



Nurturing Markets,
Widening Horizons

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Amended as on August 26, 2013

FIMCIR/2013-14/23
August 07, 2013

To,

All Users of NDS-OM

Dear All,

RBI's NDS-OM Platform

LARGE LOSSES ON ACCOUNT OF THROWING CAUTION TO THE WINDS!

Consequent upon RBI's recent measures to control the volatility in USD/INR, the volatility has got transferred to the Money and Bond Markets.

As trading in Bonds is required to be done without any interruptions, FIMMDA has been unable to calculate and request CCIL to place "Hard -Filters" which prevent "Big-Figure" mistakes and "Wide-Prices" being traded on the system.

We have written "Do's" and "Don'ts" for Users of NDS-OM and placed the same on our website from July 29, 2013, which have been happily ignored by the NDS-OM Users!!

A copy of the Do's and Don'ts are attached (*Annexure I*) for individual users for putting their internal house in order, for avoiding losses.

You would be aware of the following trades which have resulted in losses in excess of Rs 10 lacs to the user:

Date	Security traded	Amount Traded Rs. Crore	Previous Day's closing price and yield	Opening Bid/Offer at which the User Dealt	Normal trading range for rest of the day	Loss incurred Rs
July 31, 2013	7.83% GS 2018	10	96.20/8.83%	Bid: 93.07/9.70%	95.75/8.95%	31.3 lacs
August 5, 2013	7.40% GS 2035	10	87.25/8.70%	Offer: 97.25/7.65%	87.76/8.65%	100 lacs



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These trades could not be reversed, as they were out of the purview of FIMMDA's Code of Conduct, being the opening trades of the day, in an uncertain "wide" market, and not qualifying as "Big-Figure Mistakes"

In this connection, we once again re-iterate that the following checks are available in the NDS-OM system, which are over-ridden and caution thrown to the winds while dealing in G.Secs in this volatile market:

1. A Single Order Limit set by the Head of Treasury, which cannot be over-ridden by the Dealer.
2. Dealer-Wise Price, Category-wise, Price ranges, which can be over-ridden by the Dealer.
3. Dealer-wise Security wise list for securities which can be Short-Sold. This permission given by the HoT cannot be over-ridden by the Dealer.

We have noticed that in the cases of losses incurred, both 1 and 2 have been mis-managed by individual institutions.

The Head of Treasury, by permitting large Single-Order limits on Illiquid Securities and at market opening when prices are still being discovered, has resulted in the institution taking larger losses.

The Dealer, by over-riding the internal Price Range set by the Head of Treasury, is giving the sanctity of the Internal Price Range a blatant go-bye, landing the institutions in huge losses.

Until such time the RBI can upgrade the NDS-OM in such a manner that the Dealer cannot over-ride the HoT's price -range, without his manually relaxing the range, we request all NDS-OM Users to put the following suggestive Internal Control Guidelines in place:

1. The Dealer should be prohibited to over-ride the internal Category wise Security Price-Range put in place by the Head of Treasury. As putting internal Security-Wise Price Range is in the powers of individual Institutions, wider price bands may be put in place depending upon the Institution's loss bearing capacity.

After putting the soft filters by the HOT, if there is a need by the dealer to over-ride the filter subsequent to the cautionary pop up appearing, this should be done only with the explicit permission of the HoT. The HoT should immediately reset the filter



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after the original filter for the concerned dealer has been breached, to prevent him from dealing in a further automatically relaxed filter. Example: If an HoT puts an internal filter of 50 paise above and below the previous day's closing, a pop up would appear as soon as the dealer attempts to feed/ deal on a price 50 paise above or below the previous day's closing price. If the dealer breaches this original filter with /without the HoT's permission the next filter automatically gets set at 100 paise from the previous close (or 50 paise from the last dealt price). Therefore, it is necessary for the HoT to re-assess the situation and reset the internal filter after every breach, to avoid preventable losses. (added as on 26-08-2013)

2. At the end of the day, the Head -of-Treasury should authorize all breaches of the Price Ranges set by him. This Audit Trail should be available for all audits (Internal, External, Statutory, RBI etc)
3. It is suggested that a Dealer, guilty of more than three un-authorized breaches (say), may be taken off the Dealing Board, and put on a cooling period , before permitting him to trade again, to instill discipline amongst the traders.

This Circular is being issued in the interests of the Users of NDS-OM and for an error-free safe G.Sec and SDL market.

With regards,

Yours truly,

C.E.S. Azariah
Chief Executive Officer



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ANNEXURE I

IMPORTANT NOTICE FOR ALL NDS-OM USERS DATED JULY 29, 2013

Following the announcement of "Tapering" the Quantitative Easing by the U.S. Federal Reserve Chairman, on June 19, 2013 and RBI's subsequent actions to curtail the depreciation and volatility in the Exchange Rate of the INR, the Indian G.Sec and other Bond yields have become very unpredictable and volatile.

In the light of the above, we have started putting "Relaxed Trading Bands" or removing the Trading Bands altogether on the NDS-OM, to prevent interruptions in the G.Sec, SDLs and other bonds trading on NDS-OM as well as Over-the-Counter trades.

The relaxation or removal of Hard Trading Bands exposes the users to "Big-Figure" mistakes if the Bond Traders are not careful and ignore the warning "Pop-Up" alerts which are put internally by individual Heads of Treasuries.

While we have been cautioning the Users during the past years, we once again reiterate the following "Do's and Don'ts" to avoid "Big-figure" mistakes which could lead to heavy irreversible losses to the bank making the mistakes:

DO's

1. Do wait for the Market-Makers to make the opening moves, if you are not a regular Market-Maker, and not prepared for large losses at the market opening.
2. Do put bids and offers for smaller amounts (say Rs 5 crores) to limit the losses on account of a wrong price / yield being input, If you are not a Market-Maker.
3. Do look at the yield you are willing to Buy or Sell the security, instead of the price.
4. Do look at the yield at which the particular security closed the previous day, before deciding the yield at which you would *like to "Buy"* (preferably an yield higher than previous day's close)
5. Do look at the yield at which the particular security closed the previous day, before deciding the yield at which you would *like to "Sell"* (preferably at a yield lower than previous day's close).



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6. Do look at the yield at which Bids are put (*not the offer*) if you are looking to "Buy" the security, to enable you to appreciate where other buyers are putting bids and whether you would like to place a higher or a lower bid, and whether the offer which is available is competitive.
7. Do look at the yield at which Offers are put (*not the bid*) if you are looking to "Sell" the security, to enable you to appreciate at what price other sellers are putting their offers and whether you would like to place a lower yield (higher price) or a higher yield (lower price) and whether the available bid is competitive.
8. Do look for offers if you are a buyer or bids if you are a seller. Please be doubly careful if you intend to be the only bidder or seller, as you may input a wrong price/yield.
9. Do look at the "Spread" between the Bids and Offers. If you are a buyer, and propose to buy at the price offered, how much will the loss be, if you sell at bid available on the screen or in the market. Are you comfortable with the loss so calculated? Similarly, if you are a seller, and propose to sell at the price bid, how much will the loss be, if you want to buy back at the offer available on the screen or in the market. Are you comfortable with the loss so calculated.
10. Do remember that the best two-way prices (both bid and offer being available) are those with the narrowest or no spread. Wide spreads between bids and offers indicate a thin or very uncertain market and chances of incurring a large loss if your decision is incorrect and you want to unwind.
11. Do adhere to the "Pop-Up" Alerts, as over-ruling the internal filter set could end up in your institution making a major loss.



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DON'TS

1. Don't make the opening moves (putting Bids or Offers at the start of the day) if you are not a regular Market-Maker, and not prepared for large losses at the market opening.
2. Don't put bids and offers for large amounts (say Rs 25 crores) if you are not a seasoned NDS-OM User so that the losses on account of a wrong price /yield input are curtailed.
3. **Don't look at the Price** you are willing to Buy or Sell the security, **instead look at the yield**, as these are investment and disinvestment operation and not simply buying and selling as in shares and FX.
4. Don't look at the yield at which the particular security is currently trading but at what yield it closed the previous day, before deciding the yield at which you would *like to "Buy"* (preferably an yield higher(price lower) than previous day's close), depending upon your view of the day's movements based upon your analysis.
5. Don't look at the yield at which the particular security is currently trading but at what yield it closed the previous day, before deciding the yield at which you would *like to "Sell"* (preferably at an yield lower(price higher) than previous day's close) depending upon your view of the day's movements based upon your analysis.
6. Don't look at the yield at which Offers are put (but rather look at the bids) if you are looking to "Buy" the security. To be able to gauge if your intended buying price is in line with the market, better to see where other buyers are putting bids and whether you would like to place a higher or a lower bid and whether the offer is competitive enough.
7. Don't look at the yield at which "Bids" are put if you are looking to "Sell" the security. To be able gauge if your intended selling price is in line with the market, better to see where other sellers are putting their offers and whether you would like to



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place a lower yield (higher price) or a higher yield (lower price) on offer for selling your security.

8. Do please be doubly careful. If you are a buyer and there are no offers, or if you are a seller and there are no bids, i.e., you intend to be the only bidder or seller, you may input a wrong price/yield.
9. Don't look at the prices at which the Bids and Offers shown but the "Spread" between the Bids and Offers. If you are a buyer, and propose to buy at the price offered, how much will the loss be, if you sell at bid available on the screen or in the market. Are you comfortable with the loss so calculated? Similarly, if you are a seller, and propose to sell at the price bid, how much will the loss be, if you immediately purchase back at the offer available on the screen or in the market. Are you comfortable with the loss so calculated?
10. Don't forget that the best two-way prices (both bid and offer being available) are those with the narrowest or no spread. Wide spreads between bids and offers indicate a thin or very uncertain market and chances of incurring a large loss if your decision is incorrect and you want to unwind.
11. Don't ignore the "Pop-Up" alerts, as over-riding the internal filters set by your Head of Treasury can lead to huge losses for your institution.

C.E.S. Azariah
Chief Executive Officer
July 29, 2013