Consolidated Penalty Structure for Surveillance

Frequently Asked Questions (FAQs)

Unique Identifier for Algorithms:

- **Which are the violations covered under this category?**
  Trading Members have been advised to adhere to the various circulars pertaining to tagging of algorithmic orders with the unique identifier and ensure that all algorithmic orders are tagged with the unique identifier allocated by the Exchange. The penalties for this violation are already in place as per circular no NSE/SURV/50154 dated October 29,2021. There has been a revision in penalty as per circular no NSE/SURV/57315 dated June 27,2023.
  Note: Instance violation count to be computed based on rolling 3 months.

Quote Stuffing:

- **Are the Order Messages considered on Per Day or Per Month basis?**
  The computation is on per day level.

- **Are index orders and trades also considered?**
  The computation is at order and trade level for particular segment. For equity derivatives segment, this computation shall include order messages and trades in index futures, index options, stock futures and stock options combined for a algo id + dealer user id level.

- **Would it count separately for each contract / Symbols or on Dealer ID wise?**
  The computation is applicable at Algo ID + Neat user ID level for a particular segment.

- **Would it include Order Modification and Order Cancellation also?**
  Yes, order modifications and order cancellations shall also be included.

- **Are minimum 10 trades needed after every 20 lacs orders or there is no such slab system?**
  There is no such slab system. Penalty will be levied in case 20 lakh or more order messages are observed with trade count of 10 or less.

- **Does the calculation of order messages include Exchange Rejects due to orders being outside Price bands/operating range?**
  No, the orders which are rejected by the Exchange will not be considered in count of order messages.

- **Rolling month consist of "Trading Days" or "Calendar days"?**
  Calendar days are considered for rolling 1 month count and not trading days.

- **On which portal will we get the daily reports?**
  The alert for the same will be communicated on Member Surveillance Dashboard (MSD) portal.

- **What is the maximum capping on penalty amount?**
  The penalty shall be levied as per the slabs mentioned in the exchange circular no. 57315 dated June 27, 2023.

- **Please explain with regard to Algo ID +Dealer User ID level. Is this at main exchange user ID level or at NNF Dealer Level?**
  The computation is applicable at Algo ID + Neat user ID level for a particular segment.

- **The instance count of 3 are for unique TM code-Dealer ID-Algo ID level or across?**
  For a particular day and a segment in case of violation, only 1 instance will be considered for a trading member. The instances count will be considered at trading member level.

Order Modifications without change in price and quantity:

- **Would this excessive order modifications for each contract/symbol wise or overall dealer/ trading member wise?**
  This point covers modifications without change in price and quantity for a particular order number.
  E.g. Order no 1200000012099961 was modified 12,000 times without any change in price and quantity on a particular trade date.

- **What about penalty, is it on per user/contract or is it on overall trading member?**
  The penalty is on basis of a particular order number getting modified without change in price and quantity.

- **What will be action in case more than 50,000 order modifications without any change in price and quantity are observed for a particular order number?**
  Penalty of Rs 50,000/- will be levied and the trading member will be advise to stop trading from the Algo id(from which this order modifications was observed) from the next trading day. The algo id will have to be re-registered with the Exchange by submitting a system auditor certification, certifying that the issues, if any, in the said algo id have been corrected.

High algo order messages in stock/contracts with Nil or low trade count:

- **What is the definition of Symbol/Contract wise. Will exchange calculate this ratio on each token or each symbol?**
  The ratio calculation will be applicable at symbol level in cash segment and contract level in derivatives segment. Example of contract RELIANCE 1500 CE OPTSTK 27th July 2023 expiry.

- **Is this applicable to index futures and index option?**
  No, the same is applicable for cash market, stock futures, stock options, currency futures and currency options.

- **Would it include near to LTP orders (which are exempt in Algo ORDER to Trade ratio) for calculating Number of order messages?**
  All the algo order messages will be considered in computation of order messages under this point.

- **Are spread orders / IOC orders included?**
  Yes, spread orders as well as IOC orders are included. For IOC orders, both the entry and cancellation will be considered as separate count.

- **Does month-wise mean calendar monthwise?**
  Yes.

- **What is the maximum capping on Penalty Amount?**
  The penalty amount to be levied is as specified in the circular.

- **What are the conditions which will be checked at the high ratio at symbol/contract level?**
  The conditions for the entire month are as below:
  - Ratio of TM in a particular symbol/contract for entire month > 500
    AND
  - Algo order messages of TM in that particular symbol/contract for entire month > 10,00,000
    AND
  - The algo order messages of the trading member account for a considerable percentage of total market order messages (algo + non-algo) in the symbol/contract
    AND
  - The algo order messages of the trading member in the symbol/contract as a percentage of his own algo order messages in the respective segment shall also be considered

- **Ratio of 500 is per contract/per day or overall ratio is applicable per day?**
  The computation of ratio is done by using aggregate count of algo order messages and aggregate count of algo trades for the entire month. This limit is not per day.

- **Will the penalty be levied if symbols/contracts having ratio more than 500 are different in every month. E.g For CM segment in Month 1 RELIANCE, Month 2 SBI and Month 3 ITC ?**
  Yes, penalty of Rs 20,000/- will be levied even if there is a single instance count(symbol/contract) for a month which gets repeated for consecutive 3 months.

- **Will the penalty be levied if the count of symbols/contracts having ratio more than 500 gets reduced?**
  Yes, penalty of Rs 20,000/- will be levied even if there is a single instance count(symbol/contract) for a month which gets repeated for consecutive 3 months.

- **In 1st month, 20 stocks have ratio of more than 500 in NSE CM segment. In 2nd month, 5 stocks (other than above 20 stocks) have ratio of more than 500 in NSE CM segment. In 3rd month, 2 stocks have ratio more than 500 in NSE CM segment. Will penalty be applicable in this case?**
  Yes, penalty will be levied in this case since there are violation instance(s) observed in a particular segment for 3 consecutive months.

- **What will be the penalty amount if a trading member has violations for 3 consecutive months in all 3 segments (CM, FO and CDS)?**
  Penalty of Rs 60,000/- will be levied in this case.

- **In which month will this penalty be applicable?**
  The penalty circular is effective from 1st August 2023. Hence the penalty will be levied in case there are violation instance(s) observed of a trading member in a particular segment for 3 consecutive months i.e August 2023, September 2023 and October 2023.

Non-algo id pumping excessive order messages:

- **Is a trading member required to make any changes in 12 digit NNF id tagging in ENIT portal?**
  The entire working under this scenario for identification of non-algo id is based on 13th digit of NNF id as per the order structure. The 12 digit categorization of NNF id will not be considered for identifying a NNF id as algo or non-algo.

- **When will a non-algo NNF id be considered to be pumping excessive order messages?**
  Currently Exchange is sending alerts for NNF id's for which trading members are required to provide a detailed write-up of mechanism used for placing orders including relevant screenshots using the NNF ID's.

  For the purpose of this circular on Consolidated Penalty structure (NSE/SURV/57315), a non-algo NNF id will be considered to be pumping excessive order messages if the non-algo NNF (CTCL id reported for dealers):

  - Whose 13th digit in the NNF id is tagged as non-algo in order structure and
  - Is sending significant order messages to the market
  - On a consistent basis at multiple times during the day
  - For a single UCC / or a prop account

  For this purpose, the 12 digit NNF terminal id reported for CTCL (i.e. combination of Pin code - 6 digit, Branch Code - 3 digit and Terminal ID - 3 digit) allotted to their dealers by the member shall be considered. Further as mentioned in the circular (NSE/SURV/57315), the Non Algo id is identified on basis of 13th digit of the 15 digit NNF Id.

- **When will penalty be levied under this scenario?**
  Non-algo ID is identified on basis of 13th digit of NNF id as per the order structure. Penalty will be applicable post establishment that the 15 digit NNF id was actually algo.

- **Is the SLB segment also in scope of this guideline?**
  No.

Market Orders emanating from Algo:

- **Will IOC orders emanating from algo be covered in this point?**
  IOC Market orders emanating from algo will be covered.

- **For algo orders, market orders are not allowed. So, placing Stop Loss orders without limit price will be considered as market orders?**
  Yes.

General Queries pertaining to above scenarios:

- **Will the Exchange be sharing some EOD or realtime reports for these additional surveillance controls to ensure that trading members have visibility on this?**
  Yes, Exchange is sending details pertaining to all above alerts on a regular periodic basis (not realtime basis) on Member Surveillance Dashboard.

In case of any further queries, you may write to us at surveillance@nse.co.in.

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