



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/MRD/DSA/CIR/P/2016/125

November 28, 2016

All Stock Exchanges and Clearing Corporations in International
Financial Services Centre

Dear Sir/Madam

**Guidelines for functioning of Stock Exchanges and Clearing Corporations in
International Financial Services Centre (IFSC)**

1. Pursuant to announcement in the Union Budget 2015-16 on Gujarat International Finance Tec-City (GIFT), SEBI (International Financial Services Centre) Guidelines, 2015 ('IFSC Guidelines') were issued on March 27, 2015 for facilitating and regulating financial services relating to securities market in an IFSC set up under section 18(1) of Special Economic Zones Act, 2005.

2. Based on representations received from the market participants on the proposed market structure and risk management framework and subsequent to deliberations in Secondary Market Advisory Committee (SMAC) and Risk Management Review Committee (RMRC), it has been decided to put in place the broad framework for functioning of stock exchanges and clearing corporations in IFSC as under:

2.1. Market Structure: There shall be a single market structure to achieve synergies in terms of various operations and to facilitate ease of doing business.

2.2. Trading Hours and Settlement: The trading hours for all product categories shall be as decided by the stock exchanges in IFSC based on cost-benefit analysis, but not exceeding 23 hours and 30 minutes in a day and settlement shall be done at least twice a day. The stock exchanges and clearing corporations in IFSC shall ensure that the risk management system and infrastructure are commensurate to the trading hours at all

times.

2.3.Product Category: All categories of exchange-traded products as available for trading in stock exchanges in FATF/IOSCO compliant jurisdictions shall be eligible for trading, subject to prior approval of SEBI. However, with respect to commodity derivatives, only non-agri commodity derivatives shall be eligible for trading.

2.4.Position Limits: Stock exchanges in IFSC shall evolve a detailed framework for the applicable position limits for each product to be traded.

2.5.Trading in Rupee denominated bonds issued overseas (Masala Bonds): Masala Bonds shall be eligible for trading in stock exchanges in IFSC, provided such bonds are listed on stock exchanges in FATF/IOSCO compliant jurisdictions.

2.6.Risk Management Framework: Prior to commencement of their operations, stock exchanges in IFSC shall tie-up with Clearing Corporations for clearing and settlement of their trades. The Clearing Corporations desirous of providing clearing and settlement services in IFSC shall evolve a robust risk management framework in line with the CPMI IOSCO Principles for Financial Market Infrastructures (PFMIs), in addition to adherence to the following:

2.6.1. **Margining framework:** Clearing Corporations in IFSC shall evolve a margining framework based on the best practices prevailing in the Clearing Corporations globally. However, Clearing Corporations shall be required to conduct stress tests, reverse stress tests, back testing, liquidity stress testing, etc. to ensure the robustness of risk management framework. Further, Clearing Corporations shall ensure that the margining framework is compliant with CPMI IOSCO PFMIs at all times.

2.6.2. **Ring-fencing:** Any Indian recognized stock exchange or clearing corporation forming a clearing corporation in IFSC shall take into consideration the following:

- a) Clearing Corporations at IFSC shall be ring fenced down to the lowest level and their functions shall be limited only to clearing and settlement, and risk management.
- b) The capital of clearing corporations in IFSC shall not form part of the net worth of their holding companies. Additionally, holding companies shall not be allowed to extend any financial help to Clearing Corporations operating in IFSC, if such Clearing Corporations become financially distressed.

2.6.3. **Eligible collateral:** Clearing corporations in IFSC shall be permitted to accept cash and cash equivalents (which shall include major foreign currencies as may be decided by the clearing corporation from time to time and term deposit receipts issued by bank branches located in IFSC), Indian securities held with foreign depositories, foreign securities including units of liquid mutual funds and gold, as eligible collateral for trades in all product categories. However, cash and cash equivalents shall form at least 50% of the total liquid assets at all times.

2.6.4. **Fund to guarantee settlement of trades:** Clearing corporations in IFSC shall establish and maintain a Fund to guarantee the settlement of trades executed in the stock exchanges in IFSC. To begin with, such Fund shall have a corpus equivalent to at least 10% of the net worth of the clearing corporation. Clearing corporations shall evolve a detailed framework for the Fund, subject to approval of SEBI.

2.7. **Dispute Resolution Mechanism:** Market participants shall avail the arbitration, mediation and other dispute resolution mechanisms offered by International Arbitration Centre in IFSC to resolve securities market-related disputes.

2.8. **Business Continuity Plan (BCP) and Disaster Recovery (DR):** The Disaster Recovery Site (DRS) shall be set up sufficiently away, i.e. in a different seismic zone, from Primary Data Centre (PDC) to ensure that both DRS and PDC are not affected by the same disasters. Stock exchanges and clearing corporations in IFSC shall take adequate steps in a time-bound manner to comply with all the other provisions of SEBI

circulars on Business Continuity Plan (BCP) and Disaster Recovery (DR) viz. SEBI circular no. CIR/MRD/DMS/12/2012 dated April 13, 2012 and circular no. CIR/MRD/DMS/17/2012 dated June 22, 2012.

3. The stock exchanges and clearing corporations in IFSC shall abide by all the Rules/Regulations/Circulars/Guidelines issued by SEBI from time to time.

4. 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

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