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## CIRCULAR

IFSCA/CMD-DMIIT/EXCHTRD/2023-24/002

June 23, 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: Co-location facility offered by the Stock Exchanges**

1. The term “Co-location” also synonymously referred to as “proximity hosting” is defined as the facility offered by the Stock Exchanges to eligible market participants such as Broker-Dealers and data vendors, whereby their trading or data-vending systems are allowed to be located within or at close proximity to the premises of the Stock Exchanges and are allowed to connect to the trading platform of the Stock Exchanges through direct and private network.

**Fair and equitable co-location services**

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2. The Stock Exchanges providing co-location services shall, within the limits of the space, power, cooling and similar facilities available, ensure that such services are provided in a fair, transparent and equitable manner with respect to the following:
  - a) data centres that are owned and managed by the Stock Exchange
  - b) data centres that are owned by the Stock Exchange and which are managed by a third party selected by the Stock Exchange
  - c) data centres that are owned and managed by a third party with which the Stock Exchange has an outsourcing/contractual arrangement
3. The Stock Exchange, while facilitating co-location, shall:
  - a) ensure that all eligible market participants who avail co-location facility have fair, transparent and equitable access to facilities and data feeds provided by the Stock Exchange.



- b) ensure that all eligible market participants availing co-location facility experience similar latencies for the class of co-location service provided by the Stock Exchange.
- c) ensure that the size of the co-located hosting space is sufficient to accommodate all the eligible market participants who are desirous of availing the facility.
- d) provide the flexibility to avail rack space in the co-location environment so as to meet the requirements of all eligible market participants desirous of availing such facility.
- e) expeditiously decide on the request of the desirous eligible market participants for availing co-location facility and communicate the decision within fifteen working days from the receipt of the request from such eligible market participants. In case of a rejection, the Stock Exchange shall also provide reasons in writing to the eligible market participant.

#### **Connectivity at the co-location facility**

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#### 4. The Stock Exchange shall:

- a) Permit eligible market participants to receive data feeds from other recognised Stock Exchanges at the co-location facilities and allow routing of orders to other recognised Stock Exchanges in IFSC or overseas, from the co-location facilities.
- b) Permit direct connectivity between the co-location facility of a recognised Stock Exchange in IFSC and the co-location facility of other recognized Stock Exchange in IFSC, India or overseas.
- c) Permit direct connectivity between servers of an eligible market participant placed in co-location facility of a recognized Stock Exchange and servers of the participant placed in the co-location facility of another recognized Stock Exchange in IFSC, India or overseas.
- d) Permit eligible market participants based in overseas jurisdictions to connect to the co-location facility of the Stock Exchange.
- e) Permit third party data centres/ service providers chosen by eligible market participants to connect to the co-location facility of the Stock Exchange. The third-party data centres/ service providers shall, inter alia, include advanced, managed Infrastructure as a Service (IaaS) co-location solutions and cloud-based co-location services.



## **Disclosure of information pertaining to co-location services**

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5. The Stock Exchanges shall publish the following information on their co-location services on their websites:
  - a) information about services pertaining to space, power, cooling, access to data, market connectivity, technology, technical support, message types, telecommunications and related products and services
  - b) the fee structure for each service
  - c) the terms and conditions for accessing the service
  - d) the different types of latency of access available
  - e) the procedure to allocate co-location space
  - f) the requirements on third party providers of co-location services, wherever applicable
6. The Stock Exchange shall ensure that their fee structure is transparent and detailed so that the eligible market participants, availing or desirous of availing the co-location facility, can arrive at an approximate estimate of their expenditure in the form of fees payable, on the basis of the following aspects:
  - a) chargeable services, including the activity which will trigger the fee;
  - b) whether each service offered has a fixed or variable fee
  - c) financial incentives or disincentives, if any, offered by the Stock Exchange

## **Third party Co-location services**

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7. Co-location services provided by a third party or outsourced from a third party shall be deemed to be provided by the Stock Exchange. The Stock Exchange shall ensure complete control and jurisdiction over the matters related to its co-location facility. Further, the Stock Exchange will remain responsible and accountable for all actions of such outsourced entity with respect to co-location services.

The Stock Exchange shall submit a quarterly compliance report to IFSCA regarding the outsourcing services after placing it before its Governing Board.



## **Integrity and security of Co-Location services**

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8. In order to ensure that the facility of co-location does not compromise the integrity and security of the data and trading systems, the Stock Exchange shall:
  - a) implement suitable mechanisms for access control to protect their systems and the systems of the market participants at the co-location facility from unauthorized access.
  - b) frame guidelines on access and conduct of the personnel of the market participants in the premises of the Stock Exchange, including in the co-located space.
  - c) not provide access in any form to the personnel of market participants to the Stock Exchange's trading platform and databases.

## **Measurement of Latency**

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9. The Latency is measured by the Stock Exchange as the time taken to complete the round trip from the Core Router/ Switch to the matching engine and back. It is clarified that the Core Router/ Switch is the point within the Stock Exchange infrastructure, where orders generated from the co-location facility and otherwise meet.
10. The Stock Exchanges shall publish on their websites suitable quarterly reports on latencies observed at the exchange which inter alia shall include minimum, maximum and mean latencies and latencies at 50th and 99th percentile.
11. The Stock Exchanges shall also publish reference latency, which is the time taken for an order message to travel between a reference rack in the Co-location facility and the Core Router/ Switch.
12. The Stock Exchanges shall take all reasonable steps to ensure equitable treatment of all market participants availing co-location services that have the same class of latency access.
13. The Stock Exchanges shall make available individual co-location services, without any requirement to purchase bundled services.

## **Managed Co-location Services**

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14. It is observed that there are small and medium sized Broker-Dealers, who otherwise find it difficult to avail co-location facility, due to various reasons including but not



limited to high cost, lack of expertise in maintenance and troubleshooting, etc. With a view to facilitating such Broker-Dealers to avail co-location facility, the Stock Exchange shall introduce 'Managed Co-location Services'. Under this scheme, the space/rack in the co-location facility shall be allotted to eligible vendors by the Stock Exchange along with provision for receiving market data for further dissemination of the same to their client members and the facility to place orders (algorithmic / non-algorithmic) by the client members from such facility.

15. The vendors shall provide the technical knowhow, hardware, software and other associated expertise as services to Broker-Dealers and shall be responsible for upkeep and maintenance of all infrastructure in the racks provided to them.
16. The Stock Exchanges shall supervise and monitor such facilities on a continuous basis.

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.ifsc.gov.in](http://www.ifsc.gov.in).

**Yours faithfully,**

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