GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4807
ANSWERED ON:04.05.2012
NORMS FOR AUTOMATED TRADING QUESTION
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has issued Securities and Exchange Board of India (SEBI) norms for automated trading recently; and

(b) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARA1N MEENA)

(a) Securities and Exchange Board of India (SEBI) vide its circular dated March 30, 2012 has put in place the broad guidelines for algorithmic trading in the securities market.

(b) Some of the salient points of the guidelines prescribed by SEBi on algorithmic trading require:

(i) the stock exchange to have appropriate risk control mechanism to address the risk emanating from algorithmic orders and trades,

(ii) the stock exchanges to have arrangements, procedures and system capability to manage the load on their systems in such a manner so as to achieve consistent response time to all stock brokers,

(iii) the stock exchanges to put in place effective economic disincentives with regard to high daily order-to-trade ratio of algo orders,

(iv) the stock exchanges to have a system to identify dysfunctional algos and take suitable measures including advising the member, to shut down such algos and remove any outstanding orders in the system that have emanated from such dysfunctional algos,

(v) the stock exchanges to ensure that the stock broker shall provide the facility of algorithmic trading only upon the prior permission of the stock exchange,

(vi) the stock broker, desirous of placing orders generated using algos, to satisfy the stock exchange with regard to the implementation of the minimum levels of risk controls at its end viz. Price check, Quantity check, Order Value check, Cumulative Open Order Value check and Automated Execution check, and;

(vii) the stock brokers to submit an undertaking to the respective stock exchange that, they have proper procedures, systems and technical capability to carry out trading through the use of algorithms and have real-time monitoring systems to identify algorithms that may not behave as expected.