



Forward Markets Commission (FMC) has finally put in place regulations for Algo trading for Commodities

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NSE Circular 008/2013, Feb 2013

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ET Feb 21, 2013

Algo trading is the future, say experts

Algo trading is here to stay and it is the future of trading," said Deena Mehta, chairperson of the capital market committee of the IMC and former director of the BSE.

TOI, 01 Feb 2012

After suspending automated execution logic, popularly called algorithmic (algo) trading, in micro and mini contracts effective January 1, the Forward Markets Commission (FMC) has put in place regulations for the use of this technologically-advanced trading in major commodities.

Effective April 1, commodity exchanges would be able to process 20 orders per second from a client (user ID), irrespective of the order size.

To prevent excessive use of the technology, FMC would levy a particular charge for an order-to-trade ratio (OTR) of 50 or more. For an OTR of 50-249, traders would have to pay one paisa an order. An OTR of more than 249 would attract a charge of five paisa an order. "The charge is meant to disincentivise the excessive use of this technology," said a senior FMC official.

FMC said exchanges should ensure all algorithmic orders routed through member servers in India through specified computer-to-computer link (user) identification were approved by the exchange for algo trading. It added exchanges would be responsible for providing algo trading facilities to its members, after gathering their complete details. The exchanges would have to submit monthly reports to FMC. Members already using algorithmic trading would need the exchange's approval by March 31.

Traders have been asked not to violate the daily price limit, the maximum order size, the position limit and other contract specification criteria.

The regulator also asked commodity exchanges to monitor algo trading and ensure this wouldn't suck liquidity from the market. While registering traders for such trades, exchanges should ensure the trades introduced more liquidity into the system. Exchanges were also asked to prepare half-yearly reviews of the effect of these strategies on liquidity.

Forward Markets Commission (FMC) is also planning to allow market making in commodities futures trade. At the Annual Global Investor Conference organised by Kotak Institutional Equities, FMC Chairman Ramesh Abhishek said, "We would allow market making in coming months to widen the scope for trading."

Business Standard Feb, 2013