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RESERVE BANK OF INDIA

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October 12, 2017

RBI releases Draft Directions regarding Framework for Authorisation of Electronic Trading Platforms under section 45 W of the RBI Act, 1934

The Reserve Bank of India today released [Draft Directions](#) for authorising Electronic Trading Platforms for financial market instruments regulated by the Reserve Bank. Comments on the draft guidelines are invited from banks, market participants and other interested parties by November 10, 2017.

Feedback on the draft directions may be forwarded to:

The Chief General Manager, Reserve Bank of India
Financial Markets Regulation Department
1st Floor, Main Building
Shahid Bhagat Singh Marg,
Mumbai – 400001

Or by [email](#) with subject line “Feedback on draft directions for Authorising ETPs”.

Background

Post the global financial crisis, trading on electronic platforms is being encouraged in several jurisdictions, driven primarily by regulatory initiatives to reform OTC derivative markets, changes in market structure and technology advancement. Electronic platforms provide several benefits in terms of transparency in pricing, processing efficiency in terms of transaction time and cost, improved risk controls and help in market surveillance by addressing market abuse and unfair trading practices. These platforms have the potential to positively impact the market structure by broadening market access, increasing competition, reducing dependency on traditional trading methods and thereby leading to better price discovery and improved market liquidity.

It has been decided to issue a framework for authorisation of Electronic Trading Platforms (ETP) for financial instruments. These directions have the following broad objectives:

- (i) Development of market through transparent trading, safe settlement systems and standardisation of instruments;
- (ii) Promoting fair, equitable, orderly and non-discriminatory access to markets;

- (iii) Prevention of market abuse and ensuring financial integrity through effective monitoring and surveillance; and
- (iv) Improving dissemination of trading information and thereby reducing information asymmetry.

The announcement in this regard was made in the [Statement on Developmental and Regulatory Policies dated October 4, 2017](#).

Press Release: 2017-2018/1017

Jose J. Kattoor
Chief General Manager

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(65 kb)

Electronic Trading Platform (ETP) Directions, 2017– Draft Directions

These directions are called 'The Electronic Trading Platform (ETP) Directions, 2017' and are issued in exercise of the powers conferred under section 45W of the RBI Act, 1934.

2. No entity shall operate an ETP to trade any instrument covered under Section 45 (W) of the RBI Act, 1934 without prior authorisation of the Reserve Bank under these directions. Existing electronic trading platforms would also be required to obtain authorisation under these directions, within six months from the date of issue of these directions.

3. Definitions: In these directions, unless the context otherwise requires

- i. Electronic Trading Platform (ETP) means any electronic system or facility, other than a recognised stock exchange, that facilitates buying and selling of eligible instruments as defined in para 3(iii).
- ii. 'ETP Operator' means the person authorised by the Reserve Bank to operate the ETP.
- iii. 'Eligible Instruments' mean securities, money market instruments, foreign exchange and derivatives covered under section 45W of the RBI Act, 1934.
- iv. 'Approved' means specified by the Reserve Bank, either in the authorisation document at the time of authorisation or at any later point of time when conditions of authorisation are altered.

4. Eligibility Criteria for Entities Owning and Operating ETPs

The ETP operator shall fulfill the following criteria:

(a) General and Financial Criteria

- i. An ETP operator shall be legally incorporated in India with full managerial and operational control exercised within India. Entities incorporated outside India are required to operate through subsidiaries set up in India provided that entities already operating ETPs in India without establishment of a subsidiary will be required to conform to this direction within a time frame set by the Reserve Bank on a case to case basis.
- ii. Foreign shareholding, if any, in ETP operators should conform to all applicable laws and regulations, including the Foreign Exchange Management Act, 1999.
- iii. An ETP operator shall have minimum paid up equity capital of • 25 crore which shall be maintained at all times.
- iv. An ETP operator shall hold liquid assets (cash, government securities and bank deposits) equal to at least six months of current operating expenses at all times.

(b) Experience

An ETP operator should preferably have experience, of at least three years, in operating infrastructure related to trading of financial instruments.

(c) Technological Criteria

The ETP system should have technological infrastructure appropriate to support its operations and manage the associated risks. It should at the minimum, fulfill the following technological

requirements-

- i. Robust IT infrastructure with a high degree of reliability, availability, scalability and security for facilitating fair and transparent trade execution.
- ii. It should have capability to disseminate trade information on a real time basis.
- iii. It should have a suitable Business Continuity Plan (BCP) including contingency and disaster recovery arrangements to ensure high availability.

(d) An ETP operator will ordinarily not be eligible for authorisation, if within the last 5 years, it or any of its directors or promoters or senior officers have been subjected to adverse action that the Reserve Bank considers material, by any regulator or any other public authority.

5. Systems, Controls and Risk Management

- (i) An ETP operator should put in place a comprehensive risk management framework covering all related aspects of its operation. It shall ensure that risks associated with its operations are properly identified and managed prudently.
- (ii) An ETP operator shall provide to its members fair, equitable and non-discriminatory access to relevant pre-trade and post trade information on a real time basis.
- (iii) An ETP operator that facilitates/provides participation by automated trading systems (including algorithmic trading (ALGO), high frequency trading (HFT) etc.) should seek prior approval of the Reserve Bank and ensure that the same shall be offered in a transparent and non-discriminatory manner. An ETP operator shall not provide any co-location facility.
- (iv) The rules of trading (e.g. order matching, quote-based etc.) would be as approved by the Reserve Bank. Any change in such rules shall require prior approval of the Reserve Bank.
- (v) An ETP operator shall implement systems and controls to ensure fair and orderly trading to maintain market integrity and monitor trading activity on a real time and post facto basis to prevent abusive market practices in time.
- (vi) An ETP operator shall report instances of market abuse/manipulation, front running or any other trade anomaly to the Reserve Bank.
- (vii) Pre and post trade Controls

An ETP operator shall:

- i. Undertake due diligence at the time of on-boarding of all members. It shall maintain all relevant information about the member.
- ii. Identify its members uniquely using LEI and/or PAN number. It should also ensure technology based access control for its members and prevent unauthorised access to the platform. An ETP operator shall ensure that transactions between Indian entities take place within the jurisdiction of India.
- iii. Prevent transactions that are not in compliance with the conditions of authorisation or prevailing legal or regulatory requirements or norms (including code of conduct) prescribed by market bodies like FIMMDA/FEDAI etc.
- iv. Provide facilities for pre-trade controls or pre-execution filters which can limit human errors, enable setting of trading limits, exposure limits etc.
- v. Ensure that all trades on the system, without exception, are dealt with as per established procedure.

(viii) An ETP operator shall put in place a process/mechanism to address exigencies such as suspension/cessation of trading or cancellation of orders/ trades, malfunctions in its systems or erroneous use by members or any other unforeseen situation. Such exigencies should be dealt with in accordance with clearly laid down rules and regulations.

(ix) An ETP operator shall have well documented rules and regulations covering all aspects of trading viz. on-boarding, suspension and cessation of membership; roles and responsibilities of members and operator; liability and compensation framework; processing and execution of orders; risk management and control, etc. Such documents should be made easily available to the members.

(x) An ETP operator shall provide required training and familiarization program while on-boarding members. It shall provide the members with operating manuals, user manual and rule books.

(xi) An ETP operator shall implement a fair and non-discriminatory fee structure for its members. All services provided by the ETP operator shall be priced separately.

(xii) An ETP operator should strive to adhere to the international standards recommended by standard setting bodies i.e. the International Organization of Securities Commissions (IOSCO) and the Committee on Payments and Market Infrastructures (CPMI), to the extent applicable.

(xiii) ETPs shall have arrangements to identify, disclose and manage conflict of interest, if any, arising from participation of related parties/group entities on the ETPs operated/managed by it.

6. Settlement

An ETP operator, offering clearing and settlement services, shall seek authorization from the Reserve Bank under the Payment and Settlement Systems Act, 2007.

7. Information technology and Information security requirements

- (i) An ETP operator shall put in place adequate information and data security infrastructure. It should follow high standards of information security and adhere to norms/guidelines prescribed by the Reserve Bank or any other public authority.
- (ii) An ETP operator shall carry out IT/IS audit, at least once in a year, by certified auditors accredited by CISA or such other professional bodies.
- (iii) The Reserve Bank may, at its discretion cause an IT/IS audit by independent auditors. The cost for such independent audit would be borne by the ETP operator.

8. Data reporting, usage and preservation

- (i) An ETP operator shall maintain confidentiality of all data related to trades.
- (ii) All data related to trades generated in the ETP (including but not limited to orders/quotes executed, audit trails, etc.) shall be maintained in India in easily retrievable media for at least 20 years. No data shall be exported outside India without the prior permission of the Reserve Bank.
- (iii) An ETP operator shall report transactions to one or more reporting platforms or trade repository or any other entity specified by the Reserve Bank.
- (iv) An ETP operator shall make available data/information to any approved authority(ies).
- (v) Ordinarily, data or information generated in the platform, including processed output of such data or information, shall not be shared/used by the operator for purpose other than those approved by the Reserve Bank, except under separate bilateral agreements with members. Such agreement/ arrangement shall not form a part of access conditions.

9. Termination of operation

If an authorised ETP operator intends to terminate operations, it shall do so with prior approval of the Reserve Bank and abide by the timing and date of termination of operations, and any other condition stipulated by the Reserve Bank.

10. Application procedure for Authorisation

(i) Entities meeting the eligibility criteria as outlined in these directions may apply in the prescribed format ([Annex](#)) to the Chief General Manager, Financial Markets Regulation Department, Reserve Bank of India, 1st Floor, Main Building, Shaheed Bhagat Singh Marg, Mumbai – 400001.

(ii) The Reserve Bank shall reserve the right to call for more information and seek clarification on any issue as may be required.

(iii) The authorisation granted shall not be transferrable.

11. Exemption from provisions of these directions

An ETP operator authorised under these direction may be granted exemption, for a period as decided by the Reserve Bank from any one or more of the provisions of these directions, if the Reserve Bank is satisfied that the need for such exemption is justified from the point of view of market development.

Annex

APPLICATION FORM FOR AUTHORISATION TO SET UP ELECTRONIC TRADING PLATFORM

From

Name and address of registered office/ principal place of business of applicant

(By Registered Post AD/ Hand Delivery)

To

Chief General Manager
Financial Markets Regulation Department
Reserve Bank of India
Central Office
1st Floor RBI Main Building
Shaheed Bhagat Singh Marg
Mumbai –400001

Dear Sir,

Application for authorisation for setting up an Electronic Trading Platform

We hereby submit an application for authorisation to set up an electronic trading platform for (Name of instrument/s). The required information and documents have been furnished as per instructions.

2. We declare that to the best of our knowledge and belief the information furnished in the statements/annexes enclosed are true/correct and complete.

Yours faithfully

Signature:

Name:

Designation:

Company Seal:

Date and Place:

Encl: sheets

APPLICATION FOR AUTHORIZATION TO SET UP ELECTRONIC TRADING PLATFORM

Part-A

1. Name, legal status and constitution of ETP operator.
2. Promoters/owners, Directors and Senior Management details (details of foreign holding if any).
3. Capital – Auditors certificate, audited financial statements if available.
4. Brief note on the ETP operator.
5. Previous experience of applicant and associated companies/firms/entities in trading of financial instrument.
6. Details of punitive action/show cause notice by regulator, enforcement, courts etc. (both applicant and its associated companies/firms/entities).

PART – B

1. Particulars of Electronic Trading Platform for which authorization is sought

- a. Provide complete details including financial instrument/s proposed to be traded, technology employed, trading process and trading rules, risk management practices, monitoring and surveillance system, other services being provided as part of trading systems etc.
- b. Details on adherence to eligibility criteria and other requirements of the directions including adherence to fair, equitable and transparent trading and access requirements.

c. In case of outsourcing provide the details thereof.

2. If desirous of providing clearing and settlement service, the details thereof.

3. Any other information ETP operator wishes to furnish.

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