



CIRCULAR

IFSCA/CMD-DMIIT/EXCHTRD/2023-24/001

June 21, 2023

To,

**All the Stock Exchanges in the International Financial Services Centre (IFSC)
All the Broker-Dealers in the International Financial Services Centre (IFSC)**

Dear Sir/Madam,

Sub: Direct Market Access (DMA) facility

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.
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.
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.
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:
 - a. Risk management and risk mitigation with respect to DMA trading activity
 - b. Technology and systems audit policy of the DMA systems based on the risk profile of the Broker-Dealer / client.
 - c. Eligible institutional investors which are permitted to avail the DMA facility
 - d. Cybersecurity, cyber resilience, access control and incident response



Responsibilities of the Broker-Dealer & due diligence of prospective clients

5. The Broker-Dealers shall specifically authorize prospective clients for providing DMA facility subject to:
 - a. Fulfilment of the KYC/AML requirements as specified by IFSCA from time to time
 - b. Due diligence of the prospective client with respect to the credit worthiness, risk taking ability and track record of compliance
 - c. The governance and ownership structure of the prospective client
 - d. The ability of the prospective client to meet its financial obligations
 - e. 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.
6. 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.
7. 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:
 - a. 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.
 - b. 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.
 - c. Right to withdraw DMA facility if the predefined thresholds are breached or for any other such concerns
 - d. Withdrawal of DMA facility on account of any misuse or on instructions from IFSCA or the Stock Exchange.



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.

8. The Broker-Dealer shall:

- a. 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.
- b. 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.
- c. 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.
- d. The Broker-Dealer may provide for additional risk management parameters as they may deem appropriate.

Introduction of Sponsored Access (SA) facility

9. 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.
10. 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.
11. The Broker-Dealer shall sign a SA agreement or provide a SA undertaking to the Stock Exchange.



12. 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.
13. 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:
 - a. the governance and ownership structure of the client
 - b. the responsibilities within the client for dealing with actions and errors
 - c. the historical trading pattern and behaviour of the prospective client
 - d. the level of expected trading and order volume of the prospective client
 - e. the ability of the prospective client to meet its financial obligations
 - f. the disciplinary history of the prospective DMA client, where available

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.

Sub-delegation of DMA/SA

14. 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).
15. 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.
16. 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.

Other Requirements for DMA/SA

17. 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.



18. The clients (including sub-delegatees) desirous of availing the facility of DMA/SA shall fulfil the following criteria:

- a. 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.
- b. The client is not a resident of a country identified in the public statement of the Financial Action Task Force (FATF) as –
 - i. a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
 - ii. 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.

19. 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:

- a. The Co-location data centre of the Stock Exchange
- b. Broker-Dealer's/ SA client's own data centre in IFSC
- c. A third-party data centre in IFSC as approved by the Stock Exchange
- d. Independent software vendors with infrastructure in IFSC

The Stock Exchanges shall specify the operational and technical requirements and procedures for DMA/SA connectivity to the exchange trading system.

20. 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.

21. 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.

22. 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.



23. The Stock Exchanges shall put in place the necessary systems to identify and distinguish DMA/SA orders and trades from other orders and trades.
24. The Stock Exchanges shall maintain statistical data on DMA/SA trades and provide information on the same to IFSCA on a need basis.
25. The Broker-Dealer providing DMA/SA facility shall review its due diligence processes periodically.
26. 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:
 - a. Changes to the scale, nature or complexity of their trading activities or strategies
 - b. Changes to their staffing
 - c. Ownership structure
 - d. Regulatory status
 - e. Financial position
 - f. Whether its DMA/SA client has expressed its intention to sub-delegate its DMA/SA
 - g. Identify order flows emanating from DMA/SA
27. The Stock Exchanges are advised to:
 - a. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above
 - b. bring the provisions of this circular to the notice of the Broker-Dealers and Clearing Members and disseminate the same on their website.

This circular is issued in exercise of powers conferred by Section 12 of the International Financial Services Centres Authority Act, 2019 to develop and regulate the financial products, financial services and financial institutions in the International Financial Services Centres.

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

Yours faithfully,

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