



CIRCULAR

CIR/MRD/DP/07/2014

February 11, 2014

To,

All Stock Exchanges.

Dear Sir / Madam,

Subject: Safeguards to avoid trading disruption in case of failure of software vendor

Software vendors who provide software to market participants and market infrastructure institutions for the purpose of trading, risk management, clearing and settlement play a crucial role in the securities market. Any inability on the part of such software vendors to provide software or related services in timely and continuous manner may create a situation of stress in the securities market.

2. This issue was discussed with SEBI's Technical Advisory Committee (TAC) and the committee recommended that adequate mechanism / procedure should be in place to ensure smooth transition by stock broker(s) to another software vendor in case of inability of the existing software vendor to provide software and related services in timely and continuous manner.

3. In view of the above, stock exchanges may advise the stock brokers to take the following measures:

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

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

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

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

(ii) development of expertise at the end of the stock broker through appropriate training with regard to software usage and maintenance;



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

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

4. Stock exchanges are directed to:

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

4.2. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.

4.3. bring the provisions of this circular to the notice of the stock brokers of the stock exchange and also disseminate the same on their website.

5. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Maninder Cheema
Deputy General Manager
email: maninderc@sebi.gov.in