April 2025

Governance of technical glitches in stock broker's electronic trading systems – moving towards a more balanced framework

This Prism seeks to review the regulatory framework surrounding Technical Glitches (defined below) in light of the recent circular dated March 28, 2025, issued by Stock Exchanges (defined below).

SEBI circular dated November 25, 2022[1]

On November 25, 2022, SEBI issued a circular ("**SEBI Circular 2022**") introducing a framework to govern technical glitches in stock brokers trading systems. The intent behind the issuance of the circular was to tackle issues related to glitches and risks to avoid disruption of investors' opportunity to trade.

Thus, SEBI recognised that the consequential effect of Technical Glitches could include financial loss as well as diminish investor confidence in a trading platform's reliability, and as such, a resilient trading infrastructure was warranted to ensure seamless market operations and maintain investor confidence and participation. With this background, a working group was constituted to recommend suitable measures to address the issue as stated aforesaid, resulting in the release of the SEBI Circular 2022.

To simplify, a 'Technical Glitch' in the context of stock brokers broadly refers to any malfunction in the stock broker's trading infrastructure (viz. hardware, software, networks, process etc.) that disrupt normal trading operations and impact trading operations and investor access for a contiguous period of 5 (five) minutes or more ("**Technical Glitch**"). Failure/ delays in order execution, data synchronisation issues, display of incorrect or delayed trading data are certain examples of Technical Glitches.

The SEBI Circular 2022 proceeds to introduce mechanisms and guidelines to deal with Technical Glitches occurring in the trading systems of stock brokers including in terms of reporting and monitoring of Technical Glitch. Briefly, in terms of reporting requirements, a single Technical Glitch requires 3 (three) separate reports viz. (a) an intimation report - within an hour of the incident ("**1st Report**"); (b) a preliminary report - within the next day ("**2nd Report**"); and (c) a Root Cause Analysis Report - within 14 (fourteen) days from date of incident ("**3rd Report**"). Further, the SEBI Circular 2022 also mandated continuity planning in the event of natural disasters, change of management and software testing, and review of infrastructure in terms of accommodating client scalability. Towards the aforesaid, the SEBI Circular 2022 directed Stock Exchanges (viz. National Stock Exchange of India, BSE Limited, Metropolitan Stock Exchange of India, Multi Commodity Exchange of India Limited and National Commodity and Derivatives Exchange Limited ("**Stock Exchanges**")) to build systems for implementing these provisions and establish a financial

[1] SEBI circular no.: SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 (SEBI | Framework to address the 'technical glitches' in Stock Brokers' Electronic Trading Systems).

disincentives framework for both, non-compliance of the provisions and the occurrence/non-reporting of Technical Glitches.

Exchange Framework[2]

In December 2022, pursuant to the SEBI Circular 2022, the Stock Exchanges introduced a framework in this regard ("**Framework 2022**").

Essentially, the Framework 2022 outlined parameters and provided more detailed guidelines on the aspects raised in the SEBI Circular 2022 including in terms of: (a) reporting process and formats for each of the three reporting obligations; (b) manner of testing and periodic reviews for continuity planning; (c) criteria for applicability of additional requirements for specified members (i.e. stock brokers as will be notified by the Stock Exchanges ("**Specified Members**")); and (d) enforcement action/penalty structure ("**Penalising Structure**").

In terms of the Penalising Structure envisaged, a few essential elements are listed below:

1) **Applicability**: the Penalising Structure is applicable only to Technical Glitches which were continuing for more than 15 (fifteen) minutes.
2) **Differentiated enforcement**: Additionally, the Penalising Structure is segregated between those applicable to Specified Members and other stock brokers, with stricter sanctions applicable to Specified Members.
3) **Progressive penalties**: The number of Technical Glitches in a given financial year determines the severity of the enforcement action, which ranges from issuing an observation letter/administrative warnings to imposition of monetary penalty. The calculation of the monetary penalty increases with each instance of Technical Glitches without any upper limit. Further, Stock Exchanges have discretion to impose further disciplinary action basis severity.
4) **Client restrictions**: With respect to Specified Members, on the occurrence of more than 5 (five) Technical Glitches in the financial year, in addition to monetary penalty, restraint on on-boarding new clients will be imposed for a period.
5) **Other penalties**: Separate monetary penalties in case of non-reporting of Technical Glitches (with additional penalty for each additional day of non-reporting without an upper limit) and other events in terms of disaster recovery.

To summarise, the Penalising Structure for a Technical Glitch can be grouped as follows:

Time duration of the Technical Glitch	Reportable	Whether subject to Penalising Structure
0-5 mins	No	No
5-15 mins	Yes	No
More than 15 mins	Yes	Yes

However, the broad definition of 'Technical Glitch' appears to encompass all instances of glitches, regardless of their direct impact on trading operations or investor experience and may be beyond the objective set out in the SEBI Circular 2022 which was limited to those Technical Glitches that *"...impact on the investors' opportunity to trade ...."*. This coupled with a progressive penalty structure without an upper limit, gives rise to the possibility of penalties accumulating indefinitely. Not to mention the increased compliance burden of reporting arguably non-relevant Technical Glitches in a time bound manner. These aspects, amongst others, necessitated greater clarity and a more balanced regulatory approach.

[2] National Stock Exchange of India: circular ref. no. 93/2022; BSE Limited: circular ref. no. 20221216-52; Metropolitan Stock Exchange of India: circular ref. no. MSE/IT/12759/2022; Multi Commodity Exchange of India Limited: circular ref. no. MCX/TECH/726/2022; National Commodity & Derivatives Exchange Limited: circular ref. no. NCDEX/RISK-010/2022.

Stock Exchange circular dated March 28, 2025[3]

Following representations from stock brokers and the Brokers Industry Standard Forum, the Stock Exchanges released respective circulars dated March 28, 2025 ("**SE Circular**"), *inter alia* containing a set of Frequently Asked Questions ("**SE FAQs**"), a revised Penalising Structure and reporting formats.

The SE Circular and SE FAQs clarify certain ambiguities, refining the practical implementation of the Framework 2022. The key clarifications and resolutions provided are tabulated below.

Sr.No.	Clarification provided in brief	Specific inclusions (if any) in terms of the clarification
Definition of Technical Glitch		
1.	a) The SE FAQs clarify that any glitch incident which may lead to either stoppage, slowing down or variance in normal functions/ operations/ services of stock broker for a continuous period of 5 minutes or more must be reported as Technical Glitch. This has been elaborated to specifically include certain kinds of Technical Glitches. b) That said, the SE FAQs also provides certain examples of supporting functions (*viz. visibility of technical charts, suggestions or news as well as price update delay provided available on refresh of page*) which will not be considered as a Technical Glitch.	Any glitch will be considered a Technical Glitch irrespective of: a) availability of alternative mode of service; b) the number of clients affected; c) whether the same occurred in trading application or support functions; d) segment where such glitch took place; e) whether the same took place in backend office so long as they affect the trading, settlement or decision making process of the client; f) whether the same took place during trading hours or not; g) whether the same was on account of Market Infrastructure Institutions ("**MII**") or third-party service providers or vendors; and h) whether the same took place in the primary site or disaster recovery site of the stock broker in a live drill.
Penalising Structure		
1.	While the scope of Technical Glitch remains broad, the SE FAQs clarify that certain glitches even though fall under the definition of Technical Glitch and thus, reportable, will not be subject to the Penalising Structure.	A Technical Glitch exclusively on account of the following may not attract penal action: a) global issue with cloud service providers; b) technology disruption due to issues at MII (glitch reported by MII to SEBI); c) technological issues in processing of a new trading account i.e. know your customer process; d) back office/operational issues not impacting trading and settlement of the clients; e) Technical Glitch occurred during non-trading hours and not having any impact on trading activities of clients;

[3] National Stock Exchange of India: circular ref. no. 24/2025; BSE Limited: circular ref. no. 20250328-88; Metropolitan Stock Exchange of India: circular ref. no. MSE/INSP/16949/2025; Multi Commodity Exchange of India Limited: circular ref. no. MCX/TECH/161/2025; National Commodity & Derivatives Exchange Limited: circular ref. no. NCDEX/Member Tech Compliance-006/2025.

		f) failure of payment gateway application due to issues at bank or service provider; and g) technical charts not viewable
2.	Further, the SE Circular issued a revised Penalising Structure with certain additional monetary penalties introduced.	a) Penalty for failure to set up disaster recovery site. b) Penalty for failing to obtain ISO-27001 (*i.e.* international standard for information security management systems) certification by Specified Members.
3.	Notably, an upper limit has been added on the imposition of monetary penalty for certain non-compliances. To clarify, the progressive monetary penalty would continue to apply basis the number of occurrences of a Technical Glitch in a given financial year.	The upper limit of monetary penalty has been added for the following non-compliances: a) for non-reporting of Technical Glitches (i.e. up to a maximum of INR 5,00,000 for Specified Members and INR 1,00,000 for other brokers); b) for failure by Specified Members to conduct disaster recovery drills (i.e. up to a maximum of INR 10,00,000 for Specified Members); and c) For failure by Specified Members to obtain ISO certifications within time. (i.e. up to a maximum INR 5,00,000 for Specified Members).
4.	Additionally, while considering imposition of direction of no on-boarding of clients on crossing 6 or more Technical Glitches in a given financial year, only those Technical Glitches will be considered which have affected more than 5% active client (basis certification by the auditor)	-
Reporting requirements		
1	Irrespective of whether the relevant Technical Glitch is subject to the revised Penalising Structure, it is noteworthy that the same will still be reportable and the revised Penalising Structure will still be applicable to such non-compliance.	-
	In terms of the formats for the three-fold reporting requirements, while the formats largely remain the same, certain modifications have been made.	Such modifications to the reporting formats include: a) relocating point 6 (*nature of network connectivity issues*) from the 1st Report format to the 2nd Report; and b) streamlining the 3rd Report format to resemble the format shared as part of the annexure to the SEBI Circular 2022. Resultantly, certain information heads from the previous 3rd Report format have now been removed.

Conclusion

The SE Circular read with the SE FAQs constitute a reasonable effort towards enhancing regulatory clarity while maintaining oversight; the exemptions of certain Technical Glitches from the revised Penalising Structure and the imposition of upper limits on specific monetary penalties are positive developments that contribute to a more balanced regulatory framework.

Nevertheless, the definition of 'Technical Glitches' remains overly broad, posing compliance challenges and necessitating a more precise delineation to ensure effective enforcement. Furthermore, the reporting obligations continue to apply to all Technical Glitches, irrespective of their materiality and whether the same was on account of a third-party or MII, thereby sustaining the associated compliance burden. Even in case of Technical Glitches caused by the systems of an MII, the SE FAQs suggest that only if the MII reports the glitch, the same would not amount to a glitch on the broker's part and hence would not be subject to the revised Penalising Structure. Thus, the current framework does not fully resolve existing deficiencies.

In this regard, a definition which includes a minimum percentage of impacted clients by such Technical Glitch could be more effective. Further, waiving reporting obligations for Technical Glitches which are immaterial and/or caused by MIIs could ease compliance burdens. Additionally, given that there is a limit to the oversight a stock broker can have over third-party systems, the revised Penalising Structure for a Technical Glitch caused by such third party may require to be further revisited.

That said, the SE Circular read with the SE FAQs provide important clarifications and are a relief to the operations of stock brokers. Further refinements would be a welcome addition towards a more proportionate and practical enforcement framework.

Securities Regulatory Practice

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This Prism has been prepared by:

Pulkit Sukhramani
Partner

Anshuman Sugla
Senior Associate

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