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All Registered Intermediaries of ISS
Administrators/ Executive Director of Participating Exchanges, Co-ordination Officers at
Participating Exchanges/ Regional Administrative Offices

Dear Sir / Madam,

Sub.: Auction Close out Policy of ISS

We have been receiving lot of queries from the Registered Intermediaries of ISS and from Internal Auditors for the detailed clarifications regarding the auction policy of ISS. We give below the detailed procedures of Auction policy of ISS in line with NSE / BSE compliance requirement.

Provisional Auction Debit Policy

In case the selling client / sub-broker defaults in delivering the shares in the normal settlement by T+2 morning before 10.30 a.m (Pay-in dead line), ISS shall be raising the provisional debit before 11.30 a.m. (T+2 payout). Provisional debit is should be charged on last closing price of the scrip with 0.20% surcharge.

Supposed any client transfer shares to the Payin obligation from his another Demat account which is not mapped in CRD with this client code then that client id must be mapped in CRD with particular client code before 11.30 a.m. Otherwise for that scrip provision bill should be posted into ledger. After 11.30 a.m. there is no responsibility of custody for any provisional bill.

Internal auction close-out policy

In case the selling client / sub-broker defaults in delivering the shares in the normal settlement by T+2 morning before 10.30 a.m (Pay-in dead line), ISS shall be raising the provisional before 11.30 a.m. (T+2 payout).

In case the scrip not delivered by the selling client / sub-broker is short vis-à-vis Exchange pay-in, the particular Exchange's auction procedures will be applicable. In case it is an internal shortage (i.e. shortage within ISS), and then the revised internal auction close-out procedure as stated herein shall be applicable.

If the scrip is internally short, then ISS will consider the highest traded price for the said scrip from the trading day to the auction day for internal close-out and accordingly, debit and credit the defaulting seller and the buyer respectively.

In BSE Segment, as per norms ISS charged 1% penalty on auction rate to the selling client.

Exchange auction close-out policy for Market Shortages

Exchange Shortages: If Client not able to deliver pay in obligation to the exchange, then it may be considered as Exchange shortages.

Example: - Pay in obligation of ISS is 400 shares of Tata steel, but able to pay only 350 shares of Tata steel delivered to the exchange. Hence, there is Exchange shortages 50 shares to the exchange.

NSE Exchange Auction Close Out Policy

In case of Exchange shortages, NSCCL identifies short deliveries and conducts a buying-in auction on the day after the pay-out day through the NSE trading system. ISS is debited by an amount equivalent to the securities not delivered and valued at a valuation price (the closing price as announced by NSE on the day previous to the day of the valuation). This may be considered as a valuation debit. Valuation debit is carried out on T + 2 day. All shortages not bought-in are deemed closed out at the highest price between the first day of the trading period till the day of squaring off or closing price on the auction day plus 20%, whichever is higher. This amount is credited to the receiving member's account on the auction pay-out day.

In case of Exchange shortages, NSCCL identifies short deliveries and conducts a buying-in auction on T+3 day through the NSE trading system. The Exchange purchases the requisite quantity in the Auction Market and gives them to the buying trading member. Therefore, if the securities brought by the client are not delivered by the delivering member, they may be purchased in auction and may be delivered to client. Therefore, there may be a slight delay in receiving the shares after pay out.

Clients of ISS will not able to trade or participate in the auction in those scripts where ISS delivered short in normal Pay-in to exchange. During auction, NSE sets price band for that scrip and allows sellers to bid in this range. First, lowest bids get accepted.

For e.g., ISS client defaults 150 shares and trade value is Rs. 100 per share. A Price band set by NSE is between Rs.110 and Rs.130. During auction NSE bought scripts in following way:

Trade 1: 40 shares for Rs. 110

Trade 2: 50 shares for Rs. 115

Trade 3: 60 shares for Rs. 120

Based on above trades, NSE calculates WAP (Weighted Average Price) by following formula:

$$\text{WAP} = \frac{(40 \times 110) + (50 \times 115) + (60 \times 120)}{110} = \text{Rs. 152.73 per share}$$

NSE also calculates standard value (STD) for that scrip. Standard value is closing price of T+1 day which is also used for provisional debit.

- If WAP is more than STD value, then there is no auction difference.

- If WAP is less than STD value, then there is auction difference.

Auction difference is the difference between STD value and WAP. This value is debited from default client A/cs.

Therefore, on T + 3 day, defaulter client is debited by following:

1. Auction final amount is difference between provisional debit and amount at which the securities got auctioned.
2. Auction penalty which exchange levies to members for their securities Pay-in default.

In NSE Exchange charges the 0.05% per day of the valuation of securities to the member, so for normal (EQ) trades penalty will be 0.2% of the valuation of securities while for trade to trade (be) trades it will be 0.15% and for auction it is 0.05%.

Auction difference, if exists. Then the In auction, following three cases may possible:-

1. **In the case of auction non delivery:** When the auction seller fails to deliver in part or full on auction pay-in day, the deal will be squared up at the highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 20% over the official closing price on the close out day whichever is higher and will be charged to the auction seller unless otherwise specified.
2. **In the case of an auction bad delivery:** An auction delivery reported as bad delivery shall be squared up at the highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 10% over the official closing price on the close out day, whichever is higher and will be charged to the auction seller unless otherwise specified.
3. There is another possibility of auction close out, where no seller comes forward to sell his securities in auction market. So NSE unable to settle these scrips. In these cases NSE squaring out the trades by way of close out process.

BSE Exchange Auction Close Out Policy

An Auction Tender Notice is issued by BSE to the Members informing them about the names of the scrips short or not delivered, quantity slated for auction and the date and time of the auction session on the BOLT. The auction for the undelivered quantities is conducted on T+3 day between 11:00 a.m. and 12 noon for all the scrips under Compulsory Rolling Settlements except those in "Z" group and scrips on "trade to trade" basis which are directly closed-out. A Member who has failed to deliver the securities of a particular company on the pay-in day is not allowed to offer the same in auction. The Members, who participate in the auction session, can download the Delivery Orders in respect of the auction obligations on the same day, if their offers are accepted. The Members are required to deliver the shares in the Clearing House on the auction Pay-in day, i.e. T+4. Pay-out of auction shares and funds is also done on the same day, i.e., T+4.

Close-out

Close-out is affected for cases when no offer for particular scrip is received in an auction or when Members who offer the scrips in auction, fail to deliver the same or shortages pertaining to those groups of securities for which auctions are not conducted. The close-out rates for different segments are as under

'A', 'B', 'S' and 'F' group

The close-out rate is higher of the following rates :

- a) The highest rate of the scrip from the trading day to the day prior to the day on which the auction is conducted for the respective settlement.
- b) 20% above the closing rate as on the day prior to the day of auction/close out of the respective settlement.

"Odd Lot", "T", "TS" and "Z" group and Patawat objections

The closeout rate is higher of the following rates:

- a) The highest rate of the scrip from the day of trading to the day prior to the day of auction of the respective settlements;
- b) 10% above the closing rate as on the day prior to the day of auction/ close out of the respective settlement.

"G" group

In case of shortages in "G" group, the shortages are closed out at Zero Coupon Yield Curve (ZCYC) plus a 5% penalty.

The closeout amounts are debited to the bank accounts of those Members who have failed to deliver the securities against their sale obligations and credited to the bank accounts of those Members who had bought the securities but did not receive the same.

Auction penalty which exchange levies to members for their securities Pay-in default.

In BSE exchange charges the 1% of the value of shortage or Rs.100/-, whichever is higher

Auction Participation Period:

- In NSE, auction time is 12.00 noon to 1.15 p.m., whereas bidding time for clients is 12.30 p.m.
- In BSE, auction time is 11.00 a.m. to 12.00 noon, whereas bidding time for clients is 12.30 p.m.

Auction Offer Securities Pay-in Period:

- In NSE, auction offer securities pay-in takes place on **auction trade +1 day** before 10.30 a.m.
- In BSE, auction offer securities pay-in takes place on **auction trade +1 day** before 12.00 a.m.

For any detailed clarifications, you may contact the under-signed on 9323189537 or 022-67941115 at custody@iseindia.com or ctmtptm@gmail.com

Thanking you,

Yours faithfully,
For **ISE SECURITIES & SERVICES LTD.**

Kevin M. N. Sunder
Head Market Operations (CTM, TPTM & IGCTM)

Encl: As above

Copy to:
OPERATIONAL COMMITTEE MEMBERS (OCM)
Shri C. M. Cheriyan Sir, Smt. Manisha T, Shri Sweedin S, Shri Hirak D, Shri Jagdish S