signature certificate is valid and in force at all times. A copy of the certificate shall be submitted to all the recognized STP service providers.

v. The STP centralised hub shall deliver a consistent and secure communication platform and shall establish continuous connectivity with all the recognized STP service providers to the best of its ability.

vi. The STP centralised hub shall verify the digital signature certificate furnished by the STP Service Provider before connecting it to the STP centralized hub.

vii. The STP centralised hub shall confirm authenticity, integrity and non-reputability of all messages submitted by the STP Service Provider.

viii. The STP centralised hub shall ensure that the message received from the STP service provider is in the specified messaging standard.

ix. The STP centralised hub shall promptly deliver the messages to the recipient STP service provider and shall ensure that only the intended STP Service Provider receives the message.

x. The STP centralised hub shall digitally sign all messages sent to the STP service provider.

xi. The STP centralised hub shall maintain a directory of all STP service providers and STP users.

xii. The STP centralised hub shall maintain a complete record of the flow of messages processed. The records of the STP centralised hub shall be open for inspection by SEBI or any other person duly authorised by SEBI for this purpose.

xiii. The STP centralised hub shall not modify / amend the communication protocol without consulting all the approved STP service providers.

xiv. The STP centralised hub shall ensure that the message is not misused or tampered with while in its possession.

xv. The STP centralised hub shall maintain confidentiality of information about its users and shall not divulge the same to other clients, the press or any other person except in accordance with law or as per the directions of any court of law or of SEBI.

xvi. The STP centralised hub may charge reasonable fees from the STP service providers.

5) OBLIGATIONS AND RESPONSIBILITIES OF STP SERVICE PROVIDER

(1)The STP Service provider shall comply with the following :

i. The STP service provider shall at all times comply with the requirement of eligibility criteria, specified by SEBI.

ii. The STP service provider shall establish connectivity with the STP centralised hub before providing STP service to its users.

iii. The STP service provider shall provide the necessary details of the STP users connected with it and all its details to the STP centralised hub for the purpose of creating and maintaining a directory of STP service providers and STP users.

iv. The STP service provider shall comply with the minimum specifications specified by the STP centralised hub and as may be mutually agreed upon.

v. The STP service provider shall abide by the service standards as may be specified by SEBI and / or the STP centralised hub in consultation with the STP service providers.

vi. The STP Service Provider shall obtain a digital signature certificate from a Certifying Authority and submit a copy of the Certificate to the STP centralised hub.

vii. The STP Service Provider shall ensure that the digital signature certificate is valid and in force.

viii. The STP service providers shall deliver a consistent and secure communication platform and shall establish continuous connectivity with the STP centralised hub to the best of its ability.

ix. The STP service provider shall ensure that the message sent to the STP centralised hub is in the prescribed messaging standard.

x. The STP service provider shall verify the digital signature certificate furnished by the STP centralised hub before connecting itself to the STP centralised hub.

xi. The STP service provider shall confirm authenticity, integrity and nonrepudiability of all messages submitted to the STP centralised hub. The STP service provider shall keep complete track of the flow of messages for record and audit.

xii. The STP service providers may charge reasonable fees from the STP users.

xiii. The STP service provider shall exchange messages between other STP service providers only through the STP centralised hub. Provided that in force majuere measures or any other circumstances due to which the connectivity of the STP centralised hub is not available, the STP service providers after mutual discussion may exchange messages directly among themselves for such period.

xiv. The STP service providers shall digitally sign all messages sent from it to the STP centralised hub.

xv. The STP service provider shall enter into an agreement with all its STP users which shall also specify the fees payable by the STP user for the services.

xvi. The STP service provider shall maintain a directory of the STP users connected to it.

xvii. The STP service provider shall maintain a complete record of the flow of messages handled. The records of the STP service provider shall be open for inspection by SEBI or any other person duly authorised by SEBI for this purpose.

xviii. The STP Service Provider shall verify the Digital signature on the message of the STP user connected to the STP Service Provider

xix. The STP service provider shall ensure that the message from the STP user is in the specified messaging format.

xx. The STP service provider shall promptly deliver messages to and from the STP user.

xxi. In respect of inter STP service provider messages, the STP service provider shall perform all actions to the best of its ability in the same manner, diligence, speed and with all checks and balances as if the message is to be delivered / received by the same service provider.

(2) Nothing in these guidelines shall exempt the STP service provider from discharging any obligations placed on it by any law, regulations and guidelines.

6) CONDITIONS OF APPROVAL FOR STP CENTRALISED HUB AND STP SERVICE PROVIDERS

(1) Terms of approval:

i. The approval by SEBI shall be for an initial period of five years for STP centralised hub and for a period of three years for STP service providers and must be renewed periodically.

ii. The STP centralised hub and STP service provider must ensure continuous validity of approval by SEBI in order to function as a STP service provider.

iii. The Board shall have the right to suspend / cancel the approval of the STP centralised hub and/or STP service provider in case of violation of the terms of the guidelines.

7) CODE OF CONDUCT FOR STP SERVICE PROVIDERS

Every STP service provider shall abide by the Code of Conduct as specified in Schedule I.

8) MODEL AGREEMENT

The STP centralised hub shall enter into an agreement with every STP service provider on the lines of the Model Agreement given in Schedule II.

SCHEDULE I

CODE OF CONDUCT FOR STP SERVICE PROVIDERS (Clause 7 of the Guidelines)

a. The STP service provider shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.

b. The STP service provider shall disclose to the clients its possible sources or potential areas of conflict of duties and interest and provide unbiased services.

c. The STP service provider herein agrees and undertakes to perform its duties as a STP service provider with the highest standards of integrity and fairness in all its dealings.

d. The STP service provider shall abide by the obligation as specified under these Guidelines and the terms of the agreement entered into by the STP service provider with the STP users / STP centralised hub.

e. The STP service provider shall maintain true and correct record of the messages processed by it under the scheme and in particular the records in respect of:-

i. the STP users

ii. the messages exchanged within the same STP service provider

iii. the messages exchanged with other STP service providers through the STP centralised hub

f. The STP service provider shall ensure that the message is not misused or tampered with while in its possession.

g. The STP service provider shall maintain confidentiality of information about its users and shall not divulge the same to other clients, the press or any other interested party except in accordance with law or as per the directions of any court of law.

h. The STP service provider shall abide by all the provisions of the Act, Rules, Regulations, Guidelines, Resolutions, Notifications, Directions, Circular, etc. as may be issued by the Government of India / Telecom Regulatory Authority of India / Department of Telecommunications and Securities and Exchange Board of India from time to time as may be applicable to the STP service provider.

SCHEDULE II
MODEL AGREEMENT BETWEEN STP CENTRALISED HUB AND STP SERVICE PROVIDER
(Clause 8 of the Guidelines)

THIS AGREEMENT is made at _______ on this the___ day of ______________ between ______________________ having its Registered office at ___________________________ (hereinafter referred to as the 'STP Centralised Hub ' which expression shall, unless it be repugnant to the context or the meaning thereof, be deemed to include its successors, legal representatives and assigns) of the First Part;

And ____ a Company incorporated under the Companies Act, 1956 and having its registered office at________________ (hereinafter referred to as the 'STP Service Provider' which expression shall unless it be repugnant to the context or the meaning thereof, be deemed to include its successors, legal heirs,
legal representatives and assigns as the case may be) of the Second Part.

WHEREAS

1. The Securities and Exchange Board of India has mandated Straight Through Processing (hereinafter referred to as 'STP') for facilitating settlement of institutional trades.
2. In terms of the Securities and Exchange Board of India (STP Centralised Hub and STP Service Providers) Guidelines, 2004 an agreement has to be entered into between the STP Centralised Hub and the STP Service Provider.
3. The STP centralised hub has obtained such approval/s as may be necessary to function as a centralised hub.

NOW THIS AGREEMENT WITNESSETH AND IT IS HEREBY AGREED BY AND BETWEEN _____________ AND ______________ AS UNDER:

A. DEFINITIONS

1. DoT means Department of Telecommunications, India, Government of India and /or its successors.

2. EFFECTIVE DATE: The date on which this Agreement is entered into.
3. EMERGENCY means an emergency of any kind, including any circumstances whatever resulting from major accidents and natural disasters.
4. INTERNET: Internet is a global information system that:

- is logically linked together by a globally unique address, based on Internet Protocol (IP) or its subsequent enhancements / upgradations;
- is able to support communications using the Transmission Control Protocol / Internet Protocol (TCP/IP) suite or its subsequent enhancements / upgradations, and all other IP compatible protocols; and

5. "TELECOM AUTHORITY" shall mean The Director General, DoT, Government of India and includes any officer empowered by him to perform all or any of the functions of the Telegraph Authority under the Indian Telegraph Act, 1885 or such other authority as may be established by law.
6. "TRAI" – shall mean the Telecom Regulatory Authority of India established under the TRAI Act, 1997.

B. FEES PAYABLE BY STP SERVICE PROVIDER –

The STP Service Provider agrees to pay Fees as listed in the Annexure V(A) in consideration for the services provided by STP centralised hub hereof. The said fees may be revised by STP centralised hub as may be mutually agreed upon with the STP Service Providers. The STP service provider shall also be liable to pay interest @___% p.a. in case of delay in payments on the amount due till the actual date of payment.

C. STP SERVICE PROVIDER OBLIGATION

1. The STP Service Provider shall obtain a digital signature certificate from a Certifying Authority, which has been issued a license by the Controller of Certifying Authorities appointed under the Information Technology Act, 2000. A copy of the Certificate shall be submitted to STP centralised hub.
2. The STP Service Provider shall verify the Digital signature on the message of the STP User connected to the STP Service Provider before sending the message to the STP Centralized hub.
3. The STP Service Provider agrees to comply with the minimum specifications prescribed by STP centralised hub and as may be mutually agreed upon.
4. The STP Service Provider shall adhere to the guidelines prescribed by SEBI from time to time.
5. The STP Service Provider acknowledges that the software for STP Centralized Hub including the STP Centralized hub client software is the legal property of STP centralized hub. The permission given by STP centralised hub to access and use STP Centralized Hub through the STP Centralized hub client software will not convey any proprietary or ownership rights in the above software. The access of the STP Service Provider is limited to the STP Centralized hub Client software.

6. The STP Service Provider shall not attempt to modify, translate, disassemble, decompile or reverse engineer Centralized the STP Centralized hub client software or create any derivative product based on that software.
7. The STP Service Provider shall have a non-exclusive right to access STP Centralized Hub through the STP Centralized hub client software. This right is not transferable under any circumstances and shall be used by the STP Service Provider itself or by its authorized agent as may be mutually agreed.
8. The STP Service Provider shall not use the infrastructure or the facilities provided by STP centralised hub for any other purpose other than those mentioned in this Agreement.
9. The STP Service Provider shall indemnify STP centralised hub against any damage, loss, expenses, costs etc incurred by it due to negligence (intentional or unintentional) of the STP Service Provider.
10. The STP Service Provider shall ensure that by using the Hub client software provided by STP centralised hub

   a. No damage will be caused to the STP Centralized hub, and that it does not propagate virus infected information
   b. It will pass on only relevant information to be exchanged with the other STP service provider.
   c. It will not try to probe any other information available on the STP Centralized Hub

D. STP CENTRALISED HUB OBLIGATIONS

1. STP centralised hub shall obtain a digital signature certificate from a Certifying Authority, which has been issued a license by the Controller of Certifying Authorities appointed under the Information Technology Act, 2000. A copy of the Certificate shall be submitted to STP service provider.
2. STP centralised hub acknowledges that STP infrastructure of the STP service provider is the legal property of STP service provider. The permission given by STP service provider to STP centralised hub’s STP hub client software to co-locate on STP infrastructure will not convey any proprietary or ownership rights in the STP infrastructure.
3. STP centralised hub may subcontract and employ agents to carry out any of its obligations under such terms and conditions as may be mutually agreed.
4. STP centralised hub shall be solely responsible for installation, networking and operation of applicable systems. STP centralised hub shall clearly display and publicise specifications of STP Service Providers terminal equipment at Service Provider premises which are necessary for interfacing to network.
5. STP centralised hub shall abide by the guidelines issued by SEBI from time to time on the STP framework.
6. STP centralised hub shall confirm authenticity, integrity and non-repudiability of all messages submitted by the STP Service Provider.
7. The STP Centralized Hub would keep complete track of the flow of messages for record and audit.

8. STP centralised hub shall ensure that only the intended STP Service Provider receives the message.
9. STP centralised hub shall not misuse/ alter / reverse engineer / decompile the content of the messages submitted by the STP Service Providers.
10. STP centralised hub will digitally sign all messages sent from the STP Centralized Hub to the STP Service Provider.
11. STP centralised hub agrees to PKI enable the STP Hub client software within ------ months after the agreement would come into force. STP centralised hub shall digitally sign all messages at STP Centralized Hub prior to sending it to STP Service Providers. hub client software will maintain unsigned logs of such events.
12. STP centralised hub shall indemnify the STP service provider against any damage, loss, expenses, costs etc incurred by it due to its negligence (intentional or unintentional). STP centralised hub shall not use the infrastructure or the facilities provided by STP service provider for any other purpose other than those mentioned in this Agreement.
13. Hub client software provided by STP centralised hub will ensure that :
   a. No damage will be caused to the service providers system.
   b. It will not propagate virus infected information
   c. It will pass on only relevant information to be exchanged with the other STP service provider.
   d. It will not try to probe any other information available on the STP Service Providers setup
   e. It will not try to modify, translate, disassemble, de-compile or reverse engineer the software to gain access to restricted information or create any derivative product based on STP service provider’s system.

E. COMPLIANCE WITH LAWS

1. Both the parties represent that they have taken all necessary corporate action to authorise the execution and consummation of this agreement and shall furnish satisfactory evidence of the same upon request to other party.
2. Both the parties hereto agree that they shall comply with all applicable Central, state and local laws, ordinances, regulations and codes in performing their obligations hereunder, including the procurement of licenses, permits and certificates and payment of taxes where required.
3. The parties shall fully inform themselves of all necessary obligations and statutes under Indian Law (including the security measures prevalent in India) and shall not hold the other party responsible for any lapse in this regard. This shall include, but not be limited to, the knowledge and understanding of the physical, environmental and technical standards required for the provision and operation of the Equipment, software and services within India. The monetary obligations, if any, devolving on either of the parties due to statutory changes subsequent to the conclusion of the Agreement, shall be borne by the respective party, if applicable.

F. SERVICE CHANGES AND DISCONTINUATION

STP centralised hub shall if directed by regulatory authorities, suspend the STP Service Provider's access to the STP Centralized Hub at any time without notice. The STP Service Provider agrees that STP centralised hub will not be liable to any third party for any modification or discontinuance of the STP Centralized Hub. If STP centralised hub receives prior notice of such direction it shall be communicated to the service provider immediately.

In order to maintain the security and integrity of the service STP centralised hub may also suspend the STP Service Provider's access to the STP Centralized Hub. The STP Service Provider agrees that STP centralised hub will not be liable to or any third party for any modification or discontinuance of the STP Centralized Hub. The Parties shall make every effort to resolve amicably by direct informal negotiation any disagreement or dispute arising between them under or in connection with the arrangement. In the case of any issues arising out of the security and integrity of the messages being exchanged through the hub, the same shall be resolved by mutual discussion. In the event the parties are not able to settle the same within the time frame agreed between the parties either party may, by written notice of 30 days sent to the other party, temporarily suspend the arrangements, in whole or in part, till the parties find a technical solution to the security and technical issues. The notice of termination shall specify the termination is at whose instance, the extent to which performance of the agreement is suspended, and the date upon which such suspension becomes effective.

G. FORCE MAJEURE

If the performance of any obligations by any party as specified in this agreement is prevented, restricted, delayed or interfered by reason of force majeure then notwithstanding anything hereinbefore contained, the party affected shall be excused from its performance to the extent such performance relates to such prevention, restriction, delay or interference and provided the party so affected uses its best efforts to remove such cause of non-performance and when removed the party shall continue performance with utmost urgency. For the purpose of this clause "Force Majeure" means & includes fire, explosion, cyclone, floods, war, revolution, blockage or embargo, any law, order, demands or requirements of any Government or statutory authority, strikes, which are not instigated for the purpose of avoiding obligations herein or any other circumstances beyond the control of the party affected.

H. AMENDMENT TO THE AGREEMENT

The rights and obligations of the parties are governed only by this agreement. This agreement may be amended, altered, modified, varied or added to from time to time only by a written instrument duly signed by both the parties to this agreement. All previous communications, both oral and written between the parties and related to this agreement, but inconsistent with the terms and conditions of this agreement, are hereby declared null and void.

I. VALIDITY

This Agreement is valid so long as STP service provider holds valid approval from SEBI and STP centralised hub holds valid approval as STP Centralised Hub from SEBI. This Agreement shall be valid for an initial period of _____ years (hereinafter referred to as the 'Term'). After the term, the arrangement may be extended on mutually acceptable terms.

J. TERMINATION

Without prejudice to the rights, liabilities, interests and obligations that have accrued to the parties prior to the date of terminations

1. Either party may terminate this agreement upon material breach by the other of any provision of this agreement, and (if such breach is remediable) that other fails to remedy such breach within a mutually agreed time frame in writing.
2. This agreement may, at any time during its Term, be terminated by either party by a written 90 days' notice to the other party without prejudice to the rights, liabilities, interests and obligations that have accrued to the parties prior to the date of such termination. The grounds upon which this agreement may be terminated pursuant to this clause are as under:
    i) In case a Receiver has been appointed with respect to all or substantially all the assets of the parties. Provided that this clause shall not be applicable when winding up proceedings have been initiated to facilitate an amalgamation with another company proposing to carry on the same business
    ii) if one of the parties enters into an arrangement of composition with its creditors.
3. This agreement may, at any time during its Term, be terminated by STP centralised hub by a written notice in case the ISP license of STP centralised hub is revoked or the services are taken over by DoT / Telecom Authority in the event of an emergency or otherwise. If STP centralised hub receives prior notice of the same it shall be provided to the service provider immediately.
4. This agreement may, for convenience, at any time during its term, be terminated by either party, by a written notice of 90 days to the other party.
5. The provisions contained hereinabove shall not preclude the other party from recourse to any other remedies available to itself by statute or otherwise, at law or in equity.
6. In order to maintain the security and integrity of its infrastructure STP service provider may also suspend the STP hub client software access to its system at any time without notice.

K. NOTICE

Any notice to be given by one party to the other pursuant to this agreement shall be sent by registered post A.D., speed post or facsimile transmission to the address mentioned below:

1. _________________ (NAME OF THE STP CENTRALISED HUB)
_____________________(ADDRESS)

2. _________________________(NAME OF STP SERVICE PROVIDER)
_______________________________(ADDRESS)

L. WAIVER OF RIGHTS

No forbearance, delay or indulgence by any party in enforcing any of the provisions of this agreement shall prejudice or restrict the rights of that party nor shall any waiver of its rights operate as a waiver of any subsequent breach and no rights, powers, remedies herein conferred upon or reserved for the parties is exclusive of any other right, power or remedy available to that party and each right, power or remedy shall be cumulative.

M. ARBITRATION AND JURISDICTION

In the case of any dispute or any difference between the parties arising out of or in relation to this agreement including dispute or difference as to the validity of this agreement or interpretation of any of the provisions of this agreement or losses or damages arising under clause C-8 and the relevant clause under STP Centralized hub of this agreement, the same shall be resolved by mutual discussion. If the parties fail to settle the dispute or difference mutually, then the same shall be resolved in accordance with and subject to the provisions of the Arbitration and Conciliation Act, 1996 or any modifications or amendments thereto, or any enactment for the time being in force subject to the stipulation that only courts at Mumbai shall have exclusive jurisdiction in all such matters. The provisions of this clause shall survive the termination of this agreement.

N. GOVERNING LAW

1. This agreement shall be governed by and construed and interpreted in accordance with the laws of India, SEBI Act, Regulations, Rules and SEBI (STP centralised hub and STP service providers) Guidelines, 2004.
2. If any term or provision of this agreement should be declared invalid by a court of competent jurisdiction, the remaining terms and provisions of this agreement shall remain unimpaired and in full force and effect.

O. DISCLAIMER

STP centralised hub shall use its best endeavor only to ensure that the services provided shall be in conformity with the terms of this agreement. STP centralised hub shall not be liable for bad/slow connection or any technical glitches on account of reasons beyond its control.

P. CONFIDENTIALITY

The Parties hereto shall at all times maintain and keep secret and confidential any knowhow, information and data which it has or may acquire from time to time relating to the business, activities or operations of the other Party and shall not disclose or divulge the same or any part thereof to any third party. The terms of this clause shall survive termination of the Agreement.

The obligations shall not apply with respect to Information which:

1) is or becomes publicly available other than through a breach of this Agreement or is unlawfully appropriated;

2) is already in the possession of the other party without any breach of this Agreement ;

3) is obtained by the other party from a third party without any breach of this Agreement .

4) is required to be produced before a judicial authority and only where the other party is compelled to do so by such an authority, provided that the said authority (or individual representing such authority) has the authority, under the laws in force, to compel such disclosure.

Notwithstanding the foregoing, before making any use or disclosure on any of the foregoing exceptions, the Party disclosing such information shall intimate the Other Party as soon as practicable the applicable exceptions (s) and circumstances giving rise thereto.

Annexure V(A)

STP centralised hub shall charge a fee of Rs. -----------------. The fees shall be charged to the sending service provider. The billing shall be on a -------------------- basis.
One message shall mean and include the following –

- One ISO message sent by a service provider to the STP centralised hub
- Acknowledgement message sent by the STP centralised hub to the Sending service provider
- The message forwarded to the receiving service provider
- Acknowledgement received from the receiving service provider for the message
- Forwarding the acknowledgement received from the receiving service provider to the sending service provider

In consideration of the fees STP centralised hub shall endeavour to provide the following service standards –

- Infrastructure availability
  - 99% Uptime for business hours from 0930 hrs till 1930 hrs computed on a quarterly basis. Planned Outage excluded
  - Uptime on best effort basis between 1930 hrs to 0930 hrs
  - Resolution time: 4 hours for called logged between 0930 to 1800 hrs
- Trouble Ticketing
  - Business Hrs - Telephonic reporting of Fault on STP centralised hub Helpdesk
  - Non-Business Hrs - Telephonic reporting of Fault on STP centralised hub Operations
  - Call closure confirmation - STP service Provider to give respective telephone numbers