

## Chapter 3 Order and Trade Management

### Learning Objectives:

After reading this chapter, you should be able:

1. To identify the various market types in the capital market segment.
2. To understand the legal technicalities in order modification and cancellation.
3. To differentiate between trade and order management.
4. To apply the knowledge of order matching in the real life trading situation.

### Your guide engine to learning:

- 3.1** Introduction
- 3.2** Order Management
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- 3.3** Trade Management
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- 3.4** Auction
- 3.5** Limited Physical Market
- 3.6** RETDEBT Market (RDM)

### 3.1 Introduction

We have already learned in the previous chapters about the NEAT system and the various types of functions available on the same. The NEAT system is a user friendly system which has come to the rescue of the innocent investors who were earlier dependent on the brokers and other mediators to know the prices of the securities they were holding. The NEAT system provides a range of functions which helps even a layman to understand the market in depth. The following chapter will help us in understanding how one can put orders in the system and manage the same. We will also discuss the auction market in detail. There is a passing reference of limited physical market and retail debt market.

### 3.2 Order Management

Order Management consists of entering orders, order modification, order cancellation and order matching.

#### 3.2.1 Entering Orders

The trading member can enter orders in the normal market, odd lot, RETDEBT and auction market. A user can place orders in any of the above mentioned markets by invoking the respective order entry screens. When the user invokes the order entry screen, the fields that are taken as default are Symbol, Series and Book Type. In case of other fields, the system takes the following defaults:

- **Symbol** – Shows the symbol of the scrip.
- **Series** – Shows the series of the security, *i.e.* EQ or BE etc.
- **Total Quantity** – Here the user has to specify the quantity to be bought/sell.
- **Price** – The price at which the shares are to be bought is to be specified.
- **Pro/Cli** – Here the user has to select whether the shares are to be bought in the Proprietor's account or in Client's account.
- **Client** – If the shares are to be bought in client's account, the client code has to be specified.
- **Disclose quantity (DQ)** – The user can disclose a minimum of 10% of the buy/sell quantity. If nothing is mentioned in the disclose quantity box then the entire buy/sell quantity is disclosed in the market *i.e.* all the users in the market can see the total quantity for which the order has been entered.
- **Validity** - The user has to choose the validity period from the drop down menu *i.e.*, DAY (the order will be valid till the end of current day) and IOC (Immediate or Cancel – Either the order gets executed immediately or gets cancelled).
- **Submission of Order** – After entering relevant data in all fields press “Enter and Ctrl” key to submit the order. As the order placed the message comes with Time, Order No, Symbol, Series, Quantity, Rate, Member ID, User ID with last word CONFIRMED.

### **Circuit Breakers**

The Exchange has implemented index-based market-wide circuit breakers in compulsory rolling settlement with effect from July 02, 2001. In addition to the circuit breakers, price bands are also applicable on individual securities.

### **Index-based Market-wide Circuit Breakers**

The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz. at 10%, 15% and 20%. These circuit breakers when triggered bring about a coordinated trading halt in all equity and equity derivative markets nationwide. The market-wide circuit breakers are triggered by movement of either the BSE Sensex or the NSE S&P CNX Nifty, whichever is breached earlier.

- In case of a 10% movement of either of these indices, there would be a one-hour market halt if the movement takes place before 1:00 p.m. In case the movement takes place at or after 1:00 p.m. but before 2:30 p.m. there would be trading halt for ½ hour. In case movement takes place at or after 2:30 p.m. there will be no trading halt at the 10% level and market shall continue trading.
- In case of a 15% movement of either index, there shall be a two-hour halt if the movement takes place before 1 p.m. If the 15% trigger is reached on or after 1:00 p.m., but before 2:00 p.m., there shall be a one-hour halt. If the 15% trigger is reached on or after 2:00 p.m. the trading shall halt for remainder of the day.
- In case of a 20% movement of the index, trading shall be halted for the remainder of the day.

These percentages are translated into absolute points of index variations on a quarterly basis. At the end of each quarter, these absolute points of index variations are revised for the applicability for the next quarter. The absolute points are calculated based on closing level of index on the last day of the trading in a quarter and rounded off to the nearest 10 points in case of S&P CNX Nifty.

### **Price Bands**

Daily price bands are applicable on securities as below:

- Daily price bands of 2% (either way) on securities as specified by the Exchange.
- Daily price bands of 5% (either way) on securities as specified by the Exchange.
- Daily price bands of 10% (either way) on securities as specified by the Exchange.
- No price bands are applicable on: scrips on which derivative products are available or scrips included in indices on which derivative products are available. In order to prevent members from entering orders at non-genuine prices in such securities, the Exchange has fixed operating range of 20% for such securities.
- Price bands of 20% (either way) on all remaining scrips (including debentures, warrants, preference shares etc).

The price bands for the securities in the Limited Physical Market are the same as those applicable for the securities in the Normal Market. For auction market the price bands of 20% are applicable.

### **3.2.1.1 Order Types and Conditions**

The system allows the trading members to enter orders with various conditions attached to them as per their requirements. These conditions are broadly divided into Time Conditions, Quantity Conditions, Price Conditions and Other Conditions. Several combinations of the above are allowed thereby providing enormous flexibility to the users. The order types and conditions are summarized below:

#### **a) Time Conditions.**

**DAY** - A Day order, as the name suggests, is an order which is valid for the day on which it is entered. If the order is not matched during the day, the order gets cancelled automatically at the end of the trading day.

**IOC** - An Immediate or Cancel (IOC) order allows a Trading Member to buy or sell a security as soon as the order is released into the market, failing which the order will be removed from the market. Partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.

### b) Quantity Conditions

**Disclosed Quantity (DQ)** - An order with a DQ condition allows the Trading Member to disclose only a part of the order quantity to the market. For example, an order of 1000 with a disclosed quantity condition of 200 will mean that 200 is displayed to the market at a time. After this is traded, another 200 is automatically released and so on till the full order is executed. The Exchange may set a minimum disclosed quantity criteria from time to time.

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#### Other Quantity Conditions:

**MF** - Minimum Fill (MF) orders allow the Trading Member to specify the minimum quantity by which an order should be filled. For example, an order of 1000 units with

### c) Price Conditions

**Limit Price/Order** – An order that allows the price to be specified while entering the order into the system.

**Market Price/Order** – An order to buy or sell securities at the best price obtainable at the time of entering the order.

**Stop Loss (SL) Price/Order** – The one that allows the Trading Member to place an order which gets activated only when the market price of the relevant security reaches or crosses a threshold price. Until then the order does not enter the market.

### d) Other Conditions

**PRO/CLI/WHS:** A user can enter orders on his own account or on behalf of clients or warehouse order on behalf of institutional clients. By default, the

system assumes that the user is entering orders on the trading member's own account.

### 3.2.2 Order Modification

Some times in moving market, orders need to be changed in their prices and quantity as per the requirement. All the orders can be modified till the time they are not fully executed. Order modifications can be performed by the following ways:

1. By pressing [F3] [Enter], the Outstanding Order screen appears.
2. On pressing [SHIFT + F2], the Order Modification screen appears along with a white highlight bar on the Outstanding Order screen.
3. Using the arrow keys, the bar can be positioned on the order to be modified and the [ENTER] key is pressed; the details of the selected order get defaulted to the order entry screen.

#### **Condition/Attribute Modification:**

- If a security is not allowed to trade in a particular market then the existing orders under all the securities within that market type are not allowed to be modified.
- In case the order is modified to a very high quantity that it exceeds the Alert Quantity, set by Exchange, a message will appear on the window pop up. The user is requested to confirm the order by choosing Yes/No. Once he chooses "Yes" the order is confirmed.
- Orders cannot be modified to a quantity greater than the issued capital for the security.
- Disclosed quantity orders cannot be modified to such a quantity where the DQ is greater than the order quantity. Further, a DQ order with a value less than one Regular Lot or a value other than multiples of Regular Lot is not permitted.
- MF orders cannot be modified to a MF quantity greater than the order quantity. If the order also has a DQ condition attached, then the User cannot modify the MF quantity to a value greater than DQ. Additionally, the MF quantity cannot be modified to a value less than one Regular Lot or non-multiples of Regular Lot.

### 3.2.3 Order Cancellation

Due to some problems in moving market or when one does not want to buy or sell shares, then orders need to be canceled. In this case only those orders can be cancelled which have not been fully or partially traded only during market hours.

Single order procedure can be performed as:

- By pressing [F3] [Enter] key, the Outstanding Orders screen will appear.
- Press [Shift + F1] key, the order cancellation screen along with a highlight bar will appear or click the left button using mouse.
- To cancel the order, this bar can be navigated or positioned by using the [Up/Down, Right / Left] arrow keys.

- Once the order to be cancelled is selected, press [ENTER, ENTER & CTRL] key to submit. Press ENTER to select order and other ENTER, CTRL is to send the request.

After cancellation the message come Cancelled by Trader along with Order Number, Symbol, Quantity, Price and User ID all of them appears in message window.

The Order Cancellation screen displays the order details of the selected buy/sell order. A message will be displayed at the bottom of the Order Cancellation screen asking for confirmation to ensure that the correct order has been selected for cancellation.

Press [Enter] key to send the order for cancellation.

Proceed with the cancellation by pressing [Confirm] key. If at this point the User does not want to cancel the order due to any reason, [Esc] key can be used to clear the cancellation screen. The cancelled order gets registered in the operators and an order cancellation slip with a message is generated.

The User also has the option of directly invoking the order cancellation screen by pressing [Shift + F1] and typing the order number. And an alternative to the functional keys is already explained above through the mouse access using the order cancellation icon in the toolbar on the Market Watch screen.

Order Cancellation functionality is available for all book types. But the User is not allowed to cancel auction initials and competitor orders in auction market. Order cancellation is also not allowed for those negotiated trade orders that have not resulted as an alert.

### **3.2.4 Order Matching**

The buy and sell orders are matched on Book Type, Symbol, Series, Quantity and Price.

a) Matching Priority-priority can be done on the basis of price and time. This has already been discussed on page no 199 on class XI book.

b) Regular Lot Matching

If the combined quantity of one or more matching orders on the opposite side of the regular lot book is equal to or less than the quantity of active order, the active order is partially traded.

If after trading any quantity is left untraded, the order is added to the regular lot book in the price/time priority.

The orders with the IOC attribute try to match maximum possible quantity after they are entered. Any remaining quantity is cancelled.

The following is the order book of Reliance as an example.

### **RELIANCE – EQ**

**As on 11-FEB-2008 13:02:54 Hours IST**

Security Name	Face Value	ISIN Code	52 week high price	52 week low price
<a href="#">Reliance Industries Ltd</a>	10.00	INE002A01018	3298.00	1248.20

Order Book				
Buy Qty	Buy Price	Sell Price	Sell Qty	
63	2262.00	2262.80	71	
46	2261.00	2263.00	1	
10	2260.70	2263.55	50	
450	2260.35	2264.00	76	
15	2260.30	2264.90	10	
95808	Total Buy Qty	Total Sell Qty	150490	

### 3.3 Trade Management

A trade is an activity in which a buy and a sell order match with each other. Matching of two orders is done automatically by the system. Whenever a trade takes place, the system sends a trade confirmation message to each of the users involved in the trade. The trade confirmation slip gets printed at the trader workstation of the user with a unique trade number. The system also broadcasts a message to the entire market through the ticker window displaying the details of the trade.

#### 3.3.1 Trade Modification

The user can use trade modification facility to request for modifying trades done during the day. The user can request the Exchange to modify only the trade quantity field. Moreover, the new quantity requested must be lower than the original trade quantity.

#### 3.3.2 Trade Cancellation

The user can use trade cancellation screen for cancelling trades done during the day. If the user is a corporate manager of a trading member firm, he can request for trade cancellation for the trades of any dealer of the trading members firm and if he is a branch manager of a branch, then he can request for trade cancellation for the trades for any dealer of the branch of the trading member firm.

### 3.4 Auction

Auctions are initiated by the Exchange on behalf of trading members for settlement related reasons. The main reasons are Shortages, Bad Deliveries and Objections. There are three types of participants in the auction market.

- (a) **Initiator:** The party who initiates the auction process is called an initiator.
- (b) **Competitor:** The party who enters on the same side as of the initiator is called a competitor.
- (c) **Solicitor:** The party who enters on the opposite side as of the initiator is called a solicitor.

The trading members can participate in the Exchange initiated auctions by entering orders as a solicitor. E.g. If the Exchange conducts a Buy-In auction, the trading members entering sell orders are called solicitors.

When the auction starts, the competitor period for that auction also starts. Competitor period is the period during which competitor order entries are allowed. Competitor orders are the orders which compete with the initiator's order i.e. if the initiator's order is a buy order, then all the buy orders for that auction other than the initiator's order are competitor orders. And if the initiator order is a sell order then all the sell orders for that auction other than the initiators order are competitor orders.

After the competitor period ends, the solicitor period for that auction starts. Solicitor period is the period during which solicitor order entries are allowed. Solicitor orders are the orders which are opposite to the initiator order i.e. if the initiator order is a buy order, then all the sell orders for that auction are solicitor orders and if the initiator order is a sell order, then all the buy orders for that auction are solicitor orders.

After the solicitor period, order matching takes place. The system calculates trading price for the auction and all possible trades for the auction are generated at the calculated trading price. After this the auction is said to be complete. Competitor period and solicitor period for any auction are set by the Exchange.

#### **Auction Market (AU) Orders:**

The term AU stands for Auction in which orders are entered for Auction Market. Auctions are initiated by the Exchange on behalf of trading members for settlement related reasons. The main reasons are Shortages, Bad Deliveries and Objections. The auction period is initiated at 12:00 P.M to 12:30 P.M. The matching process for auction orders in this book is initiated only at the end of the auction period. The auction ending period is between 12:30 P.M. and 1:00 P.M.

#### **Entering Auction Orders:**

Auction order entry allows the user to enter orders into auctions that are currently running. To view the information about currently running auctions invoke 'Auction Enquiry' screen. The user can do auction order entry by entering 'AU' in the book type of the order entry screen. Symbol and Series that

is currently selected in any of the market information windows (i.e. MW) provides the defaults in the auction order entry screen.

**Auction Order Modification:**

The user is not allowed to modify any auction orders.

**Auction Order Cancellation:**

The user can cancel any solicitor order placed by him in any auction provided the solicitor period for that auction is not over. The order cancellation procedure is similar to that of normal market. The user can also use quick order cancellation key to cancel his outstanding auction orders.

**Auction Order Matching:**

When the 'solicitor period' for an auction is over, auction order matching, starts for that auction. During this process, the system calculates the trading price for the auction based on the initiator order and the orders entered during the competitor and the solicitor period. At present for Exchange initiated auctions, the matching takes place at the respective solicitor order prices.

The name of the company can be over written in all types of orders.

**3.5 Limited Physical Market**

Pursuant to the directive of SEBI to provide an exit route for small investors holding physical shares in securities mandated for compulsory dematerialised settlement, the Exchange has provided a facility for such trading in physical shares not exceeding 500 shares. This market segment is referred to as 'Limited Physical Market' (small window). The Limited Physical Market was introduced on June 7, 1999.

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**Salient Features of Limited Physical Market**

- Trading is conducted in the Odd Lot market (market type 'O') with Book Type 'OL' and series 'BT'.
- Order quantities

**3.6 RETDEBT Market (RDM)**

Trading in the Retail Debt Market takes place in the same manner in which the trading takes place in the equities (Capital Market) segment. The RETDEBT

Market facility on the NEAT system of Capital Market Segment is used for entering transactions in RDM session.

*Members eligible for trading in RDM segment:* Trading Members who are registered members of NSE in the Capital Market segment or Wholesale Debt Market segment are allowed to trade in Retail Debt Market (RDM) subject to fulfilling the capital adequacy norms.

#### *Trading Parameters*

The trading parameters for RDM segment are as below:

Face Value	Rs. 100/-
Permitted Lot Size	10
Tick Size	Rs. 0.01
Operating Range	+/- 5%
Mkt. Type Indicator	D (RETDEBT)
Book Type	RD

#### **Summary/Recapitulation**

- **Entering Orders-** The trading member can enter orders in the normal market, odd lot, Retail debt market & Auction market. While entering the orders system takes the following defaults: Quantity, price, pro, order duration, disclosed quantity, participant id.
- **Circuit Breakers-** The index has implemented index-based market-wide circuit breakers in compulsory rolling settlement with effect from July 02, 2001. In addition to the circuit breakers, price bands are also applicable on individual securities.
- **Order Types & Conditions-** The system allows the trading members to enter orders with various conditions attached to them. These conditions are broadly divided into Time conditions, Quantity Conditions, Price Conditions, & other conditions.
- **Order Modification-** All orders can be modified in the system till the time they do not get fully traded & only during market hours.
- **Order cancellation-** It can be performed only for orders which have not been fully or partially traded & only during market hours.
- **Order Matching-** The buy & sell orders are matched on Book Type, Symbol, Series, Quantity & price.

- **Trade Management**-A trade is an activity in which a buy & a sell order match with each other. Matching of two orders is done automatically by the system.
- **Trade Modification**- The user can use trade modification facility to request for modifying trades done during the day.
- **Trade Cancellation**- The user can use trade cancellation screen for canceling trades done during the day.
- **Auction**- Auctions are initiated by the Exchange on behalf of trading members for settlement related reasons.
- **Limited Physical Market**-As per the directive of SEBI, Exchanges have provided an exit route for small investors holding physical shares ( not exceeding 500 shares ).
- **RETDEBT Market**-Trading in the Retail Debt market takes place in the same manner in which the trading takes place in the Capital Market segment.

**Let's revise - New Terms**

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• RETDEBT market	• Price band
• Circuit Breakers	• Matching Priority
• Limited Physical Market	• Initiator
• Solicitor	• Competitor

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**Multiple Choice Questions – Time your efforts**

- Q1** The trading member can enter orders in the\_\_\_\_\_ market.
- Normal.
  - Odd lot.
  - Retail debt.
  - Auction.
- Only (i), (iv)
  - Only (i), (ii),(iv)
  - Only (i) & (iv)
  - All of the above
- Q2** Which of the following statements are false?
- When any order enters the trading system, it is an active order.
  - If it does not find a match, the order becomes a passive order & goes & sits in the order book.
  - An active order tries to find a match on the order side of the books.
  - If an active order finds a match a trade is generated.

- a) Only (i)
  - b) Only(ii)
  - c) Both (iii) & (iv)
  - d) None of the above
- Q3** Best price for a sell order is the \_\_\_\_\_price & for a buy order, It is the \_\_\_\_\_ price.
- a) Lowest, highest.
  - b) Highest, lowest.
  - c) Minimum bid, highest.
  - d) Last, lowest.
- Q4** Stop loss orders are released into the market when the last traded price for that security in the normal market reaches or surpasses the ..... .
- a) market price
  - b) trigger price
  - c) limit price
  - d) exchange price
- Q5** The odd lot book can be selected in order to trade in the odd lot market the book type selected will be .....
- a) D
  - b) OL
  - c) QP
  - d) EO
- Q6** Auction order book stores order entered by the trading members to participate in the exchange initiated auctions. Auction order can be .....-----orders.
- a) Buyer, Seller, Bidder.
  - b) Initiator, Competitor, Solicitor.
  - c) Regular lot, Retdebt, Stoploss.
  - d) Proprietary, Client, Warehouse.
- Q7** \_\_\_\_\_ means that if two orders are entered into the system, the orders having the best price get the higher priority.
- a) price priority
  - b) order priority
  - c) time priority
  - d) participant priority
- Q8** The index based market wide circuit breaker systems apply at 3 stages of \_\_\_\_\_ the index movement, either way for example at \_\_\_\_\_ %.
- a) 5, 10, 20,
  - b) 10, 20, 30,
  - c) 10, 15, 20
  - d) 7, 14, 21

- Q9** in case of 20% movement of the index, trading shall be halted for the remainder of the \_\_\_\_\_  
a) week  
b) day  
c) month  
d) year
- Q10** In case of a 10% movement of index based indices there would be a one hour market halt if the movement takes place before \_\_\_\_\_  
a) 1 pm  
b) 2 pm  
c) 3 pm  
d) 12 pm
- Q11** If a price outside the operational range is entered, the order results in a \_\_\_\_\_.  
a) Quantity freeze.  
b) Price freeze.  
c) Market freeze.  
d) Security freeze.
- Q12** A \_\_\_\_\_ order as the name suggests is an order that is valid for the day on which it is entered.  
a) IOC.  
b) Day.  
c) Market order.  
d) Stop loss.
- Q13** All orders can be modified in the system till the time they do not get fully \_\_\_\_\_ & only during market hours.  
a) Auctioned.  
b) Traded.  
c) Partially traded.  
d) Partially auctioned.
- Q14** Order cancellation functionality can be performed only for orders which have not been \_\_\_\_\_ or \_\_\_\_\_.  
a) Traded, Auctioned.  
b) Fully, partially.  
c) Auctioned, negotiated.  
d) Placed, initiated.

**Answers**

- |         |         |        |         |         |         |
|---------|---------|--------|---------|---------|---------|
| Q1 (d)  | Q2 (d)  | Q3 (a) | Q4(b)   | Q5 (b)  | Q6 (b)  |
| Q7 (a)  | Q8 (c)  | Q9 (b) | Q10 (a) | Q11 (b) | Q12 (b) |
| Q13 (b) | Q14 (b) |        |         |         |         |

**Very short answer type:**

- Q1 Name the different type of order books.
- Q2 What is odd lot book?
- Q3 Explain the functions of auction order book.
- Q4 Name the type of time conditions.
- Q5 What is order cancellation?
- Q6 What is the corporate hierarchy followed by a dealer for performing order modification functionality?
- Q7 How orders are matched for RETDEBT orders?
- Q8 What is odd lot order matching?
- Q9 What are validation checks?
- Q10 What is auction order modification?
- Q11 What is Bhav copy?

**Short answer type:**

- Q1 What is the difference between active & passive order?
- Q2 Explain regular lot book.
- Q3 Write a few lines on stop loss book.
- Q4 What is RETDEBT order book?
- Q5 Explain the circuit breakers.
- Q6 What are price bands?
- Q7 Explain the various price conditions.
- Q8 What are quantity conditions?
- Q9 Explain the term time conditions.
- Q10 Explain the procedure of canceling all the orders & what it is called?
- Q11 How auction orders are matched?
- Q12 How auction order matching is done?
- Q13 What is trade management?
- Q14 What is on-line backup?
- Q15 What are order/trade slips?

**Long answer type:**

- Q1 How many types of order books are present in the trading system? Explain about any four.
- Q2 Explain the circuit breakers.
- Q3 What are the order types & various conditions attached to it?
- Q4 Explain in detail about order modification.
- Q5 What procedure is followed to cancel orders for a disabled member?
  
- Q6 What is order matching on priority basis?
- Q7 How stop loss orders are matched?
- Q8 What is auction? How it is initiated?
- Q9 What is limited physical market & what are its features?