



CIRCULAR

CIR/DNPD/ 4 /2010

July 15, 2010

To

Chief Executive Officers of Equity Derivatives Segment
National Stock Exchange of India Limited (NSEIL)
Bombay Stock Exchange Limited (BSE)

Dear Sir,

Sub: Physical Settlement of Stock Derivatives

This is in continuation of SEBI Circular No. SMDRP/DC/CIR- 7/01 dated June 20, 2001 and Circular No. SMDRP/DC/CIR- 10/01 dated November 2, 2001 regarding settlement of stock options and stock futures contracts respectively.

2. Based on the recommendations of the Derivatives Market Review Committee and in consultation with Stock Exchanges (BSE and NSEIL), it has been decided to provide flexibility to Stock Exchanges to offer:
 - a Cash settlement (settlement by payment of differences) for both stock options and stock futures; or
 - b Physical settlement (settlement by delivery of underlying stock) for both stock options and stock futures; or
 - c Cash settlement for stock options and physical settlement for stock futures; or
 - d Physical settlement for stock options and cash settlement for stock futures.
3. A Stock Exchange may introduce physical settlement in a phased manner. On introduction, however, physical settlement for all stock options and/or all stock futures, as the case may be, must be completed within six months.
4. The settlement mechanism shall be decided by the Stock Exchanges in consultation with the Depositories.
5. On expiry / exercise of physically settled stock derivatives, the risk management framework (i.e., margins and default) of the cash segment shall be applicable.
6. Settlements of cash and equity derivative segments shall continue to remain separate.



7. The Stock Exchanges interested to introduce physical settlement are advised to:
- put in place proper systems and procedures for smooth implementation of physical settlement.
 - make necessary amendments to the relevant bye-laws, rules and regulations for implementation of physical settlement.
 - bring the provisions of this circular to the notice of all categories of market participants, including the general public, and also to disseminate the same on their websites.
8. The Stock Exchanges interested to offer physical settlement are advised to submit to SEBI for approval, a detailed framework for implementation of physical settlement of stock derivatives.
9. After opting for a particular mode of settlement for stock derivatives, a Stock Exchange may change to another mode of settlement after seeking prior approval of SEBI.
10. This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
11. The circular shall come into force from the date of the circular.
12. This circular is available on SEBI website at www.sebi.gov.in, under the category "Derivatives- Circulars".

Yours faithfully,

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