



आ नो भद्राः क्रतवो यन्तु विश्वतः।

Let noble thoughts come to us from all directions

Consultation Paper on Master Circular for Stock Exchanges and Clearing Corporations in the IFSC

Objective

1. The objective of this consultation paper is to seek comments / views from public on the draft master circular for Stock Exchanges and Clearing Corporations in IFSC.

Background

2. IFSCA has notified International Financial Services Centres Authority (Market Infrastructure Institutions) Regulations, 2021 [hereinafter called as “MII Regulations”] amended subsequently vide IFSCA (Market Infrastructure Institutions) (Amendment) Regulation, 2024. MII Regulations provide for the unified framework for the regulation and supervision of the Market Infrastructure Institutions in the IFSC.
3. Regulation 72 of the MII Regulations empowers IFSCA to specify norms, procedures, manners or guidelines by way of circulars to the Market Infrastructure Institutions.
4. Regulation 73 (5) of the MII Regulations states that - *“The circulars and guidelines issued by SEBI and applicable to a market infrastructure institution in an IFSC shall continue to be in force unless and until they are superseded by any regulations or circulars or guidelines by the Authority.”*
5. A master circular, superseding all the circulars and guidelines of SEBI and IFSCA with respect to Stock Exchanges and Clearing Corporations has been prepared and is attached herewith.
6. The comments are invited from public and stakeholders on the proposed master circular. The comments may be sent by an email to Shri Praveen Kamat, General Manager at praveen.kamat@ifsc.gov.in and Shri Shubham Goyal, Assistant General Manager at goyal.shubham@ifsc.gov.in with subject line **“Comments in the Master**



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Circular for Stock Exchanges and Clearing Corporations” latest by October 22, 2025.

The comments should be provided in the following format:

Name and Designation				
Contact No. and email address				
Name of organisation				
S. No.	Para/clause no. of the master circular	Text of the clause	Comments/Suggestions	Detailed rationale



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MASTER CIRCULAR

IFSCA/CMD/MIIT/MCSECC/2025

October XX, 2025

To,

All Stock Exchanges in the International Financial Services Centres

All Clearing Corporations in the International Financial Services Centres

Madam/Sir,

Subject: Master Circular for Stock Exchanges and Clearing Corporations

1. IFSCA has notified [International Financial Services Centres Authority \(Market Infrastructure Institutions\) Regulations, 2021](#) [hereinafter called as “MII Regulations”] amended subsequently vide [IFSCA \(Market Infrastructure Institutions\) \(Amendment\) Regulation, 2024](#). MII Regulations provide for the unified framework for the regulation and supervision of the Market Infrastructure Institutions in the IFSC.
2. Regulation 73 (5) of the MII Regulations states that - “*The circulars and guidelines issued by SEBI and applicable to a market infrastructure institution in an IFSC shall continue to be in force unless and until they are superseded by any regulations or circulars or guidelines by the Authority.*”
3. Subsequently, the Authority has issued following circulars relating to Stock Exchanges and Clearing Corporations:

Sr. No.	Date	Circular No.	Subject
1	April 13, 2021	F. No. 286/IFSCA/Policy Matters (CMD-DMIIT)/2021	Fee structure for Market Infrastructure Institutions (MIIs) and Participants

Sr. No.	Date	Circular No.	Subject
2	June 22, 2021	F. No. 286/IFSCA/PM (CMD-DMIIT)/2021/2	Introduction of Negotiated Large Trade facility on Stock Exchanges
3	June 22, 2021	F. No. 257/IFSCA/CMD-DMIIT/BCP-DR/2021/1	Status of transactions executed at Disaster Recovery site of MIIs
4	September 13, 2021	F. No. 286/IFSCA/CMD-DMIIT/PM/ 2021	Code of Conduct and Code of Ethics for Directors and KMPs of MIIs
5	September 20, 2021	F. No. 286/IFSCA/CMD-DMIIT/PM-MII/2021/1	Application form for recognition and renewal of MIIs
6	November 30, 2021	286/IFSCA/ CMD-DMIIT/PM/2021/001	Clarification regarding disclosure of dealing in securities by Directors and Key Management Personnel of the all recognized MIIs in GIFT-IFSC
7	March 11, 2022	F. No. 286/IFSCA/PM(CMD-DMIIT)/2	Negotiated large trade facility on Stock Exchanges
8	March 31, 2022	F. No. 286/IFSCA/PM (CMD - DMIIT)/2021/4	Guidelines for Liquidity Enhancement Scheme on Stock Exchanges
9	June 28, 2022	IFSCA/CMD/DMIIT/MII/CG/2022-23/1	Committees at MIIs in IFSC
10	September 09, 2022	IFSCA/CMD-DMIIT/LES/2022/005	Amendment to guidelines for Liquidity Enhancement Scheme
11	November 16, 2022	IFSCA/CMD-DMIIT/DR/774/2022/01	Guidelines for Business Continuity Plan and Disaster Recovery for MIIs
12	June 21, 2023	IFSCA/CMD-DMIIT/EXCHTRD/2023-24/001	Direct Market Access facility
13	June 23, 2023	IFSCA/CMD-DMIIT/EXCHTRD/2023-24/002	Co-location facility offered by the Stock Exchanges
14	March 07, 2025	IFSCA/CMD-MIIT/RTP/2024-25/001	Contribution to Settlement Guarantee Fund (SGF)

4. This Master Circular shall supersede all the circulars and guidelines issued by SEBI (prior to October 01, 2020) and IFSCA in respect of Stock Exchanges and Clearing Corporations recognised by the Authority in accordance with the provisions of regulation 73(5) of the MII Regulations.

5. Notwithstanding such supersession,

- a) anything done or any action taken or purported to have been done or taken under the superseded circulars, prior to such supersession, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular;
- b) any application made to the Authority under the superseded Master Circular, prior to such supersession, and pending before it shall be deemed to have been made under the corresponding provisions of this Master Circular;

6. This Master Circular is being issued in exercise of powers conferred by Sections 12 and 13 of the International Financial Services Centres Authority Act, 2019 read with regulation 72 of the MII Regulations and shall come into force from the date of its issuance.

A copy of this circular is available on the website of the International Financial Services Centres Authority at www.ifsc.gov.in.

Yours faithfully

Praveen Kamat
General Manager

praveen.kamat@ifsc.gov.in

Division of Market Infrastructure Institutions & Technology
Capital Markets Department

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CHAPTER - I: RECOGNITION PROCESS

1. APPLICATION FOR RECOGNITION

- 1.1. An application for recognition or renewal of recognition as a Stock Exchange or Clearing Corporation in an IFSC shall be submitted to the Authority in the form for recognition for MIIs placed at **Annexure-I**.

2. PAYMENT OF FEES

- 2.1. An applicant desirous of obtaining recognition/renewal of recognition as a Stock Exchange or Clearing Corporation shall pay the application and recognition fee in the form and manner as specified in the circular on ["Fee structure for the entities undertaking or intending to undertake permissible activities in IFSC or seeking guidance under the Informal Guidance Scheme" \("IFSCA Fee Circular"\) dated April 08, 2025](#), read with circular titled ["Clarifications on the Fee structure for the entities undertaking or intending to undertake permissible activities in IFSC or seeking guidance under the Informal Guidance Scheme" dated April 23, 2025](#), at the time of making an application to the Authority.

3. VALIDITY OF REGISTRATION

- 3.1. The period of recognition granted to a Stock Exchange or Clearing Corporation shall be permanent or for such period not less than one year as may be specified by the Authority. The Stock Exchange or Clearing Corporation shall apply for renewal of recognition, in advance, atleast three months prior to the expiry of the recognition.

CHAPTER - II: TRADING

4. NEGOTIATED LARGE TRADE

- 4.1. The NLT Window shall be open throughout the normal trading hours of the Stock Exchanges.
- 4.2. In case of derivative products which are available for trading on a Connect arrangement with international exchange(s), the price limits may be aligned with such international exchange(s). In respect of other derivative products, the price limits may be decided by the Stock Exchange ensuring that such limits are fair and reasonable.
- 4.3. The minimum order size in terms of notional value, for execution of trades, shall be USD 1 million.
- 4.4. The NLT transactions shall not be considered for calculation of the daily Open, High, Low, Close, VWAP or Daily Settlement Price or the Final Settlement Price of the derivatives contract for which the transaction has been executed.
- 4.5. The NLT trades on behalf of clients shall not be executed against the Broker-Dealer's own account. The Broker-Dealers shall execute NLT trades on behalf of their clients only after obtaining explicit written consent from their respective clients.
- 4.6. The position limits applicable to the normal market shall be applicable to the NLT window.
- 4.7. The Stock Exchange shall ensure that all appropriate trading and settlement practices as well as surveillance and risk containment measures as applicable to the normal trading segment are made applicable and implemented with respect to the NLT window.
- 4.8. The Stock Exchange shall disseminate details of the NLT trades to the public on the same day, after the market hours.

5. CIRCUIT BREAKER/ PRICE BANDS

- 5.1. The Stock Exchanges shall have the operational flexibility to set their own guidelines with respect to circuit breakers and price bands. Such guidelines

shall inter-alia include trigger mechanism for circuit breakers, duration of halt of trading, resumption of market after the halt.

- 5.2. In case of scrips that are dual listed on both IFSC and domestic Stock Exchanges, the guidelines pertaining to circuit breaker and price bands shall be aligned with that of the domestic jurisdiction.

6. IMPLEMENTATION OF UNIFORM SECURITY SPECIFIC ACTION IN STOCK EXCHANGES

- 6.1. All Stock Exchanges in order to maintain safety and integrity in the market shall implement the security specific decisions taken by any Stock Exchange, such as transferring of scrips from rolling settlement to trade for trade segment and vice-versa, imposition of margins, suspension of trading, etc., in cases where such securities are also listed and traded on those Stock Exchanges. For this purpose, all the Stock Exchanges shall obtain the necessary information regularly from the website(s) of other Stock Exchanges and concurrently implement the security specific decisions taken by the other Stock Exchange.
- 6.2. In the event any Stock Exchange cannot implement the decisions taken by the other Stock Exchange with regard to a particular scrip, such Stock Exchange(s) shall not make available trading in such scrip in the normal rolling settlement.

7. MARGIN TRADING

- 7.1. The Broker-Dealers may provide margin trading facility to their clients. Broker-Dealers shall adhere to framework for margin trading as specified by the Stock Exchange.
- 7.2. Such framework shall be developed by the Stock Exchange in coordination with other Stock Exchanges and the framework for margin trading shall *inter-alia* include the following:
- a) Securities eligible for margin trading
 - b) Margin requirement for availing margin trading facility
 - c) Eligibility requirement for Broker-Dealers to provide margin trading facility to its clients
 - d) Sources of funds for the Broker-Dealers to provide margin trading facility
 - e) Leverage and exposure limits for Broker-Dealers
 - f) Disclosure requirements

- g) Rights and obligations of the Broker-Dealer and client
- h) Record maintenance requirements by the Broker-Dealers with respect to Margin Trading

8. MARKET MAKER / LIQUIDITY ENHANCER

8.1. The Stock Exchange shall specify the guidelines for the purposes of monitoring and effective operations of the market makers (liquidity enhancers, liquidity providers, maker-taker or whatever name called). Such Guidelines shall *inter-alia* include the following:

- i. Criterion for selection of scrips for market making
- ii. Number of market makers for each share
- iii. Number of shares for market maker
- iv. Eligibility criteria for an entity to be market maker
- v. Rights, Obligations and responsibilities of market marker
- vi. De-registration of market makers (Voluntarily or Compulsory)
- vii. Capital adequacy requirements for market makers

8.2. All market maker / liquidity enhancer orders / trades should be identifiable by the Stock Exchange.

9. LIQUIDITY ENHANCEMENT SCHEME

9.1. Introduction

9.1.1. The Stock Exchange may introduce liquidity enhancement schemes in any security/ listed products subject to the following:

9.1.1.1. The Scheme shall have prior approval of the Governing Board of the Stock Exchange, which will be valid for one year. The Governing Board of the Stock Exchange may grant annual approval till the time the scheme is in operation. Further, its implementation and outcome shall be monitored by the Governing Board at quarterly intervals.

9.1.1.2. The scheme shall be objective, transparent, non-discretionary and non-discriminatory.

9.1.1.3. The scheme shall specify the incentives available to the market makers / liquidity providers and such incentives may include

discount in fees, adjustment in fees in other segments, cash payment or issue of shares, including options and warrants.

9.1.1.4. The scheme shall not compromise market integrity or risk management.

9.1.1.5. The effectiveness of the scheme shall be reviewed by the Stock Exchange every six months and the Stock Exchange shall submit half-yearly reports to IFSCA.

9.1.1.6. The scheme, including any modification therein or its discontinuation, shall be disclosed to the market at least 15 days in advance.

9.1.1.7. Outcome of the scheme (incentives granted and volume achieved – market maker wise and security wise) shall be disseminated monthly.

9.1.1.8. The scheme shall comply with all the relevant laws.

9.2. Securities eligible for Liquidity Enhancement Schemes

9.2.1. The Stock Exchanges shall formulate their own benchmarks for selecting the securities for liquidity enhancement with the broad objective of enhancing liquidity in illiquid securities.

9.2.2. The Stock Exchange may introduce liquidity enhancement schemes on any security. Once the scheme has been discontinued, it can be re-introduced on the same security.

9.2.3. Further, a Stock Exchange may introduce liquidity enhancement schemes in securities where liquidity enhancement scheme has been introduced in another Stock Exchange. Such schemes cannot be continued beyond the period of liquidity enhancement schemes of the initiating Stock Exchange.

9.2.4. The list of securities eligible for liquidity enhancement shall be disseminated to the market.

9.3. Market Integrity

9.3.1. The Stock Exchanges shall ensure the following:

9.3.1.1. The Stock Exchange shall have systems and defined procedures in place to monitor collusion between Broker-Dealers indulging in trades solely for seeking incentives and prevent payment of incentives in such cases.

9.3.1.2. Incentives shall not be provided for those trades where the counterparty is the same, i.e., same Unique Client Code (UCC) is on both buy and sell sides of the transaction

9.3.1.3. Any violations of clauses in this para shall be viewed most seriously

9.4. Framework for conflict of interest

9.4.1. A conflict-of-interest framework shall be put in place by the Stock Exchange for the liquidity enhancement scheme. Such a framework shall provide for obligation on the part of the market maker / liquidity enhancer to disclose any conflict of interest while participating in the scheme. The same shall be disclosed by the Stock Exchange on their website.

9.5. Reserve for incentives under Liquidity Enhancement Scheme

9.5.1. The Stock Exchange shall create a reserve specifically to meet incentives/expenses of the liquidity enhancement scheme, based on the normative study of the liquidity enhancement scheme in the domestic market and such reserves shall not be included in the calculation of net worth.

10. PROPRIETARY TRADING

10.1. Disclosure of Proprietary trading by Broker-Dealer to Client

10.1.1. With a view to increase the transparency in the dealings between the Broker-Dealer and the client, every Broker-Dealer shall disclose to his client whether he does client based business or proprietary trading as well.

10.1.2. Further, the Broker-Dealer shall disclose this information upfront to his new clients at the time of onboarding of client.

10.1.3. In case of a Broker-Dealer who at present does not trade on proprietary account, chooses to do so at a later date, he shall be required to disclose this to his clients before carrying out any proprietary trading.

10.2. Proprietary account trading terminal

10.2.1. Proprietary account should be used by the Broker-Dealer to place orders of the broking firm. It may be noted that the trades executed under “proprietary account” cannot be transferred subsequently to the clients in the back office of the Broker-Dealers. If undertaken, this practice would be in clear violation of the requirement of putting the orders of clients under the appropriate client code through trading terminals.

11. TIME STAMPING OF ORDERS

11.1. Broker-Dealers have to maintain the record of timestamps of the orders placed by their client and reflect the same in the contract note along with the time of execution of the order.

12. UNIQUE CLIENT CODE

12.1. Unique Client Code

12.1.1. It shall be mandatory for the Broker-Dealers to use unique client code for all clients. Such unique client code can be assigned based on the:

- 12.1.1.1. Legal Identity Identifier
- 12.1.1.2. Permanent Account Number (PAN)
- 12.1.1.3. Passport number
- 12.1.1.4. or any other documents as may be specified by the Authority.

12.1.2. Broker-Dealers shall verify the documents with respect to the unique code and retain a copy of the document.

12.1.3. The Broker-Dealers shall also be required to furnish the above particulars of their clients to the Stock Exchanges/ Clearing Corporations and the same would be updated on a monthly basis. Such information for a specific month should reach the exchange within 7 working days of the following month.

12.1.4. The Stock Exchanges shall be required to maintain a database of client details submitted by brokers.

12.2. Modification of client codes

12.2.1. Stock Exchanges may allow modifications of client codes only to rectify a genuine error in entry of client code at the time of placing/ modifying the related order.

12.2.2. The following shall be classified as genuine errors for the purpose of client code modification:

12.2.2.1. Error due to communication and/or punching or typing such that the original client code/name and the modified client code/name are similar to each other.

12.2.3. If a Stock Exchange wishes to allow Broker-Dealers to modify client codes of non-institutional trades, it shall:

12.2.3.1. Set up a mechanism to ensure that the Broker-Dealers modify client codes only to rectify a genuine error.

12.2.3.2. Ensure that modification of client codes is covered in the annual compliance audit of the Broker-Dealer.

12.3. Penalty Structure

12.3.1. The Stock Exchanges shall levy a penalty from Broker-Dealers and credit the same to its Investor Protection Fund as under:

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2

Where,

a = Value (turnover) of trades where client codes have been modified by a Broker-Dealer during a month.

b = Value (turnover) of trades of the Broker-Dealer during the month.

12.3.2. The Stock Exchange shall conduct a special inspection of the Broker-Dealers to ascertain whether the modifications of client codes are being carried out only to rectify genuine errors as mentioned above, if 'a' as a % of 'b', as defined above, exceeds 1% during a month and take appropriate disciplinary action, if any deficiency is observed.

12.4. Error Account

12.4.1. Shifting of trades to the error account of Broker-Dealer would not be treated as modification of client code, provided the trades in error account are subsequently liquidated in the market and not shifted to some other code.

12.4.2. Further, Broker-Dealers shall disclose the codes of accounts which are classified as 'error accounts' to the Exchanges.

12.4.3. Each Broker-Dealer shall have a well-documented error policy approved by the management of the Broker-Dealer. Stock Exchanges shall periodically review the trades flowing to the error accounts of the Broker-Dealers.

12.5. Waiver of Penalty

12.5.1. Stock Exchanges may waive penalty for a client code modification where Broker-Dealer is able to produce evidence to the satisfaction of the Stock Exchange to establish that the modification was on account of a genuine error.

12.5.2. Not more than one such waiver per quarter may be given to a Broker-Dealer for modification in a client code. Explanation: If penalty waiver has been given with regard to a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the Broker-Dealer in the quarter for modifications related to client codes AB and BA.

12.5.3. Proprietary trades shall not be allowed to be modified as client trade and vice versa.

12.5.4. Stock Exchanges shall submit a report to IFSCA every quarter regarding all such client code modifications where penalties have been waived. Such report shall be required to be furnished only when penalty has been

waived. In case of no waiver of penalty in a specific quarter, reporting shall not be required.

12.5.5. Stock Exchanges shall undertake stringent disciplinary actions against Broker-Dealers who undertake frequent client code modifications.

13. TRANSACTION CHARGES BY THE STOCK EXCHANGES

13.1. Transaction charges shall be levied by the Stock Exchange on trades executed on their trading platform.

13.2. Stock Exchanges, while revising such transaction charges, are advised to ensure that:

- 13.2.1. The Stock Exchange system is capable of handling additional load.
- 13.2.2. It does not affect the existing risk management system.
- 13.2.3. It does not favour selective trades or selective category of investor.
- 13.2.4. It does not encourage generation of artificial demand.
- 13.2.5. It does not result in any market irregularities.
- 13.2.6. It is uniformly applied to trades of similar nature.
- 13.2.7. It is imposed in fair and transparent manner.

14. CALL AUCTION IN PRE-OPEN SESSION AND PRE-CLOSE SESSION

- 14.1. Stock Exchanges operating in GIFT IFSC shall specify the guidelines for call auction.
- 14.2. Stock Exchanges may choose to have pre-open session and pre-close session in case of derivatives also.
- 14.3. In case of equity listing, the Stock Exchanges shall align the duration of call auction with the other Stock Exchanges in IFSC.

15. POLICY FOR ANNULMENT OF TRADES UNDERTAKEN ON STOCK EXCHANGES

- 15.1. Stock Exchanges shall specify the policy for annulment of trades outlining aspects such as modalities of submission of requests by Broker-Dealer to the Exchange, criteria and processing of trade annulment requests by the Stock Exchanges, charges to be levied by the exchanges etc.

CHAPTER - III: TRADING SOFTWARE AND TECHNOLOGY

16. INTERNET BASED TRADING

16.1. Conditions to be met by Broker-Dealer for providing Internet Based Trading (IBT) Service and Securities Trading using Wireless Technology (STWT)

16.1.1. To provide IBT Service, the Broker-Dealer shall apply 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.

16.1.2. However, before giving permission to a Broker-Dealer to start internet-based services, Stock Exchange shall ensure that the Broker-Dealer meets the minimum conditions/ criteria as specified by the Stock Exchange or the Authority.

16.1.3. Broker-Dealers who provide Internet Based Trading shall be eligible to provide securities trading using wireless technology. All relevant requirements applicable to internet based trading shall also be applicable to securities trading using wireless technology. Securities Trading using Wireless technology shall include devices such as mobile phone, laptop with data card, etc, that use Internet Protocol (IP).

16.1.4. The Stock Exchange shall have the operational flexibility to put in place the necessary measures, procedures and guidelines for approval of IBT and STWT services of the Broker-Dealer including following:

16.1.4.1. Risk management and risk mitigation with respect to IBT trading activity

16.1.4.2. Operational and system requirements

16.1.4.3. Network security protocols and interface standards

16.1.4.4. Technology and systems audit policy of the IBT systems

16.1.4.5. Cybersecurity, cyber resilience, access control and incident response

16.1.5. Responsibilities of the Broker-Dealer

16.1.5.1. The Broker-Dealers shall ensure below for providing IBT facility

to its clients:

- 16.1.5.1.1. An agreement with clients spelling out all obligations and rights. This agreement should, inter alia, include the minimum service standards to be maintained by the broker for such services specified by IFSCA/Exchanges for the Internet based trading from time to time. The Stock Exchange may put any other terms and conditions to be included in the agreement with the clients. The Broker-Dealer's agreement with its clients shall not have any clause that is in contravention to the regulations/circulars/guidelines issued by IFSCA and the Stock Exchange from time to time.
 - 16.1.5.1.2. The Broker-Dealer web site providing the internet based trading facility should contain information meant for investor protection such as rules and regulations affecting client broker relationship, arbitration rules, investor protection rules etc., provide and display prominently, hyper link to the web site/ page on the web site of the relevant Stock Exchange(s) displaying rules/ regulations/circulars.
 - 16.1.5.1.3. Display Ticker/quote/order book along with the time stamp as well as the source of such information against the given information.
- 16.1.6. The Broker-Dealer shall
- 16.1.6.1. ensure that the trading limits, exposure limits and position limits are set for all its clients based on risk assessment, credit quality and available margins of the client.
 - 16.1.6.2. Ensure that all IBT/STWT orders are routed through electronic/automated risk management systems of the Broker-Dealer 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.
 - 16.1.6.3. maintain sound audit trail for all IBT/STWT orders and trades and should at all times have the capability to provide identification of actual user-id for all such orders and trades. The audit trail data should be available for at least 10 years, from the date of execution of trades.
 - 16.1.6.4. Should follow defined Network Security guidelines as issued by Stock Exchange
 - 16.1.6.5. Follow the similar logic/priorities used by the Exchange to treat client

orders.

- 16.1.6.6. maintain all activities/ alerts log with audit trail facility.
- 16.1.6.7. internally generate unique numbering for all client order/trades.
- 16.1.6.8. ensure 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.
- 16.1.7. The Broker-Dealer's server routing orders to the exchange trading system shall be located in GIFT IFSC.
- 16.1.8. The Broker-Dealer shall be fully responsible and liable for all orders emanating through their IBT/STWT systems.
- 16.1.9. All IBT/STWT orders must be offered to the market for matching. The Broker-Dealers using IBT/STWT facility for routing client orders shall not be permitted to cross trades of their clients with each other.
- 16.1.10. The Stock Exchanges shall have the operational flexibility to specify additional safeguards and conditions as they may deem fit for permitting IBT facilities to their Broker-Dealers.
- 16.1.11. Stock Exchanges shall arrange for periodic systems audits of broker systems to ensure that requirements specified in the circulars are being met.
- 16.1.12. The Stock Exchanges shall put in place the necessary systems to identify and distinguish IBT/STWT orders and trades from other orders and trades.
- 16.1.13. The Stock Exchanges shall maintain statistical data on IBT/STWT trades and provide information on the same to IFSCA on a need basis.

17. Direct Market Access

- 17.1. Direct Market Access (DMA) is a facility which allows Broker-Dealers to offer their clients direct access to the trading system of the Stock Exchange, through the Broker-Dealer's trading systems, without any manual intervention by the Broker-Dealer. The Broker-Dealer retains the ability to monitor internally and, if necessary, stop an order prior to it being executed.
- 17.2. The Broker-Dealer shall maintain sound audit trail for all DMA orders and trades and should at all times have the capability to provide identification of actual user-id for all such orders and trades. The audit trail data should be available for at least 10 years, from the date of execution of trades.
- 17.3. The Broker-Dealers shall follow the similar logic/priorities used by the Exchange to treat DMA client orders. In this regard, the Broker-Dealers are required to maintain all activities/ alerts log with audit trail facility. The DMA Server shall have internally generated unique identifier for all such client order/trades.
- 17.4. The Stock Exchange shall have the operational flexibility to put in place the necessary measures, procedures and guidelines for DMA orders and trades with respect to:
 - 17.4.1. Risk management and risk mitigation with respect to DMA trading activity
 - 17.4.2. Technology and systems audit policy of the DMA systems based on the risk profile of the Broker-Dealer / client.
 - 17.4.3. Eligible institutional investors which are permitted to avail the DMA facility
 - 17.4.4. Cybersecurity, cyber resilience, access control and incident response
- 17.5. **Responsibilities of the Broker-Dealer & due diligence of prospective clients**
 - 17.5.1. The Broker-Dealers shall specifically authorize prospective clients for providing DMA facility subject to:
 - 17.5.1.1. Fulfilment of the KYC/AML requirements as specified by IFSCA from time to time
 - 17.5.1.2. Due diligence of the prospective client with respect to the credit worthiness, risk taking ability and track record of compliance
 - 17.5.1.3. The governance and ownership structure of the prospective client

- 17.5.1.4. The ability of the prospective client to meet its financial obligations
- 17.5.1.5. Any additional measures that the Stock Exchange considers appropriate to ensure that the clients are deemed fit and proper for permitting access to the DMA facility.
- 17.5.2. The Broker-Dealers are required to maintain proper records of such due diligence. Individual users at the client end shall also be authorized by the Broker-Dealer based on minimum criteria. The records of user details, user-id and such authorization shall be maintained by the Broker-Dealer. Details of all user-ids activated for DMA shall be provided by the Broker-Dealer to the Stock Exchange.
- 17.5.3. The Broker-Dealer shall enter into a specific agreement with the clients for whom they permit DMA facility, the nature and detail of which should be appropriate to the nature of the service provided. This agreement shall, inter alia, include the following safeguards:
 - 17.5.3.1. The DMA facility shall be used by the client only to execute its own trades and shall not be used for transactions on behalf of any other person/entity.
 - 17.5.3.2. The necessary systems and controls with respect to Electronic/Automated Risk Management shall be in place at the Broker-Dealer's level before the release of order to the Exchange trading system. The client shall agree to be bound by the various limits that the Broker-Dealer shall impose for the usage of the DMA facility.
 - 17.5.3.3. Right to withdraw DMA facility if the predefined thresholds are breached or for any other such concerns
 - 17.5.3.4. Withdrawal of DMA facility on account of any misuse or on instructions from
- 17.5.4. The Stock Exchange may put any other terms and conditions to be included in the agreement with the clients. The Broker-Dealer's agreement with its clients shall not have any clause that is in contravention to the regulations/circulars/guidelines issued by IFSCA and the Stock Exchange from time to time.
- 17.5.5. The Broker-Dealer shall:
 - 17.5.5.1. ensure that the trading limits, exposure limits and position limits are set for all its DMA clients based on risk assessment, credit quality and available margins of the client.

17.5.5.2. Have appropriate authority levels to ensure that these limits are established only by persons authorized by the Chief Risk Officer or Chief Compliance Officer or any other such senior employee of the Broker-Dealer authorized to have oversight over the Compliance or Risk Management functions.

17.5.5.3. Ensure that all DMA orders are routed through electronic/automated risk management systems of the Broker-Dealer 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.

17.5.5.4. The Broker-Dealer may provide for additional risk management parameters as they may deem appropriate.

17.6. Sponsored Access

17.6.1. Based on the representations received from the Stock Exchanges and market participants, in order to enhance market participation and broaden the investor base in IFSC, it has been decided to permit Broker-Dealers to offer the facility of Sponsored Access (SA) to its clients, for trading on the Stock Exchange.

17.6.2. Sponsored Access is a form of Direct Market Access in which the Broker-Dealer permits its client to transmit orders directly to the Exchange trading system without routing it through the Broker-Dealer's trading system. Such an arrangement may facilitate low latency trading and assist in preserving the confidentiality of sophisticated, proprietary trading strategies of the clients.

17.6.3. The Broker-Dealer shall sign a SA agreement or provide a SA undertaking to the Stock Exchange.

17.6.4. The orders routed through the client's trading application via SA should pass through the controls / pre-trade risk management layer provided by the Stock Exchange with the parameters being determined and configured by the Broker-Dealer.

17.6.5. The Broker-Dealer shall enter into an agreement with the clients desirous of availing the SA facility. The due diligence by the Broker-Dealer for providing SA to such clients shall, inter alia, include:

17.6.5.1. the governance and ownership structure of the client

- 17.6.5.2. the responsibilities within the client for dealing with actions and errors
- 17.6.5.3. the historical trading pattern and behaviour of the prospective client
- 17.6.5.4. the level of expected trading and order volume of the prospective client
- 17.6.5.5. the ability of the prospective client to meet its financial obligations
- 17.6.5.6. the disciplinary history of the prospective DMA client, where available

17.6.6. The Stock Exchange shall ensure that the agreement between the Broker-Dealer and its client are in place prior to approving the facility of SA.

17.7. Sub-delegation of DMA/SA

- 17.7.1. A client of a Broker-Dealer may sub-delegate its DMA/SA facility to its own client (sub-delegatee), subject to the condition that the client sub-delegating the DMA/SA facility is an entity, regulated in any capacity, by a securities market regulator which is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding (IOSCO-MMoU).
- 17.7.2. The Broker-Dealer permitting a DMA/SA client to sub-delegate its DMA/SA facility, should be able to identify the different order flows from such sub-delegation.
- 17.7.3. Only one level of sub-delegation of DMA/SA facility shall be permitted i.e., sub-delegation shall be permitted only up to a client's client (sub-delegatee). The sub-delegatee shall not be permitted to in turn sub-delegate the DMA/SA facility to its client.

17.8. Other requirements for DMA/SA

- 17.8.1. A Broker-Dealer desirous of providing DMA/SA facility to its clients is required to obtain prior approval of the Stock Exchange. The Stock Exchange shall put in place the necessary Standard Operating Procedures for providing such an approval.
- 17.8.2. The clients (including sub-delegatees) desirous of availing the facility of DMA/SA shall fulfil the following criteria:

- 17.8.2.1. The client is a resident of a country whose securities market regulator is a signatory to the IOSCO-MMoU or a signatory to the bilateral Memorandum of Understanding with the Authority.
- 17.8.2.2. The client is not a resident of a country identified in the public statement of the Financial Action Task Force (FATF) as –
- a) a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
 - b) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.
- 17.9. All DMA orders shall be routed to the exchange trading system through the Broker-Dealer's trading system. The Broker-Dealer's server routing the DMA orders to the exchange trading system and the SA client's servers (including those of the sub-delegatee) transmitting orders directly to the exchange trading system, shall be located in IFSC. Depending on the operational convenience, the Broker-Dealers/ SA clients (including sub-delegatees) may implement their systems in any of the following ways:
- 17.9.1. The Co-location data centre of the Stock Exchange
 - 17.9.2. Broker-Dealer's/ SA client's own data centre in IFSC
 - 17.9.3. A third-party data centre in IFSC as approved by the Stock Exchange
 - 17.9.4. Independent software vendors with infrastructure in IFSC
- 17.10. The Stock Exchanges shall specify the operational and technical requirements and procedures for DMA/SA connectivity to the exchange trading system.
- 17.11. The Broker-Dealer shall be fully responsible and liable for all orders emanating through their DMA systems and the SA systems of its clients. It shall be the responsibility of the Broker-Dealer to ensure that only clients (including sub-delegatees) who fulfil the eligibility criteria are permitted to use the DMA/SA facility.
- 17.12. All DMA/SA orders must be offered to the market for matching. The Broker-Dealers using DMA facility for routing client orders shall not be permitted to cross trades of their clients with each other. The clients using and sub-delegating the SA facility, shall not be permitted to cross trades of the sub-delegatees with each other.

- 17.13. The Stock Exchanges shall have the operational flexibility to specify additional safeguards and conditions as they may deem fit for permitting DMA/SA facilities to their Broker-Dealers.
- 17.14. The Stock Exchanges shall put in place the necessary systems to identify and distinguish DMA/SA orders and trades from other orders and trades.
- 17.15. The Stock Exchanges shall maintain statistical data on DMA/SA trades and provide information on the same to IFSCA on a need basis.
- 17.16. The Broker-Dealer providing DMA/SA facility shall review its due diligence processes periodically.
- 17.17. The Broker-Dealer shall carry out periodic risk-based reassessment of the adequacy of its clients' systems and controls, in particular, taking into account the following:
 - 17.17.1. Changes to the scale, nature or complexity of their trading activities or strategies
 - 17.17.2. Changes to their staffing
 - 17.17.3. Ownership structure
 - 17.17.4. Regulatory status
 - 17.17.5. Financial position
 - 17.17.6. Whether its DMA/SA client has expressed its intention to sub-delegate its DMA/SA
 - 17.17.7. Identify order flows emanating from DMA/SA

18. TRADING TERMINALS

18.1. Testing of software used in or related to Trading and Risk Management

18.1.1. Meaning

For the purpose of this section, the term 'Software' shall mean electronic systems or applications used by Broker-Dealers / trading members for connecting to the Stock Exchanges and for the purposes of trading and real-time risk management, including software used for IBT", "DMA", STWT, Smart Order Routing ("SOR"), Algorithmic Trading ("AT"), etc.

18.1.2. Testing of Software

The 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:

18.1.2.1. Testing in an Exchange provided 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.

18.1.3. Mock Testing

18.1.3.1. The Stock Exchanges shall organize mock trading sessions 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.

18.1.3.2. The Stock Exchanges shall mandate a minimum time period for such testing in the mock trading sessions.

18.1.3.3. In order to improve the efficacy of the mock trading sessions, all Broker-Dealers shall ensure that all user-ids approved for Algo trading, irrespective of the algorithm having undergone change or not, shall participate in the mock trading sessions.

18.1.3.4. The Broker-Dealer shall undertake (User Acceptance Test) UAT of the software to satisfy itself that the newly developed/ modified software meets its requirements.

18.1.3.5. 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 test environment to test new software or existing software that has undergone any change of functionality and ensures the following:

- 18.1.3.5.1. The test environment shall be made available to all the members.
- 18.1.3.5.2. The test environment shall be made available for at least two hours after market hours and at least on two trading days in a week.
- 18.1.3.5.3. For the purpose of testing, the Stock Exchange shall make available data from at least one trading day and the same shall not be older than one month from the day of the testing environment.
- 18.1.3.5.4. All Broker-Dealers (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.
- 18.1.3.6. With respect to testing of software related to (a) fixes to bugs in the software, (b) changes undertaken to the Broker-Dealers' 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 environment by certain number of Broker-Dealers, Stock Exchanges may prescribe a faster approval process to make the process of approval expeditious.
- 18.1.3.7. Broker-Dealers shall also engage system auditor(s) to examine reports of mock tests and UAT in order to certify that the tests were satisfactorily undertaken.
- 18.1.3.8. Stock Exchanges shall monitor compliance of Broker-Dealers, who use trading algorithm, with regard to the requirement of participation in mock trading session as mandated with this circular.
- 18.1.3.9. Stock Exchanges shall also ensure that the system auditors examine the compliance of Broker-Dealer, 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.

18.1.3.10. For pre-approval / periodic system audit of Computer-to-Computer Link ("CTCL") or Intermediate Messaging Layer ("IML"), IBT, DMA, STWT, SOR and AT, Broker-Dealers shall engage a system auditor with any of the certifications as specified under:

- a) CISA (Certified Information System Auditors) from ISACA;
- b) DISA (Post Qualification Certification in Information Systems Audit) from Institute of Chartered Accountants of India (ICAI);
- c) CISM (Certified Information Securities Manager) from ISACA
- d) CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC)

18.1.3.11. While finalizing the system auditor, Broker-Dealers shall ensure the system auditor does not have any conflict of interest with the Broker-Dealer and the directors/promoters of the system auditor are not directly or indirectly related to the current directors or promoters of Broker-Dealer.

18.1.4. Approval of Software of Broker-Dealer

18.1.4.1. Broker-Dealers / 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. The Stock Exchange may seek additional details as deemed necessary for evaluating the application of the Broker-Dealer / trading member.

18.1.4.2. The Stock Exchanges shall grant approval or reject the application of the Broker-Dealer as the case may be, and communicate the decision to the Broker-Dealer within fifteen working days from the date of receipt of completed application (or within any other such time period specified vide IFSCA 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 Broker-Dealer / trading member within such time period.

18.1.4.3. Before granting approval to use software in securities market, the Stock Exchange shall ensure that the requirements specified by IFSCA / Stock Exchange with regard to the software are met by the Broker-Dealer / trading member.

- 18.1.4.4. The 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 Broker-Dealers to the new / upgraded software.
- 18.1.5. In order to ensure that the Broker-Dealers are not using software without requisite approvals, the Stock Exchanges are advised to put in place suitable mechanism to prevent any unauthorized change to the approved software.
- 18.1.6. Undertaking to be provided by Broker-Dealers**
- 18.1.6.1. Broker-Dealers shall submit an undertaking to the respective Stock Exchanges stating the following at the minimum:
- 18.1.6.2. M/s (name of the Broker-Dealer) 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 the Authority/Stock Exchange before deployment of such new / modified software in securities market.
- 18.1.6.3. M/s (name of the Broker-Dealer / 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 the Authority or the Stock Exchange from time to time with regard to usage, testing and audit of the software.
- 18.1.6.4. The absolute liability arising from failure to comply with the above provisions shall lie entirely with M/s (name of the Broker-Dealer).
- 18.1.6.5. The Stock Exchanges may include additional clauses as deemed necessary in the undertaking.
- 18.1.7. Sharing of Application Programming Interface (API) specifications by the Stock Exchange with Broker-Dealers**
- 18.1.7.1. API is an interface that enables interaction of software with other software and typically includes language and message format that is used by an application program to communicate with the operating system or other application program. Broker-Dealers and software vendors require relevant API specifications to facilitate interaction of the developed software with the systems of the Stock Exchanges.

- 18.1.7.2. The Stock Exchanges shall provide relevant API specifications to all Broker-Dealers and software vendors who are desirous of developing software for the securities market, after establishing their respective credentials.
- 18.1.7.3. In case of refusal to share APIs, the Stock Exchanges shall provide reasons in writing to the desirous Broker-Dealers or software vendors within a period of fifteen working days from the date of receipt of such request for sharing of API.
- 18.1.7.4. Further, Stock Exchanges shall not selectively release updates / modifications, if any, of the existing API specifications to a few Broker-Dealers or software vendors ahead of others and shall provide such updated / modified API specifications to all Broker-Dealers and software vendors with whom the earlier API specifications were shared.

19.SYSTEM AUDIT

- 19.1. Stock Exchanges and Clearing Corporations are required to conduct System and Network Audit as per the framework mentioned in the **Annexure-II** and Terms of Reference (ToR) mentioned at **Annexure-III**. The Auditor shall also check for compliance with the extant IFSCA guidelines/circulars related to the technology as specified from time to time and shall report Non-Compliances (NCs) to the Authority as per the format specified at **Annexure-IV**.
- 19.2. The Stock Exchanges and Clearing Corporations are required to submit information with regard to exceptional major NCs/ minor NCs observed in the System and Network Audit as per the format placed at **Annexure-V** and are required to categorically highlight those observations/NCs/suggestions pointed out in the System and Network Audit (current and previous) which remain open.
- 19.3. The Systems and Network Audit Report including compliance with regulatory requirements (regulations/circulars/guidelines) and exceptional observation format along with compliance status of previous audit observations shall be placed before the Governing Board of the Stock Exchange /Clearing Corporation and then the report along with the comments of the Management of the MII shall be communicated to the Authority within a month of completion of audit.
- 19.4. Along with the Audit report, Stock Exchanges and Clearing Corporations are required to submit a joint declaration from the Managing Director (MD)/Chief Executive Officer (CEO) and Chief Technology Officer (CTO) certifying

- a) the security and integrity of their IT Systems
- b) correctness and completeness of data provided to the Auditor
- c) entire network architecture, connectivity (including co-lo facility) and its linkage to the trading infrastructure are in conformity with IFSCA's regulatory framework to provide fair equitable, transparent and non-discriminatory treatment to all the market participants
- d) internal review of critical systems was carried out during the Audit period, including the Failure Modes and Effects Analysis (FMEA)

20. BUSINESS CONTINUITY PLAN AND DISASTER RECOVERY

20.1. IFSCA, as a member of IOSCO, has adopted the Principles for Financial Market Infrastructures (PFMIs) laid down by CPMI-IOSCO.

20.2. Principle 17 of PFMI that relates to management and mitigation of 'Operational risk' requires that systemically important market infrastructure institutions *"should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption."*

20.3. Considering the advancement in technology and improved automation of various processes, a framework for Business Continuity Plan (BCP) and Disaster Recovery Site (DRS) for the MIIs in the IFSC is prescribed hereunder:

- 20.3.1. The MIIs shall have in place BCP and DRS to maintain data and transaction integrity.
- 20.3.2. Apart from DRS, all MIIs shall also have a Near Site (NS) to ensure zero data loss.
- 20.3.3. The DRS should preferably be set up in different seismic zones and in case due to certain reasons such as operational constraints, change of seismic zones, etc., a minimum distance of 500 kilometres shall be ensured between the Primary Data Centre (PDC) and the DRS so that both DRS and PDC are not affected by the same disaster.

20.4. The business, operations and technology manpower resources of PDC site can operate from home/travel to DRS, if required.

- 20.4.1. Stock Exchanges/Clearing Corporations shall constitute an Incident and Response Team (IRT)/ Crisis Management Team (CMT), which shall be chaired by the Managing Director (MD) of the MII or by the Chief Technology Officer (CTO), in case of non- availability of MD. The IRT/ CMT shall be responsible for the actual declaration of disaster, invoking the BCP and shifting of operations from PDC to DRS whenever required. Details of roles, responsibilities and actions to be performed by employees, IRT/ CMT and support/outsourced staff in the event of any Disaster shall be defined and documented by the MII as part of BCP-DR Policy Document.
- 20.4.2. The Technology Committee of the MIIs shall review the implementation of the BCP- DR policy approved by the Governing Board of the MII, on a quarterly basis.
- 20.4.3. The Stock Exchange / Clearing Corporation shall conduct periodic training programs to enhance the preparedness and awareness level among their employees and outsourced staff, vendors, etc. so as to discharge their duties as per the BCP policy.

20.5. Configuration of DRS/NS with PDC

- 20.5.1. The following guidelines shall apply with respect to the configuration of DRS/NS with PDC:

Hardware, system software, application environment, network and security devices and associated application environments of DRS / NS and PDC shall have one to one correspondence between them.

- 20.5.2. The Stock Exchange or Clearing Corporation shall develop the necessary systems in a manner that does not require system configuration changes at the intermediary level (broker dealers/ clearing members) for switchover from the PDC to the DRS. The Stock Exchanges or Clearing Corporations the MIIs shall test such a switchover functionality by conducting unannounced live operations on periodic basis as specified by the Authority. Unannounced commencement of live operations from the DRS of the MIIs shall be done at a short notice of 45 minutes.
- 20.5.3. The 'Critical Systems' for an Exchange/ Clearing Corporation shall include Trading, Risk Management, Collateral Management, Clearing and Settlement and Index computation.

- 20.5.4. In the event of a disruption of any one or more of the 'Critical Systems', the Stock Exchange or Clearing Corporation shall, within 30 minutes of the incident, declare that incident as a 'Disaster' and take necessary measures to restore operations, including from the DRS, within 45 minutes of declaration of a 'Disaster'. Accordingly, the Recovery Time Objective (RTO) i.e., the maximum time taken to restore operations of 'Critical Systems' from DRS after declaration of Disaster- shall be 45 minutes.
- 20.5.5. The Stock Exchange or Clearing Corporation shall ensure that the Recovery Point Objective (RPO) i.e., the maximum tolerable period for which data loss is experienced, due to a major incident, shall be 15 minutes.
- 20.5.6. The solution architecture of PDC and DRS / NS shall ensure:
- i. high availability,
 - ii. fault tolerance,
 - iii. no single point of failure,
 - iv. zero data loss, and
 - v. data and transaction integrity
- 20.5.7. Any updates made at the PDC should be reflected at DRS/ NS immediately (before end of day) with head room flexibility without compromising any of the performance metrics.
- 20.5.8. The replication architecture, bandwidth, and load consideration between the DRS / NS and PDC shall be within the stipulated RTO and shall ensure high availability, right sizing, and no single point of failure.
- 20.5.9. The replication between PDC and NS shall be synchronous so as to ensure zero data loss whereas, the one between PDC and DRS and between NS and DRS may be asynchronous.
- 20.5.10. Adequate resources (with appropriate training and experience) should be available at all times to handle operations at PDC, NS or DRS, as the case may be, on a regular basis as well as during disasters.

20.6. DR Drills/Testing

- 20.6.1. The following guidelines with respect to the DR drills/ testing shall apply:

20.6.1.1. DR drills should be conducted on a quarterly basis.

- 20.6.1.2. The drill shall include the execution of all operations from DRS for at least 1 full trading day.
- 20.6.1.3. The results and observations of these drills shall be documented and placed before the Governing Board of the MIIs. Subsequently, the same along with the comments of the Governing Board should be forwarded to IFSCA within a month of the DR drill.
- 20.6.1.4. The Systems Auditor, while covering the BCP – DR aspect, as a part of the mandated annual Systems Audit, shall scrutinize the preparedness of the MII to switch its operations from the PDC to the DRS, unannounced, and also comment on the documented results and observations of the DR drills.
- 20.6.1.5. In the case of Stock Exchanges, the 'live' trading sessions from the DR site shall be scheduled for at least two consecutive days in every six months. Such live trading sessions from the DRS shall be organized on normal working days (i.e. not on weekends / trading holidays).
- 20.6.1.6. The Stock Exchanges shall include a scenario of intraday switchover from the PDC to DRS during the mock trading sessions in order to demonstrate its preparedness to meet RTO/RPO as stipulated above.
- 20.6.1.7. The Stock Exchange/Clearing Corporation shall undertake and document Root Cause Analysis (RCA) of their technical/ system related problems in order to identify the causes and to prevent recurrence of similar problems.
- 20.6.1.8. In addition to the above, the following shall also apply:
 - 20.6.1.8.1. Unannounced live trading session shall be conducted from the DR site of the Stock Exchanges with a notice of 4 hours, from IFSCA, before the start of the trading session
 - 20.6.1.8.2. The Stock Exchanges / Clearing Corporations shall study the feasibility of intra-day switchover from the Primary Site to the DR site with a notice of 45 minutes from IFSCA.
 - 20.6.1.8.3. MIIs shall prepare comprehensive testing plan and build sufficient redundancy in its systems in order to mitigate impact of any unforeseen technical glitch and to ensure failure of any subsystem of MIIs would not impact other critical systems of MIIs and continuous functioning of securities market.
 - 20.6.1.8.4. MIIs shall constantly monitor the health/performance of various communication links and take corrective measures, as required.

20.7. BCP-DR Policy Document

- 20.7.1. The BCP – DR policy document shall be prepared by the Stock Exchanges/Clearing Corporations as per the following:

20.7.1.1. The Stock Exchanges / Clearing Corporations shall put in place a comprehensive BCP-DR policy document outlining the following:

- a) Broad scenarios that would be defined as a Disaster for an MII
- b) Standard Operating Procedure to be followed in the event of Disaster.
- c) Escalation hierarchy within the Stock Exchange / Clearing Corporation to handle the Disaster.
- d) Clear and comprehensive Communication Protocols and procedures for both internal and external communications from the time of incident till resumption of operations of the Stock Exchange / Clearing Corporation.
- e) Documentation policy on record keeping pertaining to DR drills.
- f) Scenarios demonstrating the preparedness of Stock Exchange / Clearing Corporation to handle issues in Critical Systems that may arise as a result of Disaster.
- g) Preparedness of Depositories to handle any issue which may arise due to trading halts in Stock Exchanges.
- h) Framework to constantly monitor health and performance of Critical Systems in normal course of business.

20.7.1.2. The BCP-DR policy document of the Stock Exchange / Clearing Corporation should be approved by Governing Board after being vetted by Technology Committee and thereafter communicated to IFSCA. The BCP-DR policy document should be periodically reviewed at least once in six months and after every occurrence of a disaster.

20.7.1.3. In case a Stock Exchange / Clearing Corporation desires to lease its premises at the DRS to other entities, including to its subsidiaries or entities in which it has stake, the Stock Exchange / Clearing Corporation should ensure that such arrangements do not compromise the confidentiality, integrity, availability, targeted performance and service levels of the systems of Stock Exchange / Clearing Corporation at the DRS. The right of first use of all the resources at DRS including network resources should be with the Stock Exchange / Clearing Corporation. Further, the Stock Exchange / Clearing Corporation should deploy necessary access controls to restrict access (including physical access) of such entities to its critical systems and networks.

21. STANDARD OPERATING PROCEDURE FOR HANDLING OF TECHNICAL GLITCHES

21.1. Considering the criticality of smooth functioning of systems of Stock Exchanges / Clearing Corporations (as any disruption adversely impacts all classes of investors

/ market participants as well as the credibility of the securities market), specifying a pre-defined threshold for downtime of systems of MIIs becomes desirable. For any downtime or unavailability of services, beyond such pre-defined time, there is a need to ensure that “Financial Disincentive” is paid by the MIIs. This will encourage MIIs to constantly monitor the performance and efficiency of their systems and upgrade/ enhance their systems etc. to avoid any possibility of technical glitches/disruption/disaster and restart their operations expeditiously in the event of glitch/disruption/disaster.

21.2. The Stock Exchanges / Clearing Corporations shall:

- 21.2.1. Follow the Standard Operating Procedure (SOP) for handling technical glitches as detailed at **Annexure VI**, and,
- 21.2.2. Comply with the “Financial Disincentive” structure as detailed at **Annexure VII**.

22.CO-LOCATION / PROXIMITY HOSTING

22.1. The term “Co-location” also synonymously referred to as “proximity hosting” is defined as the facility offered by the Stock Exchanges to eligible market participants such as Broker-Dealers 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 the Stock Exchanges through direct and private network.

22.2. Fair and equitable co-location services

22.2.1. The Stock Exchanges providing co-location services shall, within the limits of the space, power, cooling and similar facilities available, ensure that such services are provided in a fair, transparent and equitable manner with respect to the following:

- 22.2.1.1.data centres that are owned and managed by the Stock Exchange
- 22.2.1.2.data centres that are owned by the Stock Exchange and which are managed by a third party selected by the Stock Exchange
- 22.2.1.3.data centres that are owned and managed by a third party with which the Stock Exchange has an outsourcing/contractual arrangement

22.2.2. The Stock Exchanges, while facilitating co-location, shall:

- 22.2.2.1. ensure that all eligible market participants who avail co-location facility have fair, transparent and equitable access to facilities and data feeds provided by the Stock Exchange.
- 22.2.2.2. ensure that all eligible market participants availing co-location facility experience similar latencies for the class of co-location service provided by the Stock Exchange.
- 22.2.2.3. ensure that the size of the co-located hosting space is sufficient to accommodate all the eligible market participants who are desirous of availing the facility.
- 22.2.2.4. provide the flexibility to avail rack space in the co-location environment so as to meet the requirements of all eligible market participants desirous of availing such facility.
- 22.2.2.5. expeditiously decide on the request of the desirous eligible market participants for availing co-location facility and communicate the decision within fifteen working days from the receipt of the request from such eligible market participants. In case of a rejection, the Stock Exchange shall also provide reasons in writing to the eligible market participant.

22.3. Connectivity at co-location facility

22.3.1. The Stock Exchange shall:

- 22.3.1.1. Permit eligible market participants to receive data feeds from other recognised Stock Exchanges at the co-location facilities and allow routing of orders to other recognised Stock Exchanges in IFSC or overseas, from the co-location facilities.
- 22.3.1.2. Permit direct connectivity between the co-location facility of a recognised Stock Exchange in IFSC and the co-location facility of other recognized Stock Exchange in IFSC, India or overseas.
- 22.3.1.3. Permit direct connectivity between servers of an eligible market participant placed in co-location facility of a recognized Stock Exchange and servers of the participant placed (or its group company) in the co-location facility of another recognized Stock Exchange in IFSC, India or overseas.

22.3.1.4. Permit eligible market participants based in overseas jurisdictions to connect to the co-location facility of the Stock Exchange.

22.3.1.5. Permit third party data centres/ service providers chosen by eligible market participants (or its group company) to connect to the co-location facility of the Stock Exchange. The third-party data centres/ service providers shall, inter alia, include advanced, managed Infrastructure as a Service (IaaS) co-location solutions and cloud-based co-location services.

22.4. Disclosure of information pertaining to co-location services

22.4.1. The Stock Exchanges shall publish the following information on their co-location services on their websites:

22.4.1.1. information about services pertaining to space, power, cooling, access to data, market connectivity, technology, technical support, message types, telecommunications and related products and services

22.4.1.2. the fee structure for each service

22.4.1.3. the terms and conditions for accessing the service

22.4.1.4. the different types of latency of access available

22.4.1.5. the procedure to allocate co-location space

22.4.1.6. the requirements on third party providers of co-location services, wherever applicable

22.4.2. The Stock Exchanges shall ensure that their fee structure is transparent and detailed so that the eligible market participants availing or desirous of availing co-location facility, can arrive at an approximate estimate of their expenditure in the form of fees payable, on the basis of the following aspects:

22.4.2.1. chargeable services, including the activity which will trigger the fee;

22.4.2.2. whether each service offered has a fixed or variable fee;

22.4.2.3. financial incentives or disincentives, if any, offered by the Stock Exchange

22.5. Third party co-location services

22.5.1. Co-location services provided by a third party or outsourced from a third party shall be deemed to be provided by the Stock Exchange. The Stock Exchange shall ensure complete control and jurisdiction over the matters related to its co-location facility. Further, the Stock Exchange will remain responsible and accountable for all actions of such outsourced entity with respect to co-location services.

22.5.2. The Stock Exchange shall submit a quarterly compliance report to IFSCA regarding the outsourcing services after placing it before its Governing Board.

22.6. Integrity and security of Co-Location services

22.6.1. In order to ensure that the facility of co-location does not compromise the integrity and security of the data and trading systems, the Stock Exchange shall:

22.6.1.1. implement suitable mechanisms for access control to protect their systems and the systems of the market participants at the co-location facility from unauthorized access.

22.6.1.2. frame guidelines on access and conduct of the personnel of the market participants in the premises of the Stock Exchange, including in the co-located space.

22.6.1.3. not provide access in any form to the personnel of market participants to the Stock Exchange's trading platform and databases.

22.7. Measurement of Latency

22.7.1. The Latency is measured by the Stock Exchange as the time taken to complete the round trip from the Core Router/ Switch to the matching engine and back. It is clarified that the Core Router/ Switch is the point within the Stock Exchange infrastructure, where orders generated from the co-location facility and otherwise meet.

22.7.2. The Stock Exchanges shall publish on their websites suitable quarterly reports on latencies observed at the exchange which inter alia shall include minimum, maximum and mean latencies and latencies at 50th and 99th percentile.

22.7.3. The Stock Exchanges shall also publish reference latency, which is the time taken for an order message to travel between a reference rack in the Co-location facility and the Core Router/ Switch.

22.7.4. The Stock Exchanges shall take all reasonable steps to ensure equitable treatment of all market participants availing co-location services that have the same class of latency access.

22.7.5. The Stock Exchanges shall make available individual co-location services, without any requirement to purchase bundled services.

22.8. Managed Co-location Services

22.8.1. Small and medium sized Broker-Dealers, may find it difficult to avail co-location facility, due to various reasons including but not limited to high cost, lack of expertise in maintenance and troubleshooting, etc. With a view to facilitating such Broker-Dealers to avail co-location facility, the Stock Exchange shall introduce 'Managed Co-location Services'. Under this scheme, the space/rack in the co-location facility shall be allotted to eligible vendors, clearing members or Broker-Dealers desirous of offering Managed Co-location Services 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.

22.8.2. Managed Co-location Service Providers shall provide the technical knowhow, hardware, software and other associated expertise as services to Broker-Dealers and shall be responsible for upkeep and maintenance of all infrastructure in the racks provided to them.

23. CAPACITY PLANNING

23.1. Capacity planning framework of Stock Exchanges and clearing corporations

23.1.1. Being critical infrastructure of the securities market, it is imperative for the Stock Exchanges and clearing corporations to continuously assess and monitor their system capacities.

23.1.2. Stock Exchanges and Clearing corporations are advised to ensure the following requirements while planning capacities of their trading, clearing and settlement and risk management related infrastructure:

23.1.2.1. The installed capacity shall be at least 1.5 times (1.5x) of the projected peak load.

23.1.2.2. The projected peak load shall be calculated for the next 60 days based on the per-second peak load trend of the past 180 days.

23.1.2.3. All systems in trading, clearing and settlement ecosystem shall be considered in this process including all technical components such as

network, hardware, software, etc., and shall be adequately sized to meet the capacity requirements.

23.1.2.4. In case the actual capacity utilisation exceeds 75% of the installed capacity, immediate action shall be taken to enhance the capacity.

23.1.3. Stock Exchanges and Clearing Corporations shall implement suitable mechanisms, including generation of appropriate alerts, to monitor capacity utilisation on a real-time basis and shall proactively address issues pertaining to their capacity needs.

24. DATA FEED

24.1. Fair and transparent access to data feeds of the Stock Exchanges

24.1.1. The 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.

24.1.2. In this context, Stock Exchanges shall ensure that:

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

24.1.2.2. 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;

24.1.2.3. 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.

24.1.3. The 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.

25. ELECTRONIC CONTRACT NOTE

25.1. Use of Digital Signature on Contract Notes

25.1.1. Broker-Dealer are allowed to issue contract notes authenticated by means of digital signatures provided that the broker has obtained digital signature certificate from Certifying Authority under the IT Act, 2000. Mode of confirmation by the client may be as specified in the agreement between the broker and the client.

25.2. Issuance of Contract Notes in electronic form

25.2.1. The contract notes can be issued by the brokers in electronic form authenticated by means of digital signatures.

25.3. Format for issuance of Electronic Contract Note

25.3.1. In order to streamline the issuance of electronic contract notes as a legal document, the Stock Exchanges would prescribe a standard format for the electronic contract note in its bye-laws, rules and regulations.

CHAPTER-IV – SETTLEMENT

26.ACTIVITY SCHEDULE

26.1. Rolling Settlement

26.1.1. Recognised Clearing Corporation in IFSC may offer, T+0 or T+1 or T+2 settlement cycle¹ for the products traded in IFSC. Clearing Corporation shall prescribe and inform settlement schedule, to the market participants, for each of the products cleared and / or settled by them.

26.2. Systems for effecting settlement

26.2.1. The Stock Exchanges and Clearing Corporations shall also put in place the following systems for effecting settlement of trades in IFSC.

26.2.1.1.A facility of confirmation of trades by the clearing member shall be provided. However, the time limit for confirmation shall be fixed in a manner that the download of the final obligation files to brokers dealers and clearing members is not delayed.

26.2.1.2.The Clearing Corporations would levy an additional charge to discourage late confirmations by the clearing members.

26.2.1.3.The Clearing Corporations would provide a system for handling shortages of funds and securities in an expeditious manner to adhere to the time schedule for pay-out.

26.2.1.4.The Stock Exchanges would also amend their byelaws to mandate the pay out of funds and securities to the clients by the broker within 24 hours of the payout.

26.2.1.5.The Stock Exchanges shall not normally permit changes in the Client ID and shall keep a strict vigil on cases of client code modification and shall implement a monetary penalty structure that would escalate with the number of such incidences. Besides, the Stock Exchanges may take necessary action against members making repeated changes. However, genuine mistakes may be allowed to be rectified.

26.2.1.6. Clearing Corporations would encourage members to adopt automatic downloading of pay-in files for securities and funds. The members would

also be encouraged to adopt direct transfer of securities/ funds to clients' account on pay-out.

26.2.1.7. The Clearing Corporations may also provide the following facilities desirable for further smoothing clearing and settlement process:

26.2.1.7.1. Facility of online confirmation of trades by Clearing members.

26.2.1.7.2. The Stock Exchanges would support development of front end software for Broker-Dealers to map the Client ID through abbreviated keys to facilitate faster order entry for inserting the unique client code speedily.

27. CLOSE-OUT AND AUCTION

27.1. Close-Out Procedure

27.1.1. The Clearing Corporation shall define and prescribe the close-out procedure and / or auction procedures to handle shortages in securities payin.

28. SETTLEMENT IN CASE OF HOLIDAYS

28.1. Settlement of Transaction in case of Holidays

28.1.1. The following guidelines shall be followed with a view to enable smooth settlement process and enable Clearing Corporations to meet their obligations in case of holidays.

28.1.1.1. The Clearing Corporations shall clear and settle the trades on a sequential basis i.e., the pay-in and the pay-out of the first settlement shall be completed before the commencement of the pay-in and pay-out of the subsequent settlement(s).

28.1.1.2. The cash or securities pay out from the first settlement shall be made available to the member for meeting his pay-in obligations for the subsequent settlement(s).

28.1.1.3. The Clearing Corporations and Depository shall follow a strict time schedule to ensure that the settlements are completed on the same day.

28.1.1.4. The Clearing Corporations shall execute Auto Delivery Out facility for all the settlements together, so as to make the funds and the securities available with the member on the same day for all the settlements, thereby enabling

the availability of the funds/securities at the client level by the end of the same day.

28.2. Settlement in case of Unscheduled Holidays

- 28.2.1. If the settlement holiday is unscheduled the clubbing of settlement at the last minute may not be possible and hence there will be no alteration or clubbing of any trading cycle.
- 28.2.2. Margins for the concerned trading period will not be released before completion of the pay-in for that trading period.
- 28.2.3. Clearing Corporations may charge higher margins to deal with enhanced risk arising out of the payment delays caused by unscheduled holidays.

29.SETTLEMENT GUARANTEE FUND (SGF)

29.1. Objective of SGF

- 29.1.1. Clearing Corporations have a fund called SGF to guarantee the settlement of trades executed. In the event of a clearing member failing to honour settlement commitments, the SGF shall be used to fulfil the obligations of that member and complete the settlement without affecting the normal settlement process.
- 29.1.2. In order to bring greater clarity and uniformity as well as align the same with international best practices while enhancing the robustness of the present risk management system in the clearing corporations, the following norms related to SGF, stress testing and default procedures shall be followed by the Clearing Corporations.
 - 29.1.2.1.no exposure against SGF shall be given and SGF shall be readily and unconditionally available to meet settlement obligations of Clearing Corporations in case of clearing members failing to honour settlement obligation,
 - 29.1.2.2.align stress testing practices of clearing corporations with Principles for Financial Market Infrastructure (“PFMI”) (norms for stress testing for credit risk, stress testing for liquidity risk and reverse stress testing including frequency and scenarios)

29.2. Corpus of SGF

- 29.2.1. The corpus of the SGF and contribution thereto shall be in accordance with the norms specified in the IFSCA (Market Infrastructure Institutions) Regulations, 2021.
- 29.2.2. It is also clarified that the contribution of a Clearing Corporation to its SGF shall be considered as part of its net worth. Additionally, the interest on cash contribution to the SGF shall also accrue to the SGF and pro-rata be attributed to the contributors in proportion to their contribution.

29.3. Management of Core SGF

- 29.3.1. The Membership Committee of the Clearing Corporation shall manage the SGF.
- 29.3.2. The Clearing Corporations shall follow prudential norms of Investment policy for SGF corpus. The Clearing Corporations shall establish and implement, policies and procedures to ensure that SGF corpus is invested in highly liquid financial instruments with minimal market and credit risk and is capable of being liquidated rapidly with minimal adverse price effect.

29.4. Default Waterfall

- 29.4.1. The default waterfall for Clearing Corporations shall generally follow the following order:
- a. Monies of defaulting member (including defaulting member's primary contribution to SGF(s))
 - b. Insurance, if any.
 - c. SGF in the following order:
 - i. Penalties
 - ii. Contribution of Clearing Corporation to the extent of at least 25% of SGF
 - iii. Remaining SGF: Contribution of Clearing Corporation, Contribution of Stock Exchange and non- defaulting members' primary contribution to SGF on pro- rata basis.
 - d. Resources of the Clearing Corporation (excluding USD 3 million or the capital requirement towards orderly winding down of critical operations and services)

- e. Capped additional contribution by non-defaulting members*
- f. Any remaining loss to be covered by way of pro-rata haircut to payouts**

**Capped additional contribution shall be called by the Clearing Corporation from its members Subject to the approval of the Authority*

***In case loss allocation is effected through haircut to payouts, any subsequent usage of funds shall be with prior approval of the Authority.*

CHAPTER – V: PRODUCT SPECIFICATIONS AND RISK MANAGEMENT FRAMEWORK

30.DERIVATIVE CONTRACTS ON STOCK EXCHANGES IN GIFT-IFSC

30.1. Stock Exchange(s) in IFSC shall seek prior approval of the IFSCA before the introduction of any derivative product to be traded on the Stock Exchange in the IFSC. Such application shall *inter-alia* include the following:

- 30.1.1. the details of proposed derivative contract to be traded on the exchange
- 30.1.2. the economic purpose it is intended to serve,
- 30.1.3. likely contribution to market development,
- 30.1.4. the safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading,
- 30.1.5. the infrastructure of the exchange and the surveillance system to effectively monitor trading in such contracts, and
- 30.1.6. Details of settlement procedures & systems.

31. TRADING HOURS

- 31.1. The trading hours for all product categories shall be as decided by the Stock Exchanges based on cost-benefit analysis but shall not exceed 23 hours and 30 minutes in a day and settlement shall be done at least once a day.
- 31.2. Provided that a Clearing Corporation shall ensure that during the trading hours, the Mark-to-Market losses on open futures contracts are collateralized at regular intervals based on risk assessment.

32. RISK MANAGEMENT

- 32.1. Stock exchange and Clearing Corporation shall have a sound risk management system and infrastructure for comprehensively managing risks in accordance with regulation 33 of the MII Regulations.
- 32.2. Stock Exchanges and Clearing Corporations shall specify the risk management measures in accordance with the Principles for Financial Market Infrastructures by Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO).
- 32.3. Such measures, inter-alia shall include the following:
 - 32.3.1. Margin framework in line with Principle 6 of the Principle for Financial Market Infrastructure
 - 32.3.2. Position limit (Position limits are defined both at client, member level & market wide position limit)
 - 32.3.3. Collateral (Form of collaterals/liquid assets to be accepted by Clearing Corporation)
 - 32.3.4. Settlement (Settlement Mechanism, Settlement Price etc.)

33. SURVEILLANCE AND DISCLOSURES

- 33.1. Stock Exchanges as first level regulators shall have an online surveillance capability which monitors positions, prices and volumes in real time so as to deter market manipulation.
- 33.2. The surveillance systems of the Stock Exchanges should be designed keeping in view all the relevant aspects including the following -
- 33.3. The alerts in the online surveillance system should be so designed that indications of material aberrations from normal activity are automatically generated and thrown up by the system.
- 33.4. The parameters which need to be monitored either through the online system or otherwise should inter-alia include the following parameters:

- 33.4.1. Monitoring of open interest, cost of carry/impact cost and volatility.
 - 33.4.2. Monitoring of closing prices.
 - 33.4.3. The open positions in the derivative market should be seen in conjunction with the open positions in the cash market. i.e. the position deltas should be monitored.
 - 33.4.4. The timing of disclosure by corporates should be monitored as this could influence the prices of the contract at the time of introduction and expiry.
 - 33.4.5. Strike prices with large open positions should be monitored as this could influence the prices of the contract at the time of introduction and expiry.
 - 33.4.6. Strike prices with large open positions should be monitored, as such strike prices could be a target price to be achieved in the cash market to derive maximum benefit from the derivative position.
- 33.5. The surveillance systems and processes should be able to
- 33.5.1. Capture and process client level details.
 - 33.5.2. Develop databases of trading activity by Broker-Dealer dealers as well as clients.
 - 33.5.3. Generate trading pattern in individual products or group of products by a Broker-Dealer dealer over a period of time or by a client / group of clients over a period of time.
 - 33.5.4. Generate the pattern of trading in a product over a period of time giving such details as the purchases/sales/positions/open interest held by different Broker-Dealer dealers or clients/group of clients.
 - 33.5.5. Monitor proportion of trading in derivatives market vis-à-vis trading in
 - 33.5.6. the underlying in the cash market and aberrations as compared to historical data and as compared to market average
 - 33.5.7. Monitor large trades, call put ratio's and exercise patterns
- 33.6. Examination of derivatives trading details should be taken up on the basis of cash market surveillance also, and vice versa.
- 33.7. While the surveillance system may be able to generate a large amount of information, it is only the first step towards analysing market behaviour to identify potential problems. The exchange surveillance staff should be able to carry out quick and effective analysis of information generated by the surveillance system, and should document this analysis properly. The documentation should be properly authenticated and verified by a designated authority of the stock exchange.
- 33.8. The information and feedback received from Broker-Dealer inspections is vital input for effective surveillance. For this it is necessary that Broker-Dealer inspections are

taken up in a rational manner keeping in view the level of trading activity, client profile, number and nature of complaints received against the Broker-Dealer, history of risk management related defaults and regulatory violations etc. Information obtained through Broker-Dealer inspections should also be made available to the monitoring/surveillance departments of Stock Exchanges.

- 33.9. The information gathered by the risk management departments/clearing corporations while enforcing the risk management measures and settlement processes are critical inputs. Such information could include pattern of defaults related to specific scrips/contracts and special risk management measures taken keeping in view the market conditions.
- 33.10. The exchanges should call for information from Broker-Dealers in a standard form, and preferably in electronic form, to facilitate faster analysis as well as building up of databases. It may also be ensured that duly authenticated information is submitted by the Broker-Dealer or his designated agent.
- 33.11. While implementing a stock watch type of system for derivatives, the system should be designed to provide online access to relevant historical data on derivatives trading for at least a year.
- 33.12. The underlying securities in the derivatives market may be listed on more than one exchange and Broker-Dealers dealing in such securities/derivatives may have membership in more than one exchange. In the interest of better surveillance, it is therefore necessary that relevant information obtained through surveillance at one exchange should be shared with other exchanges. Exchanges are, therefore, advised to share information on positions in underlying stocks and their derivatives and any extraordinary movement in price/volume or concentration periodically or upon specific request by any stock exchange.

CHAPTER – VI: ADMINISTRATION OF STOCK EXCHANGES AND CLEARING CORPORATIONS

34. GOVERNANCE

34.1. Stock Exchanges and Clearing Corporations shall be subject to the governance norms as specified in the Chapter III of the MII Regulations.

34.1.1. As per MII Regulations, the governing board of a recognised market infrastructure institution shall include Non-Independent Directors (NID), PIDs, and Managing Director.

34.1.2. With respect to the qualification and expertise of the members of the Governing Board of an MII, it is clarified that:

34.1.2.1. The Governing Board shall consist of directors having the requisite qualifications and experience in the areas of capital markets, finance and accountancy, legal and regulatory practice, technology, risk management and management or administration

34.1.2.2. The Governing Board shall consist of at least one Public Interest Director (PID) having the requisite qualification and experience in each of the areas of :

- a) capital markets,
- b) finance and accountancy,
- c) legal and regulatory practice, and
- d) technology.

34.1.2.3. The MII may also appoint directors having qualification and experience in other areas which may be specific to them. The MII shall ensure that the Governing Board collectively consists of directors with qualifications and experience as mentioned at 34.1.2.1 above.

35. APPOINTMENT PROCESS OF A PID

35.1. With respect to appointment of PIDs, the Stock Exchanges and Clearing Corporations shall be subject to the requirements as specified in the circular (the circular was put for public consultation vide IFSCA [Consultation Paper on](#)

36. STATUTORY COMMITTEES

36.1. Regulation 26 of the MII Regulations, inter alia, requires an MII to constitute functional committees, oversight committees and other committees.

36.2. The overarching principles for composition and quorum for the statutory committees at MIIs shall be as under:

Composition of Statutory Committees at MIIs		
Sr. No.	Name of Statutory Committee	Composition
1.	Member Committee (MC)	<p>a. The Committee may include two Key Management Personnel (KMP), including the Managing Director (MD), Non-Independent Directors (NIDs) (who is not an employee of the MII), Independent External Professionals (IEPs) along with Public Interest Directors (PIDs).</p> <p>b. The committee shall be chaired by the PID with expertise in Capital Markets.</p>
2.	Nomination & Remuneration Committee (NRC)	<p>a. The Committee may include NIDs (who is not an employee of the MII), IEPs along with PIDs.</p> <p>b. IEPs may be part of the committee for the limited purpose of recommendation relating to selection of the MD.</p>
3.	Standing Committee on Technology (SCOT)	<p>a. The Committee may include the MD, NIDs (who is not an employee of the MII), at least 2 IEPs along with PIDs.</p> <p>b. The IEPs should be proficient in technology with at least one of them being an expert and practitioner in cyber security.</p> <p>c. The Chief Technology Officer (CTO) and Chief Information Security Officer (CISO) should be invitees to the meetings of the Committee.</p> <p>d. The committee shall be chaired by the PID</p>

¹ The circular shall be made part of the Master Circular once issued by the IFSCA

Composition of Statutory Committees at MIs		
Sr. No.	Name of Statutory Committee	Composition
		with expertise in technology.
4.	Regulatory Oversight Committee (ROC)	<ul style="list-style-type: none"> a. The Committee may include NIDs (who is not an employee of the Stock Exchange or Clearing Corporation) and IEPs, along with PIDs. b. Relevant KMP(s) may be invited to the meetings of the committee, whenever required. c. The Committee shall be chaired by the PID with expertise in legal and regulatory practices.
5.	Risk Management Committee (RMC)	<ul style="list-style-type: none"> a. The Committee may include the MD, NIDs (who is not an employee of the Stock Exchange or Clearing Corporation) and IEPs, along with PIDs. b. The Chief Risk Officer (CRiO) and CISO should be invitees to the meetings of the Committee. c. If a PID with expertise in risk management is present in the governing board, the committee may preferably be chaired by the said PID.
6.	Investment Committee (IC)	<ul style="list-style-type: none"> a. The Committee may include the MD, NIDs (who is not an employee of the Stock Exchange or Clearing Corporation), IEPs, along with PIDs.
7	Audit Committee	<ul style="list-style-type: none"> a. The Audit Committee shall comprise a minimum of three directors with PIDs forming a majority b. Chairperson shall be a person with an ability to read and understand the financial statements

36.3. In any statutory committee, the total number of PIDs shall not be less than the total number of other members of the Committee (including IEPs) put together. In case of SCOT, the total number of PIDs shall not be less than the total number of other members of the Committee, excluding IEPs.

36.4. The Chairperson of each statutory committee at the Stock Exchange and Clearing Corporation shall be a PID.

36.5. The voting on a resolution in the meetings of the statutory committees at Stock Exchange and Clearing Corporation shall be valid only when the number of PIDs

that have casted their vote on such resolution is not less than the total number of other members put together who have casted their vote on such resolution.

36.6. The invitees, if any, to the meetings of the Committees shall not have any voting rights.

36.7. The casting vote in the meetings of the statutory committees shall be with the Chairperson of the committee.

36.8. The terms of reference of the statutory committees are as under:

S.N.	Name of Committee	Brief terms of reference
(I) Functional Committees		
1.	Member Committee (MC)	<p>(I) <u>On admission, transfer and surrender of membership/Withdrawal and Change in control</u></p> <p>a. Formulate the policy to scrutinize, evaluate, accept or reject applications for admission of members, transfer of membership and approve surrender of membership or withdrawal and Change in Control.</p> <p>b. The activities with regard to scrutinizing, evaluating, accepting or rejecting applications for admission, transfer, surrender, withdrawal and change in control of membership can be implemented through an Internal Committee (IC) under MC.</p> <p>c. Define the Standard Operating Procedure (SOP) for the IC, including the timelines to be followed by IC, its composition, standardize criteria to scrutinize, evaluate, accept and grounds for rejection of applications, and other associated aspects to ensure uniformity and consistency while dealing with applications or cases. For scenarios not covered in the SOP, IC should seek approval of MC.</p> <p>d. Oversee the implementation of the membership policy by the IC, including its timelines, uniformity and consistency in approach, based on quarterly report submitted by IC. MC shall continue to be responsible and accountable for the activities of the IC.</p> <p>(II) <u>On Regulatory Actions:</u></p> <p>e. Ensure that the Stock Exchanges and Clearing Corporations have detailed SOP and processes in place towards monitoring the activities of its members through inspections.</p>

S.N.	Name of Committee	Brief terms of reference
		<p>f. Ensure that there is mechanism for monitoring of the members on various parameters including through adoption of technology and take necessary action for non-compliance.</p> <p>g. Formulate the policy for regulatory actions including warning, monetary penalty, suspension, withdrawal of membership, declaration of default, expulsion, etc. to be taken by the Stock Exchange and Clearing Corporation for various violations by the members. The policy should have an SOP for undertaking such actions.</p> <p>h. Based on the laid down policy, consider all cases of violations observed and impose appropriate regulatory measures on the members.</p> <p>i. For enforcement actions against violations, where no discretion of MC is involved, the same could be delegated to an IC, provided corresponding regulatory action, including penalty amount, if any, is standardized in the policy framed by MC or through a circular issued by the Stock Exchange or Clearing Corporation or IFSCA. If the same is delegated, quarterly report in this regard should be placed before MC by the IC. However, for scenarios which require immediate regulatory action, the Stock Exchange / Clearing Corporation shall inform the MC post imposition of such actions.</p> <p>j. Oversee the regulatory actions taken by IC, if delegated, including evaluating that no discretion has been exercised in the process. For any violation by IC, MC will be responsible and liable for the same.</p> <p>k. While imposing the regulatory measure, the Committee shall adopt a laid down process, based on the 'Principles of natural justice' and 'Principle of proportionality'. The 'Principle of natural justice' may be extended by the MC/IC, as applicable.</p> <p>l. Any review, appeal or waiver of penalty filed shall be placed before MC for its consideration.</p> <p>(III) <u>On Defaulter Members of Stock Exchanges and Clearing Corporations:</u></p> <p>m. Formulate the policy to realize all the assets, and deposits of the defaulter or expelled member and appropriate the same amongst various dues and claims against the defaulter or expelled member in accordance with the Rules, Byelaws,</p>

S.N.	Name of Committee	Brief terms of reference
		<p>Regulations of the Stock Exchange/ Clearing Corporation and applicable regulatory provisions.</p> <p>n. The activities with regard to realization of assets and deposits of the defaulter or expelled member and appropriation of the same amongst various dues and claims against the defaulter or expelled member, etc. can be implemented through an IC under MC.</p> <p>o. Define the SOP for the IC, including the timelines to be followed by IC and its composition. For scenarios not covered in the SOP, IC should seek approval of MC.</p> <p>p. In the event both the broker dealer and the constituent clearing member are declared defaulter, then the MC of the stock exchange and that of the clearing corporation shall work together to realize the assets of both the trading member and the clearing member.</p> <p>q. Admission or rejection of claims of client or trading members or clearing members over the assets of the defaulter or expelled member.</p>
2.	Nomination & Remuneration Committee (NRC)	<p>(I) <u>Governing Board & its Member related aspects:</u></p> <p>a. Scrutinizing and interviewing applicants to select the MD of the MII.</p> <p>b. Assessment of applications of new or existing PIDs and NIDs for their appointment and/or reappointment and recommending their names to the Governing Board.</p> <p>c. Always ensuring that the governing board comprises of directors with required skill set and expertise.</p> <p>d. Framing & reviewing the policy to carry out internal evaluation of every director's performance, including.</p> <p>e. Reviewing and recommending extension of the term of appointment and re-appointment of existing PIDs.</p> <p>f. Appointment of Independent External Professionals (IEPs).</p> <p>(II) <u>KMPs related aspects:</u></p> <p>h. Identifying the KMPs as per the definition of KMP in the MII Regulations and review the same, at least, once a year in order to identify KMPs due to change in roles and responsibilities</p> <p>i. The appointment and removal of KMPs other than resignations.</p> <p>j. Laying down policy for accountability of KMPs. Further,</p>

S.N.	Name of Committee	Brief terms of reference
		<p>mapping legal and regulatory duties to the concerned position and Delegation of Power (DoP) at various levels.</p> <p>k. Laying down the policy for compensation of KMPs and ensuring that the compensation paid to KMPs is as per the compensation policy.</p> <p>l. Framing performance review parameters for evaluation of KMPs including that of MD.</p> <p>m. Assess the performance of KMPs based on reports submitted by the functional heads/reporting authority, and observations, if any, received from IFSCA, and submit such reports to the governing board every year.</p> <p>n. Determining the tenure of a KMP, other than a director, to be posted in a particular role within regulatory, legal, compliance, risk management and investor grievance vertical.</p> <p>o. Determining and finalizing the Key Result Areas (FRAs) of all KMPs at the beginning of every year. Review the same in line with organization needs.</p> <p>p. Ensuring that no KMP reports to a non-KMP.</p> <p><u>(III) On other organization level related aspects:</u></p> <p>r. Ensure that no employee of the Stock Exchange or Clearing Corporation is working or reporting to an employee of any other company where the MII has invested and vice-versa.</p> <p>s. Ensure that hiring of consultants is based on a pre-defined SOP of the MII.</p> <p>t. Framing, reviewing, implementing and monitoring SOP for imposing disciplinary actions against employees of the Stock Exchange or Clearing Corporation.</p> <p>u. Besides the above, it will also discharge the function as Nomination & Remuneration Committee under the Companies Act, 2013.</p>
(II) Oversight Committees		
2.	Standing Committee on Technology (SCOT)	<p>a. Ensure the availability of required IT infrastructure for core and critical functions under verticals for “Critical operations” and “Regulatory, legal, compliance, risk management and investor grievances”.</p> <p>b. Ensure existence of adequate Business Continuity Plan (BCP) and Disaster Recovery (DR) plans.</p> <p>c. Ensuring sound and prudent policies, standards and</p>

S.N.	Name of Committee	Brief terms of reference
		<p>procedures for managing technology risks and safeguard information assets in the MII.</p> <p>d. Review the implementation of technology risk management framework and strategy of MII.</p> <p>e. Monitor whether the technology used remains up to date and meets the growing demands of the markets.</p> <p>f. Periodic review of the IT system and network architecture design to identify any weaknesses in the existing design.</p> <p>g. Review of in-house availability of appropriate IT staff to manage IT systems and related outsourcing arrangement.</p> <p>h. Monitor the adequacy of systems capacity and efficiency.</p> <p>i. To look into the changes being suggested by the MII to the existing software or hardware.</p> <p>j. Oversee investigations into issues related to computerized trading/ clearing & settlement/ depository system, such as hanging, slowdown, breakdown, etc.</p> <p>k. Ensure that transparency is maintained in disseminating information regarding slowdown or breakdown in these systems and ensure that the MII issues a press release specifying the reasons for any such breakdown.</p> <p>l. Approve Root Cause Analysis (RCA) of any stoppage of trading/ clearing & settlement/ depository system and report to the governing board and IFSCA.</p> <p>m. Review the implementation of board approved cyber security and cyber resilience policy.</p> <p>n. Review the identification and classification process of critical assets based on their sensitivity and criticality for business operations, services and data management.</p> <p>o. Ensuring that the scope of the system audit, cyber audit and VAPT of the MII is broad and representative of all critical areas of the stock exchange.</p> <p>p. Monitoring the results of periodic cyber security and DR drills conducted by the MII.</p> <p>q. Review and approve the report regarding overall cyber security posture and technology implementation at the stock exchange and submit to the governing board. Upon approval by the governing board, submit the report to IFSCA.</p> <p>r. On the above areas, the Committee shall submit a report to the Governing Board of the MII for necessary action, if any.</p> <p>s. Such other matters as may be referred by the Governing Board</p>

S.N.	Name of Committee	Brief terms of reference
		of Stock Exchange/ Clearing Corporation and/or IFSCA.
4.	Regulatory Oversight Committee (ROC)	<p>Oversee the matters related to the following:</p> <p>A. <u>For Stock Exchange:</u></p> <p>a. <u>Surveillance and Investigation:</u></p> <ol style="list-style-type: none"> i. Oversight of market through order and trade level alerts, security level alerts, processing of alerts, price band changes, rumour verifications, shifting of securities to trade for trade segment, action against listed companies as a part of Surveillance Action, detailed investigations undertaken, disciplinary actions, development of new alerts based on learnings from past or ongoing cases, etc.. ii. Requests, received from members of Stock Exchange, for review of decision taken by Stock Exchange regarding annulment of trades and provide its recommendation within 30 days of receipt of request by the Stock Exchange. <p>b. <u>Listing of Securities:</u> Oversight of admission of securities for trading, suspension, revocation, delisting, etc.</p> <p>c. <u>Compliance:</u></p> <ol style="list-style-type: none"> i. Oversee and monitor implementation of MII Regulations and other applicable rules and regulations along with IFSCA Circulars/ Guidelines and other directions issued thereunder. ii. Review the observations arising from various IFSCA inspections, ensuring its advisories and findings are appropriately and timely addressed, and reports to governing board on timely basis. <p>d. <u>Code of Conduct:</u></p> <ol style="list-style-type: none"> i. Lay down procedures for implementation of the code of conduct and prescribe the reporting formats for disclosures required under the code of conduct. ii. Oversee the compliance of the code of conduct by KMPs and members of statutory committees (except directors) iii. Periodically oversee the dealings in securities by KMPs and IEPs. iv. Periodically oversee the trading conducted by firms or corporate entities in which the directors of the stock

S.N.	Name of Committee	Brief terms of reference
		<p>exchange hold twenty percent or more beneficial interest or hold a controlling interest.</p> <p>v. While monitoring trades by KMPs and members of statutory committees, ROC shall take into consideration sensitive information held by them as per structured digital database maintained by stock exchange.</p> <p>e. Ensure the adequacy of resources dedicated to functions under verticals for “Critical operations” and “Regulatory, legal, compliance, risk management and investor grievances”.</p> <p>f. <u>Grievance Redressal Mechanism:</u></p> <p>i. Define policy and SOP for dealing with complaints by Stock Exchanges in compliance with the IFSCA circular dated December 02, 2024 on “<i>Complaint Handling and Grievance Redressal by Regulated Entities in the IFSC</i>”</p> <p>ii. Review of complaint resolution process, complaints remaining unresolved over long period of time, etc.</p> <p>Ensuring that stock exchanges take proactive actions in case of repeated nature of complaints against particular trading members.</p> <p>h. <u>Whistleblower Mechanism:</u></p> <p>i. Frame the Whistle Blower Policy to be approved by the governing board.</p> <p>ii. Communicate the whistle blower policy internally to all persons and display the same on the stock exchange website.</p> <p>iii. Review the whistle blower policy based on feedback received.</p> <p>i. <u>Fees and Charges:</u></p> <p>i. Review the fees and charges levied by the exchange, including commenting on its appropriateness, on a periodic basis as well as each time there is change.</p> <p>ii. Review Liquidity Enhancement Scheme including reduction or waiver of transaction fees, etc., its justification and impact.</p> <p>j. Oversee contribution of the stock exchange towards Settlement Guarantee Fund (SGF) of the Clearing Corporation.</p> <p>k. Oversee matters related to product design and review the</p>

S.N.	Name of Committee	Brief terms of reference
		<p>design of the already approved and running contracts.</p> <p>B. <u>For Clearing Corporation:</u></p> <p>a. <u>Compliance:</u></p> <ul style="list-style-type: none"> i. Oversee implementation and compliance with MII Regulations as amended from time to time and other applicable rules and regulations along with IFSCA Circulars/Guidelines and other directions issued thereunder. ii. Review the observations arising from various IFSCA inspections, ensuring its advisories and findings are appropriately and timely addressed, and reports to governing board on timely basis. iii. Monitor and assess the clearing corporation against the PFMIIs on an annual basis and submit a report to the governing board of the clearing corporation. <p>b. <u>Code of Conduct</u></p> <ul style="list-style-type: none"> i. Lay down procedures for implementation of the code of conduct and prescribe the reporting formats for disclosures required under the code of conduct. ii. Oversee the compliance of the code of conduct by KMPs and members of statutory committees (except directors). iii. Periodically oversee the dealings in securities by KMPs and IEPs. iv. Periodically oversee the trading conducted by firms or corporate entities in which the directors of the Clearing Corporation hold twenty percent or more beneficial interest or hold a controlling interest. v. While monitoring trades by KMPs and members of statutory committees, ROC shall take into consideration sensitive information held by them as per structured digital database maintained by clearing corporation. <p>c. Ensure the adequacy of resources dedicated to functions under verticals for “Critical operations” and “Regulatory, legal,</p>

S.N.	Name of Committee	Brief terms of reference
		<p>compliance, risk management and investor grievance”.</p> <p>d. <u>Grievance Redressal mechanism:</u></p> <ul style="list-style-type: none"> i. Define policy and SOP for dealing with complaints by clearing corporation. ii. Review of complaint resolution process, complaints remaining unresolved over long period of time, etc. iii. Ensuring that Clearing Corporations take pro-active actions in case of repeated nature of complaints against particular CMs, if any. <p>e. <u>Whistleblower Mechanism:</u></p> <ul style="list-style-type: none"> i. Frame the Whistle Blower Policy to be approved by the governing board. ii. Communicate the whistle blower policy internally to all persons and display the same on the clearing corporation’s website. iii. Review the whistle blower policy based on feedback received. <p>f. Review the fees and charges levied by a Clearing Corporation including comments on its appropriateness, on a periodic basis as well as each time there is change.</p> <p>Manage the SGF of the clearing corporation, including its investments as per norms laid down and ensure proper utilization of SGF.</p>
5.	Risk Management Committee (RMC)	<ul style="list-style-type: none"> a. Formulate a detailed Risk Management Framework (RMF) which shall be approved by the governing board of the Stock Exchange or Clearing Corporation to ensure continuity of operation at all points of time. b. The RMF shall include the following: <ul style="list-style-type: none"> i. The framework for identification of internal and external risks. ii. Measures for risk mitigation including systems and processes for internal control. iii. Business continuity plan c. Monitor each risk associated with the functioning of the Stock Exchange or Clearing Corporation more specifically for

S.N.	Name of Committee	Brief terms of reference
		<p>functions under vertical 1 and 2.</p> <p>d. Review the RMF & Risk Mitigation Measures at least once annually taking into account the changing industry dynamics and evolving complexity.</p> <p>e. Monitor and review enterprise-wide risk management plan and lay down procedures to inform the governing board about the risk assessment and mitigation procedures.</p> <p>f. RMC shall coordinate with other committees. In case of overlap with activities of other committees, RMC may consider views of such committees.</p> <p>g. Monitor implementation of the RMF and also keep the governing board informed about implementation of the RMF and deviation, if any.</p> <p>h. Approve the Half-Yearly Risk report to be submitted by the Chief Risk Officer (CRiO) to IFSCA and the governing board of the MII.</p> <p>i. Comply with the roles and responsibilities provided under the Companies Act 2013.</p>
6.	Investment Committee (IC)	<p>a. Evaluate each investment and divestment proposals, whether requiring infusion of funds or otherwise, except treasury investments.</p> <p>b. Evaluate proposals of capital expenditure.</p> <p>c. Make detailed analysis of existing investments.</p> <p>d. Investment Committee shall provide their recommendations along with rationale to the governing board.</p>

36.9. The functions or terms of reference of any statutory committee cannot be delegated. However, for the Member Committee (MC) of MIIs, certain operational activities of the Committee can be delegated to Internal Committee(s) (ICs). In such cases the ICs shall at least have one member from the MC, other than KMPs.

36.10. Stock Exchanges and Clearing Corporations shall lay down the policy for the procedure for conducting of meetings, frequency of meetings, timelines for placing of agenda papers, etc., of their statutory committees.

36.11. If certain activities of the Stock Exchange or Clearing Corporation are not covered under the TOR of statutory committees, the governing board of the Stock Exchange and Clearing Corporation shall be directly responsible for the functioning and oversight of such activities. Further, in order to ensure

accountability within the Stock Exchange or Clearing Corporation, the governing board and each statutory committee shall identify the KMP(s) or employees for executing the responsibilities assigned to them by the governing board or statutory committees.

36.12. Further, Stock Exchanges and Clearing Corporations shall ensure compliance with the following:

a. PIDs in Statutory Committees at Stock Exchanges and Clearing Corporations:

- i. PIDs on the governing board of a Stock Exchange or Clearing Corporation shall not act simultaneously as a member on more than five statutory committees of the Stock Exchange or Clearing Corporation.
- ii. The above restrictions shall not be applicable to committees constituted under other relevant laws such as The Companies Act, 2013, or other regulations issued by the Authority, etc.
- iii. Stock Exchanges and Clearing Corporations shall ensure availability of the required number of PIDs in order to fulfil the requirement of composition of statutory committees.

b. IEPs in Statutory Committees at Stock Exchanges and Clearing Corporations:

- i. The IEPs forming a part of statutory committees shall be from amongst the persons of integrity, having a sound reputation and not having any conflict of interest. They shall be specialists in the field of work assigned to the committee; however, they shall not be associated in any manner with the relevant MII, its associates, its subsidiaries, any other entity associated with the Stock Exchange or Clearing Corporation and its members.
- ii. Stock Exchanges and Clearing Corporations shall frame the guidelines for appointment, tenure, code of conduct, etc., of IEPs. Extension of the tenure may be granted to IEPs at the expiry of the tenure, subject to performance review in the same manner as that of PIDs.
- iii. The maximum tenure limit of IEPs in a committee of Stock Exchange or Clearing Corporation shall be at par with that of PIDs, as prescribed under Regulation 24(2)(h) of the MII Regulations, 2021.

- iv. IEPs shall not use or act on any sensitive information received in capacity as a member of the statutory committee for obtaining any undue benefit.
- c. The members of statutory committees shall abide by the code of conduct as applicable to them in terms of MII Regulations, 2021.
- d. In the interest of securities market, IFSCA may suo moto nominate members on any statutory committee of the Stock Exchanges and Clearing Corporations, if felt necessary.
- e. Stock Exchanges and Clearing Corporations shall devise an internal mechanism to obtain regular feedback, inputs, suggestions, etc. on regulatory, non-regulatory and operational matters from various stakeholders including trading members, clearing members and depository participants, investors, etc.

CHAPTER - VII: PERIODIC REPORTING

37. Monthly Activity Reports / Monthly Development Reports

- 37.1. The Stock Exchange / Clearing Corporation shall submit Monthly Activity Report and Monthly Development Report in accordance with the IFSCA circular no IFSCA/CMD-DMIIT/MDR/2022/01 dated December 14, 2022 titled as “*Format of the Monthly Development Report (MDR) and the Monthly Activity Report (MAR) to be submitted by the Stock Exchanges in IFSC.*”

38. Reporting requirements specified in the MII Regulations

- 38.1. The Stock Exchanges and Clearing Corporations shall be subject to reporting requirements as specified in the MII Regulations.

39. System Audit Report

- 39.1. The Stock Exchanges and Clearing Corporations shall submit System Audit Report as specified in the Chapter-III of this Master Circular.

FORM A

(See Regulation 5 and 12)

Application for recognition under regulation 5/renewal of recognition of a stock exchange under regulation 12 of the International Financial Services Centres Authority (Market Infrastructure Institutions) Regulations, 2021

To

.....
.....

Subject: Application for recognition under regulation 5/renewal of recognition of a stock exchange under regulation 12 of the International Financial Services Centres Authority (Market Infrastructure Institutions) Regulations, 2021 ("the Regulations").

Sir,

1. Pursuant to the Notification No.dated/Certificate of recognition dated.....We/I on behalf of (name and address of stock exchange) being a stock exchange as defined in section 2 of the Securities Contracts (Regulation) Act, 1956 hereby apply for recognition/renewal of recognition for the purposes of the said Act in respect of contracts in securities.
2. Four copies of the rules, memorandum and articles of association relating in general to the constitution and management of the stock exchange and four copies of the bye-laws for the regulation and control contracts in securities are enclosed.
3. All the necessary information required in the Annexure to this Form is enclosed. Any additional information will be furnished as and when called for by the International Financial Services Centres Authority (IFSCA).
4. We/I on behalf of the said stock exchange hereby undertake to comply with the requirements of regulation 8 of the Regulations and such other conditions and terms as may be contained in the certificate of recognition or be prescribed or imposed subsequently.
5. Remittance Receipt dated for (amount of fees) is attached.

Yours faithfully,
Signature of applicant

ANNEXURE TO FORM 'A'

Part I - General

1. Name of the applicant stock exchange.
2. Address.
3. Date of establishment.
4. Is your exchange a joint stock company (state whether public or private) registered under the Indian Companies Act or an association for profit or otherwise? If it is organised on some other basis, this may be stated.
5. Give details of your capital structure and attach three copies of the audited balance sheets and profit and loss account of the Exchange for the preceding three years.

Part II - Membership

6. State the number of members at the time of application. Also specify how many are inactive.
7. State whether there is any provision, resolution or convention for limiting the number of members and whether in pursuance thereof you have fixed a ceiling on the number of members that you would take.
8. Do you insist on any minimum qualifications and experience before enrolling new members? If so give details.
9. State the different classes of members, if any, the number thereof and the privileges enjoyed by each class. What is the procedure followed by your exchange for the admission of different classes of new members?
10. What are the rates of your annual subscription in respect of the different classes of members?
11. Do you collect any security deposit from your members? If so, give details and also state the manner in which such deposits are utilised and the rate of interest allowed, if any.
12. Do you collect any admission or entrance fees from your members or from partners of firms who are members? If so, how much?
13. Do you insist on your members and partners of firms who are members divesting themselves of other activities either as principal or as employee?
14. Do your rules permit firms to become members? If so, is it incumbent on members to seek the approval of the governing body before admitting new partners? State the conditions, if any, laid down in your rules for the admission of such partners.
15. If your rules do not permit of firms being enrolled as members, do you permit individual members to form a partnership? State the procedure followed for the recognition of such partnership.
16. Do you permit members to work in partnership with non-members? If so, how far such non-members subject to the control of the stock exchange?

Part III - Governing Body

17. What is the present strength of your governing body? Give details of the constitution, powers of management, election and tenure of office of members of the governing body, and the manner in which its business is transacted.
18. Are any trade or commercial interest represented on your governing body? If so, give details of interests represented.
19. Do you associate shareholders of investors associations with the management of your exchange? If so, state the manner in which it is done.
20. Are there any Government representatives on your governing body? If so, furnish their names.
21. Do your rules provide for the direct election by members of any other bodies or committees, apart from the governing body? If so, give details of their constitution, tenure, powers and functions.
22. Do you have any provision for the appointment of standing or *ad hoc* sub-committees of the governing body? If so, furnish details of the method of their appointment, terms of office, powers and functions.
23. Give the designations, powers and duties of principal office-bearers of your exchange. Are any of these office-bearers in the pay of the stock exchange? If so, give details as to the mode of their appointment, tenure of office and remuneration.

Part IV - Trading

24. Do you have a trading ring? If not, how do you carry on the business? Give details.
25. State the different kinds of contracts in use on your exchange *e.g.*, spot, ready and forward. State the period of delivery and payment in each case.
26. Give details of business hours for each type of contract.
27. Give details of the scale of brokerage and other charges, if any, prescribed by your exchange.
28. Do you prescribe standard forms of contract for the use of your members? Attach three copies of each such contract form.
29. Do you classify your members into brokers and jobbers? If so, specify the bye-law under which this is done.
30. Do you have a system of registration of remisiers and/or authorised clerks? If so, give details as to their qualifications, obligations and rights, etc.
31. Do you have any regulations regarding dealings by members on their own account whether in the nature of *Taravani* (day-to-day) or otherwise?
32. Do you have any provisions for regulating the volume of business done by any individual member other than through a system of margins? If so, give details.
33. What provisions have you made for periodical settlement of contracts and differences thereunder, the delivery of, and payment for securities and the passing of delivery orders?
34. Do you have a clearing house for the settlement of contracts? If so, give details of its organisation and management.
35. If you have clearing house, what returns do the members of your exchange submit

regarding the transactions cleared through such clearing house? Does the exchange ask for any regular returns in respect of transactions settled outside the clearing house? Submit three copies of forms used in this connection.

36. How do you fix, alter or postpone the dates of settlement?
37. How do you determine and declare making-up prices?
38. Do you have any arrangements for making or recording of bargains?
39. Have you any arrangements for recording and publishing market rates including opening, closing, highest and lowest rates?
40. What provisions have you made for regulating—(a) the entering into contracts, their performance and rescission, including contracts: (i) between members, (ii) between a member and his constituent, and (iii) between a member and a non-member; (b) the consequences of breach, default or insolvency on the part of members whether acting as buyers, sellers or intermediaries; and (c) 'havalas' and other matters relating to conduct of business of members in the exchange?
41. Do you prescribe margin requirements? If yes, give details.
42. Do you prescribe maximum and minimum prices for securities? If so, how and under what conditions.
43. Do you provide any safeguards for the prevention of 'bullsqueezes' and; 'bear-raids' and for meeting emergencies in trade? Give details.
44. What are the measures adopted by you to regulate or prohibit advertising or issue of circulars by your members?
45. What are the disciplinary powers with the governing body to enforce due compliance by members of the rules and bye-laws of the exchange and generally to ensure proper standard of business conduct?
46. Do you require members to supply such information or explanation and to produce such books relating to their business as your governing body may require?
47. Do you publish any statistics in regard to business done on the exchange including the transactions settled through the clearing house, if maintained? In particular, have you evolved any machinery for computing the volume of transactions in the different kinds of contracts permitted on your exchange? Give details.
48. Do you have any bye-laws contravention of which makes a contract void?

Part V – Miscellaneous

49. Do you have any machinery for arbitration of disputes between members and/or between members and their constituents? Give details.
50. What are the conditions subject to which securities are listed for dealings on your exchange?
51. What are your requirements for admitting securities to forward-trading?
52. Do you have the right to prohibit, withdraw or suspend dealings in a listed security? If so, under what circumstances is this right exercised?
53. What provisions have you made for the levy and recovery of fees, fines and penalties?

FORM B
[See regulations 5 and 12]

Application for recognition of clearing corporation under regulation 5/renewal of recognition of clearing corporation under regulation 12 of the International Financial Services Centres Authority (Market Infrastructure Institutions) Regulations, 2021.

To

.....
.....

**Subject: Application for recognition of clearing corporation under regulation 5/
Application for renewal of recognition of clearing corporation under regulation 12
of the International Financial Services Centres Authority (Market Infrastructure
Institutions) Regulations, 2021.**

Sir,

1. We/I on behalf of(name and address of clearing corporation) being a clearing corporation hereby apply for recognition/renewal of recognition for the purposes of the International Financial Services Centres Authority (Market Infrastructure Institutions) Regulations, 2021 ("the Regulations").
2. Two copies of the rules, memorandum and articles of association relating in general to the constitution and management of the clearing corporation and two copies of the bye-laws for the clearing and settlement of contracts in securities are enclosed.
3. All the necessary information required in the Annexure to this Form is enclosed. Any additional information will be furnished as and when called for by the Authority.
4. We/I, on behalf of the said clearing corporation, hereby undertake to comply with the requirements of regulation 8(3) of the Regulations and such other conditions and terms as may be contained in the certificate of recognition or be provided or imposed subsequently.
5. Remittance Receipt dated for (amount of fees) is attached.

Yours faithfully,
Authorised signatory

ANNEXURE TO FORM 'A'

Part I — General

1. Name of the applicant clearing corporation.
2. Address.
3. Date of establishment or incorporation of a clearing corporation.
4. Is your clearing corporation a joint stock company (state whether public or private) registered under the Companies Act?
5. Give details of your capital structure and attach three copies of the audited balance sheets and profit and loss account of the clearing corporation for the preceding three years.
6. Give details of shareholding pattern of the clearing corporation.
7. Has your business viability plan been appraised by a reputed agency having expertise in securities market for its viability? Give a copy of the appraisal report.
8. Have you entered into an agreement with recognised stock exchange(s) for clearing and settling its trades? Give the name of such stock exchange(s) and details of its organisation and management.

Part II — Clearing membership of clearing corporation.

9. State the number of clearing members at the time of application. Also specify how many are inactive.
10. State whether there is any provision, resolution or convention for limiting the number of clearing members and whether in pursuance thereof you have fixed a ceiling on the number of clearing members that you would admit.
11. Do you insist on any minimum qualifications and experience before enrolling new clearing members? If so, give details.
12. State the different classes of clearing members, if any, the number thereof and the privileges enjoyed by each class. What is the procedure followed by your clearing corporation for the admission of different classes of new clearing members?
13. What are the rates of your annual subscription in respect of the different classes of clearing members?
14. Do you collect any security deposit from your clearing members? If so, give details and also state the manner in which such deposits are utilised and the rate of interest allowed, if any.
15. Do you collect any admission or entrance fees from your clearing members? If so, how much?

16. Do you insist on your clearing members divesting themselves of other activities either as principal or as employee?

17. Give details of the scale of brokerage and other charges, if any, specified by your clearing corporation.

18. Do you prescribe standard form of agreement to be entered with the trading member for engaging the services of your clearing member? Attach two copies of such agreement.

19. What are the measures adopted by you to regulate or prohibit advertising or issuing circulars by your clearing members?

20. Do you require clearing members to supply such information or explanation and to produce such books relating to their business as your governing board may require?

21. Do you undertake periodic inspection of your clearing members? Give details including the number of annual inspections and manpower available for conducting inspection.

Part III — Governing Board

22. What is the present strength of your governing board? Give details of the constitution, powers of management, election and tenure of office of members of the governing board, and the manner in which its business is transacted.

23. Are any trade or commercial interest represented on your governing board? If so, give details of interests represented.

24. Do you associate members of investors associations with the management of your clearing corporation? If so, state the manner in which it is done.

25. Are there any Government or the Board representatives on your governing board? If so, furnish their names.

26. How many public interest directors are there on the governing board? Furnish their names, qualifications and experience.

27. Do your rules provide for the direct election by clearing members on the Advisory Committee of the governing board? If so, give details of its constitution, tenure, powers and functions.

28. Do you have any provision for the appointment of standing or ad hoc subcommittees of the governing board? If so, furnish details of their composition, appointment, term of office, powers and functions.

29. Give the designations, powers and duties of key management personnel of your clearing corporation. Give details as to the mode of their appointment, tenure of office and remuneration.

30.What are the disciplinary powers with the governing board to enforce due compliance by clearing members of the rules and bye-laws of the clearing corporation and generally to ensure proper standard of business conduct?

31.What provisions have you made for the levy and recovery of fees, fines and penalties?

Part IV — Clearing and Settlement

32.Describe the clearing and settlement system of the clearing corporation.

33.State the different kinds of products being cleared and settled or proposed to be cleared and settled in your clearing corporation (e.g., equity, equity derivative, currency derivatives, interest rate derivatives, debt instruments, etc.). State the period of delivery, payment and the settlement mechanism in each case.

34.What are the conditions subject to which trades are settled and cleared on your clearing corporation?

35.What are your requirements for admitting derivative transactions for clearing and settlement?

36.Do you have the right to prohibit, withdraw or suspend clearing and settlement of dealings admitted for clearing and settlement? If so, under what circumstances is this right exercised?

37.Give details of the clearing and settlement charges and other charges, if any, levied by your clearing corporation.

38.What provisions have you made for periodical settlement of contracts and differences thereunder, the delivery of, and payment for securities and the passing of delivery orders?

39. How do you fix, alter or postpone the dates of settlement?

40. Do you provide any safeguards for the prevention of market manipulation, especially in the case of physical delivery of shares in the derivative markets and for meeting emergencies in settlement? Give details.

41. Provide a detailed assessment of the measures adopted to address the various risks faced by the clearing corporation in terms of the BIS-IOSCO paper on 'Principles for Financial Market Infrastructures.'

42. Do you publish any statistics in regard to business done on the clearing corporation including the value of Settlement Guarantee Fund and transactions settled through the clearing corporation, if maintained? In particular, have you evolved any machinery for computing the gross and net exposure of the clearing corporation and the value of clearing and settling of different kinds of contracts permitted on your clearing corporation? Give details.

43. (a) Do you have any bye-laws, contravention of which makes a contract void?

(b) Do you have necessary infrastructure, margin mechanism and adequate risk management mechanism to ensure market safety and integrity? Give Details

(c) Do you undertake any other activity other than clearing and settling? Give Details.

(d) What is your net worth? Give Details.

(e) Give details of business hours?

(f) What are the conditions subject to which dealings are admitted for clearing and settlement?

44. Do you maintain Settlement Guarantee Fund? Give details of the corpus of the settlement guarantee fund, its contribution, circumstances for utilisation, priority of utilisation, etc

45. How do you ensure the adequacy of the Settlement Guarantee Fund? Do you perform stress tests on a periodic basis. Give details and results of the latest stress test.

46. What is the netting procedure adopted by the clearing corporation for determining the obligations of the clearing member?

47. What is your policy in respect of settling trades of shareholder stock exchange and non-shareholder stock exchange?

48. Do you have any provisions for regulating the volume of business and exposure taken by any individual clearing member other than through a system of margins? If so, give details.

49. What provisions have you made for regulating— (a) the entering into contracts, their performance and rescission (b) the consequences of breach, default or insolvency on the part of trading or clearing members whether acting as buyers, sellers or intermediaries?

Part V — Infrastructure

50. Do you have any machinery for arbitration of disputes between clearing members and/or between clearing members and their constituents and trading member and clearing member? Give details.

51. Have you established connectivity with the depositories, clearing banks, stock exchange and clearing members? Give details.

52. What is the average load that is being handled by your systems? What is the peak load that can be handled and the extent of scalability of the systems in times of stress?

53. What is your business continuity plan? Give details including details of the disaster recovery site.

54. What are the names, qualifications and expertise of your key management personnel?

Audit Process

1. For the System and Network Audit, the following broad areas shall be considered in order to ensure that the audit is comprehensive and effective:

- a. The Audit shall be conducted according to the Norms, Terms of Reference (TOR) and Guidelines issued by the Authority.
- b. The Governing Board of the Market Infrastructure Institution (MII) shall appoint the Auditors based on the prescribed Auditor Selection Norms and TOR.
- c. An Auditor can perform a maximum of 3 successive years. However, such auditor shall be eligible for re-appointment after a cooling-off period of two years.
- d. Further, during the cooling-off period, the incoming auditor may not include:
 - (i) Any firm that has common partner(s) with the outgoing audit firm; and
 - (ii) Any associate/ affiliate firm(s) of the outgoing audit firm which are under the same network of audit firms wherein the term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.
- e. The number of years an auditor has performed an audit prior to this circular shall also be considered in order to determine its eligibility in terms of sub-clause c above.
- f. The scope of the Audit may be broadened by the Auditor to inter-alia incorporate any new developments that may arise due to issuance of circulars/ directions/ advice by the Authority from time to time.
- g. The audit shall be conducted once in a financial year and period of audit shall be 12 months. However, for the Stock Exchanges and Clearing Corporations, whose systems have been identified as "protected system" by National Critical Information Infrastructure Protection Centre (NCIIPC), the audit shall be conducted on a half yearly basis and audit period shall be of 6 months. Further, the audit shall be completed within 3 months from the end of the audit period.
- h. In the Audit report, the Auditor shall include its comments on whether the areas covered in the Audit are in compliance with the norms/ directions/ advices issued by the Authority, internal policy of the MII, etc. Further, the audit report shall also include specific non-compliances (NCs), observations for minor deviations and suggestions for improvement. The audit report shall take previous audit reports into consideration and cover any open items therein. The auditor should indicate if a follow-on audit is required to review the status of NCs.

- i. For each of the NCs/ observations and suggestions made by the Auditor, specific corrective action as deemed fit may be taken by the MII. The management of the MII shall provide its comments on the NCs, observations and suggestions made by the Auditor, corrective actions taken or proposed to be taken along with time-line for such corrective actions.
- j. The Audit report along with the comments of management shall be placed before the Governing Board of the MII. The Audit report along with comments of the Governing Board shall be submitted to the Authority, within 1 month of completion of audit.
- k. The follow-on audit should be completed within one month of the corrective actions taken by the Stock Exchange or Clearing Corporation. After the follow-on audit, the MII shall submit a report to the IFSCA within 1 month from the date of completion of the follow-on audit. The report shall include updated Issue-Log to indicate the corrective actions taken and specific comments of the Auditor on the NCs and the corrective actions.
- l. In cases wherein follow-on audit is not required, the MII shall submit an Action Taken Report (ATR) to the Auditor. After verification of the ATR by the Auditor, the MII shall submit a report to the Authority within 1 month from the date of completion of verification by the Auditor. The report shall include updated Issue-Log to indicate the corrective actions taken and specific comments of the auditor on the ATR.
- m. The overall timeline from the last date of the audit period till completion of final compliance by MII, including follow-on audit, if any, should not exceed one year/6 months (as applicable). In exceptional cases, if Stock Exchange or Clearing Corporation is of the view that compliance with certain observations may extend beyond said period, then the concerned Stock Exchange or Clearing Corporation shall seek specific approval from the Governing Board.

Auditor Selection norms

2. The Stock Exchange or Clearing Corporation shall ensure compliance with the following norms while appointing Auditor:
 - a. The auditor must have minimum 3 years of demonstrable experience in IT audit of securities market participants e.g. stock exchanges, clearing corporations, depositories, intermediaries, etc. and/ or financial services sector i.e. banking, insurance, Fin-tech etc.

- b. The team performing system and network audit must have experience in / direct access to experienced resources in the areas covered under TOR. It is recommended that resources deployed by the Auditor for the purpose of system and network audit shall have relevant industry recognized certifications e.g. CISA (Certified Information Systems Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, GSNA (GIAC Systems and Network Auditor), CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
- c. The Auditor shall have experience in working on Network Audit/IT audit/governance/IT service management frameworks and processes conforming to industry leading practices like CobiT/ ISO 27001 and beyond.
- d. The Auditor should have the capability to undertake forensic audit and undertake such audit as part of system and network audit, if required.
- e. The Auditor must not have any conflict of interest in conducting fair, objective and independent audit of the exchange / depository/ clearing corporation. It should not have been engaged over the last three years in any consulting engagement with any departments / units of the entity being audited.
- f. The Auditor should not have any cases pending against it, which point to its incompetence and/or unsuitability to perform the audit task.
- g. The proposed audit agency must be empanelled with CERT-In.
- h. Any criteria, in addition to the aforesaid criteria, that the Stock Exchange or Clearing Corporation may deem fit for the purpose of selection of Auditor.

Audit Report Guidelines

- 3. The Audit report should cover each of the major areas mentioned in the TOR and compliance with Authority's circulars/directions/advice, etc. related to technology. The Auditor in the Audit Report shall give its views indicating the NCs to the standards or observations or suggestions. For each section, auditors should also provide qualitative inputs/suggestions about ways to improve the processes, based upon the best industry practices.
- 4. The auditor shall certify that entire network architecture, connectivity (including co-lo facility) and its linkage to the trading infrastructure are in conformity with SEBI's regulatory framework to provide fair equitable, transparent and non-discriminatory treatment to all the market participants.

5. The report should also include tabulated data to show NCs / observations for each of the major areas in the TOR.
6. The audit report to include point-wise compliance of areas prescribed in Terms of Reference (TOR) and areas emanating from relevant IFSCA circulars/directions/advice along with any accompanying evidence.
7. Evidences should be specified in the audit report while reporting/ closing an issue.
8. A detailed report with regard to the system and network audit shall be submitted to the Authority. The report shall include an Executive Summary as per the following format:

Issue Log Column Heading	Description	Responsibility
Major Area	Comprehensive identification of major areas in compliance with guidelines of IFSCA and internal policies of Stock Exchange or Clearing Corporation	Auditor/Auditee
Point wise Compliance	Point-wise list of areas/relevant clauses in TOR against which compliance is being audited (in tabular format)	Auditor
Description of Finding/ Observation	Describe the findings in sufficient detail, referencing any accompanying evidence (e.g. procedure manual, interview notes, reports etc.)	Auditor
Reference	Reference to the section in detailed report – where full background information about the findings are available	Auditor
Process/ Unit	Process or unit where the audit is conducted and the finding pertains to	Auditor
Category of Findings	Major/Minor Non-compliance, Observation, Suggestion etc.	Auditor
Audited By	Which Auditor covered the findings	Auditor
Root Cause Analysis	A detailed analysis on the cause of the Non-compliance	Auditee
Remediation	The action (to be) taken to correct the Non-compliance	Auditee

Issue Log Column Heading	Description	Responsibility
Target Completion Date for Remedial Action	The date by which remedial action must be/will be completed	Auditor/Auditee
Status	Status of finding on reporting date (open/close)	Auditor/Auditee
Verified By	Auditing personnel (upon verification that finding can be closed)	Auditor
Closing Date	Date when finding is verified and can be closed	Auditor

System and Network Audit Program – Terms of Reference (TOR)

1. The scope of audit shall encompass all the IT resources including hardware, software, network, policies, procedures etc. of Stock Exchange and Clearing Corporation (Primary Data Centre (PDC), Disaster Recovery Site (DRS) and Near Site (NS).
2. **IT environment**
 - 2.1. Organization details
 - a. Name
 - b. Address
 - c. IT team size (in house- employees)
 - d. IT team size (vendors)
 - 2.2. IT and network set up and usage
 - a. PDC, DRS, NS and Regional/ Branch offices (location, owned/ outsourced)
 - b. Connectivity amongst PDC, NS and DRS
 - c. IT infrastructure / applications pertaining to the activities done as
 - d. Stock Exchange and Clearing Corporation
 - e. System Architecture
 - f. Network Architecture
 - g. Telecommunication network
3. **IT Governance**
 - 3.1. Whether IT Governance framework exists to include the following:
 - a. IT organization structure including roles and responsibilities of key IT personnel;
 - b. IT governance processes including policy making, implementation and monitoring to ensure that the governance principles are followed;
 - 3.2. IT policies and procedures
 - a. Whether the organization has a defined and documented IT policy? If yes, is it approved by the Governing Board (GB)?

- b. Is the current System Architecture including infrastructure, network and application components describing system linkages and dependencies, documented?
- c. Whether defined and documented Standard Operating Procedures (SOPs) for the following processes are in place?
 - i. IT Assets Acquisition
 - ii. Access Management
 - iii. Change Management
 - iv. Backup and Recovery
 - v. Incident Management
 - vi. Problem Management
 - vii. Patch Management
 - viii. Data Centre Operations
 - ix. Operating Systems and Database Management
 - x. Network Management
 - xi. DRS Operations
 - xii. Data Retention and Disposal
 - xiii. Asset Inventory
 - xiv. IT asset refresh/replacement policy
 - xv. Database Security
 - xvi. Interface Security
 - xvii. Application Security
 - xviii. Password Security
 - xix. Archived and Backed up Data Security

- 3.3. Whether the above mentioned SOPs is reviewed at periodic intervals or upon the occurrence of any major event? In this regard, whether any organization policy has been formulated by the Stock Exchange and Clearing Corporation?

4. Business Controls

- 4.1. General Controls for Data Centre Facilities
 - a. Application Access – segregation of duties, database and application access etc. (Approved Policy clearly defining roles and responsibilities of the personnel handling business operations)
 - b. Maintenance Access – vendor engineers
 - c. Physical Access Controls – permissions, logging, exception reporting & alerts
 - d. Environmental Controls – fire protection, AC monitoring, etc.
 - e. Fault Resolution Mechanism
 - f. Folder Sharing and Back Up Controls – safeguard of critical information on local desktops

- g. Incidences of violations in the previous audit report and corrective action(s), if any, taken
 - h. Any other controls, as deemed fit, by the Stock Exchange and Clearing Corporation
- 4.2. Software change control
- i. Whether pre-implementation review of application controls (including controls over change management) was undertaken?
 - j. Adherence to secure Software Development Life Cycle (SDLC) / Software Testing Life Cycle (STLC) standards/ methodologies
 - k. Whether post implementation review of application controls was undertaken?
 - l. Is the review of processes to ensure data integrity post implementation of new application or system followed by implementation team?
 - m. User awareness
 - n. Processing of new feature request
 - o. Fault reporting / tracking mechanism & process for resolutions
 - p. Testing of New releases / Bug-fixes – Testing process (automation level)
 - q. Version Control – History, Change Management process etc.
 - r. Development / Test/ Production environment – Segregation
 - s. New Release in Production – Promotion, Release note approvals
 - t. Production Issues / disruptions reported in the previous audit report, root cause analysis & corrective actions taken, if any
 - u. Software Development Stage
 - v. Software Design to ensure adequate system capacity to enable functioning in a degraded manner in the event of a crash
 - w. Any other controls, as deemed fit, by the Stock Exchange and Clearing Corporation
- 4.3. Data Communication/ Network Controls
- a. Network Administration – Redundancy, Monitoring, breakdown resolution etc.
 - b. WAN Management – Connectivity provisions for business continuity
 - c. Encryption - Router based as well as during transmission
 - d. Connection Permissions – Restriction on need to have basis
 - e. Fallback Mechanism – Dial-up connections controls etc.
 - f. Hardware based Signing Process
 - g. Incidences of access violations in the previous report & corrective actions taken, if any
 - h. Any other controls, as deemed fit, by the Stock Exchange and Clearing Corporation
- 4.4. Security Controls
- a. Secured e-mail with other entities such as the Authority, other partners

- b. Email Archival Implementation
- 4.5. Access Policy and Controls
 - a. Defined and documented policies and procedures for managing access to applications and infrastructure – PDC, DRS, NS, branches (including network, operating systems and database) and approved by relevant authority
 - b. Review of access logs
 - c. Access rights and roles review procedures for all systems
 - d. Segregation of Duties (SOD) matrix describing key roles
 - e. Risk acceptance for violation of SOPs and alternate mechanism put in place
 - f. Privileged access to system and record of logs,
 - g. Periodic monitoring of access rights for privileged users
 - h. Authentication mechanisms used for access to systems including use of passwords, One Time Passwords (OTP), Single Sign on, etc.
 - i. Any other controls, as deemed fit, by the Stock Exchange and Clearing Corporation
- 4.6. Electronic Document Controls
- 4.7. General Access Controls
- 4.8. Performance Audit
 - a. Comparison of changes in transaction volumes since previous audit
 - b. Review of systems (hardware, software, network) performance over the period
 - c. Review of the current volumes against the last performance test and against the current system utilization
- 4.9. Business Continuity / Disaster Recovery Facilities
 - a. Business Continuity Planning (BCP) manual, including Business Impact Analysis (BIA), Risk Assessment and Disaster Recovery (DR) process, Roles and responsibilities of Incident Response Team (IRT) /Crisis Management Team (CMT), employees, support/outsourced staff
 - b. Implementation of policies
 - c. Back-up procedures and recovery mechanism using back-ups
 - d. Storage of Back-up (Remote site, DRS etc.)
 - e. Redundancy – Equipment, Network, Site etc.
 - f. DRS installation and Drills - Management statement on targeted resumption capability (in terms of time required & extent of loss of data)
 - g. Evidence of achieving the set targets during the DR drills in event of various disaster scenarios

- h. Debrief / review of any actual event when the DR/BCP was invoked during the year
- i. User awareness and training
- j. Is Recovery Time Objective (RTO) /Recovery Point Objective (RPO) during BIA documented?
- k. Is annual review of BCP-DR or in case of major change in business/infrastructure undertaken?
- l. Is quarterly review regarding implementation of BCP policy done by Standing Committee of Technology (SCOT) of the Stock Exchange and Clearing Corporation?
- m. Testing of BCP-DR plan through appropriate strategies including simulations, DR drills, system recovery, etc.
- n. Is the recordkeeping of quarterly DR drills, live trading sessions from DRS being maintained?
- o. Is BCP-DR policy document prepared and implemented in line with the Authority circular on BCP and DR of Stock Exchange and Clearing Corporation?

4.10. IT/Network Support & IT Asset Management

- a. Utilization Monitoring – including report of prior year utilization
- b. Capacity Planning – including projection of business volumes
- c. Capacity and performance management process for the network/systems
- d. IT (S/W, H/W & N/W) Assets, Licenses & maintenance contracts
- e. Comprehensive review of Assets life cycle management (Acquisition, commissioning, deployment, monitoring, maintenance and de commissioning) and relevant records related to it.
- f. Insurance
- g. Disposal – Equipment, media, etc.

5. Entity Specific Software used for or in support of trading/clearing systems / peripheral systems and critical processes

6. Human Resources Management

- 6.1. Screening of Employee, Third party vendors / contractors
- 6.2. Onboarding
- 6.3. Offboarding
- 6.4. Consequence Management (Incident / Breach of policies)
- 6.5. Awareness and Trainings
- 6.6. Non-Disclosure Agreements (NDAs) and confidentiality agreement

7. Network Audit

- 7.1. The audit shall cover entire network infrastructure which shall inter-alia includes physical verification and tracing of the connectivity paths, server configuration, physical checking wire to wire connectivity and configurations of computer networking devices etc.
- 7.2. The audit shall require tracing of the connectivity and network diagram based on the physical audit.
- 7.3. The audit shall cover the link, the path, device-level redundancy, no single-point failures, high availability, and fault tolerance aspects in the network.
- 7.4. The audit shall cover entire network that is used to connect members to the Stock Exchange and Clearing Corporation (POP, MPLS, VSAT, COLO, etc.)
- 7.5. The audit shall cover applications, internal networks, servers, etc. of the Stock Exchange and Clearing Corporation/offered by the Stock Exchange and Clearing Corporation to its members that are used for trading, risk management, clearing and settlement etc.
- 7.6. Network performance and design
- 7.7. Network Security implementation
- 7.8. Network health monitoring and alert system
- 7.9. Log management process
- 7.10. Service level definition for vendors/Service level management
- 7.11. Governance process for network service delivery by vendors
8. The results of all testing that was conducted before deployment of any IT system/application in production environment, shall be checked by auditor during system audit.
9. IT Vendor Selection and Management
 - 9.1. Identification of eligible vendors
 - 9.2. Dissemination process of Request for Proposal (RFP)
 - 9.3. Definition of criteria of evaluation
 - 9.4. Process of competitive analysis
 - 9.5. Approach for selection
 - 9.6. Escrow arrangement for keeping source code
10. E-Mail system
 - 10.1. Existence of policy for the acceptable use of electronic mail
 - 10.2. Regulations governing file transfer and exchange of messages with external parties
 - 10.3. Rules based on which e-mail addresses are assigned
 - 10.4. Storage, backup and retrieval
11. Redressal of Technological Complaints
 - 11.1. Ageing analysis of technology complaints
 - 11.2. Whether all complaints received are brought to their logical conclusion?

12. Any other Item(s)

- 12.1. Electronic Waste Disposal
- 12.2. Observation(s) based on previous Audit Report(s)
- 12.3. Any other specific area(s) that may be informed by the Authority

Annexure-IV

Format for monitoring compliance with requirements emanating from circulars/guidelines/advisories related to technology of IFSCA

S. No.	Technological requirement specified by the IFSCA along with date of IFSCA circular/guidelines/advisory	Mechanism put in place by the Stock Exchange/Clearing Corporation	Non Compliance with IFSCA Guidelines	Compliance Status (Open/Closed)	Timeline for taking corrective action in case of open observations

Exception Observation Reporting Format

Note: Stock Exchanges and Clearing Corporations are expected to submit following information with regard to exceptional major non-compliances (NCs) / minor NCs observed in the System and Network Audit. MIIs should also categorically highlight those observations/NCs/suggestions pointed out in the System and Network Audit (current and previous) which are not yet complied with.

Name of the Stock Exchange / Clearing Corporation:

Name of the Auditor:

System and Network Audit Report Date:

Table 1 : For Preliminary Audit

Audit period	Observation No.	Description of finding	Department of MII	Status/ Nature of finding	Risk Rating of finding as per Auditor*	Audit TOR clause	Root Cause Analysis	Impact Analysis	Corrective Actions proposed by auditor	Deadline for the corrective action	Management response in case of acceptance of associated risks	Whether similar issue was observed in any of the previous 3 Audits

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***Risk Rating of finding** - A rating has to be given for each of the observations based on its impact and severity to reflect the risk exposure as well as the suggested priority for action

Rating	Description
HIGH	Represents weakness in control with respect to threat(s) that is /are sufficiently capable and impacts asset (s) leading to regulatory non-compliance, significant financial, operational and reputational loss. These observations need to be addressed with utmost priority.
MEDIUM	Represents weakness in control with respect to threat(s) that is /are sufficiently capable and impacts asset (s) leading to exposure in terms of financial, operational and reputational loss. These observations need to be addressed in reasonable timeframe.
LOW	Represents weaknesses in control, which in combination with other weakness can develop into an exposure. Suggested improvements for situations not immediately/directly affecting controls.

Table-2: For follow on/ follow up system audit

Preliminary Audit Date	Preliminary Audit Period	Preliminary Observation Number	Preliminary Status	Preliminary Corrective Action as proposed by Auditor	Current Finding	Current Status	Revised Corrective Action, if any	Deadline for the Revised Corrective Action	Reason for delay in implementation / compliance

Standard Operating Procedure (SOP) for handling of technical glitches

Definition of “Technical Glitch”

1. Technical glitch shall mean any malfunction in the systems of a Stock Exchange / Clearing Corporation. Malfunction in the systems shall include malfunction in its (a) hardware, or; (b) software, or; (c) any products/ services provided by the Stock Exchange / Clearing Corporation, whether on account of inadequate infrastructure/ systems or otherwise, which may lead to either stoppage or variance in the normal functions/ operations of systems of the Stock Exchange / Clearing Corporation.

Reporting Requirements

2. The following reporting structure for technical glitches shall be adopted by the Stock Exchange / Clearing Corporation:

S. No.	Disruption	Reporting
1	No business disruption	<ul style="list-style-type: none"> ▪ Standing Committee on Technology (SCOT) ▪ Governing Board of Stock Exchange / Clearing Corporation
2	Business disruption	<ul style="list-style-type: none"> ▪ Standing Committee on Technology (SCOT) ▪ Governing Board of Stock Exchange / Clearing Corporation ▪ IFSCA

3. With regard to incidents resulting in business disruption, the following shall be submitted by the Stock Exchange / Clearing Corporation to the IFSCA:

- i. Information of technical glitch on immediate basis but not later than 2 hours from the time of occurrence of the glitch; provided that glitches of the nature of a disaster - shall be reported immediately upon declaration of disaster.
- ii. Preliminary report within 24 hours of the occurrence of the glitch.
- iii. Comprehensive Root Cause Analysis (RCA) report and corrective action taken to address the technical glitch within 21 days of the incident. Such report shall be submitted to IFSCA, after placing the same before the Standing Committee on Technology and the Governing Board of the MII and confirming compliance with their observations.
- iv. RCA submitted by the MIIs should inter-alia include exact cause of the technical glitch (including root cause from vendor(s), if applicable), exact duration of the technical glitch, chronology of events, list of business processes/systems and time

for which they were impacted, recommendations of SCOT / Governing Board of MII, details of corrective/ preventive measures taken (or to be taken) by MII along with timelines and any other aspect relevant to the technical glitch. As part of the RCA, MIIs are required to demonstrate compliance with various requirements of this SOP. The RCA shall include details regarding time of incident, time when operations were restored and in the event of a disaster, time when disaster was declared

4. IFSCA on identification of the Technical Glitch resulting into Financial Disincentive to the MIIs, or upon receipt of the information of any such instance shall provide an opportunity to the concerned MIIs to make their submissions in respect of the facts of the case.
5. Stock Exchange / Clearing Corporation shall carry out internal examination pertaining to occurrence of technical glitches to ascertain individual accountability and take appropriate action including suitable recording and reckoning in the performance appraisal of those individuals. IFSCA would retain the right to initiate enforcement action against the individuals at the Stock Exchange / Clearing Corporation, if there is sufficient ground to do so.

“Financial Disincentive” structure with regard to handling of technical glitches**Failure to timely submit RCA**

1. In case of delay in submission or submission of incomplete/ inadequate RCA by a Stock Exchange / Clearing Corporation, a “financial disincentive” of USD 1500 per working day shall be paid by the Stock Exchange / Clearing Corporation for each working day of delay from the timeline specified at Para 3 (iii) of Annexure VI above or any revised timeline specified by the IFSCA for submission of exact RCA.

Failure to timely address technical glitch

2. In order to ensure that MIs address technical glitch within the specified timeline of IFSCA, the following progressive slab-wise “financial disincentive” shall be paid from the expiry of the timeline:

S. No.	No. of working days during which failure continues	Financial disincentive to be paid by the Stock Exchange / Clearing Corporation
1	First 15 working days	USD 3000 per working day
2	Subsequent 15 working days	USD 4000 per working day in addition to S. No. (1) above
3	Beyond 30 working days	USD 35000 in addition to S. No. (1) and (2) above

Failure to declare disaster within stipulated timelines

3. It has been mandated that, in the event of disruption of any one or more of the ‘Critical Systems’, the Stock Exchange / Clearing Corporation shall, within 30 minutes of the incident, declare that incident as ‘Disaster’. In case of delay in declaration of disaster beyond the specified timeline, the following “financial disincentive” shall be paid:

S. No.	Delay in declaration of disaster beyond specified timeline	Financial disincentive
1	Financial disincentive on Stock Exchange / Clearing Corporation	10% of average of standalone net profit for previous two financial years or USD 200,000 whichever is higher.

Failure to restore operations within Recovery Time Objective (RTO)

4. In the event of a disaster, if a Stock Exchange / Clearing Corporation fails to restore its operations within the RTO, i.e. to restore operations of ‘Critical Systems’

including from Disaster Recovery Site within 45 minutes of declaration of Disaster, the following “financial disincentive” shall be paid:

S. No.	Failure to restore operations within the specified RTO	Financial disincentive
1	Financial disincentive on Stock Exchange / Clearing Corporation	10% of average of standalone net profit for previous two financial years or USD 200,000 whichever is higher.

“Financial disincentive” under Clause 3 and Clause 4 above, in relation to the same disaster, shall be paid only once either under Clause 3 or Clause 4.

- Further, if a Stock Exchange / Clearing Corporation fails to restore operations of Critical Systems including from Disaster Recovery Site within three hours from the occurrence of the disaster, the following additional “financial disincentive” (over and above S No 3 or 4 above) shall be paid:

S. No.	Failure to restore operations of critical operations within specified timelines	Financial disincentive
1	Financial disincentive on Stock Exchange / Clearing Corporation	10% of average of standalone net profit for previous two financial years or USD 200,000 whichever is higher.

Failure to restore normalcy in cases of business disruption, not being in the nature of a Disaster

- In the event of any business disruption, which is not required to be declared as “Disaster”, if a Stock Exchange of Clearing Corporation fails to restore normalcy of operations within 75 minutes of the incident, the following slab wise “financial disincentive” shall be paid by the Stock Exchange or Clearing Corporation:

S. No.	Failure to Restore normalcy within	Financial disincentive
1	75 minutes to 3 hours of the incident	USD 50,000
2	Beyond 3 hours of the incident	USD 100,000

- The amount of “financial disincentive” paid as per the above structure shall be credited by Stock Exchange / Clearing Corporation to the following funds maintained by it:

S. No.	Financial Disincentive on Stock Exchange / Clearing Corporation	Credit to Fund
1	Stock Exchange	Investor Protection Fund
2	Clearing Corporation	Settlement Guarantee Fund

8. Further, the Stock Exchange / Clearing Corporation shall submit a compliance report within 90 days of occurrence of disaster/ business disruption to IFSCA providing details of payment of “financial disincentives” including computation of “financial disincentives” as per the SOP and the date when the amount was credited to the aforementioned funds.
9. Stock Exchange / Clearing Corporation shall disclose on their websites (and in their respective annual reports), the details of financial disincentive paid by them on account of technical glitches.
10. The financial disincentives automatically triggered under predefined circumstances as stated in clauses 1, 2, 3, 4, 5, 6 above shall be paid by the MIIs. However, these financial disincentives shall be without prejudice to any action as may be initiated by the IFSCA.
