



CIRCULAR

CIR/MRD/DP/21/2010

July 15, 2010

The Managing Director and CEO
Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400001

The Managing Director
National Stock Exchange of India Ltd.
Exchange Plaza, Bandra Kurla Complex
Bandra (E)
Mumbai - 400 051

Dear Sir,

Sub: Introduction of call auction in Pre-open session

1. The issue regarding call auction and its use in various session, including pre-open session was deliberated in Secondary Market Advisory Committee (SMAC). Based on the recommendation of the committee and proposal received from the stock exchanges, it has been decided to introduce call auction mechanism in pre-open session.
2. To begin with, pre-open session shall be introduced on a pilot basis by BSE and NSE for the scrips forming part of Sensex and Nifty. The list of scrips is placed at annexure 'A'. In case of any change in the composition of Sensex and Nifty, pre-open session shall be introduced for such incoming scrips. Pre-open session shall also continue for the scrips moving out of Sensex and Nifty, though they will not be reckoned for the computation of the index.
3. The pre-open session shall be for a duration of 15 minutes i.e. from 9:00 a.m. to 9:15 a.m., out of which 8 minutes shall be allowed for order entry, order modification and order cancellation, 4 minutes for order matching and



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trade confirmation and the remaining 3 minutes shall be the buffer period to facilitate the transition from pre-open session to the normal market.

4. The session shall close randomly during last one minute of order entry i.e. anytime between 7th and 8th minute of the order entry. Such random closure shall be system driven.
5. Limit orders and market orders shall be entered during the pre-open session and both shall be reckoned for computation of equilibrium price. No iceberg order will be allowed i.e orders shall be disclosed in full quantity.
6. Price band of 20% shall be applicable on the securities during pre-open session.
7. In case the index breaches the prescribed threshold limit upon the closure of pre-open session, the procedure as prescribed in SEBI Circular Ref. No. SMDRPD/Policy/Cir-37 /2001 dated June 28, 2001 shall be applicable from the time continuous normal market opens.
8. The equilibrium price shall be the price at which the maximum volume is executable. In case more than one price meets the said criteria, the equilibrium price shall be the price at which there is minimum order imbalance quantity (unmatched order quantity). The absolute value of the minimum order imbalance quantity shall be taken into consideration.

Further, in case more than one price has same minimum order imbalance quantity, the equilibrium price shall be the price closest to the previous day's closing price. In case the previous day's closing price is the mid-value of a



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pair of prices which are closest to it, then the previous day's closing price itself shall be taken as the equilibrium price. In case of corporate action, previous day's closing price shall be the adjustable closing price or the base price.

Explanation: A scenario may arise, wherein; more than one price may have same minimum imbalance quantity. Example on the same is given hereunder:

Price	Buy (Qty)	Cum. Buy Qty	Sell (Qty)	Cum. Sell Qty	Unmatched Quantity	Vol. tradable
106		0	3000	8000	-8000	0
103	2000	2000	3000	5000	-3000	2000
96	3000	5000	1000	2000	3000	2000
94	1500	6500	1000	1000	5500	1000
92	2000	8500		0	8500	0
90	1000	9500		0	9500	0

In the said example 103 and 96 are the prices wherein, the volume tradable and unmatched quantity is the same. To derive the equilibrium price, the said prices i.e. 103 and 96 which is closest to the previous day's closing price shall be considered. In case the previous day's closing price is 95, then, 96 may be considered as the equilibrium price. In case the previous day's closing price is 105, then, 103 may be considered as the equilibrium price. In case the previous day's closing price is 99.5 which is the mid-value of 103 and 96, then the equilibrium price shall be the previous day's closing price i.e. 99.5.



9. Pursuant to the discovery of price in the pre-open session, at the time of order execution, limit orders shall be given priority over market orders. The sequence for executing orders is given below:
 - a) Eligible Limit orders shall be matched with eligible limit orders.
 - b) Residual eligible limit orders shall be matched with market orders.
 - c) Market orders to be matched with market orders.
10. In case of pending unmatched orders in pre-open session, they shall be shifted to the order book of the normal market following time priority. Unmatched market orders will shift to the normal market order book as limit orders at a price as discovered in the pre-open session.
11. If the price is not discovered in pre-open session then the orders entered in the pre-open session will be shifted to the order book of the normal market following time priority. The price of the first trade in the normal market shall be the opening price.
12. The current risk management system for cash market shall be applicable to pre-open session.
13. The following information shall be disseminated during pre-open session:
 - a) Indicative equilibrium price of the scrip
 - b) Indicative cumulative buy and sell quantity of the scrip
 - c) Indicative Index
14. This framework for call auction shall be reviewed after 3 months from the commencement of the pre-open session.



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15. The Stock Exchanges shall issue the necessary guidelines in this regard and shall put in place the necessary systems to ensure the operationalization of the above.
16. The Stock Exchanges are advised to:
 - i) put in place the adequate systems and issue the necessary guidelines for implementing the above decision.
 - ii) test the software for operational robustness and system integrity, well before the commencement date to avoid any problems in the live environment.
 - iii) design the software with sufficient flexibility to allow for enhancements viz., extending the scope of call auction to other type of sessions, scrips, as a result of policy review.
 - iv) make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately.
 - v) bring the provisions of this circular to the notice of the member brokers of the Exchange and also to disseminate the same on the website.
 - vi) communicate to SEBI, the status of the implementation of the provisions of this circular in the Monthly Development Report.
 - vii) Stock exchange shall seek SEBI's approval after the implementation of the above steps and prior to the commencement of the pre-open session.



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17. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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Encl: Annexure- I – Scrips eligible for pre-open session



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Annexure - I

Sr.No.	Scripts
1	ABB LTD.
2	ACC LIMITED
3	AMBUJA CEMENTS LTD
4	AXIS BANK LIMITED
5	BHARTI AIRTEL LIMITED
6	BHEL
7	BHARAT PETROLEUM CORP LTD
8	CAIRN INDIA LIMITED
9	CIPLA LTD
10	DLF LIMITED
11	GAIL (INDIA) LTD
12	HCL TECHNOLOGIES LTD
13	HDFC LTD
14	HDFC BANK LTD
15	HERO HONDA MOTORS LTD
16	HINDALCO INDUSTRIES LTD
17	HINDUSTAN UNILEVER LTD.
18	ICICI BANK LTD.
19	IDEA CELLULAR LIMITED
20	INFRA. DEV. FIN. CO. LTD
21	INFOSYS TECHNOLOGIES LTD
22	ITC LTD
23	JINDAL STEEL & POWER LTD
24	JAIPRAKASH ASSOCIATES LTD
25	KOTAK MAHINDRA BANK LTD
26	LARSEN & TOUBRO LTD.
27	MAHINDRA & MAHINDRA LTD
28	MARUTI SUZUKI INDIA LTD.
29	NTPC LTD
30	OIL AND NATURAL GAS CORP.
31	PUNJAB NATIONAL BANK
32	POWER GRID CORP. LTD.
33	RANBAXY LABS LTD
34	RELIANCE COMMUNICATIONS LTD.
35	RELIANCE CAPITAL LTD
36	RELIANCE INDUSTRIES LTD
37	RELIANCE INFRASTRUCTURE LTD
38	RELIANCE POWER LTD.
39	STEEL AUTHORITY OF INDIA
40	STATE BANK OF INDIA



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Sr.No.	Scripts
41	SIEMENS LTD
42	STERLITE INDS (IND) LTD
43	SUN PHARMACEUTICALS IND.
44	SUZLON ENERGY LIMITED
45	TATA MOTORS LIMITED
46	TATA POWER CO LTD
47	TATA STEEL LIMITED
48	TATA CONSULTANCY SERV LTD.
49	UNITECH LTD
50	WIPRO LTD