

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4506
ANSWERED ON:08.08.2014
NSE FLASH CRASH
Mohan Shri P. C.

Will the Minister of FINANCE be pleased to state:

- (a) the reasons for National Stock Exchange's (NSE) flash crash during the year 2012;
- (b) the steps Securities and Exchange Board of India (SEBI) has taken to prevent such a situation;
- (b) whether SEBI has banned mini-derivatives contracts due to certain amount of misuse and mis-selling; and
- (d) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SMT. NIRMALA SITHARAMAN)

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

As per NSE, instead of placing a Basket Sell order for a value of Rs. 17 lakhs, a trading member placed a Basket Sell order for 17 lakhs quantity of NIFTY Index scrips. The erroneous 'Basket Sell' order comprised of 59 orders amounting to a total value Rs 980 crores. Such orders resulted in multiple trades for an aggregate value of approximately Rs. 650 crore. The aforementioned trades caused market closure automatically due to the index circuit breaker getting triggered.

(b): With the view to prevent such situations, Securities and Exchange Board of India (SEBI) vide Circular dated December 13, 2012 directed stock exchanges to implement the pre-trade risk Controls such as single order value limit, cumulative limit on value of unexecuted orders of a stock broker, dynamic price bands and risk reduction mode.

(c)&(d): With a view to ensure that small / retail investors are not attracted towards derivatives segment, SEBI vide Circular dated November 20, 2012, directed stock exchanges to discontinue mini derivative contracts on Index (Sensex and Nifty).