

March 2, 2012

FIMCIR/2011-12/47

To,

All Users of NDS –OM

Dear All,

**FIMMDA's Code of Conduct for Usage of NDS-OM
Relaxation of Trading Bands, and consequent need for extra –care for avoiding “Big –Figure “errors**

Please refer to FIMMDA's Circular FIMCIR/2011-12/46 dated 24.02.12 advising relaxation in trading bands for the day, by shifting to yield-based bands instead of price-based bands with effect from February 24, 2012.

It would be noticed that as the bands are now “yield –based”, the permissible trading bands while narrower for lower duration papers, are almost doubled when we move to longer duration papers. *(Example: As on 29.02.12, the trading bands for 10.47 % GS – 2015 is 54 paise, while that for 9.15 %- 2024 is Rs 1.63 (approx) on either side of the closing prices)*

In the light of the foregoing relaxations, there is every likelihood of committing “Big-Figure” errors while inputting an “offer” or a “bid” on the NDS-OM, as there are NO HARD FILTERS in the system.

We would like to bring to the notice of the Users of NDS-OM that the relaxation of trading price bands does not mean that they are at liberty to commit “Big-Figure” errors while inputting a “Bid” or an “Offer”, which is more than 90 paise on either side of FIMMDA's Closing prices. Taking shelter under the excuse that the market has “gapped” for a single security, when across the yield curve there are hardly any movements, would not be acceptable. *[Example : on 24.02.12, 8.28 % GS -2032 (a Benchmark Security) traded for Rs 5 crores at 97.65 (yield 8.5254 %) at 11.33.33 am ; subsequently , an offer for Rs 5 crores was put at 98.50 (yield 8.4361 %) (within the permissible trading band) and was “Taken” ; there were no further trades in this security during the day ; the same day evening, there was an OMO purchase for this security with the cut –off at 97.84 (yield 8.5061 %). The entire G-Sec yield curve did not move more than 2 Bps during the whole day in the long. While FIMMDA and the losing party interpreted this as a “Big-Figure’ error, the gaining party agreed only “under protest” and reversed]*

Until “Hard Filters” are placed on the NDS-OM, we urge the Users to:

- i) Desist from putting Bids or Offers, which are wider than 90 paise than the Last Traded Price, or the FIMMDA closing price.
- ii) While trading on a Bid or Offer shown on the screen, the User should exercise care that he/she is not committing a “Big-figure” mistake. Such mistakes can be avoided if the Dealer is trained to see what is the “Yield” at which he is planning to sell or buy the particular security.
- iii) Be doubly cautious while inputting prices and dealing on infrequently traded securities with higher duration.
- iv) Put in narrower Bids or Offers, if the User is a Market-Maker, especially in securities which do not trade frequently.

With regards,

Yours truly,

C.E.S. Azariah
Chief Executive Officer