



RESERVE BANK OF INDIA
FINANCIAL MARKETS REGULATION DEPARTMENT
1ST FLOOR, MAIN BUILDING, CENTRAL OFFICE, FORT
MUMBAI-400 001

Reserve Bank of India (Prohibition of Market Abuse) Directions, 2018 - Draft

Whereas under the Reserve Bank of India Act, 1934, (the RBI Act), the Reserve Bank of India (the Bank) is authorised to determine the benchmark policy rate through its Monetary Policy Committee; and

Whereas the object of monetary policy and fixation of the policy rate is the maintenance of price stability and growth in the general economy; and

Whereas the Bank is satisfied that certain market practices are undesirable, create market distortion and adversely impact the outcome of the measures taken towards attaining the monetary policy objectives of the Bank; and

The Bank, having considered it necessary in public interest and to regulate the financial system of the country to its advantage, in exercise of the powers conferred by section 45W of the RBI Act read with section 45U of the Act and of all the powers enabling it in this behalf, hereby issues the following Directions to all agencies dealing in securities, money market instruments, foreign exchange instruments, derivatives or other instruments of like nature as the Bank may specify from time to time.

1. Short title, extent, commencement and application.

(1) These Directions shall be called the Reserve Bank of India (Prohibition of Market Abuse) Directions, 2018.

(2) They shall come into force on XXXX XX, 2018.

(3) These Directions apply to all participants in markets for financial instruments but shall not apply to transactions or other activities being carried on in furtherance of public policy objectives or those executed through the recognized stock exchanges under and in accordance with the regulations of the Securities and Exchange Board of India.

2. Definitions.

(1) In these Directions, unless the context otherwise requires, -

- a) **'Artificial price'** means the price of a financial instrument resulting from a transaction, or any act of omission, or commission, undertaken by a market participant with the sole or dominant purpose of setting or securing the price of a financial instrument or related instrument at a particular level or moving it in a particular direction.
- b) **'Benchmarks'** mean any benchmark rate published by the Financial Benchmarks India Pvt. Ltd. (FBIL) or by any other agency specified by the Bank from time to time.
- c) **'Electronic Trading Platform (ETP)'** means any electronic system, other than a recognized stock exchange, on which transactions in financial instruments are contracted.
- d) **'Financial instruments'** mean instruments referred to or specified under section 45W of the RBI Act.
- e) **'Market abuse'** includes market manipulation, and/or benchmark manipulation, and/or misuse of information, and/or any other similar practice.
- f) **'Market manipulation'** means any transaction or any act of omission or commission by a market participant, or a group of market participants acting in collusion, that may result in a false or misleading impression as to the price of, or supply of or demand for, a financial instrument, carried out with the intention of making a financial gain or any other material benefit from such transactions or other actions. It shall also include any transaction or other action that may result in an artificial price of an instrument.
- g) **'Market participant'** means an agency transacting or facilitating a transaction in the markets for financial instruments.
- h) **'Price sensitive customer information'** for any market participant means any information pertaining to transactions or potential transactions of its customers that is not publicly available, and which may affect the price of any financial instrument if made publicly available;
- i) **'Publicly available'** in relation to information means any information which can be accessed by the market participants on a non-discriminatory basis from any outside source.
- j) **'Recognized stock exchange'** shall have the meaning assigned to it in section 2(f) of the Securities Contracts (Regulation) Act, 1956.
- k) **'Reference rate'** means the reference rates published by FBIL or any other agency as specified by the Bank from time to time.
- l) **'Transactions'** include orders, quotes, bids and offers irrespective of whether they resulted in a trade or not.
- m) **'Unpublished price sensitive information'** for any market participant means any information in possession of any other market participant or any public authority that is not

publicly available, and which may affect the price of a financial instrument if made publicly available.

(2) Words and expressions used, but not defined in these Directions shall have the same meaning assigned to them in the RBI Act, 1934.

3. Market manipulation:

- (1) Market participants shall not engage, or attempt to engage, in market manipulation.
- (2) Market participants shall not undertake transactions on an ETP with the intention to disrupt the functioning of the trading platform or generate misleading information.

4. Benchmark manipulation:

- (1) Market participants, either acting independently or in collusion, shall not undertake any action with the intention to manipulate the process of calculation of a benchmark rate or reference rate.
- (2) No market participant shall carry out a transaction or initiate any action with the sole or dominant intention to influence a benchmark rate or a reference rate.

5. Misuse of information:

- (1) Market participants shall not obtain, or attempt to obtain, or share any unpublished price sensitive information. A market participant that is in receipt of unpublished price sensitive information shall not use it for any material benefit.
- (2) Market participants shall not use price sensitive customer information for trading on its own account or on account of any other entity. They shall also maintain confidentiality of price sensitive customer information.
- (3) Market participants shall not intentionally create or transmit false or inaccurate information that influences or is likely to influence the price of any financial instrument or any benchmark rate or reference rate. Transmission of false or inaccurate information shall be deemed to have been done intentionally by a market participant if it had not exercised due diligence as to the veracity of the information before transmitting.
- (4) Market participants shall not use any mass media to express their opinion with an intention to influence the price of any financial instrument in which they have, or intend to have a financial interest.

6. Monitoring, compliance and reports.

(1) All market participants shall have in place a clear and transparent policy to monitor and prevent market abuse within their organizations, consistent with directions contained herein, which shall be reviewed periodically. The policy shall also include procedures to establish individual responsibility.

(2) Market participants shall report any instance of market abuse detected by them (materialized or attempted) to the Bank promptly.

(3) Market participants shall provide any data and/or information as required by the Bank in the format and within the time frame prescribed.

7. Regulatory action for market abuse

Participants found guilty of market abuse may be subject to regulatory action, including temporary or permanent stoppage of access to markets in one or more instruments. However, no action shall be taken without providing reasonable opportunity to the market participant concerned to defend its actions or without giving due regard to underlying intentions and circumstances surrounding its actions.