NATIONAL STOCK EXCHANGE OF INDIA LIMITED

DEPARTMENT : CAPITAL MARKET SEGMENT	
Download Ref No : NSE/CMTR/20662	Date : April 30, 2012
Circular Ref. No : 036/2012	

All NSE Members,

Sub: Guidelines governing Decision Support Tools / Algorithms for trading through Non-Neat front end.

This is in continuation of Exchange Circular No. NSE/CMO/25/2011 dated May 17, 2011 on Decision Support Tools / Algorithms for trading through Non-Neat front end. Based on SEBI circular no. CIR/MRD/DP /09 /2012 dated March 30, 2012, the additional guidelines governing Decision Support Tools / Algorithms for trading is detailed below:

Trading members desirous of placing orders generated using algorithms are required to ensure that:

- The algorithmic orders shall be routed through broker servers located in India.
- Proper procedures, systems and technical capabilities shall be in place to carry out trading through the use of algorithms.
- Algorithms shall be safeguarded from misuse or unauthorized access. Additionally, procedures and arrangements shall be in place to safeguard algorithms from misuse or unauthorized access.
- The system shall have the capabilities to monitor algorithms real-time to identify those algorithms that may not behave as expected and bring it to the notice of the Exchange immediately.
- The system shall maintain logs of all trading activities including record of control parameters, orders, trades and data points emanating from trades executed through algorithm trading to facilitate audit trail.
- The system shall release further order(s) only after accounting for all executed, unexecuted and unconfirmed orders placed earlier. Further, system shall have pre-defined parameters for an automatic stoppage in the event of algo execution leading to a loop or a runaway situation.
- Any modifications / Change to the approved decision support tool / Algorithm shall be effected only on prior approval of Exchange.
- All Algorithmic orders emanating from the system shall be tagged with the unique identifier as specified by Exchange from time to time.
- The system shall adhere to the guidelines as specified by SEBI / Exchange to identify dysfunctional algos for orderly trading and market integrity. Further, members shall take necessary measures as mandated by the Exchange.

Risk controls:

Trading member desirous of placing orders using Decision Support Tools / Algorithms, shall ensure that the orders are routed through electronic / automated risk management system which shall adhere to the minimum levels of risk controls specified below:

S. No	Risk Control	Parameters	Applicability
1	Price checks	Price band	Price Limits validation at order level shall be equal to or less than the applicable limits i.e. Price Bands/ Dummy circuits of the instrument /security as defined by the exchange for the respective segment from time to time.
2	Quantity checks	Quantity freeze limits	Quantity check at order level shall be equal to or less than the applicable quantity freeze limits of the instrument /security as defined by the exchange for the respective segment from time to time.
3	Order value checks		Quantity value check at order level shall be a combination of price & quantity checks.
4	Cumulative open order value check	System shall not permit user to set "unlimited" values	Cumulative open order value check at the client level shall be within the exposure limits applicable for the client based on available collaterals.

Additional Checks:

Market price protection: To limit the risk of market orders, members shall protect such orders by setting a price limit which shall be within a pre-set percentage of LTP. The limit thus set shall be less than the applicable circuit limits as prescribed above.

Further, with an aim to ensure orderly trading, trading members are required to adhere to the order to trade ratio threshold limits as specified by the Exchange from time to time. The applicable threshold limits per segment shall be intimated separately.

Members desirous of providing Decision Support Tools / Algorithms are required to submit ***application cum undertaking*** to the Exchange through facility provided in ENIT. Additionally, members already approved for Decision Support Tools / Algorithms are required to furnish an undertaking to the Exchange along with the annual system audit report for the year ended June 30, 2012. The format of the undertakings shall be available in the ENIT interface provided to the members for algo application / system audit compliance.

For and on behalf of
National Stock Exchange of India Limited

Suprabhat Lala
Vice President

Telephone No	Fax No	Email id
+91-22-26598150/8446	+91-22-26598449	backoffice@nse.co.in