भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/190 **December 19, 2023**

To

All Recognized Clearing Corporations and
All Depositories

Sir / Madam,

Sub: Principles of Financial Market Infrastructures (PFMIs)

1. SEBI vide its Circulars No. CIR/MRD/DRMNP/26/2013 dated September 04, 2013 and No. SEBI/HO/CDMRD/DMP/CIR/P/2016/137 dated December 16, 2016 stated that as a member of IOSCO, SEBI is committed for adoption and implementation of the CPSS-IOSCO Principles for Financial Market Infrastructures (FMIs) in its regulatory functions of oversight, supervision and governance of the key FMIs under its purview. The PFMIs issued on April 2012 comprise of 24 principles *(Annexure 1),* which are designed to ensure that the infrastructure supporting global financial markets is robust and well placed to withstand financial shocks.

2. Full, timely and consistent implementation of the PFMIs is fundamental to ensuring the safety, soundness and efficiency of key FMIs and for supporting the resilience of the global financial system. Global central clearing requirements reinforce the importance of strong safeguards and consistent oversight of derivatives CCPs in particular.

Financial Market Infrastructure (FMI)

3. The Principles apply to systematically important FMI entities such as Central Counterparty (CCP), Central Securities Depository (CSD)/ Securities Settlement System (SSS), Payment and Settlement Systems (PSS) and Trade Repository (TR) which are responsible for providing clearing, settlement and recording of monetary and other financial transactions. The principles are international standards set forth to –

    3.1. Enhance safety and efficiency in payment, clearing, settlement, and recording arrangements,
    3.2. Reduce systemic risk.
    3.3. Foster transparency and financial stability and
    3.4. Promote protection of participants and investors.

4. The different categories of FMIs, as identified under PFMIs, are listed below -

Central Counterparties (CCP)

A central counterparty interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open-offer system, or through an analogous legally binding arrangement. CCPs have the potential to significantly reduce risks to participants through the multilateral netting of trades and by imposing more effective risk controls on all participants. For example, CCPs typically require participants to provide collateral (in the form of initial margin and other financial resources) to cover current and potential future exposures. CCPs may also mutualise certain risks through devices such as default funds. As a result of their potential to reduce risks to participants, CCPs also can reduce systemic risk in the markets they serve.

Central Securities Depositories (CSD)

Central securities depository provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and plays an important role in helping to ensure the integrity of securities issues (that is, ensure that securities are not accidentally or fraudulently created or destroyed or their details changed). A CSD can hold securities either in physical form (but immobilised) or in dematerialised form (that is, they exist only as electronic records). A CSD may maintain the definitive record of legal ownership for a security; in some cases, however, a separate securities registrar will serve this notary function.

Securities Settlement Systems (SSS)

A securities settlement system enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Such systems allow transfers of securities either free of payment or against payment. When transfer is against payment, many systems provide delivery versus payment (DvP), where delivery of the security occurs if and only if payment occurs. An SSS may be organised to provide additional securities clearing and settlement functions, such as the confirmation of trade and settlement instructions.

Payment Systems (PSS)

A payment system is a set of instruments, procedures, and rules for the transfer of funds between or among participants. The system includes the participants and the entity operating the arrangement. Payment systems are typically based on an agreement between or among participants and the operator of the arrangement, and the transfer of funds is effected using an agreed-upon operational infrastructure.

Trade Repositories (TR)

A trade repository is an entity that maintains a centralised electronic record (database) of transaction data. TRs have emerged as a new type of FMI and have recently grown in importance, particularly in the OTC derivatives market. By centralising the collection, storage, and dissemination of data, a well-designed TR that operates with effective risk controls can serve an important role in enhancing the transparency of transaction information to relevant authorities and the public, promoting financial stability, and supporting the detection and prevention of market abuse. An important function of a TR is to provide information that supports risk reduction, operational efficiency and effectiveness, and cost savings for both individual entities and the market as a whole. Such entities may include the principals to a trade, their agents, CCPs, and other service providers offering complementary services, including central settlement of payment obligations, electronic novation and affirmation, portfolio compression and reconciliation, and collateral.

FMIs Regulated by SEBI

5. SEBI regulated Depositories and Clearing Corporations are FMIs. These systemically important FMIs provide essential facilities and perform systemically critical functions in the market and shall be required to comply with the PFMIs specified by CPSS-IOSCO as applicable to them.

6. The issue of assessment of PFMI by SEBI regulated FMIs was deliberated in Secondary Market Advisory Committee of SEBI (SMAC). Based on the recommendations of SMAC, it has been decided that FMIs shall carry out self-assessment on a periodic basis against the PFMIs and disclose the same on their websites. For this purpose, the 24 principles for FMIs have been classified as “quantitative” and “qualitative” and their applicability for respective FMIs is as follows:

Principle No.	**Principle**	**Classification**	**Applicability on FMIs i.e. CCs or Depositories**
1	Legal basis	Qualitative	CCs and Depositories
2	Governance	Qualitative	CCs and Depositories

Principle No.	Principle	Classification	Applicability on FMIs i.e. CCs or Depositories
3	Framework for the comprehensive management of risks	Qualitative	CCs and Depositories
4	Credit risk	Quantitative	CCs
5	Collateral	Quantitative	CCs
6	Margin	Quantitative	CCs
7	Liquidity Risk	Quantitative	CCs
8	Settlement finality	Qualitative	CCs
9	Money settlements	Qualitative	CCs
10	Physical deliveries	Qualitative	CCs
11	Central securities depositories	Qualitative	Depositories
12	Exchange-of-value settlement systems	Quantitative and Qualitative	CCs
13	Participant-default rules and procedures	Qualitative	CCs and Depositories
14	Segregation and portability	Quantitative and Qualitative	CCs
15	General business risk	Quantitative and Qualitative	CCs and Depositories
16*	Custody and investment risks	Quantitative and Qualitative	CCs and Depositories
17*	Operational risk	Quantitative and Qualitative	CCs and Depositories
18	Access and Participation Requirements	Qualitative	CCs and Depositories
19*	Tiered participation arrangements	Quantitative and Qualitative	CCs and Depositories
20	FMI links	Qualitative	CCs and Depositories
21	Efficiency and effectiveness	Qualitative	CCs and Depositories
22	Communication procedures and standards	Qualitative	CCs and Depositories

Principle No.	Principle	Classification	Applicability on FMIs i.e. CCs or Depositories
23	Disclosure of rules, key procedures, and market data	Qualitative	CCs and Depositories
24	Disclosure of market data by trade repositories	Not Applicable	

** For these PFMI principles, Depositories have to make Qualitative Disclosures only.*

7. The periodicity of self-assessment and disclosure by the FMIs shall be as follows:

Self-assessment and Disclosures	Periodicity
Quantitative	Quarterly (within 30 days from the end of the quarter – June, September, December and March)
Qualitative	Annually (within 30 days from the end of the financial year)

8. FMIs shall be monitored and assessed against the PFMIs on annual basis by the Regulatory Oversight Committee (ROC) of the FMI and the ROC shall submit a report to the governing board of the FMI and SEBI within 60 days from the end of the financial year.

9. **Applicability**

9.1. The provisions of this Circular shall come into force from the quarter end December, 2023.

9.2. Circular No. CIR/MRD/DRMNP/26/2013 dated September 04, 2013 and Circular No. SEBI/HO/CDMRD/DMP/CIR/P/2016/137 dated December 16, 2016 shall be rescinded with effect from the date of implementation of this circular.

10. Clearing Corporations and Depositories are advised to:

10.1. take necessary steps and put in place necessary systems for implementation of above.

10.2. make necessary amendments to the relevant bye-laws, rules and regulations, wherever required, for the implementation of the above; and

10.3. bring the provisions of this circular to the notice of market participants (including investors) and also to disseminate the same on their website.

11. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992 read with Regulation 51 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, Section 26(3) of the Depositories Act, 1996 and Regulation 97 of Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

12. This circular is available on SEBI website at www.sebi.gov.in .

Yours faithfully,

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Annexure 1

Principles for Financial Market Infrastructures (PFMIs)

General Organisation

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Credit and Liquidity Risk Management

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle 6: Margin

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Settlement

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Central Securities Depositories and Exchange-of-value Settlement Systems

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Default Management

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant’s customers and the collateral provided to the CCP with respect to those positions.

General Business and Operational Risk Management

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Principle 17: Operational risk

An FMI 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.

Access

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

Efficiency

Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Transparency

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Principle 24: Disclosure of market data by trade repositories

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.