

To All NDS-OM Users

8<sup>th</sup> September 2016.

Dear All,

**Reg: Code of conduct for usage of NDS-OM and OTC trades done and reported on NDS OM.**

We invite your attention to RBI IDMD 's circular dated 6th December 2012, informing all SGL/CSGL account holders to adhere to the code of conduct framed by FIMMDA for the trades on NDS-OM and OTC deals done and reported on NDS-OM reporting platform. The code is available on our website.

It is in the interest of the financial markets that the trades take place in an orderly fashion and the trades represent the actual market prevailing at a particular point of time to give correct signals to the whole gamut of market participants including the participants from Overseas. To prevent "erroneous trades", RBI suggested to FIMMDA to put in place a broad based Dispute Resolution Committee to resolve the disputes due to erroneous trades that take place on NDS OM or OTC deals reported to the platform.

Accordingly, a Broad based 10 member committee consisting of members from Public Sector, Pvt. Sector, Foreign Banks, Primary Dealers, Cooperative Banks, AMFI representatives and Insurance Companies was formed (DRC). DRC started functioning from 1st October 2013 and resolved many cases. All these cases are uploaded on our website, individually as and when they occurred.

**Of late, we observe that some traders are not being vigilant in putting up as bids/offers or taking these prices. We also observe that the Heads of Treasuries are not exercising caution in allotting limits to the Dealers. Sometimes, very high limits are given. The system gives a POP UP whenever a Dealer trespasses a limit but these are being ignored by the traders and the HOTS might not be scrutinizing the reports of Dealer transgressions generated by the system. Lack of vigilance on the part of Dealers and HOTS is leading to more incidences of erroneous trades observed on NDS OM or the OTC deals reported on that platform.**

**We also observe that while the loser is of course quick to inform us , the beneficiaries of such erroneous trades are not quick to point out the error till the matter is raised. It is in the interest of all participants, to bring the matter to FIMMDA as soon as it occurs. Simultaneous reporting by both sides will facilitate the reversal in a short time and may happen on the same day in most of the cases.**

The erroneous trades reported to FIMMDA consume a lot of time, energy and resources of FIMMDA, the members of DRC who have to decide on the nature of the deal and the Regulator for reversing such erroneous trades. So far, there are no penal actions on such deals but the DRC may be forced to exercise such an action in future.

**It is very important that the whole community of the Dealers and HOTS, exercise caution in the way they operate the system. We reproduce the below the recommendations on the conduct on NDS OM.**

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Recommendations: —

---All Dealers to exercise extreme caution while dealing on the NDS-OM system as overriding/surpassing the alerts/ soft filters would lead to losses, sometimes huge.

— HOTS must exercise control on the Dealers whom they are authorizing to operate the NDS-OM platform by strictly following the internal control systems and filters set in the system as well as ensure compliance to the code of conduct.

— Market Makers have a responsibility to quote on going and narrow Bids and Offers for well traded securities. They also should try to place Bids and Offers for other securities for the development of markets as well as to obtain Level II (Market Observable Tradable) prices for valuation purposes.

The NDS-OM is a sophisticated and user friendly tool with very few parallels outside India and we should utilize the same with care and caution.

With regards,

(D.V.S.S.V.Prasad)

Chief Executive Officer.