

Order Based Surveillance Measure - Persistent Noise Creators (PNC)

Frequently Asked Questions (FAQs)

1) What is the purpose for introduction of Order Based Surveillance Measure - Persistent Noise Creators?

Over the years, Exchanges and SEBI have issued various guidelines to regulate Algo based trading in the securities market. One metric to gauge the algo related activity of a trading member is the “Order to Trade Ratio (OTR)” which was implemented in 2012. Further, tagging of orders with their corresponding algo id has been made mandatory in the year 2019. Proactive surveillance measures on possible algo based manipulations such as “Surveillance measure on Order Spoofing” was implemented in May 2019.

The excessive order messages may be attributed as “noise” in the market with prima facie no intention to execute trade by modifying or cancelling them. This results in an increase in the overall “Information Asymmetry” for other algos / players in the market.

2) What are the criteria for shortlisting clients under Persistent Noise Creators and what are the applicable surveillance actions on the shortlisted Clients?

The surveillance measure shall be applicable on the daily trading activity at the Client / Proprietary account level in a security / contract and shall be based on the following parameters:

- High Order to Trade Ratio (OTR) in value terms (i.e. Value of all Orders Entered / Modified / Cancelled in a Security / Contract by a Client / Proprietary account vis-à-vis Value of all Trades in the Security / Contract by a Client / Proprietary account

AND

- High Number / Instances of Order modifications

AND

- High Percentage of Order modifications leading to a persistent deferred / lower order execution priority

Note: The threshold limits applicable to the aforesaid parameters has not been disclosed in the public domain.

The instances identified based on the aforesaid 3 conditions shall be considered as “1 instance count”.

(Refer Exchange circular - NSE/SURV/47814 dated March 26, 2021)



The penal action based on count of instances over a period of **rolling 20 trading days** is as under:

- a) Trading disablement of such a Client / Proprietary account for a time period of first 15 minutes of trading across the Exchanges in the Equity and Equity Derivatives segments simultaneously provided number of instances identified as above exceed 99 on a rolling 20 trading days basis. The disablement shall be carried out on the next trading day.
- b) Any additional instance of repetitive violation on consecutive trading days by a Client / Proprietary account (say N times) on a rolling 20 trading days basis will lead to trading disablement for a period of 'N' instances X 15 mins, subject to a Maximum Disablement of 2 Hours (i.e. $N \leq 8$)

Example: -

No of repetitive consecutive instances of violation (N)	Applicable trading disablement period
1	15 Mins
2	30 Mins
4	60 Mins
6	90 Mins
8	120 Mins / 2 Hrs
10	120 Mins / 2 Hrs

3) When has the Surveillance measure come into force?

The aforesaid surveillance measure shall be effective from April 05, 2021 and the first surveillance action on such Persistent Noise Creators shall be on May 05, 2021 based on 20 trading days window.

Note:

- *The surveillance measure shall be independent to the extant framework of High Order to Trade Ratio (OTR).*
- *The extant OTR framework as per Exchange circular - NSE/SURV/45016 dated July 14, 2020 shall continue to be in force.*

4) What types of orders shall be considered for computation?

All Algo and Non Algo orders shall be considered for computation. All market orders and spread orders shall be excluded.

An Immediate or Cancel (IOC) order shall be included at the time of order entry but order cancellation shall be excluded in the computation of OTR.



5) In which segments will the surveillance measure be applicable?

The said surveillance measure shall be applicable in the Equity and Equity Derivatives segments.

6) Is the client level disablement applicable to all segments?

Trading disablement of the shortlisted Client / Proprietary account for a time period of first 15 minutes / specified duration of trading across the Exchanges in the Equity and Equity Derivatives segments.

Please find below, an illustration on various scenarios of client level disablement.

- Applicable trading disablement period: 15 Minutes
Equity segment: 09:00 a.m. to 09:30 a.m.
Equity Derivatives segment: 09:15 a.m. to 09:30 a.m.
- Applicable trading disablement period: 45 Minutes
Equity segment: 09:00 a.m. to 10:00 a.m.
Equity Derivatives segment: 09:15 a.m. to 10:00 a.m.

*Note: Trading shall be permitted in segments other than Equity and Equity Derivatives segments as applicable. The first trade shall be allowed after expiry of N * 15 minutes (as applicable as per point 2(b) above) in the normal (continuous) market of the Equity and Equity Derivatives segments.*

7) Will the client be allowed to square off the open positions during the disablement period?

The PAN shall be completely disabled for the specified duration and shall not be allowed to square off the open positions during the disablement period.

8) For how many days shall the PAN remain disabled?

The count of instances shall be considered on a rolling 20 trading days basis. The PAN shall continue to remain disabled on an incremental basis for the specified duration until the aggregate count of instances does not come to 99 based on rolling 20 trading days.

9) In case the count of instances reduces to 99 based on 20 rolling days and after a gap of few days the same client has instances more than 99, then for how long the client will be disabled?

In the above case the clients first disablement shall be for 15 mins, as illustrated in Point no. 6 since the instance of repetitive violation on consecutive trading days is not satisfied at the Exchange level.



10) Will the disablement be carried out across Exchanges?

The disablement of shortlisted clients shall be implemented across Exchanges and the duration of disablement shall be uniform.

11) Where do I get the details of client shortlisted under the Surveillance measure?

Details of shortlisted clients shall be downloaded to Trading Member at EOD whenever a client gets shortlisted for “1 instance count” as defined under Point no. 2.

The details of files are as under:

Persistent Noise Creators_Client Level Segment

Member Code	Client Code	Client PAN	Total Instances - Previous day	Total Instances up to current day

Trading members are also hereby informed that the above data shall be made available on daily basis (in case of any instance) in the following folder on the extranet for Equity and Equity Derivatives <Member Folder>/Surveillance/Dnld.

12) How will the market participants be made aware of the Client level disablement by the Exchanges?

Trading Members shall be intimated details w.r.t. client and duration of disablement vide e-mail at EOD prior to disablement.

In case of any further queries, you may write to us at surveillance@nse.co.in or call on +91-22-26598129 / 8166 or +91-44-6630 9949 / 9993.

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