

National Stock Exchange of India Limited

Circular

Department: FUTURES & OPTIONS SEGMENT	
Download Ref No: NSE/FAOP/53114	Date: July 27, 2022
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All Members,

Pre-Trade risk controls

Limit 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. To further strengthen the pre-trade risk control measures for preventing aberrant orders and to ensure orderly trading, the Exchange shall put in place the following mechanism of Limit Price Protection (LPP)

1. LPP range shall be the range on both sides of the reference price to validate price of limit orders
2. Reference price for each contract shall be computed as follows:
 - a. At market open – it shall be computed theoretically using underlying price as discovered in the cash market pre-open session, benchmark interest rate as MIBOR rate (for option contracts, Black Scholes model shall be used along with appropriate volatility). In case underlying price is not available at the time of computation, reference price shall be base price of the contract
 - b. During trading hours – it shall be the simple average of trade prices of that contract in the last 30 seconds. For contracts that have traded in last 30 seconds, the reference price shall be revised throughout the day at 30 seconds interval.
For contracts that have not traded in the last 30 seconds, the reference price shall not be revised. However, in case contract remains untraded for continuous 15 mins from last reference price update event, the reference price shall be the theoretical price based on the latest available underlying price (or base price of the contract if underlying price is not available).
3. Any incoming Limit order placed beyond LPP range shall automatically be rejected by the Exchange as below:
 - a. Buy order price > High LPP limit
 - b. Sell order price < Low LPP limit

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4. The LPP validation shall also be applicable for the order modification requests.
5. LPP shall be an additional validation subject to order price being within prevailing Operating price range.
6. Appropriate message shall be displayed on the respective trading terminal on rejection of the order on account of LPP validation.
7. For the SL-Limit orders, aforesaid validation shall be applicable post trigger of the order while releasing in the RL book.
8. LPP limit shall be flexed automatically as and when count of orders rejected on account of LPP validation & number of related UCCs count meets a pre-defined criteria. LPP range shall be flexed in the direction in which the criteria is met.
9. Passive orders i.e. existing outstanding orders which are within the OPR, shall continue to remain in the order book even if the LPP range has moved and shall be matched as per price time priority.

Exchange shall also provide broadcast for the applicable Limit Price Protection Ranges for Non-NEAT frontend (NNF) users.

The 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.

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 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.

Parameters to arrive at LPP range on both the sides of reference price, list of applicable products, parameters for broadcast functionality and effective date of LPP mechanism shall be communicated through a separate circular.

For and on behalf of
National Stock Exchange of India Limited

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