

## **MINUTES OF THE MEETING**

**(5<sup>th</sup> November, 2013)**

- Discussion on Punching Error (yield instead of price) resulting in erroneous trade in Govt. Security 7.95% GS 2032

**DISPUTE RESOLUTION COMMITTEE**

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

(Minutes prepared by C.E.S Azariah)

**DISCUSSION PANEL ON CONFERENCE CALL**

<b>No.</b>	<b>Name</b>	<b>Institution</b>
1.	Mr. C.E.S Azariah	CEO FIMMDA ( <a href="mailto:ceo@fimmda.org">ceo@fimmda.org</a> )
2.	Mr. Sandeep Bagla	I Sec PD ( <a href="mailto:Sandeep.bagla@isecpd.com">Sandeep.bagla@isecpd.com</a> )
3.	Mr. Saumitra Bajpai	Axis Bank ( <a href="mailto:saumitra.bajpai@axisbank.com">saumitra.bajpai@axisbank.com</a> )
4.	Mr. Siddhartha Shah	STCI PD ( <a href="mailto:siddharth@stcipd.com">siddharth@stcipd.com</a> )
5.	Ms. Kavita Patil	IDBI Bank ( <a href="mailto:kavita.patil@idbi.co.in">kavita.patil@idbi.co.in</a> )

Following a report dated October 31, 2013, for resolution of the captioned trade, done by a Bank, (the reporting party), a meeting of the Dispute Resolution Committee for Erroneous Trades on NDS-OM was called for on November 05, 2013 at 4.30 pm.

The CEO, FIMMDA explained the following points which needed to be debated and decision taken:

1. The DRC at its inception, had decided that claims regarding “erroneous trades” should be lodged with FIMMDA by :
  - a. The day of the trade , by day –end ;
  - b. By 10.00 am on the Settlement date.
2. As per “ FIMMDA’s Code of Conduct for usage of NDS-OM “.The party which notices the big-figure error, (irrespective of whether the party has lost or gained due to the big-figure error) should immediately inform FIMMDA about such a deal .
3. While GOI Securities with maturity in 2032 traded on 22.10.13 at levels shown below :
 

	<u>Security</u>	<u>Dealt at yield</u>
(i)	8.28 % GS 2032	9.0897 %
(ii)	8.32 % GS 2032	9.0903 %

The 7.95 % GS 2032 was dealt at 85.9752 % in the Odd-Lot segment of NDS-OM

4. Although, an Odd-Lot deals, the loss to the Bank has been to the tune of Rs 18 lacs (approx.) for a deal of Rs 22 lacs.
5. Both RBI and FIMMDA are facing a CBI case in Jaipur High Court as witnesses for CBI, where Corporate Bond trades dealt at absurd yields of 1.52 % by a Co-Operative Bank are under investigation for perpetuation of a fraud. The case for the prosecution rests on the fact that corporate bond yields cannot be lower than a G.Sec Yield, and that a yield of 1.52 % for a Corporate Bond is absurd, when compared with an yield of 8.50 % for a G.Sec of similar maturity. Therefore, if such “off-market” deals are left un-noticed and “non-actioned “by the regulator, they could set a precedence for fraudulent off-market deals not only in G.Sec (reported trades), but Corporate Bonds also.

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

1. The captioned trade is an obviously “off-market” trade.
2. Although the trade is “time-barred” as far as referral to the DRC is concerned, the trade cannot be left “non-actioned” by the Regulator and owner of the NDS-OM.
3. For the present case, FIMMDA should call for the counterparty name from RBI and inform the counterparty about the absurd “off-market” price and yield, and why it did not reveal the “Windfall gain” on account of the obviously erroneous trade on 22<sup>nd</sup> October 2013 itself.
4. If the counterparty does not agree to reverse the trade, the matter be referred to RBI as owner of the system to take suitable action against the counterparty, so that such “indisciplined trades” are not perpetuated on the NDS-OM.