

National Stock Exchange of India Limited

Circular

Department: FUTURES & OPTIONS SEGMENT	
Download Ref No: NSE/FAOP/54242	Date: October 28, 2022
Circular Ref. No: 129/2022	

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).

Accordingly, in continuation to Exchange circular NSE/FAOP/53114 dated July 27, 2022 and NSE/FAOP/53438 dated August 25, 2022, members are requested to note the implementation of following. Multiple mock sessions were conducted vide circular NSE/FAOP/53785 dated September 21, 2022, NSE/FAOP/53877 dated September 28, 2022 and NSE/FAOP/54002 dated October 10, 2022; to enable testing for market participants in this regard.

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).

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3. The LPP range on both the side of reference price shall be computed as follows:

Instruments	Reference Price (in Rs)	Absolute	% of Reference Price
OPTIDX	<=50	+ / - 20	-
	>50	-	+ / - 40%

4. Any incoming Limit order placed beyond LPP range shall automatically be rejected by the Exchange as below:
- Buy order price > High LPP limit
 - Sell order price < Low LPP limit
5. The LPP validation shall also be applicable for the order modification requests. Order modification request having price beyond LPP limit (as in point 4 above) shall be rejected.
6. LPP shall be an additional validation subject to order price being within prevailing Operating price range.
7. Following message shall be displayed on the respective trading terminal on rejection of the order on account of LPP validation.
“Order price is beyond LPP limit”
8. For the SL-Limit orders, aforesaid validation shall be applicable post trigger of the order while releasing in the RL book, considering prevailing LPP limits. Hence, members are requested to note the same while placing SL-Limit orders.
9. LPP limit shall be flexed automatically when minimum 10 orders are rejected on account of LPP validation, between two LPP revision events; AND when such orders involves minimum 5 unique UCCs. LPP range shall be flexed in the corresponding direction in which the criteria are met.
10. 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.
11. LPP mechanism shall currently be applicable for Index Options (Weekly & Monthly expiries).

Exchange shall also provide broadcast for the applicable Limit Price Protection Ranges for Non-NEAT frontend (NNF) users. Members are requested to note the following broadcast parameters provided for the LPP range:

Limit Price protection Range (LPP) Parameters					
Segment	Source 1		Source 2		Approx. bandwidth utilization
	Multicast IP Address	Broadcast Port	Multicast IP Address	Broadcast Port	
FO Segment	239.55.55.21	55021	239.55.55.121	55121	2 Mbps

The broadcast shall be available for NON NEAT Front End users effective from date of LIVE release.

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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 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 in live from trade date October 31, 2022 and shall be available for testing in mock being conducted on October 29, 2022.

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)	msm@nse.co.in