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Nurturing Markets,
Widening Horizons

FIMCIR/2012-13/03

27th April, 2012

To,

All FIMMDA Members and Users of NDS-OM

Dear All,

FIMMDA's Code of Conduct for Usage of NDS –OM etc
Relaxation in the Trading Bands for SDL/Special securities and Securities of residual maturity less than one –year

We have to advise that after discussions with market participants, the following relaxations are now in place and form a part and parcel of "FIMMDA's Code of Conduct for Usage of NDS-OM and OTC trades in G.Secs, SDL/SPECIAL SECURITIES etc".

Bands for dealing in State Development Loans :

i) The closing prices of SDL/SPECIAL SECURITIES for daily valuation purposes and trading bands for the subsequent days, will not be related hereafter.
ii) While for Valuation purposes, the prices of SDL/SPECIAL SECURITIES will be calculated by adding 25 bps to the relevant tenor closing G.Sec "Par-Yield" for the day (until this is revised after discussions with the wider market participants), the Trading Band will be arrived at based on the last SDL/SPECIAL SECURITIES auction, provided the aggregate amount accepted is at least Rs 1500 crores, and at least 3 states have been auctioned.

A. For SDL/Special securities which are not traded (minimum single Rs 5 crore lot deal) or for which there have been only "Odd-Lot" trades on any particular day:

The methodology for arriving at the Trading Band "Spread" for SDL/Special securities over and below the relevant tenor closing G.Sec "Par-Yield" of the previous day would be as follows :

a) **STEP 1 :**The weighted average of the 'weighted average yields ' of the SDL/SPECIAL SECURITIES auction (provided the auction is for 3 states and minimum Rs 1500 crore accepted auction amount), will be calculated.

b) **STEP 2**: The G.Sec Par –Yield curve will be generated at the cut-off timing for submission of bids (currently at 12 noon) of the day the SDL/SPECIAL SECURITIES auction is held.

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c) **STEP 3 :** The "spread" between the G.Sec Par Yield and the Weighted Average of the "weighted average yields" will be arrived at by subtracting the result of Step 2 from Step 1. (Example, if Step 1 gives 9.17 % as the weighted average from the auctions, and the 12 noon 10 year "Par-Yield" is 8.63 %, the "spread" arrived at would be 54 basis points. This "spread" will remain constant across the yield curve and for all days until the results of the next SDL/SPECIAL SECURITIES auction for minimum Rs 1500 crores and 3 states, is announced.

d) **STEP 4 :** The spread arrived at would be "added " to the relevant tenor G.Sec par-yields of each individual SDL/SPECIAL SECURITIES to give the "Base Yield " to be used for arriving at the Trading Bands for the respective SDL/SPECIAL SECURITIES, immediately following the auction, as also for subsequent days, until another SDL/SPECIAL SECURITIES auction takes place . {Example1: If the 10 year G.Sec par-yield is 8.63 % and the "Spread " is 54 bps, the "Base Yield" for a 10 year SDL/SPECIAL SECURITIES would be 9.17 % (8.63 +0.54). Example 2: If the 5 year G.Sec par-yield is 8.37 % , the spread of 54 bp would remain constant, and the "Base Yield" for 5 year SDL/SPECIAL SECURITIES would be 8.91 % (8.37 + 0.54); similar procedure will be adopted along the yield curve).

e) **STEP 5** : The Trading Band for any tenor SDL/SPECIAL SECURITIES would be (+) /(-) 25 bps over and below the "Base Yield" for the respective tenor SDL/SPECIAL SECURITIES { Example 1 : For a 10 year SDL/SPECIAL SECURITIES where the "Base Yield" is 9.17 %, the Trading Bands would be 9.42 % (9.17 + 0.25) and 8.92 % (9.17 – 0.25) ; Example 2: For a 5 year SDL/SPECIAL SECURITIES, where the "Base-Yield " is 8.91 %, the Trading Bands would be 9.16 % (8.91 + 0.25) and 8.66 % (8.91 - 0.25) }.

B. For SDL/SPECIAL SECURITIES which are Auctioned, provided minimum accepted amount Rs 1500 crores and 3 states Auctioned

Same procedure as outlined in (A) above ; the 10 year G.Sec par- yield at the cut-off timing for submission of bids (currently at 12 noon) of the auction day will apply for calculating the Trading Bands, for the Auctioned Securities. For all other SDL/SPECIAL SECURITIEs, the trading bands would be calculated for each SDL/SPECIAL SECURITIES, depending on the respective tenor Base Yield at the cut-off timing for submission of bids for the auction.

C. For SDL/SPECIAL SECURITIES which are traded for at least a minimum single lot of Rs 5 crores on any day, including post Auction trades

For those SDL/SPECIAL SECURITIES , which trade with a minimum volume of Rs 5 crores on the previous day, the Trading Band applicable would be (+)/(-) 25 bps of the previous days traded yield

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Trading bands for Government securities and State Development Loans/Special Securities with residual maturities less than 365 days :

There will be no Trading Bands for securities with residual maturity of less than 365 days. However, genuine "Big-Figure" mistakes should be avoided, and if committed would need to be reversed.

The extant instructions of NO TRADING BANDS for ODD –LOTS (lots below Rs 5 crores) remains .

The above revised bands come into effect immediately.

With regards,

Yours truly,

C.E.S.Azariah
Chief Executive Officer