

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:3968  
ANSWERED ON:05.09.2012  
APPROPRIATE RISK MANAGEMENT SYSTEM  
Dhurve Jyoti

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Government has any mechanism to monitor Algorithmic or Algo Trading for putting in appropriate risk management systems for these types of trades into the Indian stock market and if so, the details thereof and if not, the reasons therefor;
- (b) whether there is a tendency of the merchant bankers of IPOs to intentionally not reply to the SEBI's queries related to their IPO and if so, the action being taken to make it obligatory to respond to SEBI's queries in a particular time frame; and
- (c) the action being taken/proposed to be taken by the Government to check the volatility in the price of an IPO on its listing day?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRINAMO NARAIN MEENA)

(a) Securities and Exchange Board of India (SEBI) has put in place appropriate system for monitoring Algorithmic or Algo Trading in the Indian stock market. Salient points of the guidelines prescribed by SEBI on algorithmic trading includes, inter alia, risk management measures for Algorithmic (Algo) trading. The measures taken are placed hereunder:

1. The stock exchange shall 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.
2. The stock exchanges shall put in place effective economic disincentives with regard to high daily order-to-trade ratio of algo orders.
3. The stock exchange shall have appropriate risk controls mechanism to address the risk emanating from algorithmic orders and trades.
4. Stock exchanges shall 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.
5. Stock exchange shall ensure that the stock broker shall provide the facility of algorithmic trading only upon the prior permission of the stock exchange.
6. The stock broker, desirous of placing orders generated using algos, shall 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.
7. 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.

(b) No Sir. SEBI has not come across any such instances of merchant bankers intentionally not replying to the queries raised by it relating to IPOs.

(c) To check volatility in the price of an IPO on its listing day, SEBI has put in place a pre-open call auction mechanism for IPOs on the first day of trading and a framework of trade controls applicable to the normal trading session of IPO scrips.