



Circular no. MCX-SX/COMP/57/2009

January 29, 2009

Internet Based Trading Facility for Constituents of Trading Members

In terms of the provisions of Rules, Bye-Laws and Regulations of the MCX Stock Exchange Ltd., (Exchange), members of the Exchange are notified as under :

Members are aware of the Exchange's circular no. MCX-SX/CTCL/15/2008 dated 14th October 2008, circular no. MCX-SX/IT/18/2008 dated 23rd October 2008 and circular no. MCX-SX/IT/CTCL/29/2008 dated 11th November 2008 regarding development and operation of internet based trading facility using the software of an empanelled vendor or the services of a qualified Application Service Provider or the software developed in-house / by a non-empanelled vendor using Application Programming Interface provided by the Exchange. Members desirous of offering internet based trading facility to their constituents are required to seek the approval of the Exchange, as prescribed in the said circulars.

In this context, members may note that SEBI had issued a circular no. SMDRP/POLICY/CIR-06 /2000 dated 31st January 2000 giving the conditions to be met by trading members for providing internet based trading facility to the constituents. A copy of the said circular is attached as **Annexure I** for ready reference. Members offering internet based trading facility to their clients are advised to ensure compliance with the said SEBI circular.

One of the points in the SEBI's circular requires the Exchanges to lay down the minimum qualifications for personnel handling internet based trading. In pursuance of the same, it is hereby specified that only persons possessing a degree from a recognized University or equivalent and a SEBI approved certification in derivatives shall be eligible to handle internet based trading for a member of the Exchange.

----- Registered office -----
MCX Stock Exchange Limited
2nd Floor, Exchange Square Suren Road, Chakala, Andheri (East), Mumbai – 400 093
Tel.: 022 – 67319000, Fax: 022 – 67269575
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The SEBI circular further requires the Exchanges to specify a model agreement to be executed between a member offering internet based trading facility and a constituent desirous of availing such facility. In pursuance of the same, it is hereby specified that members shall execute an agreement with every client availing internet trading facility on the lines of the model agreement given in **Annexure II**. Members may also note that as per the SEBI circular, the agreement to be executed between the member and the constituent shall spell out all obligations and rights, include the minimum service standards to be maintained by the trading member and shall not have any clause that is less stringent / contrary to the conditions stipulated in the model agreement.

All the members are advised to take note of the above and comply with the requirements.

Anthony Rodrigues
Membership Department

For any clarifications contact Ms. Leena Ranade on 022-67318933 or Mr. Denny Oommen on 022 - 67318936 or send an email at customerservice@mcx-sx.com.

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**SECURITIES AND EXCHANGE BOARD OF INDIA
SECONDARY MARKET DEPARTMENT
Mittal Court, A Wing, Gr. Floor,
224, Nariman Point, Mumbai 400 021**

SMDRP/POLICY/CIR-06 /2000

January 31, 2000

To:

**Executive Director/Managing Director
All Stock Exchanges**

Dear Sir,

The SEBI Board has approved the report on Internet Trading brought out by the SEBI Committee on Internet Based Trading and Services.

Internet Based trading can take place through order routing systems, which will route client orders, to exchange trading systems, for execution of trades on the existing stock exchanges. SEBI Registered Brokers can introduce the service after obtaining permission from respective Stock Exchanges. Exchanges while giving permission will be required to ensure minimum conditions specified in the report which is available on the SEBI's web site. The salient conditions to be met are:

Application for Permission by Brokers

SEBI registered Stock Brokers interested in providing Internet based trading services will be required to 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 30 calendar days of the date of completed application submitted to the exchange.

The stock exchange, before giving permission to brokers to start Internet based services shall ensure the fulfilment of the following minimum conditions:

Networth Requirement

The broker must have a minimum net worth of Rs.50 lacs if the broker is providing the Internet based facility on his own. However, if some brokers collectively approach a service provider for providing the internet trading facility, net worth criteria as stipulated by the stock exchange will apply. The net worth will be computed as per the SEBI circular no FITTC/DC/CIR-1/98 dated June 16, 1998.

Operational and System Requirements

Operational Integrity: The Stock Exchange must ensure that the system used by the broker has provision for security, reliability and confidentiality of data through use of encryption technology. (Basic minimum security standards are specified in following paras). The Stock Exchange must also ensure that records maintained in electronic form by the broker are not susceptible to manipulation.

System Capacity: The Stock Exchange must ensure that the brokers maintain adequate backup systems and data storage capacity. The Stock Exchange must also ensure that the brokers have adequate system capacity for handling data transfer, and arranged for alternative means of communications in case of Internet link failure.

Qualified Personnel: The Stock Exchange must lay down the minimum qualification for personnel to ensure that the broker has suitably qualified and adequate personnel to handle communication including trading instructions as well as other back office work which is likely to increase because of higher volumes.

Written Procedures: Stock Exchange must develop uniform written procedures to handle contingency situations and for review of incoming and outgoing electronic correspondence.

Signature Verification / Authentication: It is desirable that participants use authentication technologies. For this purpose it should be mandatory for participants to use certification agencies as and when notified by Government / SEBI. They should also clearly specify when manual signatures would be required.

Client Broker Relationship

Know Your Client: The Stock Exchange must ensure that brokers comply with all requirements of "Know Your Client" and have sufficient, verifiable information about clients, which would facilitate risk evaluation of clients.

Broker-Client Agreement: Brokers must enter into an agreement with clients spelling out all obligations and rights. This agreement should also include inter alia, the minimum service standards to be maintained by the broker for such services specified by SEBI/Exchanges for the Internet based trading from time to time.

Exchanges will prepare a model agreement for this purpose. The broker agreement with clients should not have any clause that is less stringent/contrary to the conditions stipulated in the model agreement.

Investor Information: The broker 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. The broker web site providing the Internet based trading facility should also 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. Ticker/quote/order book displayed on

the web-site of the broker should display the time stamp as well as the source of such information against the given information.

Order/Trade Confirmation: Order/Trade confirmation should also be sent to the investor through email at client's discretion at the time period specified by the client in addition to the other mode of display of such confirmations on real time basis on the broker web site. The investor should be allowed to specify the time interval on the web site itself within which he would like to receive this information through email. Facility for reconfirmation of orders which are larger than that specified by the member's risk management system should be provided on the internet based system.

Handling Complaints by Investors: Exchanges should monitor complaints from investors regarding service provided by brokers to ensure a minimum level of service. Exchange should have separate cell specifically to handle Internet trading related complaints. It is desirable that exchanges should also have facility for on-line registration of complaints on their web-site.

Risk Management

Exchanges must ensure that brokers have a system-based control on the trading limits of clients, and exposures taken by clients. Brokers must set pre-defined limits on the exposure and turnover of each client.

The broker systems should be capable of assessing the risk of the client as soon as the order comes in. The client should be informed of acceptance/rejection of the order within a reasonable period. In case system based control rejects an order because of client having exceeded limits etc., the broker system may have a review and release facility to allow the order to pass through.

Reports on margin requirements, payment and delivery obligations, etc. should be informed to the client through the system.

Contract Notes

Contract notes must be issued to clients as per existing regulations, within 24 hours of the trade execution.

Cross Trades

As in the case of existing system, brokers using Internet based systems for routing client orders will not be allowed to cross trades of their clients with each other. All orders must be offered to the market for matching.

It is emphasised that in addition to the requirements mentioned above, all existing obligations of the broker as per current regulation will continue without changes.

Exchanges may also like to specify more stringent standards as they may deem fit for allowing Internet based trading facilities to their brokers.

Network Security Protocols and Interface Standards

At present the Indian laws are silent on the security of Internet information. However, the draft E-Commerce Act focuses on this issue and prescribes the requirements like electronic certification, digital signatures etc. which will play an important role on the authenticity of such information gathered from the Internet. These requirements will also have to be met by Internet trading systems, as when they come into force.

Network Security

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

- i. User id
- ii. First Level password (Private code)
- iii. Automatic expiry of passwords at the end of a reasonable duration. Reinitialise access on entering fresh passwords
- iv. All transaction logs with proper audit facilities to be maintained in the system.
- v. Secured Socket Level Security for server access through Internet
- vi. Suitable Firewalls between trading set-up directly connected to an Exchange trading system and the Internet trading set-up.

The following advanced security products are advisable.

- a. Microprocessor based SMART cards
- b. Dynamic Password (Secure ID Tokens)
- c. 64 bit/128 bit encryption **
- d. Second Level password (personal information e.g. village name, birth date etc.)

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

Standards for Web Interfaces and Protocols

Between a Trading Web Server and Trading Client Terminals, Interfaces Standards as per recommendations of IETF (Internet Engineering Task Force) and W3C (World Wide Web Consortium) may be adopted. E.g.: HTTP Ver 4 or above HTML Ver 4/XML.

Systems Operations

- a. Brokers should follow the similar logic/priorities used by the Exchange to treat client orders
- b. Brokers should maintain all activities/ alerts log with audit trail facility
- c. Broker Web Server should have internally generated unique numbering for all client order/trades

- d. Brokers should seek permission from the Exchange before commencement of Internet trading facility after providing complete details of the features of implemented systems.
- e. Brokers should make periodic reporting to the Exchange as specified by the Exchange.

Exchanges are requested to make necessary arrangements for early approval of the Internet trading systems submitted by their members for examination, so that Internet trading services can commence without delay.

Yours sincerely,

P. K. BINDLISH
DIVISION CHIEF

Annexure II

MODEL TRADING MEMBER – INTERNET CLIENT AGREEMENT

(To be executed on non-judicial stamp paper of appropriate value – Rs 300/- in Maharashtra)

This agreement is made at _____ this _____ day of _____ between _____ (hereinafter called 'Member') and having registered office at _____

And

_____ an individual / firm / company / any other body duly formed and registered under the relevant Act, (hereinafter called 'Client' or 'Constituent') and having residence / registered office at _____.

Whereas the member is registered as a member of MCX Stock Exchange Ltd. (hereinafter called 'Exchange') with SEBI Registration No. _____

Whereas the client is desirous of investing / trading in those securities admitted for dealing on the Exchange

Whereas the client has satisfied and shall continue to satisfy himself of the capability of the member to deal in securities and wishes to execute his orders through the member

Whereas the member has satisfied and shall continuously satisfy himself about the genuineness and financial soundness of the client and investment objectives relevant to the services to be provided

Whereas the member has taken steps and shall take steps to make the client aware of the precise nature of the member's liability for the business to be conducted, including any limitations on that liability and the capacity in which the member acts

Whereas the member has the requisite approval of the Exchange to provide internet based trading facility and fulfills all requirements specified by SEBI and the Exchange in that regard.

In consideration of the mutual understanding as set forth in this agreement, the parties hereto have agreed to the following terms and conditions

1. Definitions

“**IBT**” means internet based trading, being a system approved by the Exchange for enabling clients to route their orders to their Member over the internet.

“IBT Service” means the service offered by the Member to its clients through IBT where under the clients can route their orders for purchase, sale and other dealings in securities / contracts on the Exchange through the Members Web Site.

“Password” means alpha, numeric or alphanumeric code used by the client to validate his username and access the IBT Service.

“System” means the system hosted by the Member on the internet through which the IBT Service is offered, the Member’s system for accepting orders over the telephone and also includes any other system offered by the Member for accepting orders from a client and performing any part of the Service.

“Member’s Site” means the Member’s web site at or such other web site as may be hosted by the Member for access through the internet, through which the Member offers the Services.

2. The client will be entitled to a unique User Name, Password and Customer User identification Number or other identification or security code (herein after referred to as ‘IBT account’), which will enable the client to access the Member’s System or Service through the Member’s website.
3. The client acknowledges that he is fully aware of and understands the risk associated with trading through IBT, including the risk of misuse and unauthorized use of the User Name, Password and Customer User identification Number. And being so fully aware he desires to avail of such facility out of his own free will and is agreeable to bear all associated risks and responsibility.
4. The client shall be responsible for keeping the User Name, Password and Customer User identification Number allotted to him confidential and secure. The client shall be wholly accountable for all the trades executed from the IBT account allotted to him.
5. The client shall immediately inform the Member in case he
 - discovers any flaw in the member’s IBT security system
 - discovers or suspects unauthorized access through his IBT account
 - notices any discrepancies in use of IBT account allotted.
 - he does not, on the same day as the receipt or execution of an order by the member, receive a message from the member indicating that the order has been received or executed; he does not receive an accurate written confirmation of an execution; or receives confirmation of an order and/or execution which he did not place; or receives inaccurate information about his account balances or positions taken or transaction history

along with all the particulars including the date, manner of use, the transactions effected, etc.

6. In any of the above events, the Member will allot new user name, password or User identification Number or other identification or security code to the constituent to secure the authenticity of the orders placed by the constituent through his IBT account on the Member's web site.
7. The constituent shall log off from his IBT account when he completes a session. The constituent will be solely liable for the consequences of failure to log off his IBT account.
8. The constituent agrees and undertakes to immediately deposit with the Member such cash, securities of other acceptable security, which the trading member may require as margin. The Member is entitled to require the constituent to keep permanently with him a margin of a specified value as long as the constituent desires to avail the facility of trading through IBT system.
9. The Constituent acknowledges that an instruction to modify or cancel an order placed on the trading system of the Exchange may not be carried out if –
 - (a) the order was executed before such instruction was received by the Member's IBT System or
 - (b) it was executed within a short time thereafter, which turns out to be insufficient for the Member's IBT System to place a corresponding instruction in the Exchange's trading system prior to its execution
10. The Member will send an online confirmation to the constituent on his IBT account upon the execution or cancellation of order placed by the constituent using the IBT service.
11. This agreement is supplemental to and does not supersede, the Member-Constituent Agreement. Save and except as modified expressly or by implication by this Agreement the Member-Constituent Agreement shall apply to transactions done through IBT system also.
12. The constituent acknowledges that all the information provided while applying for IBT facility are true and correct and are not misleading and the constituent is aware that the Member has agreed to provide the facility of trading through IBT system on the basis of such information.
13. The constituent is aware that trading over internet involves many uncertain factors and complex hardware, software systems, communication lines, peripherals, etc. which are susceptible to interruptions and dislocations; and it is possible that the Member's service may become unavailable without notice. The Member and the Exchange do not make any representation nor warranty that the IBT Service will be available to the constituent at all times without any interruption. The constituent agrees that he shall not have any claim against the Exchange and the

Member on account of any suspension, interruption, non-availability or malfunctioning of the member's System or Service or the Exchange's service or systems for any reason whatsoever.

14. The Member and the constituent shall abide by the Exchange requirements and the terms of the IBT service provided by the Member, in force from time to time.
15. The Member will not be liable for losses caused directly or indirectly by government restriction, Exchange or market rulings, suspension of trading, computer, communication, telephone or system failure, war, natural calamities, accident, power failure, equipment or software malfunction, strikes or other conditions beyond the Member's control.
16. The constituent agrees that the Member may at any time discontinue this Agreement, by giving not less than seven days notice. Provided that in exceptional circumstances the member may terminate this agreement without advance notice to the constituent. The constituent may at any time terminate this Agreement by not less than seven days notice to the Member, provided that unless the Member otherwise permits, the constituent shall not be entitled to terminate this Agreement so long as any amount is payable by the constituent to the Member.
17. In the event of any provisions of this Agreement being held to be or becoming invalid, unenforceable or illegal or any reason, this Agreement shall remain otherwise in full force apart from the said provisions which will be deemed deleted. The parties shall however attempt to replace the deleted provision with a legally valid provision that reflects the same purpose as the deleted provision to the greatest extent possible.
18. No forbearance, relaxation or inaction by any party at any time to require the performance of that or any other provision of this Agreement or be considered to be a waiver of any right, unless specifically agreed in writing.
19. The Member and the constituent are aware of the provisions of rules, bye-laws and regulations of the Exchange relating to resolution of disputes / differences through the mechanism of arbitration provided by the Exchange and agree to abide by the said provisions
20. All trades, transactions and contracts are subject to the rules, bye-laws and regulations of the Exchange and shall be deemed to be and shall take effect as wholly made, entered into and to be performed in the city of Mumbai and the parties to such trade shall be deemed to have submitted to the jurisdiction of the Courts in Mumbai for the purpose of giving effect to the provisions of the rules, bye-laws and regulations of the Exchange

Signed for and on behalf of **MEMBER**

By :
Signature :
Title :
Witness :

Signed for and on behalf of **CONSTITUENT**

By :
Signature :
Witness :