

Regd. Office: 2<sup>nd</sup> floor, The International 16, Maharshi Karve Road, Churchgate, Mumbai – 400 020 Tel: (91-22) 22017089 / 91 / 94 Fax: (91-22) 22017095

E-mail: fimmda@fimmda.org

May 25, 2011

To

All FIMMDA Members

Dear Sir/Madam,

### NDS-OM for trading in G-Secs Big –Figure Mistake in 7.59 %- 2016

On May 25, 2011, the market, having closed on 24.5.11 at Rs 96.50 and Yield 8.48 % for the captioned security, opened with a bid of 95.52 and an offer of 96.55, for 7.59 % - 2016.

One of the users, acting as a "Price-Taker", sold at Rs 95.52 with yield at 8.7337 %, while all subsequent trades were at 96 big figure, and yield around 8.48 %.

Upon RBI being informed by the seller, of the loss incurred by it on account of accepting the price put into the system by the buyer, RBI wanted FIMMDA to ascertain the following information from the "Price-Taker":

- i) Whether the NDS\_OM system gave a pop-up alert when the "Price –Taker" hit the bid of 95.52. ?
- ii) Whether the "Price-Taker" had set an internal limit range on the bid and offer for 7.59-2016? If so, what was the range set?

On ascertaining the above information, we were advised that:

- i) While the NDS-OM gave the pop-up alert to the "Price-Taker", before final conclusion of the deal, this was ignored by the dealer.
- ii) The internal range limit was set at Rs 1.00 on either –side of the closing price.

Thus, when a bid which was lower by 98 paise was hit, the additional pop up warning the dealer, that the trade is outside the price range set, did not appear.

In the light of the above episode, the RBI expressed its unhappiness, about the FIMMDA members not taking care for utilizing the risk management facilities available in the NDS-OM system, and not training/ cautioning the dealers about the risks involved in over-riding the systems in place.

In a previous case, RBI had expressed its extreme displeasure at "Price —Givers" putting bids and offers far below or far above the last closing price, or the ongoing bids and offers in the market, resulting in unsuspecting rookie dealers falling into the "trap" and incurring losses by dealing on "Off-Market" prices .



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We attach a copy of the Minutes of Meeting dated March 04, 2011, wherein, on RBI's instructions, FIMMDA members have drafted a "Code of Conduct" (CC) which may be put in place by RBI for the NDS-OM system. While this CC is yet to be finalized and submitted to RBI for implementation, we request the members to respect the spirit of the draft code, and exercise care while putting in bids and offers and also while dealing on the bids and offers available on the screen. Dealers should be cautioned to pay attention to the alerts appearing on the NDS-OM dealing screen, to avoid unnecessary losses, as well as undue enrichment.

Regards

C.E.S.Azariah
Chief Executive Officer



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# MINUTES OF THE MEETING To draft a Code of Conduct for dealing on NDS-OM (4th March 2011) FIXED INCOME MONEY MARKET AND DERIVATIVES ASSOCIATION OF INDIA (Minutes prepared by Abhishek Shriwastav)



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# **DISCUSSION PANEL**

No. N	ame	Institution
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1. Mr. C.E.S Azariah CEO (FIMMDA)

2. Mr. Ajit Kumar Birla Sun Life

3. Mr. Mithun Saha Axis Bank

4. Mr. Gopal Tripathi RBS

5. Mr. S.P Sarangi State Bank of Mauritius

6. Ms. Manoj Sahev IDBI Bank

7. Mr. Gaurav Mehta HDFC Bank

8. Mr. S. Sri Kumar Corporation Bank

9. Mr. Bal Mukund Sharma Canara Bank

10. Ms. Radhani Deshpande Kotak Mahindra Bank

11. Mr. Manish Mehrotra Bank of Baroda

12. Mr. Prashant Ranjan Axis Bank

13. Ms. Suman Prasad Canara Robecco Mutual Fund

14. Mr. Anil Bankey SBI DFHI

15. Mr. Siddharth Shah STCI PD

16. Mr. Aradhya Dwivedi FIMMDA

17. Mr. Abhishek Shriwastav FIMMDA

## **BACKGROUND:**

The IDMD RBI requested FIMMDA to draft a Code of Conduct for dealing on NDS-OM with other representatives of all the users of NDS-OM. A preliminary meeting of FIMMDA members was convened to discuss the initial process and the subsequent proceedings.



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### **DISCUSSIONS:**

The committee decided that a Committee may be formed consisting of representatives from Banks, Primary Dealers, Mutual Funds, Insurance Companies and Co-operative Banks to finalise the Code of Conducts and also to form a Grievance Redressal Committee.

Following are the suggestions given by market participants to be incorporated while finalising the Code of Conduct:

- i. A dealer should not put an order +/- 90 paisa of the Last Traded Price. Where no trades have taken place on the previous day, FIMMDA's valuation price of the previous day would be the base.
- ii. The Head of Treasury should be responsible for the internal discipline of maintaining the +/- 90 paisa filter and should be responsible in case of any violation, resulting in a Big-Figure mistake.
- iii. The losing party in a Big-Figure Mistake should inform the Redressal Committee within 3 hours of the trade. A dedicated e-mail ID will be provided for such issues.
- iv. A trader will receive a warning if found guilty by the Redressal Committee, if the same trader receives three such warnings, it will be reported to RBI.
- v. FRB's may be exempted from this discipline.

# **CONCLUSION:**

The meeting concluded with a vote of thanks to the Committee members for their participation.