

SEBI's bar on sharing live stock market data – Implications for virtual trading apps

12 June 2024

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1 Background

Virtual stock trading platforms have become popular in recent years. Offering an experience similar to fantasy sports leagues, these apps allow users to build a virtual portfolio of stocks and earn rewards based on its performance. These apps use 'live' stock price data to simulate the stock market experience for users.

SEBI, by a circular dated 24 May 2024, has now barred stock exchanges and other market intermediaries from sharing real-time stock price data with third parties. There are limited exceptions to this rule (for instance, such data may be shared for "orderly functioning of the securities market or for fulfilling regulatory requirements").

2 Implications

These apps/platforms have so far operated in a regulatory grey area. There are concerns that such offerings could amount to '*gambling*', although there is basis to argue that these should be recognised as games of '*skill*' and not '*chance*' (and therefore, not made subject to legal restrictions on gambling). Regulators in some jurisdictions (most notably, the SEC in the US) view such offerings as amounting to unlawful trading in '*derivatives*' – SEBI could take a similar view, although Indian securities laws also allow for an interpretation to the contrary.

Legal nuances aside, SEBI has made its policy objections to such platforms well known. SEBI is concerned that these apps do not afford users the protections ordinarily available to investors in the securities market. There are also apprehensions that '*gamifying*' the trading experience could seed high-risk behaviours among users, which may spill-over into trading behaviours in the real world.

In 2016, SEBI proposed a ban on such stock market based simulation games, although it subsequently stopped short of that and instead directed its registered stock-brokers to refrain from being associated with such games/platforms. SEBI's new circular, however, would mean an effective ban on such platforms by curtailing their access to live market data feed.

While SEBI's concerns are fair, there is nevertheless a case to be made for a general regulatory openness to technological innovations. In an economy with a growing number of new entrants to the stock market, there could be legitimate '*use-cases*' for such platforms, for instance, educational/training products, which incorporate an element of live-simulation based '*gaming*'. Such products can provide new retail investors meaningful exposure to the stock trading experience in a relatively low-risk environment. Bringing such

SEBI has restricted stock exchanges from sharing live stock price data with third parties, with the objective of curbing virtual stock trading platforms. This update discusses the backdrop to this development and whether there remains a viable regulatory roadmap for this niche fintech offering.

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services within the regulatory fold would also give the government/regulators greater ability to regulate aspects such as consumer protection and personal data protection. The SEBI circular recognises data-sharing for investor education activities (which do not involve any monetary incentives for users) – however, only a delayed data feed (with a 1-day lag) is allowed to be shared for this purpose, which will not serve the use-case for live simulation-based activities.

There remains a regulatory road-map available for the right products. SEBI offers a 'regulatory sandbox', which allows new fintech products to be tested on a limited set of users in a live but low-risk environment. However, this route has proven to be difficult to tap in practice – out of 12 applications received by SEBI for testing in the regulatory sandbox, only one has been accepted so far, and an application for a virtual trading app was not accepted. Hence, in order to get the regulator on board, a strong case will need to be made that the offering will benefit investors and the greater market ecosystem.

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