

NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED
Member Compliance Guide
Guidelines on Algorithmic Trading (ATS) /High Frequency Trade (HFT)

The guidelines on Algorithmic Trading/ Automated Trading /High Frequency Trade are as given below:-

1. Any Order that is generated using automated execution logic shall be known as algorithmic trading.
2. Any member or participant can use algorithmic trading only after obtaining prior written permission of the Exchange. Further, prior written permission of the Exchange should also be obtained for any changes in the software for the purpose of availing 'automated trading' facility through CTCL.
3. All automated trading orders need to be placed through unique User-id identified for the purpose and all automated trading orders should be placed in the Trading system through these user-ids only.
4. All algorithmic orders shall be necessarily routed through members servers located in India and through specified CTCL ID/ ATS User-id approved by the Exchange for algo trading. The User-ids enabled for algo trading shall have no interlinks with any system or ID located /linked outside India.
5. Immediate or Cancel (IOC) orders shall not be allowed to be placed using algo trading; only limit orders will be allowed.
6. The number of order per second from a particular CTCL ID/ATS User-id shall not exceed 40 orders per second. The limit of 40 orders per second from a particular CTCL ID/ATS User-id prescribed by the Exchange shall be measured over a rolling period of 5 seconds (i.e. 100 orders for 0-5 second, 100 orders for 1-6 seconds, 100 orders for 2-7 seconds & so on.
7. The Exchange may seek details of algo strategies to be used by the members for purpose of inquiry, surveillance, investigation, etc.

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8. In order to ensure orderly trading in market and fair usage of the trading platform by all members, the Exchange has prescribed following economic disincentives for daily Algo Order-to-Trade Ratio

Daily Order-Trade Ratio (Member wise)	Charge(per Order)
Upto 50	NIL
50 to less than 250 (on incremental basis)	1 paisa
250 to less than 500 (on incremental basis)	5 paisa
500 or more than 500 (on incremental basis)	5 paisa

a) In case the ratio is 500 or more than 500 during a trading day, the concerned member shall not be permitted to place any order for the first 15 minutes on the next trading day (in a continuous trading session) as cooling off action. However, the trading member shall be permitted to enter transaction in risk reducing mode during such cooling off period.

b) For the purpose of calculation of daily Order-to-Trade ratio, all algorithmic orders, i.e. order entry, order modification and order cancellations shall be considered

c) The algorithmic orders entered and/or modified within 1% of the last traded price (LTP) of the respective contract shall not be included in the calculation of the aforesaid order-to-trade ratio.

d) The penalty structure will be applicable for only those members who have placed 10,000 orders or more in a day.

9. The members should have the capability to set up and apply necessary risk control checks at the individual order level and client level before each order generated by the algo is released to the Trading system and implement the following minimum level of checks:

- a) The member shall maintain sufficient deposits/funds and ensure that the trades effected through algo facility, whether on own account or client's account do not result in shortages in margin deposit or settlement obligation.

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- b) The net open position of the client/member is not in violation of the position limits prescribed in the respective commodity on account of trades through algos.
 - c) An algo shall account for all executed, unexecuted and unconfirmed orders, placed by it before releasing further orders(s). Further, the algo system shall have pre-defined parameters for an automatic stoppage in the event of algo execution leading to a loop or a runaway situation. The member shall have a system to identify dysfunctional algos.
10. The member shall ensure that the algorithmic strategy is not abnormal, manipulative, dysfunctional (i.e. algos leading to loop or runaway situation), liquidity taking and is not detrimental towards efficient price discovery or fair play. The User-Ids not complying with the same will result in disablement of such user Id / member's terminal.
11. Exchange reserves the right to withdraw or modify this facility in respect of all or any commodity, generally or specifically for any Member or for any client of any Member.
12. The member shall submit the system audit report by June 30 every year. The member may select any audit firm from the empanelled list of auditors as given in our circular no. 279 of 2013. The audit fee shall be decided mutually by the member and the audit firm. The audit fee is to be paid directly by the member to the audit firm.
13. Such system audit shall be conducted by a system auditor who possess any of the following certifications. Further, the Exchange may conduct system audits, as required.
- a) CISA (Certified Information System Auditor) from ISACA ((Information Systems Audit and Control Association));
 - b) DISA (Post Qualification Certification in Information Systems Audit) from Institute of Chartered Accountants of India (ICAI);
 - c) CISM (Certified Information Securities Manager) from ISACA;
 - d) CISSP (Certified Information System Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).



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References:

- NCDEX/TECHNOLOGY-021/2013/279 dated September 6, 2013
- NCDEX/TECHNOLOGY-038/2016/249 dated September 28, 2016
- NCDEX/TECHNOLOGY-054/2018 dated September 01, 2018

For further information / clarifications, please contact:
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