

**National Stock Exchange Of India Limited**

Department: FUTURES &amp; OPTIONS SEGMENT

Download Ref No: NSE/FAOP/49118

Date: July 31, 2021

Circular Ref. No: 53/2021

All Members,

Pre-Trade risk controls

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 partial modification to Exchange consolidated circular in FO segment (Download No. 44482) dated May 27, 2020, following is being implemented:

A. Quantity freeze for futures &amp; options contracts

1. Quantity Freeze Limits for Indices

In case of contracts on indices, all orders entered in the trading system having quantity more than the respective freeze quantity limit specified for the index shall be frozen and automatically rejected by the Exchange. Quantity freeze limit for all contracts on indices shall be as follows:

Index Level		Quantity Freeze
From	To	
0	5750	8500
> 5750	8625	5500
> 8625	11500	4200
> 11500	17250	2800
> 17250	27500	1800
> 27500	40000	1200
> 40000	55000	900
> 55000		600

2. Quantity Freeze Limits for Individual Stocks

In case of contracts on individual stocks, all orders entered in the trading system having quantity more than the respective freeze quantity limit specified for the individual stock shall be frozen and automatically rejected by the Exchange.

Orders which may come to the Exchange as a quantity freeze shall be the lesser of the following:

- 1 % of the market wide position limit\*.
- Or
2. Notional value of the contract\*\* of around Rs.2.5 Crores.

The quantity freeze limits for individual stocks shall be based on number of contracts arrived at by dividing the above by market lot and rounding off the number of contracts to the nearest 10 contracts on the higher side. The number of contracts thus arrived at would be multiplied by the market lot to arrive at the final freeze quantity.

An example of calculation of Quantity freeze for security ABC Ltd. is given below:

A) Market wide Position limit	57856890
B) Market Lot	600
C) Highest strike price	300
D) Maximum value of an order	Rs.25000000
E) 1% of market wide position limit (A*0.01)	578568.90
F) Freeze quantity based on Rs. 2.5 Crs Limit (D/C)	83333.34
G) Interim freeze quantity (lesser of E and F)	83333.34
H) Conversion of freeze quantity to no of contracts (G/B)	138.89
I) Rounding off the number of contracts to the nearest 10 contracts on the higher side	140
J) Final Freeze quantity (I *B)	84000

\*The Market wide position limit applicable on Futures and Options contracts on individual securities shall be as stipulated by NSE Clearing Corporation Ltd (NCL) in this regard from time to time.

\*\*The notional value for the above will be computed based on the highest available strike price on the security.

The Exchange shall revise the quantity freeze limit on a monthly basis for all underlying derivative securities/indices and on the ex-date for stocks undergoing corporate action, if applicable. Members are informed that details of quantity freeze limits of all stocks and indices are available in qtyfreeze.xls file on NSE website and Extranet (/faofit/faocommon).

These aforesaid changes shall be effective from trade date August 2, 2021. Members are advised to take the updated contract.gz file available on extranet path faofit/faocommon before trading on August 2, 2021.

B. Alerts at the time of order entry in Future Contracts through Exchange provided NEAT Plus Frontend (FE).

Exchange shall shortly release a new version of NEAT Plus wherein an alert pop-up shall be generated for the members on frontend in case limit order price is greater than or equal to X% of Reference Price for buy orders and is lesser than or equal to X% of Reference Price for sell orders. Reference price shall be the LTP or Base Price of the contract.

Initially, the X value shall be set as follows:

- 5% for Stock Futures
- 3% for Index Futures

Exchange may review and change the 'X' value in future, if required.

The aforesaid functionality shall be in addition to the existing Market Price Protection functionality available to members in the NEAT Plus Front End. Members are requested to refer to the mock

circulars to be issued in this regard for complete details about the said functionality. They may also refer to the help menu of the latest exe that shall be released shortly. The effective date of the functionalities release shall be communicated separately.

C. Advisory to all Empanelled Vendors / Application Service Providers / Members developing and deploying Non-Neat Frontend (NNF) systems

- With reference to section 1. 10 of Chapter 4 of SEBI Master circular SEBI/HO/MRD2/MRD2\_DCAP/P/CIR/2021/0000000591 dated July 5, 2021, Exchange strongly advises market participants developing and deploying NNF to build appropriate pre-trade checks, alerts and controls in their NNF systems in terms of order value and Price Protection Checks to ensure smooth and orderly trading. Vendors / members should stringently adhere to the various risk management and other checks as mandated by the Exchange / SEBI from time to time.

Members should refer section 3.1 of Exchange consolidated circular 44482 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 at B 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.

In view of the above implementation of aforesaid enhanced measures and on review of existing controls, members are requested to note that Trade Execution Range (TER) mechanism will not be applicable for all contracts traded in Equity Derivative Segment and accordingly, TER broadcast will also not be available with effect from August 16, 2021 (start of market hours).

For and on behalf of  
National Stock Exchange of India Limited

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