



*Nurturing Markets,
Widening Horizons*

Regd. Office: 2nd floor, The International
16, Maharshi Karve Road,
Churchgate, Mumbai – 400 020
Tel : (91-22) 22017089 / 91 / 94
Fax : (91-22) 22017095
E-mail: fimmda@fimmda.org

May 25, 2011

To

All FIMMDA Members

Dear Sir/Madam,

**NDS-OM for trading in G-Secs
Big –Figure Mistake in 7.59 %- 2016**

On May 25, 2011, the market, having closed on 24.5.11 at Rs 96.50 and Yield 8.48 % for the captioned security, opened with a bid of 95.52 and an offer of 96.55 , for 7.59 % - 2016.

One of the users, acting as a “Price-Taker”, sold at Rs 95.52 with yield at 8.7337 % , while all subsequent trades were at 96 big figure , and yield around 8.48 % .

Upon RBI being informed by the seller, of the loss incurred by it on account of accepting the price put into the system by the buyer, RBI wanted FIMMDA to ascertain the following information from the “Price-Taker” :

- i) Whether the NDS_OM system gave a pop-up alert when the “Price –Taker” hit the bid of 95.52. ?
- ii) Whether the “Price-Taker” had set an internal limit range on the bid and offer for 7.59-2016? If so, what was the range set?

On ascertaining the above information, we were advised that:

- i) While the NDS-OM gave the pop-up alert to the “Price-Taker”, before final conclusion of the deal, this was ignored by the dealer.
- ii) The internal range limit was set at Rs 1.00 on either –side of the closing price.

Thus, when a bid which was lower by 98 paise was hit, the additional pop up warning the dealer, that the trade is outside the price range set, did not appear.

In the light of the above episode, the RBI expressed its unhappiness, about the FIMMDA members not taking care for utilizing the risk management facilities available in the NDS-OM system, and not training/ cautioning the dealers about the risks involved in over-riding the systems in place.

In a previous case, RBI had expressed its extreme displeasure at “Price –Givers” putting bids and offers far below or far above the last closing price, or the ongoing bids and offers in the market, resulting in unsuspecting rookie dealers falling into the “trap” and incurring losses by dealing on “Off-Market” prices .



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We attach a copy of the Minutes of Meeting dated March 04, 2011, wherein, on RBI's instructions, FIMMDA members have drafted a "Code of Conduct" (CC) which may be put in place by RBI for the NDS-OM system. While this CC is yet to be finalized and submitted to RBI for implementation, ***we request the members to respect the spirit of the draft code, and exercise care while putting in bids and offers and also while dealing on the bids and offers available on the screen . Dealers should be cautioned to pay attention to the alerts appearing on the NDS-OM dealing screen, to avoid unnecessary losses, as well as undue enrichment.***

Regards

C.E.S.Azariah
Chief Executive Officer



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MINUTES OF THE MEETING

To draft a Code of Conduct for dealing on NDS-OM

(4th March 2011)

**FIXED INCOME MONEY MARKET AND DERIVATIVES
ASSOCIATION OF INDIA**

(Minutes prepared by Abhishek Shrivastav)



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DISCUSSION PANEL

No.	Name	Institution
1.	Mr. C.E.S Azariah	CEO (FIMMDA)
2.	Mr. Ajit Kumar	Birla Sun Life
3.	Mr. Mithun Saha	Axis Bank
4.	Mr. Gopal Tripathi	RBS
5.	Mr. S.P Sarangi	State Bank of Mauritius
6.	Ms. Manoj Sahev	IDBI Bank
7.	Mr. Gaurav Mehta	HDFC Bank
8.	Mr. S. Sri Kumar	Corporation Bank
9.	Mr. Bal Mukund Sharma	Canara Bank
10.	Ms. Radhani Deshpande	Kotak Mahindra Bank
11.	Mr. Manish Mehrotra	Bank of Baroda
12.	Mr. Prashant Ranjan	Axis Bank
13.	Ms. Suman Prasad	Canara Robecco Mutual Fund
14.	Mr. Anil Bankey	SBI DFHI
15.	Mr. Siddharth Shah	STCI PD
16.	Mr. Aradhya Dwivedi	FIMMDA
17.	Mr. Abhishek Shriwastav	FIMMDA

BACKGROUND:

The IDMD RBI requested FIMMDA to draft a Code of Conduct for dealing on NDS-OM with other representatives of all the users of NDS-OM. A preliminary meeting of FIMMDA members was convened to discuss the initial process and the subsequent proceedings.



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DISCUSSIONS:

The committee decided that a Committee may be formed consisting of representatives from Banks, Primary Dealers, Mutual Funds, Insurance Companies and Co-operative Banks to finalise the Code of Conducts and also to form a Grievance Redressal Committee.

Following are the suggestions given by market participants to be incorporated while finalising the Code of Conduct:

- i. A dealer should not put an order +/- 90 paisa of the Last Traded Price. Where no trades have taken place on the previous day, FIMMDA's valuation price of the previous day would be the base.
- ii. The Head of Treasury should be responsible for the internal discipline of maintaining the +/- 90 paisa filter and should be responsible in case of any violation, resulting in a Big-Figure mistake.
- iii. The losing party in a Big-Figure Mistake should inform the Redressal Committee within 3 hours of the trade. A dedicated e-mail ID will be provided for such issues.
- iv. A trader will receive a warning if found guilty by the Redressal Committee, if the same trader receives three such warnings, it will be reported to RBI.
- v. FRB's may be exempted from this discipline.

CONCLUSION:

The meeting concluded with a vote of thanks to the Committee members for their participation.