FAQ on Equity and Currency Derivatives

Q1 What are Derivatives?

A. The term "**Derivative**" indicates that it has no independent value, i.e. its value is entirely "derived" from the value of the underlying asset. The underlying asset can be securities, commodities, bullion, currency, live stock or anything else. In other words, Derivative means a forward, future, option or any other hybrid contract of pre determined fixed duration, linked for the purpose of contract fulfillment to the value of a specified real or financial asset or to an index of securities.

With Securities Laws (Second Amendment) Act,1999, Derivatives has been included in the definition of Securities. The term Derivative has been defined in Securities Contracts (Regulations) Act, as:-

A Derivative includes: -

a. a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;

b. a contract which derives its value from the prices, or index of prices, of underlying securities;

Q2 What is a Futures Contract?

A. Futures Contract means a legally binding agreement to buy or sell the underlying security on a future date. Future contracts are the organized/standardized contracts in terms of quantity, quality (in case of commodities), delivery time and place for settlement on any date in future. The contract expires on a pre-specified date which is called the expiry date of the contract. On expiry, futures can be settled by delivery of the underlying asset or cash. Cash settlement enables the settlement of obligations arising out of the future/option contract in cash.

Q3 What is an Option contract?

A. Options Contract is a type of Derivatives Contract which gives the buyer/holder of the contract the right (but not the obligation) to buy/sell the underlying asset at a predetermined price within or at end of a specified period. The buyer / holder of the option purchases the right from the seller/writer for a consideration which is called the premium. The seller/writer of an option is obligated to settle the option as per the terms of the contract when the buyer/holder exercises his right. The underlying asset could include securities, an index of prices of securities etc.

Under Securities Contracts (Regulations) Act,1956 options on securities has been defined as "option in securities" meaning a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell, securities in future, and includes a teji, a mandi, a teji mandi, a galli, a put, a call or a put and call in securities.

An Option to buy is called Call option and option to sell is called Put option. Further, if an option that is exercisable on or before the expiry date is called American option and one that is exercisable only on expiry date, is called European option. The price at which the option is to be exercised is called Strike price or Exercise price.

Therefore, in the case of American options the buyer has the right to exercise the option at anytime on or before the expiry date. This request for exercise is submitted to the Exchange, which randomly assigns the exercise request to the sellers of the options, who are obligated to settle the terms of the contract within a specified time frame.

As in the case of futures contracts, option contracts can be also be settled by delivery of the underlying asset or cash. However, unlike futures cash settlement in option contract entails paying/receiving the difference between the strike price/exercise price and the price of the underlying asset either at the time of expiry of the contract or at the time of exercise / assignment of the option contract.

Q4 What are Index Futures and Index Option Contracts?

A. Futures contract based on an index i.e. the underlying asset is the index, are known as Index Futures Contracts. For example, futures contract on NIFTY Index and BSE-30 Index. These contracts derive their value from the value of the underlying index.

Similarly, the options contracts, which are based on some index, are known as Index options contract. However, unlike Index Futures, the buyer of Index Option Contracts has only the right but not the obligation to buy / sell the underlying index on expiry. Index Option Contracts are generally European Style options i.e. they can be exercised / assigned only on the expiry date.

An index, in turn derives its value from the prices of securities that constitute the index and is created to represent the sentiments of the market as a whole or of a particular sector of the economy. Indices that represent the whole market are broad based indices and those that represent a particular sector are sectoral indices.

In the beginning futures and options were permitted only on S&P Nifty and BSE Sensex. Subsequently, sectoral indices were also permitted for derivatives trading subject to fulfilling the eligibility criteria. Derivative contracts may be permitted on an index if 80% of the index constituents are individually eligible for derivatives trading. However, no single ineligible stock in the index shall have a weightage of more than 5% in the index. The index is required to fulfill the eligibility criteria even after derivatives trading on the index has begun. If the index does not fulfill the criteria for 3 consecutive months, then derivative contracts on such index would be discontinued.

By its very nature, index cannot be delivered on maturity of the Index futures or Index option contracts therefore, these contracts are essentially cash settled on Expiry.

Q5 Why mini derivative contract?

A. The minimum contract size for the mini derivative contract on Index (Sensex and Nifty) is Rs. 1 lakh at the time of its introduction in the market. The lower minimum contract size means that smaller investors are able to hedge their portfolio using these contracts with a lower capital outlay. This means a better hedge for portfolio, and also results in more liquidity in the market.

Q6 Why longer dated index options?

A. Longer dated derivatives products are useful for those investors who want to have a long term hedge or long term exposure in derivative market. The premiums for longer term derivatives products are higher than for standard options in the same stock because the increased expiration date gives the underlying asset more time to make a substantial move and for the investor to make a healthy profit. Presently, longer dated options on Sensex and Nifty with tenure of upto 3 years are available for the investors.

Q7 What is Bond Index?

A. A bond index is used to measure the performance of bond markets. The index is used as a benchmark against which investment managers measure their performance. It is also used as a measure to compare the performance of different asset classes. The government bond market is the most liquid segment of the bond market.

Q8 What is Volatility Index?

A. Volatility Index is a measure of expected stock market volatility, over a specified time period, conveyed by the prices of stock / index options. It depicts the collective sentiment of the market on the implied future volatility.

Q9 What is the structure of Derivative Markets in India?

A. Derivative trading in India takes can place either on a separate and independent Derivative Exchange or on a separate segment of an existing Stock Exchange. Derivative Exchange/Segment function as a Self-Regulatory Organisation (SRO) and SEBI acts as the oversight regulator. The clearing

& settlement of all trades on the Derivative Exchange/Segment would have to be through a Clearing Corporation/House, which is independent in governance and membership from the Derivative Exchange/Segment.

Q10 What are the various membership categories in the equity derivatives market?

A. The various types of membership in the derivatives market are as follows:

i. Trading Member (TM) – A TM is a member of the derivatives exchange and can trade on his own behalf and on behalf of his clients.

ii. Clearing Member (CM) –These members are permitted to settle their own trades as well as the trades of the other non-clearing members known as Trading Members who have agreed to settle the trades through them.

iii. Self-clearing Member (SCM) – A SCM are those clearing members who can clear and settle their own trades only.

Q11 What are the requirements to be a member of the equity derivatives exchange/ clearing corporation?

A.

i. Balance Sheet Networth Requirements: SEBI has prescribed a networth requirement of Rs. 3 crores for clearing members. The clearing members are required to furnish an auditor's certificate for the networth every 6 months to the exchange. The networth requirement is Rs. 1 crore for a self-clearing member. SEBI has not specified any networth requirement for a trading member.

ii. Liquid Networth Requirements: Every clearing member (both clearing members and self-clearing members) has to maintain atleast Rs. 50 lakhs as Liquid Networth with the exchange / clearing corporation.

iii. Certification requirements: The Members are required to pass the certification programme approved by SEBI. Further, every trading member is required to appoint atleast two approved users who have passed the certification programme. Only the approved users are permitted to operate the derivatives trading terminal.

Q12 What are requirements for a Member with regard to the conduct of his business?

A. The derivatives member is required to adhere to the code of conduct specified under the SEBI Broker Sub-Broker regulations. The following conditions stipulations have been laid by SEBI on the regulation of sales practices:

i. Sales Personnel: The derivatives exchange recognizes the persons recommended by the Trading Member and only such persons are authorized to act as sales personnel of the TM. These persons who represent the TM are known as Authorised Persons.

ii. Know-your-client: The member is required to get the Know-your-client form filled by every one of client.

iii. Risk disclosure document: The derivatives member must educate his client on the risks of derivatives by providing a copy of the Risk disclosure document to the client.

iv. Member-client agreement: The Member is also required to enter into the Member-client agreement with all his clients.

Q13 Which derivative contracts are permitted by SEBI?

A. Derivative products have been introduced in a phased manner starting with Index Futures Contracts in June 2000. Index Options and Stock Options were introduced in June 2001 and July 2001 followed by Stock Futures in November 2001. Sectoral indices were permitted for derivatives trading in December 2002. During December 2007 SEBI permitted mini derivative (F&O) contract on Index (Sensex and Nifty). Further, in January 2008, longer tenure Index options contracts and Volatility Index and in April 2008, Bond Index was introduced. In addition to the above, during August 2008, SEBI permitted Exchange traded Currency Derivatives.

Q14 What is the eligibility criteria for stocks on which derivatives trading may be permitted?

A. A stock on which stock option and single stock future contracts are proposed to be introduced is required to fulfill the following broad eligibility criteria:-

i. The stock shall be chosen from amongst the top 500 stock in terms of average daily market capitalisation and average daily traded value in the previous six month on a rolling basis.

ii. The stock's median quarter-sigma order size over the last six months shall be not less than Rs.1 Lakh. A stock's quarter-sigma order size is the mean order size (in value terms) required to cause a change in the stock price equal to one-quarter of a standard deviation.

iii. The market wide position limit in the stock shall not be less than Rs.50 crores.

A stock can be included for derivatives trading as soon as it becomes eligible. However, if the stock does not fulfill the eligibility criteria for 3 consecutive months after being admitted to derivatives trading, then derivative contracts on such a stock would be discontinued.

Q15 What is the lot size of contract in the equity derivatives market?

A. Lot size refers to number of underlying securities in one contract. The lot size is determined keeping in mind the minimum contract size requirement at the time of introduction of derivative contracts on a particular underlying.

For example, if shares of XYZ Ltd are quoted at Rs.1000 each and the minimum contract size is Rs.2 lacs, then the lot size for that particular scrips stands to be 200000/1000 = 200 shares i.e. one contract in XYZ Ltd. covers 200 shares.

Q16 What is corporate adjustment?

A. The basis for any adjustment for corporate action is such that the value of the position of the market participant on cum and ex-date for corporate action continues to remain the same as far as possible. This will facilitate in retaining the relative status of positions viz. in-the-money, at-the-money and out-of-the-money. Any adjustment for corporate actions is carried out on the last day on which a security is traded on a cum basis in the underlying cash market. Adjustments mean modifications to positions and/or contract specifications as listed below:

a. Strike price
b. Position
c. Market/Lot/ Multiplier

The adjustments are carried out on any or all of the above based on the nature of the corporate action. The adjustments for corporate action are carried out on all open, exercised as well as assigned positions.

The corporate actions are broadly classified under stock benefits and cash benefits. The various stock benefits declared by the issuer of capital are:

a. Bonus
b. Rights
c. Merger/ demerger
d. Amalgamation
e. Splits
f. Consolidations
g. Hive-off
h. Warrants, and
i. Secured Premium Notes (SPNs) among others

The cash benefit declared by the issuer of capital is cash dividend.

Q17 What is the margining system in the equity derivatives market?

A. Two type of margins have been specified -

i. **Initial Margin** - Based on 99% VaR and worst case loss over a specified horizon, which depends on the time in which Mark to Market margin is collected.

ii. **Mark to Market Margin** (MTM) - collected in cash for all Futures contracts and adjusted against the available Liquid Networth for option positions. In the case of Futures Contracts MTM may be considered as Mark to Market Settlement.

Dr. L.C Gupta Committee had recommended that the level of initial margin required on a position should be related to the risk of loss on the position. The concept of value-at-risk should be used in calculating required level of initial margins. The initial margins should be large enough to cover the one day loss that can be encountered on the position on 99% of the days. The recommendations of the Dr. L.C Gupta Committee have been a guiding principle for SEBI in prescribing the margin computation & collection methodology to the Exchanges. With the introduction of various derivative products in the Indian securities Markets, the margin computation methodology, especially for initial margin, has been modified to address the specific risk characteristics of the product. The margining methodology specified is consistent with the margining system used in developed financial & commodity derivative markets worldwide. The exchanges were given the freedom to either develop their own margin computation system or adapt the systems available internationally to the requirements of SEBI.

A portfolio based margining approach which takes an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in all Derivative Contracts i.e. Index Futures, Index Option, Stock Options and Single Stock Futures, has been prescribed. The initial margin requirements are required to be based on the worst case loss of a portfolio of an individual client to cover 99% VaR over a specified time horizon.

The Initial Margin is Higher of

(Worst Scenario Loss +Calendar Spread Charges)

Or

Short Option Minimum Charge

The worst scenario loss are required to be computed for a portfolio of a client and is calculated by valuing the portfolio under 16 scenarios of probable changes in the value and the volatility of the Index/ Individual Stocks. The options and futures positions in a client's portfolio are required to be valued by predicting the price and the volatility of the underlying over a specified horizon so that 99% of times the price and volatility so predicted does not exceed the maximum and minimum price or volatility scenario. In this manner initial margin of 99% VaR is achieved. The specified horizon is dependent on the time of collection of mark to market margin by the exchange.

The probable change in the price of the underlying over the specified horizon i.e. 'price scan range', in the case of Index futures and Index option contracts are based on three standard deviation (3?) where '? ' is the volatility estimate of the Index. The volatility estimate '? ', is computed as per the Exponentially Weighted Moving Average methodology. This methodology has been prescribed by SEBI. In case of option and futures on individual stocks the price scan range is based on three and a half standard deviation (3.5 ?) where '?' is the daily volatility estimate of individual stock.

If the mean value (taking order book snapshots for past six months) of the impact cost, for an order size of Rs. 0.5 million, exceeds 1%, the price scan range would be scaled up by square root three times to cover the close out risk. This means that stocks with impact cost greater than 1% would now have a price scan range of - Sqrt (3) * 3.5? or approx. 6.06?. For stocks with impact cost of 1% or less, the price scan range would remain at 3.5?.

For Index Futures and Stock futures it is specified that a minimum margin of 5% and 7.5% would be charged. This means if for stock futures the 3.5 ? value falls below 7.5% then a minimum of 7.5% should be charged. This could be achieved by adjusting the price scan range.

The probable change in the volatility of the underlying i.e. 'volatility scan range' is fixed at 4% for Index options and is fixed at 10% for options on Individual stocks. The volatility scan range is applicable only for option products.

Calendar spreads are offsetting positions in two contracts in the same underlying across different expiry. In a portfolio based margining approach all calendar-spread positions automatically get a margin offset. However, risk arising due to difference in cost of carry or the 'basis risk' needs to be addressed. It is therefore specified that a calendar spread charge would be added to the worst scenario loss for arriving at the initial margin. For computing calendar spread charge, the system first identifies spread positions

and then the spread charge which is 0.5% per month on the far leg of the spread with a minimum of 1% and maximum of 3%. Presently, calendar spread position on Exchange traded equity derivatives has been granted calendar spread treatment till the expiry of the near month contract.

In a portfolio of futures and options, the non-linear nature of options make short option positions most risky. Especially, short deep out of the money options, which are highly susceptible to, changes in prices of the underlying. Therefore a short option minimum charge has been specified. The short option minimum charge is 3% and 7.5 % of the notional value of all short Index option and stock option contracts respectively. The short option minimum charge is the initial margin if the sum of the worst –scenario loss and calendar spread charge is lower than the short option minimum charge.

To calculate volatility estimates the exchange are required to uses the methodology specified in the Prof J.R Varma Committee Report on Risk Containment Measures for Index Futures. Further, to calculate the option value the exchanges can use standard option pricing models - Black-Scholes, Binomial, Merton, Adesi-Whaley.

The initial margin is required to be computed on a real time basis and has two components:-

i. The first is creation of risk arrays taking prices at discreet times taking latest prices and volatility estimates at the discreet times, which have been specified.

ii. The second is the application of the risk arrays on the actual portfolio positions to compute the portfolio values and the initial margin on a real time basis.

The initial margin so computed is deducted from the available Liquid Networth on a real time basis.

CONDITIONS FOR LIQUID NETWORTH

Liquid net worth means the total liquid assets deposited with the clearing house towards initial margin and capital adequacy; LESS initial margin applicable to the total gross open position at any given point of time of all trades cleared through the clearing member.

The following conditions are specified for liquid net worth:

i. Liquid net worth of the clearing member should not be less than Rs 50 lacs at any point of time.

ii. Mark to market value of gross open positions at any point of time of all trades cleared through the clearing member should not exceed the specified exposure limit for each product.

Liquid Assets

At least 50% of the liquid assets should be in the form of cash equivalents viz. cash, fixed deposits, bank guarantees, T bills, units of money market mutual funds, units of gilt funds and dated government securities. Liquid assets will include cash, fixed deposits, bank guarantees, T bills, units of mutual funds, dated government securities or Group I equity securities which are to be pledged in favor of the exchange.

Collateral Management

Collateral Management consists of managing, maintaining and valuing the collateral in the form of cash, cash equivalents and securities deposited with the exchange. The following stipulations have been laid down to the clearing corporation on the valuation and management of collateral:

i. At least weekly marking to market is required to be carried out on all securities.

ii. Debt securities of only investment grade can be accepted.10% haircut with weekly mark to market will be applied on debt securities.

iii. Total exposure of clearing corporation to the debt or equity of any company not to exceed 75% of the Trade Guarantee Fund or 15% of its total liquid assets whichever is lower.

iv. Units of money market mutual funds and gilt funds shall be valued on the basis of its Net Asset Value after applying a hair cut of 10% on the NAV and any exit load charged by the mutual fund.

v. Units of all other mutual funds shall be valued on the basis of its NAV after applying a hair cut equivalent to the VAR of the units NAV and any exit load charged by the mutual fund.

vi. Equity securities to be in demat form. Only Group I securities would be accepted. The securities are required to be valued / marked to market on a daily basis after applying a haircut equivalent to the respective VAR of the equity security.

Mark to Market Margin

Options – The value of the option are calculated as the theoretical value of the option times the number of option contracts (positive for long options and negative for short options). This Net Option Value is added to the Liquid Networth of the Clearing member. Thus MTM gains and losses on options are adjusted against the available liquid networth. The net option value is computed using the closing price of the option and are applied the next day.

Futures – The system computes the closing price of each series, which is used for computing mark to market settlement for cumulative net position. If this margin is collected on T+1 in cash, then the exchange charges a higher initial margin by multiplying the price scan range of 3 ? & 3.5 ? with square root of 2, so that the initial margin is adequate to cover 99% VaR over a two days horizon. Otherwise if the Member arranges to pay the Mark to Market margins by the end of T day itself, then the initial margins would not be scaled up. Therefore, the Member has the option to pay the MTM margins either at the end of T day or on T+1 day.

Summary of parameters specified for Initial Margin Computation

	Index Options	Index Futures	Stock Options	Stock Futures
Price Scan Range	3 sigma	3 sigma	3.5 sigma	For order size of Rs.5 Lakh, if mean value of impact cost > 1%, the Price Scan Range be scaled up by ?3(in addition to look ahead days)
Volatility Scan Range	4%		10%	
Minimum margin requirement		5%		7.50%
Short option minimum charge	3%		7.50%	
Calendar Spread	0.5% per month on the far month contract (min of 1% and max of 3%)			
Mark to Market	Net Option Value (positive for long positions and negative for short positions) to be adjusted from the liquid networth on a real time basis. The daily closing price of Futures Contract for Mark to Market settlement would be calculated on the basis of the last half an hour weighted average price of the contract.			

MARGIN COLLECTION

Initial Margin - is adjusted from the available Liquid Networth of the Clearing Member on an online real time basis.

Mark to Market Margins-

Futures contracts: The open positions (gross against clients and net of proprietary / self trading) in the futures contracts for each member are marked to market to the daily settlement price of the Futures contracts at the end of each trading day. The daily settlement price at the end of each day is the weighted average price of the last half an hour of the futures contract. The profits / losses arising from the difference between the trading price and the settlement price are collected / given to all the clearing members.

Option Contracts: The marked to market for Option contracts is computed and collected as part of the SPAN Margin in the form of Net Option Value. The SPAN Margin is collected on an online real time basis based on the data feeds given to the system at discrete time intervals.

Client Margins

Clearing Members and Trading Members are required to collect initial margins from all their clients. The collection of margins at client level in the derivative markets is essential as derivatives are leveraged products and non-collection of margins at the client level would provide zero cost leverage. In the derivative markets all money paid by the client towards margins is kept in trust with the Clearing House / Clearing Corporation and in the event of default of the Trading or Clearing Member the amounts paid by the client towards margins are segregated and not utilised towards the dues of the defaulting member.

Therefore, Clearing members are required to report on a daily basis details in respect of such margin amounts due and collected from their Trading members / clients clearing and settling through them. Trading members are also required to report on a daily basis details of the amount due and collected from their clients. The reporting of the collection of the margins by the clients is done electronically through the system at the end of each trading day. The reporting of collection of client level margins plays a crucial role not only in ensuring that members collect margin from clients but it also provides the clearing corporation with a record of the quantum of funds it has to keep in trust for the clients.

Q18 What are the exposure limits in equity derivatives market?

A. It has been prescribed that the notional value of gross open positions at any point in time in the case of Index Futures and all Short Index Option Contracts shall not exceed 33 1/3 (thirty three one by three) times the available liquid networth of a member, and in the case of Stock Option and Stock Futures Contracts, the exposure limit shall be higher of 5% or 1.5 sigma of the notional value of gross open position.

Q19 What are the position limits in equity derivatives market?

A. The position limits specified are as under-

Client / Customer level position limits:

For index based products there is a disclosure requirement for clients whose position exceeds 15% of the open interest of the market in index products.

For stock specific products the gross open position across all derivative contracts on a particular underlying of a customer/client should not exceed the higher of –

i. 1% of the free float market capitalisation (in terms of number of shares) Or,

ii. 5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts).

This position limits are applicable on the combine position in all derivative contracts on an underlying stock at an exchange. The exchanges are required to achieve client level position monitoring in stages.

Trading Member Level Position Limits:

For Index options the Trading Member position limits are Rs. 250 cr or 15% of the total open interest in Index Options whichever is higher and for Index futures the Trading Member position limits are Rs. 250 cr or 15% of the total open interest in Index Futures whichever is higher.

For stocks specific products, the trading member position limit is 20% of the market wide limit subject to a ceiling of Rs. 50 crore.

It is also specified that once a member reaches the position limit in a particular underlying then the member shall be permitted to take only offsetting positions (which result in lowering the open position of the member) in derivative contracts on that underlying. In the event that the position limit is breached due to the reduction in the overall open interest in the market, the member are required to take only offsetting positions (which result in lowering the open position of the member) in derivative contract in that underlying and fresh positions shall not be permitted. The position limit at trading member level is required to be computed on a gross basis across all clients of the Trading member.

Market wide limits:

There are no market wide limits for index products. For stock specific products the market wide limit of

open positions (in terms of the number of underlying stock) on an option and futures contract on a particular underlying stock would be lower of –

i. 30 times the average number of shares traded daily, during the previous calendar month, in the cash segment of the Exchange, Or

ii. 20% of the number of shares held by non-promoters i.e. 20% of the free float, in terms of number of shares of a company.

Summary of Position Limits

	Index Options	**Index Futures**	**Stock Options**	**Stock Futures**
Client level	Disclosure requirement for any person or persons acting in concert holding 15% or more of the open interest of all derivative contracts on a particular underlying index	Disclosure requirement for any person or persons acting in concert holding 15% or more of the open interest of all derivative contracts on a particular underlying index	1% of free float or 5% of open interest whichever is higher	1% of free float or 5% of open interest whichever is higher
Trading Member level	15% of the total Open Interest of the market or Rs. 250 crores, whichever is higher	15% of the total Open Interest of the market or Rs. 250 crores, whichever is higher	20% of Market Wide Limit subject to a ceiling of Rs.50 cr.	20% of Market Wide Limit subject to a ceiling of Rs.50 cr.
Market wide			30 times the average number of shares traded daily, during the previous calendar month, in the relevant underlying security in the underlying segment or, - 20% of	30 times the average number of shares traded daily, during the previous calendar month, in the relevant underlying security in the underlying segment or, - 20% of

			the number of shares held by non-promoters in the relevant underlying security, whichever is lower	the number of shares held by non-promoters in the relevant underlying security, whichever is lower

Q20 What are the requirements for a FII and its sub-account to invest in equity derivatives market?

A. A SEBI registered FIIs and its sub-account are required to pay initial margins, exposure margins and mark to market settlements in the derivatives market as required by any other investor. Further, the FII and its sub-account are also subject to position limits for trading in derivative contracts. The FII and sub-account position limits for the various derivative products are as under:

	Index Options	**Index Futures**	**Stock Options**	**Single stock Futures**
FII Level	Rs. 250 crores or 15% of the OI in Index options, whichever is higher. In addition, hedge positions are permitted.	Rs. 250 crores or 15% of the OI in Index futures, whichever is higher. In addition, hedge positions are permitted.	20% of Market Wide Limit subject to a ceiling of Rs. 50 crores.	20% of Market Wide Limit subject to a ceiling of Rs. 50 crores.
Sub-account level	Disclosure requirement for any person or persons acting in concert holding 15% or more of the open interest of all derivative contracts on a particular underlying index	Disclosure requirement for any person or persons acting in concert holding 15% or more of the open interest of all derivative contracts on a particular underlying index	1% of free float market capitalization or 5% of open interest on a particular underlying whichever is higher	1% of free float market capitalization or 5% of open interest on a particular underlying whichever is higher

Q21 What are the requirements for a NRI to invest in equity derivatives market?

A. NRIs are permitted in invest in exchange traded derivative contracts subject to the margin and other requirements which are in place for other investors. In addition, a NRI is subject to the following position limits:

	Index Options	**Index Futures**	**Stock Options**	**Single stock Futures**
NRI level	Disclosure requirement for any person or persons acting in concert holding 15% or more of the open interest of all derivative contracts on a particular underlying index	Disclosure requirement for any person or persons acting in concert holding 15% or more of the open interest of all derivative contracts on a particular underlying index	1% of free float market capitalization or 5% of open interest on a particular underlying whichever is higher	1% of free float market capitalization or 5% of open interest on a particular underlying whichever is higher

Q22 What are Currency Futures?

A. Currency futures are contracts to buy or sell a specific underlying currency at a specific time in the future, for a specific price. Currency futures are exchange-traded contracts and they are standardized in terms of delivery date, amount and contract terms.

Currency future contracts allow investors to hedge against foreign exchange risk. Since these contracts are marked-to-market daily, investors can--by closing out their position--exit from their obligation to buy or sell the currency prior to the contract's delivery date.

Q23 What are the parameters for initial margin, exposure margin and what are the position limits specified for exchange traded currency futures?

A.

Currency Futures	**Price scan Range**	**Minimum Margin Requirement**	**Calendar spread**
Initial Margin Computation	3.5 Sigma	1%	Rs. 250 per month on the far month contract
Exposure Margin	I% of gross open positions		
	Client level	**Trading Member level (Non-Bank)**	**Trading Member level (Bank)**
Position limits	6% of open interest or 10 million USD whichever is higher	15% of total open interest or 50 million USD whichever is higher	15% of total open interest or 100 million USD whichever is higher

Q24 What are the eligibility criteria for members of the currency futures segment?

A. The trading member is subject to a balance sheet networth requirement of Rs. 1 crore while the clearing member is subject to a balance sheet networth requirement of Rs. 10 crores. The clearing member is subject to a liquid networth requirement of Rs. 50 lakhs.

Q25 What are the eligibility criteria for setting up of currency futures segment in a recognized stock exchange?

A. A recognized stock exchange having nationwide terminals or a new exchange recognized by SEBI may set up currency futures segment after obtaining SEBI's approval. The currency futures segment should fulfill the following eligibility conditions for approval:

The trading should take place through an online screen-based trading system, which also has a disaster recovery site.

i. The clearing of the currency derivatives market should be done by an independent Clearing Corporation, which satisfies the eligibility for a clearing corporation.

ii. The exchange must have an online surveillance capability which monitors positions, prices and volumes in real time so as to deter market manipulation.

iii. The exchange shall have a balance sheet networth of atleast Rs. 100 crores.

iv. Information about trades, quantities, and quotes should be disseminated by the exchange in real time to at least two information vending networks which are accessible to investors in the country.

v. The per-half-hour capacity of the computers and the network should be at least 4 to 5 times of the anticipated peak load in any half hour, or of the actual peak load seen in any half-hour during the preceding six months, whichever is higher. This shall be reviewed from time to time on the basis of experience.

vi. The segment should have at least 50 members to start currency derivatives trading.

vii. The exchange should have arbitration and investor grievances redressal mechanism operative from all the four areas/regions of the country.

viii. The exchange should have adequate inspection capability.

ix. If already existing, the exchange should have a satisfactory record of monitoring its members, handling investor complaints and preventing irregularities in trading.

Q26 What measures have been specified by SEBI to protect the rights of investor in Derivatives Market?

A. The measures specified by SEBI include:

a. Investor's money has to be kept separate at all levels and is permitted to be used only against the liability of the Investor and is not available to the trading member or clearing member or even any other investor.

b. The Trading Member is required to provide every investor with a risk disclosure document which will disclose the risks associated with the derivatives trading so that investors can take a conscious decision to trade in derivatives.

c. Investor would get the contract note duly time stamped for receipt of the order and execution of the order. The order will be executed with the identity of the client and without client ID order will not be accepted by the system. The investor could also demand the trade confirmation slip with his ID in support of the contract note. This will protect him from the risk of price favour, if any, extended by the Member.

d. In the derivative markets all money paid by the Investor towards margins on all open positions is kept in trust with the Clearing House/Clearing corporation and in the event of default of the Trading or Clearing Member the amounts paid by the client towards margins are segregated and not utilized towards the default of the member. However, in the event of a default of a member, losses suffered by the Investor, if any, on settled / closed out position are compensated from the Investor Protection

Fund, as per the rules, bye-laws and regulations of the derivative segment of the exchanges.

e. The Exchanges are required to set up arbitration and investor grievances redressal mechanism operative from all the four areas / regions of the country.