GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:276
ANSWERED ON:06.12.2013
TRADE HALTS QUESTION
Thakor Shri Jagdish

Will the Minister of FINANCE be pleased to state:

(a) whether there has been several cases of erroneous trading causing crashes and subsequent trade halts in National Stock Exchange (`NSE) since March, 2012;

(b) if so. the details thereof and reasons therefor along with action taken during the last three years and the current year: and

(c) the steps being taken by Securities and Exchange Board of India to secure the NSE system in order to prevent such errors in trade?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRtNAMONARAFN MEENA)

(a): Since March 2012. there has been one instance of trading halt in National Stock Exchange of India Limited (NSE) on October 5, 2012 which was caused by erroneous order entered by a stock broker.

(b) & (c): The trading halt was on account of erroneous sell basket order for Nifty Index securities by a trading member that resulted in multiple trades for an aggregate value of over Rs. 650 Crore. As a result, the Nifty fell to the day`s low of 4888.20 points, which was 899.40 points lower than Us previous close of 5787.60 points. NSE initiated action against the trading member for entering the erroneous orders on October 05, 2012 itself. NSE issued show cause notices on the above incident to the stock broker who had placed erroneous order and to two of its major counterparty stock brokers. Monetary penalties were levied on all the three stock brokers. In addition, trading facility of the stock broker who had placed erroneous order was also withdrawn for three days.

To prevent recurrence of such incidents, SEB1 issued circular dated December 13, 2012 on `Pre-trade Risk Controls` for implementation of (he following measures by stock exchanges:

(i) Single Order Value Limit: Any order with value exceeding Rs. 10 crore per order shall not be accepted by the slock exchange for execution in the normal market.

(ii) Cumulative limit on value of unexecuted orders of a stock broker: Stock exchange have been directed to ensure thai 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.

(iii> Dynamic price bands: For scrips excluded from the requirement of price bands, a mechanism of dynamic pri`je bands have been mandated to prevent acceptance of orders for execution that are placed beyond the price limits set bv the stock exchanges.

(v) Risk reduction mode: Stock brokers are automatically put into risk reduction mode on reaching 90% collateral uii lization level wherein their unexecuted orders are cancelled and new orders are accepted pursuant to a check for sufficiency of margins.