

# National Stock Exchange of India Limited

## Circular

Department: COMMODITY DERIVATIVES	
Download Ref No: NSE/COM/55358	Date: January 24, 2023
Circular Ref. No: 03/2023	

All Members,

Pre-Trade risk controls - Market Price Protection

Exchange has a robust risk management framework and continuously reviews and implements various pre-trade risk control measures for ensuring orderly trading, effective risk management and price discovery. In the current state of market maturity / development and to create a conducive environment for all market participants, review and enhancements are required to optimize and strengthen the pre-trade risk control measures for preventing aberrant orders.

Accordingly, in continuation to Exchange consolidated circular in COM segment (Download No. 44484) dated May 27, 2020 members are requested to note the following w.r.t handling of Market Orders:

- A) Current handling of Market Orders:
1. Market orders with Day condition in RL book type
    - a) **When users enter an order with a 'Market' price, if orders exist on the counter side, then the order takes the price of the available counter orders and trades are executed.**
    - b) In case orders exist on the counter side but the sufficient quantity is not available then trades are executed for the available order quantity and the order with remaining quantity is passivated taking the price of the best passive order on same side and sits in the order book based on price time priority.
    - c) If no passive orders exist on the counter side but if an order exists on the same side, then the order is passivated and takes the price of the best order on same side and sits in the order book based on price time priority.
    - d) If no passive orders exist on both sides, the order is passivated at the last traded price (LTP) of the contract.
    - e) If the contract has never been traded or the available LTP falls outside prevailing Operating price range, then the market order is passivated at the base price of the contract.

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2. Market order with IOC condition in RL and Multileg book types  
When users enter an order with a 'Market' price, if orders exist on the counter side, then the order takes the price of the best counter order and trades are executed; else, the order (full or partial) is cancelled with appropriate message.
- B) **Revised handling of 'Market' price orders with book type RL and time condition as Day / IOC, shall** be applicable to all Futures and Options contracts in Commodity derivatives segment:
- 'Market' price orders shall not be allowed in a contract which has not traded for the day i.e. LTP is not available for the day. Market orders received in such scenario shall be rejected by the Exchange and appropriate message shall be sent to respective trading terminal.
  - Market Orders shall be allowed to be traded only up to certain mark-up/down price above/below Last traded Price (LTP).
  - Buy market orders shall be allowed to trade till (1+X%) of LTP.
  - Sell market orders shall be allowed to trade till (1-X%) of LTP.
  - Mark-up/down of X% above/below LTP, shall also be subject to minimum absolute value in Rs.
  - The initial/remaining quantity\* post sweeping the counter orders up to mark-up/down price during matching, if any,
    - Shall be cancelled automatically, if counter orders are outstanding beyond mark-up/down price on opposite side of book and appropriate messages shall be sent to respective trading terminal.
    - Additionally, if the market order is placed with day condition,
      - Shall be passivated at best price at same side, based on price time priority, if no counter orders are outstanding beyond mark-up/down price on opposite side of book.
      - Shall be passivated at LTP of the day (trade price of last trade of the day), if no orders are outstanding on both the side of book.
- \* Remaining quantity could also be initial ordered quantity if there are no outstanding counter orders between LTP & mark-up/down price when order was entered.
- In case of Stop loss (SL)-market order, mark up/down price to allow order to trade upto certain price, shall be determined based on LTP of the contract when SL order gets triggered.
  - The MPP validation shall also be applicable for the order modification requests i.e. limit order is modified as Market order.
  - MPP validation shall be applicable in conjunction with the existing OPR validation for orders.
  - Initially, the parameters to arrive at the mark-up/down shall be set as follows:

Product Type	Last Traded Price (Rs.)	% Of LTP	Minimum Absolute Range (Rs.)
Futures	<=50	-	1.5
	>50	3%	-
Options	<=50	-	10
	>50	20%	-

*Note: Exchange may review the aforesaid mechanism and various applicable parameters from time to time based on the experience gained and inputs received from market participants / regulator.*

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C) Changes in Multileg Orders (2 Leg / 3 Leg):

- Multileg orders with 'Market Price' condition for all (Futures and Options) contracts shall be discontinued. Market orders received in such scenario shall be rejected by the Exchange and appropriate message shall be sent to respective trading terminal.
- Multileg orders with limit price condition shall continue to remain available for all contracts.

Members should refer section 3.1 of Exchange consolidated circular no. 44484 dated May 27, 2020, and SEBI circular no. CIR/MRD/DP/15/2015 dated July 16, 2015, regarding Trade Annulment. Any request for Trade Annulment shall be processed strictly in adherence to the said circulars. Accordingly, Exchange strongly recommends trading members to develop similar features as mentioned above to be made available to their dealers/clients. Members should trade responsibly and cautiously, as trading away from normal prices and misleading or causing any disruptions in normal trading may result in inquiry, investigation, and regulatory actions.

These aforesaid changes shall be effective from trade date February 06, 2023 and shall be available for testing in mock being conducted on February 04, 2023.

For and on behalf of  
National Stock Exchange of India Limited

Khushal Shah  
Associate Vice President

Toll Free No	Email id
1800-266-0050 (Option 1)	<a href="mailto:msm@nse.co.in">msm@nse.co.in</a>