GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2451
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NSE CRASH QUESTION
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Will the Minister of FINANCE be pleased to state:

(a) whether a major crash took place in National Stock Exchange (NSE) during the recent time and if so, the impact thereof in the NIFTY;

(b) the reasons for the crash; and

(c) the steps the Government/Securities and Exchange Board of India (SEBI) has taken or proposes to take to prevent such a flash crash in the stock markets in future?

Answer

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

(a) and (b): On October 05, 2012, the trading in the Cash Market segment was briefly halted by National Stock Exchange of India Ltd. (NSE) upon trigger of NIFTY circuit filter.

NSE has informed Securities and Exchange Board of India (SEBI) that the Nifty fall was on account of the entry of 59 erroneous orders, which resulted in multiple trades for an aggregate value of over Rs. 650 crore. These orders were entered by a trading member for an erroneous quantity which resulted in executing trades at multiple price points across the entire order book. The Nifty fell to a day`s low of 4888.20 points, which was 899.40 points lower (or a -15. 54% change) from its previous close of 5787.60 points. While the Exchange systems functioned normally without any glitch, the above abnormal trades caused market closure automatically due to the index circuit filter getting triggered. The market was reopened by the Exchange with a pre-open phase at 10.00.22 am and trading resumed at 10.05.00. am and the market functioned normally.

(c) SEBI vide its circular dated June 28, 2001 has advised the stock exchanges to implement an index based market-wide circuit breaker at three stages of the index movement either way at 10%, 15% and 20% resulting in halt of 30 minutes, 1 hour, 2 hours and remainder of the day subject to various conditions prescribed in the circular.

Further, in order to minimize the likelihood of flash-crashes on account of algorithmic trading, SEBI vide circular dated March 30, 2012 on `Broad Guidelines on Algorithmic Trading has directed the stock exchanges to have appropriate risk controls mechanism to address the risk emanating from algorithmic orders and trades.