GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3401
ANSWERED ON:30.08.2013
PLACING OF ORDERS BY BROKERS
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Will the Minister of FINANCE be pleased to state:

(a) whether the bourses in the country have laid down trading rules for the brokers;

(b) if so, the details thereof;

(c) whether the National Stock Exchange (NSE) systems allow brokers to place orders as many as 271 times of their deposits;

(d) if so, whether the said orders are as per the trading rules laid down by bourses and if not, the action taken/being taken by the Securities and Exchange Board of India (SEBI) in the matter and the reaction of the Government thereto; and

(e) the measures taken or proposed to be taken by the Government in this regard?

Answer

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

(a) & (b): Stock Exchanges in the country have laid down trading rules for brokers in compliance with the comprehensive risk management framework and various position limits prescribed by the market regulator, Securities and exchange board of India (SEBI) for ensuring market safety and integrity. All orders and trades on the stock exchanges have to be in compliance with the frame work so prescribed by SEBI.

(c) & (d): Brokers can place orders on any Exchange only after complying with certain collateral and net-worth requirements. In pre-opening session of Equity Markets (9:00 AM to 9:15 AM) only orders which are fully backed by collateral can be placed by the brokers. In normal trading session, order values can be any multiple of the collateral value. However, as soon as an order is converted into a trade, capital adequacy check is carried out by the Exchange. In case of inadequate capital, the broker is stopped from placing any fresh orders and is allowed to place orders only to reduce his existing open positions. The remaining orders of the broker in this case are purged from the system. As per the rules laid down for trading by the Stock Exchanges, there are limits specified on the value of open positions as a multiple of the collateral value, but there are no limits set on the order values as a multiple of the collateral value in normal trading session. Accordingly, the said orders are in compliance with trading rules of the Stock Exchanges and SEBI.

(e): In order to further improve the integrity of market systems following measures have been implemented by SEBI vide circular dated December 13, 2012.

1. Any order with value exceeding Rs. 10 crore per order cannot be accepted by the stock exchange for execution in the normal market.

2. In addition, stock exchange has to ensure that appropriate checks for value and / or quantity are implemented by the stock brokers based on the respective risk profile of their clients.

3. Exchange has to ensure that stock brokers put-in place a mechanism to limit the cumulative value of all unexecuted orders placed from their terminals to below a threshold limit set by the stock brokers.

4. Stock exchange has to put broker in risk-reduction mode (RRM) when 90% of the stock broker's collateral available for adjustment against margins gets utilized on account of trades that fall under a margin system.