

MINUTES OF THE MEETING

(2nd December, 2013)

- Discussion on Erroneous Trade in Govt. Security 8.15% GS 2022

DISPUTE RESOLUTION COMMITTEE

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

(Minutes prepared by Vasundhara Khajuria)

DISCUSSION PANEL ON CONFERENCE CALL DATED 02.12.2013

No.	Name	Institution
DRC members:		
1.	Mr. K. Arvind	SBI DFHI (evp@sbidfhi.com)
2.	Mr. Jitendra Bansal	Axis Bank
3.	Mr. Sandeep Bagla	I Sec PD (Sandeep.bagla@isecpd.com)
4.	Ms. Kavita Patil	IDBI Bank (kavita.patil@idbi.co.in)
5.	Mr. V. Ramesh	AMFI (ramesh@amfiindia.com)
<u>FIMMDA:</u>		
1.	Mr. D.V.S.S.V. Prasad	Dy. CEO FIMMDA (dyceo@fimmda.org)
2.	Mr. K. Boovendran	Dy. CEO (Designate) (boovendran@fimmda.org)

The two parties to the dispute also participated in the discussion to put forth their cases.

Dispute on a trade of 8.15% GS 2022 done on NDS-OM on November 29, 2013

The committee met on December 2, 2013, to discuss and resolve an erroneous trade done on NDS OM.

FIMMDA Dispute Resolution Committee (DRC) received a notice of a dispute in the trading on NDS – OM on November 29, 2013.

The details of the deal and actions taken are as follows:

- A trade of Rs. 25 Crs (3 deals 10+10+5) in 8.15% 2022 took place at a yield of 10.1544% at 9.03 a.m on 29.11.2013.
- It was informed to FIMMDA by third party market participants that the deals were obviously “Erroneous Trades”.
- Subsequently, a Primary Dealer informed FIMMDA about an erroneous trade done on NDS-OM which was the same already reported to FIMMDA. An offer of Rs. 25 Crs was wrongly put on NDS-OM at Rs. 88.74 for 8.15% GS 2022, which is actually the price of another security 7.16% GS 2023. Instead of selecting 7.16% GS 2023, the dealer has wrongly selected 8.15% GS 2022 which was adjacent to 7.16% GS 2023, on the trading screen. The offer was immediately taken.
- The losing party of the deal – the PD sought reversal.

- The DRC members via e-mail confirmed that it was an erroneous deal, which needs to be reversed.
- RBI was approached to find out the counterparty name.
- When the RBI disclosed the names of the counterparty, it was noticed that the offer to sell was taken by two buyers in three deals. Two buy deals for Rs. 10 Crs and Rs.5 Crs were by one counter party (a Public Sector Bank) and the third deal for Rs. 10 Crs was by a single counterparty (a Private Sector Bank). The Trades were done at 09:03:38, 09:03:51 and 09:03:54.
- All the three counterparties (one seller and two buyers) were asked to reverse the deal, by the DRC.
- FIMMDA was informed by the seller of the deal and one of the buyers of the deal – a Public Sector Bank about the reversal of the trade involving Rs.15 crs on the same day (November 29, 2013).
- Whereas the second counter party a Private Bank, refused to reverse the deal and hence the dispute persisted.
- A Con-call was called for on 02.12.2013 for the DRC meeting for hearing both the counterparties and to try to resolve.

The parties to the dispute were asked to briefly present their cases.

1. The seller- the PD told that the offer was erroneous; no other security was traded at a yield of 10% or above in the recent past. In the past also the PD complied with the decisions FIMMDA/Regulator in respect of all disputed deals in which the PD was a counter party.
2. The buyer- the Private Sector Bank told that being an opening trade of the day, the offer cannot be termed as an ‘Erroneous Trade’ as per FIMMDA’s code of conduct; in a similar transaction with the same counter party on 06.03.2013 it was held by FIMMDA that opening trade does not constitute an ‘Erroneous Trade’ and in that transaction the Private Sector Bank was a losing party.

After hearing the case, the Dispute Resolution Committee gave the following ruling:

1. The captioned trade of the day is not in line with the market and is obviously an erroneous trade.
2. After the formation of DRC in September, 2013, DRC considered disputes involving all trades including opening trades and based on circumstances and merits it was held that

they were erroneous trades and hence to be reversed. In all those cases, the trades were reversed also.

3. Based on the facts of the case, the present deal is also an erroneous trade and it should be reversed.
4. Both the counterparties to report compliance by day end.
5. The past disputed deals cannot be linked to the present dispute. It is upto the concerned counter parties to discuss bilaterally.