



*Nurturing Markets,
Widening Horizons*

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October 18th, 2011

To,

All FIMMDA Members

Dear Sir/Madam

**Code of Conduct for Usage of NDS- OM
Request for tightening internal control systems for avoiding careless mistakes**

Subsequent to the captioned Code of Conduct becoming effective from October 1, 2011, we have noticed the following errors, some of which could have been avoided with a little care, and others which need a review of the internal control systems of the members using the NDS-OM, to prevent such mistakes and un-necessary losses :

- i) **Entering a trade as soon as the market opens**, ignoring the closing price of the previous day, and whether the price (bid/offer), is beyond the specified range for the day. While breaching a range would involve intervention by RBI, if there is a “Big-figure” input error as the “first trade of the day”, and within the “price – band/range”, the losing party would have no recourse.
This type of error can be avoided, provided dealers take a little care not to jump in give an opening bid /offer, but verify what is being input, especially on Mondays and after extended holidays.
- ii) **In a volatile day**, such as Monday, October 3,(the first trading day after the Government’s announcement for the extra borrowing programme of Rs 52,872 crores for the Second Half of the year) , while we agree that the yield-curve may need to steepen, the range of 1.25 % is wide enough to take the yields higher on a daily basis.
Members may request RBI, through FIMMDA to relax the range, instead of breaching the range on their own, and inviting questions from RBI (e.g. 8.30 % - 2040).
- iii) It has been noticed that for “**Odd-Lot “ deals** input into the NDS-OM, the dealers seem to be least concerned as to the fate of the deal, whether the order which has been input has been “taken” or “given”, or whether it is still outstanding on the “Pending Orders List”. Once the order has been executed, the dealer does not verify the “Dealer’s Blotter” whether the price at which it has been executed was within the range, or there was a big-figure error, or whether he/she has made the profit/loss envisaged anticipated while entering the order . It is left to the Back-Office to find out



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the error, and in the instance case a loss amounting to more than Rs 1 crore, was noticed only at the end of the day.

On account of the above errors, RBI has asked us to request the NDS-OM users to review their internal control systems and the instructions which have been given to the dealers regarding the steps to be taken to scrutinize their inputs and outputs in the NDS-OM system, to avoid such costly errors.

Kindly take note and arrange accordingly.

With regards,

Yours truly,

C.E.S.Azariah
Chief Executive Officer