

National Stock Exchange Of India Limited**Department : SURVEILLANCE**

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To All NSE Members

Sub: Consolidated Circulars – Surveillance (Commodity Derivatives Segment)

Please find attached consolidated circulars of Surveillance in Commodity Derivatives Segment.

For National Stock Exchange of India Limited

Avishkar Naik
Vice President
Surveillance

Telephone No

+91-22-26598129 / 26598166

Email id

surveillance@nse.co.in

1) Position Limits for Commodity Derivatives, clubbing of open positions, penalties for violation of position limits

SEBI Circular no. SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016 and SEBI master circular no. CDMRD/DMP/CIR/P/2018/126 no. dated September 7, 2018 provides for the Position Limits in Commodity Derivatives, clubbing of open positions, penalties for violation of position limits. (Copies of SEBI circulars attached as annexure 1 and annexure 2 respectively.)

For Non- Agricultural commodities-

For calculation of overall position of a client, all long and short positions of the client across all contracts shall be netted out.

- Client level position limits shall be equivalent to the numerical level limit (as given in SEBI Circular no. SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016) or 5% of market-wide open interest, whichever is higher.
- Member level position limits shall be 10 times of the numerical value of client level position limits or 20% of the market-wide open interest, whichever is higher.

Members are advised to take note of the same and ensure necessary compliance. In case of any further queries or clarifications, members are requested to contact on below numbers:

Sr No.	Particulars	Concerned Team	Contact Number
1	Member level position limit	NSE Clearing Limited	18002660051
2	Client level position limit	Surveillance	022-26598166/8219

2) Client Code Modification

Modifications of client codes of non-institutional trades is allowed only to rectify a genuine error in entry of client code at the time of placing/ modifying the related order in all segments. It is also re-emphasized here that this facility is expected to be used more as an exception rather than a routine.

For this purpose the following shall be classified as genuine errors:

- Error due to communication and / or punching or typing such that the original client code / name and the modified client code / name are similar to each other.
- Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013)

Error Account:

- a. Shifting of trades to the 'Error account' of broker would not be treated as modification of client code, provided that trades in 'Error account' are subsequently liquidated in the market and not shifted to some other code.
- b. Further, broker shall disclose the codes of accounts which are classified as 'Error accounts' to the Exchanges. Each broker should have a well-documented error policy approved by the management of the broker. Exchanges shall periodically review the trades flowing to the error accounts of the brokers.

Exchange shall levy the below penalty on the trading members w.r.t. client code modifications done in Commodity segment to client codes other than Error account

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2

Where

a = Value (turnover) of non-institutional trades where client codes have been modified by a trading member in a segment during a month.

b = Value (turnover) of non-institutional trades of the trading member in the segment during the month

With reference to SEBI master circular no. CDMRD/DMP/CIR/P/2018/126 dated September 7, 2018 attached as Annexure 2 herewith, members are advised to take note of the above and ensure compliance.

For any clarifications, members are advised to contact Mr. Rishav Raj, Mr. Binoy Yohannan on 022-26598228 / 8417

3) High Order to Trade Ratio (OTR)

Members are hereby informed that charges for High Order to Trade Ratio shall be levied in Commodity Derivative segment. The said charges shall be computed at member level on a daily basis and shall be collected on a monthly basis, after reckoning all algo orders and algo trades of the member:

Penal Charges and Actions:-

Daily Algo Order to Trade Ratio	Charges (per algo order)
Less than 50	Nil
50 to less than 250 (on incremental basis)	1 paise
250 to less than 500 (on incremental basis)	5 paise
500 or more than 500 (on incremental basis)	5 paise

In case the ratio is 500 or more than 500 during a trading day, the concerned member shall not be permitted to place any order in the commodity derivatives segment for the first 15 minutes on the next trading day (in the continuous trading session) as a cooling off action. However, the trading member shall be permitted to enter transaction in risk reducing mode in the commodity derivatives segment during such a cooling off period.

For the purpose of calculation of Daily Order-to-Trade ratio all algo orders, i.e., order entry, order modifications and order cancellations shall be considered.

If the orders entered and/ or modified are within 1% of the last traded price (LTP) of the respective security/ contract ($(\text{Absolute (Limit price - LTP)}/\text{LTP}) \leq 1\%$), such algo orders will not be included in the calculation of the aforesaid Order-to-Trade ratio.

The penalty structure will be applicable for only those members who have placed 10,000 orders or more in a day.

Trading members are also hereby informed that the data pertaining to their respective order to trade ratio shall be made available on daily basis in the following folders on Member Portal for Commodity Derivatives Segment:

/comtftp/O<TMCODE>/Investigation/Dnld

With reference to SEBI Circular No. SEBI/HO/CDMRD/DMP/CIR/P/2016/97 dated September 27, 2016 regarding Broad Guidelines on Algorithmic Trading for National Commodity Derivatives Exchanges and SEBI master circular no. CDMRD/DMP/CIR/P/2018/126 no. dated September 7, 2018 regarding “Master Circular for Commodity Derivatives Market, members are advised to take note of the above and ensure compliance.

In case of any further queries or clarifications, members are requested to contact on 022-26598129/166.

4) Surveillance Obligations for Trading Members

In order to facilitate effective surveillance mechanisms at the Member level, the Exchange shall download the below mentioned alerts based on the trading activity on the Exchange.

Sr. No.	Transactional Alerts	Periodicity
1	Significantly increase in client activity	Monthly
2	Sudden trading activity in dormant account	Monthly
3	Concentrated position in the Open Interest / High Turnover concentration	Daily

The above transactional alerts are an indicative list. Trading Members may also formulate their own alerts in addition to the above mentioned type of alerts as per their surveillance policy.

The following activities are also required to be carried out by the Trading Members based on UCC parameters:

Client(s) Information:

Trading Members are required to carry out the Due Diligence of its client(s) on a continuous basis. Further, Trading Members shall ensure that key KYC parameters are updated on a periodic basis as prescribed by SEBI and latest information of the client, including information pertaining to directors/ partners/ trustees/ Karta in case of non-individual clients, is updated in UCC database of the Exchange. Based on this information the Trading Member shall establish groups/ association amongst clients to identify multiple accounts/ common account/ group of clients. Trading members are also required to profile their clients and categorize the clients under one of the category, namely, Commercial participant (value chain participant/ exporter/ importer, hedger, etc.) or Non- commercial participant (financial participant/ trader/ arbitrageur, etc.)

• **Analysis:**

In order to analyse the trading activity of the Client(s)/ Group of Client(s) or Commodity identified based on above alerts, the Trading Members are required to:

- Seek explanation from such identified Client(s)/ Group of Client(s) for entering into such transactions.
- Seek documentary evidence such as bank statement/ warehouse receipt (for commodities with compulsory delivery) or any other documents to satisfy itself.

- In case of funds, Bank statements of the Client(s)/ Group of Client(s) from which funds pay-in have been met, to be sought. In case of commodities with compulsory delivery, documentary evidence including warehouse receipt of the Client(s)/ Group of Client(s) for which commodities pay-in have been met, to be sought.
- The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds for the settlement of such trades actually belongs to the client for whom the trades were transacted.
- After analysing the documentary evidences, including the bank statement/ warehouse receipt, the Trading Member shall record its observations for such identified transactions for Client(s)/ Group of Client(s). In case where adverse observations are recorded, the Trading Member shall report all such instances to the Exchange within 45 days of the alert generation. The Trading Member may seek extension of the time period from the Exchange, wherever required.

- **Monitoring and reporting:**

A. For effective monitoring, Trading Member shall:

1. Frame a surveillance policy covering:

- i. Receipt of Alerts from Exchange/ generated at member's end.
- ii. Time frame for disposal of alerts and if there is any delay in disposal, reason for the same shall be documented.
- iii. Suspicious/ Manipulative activity identification and reporting process
- iv. Record Maintenance

2. The surveillance policy of the Trading Member shall be approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be.

3. A quarterly MIS shall be put up to the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed off during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action taken. Also, the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) shall be apprised of any exception noticed during the disposal of alerts.

4. The surveillance process shall be conducted under overall supervision of its Compliance Officer.

5. Designated Directors/ Partners/ Proprietor/ Compliance Officer would be responsible for

all surveillance activities carried out by the Trading Member and for the record maintenance and reporting of such activities.

- B. Internal auditor of Trading Member shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report. This will be effective as and when the internal audit guidelines are applicable for trading members.

The above guidelines are illustrative and not exhaustive. Based on facts and circumstances, the trading members are required to exercise their independent judgment and take adequate precaution.

The Exchange shall download these alerts to the Trading Members through Member Portal. Trading Members are requested to analyse these alerts and revert in case of adverse observations, if any, to the Exchange.

In case of any further queries or clarifications, members are requested to contact on 022-26598129/166.