



**CIRCULAR**

CIR/MRD/DP/26/2010

August 27, 2010

To

All Stock Exchanges

Dear Sir / Madam,

**Sub: Introduction of Smart Order Routing**

- 1) SEBI has received proposal from the stock exchanges and market participants for introducing Smart Order Routing which allows the brokers trading engines to systematically choose the execution destination based on factors viz. price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.
- 2) Upon examination of the proposal, feedback of the stock exchanges and based on the recommendations of the Technical Advisory Committee, it has been decided to permit Smart Order Routing in Indian Securities Market.
- 3) Stock Exchanges are advised to ensure the following conditions with regard to the Smart Order Routing facility:
  - i. Stock broker interested to offer Smart Order Routing facility shall apply to the respective stock exchanges.
  - ii. Stock broker shall submit a third party system audit of its Smart Order Routing system and software. Stock exchanges shall disseminate to its stock brokers a list of approved system auditors (CISA or equivalent) qualified to undertake such system audits.
  - iii. Stock broker shall provide the following to the respective stock exchanges:
    - a. An undertaking to the respective stock exchanges that Smart Order Routing shall route orders in a neutral manner.
    - b. Provide the features of the Smart Order Routing to stock exchange.



- iv. Stock exchange shall communicate its decision to the broker within 30 calendar days of the date of receipt of application by the exchange.
- v. Stock exchange shall ensure that brokers adhere to the best execution policy while using Smart Order Routing.
- vi. Smart Order Routing facility shall be provided to all class of investors.
- vii. Stock broker shall enter into a specific agreement with the client to provide Smart Order Routing facility. Broker-client agreement shall clearly describe the features of the Smart Order Routing facility and the obligations and rights associated with Smart Order Routing facility.
- viii. Stock broker shall maintain logs of all activities to facilitate audit trail. Broker shall maintain record of orders, trades and data points for the basis of decision.
- ix. In case the client has availed Smart Order Routing facility and does not want to use the same for a particular order, the same shall be well documented by the stock broker.
- x. System audit of the Smart Order Routing systems and software shall be periodically carried out by the brokers as may be specified by the exchange and certificate in this regard shall be submitted to the exchange.
- xi. Stock exchange shall ensure that Smart Order Routing is not used to place orders at venues other than the recognised stock exchanges.
- xii. The stock broker shall carry out appropriate validation of all risk parameters before the orders are placed in the Smart Order Routing system.
- xiii. Stock exchange shall provide unique identification number for the orders placed through Smart Order Routing system. Further, stock exchanges shall maintain data on Smart Order Routing orders and trades.
- xiv. Stock exchange shall have necessary surveillance mechanism in place to monitor trading done through Smart Order Routing.



- xv. Stock broker shall ensure that alternative mode of trading system is available in case of failure of Smart Order Routing facility.
  - xvi. Stock exchange shall ensure that within a period of three months from implementation of Smart Order Routing, a system is put in place to time stamp market data feed that is disseminated to the market, if the same is not already available.
  - xvii. Stock exchange shall strengthen investor grievance cell in order to address complaints, if any, received with regard to Smart Order Routing. Further, in case of any disputes or complaints, stock exchanges shall share necessary data as and when required in order to facilitate necessary examination.
  - xviii. Stock exchange shall synchronise their system clocks with atomic clock before the start of market.
  - xix. The broker server routing orders placed through Smart Order Routing system to the exchange trading system shall be located in India.
  - xx. All other existing obligations for the broker as per current regulations and circulars will continue.
  - xxi. Stock exchange may specify additional safeguards as they deem fit for allowing Smart Order Routing facility to their brokers.
- 4) The Stock Exchanges are advised to:
- i. put in place the adequate systems and issue the necessary guidelines for implementing the above decision.
  - ii. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above
  - iii. bring the provisions of this circular to the notice of the stock brokers and also disseminate the same on their website.
  - iv. communicate to SEBI, the status of the implementation of the provisions of this circular in the Monthly Development Report.



**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

- 5) This circular is 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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