

**Version 8<sup>th</sup> July 2014.**

**CODE OF CONDUCT FOR TRANSACTING IN GOVERNMENT SECURITIES USING  
RBI'S "NEGOTIATED DEALING SYSTEM –ORDER MATCHING (NDS-OM)"**

*[The contents of the code are also applicable to all Over the Counter (OTC) transactions done and reported on NDS-OM]*

**NDS-OM System:**

The Negotiated Dealing System – Order Matching System (NDS-OM), hereinafter referred to as the “System” is an anonymous electronic order matching platform, owned by RBI. The System was launched on August 1, 2005. The system facilitates secondary market trading in all kinds of Central Government Securities, State Government Securities, Special Securities and Treasury Bills. The system is hosted and maintained by the Clearing Corporation of India Limited (CCIL) for and on behalf of RBI.

The System facilitates placement of bids and offers which it matches on price/time priority or yield/time priority that is, within the orders of the same price or yield (as applicable), it matches the order first received by the System. For example, if, for 7.80 % Government Security 2021, there are two bids of Rs. 5 Crore each at price Rs. 96.50, one received by the System at 9.30 am, and another at 9.45 am, the bid received at 9.30 am will get priority for being taken up for matching with an offer at the bid price. As soon as the bid received at 9.30 am has been matched by the System, in the event that the bid placed at 9.45 am is the next best bid, it would get the next priority. In case there is a bid for a price higher than Rs 96.50 at 9.45 am, the bid at the higher price, though received by the System at a time later than 09:45 am, would get priority over the earlier bid. Similar time priority logic applies for offers /sell orders with the lowest price/highest yield offered always getting the highest priority.

The system ensures complete anonymity among participants as counterparty information is not available to any of the system participants either pre or post trade; thus facilitating transparency without impeding fair pricing. The anonymity offered by the system enables large ticket execution without distorting market sentiment and/or price equilibrium which would normally be prevalent in a bilateral market.

Access is restricted to authorised users of entities that have been granted System membership by RBI. Others can access the System through any of the System members with whom they hold their gilt and fund accounts.

The System operates in a straight through processing (STP) environment viz., all trades concluded on the system flow directly to CCIL for settlement. CCIL acts as the central counterparty (CCP) for settlement of all trades concluded on the system subject to its Bye Laws, Rules and Regulations.

The system provides both pre-trade and post-trade information and on real-time basis to all users who are logged into the System. In addition, market information is also disseminated through RBI/CCIL websites and made available to Info Vendors for wider dissemination. This ensures transparency and better price discovery as against the voice-market (direct or brokered), where there could be a time delay in information dissemination.

Trading happens in standardized lot size of Rs. 5 Crore (face value quantity), and in multiples thereof. For instruments where order matching is facilitated on price basis, presently price quotes are enabled in 0.0025 or multiples thereof. For securities traded on yield basis, yield inputs are facilitated in multiples of .0001 bps.

To facilitate trading in small lot sizes of less than Rs. 5 Crore, a separate 'odd lot' segment - with the minimum trading lot size being only Rs. 10,000/- (for dated securities) and Rs. 25,000/- (for Treasury Bills) is also available in the system.

Participants get to know the depth of the market as the system shows the order depth in terms of number and total amount of sell/buy orders for each security.

While order matching is facilitated in "clean" price and or yield terms, based on the type of instrument, settlements take place only in "dirty" price terms based on settlement considerations computed on the basis of relative clean traded price and taking into account broken period interest from the last coupon payment date for the traded security.

## **Security feature of the system:**

### **Internal Filters:**

The System has inbuilt security features (pop-ups) which a User has to acknowledge/validate before a Buy or Sell order can be placed on it. Each pop-up, gives sufficient warning to the User informing him/her, inter alia, about the security description, face value quantity to be bought/sold, clean price, YTM, value date of settlement, settlement consideration etc., based on the data input by the concerned User. After this pop up is acknowledged by the user, the System validates that the inputted price/yield is within the trading band tolerance threshold set for the concerned dealer. In the event of the same being violative of the band set by his/her System Head of Treasury (System HOT), an alert is provided to the user seeking directions to cancel the order or continue by overriding the price/yield alert violation. Should the user choose to exercise the override option; the same is captured in the activity log. If it is a normal sale order, the quantity sought to be sold is validated against the available stock balance in the system. If the balance is insufficient to support the sale, the order is rejected by the system. Finally, upon the order being successfully placed, the system provides a pop up to the concerned user indicating that the order has been successfully placed. Upon an order being traded, the system again provides a pop up alert stating that the order has been traded. The system thus continuously updates every user about all his/her actions. The system also facilitates query of outstanding orders and also various kinds of modifications to every outstanding order.

The system has a pre-decided User Hierarchy structure which facilitates role based access privileges to the system i.e., whether a user has dealing rights or not or whether the user is a back office or mid office user in which case he/she would not enjoy dealing rights etc. Even for a dealer user, the system incorporates various operational risk controls such as only bids or only offers, operations only on the proprietary book or on the client book or both (through appropriate Single Order Limit settings separate for both). These role privileges are required to be assigned by the respective System HOT in the system based on specific internal requirements/approvals.

Further, the System HOT is required to set the maximum Single Order Limit in respect of each Dealer. Apart from acting as a prudent internal risk control mechanism, this feature also helps in minimizing errors in inputting the quantity. In addition, for Members who are regulatorily permitted to

undertake short sales, the System HOT needs to specifically permit a Dealer to undertake short sale.

**A. Setting of Internal Filters:** The system mandates setting of internal price/yield range settings/ single order limit/ short sale controls for every dealer user by the respective System HOT.

**B. Setting of Dealer Level Price/Yield Trading Bands :**

- i) Given the extremely important and critical nature of this filter, it would be best if the decision on the Price/Yield Trading Bands are incorporated into a comprehensive document/policy formulation duly approved at a sufficiently senior level i.e., at least by the Official / Group of Officials that is responsible for overseeing the front office dealing operations of the organization.
- ii) The decision on the Trading Price/Yield Band policy is best taken considering all relevant factors including inter alia, the loss bearing capability, the risk appetite, trading policy, the approach towards take profit/cut loss, seniority and experience of the dealer(s), nature of the instrument - CG, SG, TB etc., past experiences with regard to trading losses if any, expectations of market volatility etc. The Policy should also have provision for intraday changes/modifications in both directions (upward/downward) to cater to changing market dynamics/sentiments. The policy should ideally be reviewed regularly - at least once in a quarter with provisions to make it more frequent, if required, based on an ongoing assessment ;
- iii) The implementation of the Trading Price/Yield Bands on the System, based on the Policy formulation as per (ii) above, should be carried out only by the System HOT. This, as also any modifications thereto, should be subject to a continuous on-going review by the Concurrent Auditor. Any errors/exceptions should be reported by the Concurrent Auditor as laid down in the Escalation Matrix prescribed, if any, for the purpose;

- iv) The Daily Activity Logs generated by the System and/or any other specific report capturing details of "Price/Yield Trading Band Overrides exercised by the Dealers" should be scrutinized by the Concurrent Auditor on an on-going basis and the reasons for the option being exercised gone into as also verification done as to whether the same has been done with due approvals from the System HOT.
- v) If there is a need by the dealer to over-ride the Price Range subsequent to the cautionary "Pop up Alert" appearing, this should be done only with the explicit permission (written or oral) of the HOT.

**Responsibilities of Heads of Treasury:**

- C. HOTs should ensure that users accessing the system are only duly authorized users actually created and activated on the same. Procedures laid down to prevent unauthorized access to the system (User ID, passwords) etc. should be properly followed to prevent abuse of the system.
- D. HOTs should follow SELF DISCIPLINE and ensure that their own user ID and passwords are not shared with the dealers. The Single Order Limit, Dealer wise/category wise Price Ranges and Dealer wise security wise list for Short Sale of securities are all set only by them /the System HOTs.
- E. To guard against undesirable consequences, New Users, especially Dealers, authorized to use the System should familiarize themselves completely with all features/functionality of the system, before being allowed to independently access and operate the System. Prior to being given such access, it should be ensured that all Users have acquainted themselves with the NDS-OM Guiding Principles, related RBI Circulars / Notifications / Regulations, Guidelines /Procedures etc. relating to secondary market activity in G Secs.
- F. HOT should be responsible for the internal discipline of ensuring that the internal filters are not breached without his/her explicit permission under normal circumstances. If obtaining

prior permission was not possible due to any reason, HOT's ratification should be taken at the end of the day.

- G.** All the breaches done by the dealer during the day, either with or without the permission of the HOT should be placed before the HOT in the form of a "Dealer's Activity Log" Report or such reports as may be available in the system and his confirmation/ratification should be obtained in writing. This Audit Trail should be available for all audits/inspections (concurrent, internal, external, Statutory, RBI, etc.).
  
- H.** All the SGL account holders providing gilt account facility to their constituents (CSGL account holders) should instruct their clients not to place requests with the custodians for purchase/sale of Government securities at prices outside the internal filters.

### **Removal of Trading Bands and formation of DRC:**

On the NDS\_OM itself there were Hard Trading Bands which were relaxed or removed consequent to the international and domestic events that happened in June/July 2013. Removal of Hard Trading Bands on the NDS\_OM has enlarged the scope of doing Erroneous Trades.

After removal of hard filters and at the instance of the Reserve Bank of India, FIMMDA has set up a Dispute Resolution Committee (DRC) to resolve the disputes arising out of erroneous trades vide meeting dated 10<sup>th</sup> September 2013. DRC also met and resolved many cases from 1<sup>st</sup> October 2013 which are available on our website.

In the light of the foregoing, the code of conduct for transacting in government securities using NDS\_OM System has been modified as under:

### **Code of conduct for transacting in Government securities using NDS -OM system/OTC markets and rules for DRC:**

#### **1. Objective:**

This Code of Conduct, hereinafter referred to as the "Code", seeks to lay down directives to the users of NDS-OM system, so that the anonymity, ease of dealing and settlement, provided by the System are utilized properly. The code attempts to prevent improper

utilization which leads to misleading or misinformation to the market participants resulting in losses (sometimes very large) and undue enrichments.

## **2. Transactions covered:**

The code is for all the transactions in Central/State Government Securities(G-Secs) and Treasury Bills (TBs) done in marketable lot on NDS-OM system and also transactions done in the OTC market and reported in NDS\_OM for settlement. DRC may consider transactions not covered above and/or in other segments depending on merits of individual case. DRC will record the reasons for considering /rejecting a claim.

- 3. Applicability: The code is applicable to all participants who deal in Govt. securities on NDS-OM or in OTC market and reported on NDS-OM reporting platform as per RBI cir no. IDMD.DOD.No.06/10.25.66/2012-13 dated December 06, 2012.**

Quote:

FIMMDA in coordination with RBI and market participants has developed and implemented a code of conduct for users of NDS-OM and other systems. The same can be accessed at FIMMDA website ( [www.fimmदा.org](http://www.fimmदा.org)).

It has now been decided that in the interest of market integrity and orderly market conditions in the Government securities market, all SGL/CSGL account holders should adhere to the FIMMDA code of conduct while executing trades on NDS-OM and in the OTC market. These guidelines are issued in exercise of powers conferred on the Reserve bank of India under section 29(2) of the Government Securities Act, 2006.

Unquote:

**Systemic Code:**

4. Users of the system shall observe high standards of integrity and just and fair principles of trading while trading either on their own account or on behalf of their clients.
5. Users are required to use the security features inbuilt in the system. They should appreciate the features such as Price/Yield Range Settings, high-speed trading and Straight Through Processing (STP) for settlement which the system provides, and the fact that by ignoring the in-built security features, the users are susceptible to committing 'costly' mistakes.
6. Bids/Offers placed on the System, should be free from market manipulation and fraudulent practices.

Examples of such manipulated/ fraudulent bids and offers are as under: (The list is illustrative and not exhaustive)

- i) Entering into arrangements for sale or purchase of a Government security where there is no change in beneficial interests or market risk or where the transfer of beneficial interest or market risk is only between parties who are acting in concert or collusion.
- ii) Deliberately trying to manipulate the prices of infrequently traded securities at monthly/quarterly/annual closing dates.
- iii) Doing a 'routing deal' i.e. purchasing a security at the instance of a third party who does not have funds to purchase the security, with an unwritten agreement to sell the same to the third party on a later date at a predetermined price which may not be market related.



- iv) Deliberately putting wide bids and offers on the NDS-OM for the frequently traded securities, such that the party buying or selling at the price displayed commits a “Big-Figure” mistake.

#### **ERRONEOUS TRADES AND REVERSAL- ROLE OF DRC:**

7. **Erroneous Trades:** Following are examples of erroneous trades which will be considered by DRC for considering for reversal or otherwise. The list is only illustrative and not exhaustive. These are also referred to as Big-figure mistakes in market parlance.

But to ensure market integrity, DRC may consider claims which may not fall in any of the categories described below, on merits. Such decisions will be recorded with reasons.

#### **For Central/State Govt securities the bid and offer is put in terms of Price.**

a) Big-Figure mistake in Price while buying:

An offer is either deliberately or erroneously put at Rs.91.56 or Rs.91.55 for a security that was last traded at Rs.90.56. Once the offer is hit by mistake without realizing the change in the big figure, it would be considered as a “Big-figure” mistake by the buyer. The market, however, reverts to bids and offers at around Rs. 90.56 after the erroneous trade. It is an erroneous trade even if the bid is erroneously put by the buyer at Rs.91.56 and the same was hit by a seller.

b) Big-Figure mistake in Price while selling:

A bid is either deliberately or erroneously put at Rs.89.56 or Rs.89.57 for a security that was last traded at Rs.90.56. Once the bid is hit by mistake without realizing the change in the big figure, it would be considered as a “Big-figure” mistake by the seller. The market, however, reverts to bids and

offers at around Rs.90.56 after the erroneous trade. It is an erroneous trade even if the offer is put erroneously by the seller at Rs.89.56 and the same was hit by a buyer.

**For T-Bills the bid and offer is put in terms of Yield.**

c) Big-Figure mistake in Yield while buying:

An offer is either deliberately or erroneously put at 7.70% or 7.75% for a T-Bill that was last traded at 8.70%. Once the offer is hit by mistake without realizing the change in the big figure, it would be considered as a “Big-figure” mistake by the buyer. The market, however, reverts to bids and offers at around 8.70% after the erroneous trade. It is an erroneous trade even if the bid is put erroneously by the buyer at 7.70% and the same was hit by a seller.

d) Big-Figure mistake in Yield while selling:

A bid is either deliberately or erroneously put at 9.70% or 9.65% for a T-Bill that was last traded at 8.70%. Once the bid is hit by mistake without realizing the change in the big figure, it would be considered as a “Big-figure” mistake by the seller. The market, however, reverts to bids and offers at around 8.70% after the erroneous trade. It is an erroneous trade even if the offer is put erroneously by the seller at 9.70% and the same was hit by a buyer.

e) **Inversion errors** :( putting yield in place of price and vice-versa): The bid and offer for Central/State Govt securities are to be put in terms of Price. The bid and offer for T-Bills are to be put in terms of Yield. If yield is put in place of price and vice-versa and the other party hits the same that will result into an erroneous trade. For example, suppose the last traded price and yield of a G-sec were Rs.88.29 and 9.02% respectively. An offer to sell that security is erroneously put at Rs.9.02 or Rs.9.03 and if the same is hit by a buyer that will also result into an erroneous trade.

**f) Error due to wrong selection of securities:** The dealer while putting a 'bid' or 'offer' or while 'taking' or 'giving' a security appearing on the trading screen, may select a wrong security which is either above or below the security he/she intended to transact. Such type of wrong selection of security may result in a trade at 'off market' price. If the difference between the price of the security intended to be traded and actually traded is distinctly outside the normal price movements of the security traded, then it will be considered as an "Erroneous Trade".

*g) However, in the above examples, if the market continues to trade one Big-Figure higher or lower, after the first Big-Figure change deal (on account of some market event), the first Big-Figure change deal and the subsequent deals would not be considered as Big-Figure error deals. The decision of DRC will be final in determining such errors.*

8. "Market Makers" are expected to open the market with narrow bids and offers, unless there is an event warranting wider spreads. Placing a wide bid/offer at the start of the day, without an event warranting wider spreads would also constitute as misleading the market to commit Big-Figure mistakes.
9. At times of market events, the "Market Makers" may quote wider spreads but the bid and offer quotes should not be ones that will seemingly mislead the market to commit Big-Figure mistakes.
10. At the same time, the "Market Takers" are expected to be more cautious while dealing at opening prices, which are wide and more so when they take the offers by overriding their own internal "Pop up Alerts".
11. Whether the Big-Figure mistake is due to putting bid or offer either deliberately or erroneously, the trade will be 'Erroneous Trade'.

### **Composition of Dispute Resolution Committee (DRC):**

12. An independent and well represented committee consisting of a total of ten representatives from:

- a. Private Bank (presently Axis Bank Ltd) -1
- b. Foreign Bank (presently Standard Chartered Bank )- 1
- c. Public Sector Banks (presently SBI and IDBI) - 2
- d. Co-operative Bank (presently Saraswat Co-operative bank) - 1
- e. Insurance Company (presently LIC) - 1
- f. Primary Dealers (presently SBI DFHI, I-SEC PD, STCI PD) -3 and
- g. Mutual Funds (representative from AMFI /nominated by AMFI- presently the Dy. CEO of AMFI) - 1.

The Organizations concerned will nominate two representatives to function as members, one primary and another to act in case the primary member is unable to attend the meeting, whatever may be the reasons.

The DRC committee will function for one year from 1<sup>st</sup> October to 30<sup>th</sup> Sept of the next year. Every year in the month of September, a new body will be reconstituted by the FIMMDA Board. For any reason, if there is delay in such formation, the existing committee will continue till formation of a new committee.

### **13. REPORTING OF ERRONEOUS TRADES TO FIMMDA:**

- a) Any market participant who notices an “Erroneous Trade” as described above or a bid or offer that may lead to a “Big-Figure Mistake” or “Erroneous Trade” may, though being a third party not involved in the bid/offer/trade, report the same to FIMMDA either telephonically or through e-mail in the format given in Annexure I.
- b) The party who has gained due to a “Big-Figure Mistake” or “Erroneous Trade” should immediately inform FIMMDA about such a deal either telephonically or through e-mail in the format given in Annexure I.
- c) The party who has lost due to a “Big-Figure Mistake” or “Erroneous Trade” should lodge a claim/dispute with the Dispute Resolution Committee through FIMMDA by e-mail. The claim should come from the HOT in the format given in Annexure I.

**14. Lodgment of claim:** The claim should be lodged as early as possible but not later than 12:00 Noon on the Settlement Date. If the claim is received subsequently, the DRC may entertain the same on merits in exceptional cases and to protect market integrity. Settlements in such cases are subject to approval by the relevant authorities/platform owners.

### **15. Procedure for reversal of “Erroneous Trades”:**

In case “Erroneous Trades/Big-Figure mistake trades” get executed, the following procedure should be adopted to ensure that no undue enrichment and/or losses occur to either of the counterparties:

- a. When an ‘Erroneous Trade” is reported to FIMMDA either by a losing party or gaining party or by a third party, FIMMDA shall convene a meeting of the DRC or arrange for a discussion through conference call.
- b. If DRC is convinced that the deal is an “Erroneous Trade” and there is a case of reversal, FIMMDA will seek the counterparty name/s from RBI.
- c. In cases where the “Erroneous Trade” is very much obvious ,FIMMDA may without waiting for any claim, refer the matter to DRC and if agreed upon, may seek names of counter parties from RBI and place the matter before the DRC along with counter party names for decision.
- d. The DRC will hear both the counter parties and then decide as to whether the “Erroneous Trade” is to be reversed and convey the decision to both the parties concerned. If the DRC feels that there is no case for “reversal”, the losing party will be informed accordingly.
- e. **Bilateral reversal:** Sometimes, both the buyer and seller of an erroneous trade might be reporting to FIMMDA and may seek/agree to reverse the trade voluntarily. In such cases, FIMMDA will prima facie verify the details of the trade like trade no, time etc. and if satisfied **will send mail to DRC members and with consent of DRC Members (with quorum)may advise both the counterparties to reverse the trade.** DRC members and RBI will be kept informed of the trade and its reversal.
- f. **Other cases:** As all types of disputes which may arise may not be envisaged, the DRC will have the powers to decide any other case that is NOT described in the foregoing paras “on merits” to keep orderly markets and maintenance of market

integrity. DRC will however record reasons for such decisions. These will be available on website for public information.

- g. RBI will be informed of all cases referred to them and the decision of the DRC in the matters.
  - h. As far as possible, a reversal deal should be done outside the NDS-OM through OTC and put through on the same day, on the NDS-OM Reporting platform, for the same security, same amount (face value), and at the same price.
  - i. In case this is not possible for any reasons; the difference should be settled in cash the next day at the rates mentioned below (in the order of preference):
    - 1. The rate mutually agreed to between the counterparties; or
    - 2. The current market rate; or
    - 3. The rate decided by the DRC by way of a poll (Poll will be taken from the Dealers of the DRC member organisations and a simple average is calculated and informed to both the counter parties.
  - j. Both the counterparties should inform FIMMDA about the reversal transaction on the same day latest by 6.00 pm. In respect of cash settlement on the next day, the same should be informed to FIMMDA at the earliest, but not later than the market closing hours on the same day. In case of any specific problems for reversal, DRC will suggest the methodology to be adopted for reversal.
16. *The above reversal methodology is for erroneous trades done on the NDS-OM. On the other hand, such erroneous deals, if done over the Voice –based system (OTC) should be corrected by entering into another OTC deal and reported on the NDS-OM reporting platform.*



*Nurturing Markets,  
Widening Horizons*

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17. The decision of DRC will be binding upon all parties.

18. **Fees:** FIMMDA reserves the right to levy a fee as handling charges and to frame rules for the same as approved by its Board with a reasonable advance notice.

**Violation of Code of Conduct:**

19. As any violation of Code of Conduct would be viewed seriously, it is expected that all users will strictly adhere to the Code of Conduct in letter and spirit.

**20. Circulars superseded:**

- i. FIMCIR/2011-12/46 dated 24.02.2012
- ii. FIMCIR/2011-12/47 dated 2.3.2012
- iii. FIMCIR/2011-12/53 dated 13.03.2012
- iv. FIMCIR/2012-13/03 dated 27.04.2012
- v. FIMCIR/2012-13/14 dated 13.6.2012
- vi. FIMCIR/2012-13/07 dated 17.07.2012
- vii. FIMCIR/2012-13/48 dated 6.3.2013
- viii. FIMCIR/2012-13/51 dated 25.3.2013
- ix. FIMCIR/2013-14/23 dated 08.08.2013.
- x. FIMCIR/2013-14/29 dated 20.09.2013



## ANNEXURE I

### **REPORTING OF & CLAIMS/DISPUTES REGARDING ERRONEOUS TRADES**

(For Third Party reporting only relevant columns be used)

1. Date of reporting/claim:
2. Name of NDS-OM member/Market Participant:
3. Date of Trade/Bid/Offer:
4. Time of Trade/Bid/Offer:
5. Trade No:
6. Market Segment: CG/SG/T-BILLS/ODD LOT
7. Name of security:
8. Whether the security was bought or sold by the reporting party:
9. Previous traded price/yield:
10. Time of previous trade:
11. Price or Yield at which the disputed trade took place:
- Or
12. Price or Yield noticed (by a third party) in the Bid/Offer/Trade:
13. Price/yield at which subsequent trade/s took place:
14. Time of subsequent trade/s:
15. If the claim is not lodged in time, the reasons for the delay and why it should be entertained:
  
16. Remarks: