Currency derivatives: NSE move to curb self-trade

Mechanism to be applicable during order matching

OUR BUREAU

Mumbai, July 27

Starting August 3, the National Stock Exchange (NSE) will implement a self-trade prevention mechanism in its currency derivatives segment. Trades in which both the buyer and the seller are the same entity are called self trades.

Fictitious in nature, these are used by market participants to artificially prop up volumes though the beneficial ownership never changes hands.

This facility has already been implemented in the NSE's equity segment.

If an active order is likely to match with a passive order belonging to the same member-client or same member-proprietary combination in the same order book, then such an order (full or partial as the case may be) shall be cancelled by the NSE, said the stock exchange in a circular.

A rejection message 'Order cancelled by the system — The order could have resulted in self-trade', would flash on the broker's terminal, the NSE said. The mechanism will be applicable only to proprietary (PRO) and client (CLI) - non-custodial participant orders. Moreover, the mechanism will be applicable only during matching.

The NSE has directed its members (brokers) to take due precaution to prevent self-trade while performing trade modification. Self-trades invite strict action from capital markets regulator SEBI.

In January 2014, it suspended stock broker Swan Securities for six months for having indulged in "abnormal self-trading pattern" in the scrip of Adani Enterprises. In March this year, SEBI levied a penalty of ₹25 lakh on Crosseas Capital Services for indulging in unfair trade practices (self-trades) in the scrip of Essdee Aluminium.

What is self-trade?

- A self-trade is one where both the buyer and seller are the same entity
- It is fictitious in nature — the beneficial ownership never changes hand
- Self-trade is often used by market participants to artificially prop up volumes
- SEBI has been cracking the whip on such activity