



*Nurturing Markets,
Widening Horizons*

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FIMCIR/2013-14/29

To,

All NDS-OM Users

Dear All,

**Dismantling of Hard Trading Bands on NDS-OM
Setting up of Disputes Resolution Committee for Erroneous Trades**

You would have observed the non-existence of Hard Trading Bands on the NDS-OM, as also daily notices on the FIMMDA Website Ticker, mentioning "No Trading Bands".

The Soft Bands initially, followed by the Hard Trading Bands, were both being calculated by the FIMMDA Office. When Hard Trading Bands were incorporated by CCIL on RBI's NDS-OM system, the calculations of the Trading Bands (based on FIMMDA's closing valuation levels across the G.Secs and SDLs) were done by our office and supplied to CCIL for uploading on NDS-OM.

Subsequent to June 20, 2013, following the "Tapering" announcement by the U.S. Federal Reserve, it became practically impossible to incorporate Trading Bands on the NDS-OM, as the Indian G.Sec Markets became very volatile and bands were hit several times during the day.

In the light of the foregoing, it has been decided to dispense with the Trading Bands as they exist, and take up the matter of upgrading the NDS-OM system to have an automated Trading Band which can be instated and relaxed automatically, without manual interventions.

In the meanwhile, FIMMDA has set up a Dispute Resolution Committee for Erroneous Trades on the NDS-OM (DRC - ET - NDS-OM). The committee consists of representatives from Banks in the Public, Private and Foreign Sector categories, Primary Dealers, Insurance Companies, Mutual Funds and Co-Operative Banks.

The details about the functioning of FIMMDA's DRC - ET - NDS-OM, have been spelt out in the attached Minutes of Meeting dated September 10, 2013.



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Only such trades which qualify as "Erroneous Trades" by the DRC - ET - NDS-OM, will be referred to RBI for disclosure of counterparty name and further processing.

Until such time as CCIL upgrades RBI's NDS-OM system, we once again re-iterate our various warnings, regarding the shortcomings of the existing system and request individual users to put in place necessary Internal Control Guidelines so that the "Dealer-User" of the NDS-OM abides by the existing Checks and Pop-ups which appear on the system and does not commit costly blunders.

FIMMDA will stop putting the daily "No Trading Bands" Ticker warning from October 01, 2013.

With regards,

Yours truly,

C.E.S. Azariah
Chief Executive Officer



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MINUTES OF THE MEETING

(10th September, 2013)

Meeting of the NDS OM Trade Dispute Committee

Minutes by Mr. C.E.S. Azariah

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



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DISCUSSION PANEL

No.	Name	Institution
1.	Mr. C.E.S Azariah	CEO, FIMMDA(ceo@fimmda.org)
2.	Mr. K. Boovendaran	Dy. CEO(Designate), FIMMDA (boovendran@fimmda.org)
3.	Mr. K. Arvind	Director, FIMMDA (SBI DFHI) (evp@sbidfhi.com)
4.	Ms. Kavita Patil	IDBI Bank (kavita.patil@idbi.co.in)
5.	Mr. Siddharth Shah	STCI PD (siddharth@stcipd.com)
6.	Mr. Sandeep Bagla	I Sec PD (sandeep.bagla@isecpd.com)
7.	Mr. Arafath A.	State Bank of India (arafath.a@sbi.co.in)
8.	Ms. Vasundhara Khajuria	FIMMDA (vasundhara@fimmda.org)

Agenda:

To draft a broad framework for addressing disputes arising out of trade on the NDS-OM system.

Discussions held:

After discussions it was decided that a Committee represented by the following market participants who actively trade on the NDS-OM, be constituted

1. Private Bank – Representative of Axis Bank - Mr. Vasant Shukla 1
2. Foreign Bank – Representative of Standard Chartered Bank
- Mr. M. S. Gopikrishnan1
3. Public Sector Banks – Representative of State Bank of India
- Mr. Arafath A.1
- Representative of IDBI Bank
- Ms. Kavita Patil1
4. Co-Operative Banks – Representative of Saraswat Co-Operative Bank or
ShamraoVithal Co-Operative Bank or
Maharashtra State Apex Co-Operative Bank1
5. Insurance Company – Representative of Life Insurance Corporation1
6. Primary Dealers - Representative of SBIDFHI - Mr. K. Arvind1
Representative of STCI PD Ltd – Mr. Siddarth Shah.....1
Representative of ICICI Securities PD Ltd – Mr. Sandeep Bagla1



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7. Mutual Funds -

Representative of Association of Mutual Funds (to be named)1

TOTAL MEMBERS 10

The quorum for the Dispute Resolution Committee (DRC) Meeting will be minimum 4 members.

The members present made the following suggestions:

1. **Identification of an "Erroneous Trade"**: It was decided that to start with, the trades which were not eligible to be claimed as "Big-Figure" errors as already laid down in "FIMMDA's Code of Conduct for usage of NDS-OM and OTC trades" *would not be eligible for raising an "Erroneous Trade" dispute.*

To reiterate:

A bid or offer placed at the start of the day would not constitute a "Big-Figure" mistake, as markets can "gap", at such times.

2. **Normal "Big-Figure" Mistakes** as already mentioned in the Code of Conduct would qualify for reversal. Examples of such trades as shown in the Code are as follows:

- i) An offer is put at Rs.91.56 or Rs.91.57 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.
- ii) A security was last traded at Rs. 96.50, and the next bid is placed at Rs 95.52. If the bid is hit by a seller by mistake without realizing the change in the big figure, such mistakes would be considered as, "big-figure" mistakes. The market reverts to bids and offers around Rs.96.50 after the erroneous trade.

3. Any other case which may arise during trading and not dealt-within the Code would be examined by the DRC for approaching RBI for counter-party details.
4. The committee can meet physically or through teleconferencing or any other mode, at short notice for deciding on the erroneous trades.
5. Only after the DRC is convinced that there is a case of "reversal" it will seek the "Counterparty" name from RBI. After hearing the "Counterparty", the DRC will decide whether the deal should be reversed, and convey the same to both parties



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concerned. If the DRC feels that there is no case for "reversal" the losing party will be informed accordingly.

6. RBI will be informed of all cases referred to the DRC, and the decision of the DRC in the matter.
7. Claims regarding "erroneous trades" should be lodged with FIMMDA on:
 - a. The day of the trade, by day - end;
 - b. By 10.00 am on the Settlement Date.

The FIMMDA DRC would meet by 12.30 pm on the day after receipt of claim under (a) above, or on Settlement Date under (b) above.

8. (i) Where Trade reversals are not possible (e.g. deals with Provident Funds), the price difference between the market price and erroneous price should be paid by the gaining party to the losing party.
(ii) For this purpose, the indicative market price would be based on the market related yield curve at the time of the "Erroneous Trade" as available on NDS-OM or would be decided by the DRC.
9. As all types of disputes which may arise could not be envisaged at this stage, the DRC decided to add - on mechanisms for resolving disputes after hearing and resolving the disputes not foreseen currently.

As CCIL is in the process of upgrading the NDS-OM system, suggestions are invited from market participants as to the System -Wide Checks and Balances to be put in place for automation of trading band relaxations / removals in the up-gradation project.

C.E.S. Azariah
Chief Executive Officer
Date: September 10, 2013