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ABBREVIATIONS

<u>AD -1</u>	<u>AUTHORIZED DEALER CATEGORY-I BANK</u>
<u>AIFs</u>	<u>ALTERNATIVE INVESTMENT FUNDS</u>
<u>ADTV</u>	<u>AVERAGE DAILY TRADED VALUE</u>
<u>ADDV</u>	<u>AVERAGE DAILY DELIVERY VALUE</u>
<u>AMCs</u>	<u>ASSET MANAGEMENT COMPANIES</u>
<u>AMFI</u>	<u>ASSOCIATION OF MUTUAL FUNDS IN INDIA</u>
<u>ASBs</u>	<u>AUTHORIZED STOCK BROKERS</u>
<u>ATM</u>	<u>AT THE MONEY</u>
<u>BMC</u>	<u>BASE MINIMUM CAPITAL</u>
<u>CBIF</u>	<u>CORPORATE BOND INDEX FUTURES</u>
<u>CCs</u>	<u>RECOGNISED CLEARING CORPORATIONS</u>
<u>CTM</u>	<u>CLOSE TO THE MONEY</u>
<u>DPL</u>	<u>DAILY PRICE LIMITS</u>
<u>DSP</u>	<u>DAILY SETTLEMENT PRICE</u>
<u>E</u>	<u>EXPIRY DAY</u>
<u>EFE</u>	<u>ELIGIBLE FOREIGN ENTITIES</u>
<u>EOD</u>	<u>END OF DAY</u>
<u>ETCD</u>	<u>EXCHANGE TRADED COMMODITY DERIVATIVES</u>
<u>FAQs</u>	<u>FREQUENTLY ASKED QUESTIONS</u>
<u>FCRA</u>	<u>FORWARD CONTRACTS (REGULATION) ACT, 1952</u>
<u>FDR</u>	<u>FIXED DEPOSIT RECEIPTS</u>
<u>FED</u>	<u>FINAL EXPIRY DATE</u>
<u>FEMA</u>	<u>FOREIGN EXCHANGE MANAGEMENT ACT, 1999</u>
<u>FIMMDA</u>	<u>FIXED INCOME MONEY MARKET AND DERIVATIVES ASSOCIATION OF INDIA</u>
<u>FPIs</u>	<u>FOREIGN PORTFOLIO INVESTORS</u>
<u>FPOs</u>	<u>FARMER PRODUCER ORGANIZATIONS</u>
<u>FSD</u>	<u>FINANCIAL SECURITY DEPOSIT</u>
<u>FSP</u>	<u>FINAL SETTLEMENT PRICE</u>
<u>FVCI</u>	<u>FOREIGN VENTURE CAPITAL INVESTORS</u>
<u>GDS</u>	<u>GOLD DEPOSIT SCHEME</u>
<u>GLEIF</u>	<u>GLOBAL LEGAL ENTITY IDENTIFIER FOUNDATION</u>
<u>GMS</u>	<u>GOLD MONETISATION SCHEME</u>

Gold ETFs	GOLD EXCHANGE TRADED FUNDS
INR	INDIAN RUPEES
ITM	IN THE MONEY
LTP	LAST TRADED PRICE
MFs	MUTUAL FUNDS
MIIIs	MARKET INFRASTRUCTURE INSTITUTIONS
MoUs	MEMORANDUM OF UNDERSTANDING
MQSOS	MEDIAN QUARTER SIGMA ORDER SIZE
MSMEs	MICRO, SMALL AND MEDIUM ENTERPRISES
MT	METRIC TON
MTM	MARK TO MARKET
MWPL	MARKET WIDE POSITION LIMIT
NAV	NET ASSET VALUE
NDS	NEGOTIATED DEALING SYSTEM
NISM	NATIONAL INSTITUTE OF SECURITIES MARKET
NRIs	NON-RESIDENT INDIA
OI	OPEN INTEREST
OTM	OUT OF THE MONEY
PAC	PRODUCT ADVISORY COMMITTEE
PAN	PERMANENT ACCOUNT NUMBER
PFMI	PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURE
PSF	PRODUCT SUCCESS FRAMEWORK
PSU	PUBLIC SECTOR UNDERTAKING
QSOS	QUARTER SIGMA ORDER SIZE
RBI	RESERVE BANK OF INDIA
RMS	RISK MANAGEMENT SYSTEM
SCRA	SECURITIES CONTRACTS (REGULATION) ACT, 1956
SCRR	SECURITIES CONTRACT (REGULATION) RULES, 1957
SEBI	SECURITIES AND EXCHANGE BOARD OF INDIA
SE	STOCK EXCHANGE
SECC Regulations	SECURITIES CONTRACTS (REGULATION) (STOCK EXCHANGES AND CLEARING CORPORATIONS) REGULATIONS, 2018
SPN	SECURED PREMIUM NOTES

SOP	STANDARD OPERATING PROCEDURE
UCC	UNIQUE CLIENT CODE
VWAP	VOLUME WEIGHTED AVERAGE PRICE

1. INDEX FUTURESEQUITY DERIVATIVES

and

1.1. Application for launching Equity Derivatives contracts

The Stock ExchangesSEs Stock Exchange shall submit their proposal for approval of the index futures/options, stock futures/options contracts to SEBI which shall include:

1.1.1. Symbol

1.1.2. Underlying - (for stock option contracts, giving details of the calculations mentioned and ensuring that the stock fulfils the eligibility criterion specified)

1.1.3. Multiplier / Lot Size

1.1.4. Strike Price Intervals (for index and stock options)

1.1.5. Premium Quotation (for index and stock options)

1.1.6. Last Trading Day

1.1.7. Expiration day/month

1.1.1.1. Exercise Style (for index and stock options)

1.1.8.

1.1.1.1.2. Settlement of OptionOption Exercise (for index and stock options)

1.1.9. Position and Exercise Limits (for index and stock options)

1.1.10. Settlement of Option Exercise (for index and stock options) ~~Time period of settlement of Option Exercise~~

1.1.11. Methodology for calculating closing price for mark to market settlement. (for stock futures)

1.1.12. Methodology for calculating closing price at time of expiry (for stock futures)

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1.1.13. Margins

1.1.14. Trading Hours

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1.1.15. the economic purpose it is intended to serve,

1.1.16. likely contribution to market development,

1.1.17. the safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading.

1.1.18. the infrastructure of the exchange and the surveillance system to effectively monitor trading in such contracts, and

1.1.19. details of settlement procedures & systems ~~with regard to Index Futures/ Index options/Stock Futures/Stock options.~~

~~details of settlement procedures & systems with regard to Stock Options.~~

1.1.20. details of back testing of the margin calculation for a period of one year considering a call and a put option on the underlying with a delta of +25 & -25 and actual price of the underlying security (for stock options).

~~Pre-open session for the derivatives market~~

~~1.3.1. The pre-open session to be extended to current-month futures contracts on both single stocks and indices, mirroring the modalities of the cash market's pre-open and post-closing sessions.~~

~~1.3.2. In the last five trading days before expiry, these sessions shall extend to next month futures contracts as liquidity shifts from one expiry to the other on account of rollover of futures contracts.~~

2.—

1.2. Product Design

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
<u>1.2.1. Underlying</u>	<u>1.24.1.1. The benchmark indices and the various sectoral indices are permitted as per eligibility criteria.</u>		<u>1.24.1.2. The stocks listed on exchanges which conform to the eligibility criteria are permitted.</u>	
<u>1.2.2. Eligibility Criteria</u>	<u>1.24.2.1. Benchmark indices</u> <u>1.2.2.1.1. The Exchange may consider introducing derivative contracts on an index, if weightage of constituent stocks of the index, which are individually eligible for derivatives trading, is at least 80%. However, no single ineligible stock in the index shall have a weightage of more than 5% in the index. The index on which futures and options contracts are permitted shall be required to comply with the eligibility criteria on a continuous basis.</u> <u>1.2.2.1.22- The Exchange shall check whether the index continues to meet the aforesaid eligibility criteria on a monthly basis. If the index fails to meet the eligibility criteria for three consecutive months, then no fresh contract shall be issued on that index. However, the existing unexpired contracts shall be permitted to trade till expiry and new strikes may also be introduced in the existing contracts.</u> <u>1.2.2.2.3 Non-Benchmark indices¹</u> <u>Exchanges shall follow the following prudential norms before introducing derivatives on non-benchmark indices:</u> <u>1.2.2.2.13-1. Minimum of 14 constituents.</u> <u>1.2.2.2.23-2. Top constituent's weight ≤ 20%</u> <u>1.2.2.2.33-3. Combined weight of the top three constituents ≤ 45%</u>		<u>1.24.2.3. Stock futures and Options²</u> <u>1.24.2.3.1. (i)–Average Daily Market Capitalization and Average Daily Traded value (ADTV):-</u> <u>Amongst top 500 stocks</u> <u>(ii)1.24.2.3.2. The stock's Median Quarter Sigma Order Size (MQSOS) shall not be less than:-</u> <u>INR 75 lakhs</u> <u>1.42.2.3.3. (iii)–The stock's market wide position limit (MWPL), shall not be less than:-</u> <u>INR 1,500 crores</u> <u>1.24.2.3.4. (iv)–The stock's Average daily delivery value (ADDV) in the cash market, shall not be less than:-</u> <u>INR 35 crores</u> <u>1.24.2.41.4.2.1. The above criteria are to be met for a continuous period of six months, on a rolling basis, based on the data of previous 6 months.</u> <u>1.2.2.52. In case circuit filter on a stock is reduced even once during the past six months, on account of surveillance action, then that stock should undergo a cooling off period of six months before the exchange decides to introduce derivatives on it.</u>	

¹ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025

² Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/116 dated August 30, 2024



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
	<u>1.4.2.3.4.1.2.2.2.4 All other constituents' individual weights must be lower than those of the higher-weighted constituents (i.e., a descending weight structure).</u> <u>Exchanges shall evaluate and ensure compliance with the aforesaid additional criteria at the end of every calendar quarter.</u>		<u>1.2.2.6. The Exchange shall be guided by the following methodology given at para 1.2.12 for the purpose of calculating QSOS in a stock:</u> <u>1.4.2.3.1. Quarter sigma order size shall be calculated by taking four snapshots in a day from the order book of the stock in the past six months. These four snapshots shall be randomly chosen from within four fixed ten-minutes windows spread through the day.</u> <u>1.4.2.3.2. The sigma (standard deviation) or volatility estimate shall be the daily closing volatility estimate which is also used for day end initial margin calculation in derivative contracts on a stock. For stocks on which derivative contracts are not traded, the daily closing volatility estimate shall be computed in the manner specified. The daily closing volatility estimate value shall be applied to the day's order book snapshots to compute quarter sigma order size.</u> <u>1.4.2.3.3. The quarter sigma percentage shall be applied to the average of the best bid and offer price in the order book snapshot to compute the order size to move price of the stock by quarter sigma.</u> <u>1.4.2.3.4. The median order size to cause quarter sigma price movement shall be determined separately for the buy side and the sell side. The average of the median order size for the buy and the sell side shall be taken as the median quarter sigma order size.</u> <u>1.2.2.7. The details of calculation methodology and relevant data shall be made available to the public at large on the website of the exchange.</u> <u>1.2.2.8. The quarter sigma order size in a stock shall be calculated on the 15th of each month, on a rolling basis, considering the order book snapshots in the previous six months. Similarly, the average daily market capitalization, average daily traded value and the average daily delivery value shall also be computed on the 15th of each</u>	

Commented [A1]: Incorporation of new provisions (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
			month, on a rolling basis, to arrive at the list of top 500 stocks. 1.2.2.9. Stocks which meet the eligibility criteria in the underlying cash market of any stock exchange would be permitted to trade in equity derivatives segment of all stock exchanges. The stock exchanges shall calculate the closing price of the underlying in the manner specified by SEBI. The stock exchanges shall settle the derivative contracts at a price calculated by the clearing corporations based on closing price of the underlying volume weighted average price (VWAP) from the cash segment across all exchanges. 1.2.2.10. In addition, other aspects, such as, any surveillance concerns, ongoing investigations, or other administrative considerations shall be taken into account by SEBI, while considering a stock for introduction into derivatives segment. 1.2.2.11. The number of eligible stocks may vary from month to month depending upon the changes in quarter sigma order sizes, average daily market capitalization, average daily traded value and average daily delivery value calculated every month on a rolling basis for the past six months.	
1.2.3. Exit norms based on Product Success Framework (PSF)	1.2.3.1. The PSF³ shall be applicable to all equity index derivatives at the underlying level. The framework shall not be applicable to flagship index of the exchange. 1.2.3.2. The criteria for evaluation of the index derivatives for product success framework are as follows: a) 15% of trading members active in all index derivatives or 20 trading members whichever is lower should have traded in any derivative contract on the index being reviewed in each of the month during the review period. b) Trading on a minimum of 75% of the trading days during the review period. c) Average daily turnover of at least INR 10 crore during the review period, and		1.2.3.4. Exit criteria based on performance of the underlying 1.2.3.4.1. If a stock in equity derivatives segment fails to meet any of the above criteria, as mentioned at para 1.2.2.3. above, for a continuous period of three months, on a rolling basis, based on the data for previous six months, then it shall exit from derivatives segment. No new contract shall be issued on stocks that may exit the derivatives segment. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contract months.	

³ SEBI letter SEBI/HO/MRD/11350 dated April 12, 2018

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
	d) <u>Average daily open interest of INR 4 crore during the review period.</u> Each of the above criteria shall be satisfied for continuation of the derivatives on the given index. If any index fails to satisfy any of the above mentioned criteria, then no fresh contracts shall be issued on that index. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contracts. Further, exchanges shall disclose the PSF evaluation report on their respective websites. 1.2.3.3. Surrogate / Pseudo index a) <u>Even if an index does not fulfil all the criteria during a review, the Exchange may not discontinue derivatives on that index provided there is a surrogate/pseudo index in another exchange(s), which continue to meet the evaluation criteria on the respective exchange. The index under review must have been surrogate/pseudo to another index on the date of review and must have remained as such for the major duration of the review period.</u> b) <u>For this purpose, an index may be considered to be surrogate/pseudo of another index, if all the following conditions are met:</u> I. <u>The number of constituents is equal in both the indices. If not, then the number of constituents in the smaller index (index with smaller number of constituents) is not less than 80% of the number of constituents in the larger index.</u> II. <u>At least 50% of the constituent stocks in the larger index are also part of the smaller index, and</u> III. <u>The correlation between the two indices is at least 0.90 for the previous 6 months on a rolling basis.</u> c) <u>An index in an exchange shall have only one pseudo/surrogate index per exchange.</u> d) <u>All index derivatives would be reviewed semi-annually in the first week of April and October based on the data for the preceding six months i.e. period of review would be October to March for the April review and April to September for the October review.</u>		<u>1.2.3.4.2. The above mentioned criteria for exit shall apply to only those stocks which have completed at-least 6 months from the date of introduction. After the said gestation period, the stocks failing to meet the eligibility criteria as stated at para 1.2.2.3. above, shall exit from derivatives segment in the upcoming review cycle.</u> <u>1.2.3.4.3. A stock will exit from derivatives segment if it fails in meeting eligibility criteria across all exchange based on performance in the underlying cash market. If a stock is meeting the eligibility criteria on any exchange, it will continue to be eligible for derivatives segment on all exchanges.</u> <u>1.2.3.4.4. Once a stock is excluded from the derivatives segment, it shall not be considered for re-inclusion for a period of one year from its last trading day in the derivatives segment.⁴</u> 1.2.3.5. Additional Exit norms based on introduction of a Product Success Framework (PSF) for stock derivatives <u>1.2.3.5.1. The criteria for the PSF framework for single stock derivatives is as follows.</u> <u>1.2.3.5.1.1. At least 15% of trading members active in all stock derivatives (trading member who has traded during the month) or 200 trading members, whichever is lower, shall have traded in any derivative contract on the stock being reviewed on an average on monthly basis during the review period.</u> <u>1.2.3.5.1.2. Trading on a minimum of 75% of the trading days during the review period.</u> <u>1.2.3.5.1.3. Average daily turnover (futures + options premium) of at least INR 75 crores during the review period, and</u> <u>1.2.3.5.1.4. Average daily notional open interest (futures + options notional) of at</u>	

Commented [A2]: Rationalization of filings as per S.No 2.9 of the consultation paper

⁴ SEBI Circular No. CIR/MRD/DRMNP/11/2013 dated April 01, 2013

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
	e) Only those index derivatives which have completed at least 21 months from the launch month would be liable for review. f) Once an index is excluded from the derivatives list, it shall not be considered for re-inclusion for a period of at least six months. Exchanges may consider re-launching derivative contracts on the same index after carrying out suitable modification(s) in contract specifications based on market feedback, after a cooling off period of at least six months, subject to SEBI approval.		least INR 500 crores during the review period. 1.2.3.5.2. Each of the above criteria shall be satisfied for continuation of the derivatives on the given stock. If any stock fails to satisfy any of the above mentioned criteria for a continuous period of three months, on a rolling basis, based on the data for previous six months, then no fresh contracts shall be issued on that stock. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contracts. 1.2.3.5.3. Further, only those stock derivatives which have completed at least 6 months from the date of introduction shall be considered for review in the upcoming review cycle. After the said gestation period, the stocks failing to meet the eligibility criteria as stated at para 1.2.3.5.1. above, for three subsequent months, shall exit from derivatives segment. 1.4.3.5.3. Once a stock is excluded from the derivatives segment due to PSF, it shall not be considered for re-inclusion for a period of one year from its last trading day in the derivatives segment. Once a stock is excluded from the derivatives segment due to PSF, it shall not be considered for re-inclusion for a period of one year from its last trading day in the derivatives segment. 1.2.3.5.4. The PSF review cycle shall be aligned with the review of entry and exit norms based on performance in underlying cash market i.e. all the above criteria for PSF shall be calculated on the 15th of each month, on a rolling basis, considering the data for previous six months. 1.2.3.5.5. A stock will exit from derivatives segment if it fails to meet the PSF criteria on all the exchanges. If a stock is meeting the PSF criteria on any exchange, it will continue to be eligible for derivatives segment on all exchanges. 1.2.3.5.6. A stock which is dropped from derivatives trading may become eligible	

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
			once again. Derivative contracts on such stocks may be re-introduced by the exchange subject to SEBI approval. 1.2.3.5.7. The Exchange may compulsorily close out all derivative contract positions in a particular underlying when that underlying has ceased to satisfy the eligibility criteria or the exchange is of the view that the continuance of derivative contracts on such underlying is detrimental to the interest of the market keeping in view the market integrity and safety. The decision of such forced closure of derivative contracts shall be taken in consultation with other exchanges where such derivative contracts are also traded and shall be applied uniformly across all exchanges.	
equity derivatives1.2.4. Size of the Contract ⁵	1.2.4.1. A derivative contract shall have a value of not less than Rs. 15 Lakhs at the time of its introduction in the market. The lot size for derivatives contracts in index derivatives segment shall be fixed in such a manner that the contract value of the derivative on the day of review is within Rs. 15 lakhs and Rs. 20 lakhs. Further, the lot size (in units of underlying) shall be fixed as a multiple of 5, provided the lot size is not less than 10. 1.2.4.2. Exchanges shall review the lot size once in every 6 months based on the average of the closing price of the underlying for last one month and wherever warranted, revise the lot size by giving an advance notice of at least 2 weeks to the market. If the revised lot size is higher than the existing one, it will be effective for only new contracts. In case of corporate action, the revision in lot size of existing contracts shall be carried out as given in Para 14.6		1.2.4.3. A derivative contract shall have a value of not less than Rs. 5 Lakhs at the time of its introduction in the market. The lot size for stock derivatives contracts shall be fixed in such a manner that the contract value of the derivative on the day of review is within Rs. 5 lakhs and Rs. 10 lakhs. Further the lot size (in units of underlying) shall be fixed as a multiple of 25, provided the lot size is not less than 50. However, if the contract value of the stock derivatives at the minimum lot size of 50 is greater than Rs. 10 lakhs, then lot size shall be fixed as a multiple of 5, provided the lot size is not less than 10. in case the contract value exceeds Rs.10 lakhs with minimum lot size as 10, Exchange shall fix the lot size as 5 in order to have the contract value between Rs. 5 lakhs to Rs. 10 Lakhs.⁶ 1.2.4.4. The SEs shall review the lot size once in every 6 months based on the average of the closing price of the underlying for last one month and wherever warranted, revise the lot size by giving an advance notice of at least 2 weeks to the market. If the revised lot size is higher than the existing one, it will be effective for only new contracts. In case of corporate action, the revision in lot size of	

⁵ Circular no. CIR/MRD/DP/14/2015 dated July 13, 2015 and SEBI/HO/MRD/TPD1/P/CIR/2024/132 dated October 01, 2024

⁶ SEBI Letter SEBI/HO/MRD/MRD-POD-2/P/OW/2024/ 6845/1 dated February 21, 2024

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
			existing contracts shall be carried out as given in para 14.6. Exchanges shall ensure that the lot size is same for an underlying traded across Exchanges.	
<u>1.2.5. Lot size</u>	Exchanges shall ensure that the lot size is same for an underlying traded across Exchanges.			
<u>1.2.6. Quotation</u>	The equity derivatives contract shall be quoted in rupee terms.			
<u>1.2.7. Tenor of the contract</u>	The index equity derivative futures contracts shall have a maximum maturity of 12 months. The index options contract shall have a maximum maturity of 12 months. However, the index option contracts on Nifty and SENSEX shall have a maximum maturity up to 5 years. The stock futures contract shall have a maximum maturity of 12 months. The stock options contract shall have a maximum maturity of 12 months.			
<u>1.2.8. Available Contracts</u>	<u>1.2.8.1. Monthly maturities from 1 to 12 months would be available.</u>	<u>1.2.8.2. The exchange should ensure that for index options contracts on Nifty and Sensex : that there are</u> <u>8 semi-annual contracts of the cycle June/December in sequence to 3 serial monthly contracts and 3 quarterly contracts of the cycle March/June/September/December.</u> <u>1.2.8.3. Each maturity shall have a minimum of three strikes (in the money, at the money and out of the money).</u> <u>Further, Weekly contracts would only be available on one benchmark index for each exchange.</u> <u>1.2.8.4. For Index options, each maturity shall have a minimum of three strikes (in the money, at the money and out of the money).</u>	<u>1.2.8.5. Single Stock Futures contract shall have maturity of three months and three contracts of maturity of one-month, two-month and three-month would be introduced simultaneously. Therefore, at any point in time at least three Single Stock Futures contracts on a particular underlying would be available for trading.</u> <u>Single Stock Options derivative contracts shall have maturity of three months and three contracts of maturity of one-month, two-month and three-month would be introduced simultaneously. Therefore, at any point in time at least three Single Stock Option contracts on a particular underlying would be available for trading.</u> <u>1.2.8.6. For Stock options, each maturity shall have a minimum of three strikes (in the money, at the money and out of the money).</u> <u>Each maturity shall have a minimum of three strikes (in the money, at the money and out of the money).</u>	
<u>1.2.9. Settlement Mechanism</u>	<u>1.2.9.1. To be index futures contract shall be settled in INR.</u> The index futures contract shall be	<u>1.2.9.2. To be index options contract shall be settled in INR</u> <u>Initially, The Exchanges shall introduce premium settled index options.</u>	<u>1.2.9.3. Physical settlement is mandatory for</u>	<u>1.2.9.4. To be stock options contract shall be settled in INR.</u> <u>The Exchanges shall introduce premium settled American / European Style Stock options.</u>

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
	<u>settled in Indian Rupees.</u>		all stock derivatives ⁷	
1.2.10. Settlement Price	1.2.10.1. The stock exchanges shall calculate the closing price of the underlying in the manner specified by SEBI.			
<u>/stock/stockth e closing price/stock1.</u> 2.11. Final Settlement Day⁸ (Expiry Day)	1.2.11.1. Expiries of all equity derivatives contracts of an exchange will be uniformly limited to either Tuesday or Thursday. 1.2.11.2. Every exchange will continue to be allowed one weekly benchmark index options contract on their chosen day (Tuesday or Thursday). 1.2.11.3. Besides benchmark index options contracts, all other equity derivatives contracts, viz., all benchmark index futures contracts, non-benchmark index futures / options contracts, and all single stock futures / options contracts will be offered with a minimum tenor of 1 month, and the expiry will be in the last week of every month on their chosen day (that is last Tuesday or last Thursday of the month). 1.2.11.4. 1.4.11.5 Exchanges will now seek prior approval of SEBI for modifying the settlement day of their derivatives contracts from the one which has been existing.			

Commented [A3]: Incorporation of new provisions(May 26, 2025 circular) as per S.No 2.20 of the consultation paper.

1.2.12. Methodology for calculating Quarter sigma order size (QSOS) in a stock:

1.2.12.14.2.3.1. ——— Quarter sigma order sizeQSOS shall be calculated by taking four snapshots in a day from the order book of the stock in the past six months. These four snapshots shall be randomly chosen from within four fixed ten-minutes windows spread through the day.

—1.24.122.3-2. The sigma (standard deviation) or volatility estimate shall be the daily closing volatility estimate which is also used for day end initial margin calculation in derivative contracts on a stock. For stocks on which derivative contracts are not traded, the daily closing volatility estimate shall be computed in the manner as specified under provisions related to Risk Management. The daily closing volatility estimate value shall be applied to the day's order book snapshots to compute quarter sigma order size.

⁷ Circular No. SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018, Circular no. SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018 and Circular No. SEBI/HO/MRD/DOPI/CIR/P/2019/28 dated February 08, 2019

⁸ Circular No. SEBI/HO/MRD/MRD-TPD-1/P/CIR/2025/76 dated May 26, 2025

~~1.24.12~~~~2.3.3-~~ The quarter sigma percentage shall be applied to the average of the best bid and offer price in the order book snapshot to compute the order size to move price of the stock by quarter sigma.

~~1.24.12~~~~2.3.4-~~ The median order size to cause quarter sigma price movement shall be determined separately for the buy side and the sell side. The average of the median order size for the buy and the sell side shall be taken as the median quarter sigma order size.

1.3. Surveillance

1.3.1. Formulation of Open Interest⁹

1.3.1.1. Open Interest (OI) of the participants in derivatives shall be measured at a portfolio level by computing the net Delta adjusted open positions across futures and options for an underlying at a given point in time. Delta denotes sensitivity of price movement of derivative position with respect to that of the underlying. Accordingly, long futures have a delta of +1 times notional. For options, delta will range between 0 and +1 times notional for long calls and between 0 and -1 times notional for long puts. In case of short options position, effective delta for short calls is negative and that of short put is positive.

1.3.1.2. Gross addition of such net Future Equivalent Open Interest (FutEq OI) across all Unique Client Codes (UCCs) would form the FutEq OI for the Stock/Index Derivatives, as illustrated in Table 4 below.

Illustration of FutEq OI for various F&O positions

⁹ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025.

Scrip 1	Long position in Futures	Long position in Call	Delta of long call	Long Position in Put	Delta of long Put	Short Position in Put	Delta of Short Put	Short position in call	Delta of Short Call	Notional OI	FutEq OI
Client 1	300									300	300
Client 2		500	0.5							500	250
Client 3	300	500	0.5	400	-0.5					1200	350
Client 4						-400	-0.5	400	0.5	800	0
Market wide OI										2800	900

1.3.1.3. ~~CCs Exchange shall have been disseminating FutEq OI for all the scrips/indices on their websites and have been intimating entity level FutEq OI to participants through their portal. The same shall be continued for the instant purpose.~~

Commented [A4]: Incorporation of new provisions (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.

1.3.2. Position Limits

S.No / Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
1.3.2.1. Market level	1.3.2.1.1 There are no market wide position limits specified for index futures and index option contracts.		1.3.2.1.2. Market Wide Position Limit (MWPL) for single stocks is calculated through the new formulation of OI measurement and also link it to cash market activity in the following way: ¹⁰ 1.3.2.1.2.1. The MWPL shall be lower of 15% of free float and 65x Average Daily Delivery Value (ADDV) across CCs with a floor limit of 10% of free float. 1.3.2.1.2.2. This metric shall be recalculated every three months based on the rolling ADDV for the preceding three month period. 1.3.2.1.2.3. The Exchange is advised to enforce the market wide limits through administrative measures, in the manner detailed below:	

¹⁰ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025

S.No / Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
			1.3.2.1.3.1. At the end of each day the Exchanges and Clearing Corporations shall test whether the market wide FutEq OI for any scrip exceeds 95% of the proposed MWPL for that scrip. 1.3.2.1.3.2. The MWPL for single stock futures and single stock option contracts shall be linked to the free float market capitalization and shall be equal to 20% of the number of shares held by non-promoters in the relevant underlying security (i.e., free float holding). This limit would be applicable on aggregate open positions in all futures and all option contracts on a particular underlying stock. At the end of each day the Exchange shall test whether the market wide open interest for any scrip exceeds 95% of the market wide position limit for that scrip. <u>1.3.2.1.4. Position Creation for Single Stocks during Ban Period¹¹</u> 1.3.2.1.4.1. Once the market wide Open Interest for any scrip exceeds 95% of the MWPL for the scrip, the members/clients shall trade only to decrease their positions through offsetting positions (this is called ban period). 1.3.2.1.4.2. It has been decided that any trading done by entities in the derivatives contracts of a scrip, subsequent to its entry in the ban period, should result in reduction of FutEq OI on end of day basis. For instance, if delta position is (+10) or say (-10) at the end of day 1, then it could be reduced till 0 by end of day 2. Change in sign of delta value would not be considered an acceptable instance of reduction of delta position. Further, passive increase in FutEq OI on account of movement in the scrip shall not be considered a breach.	

Commented [A5]: Incorporation of new provisions (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.

¹¹ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025

S.No / Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
			1.3.2.1.4.3. For illustration, assume the position of an entity at the end of day 1 when the scrip went in to ban period in derivatives, as mentioned in the Annexure 1a. For subsequent days, the examples of permissible behavior from the perspective of delta reduction is illustrated in Annexure 1a. 1.3.2.1.4.4. CCs to prepare shall implement a the joint SOP, prepared in consultation with SEBI, for monitoring the end of day delta position of entities and penalty structure thereof in this regard. The Exchange shall take note of open position of all client/TMs as at the end of that day in that scrip, and from next day onwards the members/client shall trade only to decrease their positions through offsetting positions. 1.3.2.1.4.4. While the Exchange will take this action only at end of day, they shall disclose real time information about the market wide open interest as a percentage of the market wide position limits. 1.3.2.1.4.5. At the end of each day during which the ban on fresh positions is in force for any scrip, the Exchange shall test whether any member or client has increased his existing positions or has created a new position in that scrip. If so, that client shall be subject to a penalty equal to a specified percentage (or basis points) of the increase in the position (in terms of notional value). The penalty shall be recovered before trading begins next day. The Exchange shall specify the percentage or basis points, which shall be set high enough to deter violations of the ban on increasing positions. 1.3.2.1.4.6. The normal trading in the scrip shall be resumed after the open outstanding position comes down to 80% or below of the market wide position limit. 1.3.2.1.4.7. With a view to operationalize implementation of monitoring of Market Wide Position Limits across Exchanges, the following procedure shall be followed:	

Commented [A6]: Incorporation of new provisions (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.

S.No / Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS								
			<table><tr><th>At the latest on the Trading Day</th><th>Activity</th></tr><tr><td>6.30 PM</td><td>Each Exchange to disseminate on web the following for every security: a. ISIN of the security, b. Name and symbol of the security, c. MWPL (in terms of no. of shares) of the security, and d. Open Interest (in terms of no. of shares) of the security.</td></tr><tr><td>7.00 PM</td><td>Each Exchange to disseminate on web the following for every security, after aggregating across Exchanges: a. ISIN of the security, b. Name and symbol of the security, c. MWPL (in terms of no. of shares) of the security, d. Open Interest (in terms of no. of shares) of the security, and e. Permissible limits for next day in terms of provisions of Para 1.3.2 of this Circular.</td></tr><tr><td>7.15 PM</td><td>Each Exchange to report any discrepancy in the above data to other Exchanges and after correction, disseminate the final data on the web.</td></tr></table>	At the latest on the Trading Day	Activity	6.30 PM	Each Exchange to disseminate on web the following for every security: a. ISIN of the security, b. Name and symbol of the security, c. MWPL (in terms of no. of shares) of the security, and d. Open Interest (in terms of no. of shares) of the security.	7.00 PM	Each Exchange to disseminate on web the following for every security, after aggregating across Exchanges: a. ISIN of the security, b. Name and symbol of the security, c. MWPL (in terms of no. of shares) of the security, d. Open Interest (in terms of no. of shares) of the security, and e. Permissible limits for next day in terms of provisions of Para 1.3.2 of this Circular.	7.15 PM	Each Exchange to report any discrepancy in the above data to other Exchanges and after correction, disseminate the final data on the web.	
At the latest on the Trading Day	Activity											
6.30 PM	Each Exchange to disseminate on web the following for every security: a. ISIN of the security, b. Name and symbol of the security, c. MWPL (in terms of no. of shares) of the security, and d. Open Interest (in terms of no. of shares) of the security.											
7.00 PM	Each Exchange to disseminate on web the following for every security, after aggregating across Exchanges: a. ISIN of the security, b. Name and symbol of the security, c. MWPL (in terms of no. of shares) of the security, d. Open Interest (in terms of no. of shares) of the security, and e. Permissible limits for next day in terms of provisions of Para 1.3.2 of this Circular.											
7.15 PM	Each Exchange to report any discrepancy in the above data to other Exchanges and after correction, disseminate the final data on the web.											

S.No / Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
			1.3.2.1.4.8. The above data shall be in a machine readable, open format (preferably XML format). 1.3.2.1.4.9. Further, the Exchange shall check on a monthly basis, whether a stock has remained subject to the ban on new position for a significant part of the month consistently for three months. If so, then the Exchange shall phase out derivative contracts on that underlying.	
1.3.2.2. Trading Member (Proprietary) / FPI/ Mutual Fund/ Client Level¹²	1.3.2.2.1. Mutual Funds / FPIs / Trading Members (Proprietary) / Clients may take exposure in equity index derivatives subject to the following limits: 1.3.2.2.1.1. Aggregate short positions in index derivatives (short futures, short calls and long puts) shall not exceed (FutEq terms for Index options and gross notional terms for Index futures) the holding of stocks. The same shall be sourced from the depositories by the SEs. 1.3.2.2.1.2. Aggregate long positions in index derivatives (long futures, long calls and short puts) shall not exceed (FutEq terms for Index options and gross notional terms for Index futures) the holding of cash and cash equivalent, government securities, T-Bills and similar instruments. The members of the respective entities shall report the same to Clearing Corporation.		1.3.2.2.2. Client / NRI: 10% of MWPL 1.3.2.2.3. Trading Member: 20% of MWPL (Proprietary) 1.3.2.2.4. FPI (Category I) / MF: 30% of MWPL 1.3.2.2.5. FPI (Category II - other than FPIs in sub-category individuals, family offices, corporates): 20% of MWPL 1.3.2.2.6. FPI (Category II - FPIs in sub-category individuals, family offices, corporates): 10% of MWPL	
1.3.2.3. Additional position limits for TM(proprietary)/FPIs/Mutual funds/Clients ¹²	1.3.2.3.1 FPI Category I / Mutual Funds / Trading Member (Proprietary) / Clients - higher of 15% of futures OI for that index or ₹500 cr. 1.3.2.3.2. FPI Category II (other than individuals, family offices and corporates) - higher of 10% of futures OI or ₹500 cr.	1.3.2.3.5. Net end of day FutEq limit to be ₹1,500 cr and 1.3.2.3.6. Gross end of day FutEq limit to be ₹10,000 cr. (i.e. both long delta and short delta shall not cross ₹10,000 cr. each). Stock Exchanges / GCs shall prepare and implement the joint	NA	

Commented [A7]: Incorporation of new provisions (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.

¹² Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025

S.No / Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
	<u>1.3.2.3.3. FPI Category II (Individuals, family offices and corporates) higher of 5% of futures OI or ₹500 cr.</u> <u>1.3.2.3.4. The above stated position limits for index futures would be measured on a gross notional basis. The position limits shall be computed on a gross basis at the level of MF and on a net basis at the level of FPI/client/sub-schemes of MF and proprietary positions.</u> <u>1.3.2.3.5. Stock Exchanges / CCs shall prepare/implement the a joint SOP, prepared in consultation with SEBI, for monitoring the positions of entities including the penalty/additional surveillance margin framework for entities breaching the position limits. The SOP shall also cover the reporting framework for entities taking additional exposure beyond the limits prescribed at para 1.3.2.2.1.</u> <u>1.3.2.3.6. As per existing practice, if any of the aforesaid entities exceed the respective limits prescribed at para 1.3.2.2.1 and para 1.3.2.3 above, an additional deposit shall be payable by the entity equivalent to the</u>	<u>SOP prepared, in consultation with SEBI, for monitoring the breach of position limits by the entities.</u> <u>Till the aforesaid SOP is formalized, as per the existing practice, if any of the aforesaid entities exceed the respective limits prescribed at para 1.3.2.2 and paras 1.3.2.3.5, 1.3.2.3.6 above, an additional deposit shall be payable by the entity equivalent to the amount of margin chargeable on excess position beyond the limits prescribed at para 1.3.2.2 and paras 1.3.2.3.5, 1.3.2.3.6 above and the same shall be retained by stock exchanges for a period of 1 month.</u>		

Commented [A8]: Incorporation of new provision as (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.

S.No / Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
	amount of margin chargeable on excess position beyond the limits prescribed at para 1.3.2.2.1 and para 1.3.2.3 above and the same shall be retained by SEs for a period of 1 month.			
1.35.2.43. Trading Member (Proprietary + Client):	1.3.2.4.1. Position limits available for Trading Member (Proprietary + Clients) shall be higher of 15% of futures OI for that index or ₹7,500cr.¹³ 1.3.2.4.2. The above stated position limits for index futures would be measured on a gross notional basis. Stock Exchanges / CCs shall implement the prepare a joint SOP including the penalty structure, prepared in consultation with SEBI, for monitoring the breach of position limits by the entities.	1.3.2.4.3. Position limits available for Trading Member (Proprietary + Clients) shall be higher of 15% of options OI for that index or ₹7,500 cr.¹³ 2.3.2.3.2.1.3.2.4.4. The above stated position limits for index options would be measured on a gross notional basis 2.3.2.3.3. Till the SOP at 2.3.2.2.3 is formulated, the extant penalty structure for breach of overall TM level limits would continue. 2.3.2.3.4. It is also noted that that Open Interest of both the participants and the market is dynamic and changing throughout the day. With a view of providing better clarity to the market participants in terms of their position limits, the following has been decided: 2.3.2.3.4.1. The positions of market	1.3.2.4.5. Trading Member (Proprietary + Client) : 30% of MWPL¹⁴	

Commented [A9]: Incorporation of new provision (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.

¹³ Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/140 dated October 15, 2024

¹⁴ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025

S.No / Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
		participants in index option contracts shall also be monitored based on total OI of the market in index option contracts, at the end of previous day's trade. 2.3.2.3.4.2. In case of a drop in index options OI compared to the previous day's index options OI, market participants may breach the specified position limits even if their positions have remained unchanged/reduced throughout the day. 2.3.2.3.4.3. Such cases of passive breaches shall not be considered as violation.		
<u>1.3.2.5. Passive breaches of position limits</u>	<u>1.3.2.5.1. Positions of market participants in index future/index option contracts shall also be monitored based on total OI of the market in index future/index option contracts, at the end of previous day's trade.</u> <u>1.3.2.5.2. In case of a drop in index futures OI/ index options OI compared to the previous day's index futures OI/index options OI, market participants may breach the specified position limits even if their positions have remained unchanged/reduced throughout the day.</u> <u>1.3.2.5.3. Such cases of passive breaches shall not be considered as violation</u>			

Commented [A10]: Incorporation of new provisions (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.

1.3.3. Monitoring of position limits at the end of day¹⁵:

¹⁵ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025



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Securities and Exchange Board of India

S.No/ Category	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
1.3.3.1. FPI / NRI/Clients	1.3.3.1.1 The FPI/Clients/NRI shall report to the Clearing Member (Custodian) the extent of FPI's holding of cash, government securities, T-Bills and similar instruments before the end of the day. The Clearing Member (Custodian) in turn shall report the same to the Clearing Corporation as required in point 1.3.2.2.1.2. 1.3.3.1.2. The Stock Exchange shall monitor the position limits in equity index derivative contracts in the manner specified below: 1.3.3.1.2.1. The FPI/Clients/NRI would be required to notify the names of the Clearing Member/s and Custodian through whom it would clear its derivative trades to Clearing Corporation. 1.3.3.1.2.2. A unique code would be assigned by the Clearing Corporation to each registered FPI intending to trade in derivative contracts. 1.3.3.1.2.3. The FPI would be required to confirm all its positions to the designated Clearing Members online but before the end of each trading day. 1.3.3.1.2.4. The designated Clearing Member/s would at the end of each trading day submit the details of all the confirmed FPI trades to the Clearing Corporation. 1.3.3.1.2.5. Exchanges would compute the total FPI trading exposure and monitor the position limits at the end of each trading day. The cumulative FPI position may be disclosed to the market by the Clearing Corporation on a T+1 basis, before the commencement of trading on the next day. 1.3.3.1.2.6. In the event of an FPI breaching the position limits on any derivative contract on an underlying index, action as specified in 1.3.2.3.6 shall be applicable. 1.3.3.1.3. The open position for index derivative contracts would be valued as the FutEq OI multiplied with the closing price of the respective underlying in the cash market.		1.3.3.1.4 The FPI/Clients/NRI shall report to the Clearing Member (Custodian) the extent of FPI's/Clients/NRI holding of stocks, cash, government securities, T-Bills and similar instruments before the end of the day. The Clearing Member (Custodian) in turn shall report the same to the Exchange. 1.3.3.1.5. The Exchange shall then monitor the position limits in the manner specified below: 1.3.3.1.5.1. The FPI/Clients/NRI would be required to notify the names of the Clearing Member/s and Custodian through whom it would clear its derivative trades to exchanges and their Clearing Corporation. 1.3.3.1.5.2. A unique code would be assigned by the exchanges and / or the Clearing House/Clearing Corporation to each registered FPI intending to trade in derivative contracts. 1.3.3.1.5.3. The FPI would be required to confirm all its positions and the positions of all its sub-accounts to the designated Clearing Members online but before the end of each trading day. 1.3.3.1.5.4. The designated Clearing Member/s would at the end of each trading day submit the details of all the confirmed FPI trades to the derivative Segment of the exchange and their Clearing House / Clearing Corporation. 1.3.3.1.5.5. The exchanges and their Clearing Corporation would then compute the total FPI trading exposure and would monitor the position limits at the end of each trading day. The cumulative FPI position may be disclosed to the market on a T + 1 basis, before the commencement of trading on the next day. 1.3.3.1.5.6. In the event of an FPI breaching the position limits on a derivative contract on an underlying, the FPI would not be permitted by the exchanges and their Clearing Corporation / Clearing	

Commented [A11]: Incorporation of new provisions (May 29, 2025 circular) as per S.No 2.20 of the consultation paper.



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Securities and Exchange Board of India

<u>S.No/ Category</u>	<u>INDEX FUTURES</u>	<u>INDEX OPTIONS</u>	<u>STOCK FUTURES</u>	<u>STOCK OPTIONS</u>
			<u>Member/s to take any fresh positions in any derivative contracts in that underlying. However, they would be permitted to execute off-setting transactions so as to reduce their open position.</u> <u>1.3.3.1.6. The position limits would be computed on a gross basis at the level of FPI.</u> <u>1.3.3.1.7. The open position for all derivative contracts would be valued as the open interest multiplied with the closing price of the respective underlying in the cash market.</u>	
<u>1.3.3.2 Mutual Fund</u>	<u>1.3.3.2.1. The Mutual Fund shall notify the names of the Clearing Member/s for each scheme through whom it would clear its derivative contracts to SE/CCClearing Corporation. For the purpose of monitoring of position limits, the Mutual Funds will be considered as trading members like registered FPIs and the schemes of Mutual Funds will be treated as clients.</u> <u>1.3.3.2.2. The Mutual Fund shall notify the names of the Clearing Member/s for each scheme through whom it would clear its derivative contracts to the Stock Exchange. For the purpose of monitoring of position limits, the Mutual Funds will be considered as trading members like registered FPIs and the schemes of Mutual Funds will be treated as clients.</u>			

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1.3.4. Intra-day monitoring of position limits¹⁶

¹⁶ Circular No . SEBI/HO/MRD/TPD-1/P/CIR/2024/132 dated October 01, 2024

INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
<u>1.3.4.1. In addition to the End of Day monitoring mechanism as stated above, the position limits, for equity index derivative contracts, would also be monitored on an intraday basis.</u> <u>1.3.4.2. Exchanges shall consider minimum four position snapshots during the day. The number of snapshots may be decided by the respective SEs subject to a minimum of 4 snapshots in a day. The snapshots would be randomly taken during pre-defined time windows.</u> <u>1.3.4.3. However, there shall be no penalty for breach of existing position limits intraday and such intraday breaches shall not be considered as violations.^{17,18}</u> <u>Exchanges shall prepare/implement a joint SOP, prepared in consultation with SEBI, to strictly monitor intraday positions and trading activities of major participants from the perspective of market integrity / surveillance concerns and take appropriate measures.</u>		<u>1.3.4.6. Intraday monitoring of MWPL utilization for single stocks:</u> <u>1.3.4.6.1. To safeguard market integrity and limit settlement risk from intraday spikes in FutEq OI, Stock Exchanges shall perform intraday monitoring of MWPL utilization at least four random times during the trading session to:</u> <u>1.3.4.6.1.1. take appropriate actions once OI utilization breaches certain limits such as levying Additional Surveillance Mark monitoring for entity level concentration additional surveillance checks etc.¹⁷</u> <u>1.3.4.6.1.2. report instances of significant utilization of MWPL / breach of MWPL to SEBI in the fortnightly Surveillance meeting.</u>	
	<u>1.3.4.5. Entity level intraday monitoring framework for index options¹⁹</u> <u>1.3.4.5.1. Intraday Net position limit (FutEq basis) for each entity shall be ₹5,000 cr. (as against end of day limit of ₹1,500 cr).</u> <u>1.3.4.5.2. Intraday Gross position limit (FutEq basis) for each entity shall be ₹10,000 cr. (i.e. separately both on long and short sides), same as the present end of day limit.</u> <u>1.3.4.5.3. The aforesaid intraday limits shall continue to be monitored by Stock Exchanges through a minimum of four random snapshots during the trading day (including one snapshot between 14:45 hrs to 15:30 hrs i.e. around market closing time where heightened activity is generally observed).</u>		

Commented [A12]: Incorporation of new provisions (May 29, 2025 , March 28, 2025 circular) as per S.No 2.20 of the consultation paper.

Commented [A13]: Incorporation of new provisions (May 29, 2025) as per S.No 2.20 of the consultation paper

¹⁷ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025

¹⁸ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2025/41 dated March 28, 2025

¹⁹ Circular No. SEBI/HO/MRD/TPD/CIR/P/2025/ 122 dated September 01, 2025

INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
	<u>1.3.4.5.4. Further, in order to monitor the intraday positions of entities, as mentioned aforesaid, the Stock Exchanges shall consider the underlying price at the time of taking positions snapshots.</u> <u>1.3.4.5.5. Entities shall be allowed to take additional exposure against holding of securities or cash/cash equivalent, as applicable, in line with para 1.3.2.2.1 of this circular.</u> <u>1.3.4.5.6. For the entities breaching the aforesaid limits, Stock Exchanges shall examine trading patterns of such entities which would inter-alia include seeking rationale for such positions from the clients, examining trading in the constituents of the index by the entity and discussing such instances with SEBI in the surveillance meeting.</u> <u>1.3.4.5.7. On the day of expiry of options contracts, the breaches of aforesaid position limits shall additionally attract penalty/additional surveillance deposit, as decided jointly by Stock Exchanges.</u> <u>1.3.4.5.8. The aforesaid framework would facilitate market making activity on all trading days while putting a check on creation of outsized intraday position on the expiry day for orderly trading.</u> <u>1.3.4.5.9. The aforesaid framework would also provide predictability, operational clarity, and a fair</u>		

INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
	balance between ease of trading and risk management		

Commented [A14]: Incorporation of new provision (Sept 01, 2025 circular) as per S.No 2.20 consultation paper.

2.2. —

2.3. — 1.3.4.7. Exchanges have the responsibility to monitor the position limits. However, —independently or in coordination with Clearing Corporations. In such cases wherein Clearing Corporations are also involved in position limit monitoring, exchanges may outsource the work to Clearing Corporations subject to shall entering into a formal agreement with Clearing Corporation clearly outlining their respective roles, and responsibilities and the commercials at arm's length basis.

Commented [A15]: Clarification of provisions as per S.No 2.5 of the consultation paper.

1.4. Corporate Action Adjustments²⁰:

2.3.1.1.4.1. The Exchanges shall determine the manner of corporate action adjustment in derivatives contracts in conformity with the following principles:

1.4.1.1. The basis for any adjustment for corporate action shall be such that the value of the position of the market participants on cum and ex-date for corporate action shall continue to remain the same as far as possible.

2.3.1.1.4.1.2. The exchanges shall take into account best practices followed internationally.

²⁰ Circular no. SMDRP/DC/CIR-8/01 dated June 21, 2001 & SMDRP/DC/CIR-10/01 dated November 2, 2001 & Circular no. SMDRP/DC/CIR-15/02 dated December 18, 2002



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1.4.1.3. The Exchanges shall consider the circumstances of a particular case and the general interest of investors in the market.

1.4.1.4. The Exchanges shall ensure that the adjustment methodology for a corporate action is uniform across all exchanges.

1.4.1.5. Any adjustment for corporate actions shall be carried out on the last day on which a security is traded on a cum basis in the underlying cash market.

1.4.1.6. Adjustments shall mean modifications to positions and/or contract specifications as listed below such that the basic premise of adjustment laid down is satisfied :

- i. Strike Price
- ii. Position
- iii. Market Lot/Multiplier

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

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

1.4.1.8.1. Bonus

1.4.1.8.2. Rights

1.4.1.8.3. Merger/De-merger

1.4.1.8.4. Amalgamation

1.4.1.8.5. Splits

1.4.1.8.6. Consolidations

1.4.1.8.7. Hive-off

1.4.1.8.8. Warrants, and

1.4.1.8.9. Secured Premium Notes (SPNs) among others.

1.4.1.8.10. Extraordinary dividends

1.4.2. The methodology proposed to be followed for adjustment of various corporate actions to be carried out for stock options are as follows:

1.4.2.1. Bonus, Stock Splits and Consolidations:

- i. **Strike Price:** The new strike price shall be arrived at by dividing the old strike price by the adjustment factor as under.

- ii. **Market Lot / Multiplier:** The new market lot/multiplier shall be arrived at by multiplying the old market lot by the adjustment factor as under.
- iii. **Position:** The new position shall be arrived at by multiplying the old position by the adjustment factor as under.
- iv. The adjustment factor for Bonus, Stock Splits and Consolidations is arrived at as follows:

Bonus:

Ratio – A: B, Adjustment factor: $(A+B)/B$

Stock Splits and Consolidations:

Ratio – A: B, Adjustment factor: A/B

2.3.1.2.1.4.2.2. Rights:

- i. **Strike Price:** The new strike price shall be arrived at by multiplying the old strike price by the adjustment factor as under.
- ii. **Market Lot / Multiplier:** The new market lot/multiplier shall be arrived at by dividing the old market lot by the adjustment factor as under.
Ratio – A: B
- **Benefits per share (E)** $= (P-S) \times A / (A+B)$
Where P = Spot price on last cum date, S = Issue price of rights
Adjustment factor: $(P-E)/P$

1.4.2.3. The above methodology may result in fractions due to the corporate action e.g. a bonus ratio of 3:7. With a view to minimizing fraction settlements, the following methodology is proposed to be adopted:

1.4.2.3.1. Compute value of the position before adjustment.

1.4.2.3.2. Compute value of the position taking into account the exact adjustment factor.

1.4.2.3.3. Carry out rounding off for the Strike Price and Market Lot.

1.4.2.3.4. Compute value of the position based on the revised strike price and market lot.

2.3.1.2.1, 1.4.2.3.5. The difference between 1.4.2.3.1 and 1.4.2.3.4 above, if any, shall be decided by adjusting Strike Price or Market Lot, so that no forced closure of open position is mandated.

2.3.2.1.4.3. The methodology to be followed for adjustment of various corporate actions to be carried out for Stock Futures would be in line with the above mentioned methodology for stock options at para 1.4.2.

2.3.3.1.4.4. Dividends which are below 2% of the market value of the underlying stock would be deemed to be ordinary dividends and no adjustment in the Strike Price would be made for ordinary dividends. For extra-ordinary dividends, at or above 2% of the market value of the underlying stock, the adjustment in derivatives shall be carried out.²¹

1.4.5. The Exchanges may jointly decide the methodology for carrying out adjustments for other corporate actions for stock derivative contracts which shall be in conformity with the principles laid down and taking into best practices followed internationally. The detailed methodology including examples for carrying out adjustments for various corporate actions for various derivative contracts shall be displayed on the respective websites.

1.4.6. SEs to give notice of four weeks to the market for any change in the contract specifications and also in case of change in a constituent of an Index on which derivatives are available. Further, the exchanges may give a notice of less than four weeks prior to ex-date in case of change in a constituent of an Index on which derivatives are available on account of merger. In case of stocks ongoing demerger and which are also part of indices on which derivatives are available, the exchange may give a notice of less than 4 weeks from the date of exclusion of spun-off entity from the index.

²¹ Circular No. SEBI/HO/MRD2/MRD2 DCAP/P/CIR/2022/90 dated June 28, 2022

1.4.7. All the following conditions shall be met in the case of shares of a company undergoing restructuring through any means for eligibility to re-introduce derivative contracts on that company from the first day of listing of the post restructured company/(s)'s (as the case may be) stock (herein referred to as post restructured company) in the underlying market,

1.4.7.1. the futures and options contracts on the stock of the original (pre restructure) company were traded on any exchange prior to its restructuring;

1.4.7.2. the pre restructured company had a market capitalisation of at least Rs.1000 crores prior to its restructuring;

1.4.7.3. the post restructured company would be treated like a new stock and if it is, in the opinion of the exchange, likely to be at least one-third the size of the pre restructuring company in terms of revenues, or assets, or (where appropriate) analyst valuations; and

2.3.3.1.1.4.7.4. in the opinion of the exchange, the scheme of restructuring does not suggest that the post restructured company would have any characteristic (for example extremely low free float) that would render the company ineligible for derivatives trading,

1.4.8. If the above conditions at para 1.4.7 are satisfied, then the exchange shall take the following course of action in dealing with the existing derivative contracts on the pre-restructured company and introduction of fresh contracts on the post restructured company:

1.4.8.1. In the contract month in which the post restructured company begins to trade, the Exchange shall introduce near month, middle month and far month derivative contracts on the stock of the restructured company.

1.4.8.2. In subsequent contract months, the normal rules for entry and exit of stocks in terms of eligibility requirements would apply. If these tests are not met, the exchange shall not permit further derivative contracts on this stock and future month series shall not be introduced.

1.5. Rationalisation of strike intervals for long dated index options and framework to disable existing long dated strikes²²

2.3.4.1.5.1. The SEs shall implement the below Strike Scheme framework for long dated options

(i) Long dated index options are defined as 8 semi-annual contracts of the cycle June/December in sequence to 3 serial monthly contracts and 3 quarterly contracts of the cycle March/June/September/December.

The product design for long dated options contracts on the benchmark index allows shall have a minimum of three strikes (in the money, at the money and out of the money). Strike scheme will be minimum of 1 – 1 – 1 and maximum of 5 – 1 – 5 number of strikes.

(ii) In addition to the proposed minimum and maximum number of strikes, the exchanges shall have a minimum percentage-based coverage by the strike intervals and at the same time adhere to the suggested strike scheme. The strike intervals will be designed to ensure a minimum coverage of 5% on either side of the index value.

(iii) The strike scheme may be reviewed on semi-annual basis i.e. in June and December and revisions, if any required, will be implemented on the expiry of the June and December contracts. In case of exceptional market wide movements, all exchanges may jointly review the mechanism. The strikes retained as part of periodic review, would not be included in the calculation of the maximum number of strikes at the time of review/introduction.

(iv) The stock exchanges will individually notify SEBI of their new strike scheme for long dated options based on the above mutually agreed framework.

2.3.5.1.5.2. Policy to conduct periodic review and disable illiquid option contracts outside the strike scheme:

2.3.5.1.5.2.1. SEs are required to conduct periodic review of available strikes in long dated options and disable the illiquid option contracts outside the strike scheme. The review and disablement of illiquid option contracts would be conducted on semi-annual basis on the expiry day of June and December contracts.

²² SEBI Email dated May 4, 2020 on Rationalisation of Strikes on Long dated options

2.3.5.2.1.5.2.2. The detailed process to be followed for disabling the illiquid option contracts will be as follows:

2.3.5.2.1.5.2.2.1. All long dated index option contracts **outside** the applicable strike scheme and with zero open interest will be **disabled**.

2.3.5.2.2.1.5.2.2.2. All long dated index option contracts **inside** the revised strike scheme range **but not as per the revised strike** scheme and with zero open interest will be **disabled**.

2.3.5.2.3.1.5.2.2.3. All long dated index option contracts **outside** the revised strike scheme and having open interest will continue to be **available** irrespective of the contract strike.

2.3.5.2.4.1.5.2.2.4. All long dated index option contracts **inside** the revised strike scheme and with zero open interest will continue to be **available**.

2.4. _____

2.4.1.1.1. Underlying

_____ The benchmark indices and the various sectoral indices are permitted as per eligibility criteria.

2.4.1.1.2. Eligibility Criteria

_____ The Exchange may consider introducing derivative contracts on an index, if weightage of constituent stocks of the index, which are individually eligible for derivatives trading, is at least 80%. However, no single ineligible stock in the index shall have a weightage of more than 5% in the index. The index on which futures and options contracts are permitted shall be required to comply with the eligibility criteria on a continuous basis. The Exchange shall check whether the index continues to meet the aforesaid eligibility criteria on a monthly basis. If the index fails to meet the eligibility criteria for three consecutive months, then no fresh contract shall be issued on that index. However, the existing unexpired contracts shall be permitted to trade till expiry and new strikes may also be introduced in the existing contracts.

_____ Further, an additional framework for exit of an index from derivatives segment (Product Success Framework) has been placed below at para 14.2.

2.4.1.1.3. Trading Hours

2.4.1.2. _____ The trading hours for index futures would be decided from time to time by the exchange subject to the condition that the trading hours are between 9 AM and 11:55 PM, provided that the Stock Exchange and its Clearing Corporation(s) have in place risk management system and infrastructure commensurate to the trading hours.

2.4.1.3. _____ In case, stock exchanges are desirous of extending the trade timings beyond the extant trading hours, prior approval from SEBI shall be sought along with a detailed proposal including the framework for risk

management, settlement process, monitoring of positions, availability of manpower, system capability, surveillance systems, etc.

2.4.1.3.1. Size of the Contract

2.4.1.4. A derivative contract shall have a value of not less than Rs. 15 Lakhs at the time of its introduction in the market. The lot size for derivatives contracts in index derivatives segment shall be fixed in such a manner that the contract value of the derivative on the day of review is within Rs. 15 lakhs and Rs. 20 lakhs. Further, the lot size (in units of underlying) shall be fixed as a multiple of 5, provided the lot size is not less than 10.

2.4.1.5. The above stated lot sizes shall be effective for all index derivative contracts introduced after November 20, 2024.

2.4.1.6. The Stock Exchanges shall review the lot size once in every 6 months based on the average of the closing price of the underlying for last one month and wherever warranted, revise the lot size by giving an advance notice of at least 2 weeks to the market. If the revised lot size is higher than the existing one, it will be effective for only new contracts. In case of corporate action, the revision in lot size of existing contracts shall be carried out as given in Para 14.6

2.4.1.7. The Stock Exchanges shall ensure that the lot size is same for an underlying traded across Exchanges.

2.4.1.7.1. Quotation

The index futures contract shall be quoted in rupee terms.

2.4.1.7.2. Tenor of the contract

The index futures contract shall have a maximum maturity of 12 months.

2.4.1.7.3. Available Contracts

Monthly maturities from 1 to 12 months would be available.

2.4.1.7.4. Settlement Mechanism

The index futures contract shall be settled in Indian Rupees.

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2.4.1.7.5. Settlement Price

The settlement price shall be the closing price of the underlying index on the day of expiry. The closing price of the underlying index shall be based on last half an hour VWAP (Volume Weighted Average Price) of the constituents of the underlying index.

2.4.1.7.6. Final Settlement Day

~~The Stock Exchanges have the flexibility to set the expiry date/day for index futures. While doing so, the Stock Exchanges shall have to ensure that there is no change in the contract specifications or the risk management framework and the integrity of the market is not affected in any manner.~~

Commented [A16]: Tabulated in Para: Product Design

2.4.1.7.7. Application

The Derivative Exchange/Segment shall submit their proposal for approval of the index futures contract to SEBI which shall include:

- ~~the details of proposed derivative contract to be traded on the exchange~~
- ~~the economic purpose it is intended to serve,~~
- ~~likely contribution to market development,~~
- ~~the safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading,~~
- ~~the infrastructure of the exchange and the surveillance system to effectively monitor trading in such contracts, and~~
- ~~Details of settlement procedures & systems with regard to Index Futures.~~

Commented [A17]: Tabulated in Para: Application

2.5. Risk Management

2.5.1.1.1. Liquid Net Worth of a Clearing Member

2.5.1.2. The Liquid Net Worth is defined as under:

Total liquid assets deposited with the exchange/ clearing corporation/ house towards initial margin, extreme loss margin and capital adequacy,
LESS

Initial margin and extreme loss margin applicable to the total gross open positions at any given point of time on all trades to be cleared through the clearing member.

2.5.1.3. The clearing member's liquid net worth must satisfy the condition given below on a real time basis:

Condition 1: Liquid Net Worth shall not be less than Rs 50 lacs at any point of time.

A numerical example of computation of capital adequacy, exposure limits and initial margin requirements is given below;

1. Beginning of day one

Suppose that the position at the beginning of day one is as follows:

Member's Liquid Assets	Cash equivalent deposits 35,00,000 Securities — deposits — (net of haircuts) 40,00,000
Member's Open Position	200 contracts long in the 3-month contract
Futures Prices	3-month contracts is Rs. 1,00,000 1-month contract is Rs. 98,000
Initial Margin	5%
Days to expiry	Fifth day before expiry of one-month contract

The margin and capital adequacy calculations will be as follows:

Initial margin = $5\% \times 200 \times 1,00,000 = 10,00,000$

Total open position = 2,00,00,000

Total liquid assets will be treated as 70,00,000 only since at least 50% of total liquid assets must be in cash equivalents

Liquid net worth = $70,00,000 - 10,00,000 = 60,00,000$

Both conditions of net worth and exposure limit are satisfied as shown below:

Condition 1. $60,00,000 > 50,00,000$

2. Initiation of spread trade on day one

Suppose that the member does a calendar spread trade by buying 300 contracts of 3 months futures and selling 300 contracts of 1 month futures. Since the near month contract of the spread is five days to expiry, the member will have the full benefit of spread margining:

Margin on spread = $1.75\% \times 300 \times 1,00,000 = 5,25,000$

Adding the figures for the earlier long position we get:

Total open position = $3,00,00,000 + 2,94,00,000 = 5,94,00,000$

Liquid net worth = $70,00,000 - 5,25,000 = 64,75,000$

Both conditions in para 4(ii) of the circular are satisfied as shown below:

Condition 1. $64,75,000 > 50,00,000$

2.5.1.3.1. Liquid Assets

2.5.1.4. At least 50% of the total liquid assets shall be in the form of cash equivalents viz. cash, bank guarantee, fixed deposits, central govt. securities (T-bills and G-Secs). Liquid Assets for the purposes of initial margins as well as liquid net worth would include cash, fixed deposits, bank guarantees, central govt. securities (T-bills and G-Secs) or dematerialized securities (with prescribed haircuts), as defined hereunder, pledged in favour of the exchange / clearing corporation. Units of money market mutual funds (including, overnight mutual fund and liquid mutual fund schemes) and units of government securities mutual fund schemes, by whatever name called, which invest in government securities, may be accepted towards cash equivalent component of the liquid assets of a clearing member. The unit shall be valued on the basis of its Net Asset Value after applying a haircut of 5% in case of units of growth plans of overnight mutual fund schemes and 10% for units of other mutual fund schemes, as stated above, on the NAV and any exit load charged by the mutual fund. The valuation or the marking to market of such units shall be carried out on a daily basis.

2.5.1.5. CCs shall not accept collateral including FDs, BGs, equity, or debt securities issued by CMs/TMs themselves or their group or associate entities. A Declaration to that effect will be given by CMs/TMs mentioning all their group/associate entities to CCs.

Explanation - for this purpose, 'associate' shall have the same meaning as defined under Regulation 2 (1)(b) of SECC Regulations 2018.

2.5.1.5.1. Single Bank Exposure Limits

2.5.1.6. The exposure of CCs and its subsidiaries towards banks through Cash, FDs and BGs must be adequately diversified, and daily exposure to a single bank shall not exceed:

i. 15% of the average daily exposure of previous three months considering all liquid assets of CCs, for banks with AAA rating; and

ii. 10% of the average daily exposure of previous three months considering all liquid assets of CCs, for banks with AA (include both AA and AA+) and above rating but below AAA.

2.5.1.7. At the end of every month, the average daily exposure of CC in liquid assets shall be calculated based on the exposure of previous three months. The single bank exposure limit for the next month would be based on this average daily exposure. The same shall be monitored on daily basis.

2.5.1.8. In order to allow the CCs to have operational flexibility, the daily exposure may be extended by 5%. In those cases, the CCs shall record the reasons for such increase in exposure and ensure to bring down the daily exposure to a single bank to 15% (or 10% as the case may be) on monthly average basis on priority.

2.5.1.9. The above limits shall be applicable separately for the following heads:

i. CCs' own funds.

ii. Core SGF corpus.

iii. CCs' exposure through their members, warehouse service providers or other entities.

2.5.1.10. CCs' own funds and core SGF corpus can only be deployed in FDs, T-bills, G-secs and units of Liquid and Overnight mutual fund scheme.

2.5.1.11. The exposure to FDs shall be through premature withdrawable FDs, which can be terminated at any time before maturity, at the discretion of the CM/CC, without any loss of principal.

2.5.1.12. Margin monies or cash collateral received after closing of RTGS window and/or market hours leading to breach of the exposure limit shall not be treated as non-compliance on that day and shall be rebalanced on the next day.

2.5.1.12.1. **Securities**

2.5.1.13. Equity securities with impact cost of upto 0.1% for an order value of Rs. 1 lakh and traded for atleast 99% of days over the period of previous 6 months, in the underlying cash market may be accepted towards liquid assets in the derivative markets. The equity securities

shall be valued/marked to market on a daily basis after applying a haircut equivalent to the respective VaR margin based on 6σ , subject to a minimum of 9% of the equity securities. The list of acceptable equity securities shall be updated on the basis of trading and mean impact cost on the 15th of each month. In case the equity security does not meet the liquid security criteria (as specified above), the same needs to be replaced by the CM at the earliest. In case of passive breach in exposure limit for equity securities due to mark to market valuation, the CCs shall rebalance the excess exposure to the issuer within three months from such deviation.

2.5.1.14. Units of all mutual funds may also be accepted as the securities component of liquid assets. The unit shall be valued on the basis of its Net Asset Value (NAV) after applying a haircut equivalent to the VaR margin based on 6σ , subject to a minimum of 9% of the units NAV and any exit load charged by the mutual fund. The valuation or the marking to market of such units shall be carried out on a daily basis. The valuation / marking to market of all securities, including debt securities and central govt. securities (T-bills and G Secs), shall be carried out daily, with appropriate haircuts.

2.5.1.15. Debt securities may also be accepted, only if they are investment grade.

2.5.1.16. Corporate bonds, in dematerialised form, may be accepted as security component for non-cash portion of liquid assets, with applicable haircuts which can either be fixed percentage or VAR based haircuts, not being less than 10% (a higher haircut should be considered taking into account the higher expected time frame for liquidation) with the following limits:

- i. 10% of the total liquid assets of the CM placed with CC, in case the unsupported long-term issuer rating or unsupported rating of long-term instruments of that issuer is AAA.
- ii. 8% of the total liquid assets of the CM placed with CC, in case the unsupported long-term issuer rating or unsupported rating of long-term instruments of that issuer is AA and above but below AAA.
- iii. Exposure for this purpose through equity and debt instruments shall be based on mark to market value of the securities less the applicable haircuts.
- iv. In case of exposure to entities whose own rating or rating of any of its instruments has been downgraded subsequently from the rating criteria specified in

paragraphs above, the CCs shall remove the exposure to such issuers at the earliest.

- 2.5.1.17. The aforesaid exposure limits to debt instruments shall not be applicable to securities which are underlying the repo on corporate debt securities.
- 2.5.1.18. The total exposure of the CC to equity and debt instruments of an issuer, received as collateral from CM in both cash and F&O segment (including commodity and currency derivatives segment) put together, shall not exceed 15% of total liquid assets of the CC received from CMs; and shall be treated as part of non-cash component of the total liquid assets of the CC.
- 2.5.1.19. The overall daily exposure of a CC to a single bank (including cash, FD, BG, equity and debt) through CM collateral shall not exceed 20% of the total liquid assets.
- 2.5.1.20. In case of trading based on UPI Blocking, amount received through UPI blocks shall be exempted from computation of exposure limits to the banks providing such services to CC.
- 2.5.1.21. Reserve Bank of India (RBI) vide A. P. (DIR Series) Circular no. 2 dated July 19, 2007 (latest RBI directions may be referred to) has permitted clearing corporations and clearing members:
- 2.5.1.21.1. to open and maintain demat accounts with foreign depositories and to acquire, hold, pledge and transfer the foreign sovereign securities, offered as collateral by FPIs;
- 2.5.1.21.2. to remit the proceeds arising from corporate action, if any, on such foreign sovereign securities; and
- 2.5.1.21.3. to liquidate such foreign sovereign securities if the need arises.
- 2.5.1.22. Further, Reserve Bank of India vide RBI/2012-13/439 A.P. (DIR Series) Circular No. 90 dated March 14, 2013 (latest RBI directions may be referred to) has permitted FPIs to use, in addition to already permitted collaterals, their investments in government securities and corporate bonds as collaterals in the Futures and Options (F&O) segment.
- 2.5.1.23. In light of the above, FPIs are permitted to offer the following collaterals – government securities, corporate bonds, cash and foreign sovereign securities with AAA ratings, for their transactions in F&O segments. In this regard, the stipulations specified by SEBI and RBI with regard to the acceptance of various collaterals shall be adhered to.
- 2.5.1.24. Clearing members are permitted to accept foreign sovereign securities with 'AAA' rating, (hereinafter referred to as "sovereign securities") as collateral from FPI client with the following necessary safeguards:

2.5.1.24.1. — Before accepting sovereign securities as collateral from FPI, the clearing member shall enter into a written agreement with the FPI and also with the clearing corporation, containing, *inter alia*, the following terms:

2.5.1.24.1.1. In the event of any dispute regarding liquidation or return of the sovereign securities tendered as collateral, or any other incidental matter, the courts in India will have jurisdiction to decide such disputes. Alternatively, the agreement may contain an arbitration clause.

2.5.1.24.1.2. The agreement shall also contain the right of the clearing corporation as well as the clearing member to liquidate the sovereign securities tendered as collateral, in the event of default by clearing member or FPI, as the case may be.

2.5.1.24.2. — The clearing member shall take due care to ensure that the sovereign securities tendered as collateral are available for liquidation in the event of insolvency of the FPI or any intermediary or any other person located overseas through whom the securities are held.

2.5.1.24.3. — The clearing corporation shall also take due care to ensure that sovereign securities tendered as collateral are available for liquidation in the event of insolvency of the clearing member or any intermediary or other person located overseas through whom the securities are held.

The clearing corporation shall take adequate care to ensure that the sovereign securities accepted by it as margin are tendered under a mechanism which does not unduly hinder timely liquidation in the event of default by the clearing member.

2.5.1.25. — The clearing corporation shall value the collateral tendered by applying due haircuts. The haircut may either be a fixed percentage or VaR based. A higher haircut may be considered to cover the expected time frame for liquidation. A market determined price as obtained from an internationally recognized data vendor shall be considered for valuation. The prices shall be converted into rupee terms on a daily basis. The rupee value so used for conversion shall be the "RBI Reference rate". The RBI reference rate shall be disclosed by the clearing corporation to the clearing members, so as to enable them to report the value of the margins collected from FPIs.

- 2.5.1.26. The sovereign securities tendered as collateral shall be treated as part of the cash component of the liquid assets of the clearing member, and shall be subject to the condition that the value of the sovereign securities shall not be more than 10% of the total value of the cash component of the liquid assets of the clearing member.
- 2.5.1.27. The existing procedure for acceptance and release of collateral tendered by domestic investors in the case of domestic securities shall be adopted mutatis mutandis for the sovereign securities tendered by FPI, except to the extent specifically provided otherwise.

2.5.1.27.1. Initial Margin Computation

- 2.5.1.28. The Initial Margin requirements are based on worst scenario loss of a portfolio of an individual client to cover 99% VaR over a one day horizon across various scenarios of price changes and volatility shifts.
- 2.5.1.29. The volatility scan range is specified at 25% of annualized Exponential Weighted Moving Average method (EWMA) volatility subject to minimum
- 2.5.1.30. It has been decided that Exchanges/Clearing Corporations shall estimate the appropriate Margin Period of Risk (MPOR), subject to a minimum of 2 days, for each equity derivative product based on liquidity therein and scale up the initial margins. For initial margins, the revised MPOR shall be given effect by way of scaling up the Price Scan Range (PSR) used for computing the Worst Scenario Loss.
- 2.5.1.31. It has further been decided to stipulate PSR for computation of initial margins across index futures contracts as six standard deviations (6σ) scaled up by $\sqrt{2}$ subject to at least 9.3% of the underlying price after considering scaling up. There shall be no separate short option minimum charge
- 2.5.1.32. The EWMA shall be used to obtain the volatility estimate every day. For Index products the price scan range is specified at six standard deviation (6σ) scaled up by $\sqrt{2}$ subject to at least 9.3% of the underlying price after considering scaling up and the volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum 4%. The estimate at the end of day t (σ_t) is estimated using

the previous volatility estimate, i.e., as at the end of t-1 day (t-1), and the return (r_t) observed in the futures market during day t.

2.5.1.33. The formula shall be as under:

$$\sigma_t^2 = \lambda(\sigma_{t-1})^2 + (1-\lambda)(r_t)^2$$

where

λ is a parameter which determines how rapidly volatility estimates changes. The value of λ is fixed at 0.995.

σ (sigma) means the standard deviation of daily returns in the index futures market.

2.5.1.34. The margins for 99% VaR should be based on six sigma limits (six times the standard deviation). The "return" is defined as the logarithmic return: $r_t = \ln(I_t/I_{t-1})$ where I_t is the index futures price at time t. The plus/minus six sigma limits for a 99% VaR based on logarithmic returns would have to be converted into percentage price changes by reversing the logarithmic transformation. The percentage margin on short positions would be equal to $100(\exp(6\sigma_t) - 1)$ and the percentage margin on long positions would be equal to $100(1 - \exp(-6\sigma_t))$. This implies slightly larger margins on short positions than on long positions. The derivatives exchange / clearing corporation may apply the higher margin on both the buy and sell side.

2.5.1.35. On the first day of index futures trading the formula given above would require a value of σ_{t-1} , i.e. the estimated volatility at the end of the day preceding the first day of index futures trading. This would be obtained as follows:

2.5.1.35.1. Calculate the standard deviation of returns in the cash index during the last one year.

2.5.1.35.2. Set the volatility estimate at the beginning of that year equal to this average value.

2.5.1.35.3. Move forward through the year, one day at a time, using the formula above to get the estimated volatility at the end of that day using cash index prices.

2.5.1.35.4. The estimated volatility by this method at the end of the day preceding the first day of index futures trading would be the value of σ_{t-1} to be used in the formula given above at the end of the first day

of futures trading. Thereafter each day's estimate σ_t becomes the σ_{t+1} for the next day.

For the first six months of index futures trading, a parallel estimation of volatility would be done using the cash index prices and the index futures prices and the higher of the two volatility measures would be used to set margins, however, during the first six months, in no case shall the initial margin be less than 9.3%.

2.5.1.36. The volatility estimated at the end of the day's trading would be used in calculating the initial margin calls at the end of the same day. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute what the margin would be for any given closing level of the index. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

2.5.1.36.1. Margins for Calendar Spreads

2.5.1.37. A calendar spread is a situation in which a position at one maturity is hedged by an offsetting position at a different maturity on the same underlying, e.g., a short position in six months contract hedged by a long position in nine month contract. The margin on calendar spreads shall be at a flat rate of 1.75% of the far month contract.

2.5.1.37.1. Removal of calendar spreads on expiry day

2.5.1.38. Expiry day can see significant basis risk, where the value of a contract expiring on the day can move very differently from the value of similar contracts expiring in future. Given the relatively very large volumes witnessed on the expiry day vis-à-vis future expiry days, and the enhanced basis risk that it represents, it has been decided that the benefit of offsetting positions across different expiries ('calendar spread') shall not be available on the day of expiry for contracts expiring on that day.

2.5.1.39. Further, the ELM for calendar spread positions on futures, if one of the legs is expiring on the same day, shall be computed without considering such futures positions as an offsetting calendar spread position.

2.5.1.40. It is clarified that the existing margin calculations for calendar spread positions (i.e. worst scenario loss, calendar spread margin and ELM)

shall remain unchanged for calendar spread positions involving all expiries other than the contracts expiring on a given day. As an illustration, if monthly expiries are on 29th (current month), 30th (next month) and 31st (far month) respectively, then calendar spread positions involving positions expiring on 29th (current month) and 30th (next month), or 29th (current month) and 31st (far month), shall not be provided calendar spread treatment on 29th (current month expiry). However, calendar spread positions involving positions expiring on 30th (next month) and 31st (far month) shall continue to receive calendar spread treatment on 29th (current month expiry).

2.5.1.41. The aforesaid would be applicable for calendar spread positions in the equity index derivatives and shall be effective from February 01, 2025.

2.5.1.41.1. **Extreme Loss Margin**

The Extreme Loss Margin rates for Index Derivatives shall be 2% of the notional value. In case of calendar spread positions in futures contracts, extreme loss margin shall be levied on one third of the value of the open position of the far month futures contract.

2.5.1.41.2. **Margin on consolidated crystallized obligation**

2.5.1.42. The margin on consolidated crystallized obligation in index future contracts shall represent:

On intraday basis	Payable crystallized obligations based on the closed out futures positions and payable/receivable premium at client level.
At end-of-day	Payable obligations at client level considering all futures and options positions.

Intraday basis

On intraday basis, the net payable/receivable amount at client level shall be calculated using:

1. Premium payable/receivable
2. Futures crystallized profit or loss (calculated based on weighted average prices of trades executed).

If the overall amount at client level is payable, such amount shall be the intraday consolidated crystallized obligation margin for the client.

End-of-day basis

At the end of day, the payable/receivable amount at client level shall be calculated using:

1. Futures mark to market profit/loss to be settled
2. Options premium payable/receivable
3. Options exercise/assignment for expired contracts
4. Futures final settlement for expired contracts

If the overall amount at client level is payable, such amount shall be the end of day consolidated crystallized obligation margin for the client.

2.5.1.43. The margin on consolidated crystallized obligations shall replace the net buy premium, intraday crystallized losses, assignment margin and futures final settlement margin levied currently.

2.5.1.44. The margin on consolidated crystallized obligations shall be released on completion of settlement.

2.5.1.44.1. Real Time Computation

2.5.1.45. The computation of Worst Scenario Loss has two components. The first is the valuation of the portfolio under sixteen scenarios. At the second stage, these Scenario Contract Values are applied to the actual portfolio positions to compute the portfolio values and the initial margin (Worst Scenario Loss). For computational ease, exchanges are permitted to update the Scenario Contract Values only at discrete time points each day and the latest available

Scenario Contract Values would be applied to member/client portfolios on a real time basis.

2.5.1.46. However, in order to ensure that the most recent scenario are applied for computation of the portfolio values and the initial margin, the scenario contract values shall be updated at least 5 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m., and at the end of the trading session.

2.5.1.46.1. **Cross Margining**

2.5.1.47. The positions of clients in both the cash and derivatives segments to the extent they offset each other shall be considered for the purpose of cross margining as per the following priority:

2.5.1.47.1. Index futures position and constituent stock futures position in derivatives segment;

2.5.1.47.2. Index futures position in derivatives segment and constituent stock position in cash segment; and

2.5.1.47.3. Stock futures position in derivatives segment and the position in the corresponding underlying in cash segment

2.5.1.48. A basket of positions in index constituent stock/stock futures, which is a complete replica of the index in the ratio specified by the Exchange/Clearing Corporation, shall be eligible for cross margining benefit. The positions in the derivatives segment for the stock futures and index futures shall be in the same expiry month to be eligible for cross margining benefit.

2.5.1.49. A spread margin of 25% of the total applicable margin on the eligible off-setting positions, in case of same expiry date of the index and constituents, shall be levied in the respective cash and derivative segments.

2.5.1.50. A spread margin of 35% would be levied in case of offsetting positions in index and its constituents having expiry date different from index. While the expiry date of index futures can be different from that of its constituents, the expiry date of futures contracts of all constituents should be same in order to obtain the aforesaid cross margin benefit.

2.5.1.51. The aforesaid spread margin benefit would be revoked at the beginning of the expiry day of the position which expires first (i.e. first of the expiring indices or constituents) in case the expiry dates of both legs of the position are different.

2.5.1.52. Cross margining benefit shall be computed at client level on an online real time basis and provided to the trading member/clearing member/custodian, as the case may be, who, in turn, shall pass on the benefit to the client. For institutional investors, however, the cross margining benefit shall be provided after confirmation of trades.

2.5.1.53. To avail the facility of cross margining, a client may maintain two accounts with the trading member/clearing member, namely arbitrage account and a non-arbitrage account, to allow converting partially replicated portfolio into a fully replicated portfolio by taking opposite positions in two accounts. However, for the purpose of compliance and reporting requirements, the positions across both accounts shall be taken together and client shall continue to have unique client code.

2.5.1.54. A client may settle through a trading member/clearing member/custodian, as the case may be, who is clearing in both the segments or through two trading members/clearing members/custodians, one of whom is a

trading member/custodian in the cash segment and the other is a clearing member in the derivatives segment.

2.5.1.55. In the event of default by a trading member/clearing member/custodian, as the case may be, whose clients have availed cross margining benefit, the Stock Exchange/Clearing Corporation shall have the option to:

2.5.1.55.1. Hold the positions in the cross margin account till expiry in its own name.

2.5.1.55.2. Liquidate the positions/collateral in either segment and use the proceeds to meet the default obligation in the other segment.

2.5.1.56. The Exchange/Clearing Corporation shall enter into agreement with client/clearing member/trading member/custodian, as the case may be, clearly laying down the inter-se distribution of liability / responsibility in the event of default. The exchange shall also specify the legal agreements between the clearing entities for the purpose of margin utilization in case of liquidation/default etc.

2.5.1.56.1. **Cross Margining facility in respect of offsetting positions in co-related equity Indices**

2.5.1.57. In order to facilitate efficient use of collateral by market participants, it has been decided to extend cross margining facility to off-setting positions in highly co-related equity indices.

2.5.1.58. **Eligibility Criteria**

Cross margin benefit shall be provided on off-setting positions in futures on equity indices pairs which satisfy the below mentioned conditions:

2.5.1.58.1. A positive correlation of more than 0.90 for a period of six months between the values of the equity Indices and

2.5.1.58.2. At least 80% of constituents of one of the index is present in the other index and

2.5.1.58.3. The constituents of smaller index based on free float market capitalization shall have at least 80% weightage in the larger index based on free float market capitalization.

2.5.1.59. For cross margining benefit to continue the abovementioned eligibility criteria shall be checked by Clearing Corporations as under:

2.5.1.59.1. on a monthly basis on the 15th of every month

2.5.1.59.2. on the day of change in the constituents of the equity indices

2.5.1.60. If the equity indices pairs fail to fulfil any of the abovementioned eligibility criteria, cross margining benefit shall not be given after the upcoming monthly expiry.

2.5.1.61. **Computation of cross margin**

2.5.1.61.1. To begin with, a spread margin of 30% of the total applicable margin on the eligible off-setting positions in

correlated indices, shall be levied, in case of same expiry date.

2.5.1.61.2. A spread margin of 40% would be levied in case of offsetting positions in correlated indices having different expiry dates.

2.5.1.61.3. Cross margining benefit shall be computed at client level on an online real time basis and provided to the trading member / clearing member, as the case may be, who, in turn, shall pass on the benefit to the client.

2.5.1.61.4. Clearing Corporations shall apply to SEBI for approval for providing of cross margining benefit on correlated equity indices which fulfil the eligibility criteria. The application shall be accompanied with the data on eligibility criteria specified above.

2.5.1.61.5. **Margin Collection and Enforcement**

2.5.1.62. In order to make risk management framework more robust, the payment of MTM shall now mandatorily be made by all the members on T+0 basis i.e. before start of trading on the next day.

2.5.1.63. The clearing corporation/clearing house should lay down operational guidelines for collection of margin and standard guidelines for back office accounting at the level of clearing member and trading member to facilitate the detection of non-compliance at each level. The accounting guidelines shall be in conformity with the guidelines, if any, issued by SEBI from time to time. The initial margin (or the worst scenario loss) plus the calendar spread charge shall be adjusted against the available Liquid Net worth of the member who, in turn, shall collect the initial margin from their clients.

2.5.1.64. **Margin Collection Requirement:**

For the Equity Derivatives segment, the client margins which are required to be compulsorily collected and reported to the Exchange/Clearing Corporation, as the case may be, by the Clearing members/ Trading members shall include initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements and any other margin as may be specified by the Exchange/Clearing Corporation.

2.5.1.65. Margin Enforcement Requirement:

The 'margins', for both Equity Derivatives Segment and Currency Derivatives Segment, shall include initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements or any other margin as specified by the Exchange/Clearing Corporation to be collected by Clearing Members from their clients (i.e. Custodial Participants and Trading Members for their proprietary positions) and by Trading Members from their clients.

2.5.1.65.1. Upfront collection of Margins

Applicable upfront margins are required to be collected from client in advance of trade. The Framework to Enable Verification of Upfront collection of Margins from Clients has been laid out at clause 14.3.

2.5.1.65.2. Computation of Liquid Net worth:

For the equity derivatives segment, the liquid net worth shall be arrived at by deducting initial margin and the exposure margin/extreme loss margin from the liquid assets of the clearing member.

2.5.1.65.3. Reporting and Disclosure

2.5.1.66. The derivatives exchange and clearing corporation shall submit quarterly reports to SEBI regarding the functioning of the risk estimation methodology highlighting the specific instances where price moves have been beyond the estimated 99% VaR limits. The clearing corporation / clearing house shall disclose the details of incidences of failures in collection of margin and/or the settlement dues on a quarterly basis. Failure for this purpose means a shortfall for three consecutive trading days of 50% or more of the liquid net worth of the member.

2.5.1.67. Any proposal for changes in the methodology to compute the initial margin should be filed with SEBI and released to the public for comments along with detailed comparative back testing results of the proposed methodology and the current methodology. The proposal shall specify the date from which the new methodology will become effective and this effective date shall not be less than three months after the date of filing with SEBI. At any time, up to two weeks before the effective date, SEBI may instruct the derivatives exchange and clearing corporation/house not to implement the change, or the derivatives exchange and clearing corporation/ house may on its own decide not to implement the change.

2.5.1.68. The derivatives exchange/segment of the exchange/clearing corporation/clearing house of the exchange may choose to impose more stringent requirements, other than those prescribed above.

Commented [A18]: Removal/Segregation of Provisions pertaining to CCs as per S.No 2.14 of the consultation paper

2.6. Surveillance and Disclosures

2.6.1.1.1. Unique client code

The Exchange shall ensure that each client is assigned a client code which is unique across all members. The unique client code shall be assigned with the use of PAN number.

2.6.1.1.2. Position Limits

2.6.1.2. Market Level

There are no market wide position limits specified for index futures contracts.

Client Level/ NRI

2.6.1.3. A self-disclosure requirement similar to that in the take-over regulations is prescribed as under:

Any person or persons acting in concert who together own 15% or more of the open interest shall be required to report this fact to the exchange and failure to do so shall attract a penalty as laid down by the exchange/ Clearing Corporation/ SEBI.

2.6.1.4. Trading Member/FPI/Mutual Fund

2.6.1.4.1. The trading member/ FPI/ mutual fund position limits in equity index futures contracts shall be higher of:

Rs. 7,500 crore for Trading Members and Rs.500 Crore for FPIs/ Mutual Funds

or

15% of the total open interest in the market in equity index futures contracts.

This limit would be applicable on open positions in all futures contracts on a particular underlying index.



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2.6.1.4.2. In addition to the position limits above, Mutual Funds/FPIs may take exposure in equity index derivatives subject to the following limits:

2.6.1.4.2.1. Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the Mutual Fund's/FPIs holding of stocks.

2.6.1.4.2.2. Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Mutual Fund's/FPIs holding of cash, government securities, T-Bills and similar instruments.

Commented [A19]: Tabulated in Para Surveillance

2.6.1.5. Position limits available to FPIs for stock index derivative contracts

2.6.1.5.1. The position limit in index for Category I FPIs will remain at INR 500 crore or 15% of the total open interest of the market in index futures, whichever is higher, per exchange.

In addition, category I FPIs shall take exposure in equity index derivatives subject to the following limits:

1. Short positions in index derivatives (short futures, short calls and long puts) not exceeding (in notional value) the FPI's holding of stocks.
2. Long positions in index derivatives (long futures, long calls and short puts) not exceeding (in notional value) the FPI's holding of cash, government securities, T bills and similar instruments.

2.6.1.5.2. The position limit in index derivative for Cat. II FPI shall be as under:

- a. Higher of INR 300 crore or 10% of open interest for cat II FPIs (other than individuals, family offices and corporates).
- b. Higher of INR 100 crore or 5% of open interest for Cat II FPIs under subcategory of Individuals, family offices, corporates.

2.6.1.5.3. The above limits shall be separately applicable for equity index futures and equity index options as per the current mechanism for all categories of FPIs.

2.6.1.6. Revised position limits in equity Index derivatives (futures and options) Mutual Funds/ FPIs/Trading Members (Proprietary)

2.6.1.6.1. Mutual Funds / FPIs / Trading Members (Proprietary) / Clients may take exposure in equity index derivatives subject to the following limits:

- a. Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the Mutual Funds' / FPIs' / Trading Members' (Proprietary) / Clients' holding of stocks.
- b. Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Mutual Funds' / FPIs' holding of cash, government securities, T-Bills and similar instruments.



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2.6.1.6.2. Further to para 1.3.2.5.1. above, additional position limits mentioned hereunder shall be available to Trading Members (Proprietary) / FPIs / Mutual Funds / Clients:

- a. Equity Index Futures Contracts: Rs. 500 Crores.
- b. Equity Index Options Contracts: Rs. 500 Crores

2.6.1.6.3. If any of the aforesaid entities exceed the respective limits prescribed at para 1.3.2.5.1. and para 1.3.2.5.2. above, an additional deposit shall be payable by the entity equivalent to the amount of margin chargeable on excess position beyond the limits prescribed at para 1.3.2.5.1. and para 1.3.2.5.2. above and the same shall be retained by stock exchanges / clearing corporations for a period of 1 month.

Commented [A20]: Tabulated in position limits as per modified provisions

2. COMMODITY DERIVATIVES

2.1. Goods notified under SCRA²³

2.1.1. Ministry of Finance vide notification number S.O.1002(E) dated March 01, 2024 has notified list of goods²⁴ under clause (bc) of Section 2 of SCRA, 1956. As specified in the aforesaid Gazette notification, list of notified goods are at **Annexure 2a** on Goods notified u/s 2(bc) of SCRA.

Commented [A21]: Incorporation of provisions of new circular (Mar 05, 2024) as per S.No 2.20 of the consultation paper.

2.2. Criteria for Eligibility of Derivative Contracts on Commodities^{25,26}

2.2.1. The commodities which are to be recommended by SEBI for notification by the Government or on which the stock exchange proposes to launch a contract should pass through some test based upon the objective parameters and upon satisfaction, should be allowed for trading. The commodities which are to be recommended by SEBI for notification by the

Commented [A22]: Incorporation of new provisions (May 30, 2024) as per S.No 2.20 of the consultation paper.

²³ Circular No SEBI/HO/CDMRD/DMP/CIR/P/2016/105 dated September 28, 2016

²⁴ Circular No. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/13 dated March 05, 2024

²⁵ Circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/6 dated January 20, 2017

²⁶ Circular No. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/69 dated May 30, 2024

Government or on which the stock exchange proposes to launch a contract should pass through some test based upon the objective parameters and upon satisfaction, should be allowed for trading. It is also important that the contracts available for trading in the commodity derivatives market are liquid enough for the contracts to trade smoothly.

Eligibility criteria for allowing derivative contracts on commodities: Exchanges shall examine following basic parameters and the commodity may be permitted to be included under derivatives if such commodity satisfies these parameters.

i. Commodity Fundamentals

- a) Size of the market / Volume of the market: The total supply value of the commodity in each year is taken as a measure of the physical market size of that commodity in that year. A higher physical market size could create higher futures trading volume by attracting more hedgers and speculators into the futures market.
- b) Homogeneity/Standardization: The commodity should be either Homogeneous or should be conducive to standardization. This is required so that participants trading the commodity on exchange platform should be able to unambiguously understand exactly what they are trading as on exchange only standardized contracts can be traded.
- c) Durable / Storable: The commodity should be durable and storable for better price discovery. Durability i.e. higher shelf life makes commodity conducive for storage, which creates opportunity for cash and carry and hence would attract arbitragers thus make it more suitable for derivatives trading.

ii. Trade Factors

- a) Global: Global market in a commodity could be a positive indicator as internationally linked commodity prices are influenced by various global factors and thus create multiple reference points for price discovery which may make it conducive for derivatives trading.
- b) Value chain: The term "value chain" describes the full range of value adding activities required to bring a product or service through the different phases of production, including

procurement of raw materials and other inputs", connected along a chain of producing, transforming and bringing goods and services to end-consumers through a sequenced set of activities and a strategic network among a number of business organizations". Larger is the value chain larger would be the number of participants interested in derivatives trading of such commodity.

- c) Geographical coverage: The commodity should ideally have a vast distribution across the country. The coverage can be in the form of production of commodity or the distribution of the commodity across the country. Higher coverage would attract higher number of participants to the derivatives.

iii. Ease-of- doing-business

- a) Price Control: Price controls are government mandated minimum or maximum prices that can be charged for specified goods. Such goods which are prone to price control may be less conducive for derivatives markets
- b) Applicability of other laws: The Essential Commodities Act, 1955, the laws relating to the Agricultural Produce Marketing Committee ("APMC"), etc., may have an impact on the commodities to be introduced for derivatives trading. Commodities which have excessive restrictions may be less conducive for derivatives markets.

iv. Inherent Risk Factors~~Risk management~~

- a) Correlation with International Market: Commodities which have a strong correlation with the global market have higher need for price risk management. Such commodities are conducive for derivatives trading.
- b) Seasonality: The Indian commodity sphere is characterized by seasonality. The derivatives market is necessary to even out fluctuation and facilitate better price discovery. Thus the commodities with higher seasonality are conducive for derivatives trading.
- c) Price Volatility: Commodities with high volatility of prices have high need for hedging. Such commodities are conducive for Derivatives trading.

- v. In order to bring in uniformity among the ~~stock exchanges~~SEs, the indicative template (as enclosed at Annexure **2b** on Template on Criteria for Eligibility of Commodity Derivative Products) shall be adopted by them. In this regard the stock exchanges shall decide upon the specific numerical weightages as approved by their oversight committee for 'Product Design'.
- vi. ~~The stock exchanges~~SEs shall also analyze all the proposed commodities on the afore-said parameters comprised in the template and submit the same to SEBI along with necessary supporting documentary evidence for referring the commodity for notification under section 2(bc) of SCRA, 1956.

Commented [A23]: Incorporation of new provisions (May 30, 2024 circular) as per S.No 2.20 of the consultation paper.

~~2.2.2. The head(s) of department(s) handling matters with respect to the Product Design shall report directly to the Regulatory Oversight Committee and also to the Managing Director. Any action against the head(s) of department shall be subject to an appeal to the Regulatory Oversight Committee, within such period as may be determined by the Governing Board.~~

Commented [A24]: Removal of redundant requirement as per S.No 2.11 of the consultation paper.

2.3. Product Advisory Committee (PAC) ²⁷

2.3.1. Each SE having commodity derivatives segment shall constitute a PAC for each group/complex of commodities having common stakeholders/value chain participants, on which derivatives are traded or being proposed to be traded on the stock exchange.

2.3.2. **Terms of Reference:** The PAC shall be consulted for the following:

- i. Contract design on new commodities and review of design of existing contracts, to ensure that contract specifications represent the industry's needs:
- a. alignment of quality/quantity specifications of the product with the physical market

²⁷ Circular no SEBI/HO/CDMRD/DNPMP/CIR/P/2019/89 dated August 07, 2019



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- b. choice of basis and additional delivery centers
 - c. appropriate premium/discount for additional deliverable quality/ delivery at additional delivery center, etc.
 - ii. Discussion on the "State of the Markets for the commodity" at every meeting.
 - iii. Review of the delivery centres as well as recommendations with respect to modifications of delivery centres.
 - iv. Review of suggestions/feedback/complaints received by the stock exchange regarding the commodity/contract and action taken thereon.
 - v. Performance review of the existing contracts on various parameters.
 - vi. Any other related matter thereof.
 - vii. Stock Exchange shall have the right to accept, reject or modify any recommendations made to it by the PAC, by recording the reasons thereof.

2.3.3. Composition

- i. The PAC shall have a balanced representation from amongst the following categories of stakeholders:
 - a. Representatives from Trade Associations representing various value chain participants.
 - b. Representatives from various Stakeholders and value chain participants such as producers, traders, consumers, Farmers and FPOs / Cooperative societies in case of agricultural commodities, Small & Medium Enterprises ("SMEs") / Micro, Small & Medium Enterprises ("MSMEs") etc.
 - c. Representative(s) from warehousing/ assaying sector.
 - d. Independent Expert(s) in the specific commodity group.
 - e. Representative(s) from financial sector (such as Financial Institutions, brokers, etc.).
 - f. Representative(s) from stock exchange / clearing corporation responsible for specific commodity.
- ii. If certain stakeholders are not available for a particular commodity, exemption from satisfying prescribed composition in PAC as per Para 2.3.3(i) shall be sought from the respective PAC Chairman, on a case to case basis.

Commented [A25]: Simplification of provisions as per S.No 2.2 of the consultation paper.

- iii. Each PAC meeting shall be headed by a Chairperson (who shall be an independent person with experience in the specific commodity) selected as such for the meeting based on attendees' choice. PAC shall have an exchange executive as Vice Chairman for administrative coordination/decision.

2.3.4. Proceeding of meetings

- i. The PAC shall meet at least once a year and more frequently as and when required for both non-agricultural and agricultural commodities²⁸.
- ii. The stock exchange shall prepare the agenda for the meeting based on the views and requirements of value chain participants and also taking into account any suggestions/feedback/complaints received by the stock exchange regarding the commodity/contract.
- iii. In the PAC meetings at least 50% members (excluding representative from stock exchange/ clearing corporation) shall be present, including its chairman or vice chairman (acting chairman).

Commented [A26]: Simplification and Standardization as per S.No 2.3 of the consultation paper.

2.3.5. Disclosure: For each PAC, the stock exchange shall make following disclosures on its website:

- i. Composition of the PAC- Name of the member, Organisation, Sector
- ii. Terms and reference of the PAC
- iii. The PAC shall be at liberty to publicise agenda items with the prior concurrence of the stock exchange in order to encourage market participants to contribute their point of view.

2.3.6. Confidentiality and Conflicts of Interest

- i. PAC members must ensure that, unless outside consultation is specifically agreed, all matters discussed and all materials and data made available to them in respect of their Committee-related activities are kept confidential at all times. Exchanges shall formulate a code of conduct to be adhered to as a member of the Committee.
- ii. If there is a conflict of interest arising for a member out of any matter proposed to be discussed at a meeting of the PAC or a matter that comes for discussion in the course, in a meeting of the PAC, such

²⁸ Circular No. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2025/087 dated June 12, 2025

member of the PAC must absent himself from discussion on that matter and the minutes of the meeting must record the same.

2.3.7. There should be an annual review of the PAC's performance by the Regulatory Oversight Committee of the SE.

2.6.1.7. NRI (Non Resident Indian)/Clients

2.4. Performance Review of the Commodity Derivatives Contracts²⁹

2.4.1. All exchanges shall review the performance of all contracts traded on their platform (as per the parameters illustrated in Annexure 2c on Parameters for Performance Review of Commodity Derivative Contract).

2.4.2. The said performance review shall be consulted with the PAC.

2.4.3. The said performance review along with the methodology adopted in evaluation, if any, shall be disclosed by the stock exchanges on their website prominently.

2.4.4. The said performance review shall be conducted on an annual basis for each financial year and shall be disclosed by 30th June of the following financial year.

The Exchange shall monitor the NRI position limits. The NRI would be required to notify the names of the Clearing Member/s through whom it would clear its derivative trades to the Exchange. The Exchange would then assign a unique client code to the NRI. The Exchange shall monitor the NRI position limits in the manner similar to that specified for FPIs and sub-accounts.

2.6.1.8. FPIs

2.6.1.8.1. The FPI shall report to the Clearing Member (Custodian) the extent of FPI's holding of stocks, cash, government securities, T-Bills and similar instruments before the end of the day. The Clearing Member (Custodian) in turn shall report the same to the Exchange.

2.6.1.8.2. The Exchange shall then monitor the FPI position limits in equity index derivative contracts in the manner specified below:

²⁹ Circular no SEBI/HO/CDMRD/DNPMP/CIR/P/2020/21 dated February 04,2020

- 2.6.1.8.2.1. The FPI would be required to notify the names of the Clearing Member/s and Custodian through whom it would clear its derivative trades to exchanges and their Clearing House / Clearing Corporation.
- 2.6.1.8.2.2. A unique code would be assigned by the exchanges and / or the Clearing House / Clearing Corporation to each registered FPI intending to trade in derivative contracts.
- 2.6.1.8.2.3. The FPI would be required to confirm all its positions and the positions of all its sub-accounts to the designated Clearing Members online but before the end of each trading day.
- 2.6.1.8.2.4. The designated Clearing Member/s would at the end of each trading day submit the details of all the confirmed FPI trades to the derivative Segment of the exchange and their Clearing House / Clearing Corporation.
- 2.6.1.8.2.5. The exchanges and their Clearing House / Clearing Corporation would then compute the total FPI trading exposure and would monitor the position limits at the end of each trading day. The cumulative FPI position may be disclosed to the market on a T + 1 basis, before the commencement of trading on the next day.
- 2.6.1.8.2.6. In the event of an FPI breaching the position limits on any derivative contract on an underlying, the FPI would not be permitted by the exchanges and their Clearing House / Clearing Corporation / Clearing Member/s to take any fresh positions in any derivative contracts in that underlying. However, they would be permitted to execute off-setting transactions so as to reduce their open position.

2.6.1.8.3. The position limits would be computed on a gross basis at the level of FPI.

2.6.1.8.4. The open position for all derivative contracts would be valued as the open interest multiplied with the closing price of the respective underlying in the cash market.

2.6.1.9. **Mutual Funds**

2.6.1.9.1. The Mutual Fund shall notify the names of the Clearing Member/s for each scheme through whom it would clear its derivative contracts to the Stock Exchange. The Stock Exchange would then assign a unique client code to each scheme of the Mutual Fund. For the purpose of monitoring of position limits, the Mutual Funds will be considered as

~~trading members like registered FPIs and the schemes of Mutual Funds will be treated as clients.~~

Commented [A27]: Tabulated as per modified provisions in Position Limits'

2.5. General guidelines for Position Limits³⁰

2.5.1. The following norms shall be applicable to the agricultural as well as non- agricultural commodity derivatives at commodity level:

- i. Numerical value of overall client level open position limits shall be applicable for each commodity as explained subsequently.
- ii. The stock exchanges, however, in their own judgment, may prescribe limits lower than what is prescribed by SEBI by giving advance notice to the market.

~~For the purpose of position limits, norms applicable on client level positions shall also be applicable to the proprietary positions of members and while calculating member's open positions, his proprietary positions shall be treated and computed like a client's positions.~~

- iii. For the purpose of calculating overall position of a member, the overall position of its all clients (as determined in para 2.5.4) shall be added without netting off among themselves as also against proprietary positions of the member. Thus, all long clients and all short clients shall be added up separately and higher of the two shall be reckoned as Member's open position in a commodity derivative.

Commented [A28]: Rationalisation of reporting requirement as per S.No 2.10 of the consultation paper.

2.5.2. Clubbing of Open Positions ²⁸

- i. While calculating open positions for the purpose of position limits, stock exchanges shall take suitable measures for clubbing of open positions of clients/members who may be acting in concert to circumvent the norms of position limits. The broad guidelines on this are provided in Annexure 2d on Clubbing of Open Positions.
- ii. All stock exchanges shall jointly formulate uniform guidelines and disclose the same to the market.

2.5.3. Monitoring of Position Limits ²⁸

³⁰ SEBI Circular No SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016



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Securities and Exchange Board of India

- i. Exchanges shall monitor the open position on a real time basis, and shall endeavour that no client or member breaches the open position limits 'at end of the day' as well as 'during intra-day trading'.
- ii. Penalty shall be levied on those breaching the position limits at end of the day as well as during intra-day trading as provided in Annexure 2e on Position Limit Violation.

Exchanges have the responsibility to monitor the position limits. However, exchanges may outsource the work to Clearing Corporations subject to entering into a formal agreement clearly outlining their respective roles, responsibilities and the commercials on arm's length basis.

iii.

2.6.1.9.2. **Intraday monitoring of position limits³¹**

2.6.1.10. In addition to the End of Day monitoring mechanism as stated above, the position limits, for equity index derivative contracts, would also be monitored on an intraday basis from April 01, 2025.

2.6.1.11. For this purpose, Stock Exchanges shall consider minimum 4 position snapshots during the day. The number of snapshots may be decided by the respective Stock Exchanges subject to a minimum of 4 snapshots in a day. The snapshots would be randomly taken during pre-defined time windows.

2.6.1.12. Further, the existing framework of penalty structure for breach of end of day position limit shall be extended by exchanges for intraday position limit breaches as well.

2.6.1.12.1. **Methodology for monitoring of position limits³²**

2.6.1.13. It is also noted that that open interest of both the participants and the market is dynamic and changing throughout the day. With a view of providing better clarity to the market participants in terms of their position limits, the following has been decided:

2.6.1.13.1. In conformity with the extant practice in currency derivatives segment, positions of market participants in index derivatives shall

Commented [A29]: Clarification of provisions as per S.No 2.5 of the consultation paper.

³¹ Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/132 dated October 01, 2024

³² Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/140 dated October 15, 2024

~~also be monitored based on total open interest of the market at the end of previous day's trade.~~

~~2.6.1.13.2. In case of a drop in market OI compared to the previous day's market OI, market participants may breach the specified position limits even if their positions have remained unchanged throughout the day.~~

~~2.6.1.13.3. For such cases of passive breaches, market participants would not be penalised and not be required to unwind their positions.~~

Commented [A30]: Tabulated in Para 'Surveillance'

2.5.4. Position Limits

~~2.6.1.13.4. Surveillance System~~

~~The surveillance systems of the exchanges should be designed keeping in view all the relevant aspects including the following-~~

~~2.6.1.14. The alerts in the online surveillance system should be so designed that indications of material aberrations from normal activity are automatically generated and thrown up by the system.~~

~~2.6.1.15. The parameters which need to be monitored either through the online system or otherwise should inter alia include the following parameters as suggested by the Advisory Committee on Derivatives:~~

~~2.6.1.15.1. Monitoring of open interest, cost of carry/impact cost and volatility.~~

~~2.6.1.15.2. Monitoring of closing prices.~~

~~2.6.1.15.3. The open positions in the derivative market should be seen in conjunction with the open positions in the cash market. i.e. the position deltas should be monitored.~~

~~2.6.1.15.4. The timing of disclosure by corporates should be monitored as this could influence the prices of the contract at the time of introduction and expiry.~~

~~2.6.1.15.5. Strike prices with large open positions should be monitored as this could influence the prices of the contract at the time of introduction and expiry.~~

~~2.6.1.15.6. Strike prices with large open positions should be monitored, as such strike prices could be a target price to be~~

achieved in the cash market to derive maximum benefit from the derivative position.

2.6.1.16. The surveillance systems and processes should be able to

2.6.1.16.1. Capture and process client level details.

2.6.1.16.2. Develop databases of trading activity by brokers as well as clients.

2.6.1.16.3. Generate trading pattern in individual products or group of products by a broker over a period of time or by a client / group of clients over a period of time.

2.6.1.16.4. Generate the pattern of trading in a product over a period of time giving such details as the purchases/sales/positions/open interest held by different brokers or clients/group of clients.

2.6.1.16.5. Monitor proportion of trading in derivatives market vis-à-vis trading in the underlying in the cash market and aberrations as compared to historical data and as compared to market average

2.6.1.16.6. Monitor large trades, call put ratio's and exercise patterns

2.6.1.17. For integration of surveillance in cash and derivatives markets, the persons who carry out monitoring/analysis in the derivatives market should have access to data of the underlying security in cash market and vice versa. The co-ordination between surveillance and derivatives segment should ensure monitoring of positions at broker/client level across cash and derivatives market with a view to identifying possible fraudulent or manipulative activity.

2.6.1.18. Examination of derivatives trading details should be taken up on the basis of cash market surveillance also, and vice versa.

2.6.1.19. While the surveillance system may be able to generate a large amount of information, it is only the first step towards analysing market behaviour to identify potential problems. The exchange surveillance staff should be able to carry out quick and effective analysis of information generated by the surveillance system, and should document this analysis properly. The documentation should be properly authenticated and verified by a designated authority of the stock exchange.

2.6.1.20. The information and feedback received from broker inspections is vital input for effective surveillance. For this it is necessary that broker inspections are taken up in a rational manner keeping in view the level of trading activity, client profile, number and

nature of complaints received against the broker, history of risk management related defaults and regulatory violations etc. Information obtained through broker inspections should also be made available to the monitoring/surveillance departments of stock exchanges.

2.6.1.21. The information gathered by the risk management departments/clearing corporations while enforcing the risk management measures and settlement processes are critical inputs. Such information could include pattern of defaults related to specific scrips/contracts and special risk management measures taken keeping in view the market conditions.

2.6.1.22. The exchanges should call for information from brokers in a standard form, and preferably in electronic form, to facilitate faster analysis as well as building up of databases. It may also be ensured that duly authenticated information is submitted by the broker or his designated agent.

2.6.1.23. While implementing a stock watch type of system for derivatives, the system should be designed to provide online access to relevant historical data on derivatives trading for at least a year.

2.6.1.24. The underlying securities in the derivatives market may be listed on more than one exchange and brokers dealing in such securities/derivatives may have membership in more than one exchange. In the interest of better surveillance, it is therefore necessary that relevant information obtained through surveillance at one exchange should be shared with other exchanges. Exchanges are, therefore, advised to share information on positions in underlying stocks and their derivatives and any extraordinary movement in price/volume or concentration periodically or upon specific request by any stock exchange.

2.6.1.25. Exchanges should study surveillance practices in various Global Equity Derivative Markets. Surveillance practices in commodities and bullion markets could also be studied where appropriate. Case studies on some market manipulations in various derivatives markets could be looked at in order to see what lessons could be drawn.

Compliance with the above requirements may be indicated in the monthly reports on surveillance and investigations submitted by exchanges to SEBI.

Commented [A31]: Tabulated in Para 'Surveillance'

<u>S.No/ Category</u>	<u>Agricultural Commodity Derivatives</u>	<u>Non-Agricultural Commodity Derivatives</u>
2.5.4.1. Client	2.5.4.1.1. For the purpose of calculating positions of a client, all long and short positions of the client across all contracts shall be added up separately and higher of the two shall be considered as his overall open position. 2.5.4.1.2. Framework for determination of numerical value of overall client level open position limits³³: i. Categorization of commodities: In any given year, based on the average of production data and import data of past five years on a rolling basis and keeping in view various extraneous factors that affect the trading in derivatives, the agricultural commodities shall be classified into three categories viz., sensitive, broad and narrow as below: - a. Sensitive commodity: An agricultural commodity shall be classified as a sensitive commodity if it: - is prone to frequent Government / External interventions. These interventions may be in the nature of stock limits, import/export restrictions or any other trade related barriers; or - has observed frequent instances of price manipulation in past five years of derivatives trading b. Broad Commodity: An agricultural commodity shall be classified as 'Broad Commodity' if it is not 'Sensitive Commodity' and satisfies following criteria: - Average deliverable supply for past five year is at least 10 lakh Metric Ton ("MT") in quantitative term and is at least INR 5,000 Crore in monetary term.	2.5.4.1.3. For the purpose of calculating overall position of a client, all long and short positions of the client across all contracts shall be netted out.³⁵ 2.5.4.1.4. Client level position limits shall be equivalent to the numerical level limit as given in table in Annexure 2g or 5% of market-wide open interest, whichever is higher.³⁴ 2.5.4.1.5. FPIs other than individuals, family offices and corporates may participate in eligible commodity derivatives products as 'Client' and shall be subject to position limit norms as may be applicable to clients. 2.5.4.1.6. FPIs belonging to categories viz. individuals, family offices and corporates will be allowed position limit of 20 per cent of the client level position limit in a particular commodity derivative contract.

³³ Circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017

³⁵ Circular No SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016

<u>S.No/ Category</u>	<u>Agricultural Commodity Derivatives</u>	<u>Non-Agricultural Commodity Derivatives</u>								
	<u>c. Narrow Commodity:</u> <u>An agricultural commodity which is not falling in either of the above two categories, viz 'Sensitive' or 'Broad' commodity, shall be classified as 'Narrow Commodity'</u> <u>ii. Deliverable Supply:</u> <u>The deliverable supply for an agricultural commodity would be "Production + Imports"</u> <u>iii. Client Level Numeric Position Limits:</u> <u>Numerical Value of overall client level open position limits for each commodity shall be calculated from 'deliverable supply' available in a particular year, as per its category as given below:</u> <table><tr><th><u>Category of Commodity</u></th><th><u>Position limits</u></th></tr><tr><td><u>Broad</u></td><td><u>1% of the deliverable supply</u></td></tr><tr><td><u>Narrow</u></td><td><u>0.5% of the deliverable supply</u></td></tr><tr><td><u>Sensitive</u></td><td><u>0.25% of the deliverable supply</u></td></tr></table> <u>The numbers arrived based upon above formula should be rounded off downward to appropriate number of zeroes.</u> <u>iv. Yearly Categorization of commodities and computation of position limits:</u> <u>All exchanges shall jointly classify agricultural commodities into the afore-stated three categories on annual basis as per the principles indicated above.</u> <u>a. Whenever an agricultural commodity of 'narrow' category is required to be re-categorized to 'broad' in subsequent years, such re-categorization may be possible only if both, average deliverable supply of such commodity for the past five years and monetary value thereof as mentioned above for 'broad commodity' exceeds by more than 5%.</u>	<u>Category of Commodity</u>	<u>Position limits</u>	<u>Broad</u>	<u>1% of the deliverable supply</u>	<u>Narrow</u>	<u>0.5% of the deliverable supply</u>	<u>Sensitive</u>	<u>0.25% of the deliverable supply</u>	
<u>Category of Commodity</u>	<u>Position limits</u>									
<u>Broad</u>	<u>1% of the deliverable supply</u>									
<u>Narrow</u>	<u>0.5% of the deliverable supply</u>									
<u>Sensitive</u>	<u>0.25% of the deliverable supply</u>									

<u>S.No/ Category</u>	<u>Agricultural Commodity Derivatives</u>	<u>Non-Agricultural Commodity Derivatives</u>
	b. For determination of 'deliverable supply' of various agricultural commodities for each year, the National Commodity Derivatives Exchanges shall take into account the latest production figures of such commodities as annually declared by relevant government sources or from the latest 'third advance estimates' of agricultural commodities published by the Ministry of Agriculture or any other yearly estimates/assessments of production and imports made by any governmental agencies such as Ministry of Agriculture, Ministry of Textiles, Ministry of Commerce, different statutory boards/associations etc., concerned with different agricultural commodities. The National Commodity Derivatives Exchanges shall indicate the sources from which the production and import / export data have been obtained for the purpose of determination of 'deliverable supply' of different agricultural commodities. c. Every year, for each agricultural commodity that is being traded in the derivatives market, all National Commodity Derivatives Exchanges shall jointly complete the exercise of determination of 'deliverable supply, categorization/re-categorization of commodities and computation of numerical value of position limits. Numerical values of position limits for any agricultural commodity shall be revised only if the computation results in a revision in the value by at least 5% compared to previous year's limits. Stock Exchanges shall, after prior intimation to SEBI, notify such details to the market through their respective websites sufficiently in advance and latest by 31st of July (unless extended by SEBI under exceptional circumstances) of every year and revised limits shall become applicable for all running contracts with effect from 1st of September of every year d. Dissemination of Information on Website: In order to provide necessary information to the stakeholders the Stock Exchanges shall prominently disseminate on their websites the details of five year average deliverable supply, current year deliverable supply, source of data,	

<u>S.No/ Category</u>	<u>Agricultural Commodity Derivatives</u>	<u>Non-Agricultural Commodity Derivatives</u>
	<u>categorization of the commodity, position limits etc. for each of the commodity traded on their stock exchange, as per the format given in Annexure 2f - Format for Dissemination of Information on Website³⁴.</u> <u>In the interest of trade and public, SEBI may exercise its due discretion in modifying the aforesaid position limits at any time during the year.</u>	
<u>2.5.4.2. Trading Member</u>	<u>2.5.4.2.1. The overall member level position limits across all contracts shall be 10 times the numerical value of client level position limit or 15% of the market-wide open interest, whichever is higher.³⁶</u>	<u>2.5.4.2.2. Member level position limits shall be 10 times of the numerical value of client level position limits or 20% of the market-wide open interest, whichever is higher.³⁵</u>
<u>2.5.4.3. Near Month Position Limits</u>	<u>a. Client level position limits shall be equivalent to the one fourth of the overall Client level position limit as prescribed</u> <u>b. Member level position limits shall also be equivalent to the one fourth of the overall member level position limit.</u> <u>c. For calculating near month open position of a client, higher of long and short positions of the client in near month contracts to be considered. Thus, netting out near month contract with off-setting positions in far months contracts shall not be permitted for the purpose of computation of near month position of any client.³⁷</u> <u>d. For calculating near month open position of a member, the position of the clients as determined in 2.5.4.3(c) above will be added without netting off among themselves as also against proprietary position of the member (which will also be treated like a client position). All longs and</u>	<u>NA</u>

³⁴ Circular No SEBI/HO/CDMRD/DMP/CIR/P/2018/96 dated June 11, 2018

³⁶ Circular No SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016

³⁷ Circular no. CDMRD/DMP/CIR/32/2016 dated January 29, 2016

<u>S.No/ Category</u>	<u>Agricultural Commodity Derivatives</u>	<u>Non-Agricultural Commodity Derivatives</u>
	shorts will be added up separately and higher of the two will be reckoned. ³⁸	
<u>2.5.4.4. Exchange- wide Position Limit</u>	The overall Exchange-wide gross position limit on open interests shall be 50% of its 'deliverable supply' determined for the relevant year, which shall also be jointly notified by the stock exchanges along with client level numerical limits. ³⁹	NA

2.7. Eligibility Criteria for Derivative Exchange/Derivative Segment of the Exchange, Trading Members, Clearing Corporation/House for Equity Derivatives

2.7.1.1.1. The exchanges may apply to SEBI for grant of recognition under Section 4 of the Securities Contract Regulation Act, 1956. The derivatives exchange/segment should comply with the relevant provisions of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations (SECC Regulations). The exchange shall regulate the sales practices of its members and will obtain prior approval of SEBI before start of trading in any derivatives contract.

2.7.1.1.2. The Clearing and settlement of derivatives trades shall be through a SEBI approved Clearing Corporation/House.

Derivative Brokers/Dealers and clearing members are required to seek registration from SEBI. Relevant sections of SEBI Master circular for Stock Brokers dated August 09, 2024 may be referred to.

2.7.1.1.3. The existing stock exchanges having cash trading are permitted to trade in derivative contracts through a separate segment with separate membership.

2.7.1.1.4. The derivative segment of an exchange and its Clearing House/Corporation shall be separate from the cash segment in the following areas—

³⁸ Circular no. CDMRD/DMP/CIR/32/2016 dated January 29, 2016

³⁹ Circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017

- 2.7.1.2. The legal framework governing trading, clearing and settlement of the derivative segment should be separate from the cash market segment. In other words, the Regulations and / or Bye-laws of derivative segment, as the case may be for specific exchanges, shall be separate from the cash market.
- 2.7.1.3. Core Settlement Guarantee Fund (Core SGF) of the derivative segment shall be separate from the Core SGF of cash market segment.
- 2.7.1.4. Membership of the derivative segment shall be separate from the cash market segment.
The exchange shall comply with the relevant provisions as laid down by the SECC Regulations and any other relevant provisions in this regard.
- 2.7.1.4.1. The separation, if any, as regard the functional, operational and administrative modalities shall be at the discretion of the Exchange. The cash and derivative segment of an Exchange may have common personnel, trading terminal and infrastructure.
- 2.7.1.4.2. The quantum of members to be inspected may be linked to the cost and benefit of inspections and the level of activity of members. The Derivative Exchange/Segment shall work out an appropriate policy and plan for selecting members to be inspected. The inspection strategy should lay down:
- 2.7.1.5. The criteria for identifying the top members (in terms of level of activity) to be taken up for compulsory inspection.
- 2.7.1.6. The percentage of remaining members to be inspected selected on a sampling basis.
Mechanisms should ensure that active members do not go un-inspected for several years in succession.
- 2.7.1.6.1. The inspection policy and plan for the year shall be submitted to SEBI for approval.

Commented [A32]: Moved to Miscellaneous 'Eligibility criteria for Derivative segment of Exchange'

3. INDEX Options

3.1. Product Design

2.6. Position Limit for Hedgers ⁴⁰

- 2.6.1. In order to facilitate larger participation by genuine hedgers by providing them with necessary incentives with a view to deepen the commodity derivatives market, the stock exchanges shall stipulate a "Hedge Policy" for granting hedge limits to their members and clients. The SEs shall widely publicize their respective hedge policy by holding awareness programmes for the target participants and making it publicly available on their website.
- 2.6.2. The stock exchanges shall adhere to the following broad guidelines while granting hedge limit exemptions to their members and clients:
- i. The hedge limit to be granted by the stock exchanges to the bona fide hedgers shall be in addition to the normal position limit allowed to it. Such hedge limit is non-transferrable and shall be utilized only by the hedger to whom the limit has been granted and not by anyone else.
 - ii. This hedge limit granted for a commodity derivative shall not be available for the near month contracts of the said commodity from the date of applicability of near month limit.
 - iii. Hedge limits for a commodity shall be determined on a case to case basis, depending on applicant's hedging requirement in the underlying physical market based upon his/its export or import commitments/ stocks held/ past track record of production or purchase or sales/processing capacity and other factors as the stock exchanges may deem appropriate.
 - iv. The stock exchanges shall undertake proper due diligence by verifying documentary evidence of the underlying exposure and ensuring that the hedge limit granted is genuine and does not have the potential to disturb the equilibrium of the market of that particular derivative contracts.
 - v. The hedge limit may also be made available in respect of the short open position acquired by an entity for the purpose of hedging against the stocks of commodities owned by it and,
 - a. pledged with the Scheduled Commercial Banks/Co-operative Banks;
 - b. lying in any Government Entity's warehouse or warehouse approved by the Warehousing Development and Regulatory Authority ("WDRA") Approved warehouses; or

⁴⁰ Circular no. SEBI/HO/CDMRD/DMP/CIR/P/2016/71 dated August 19, 2016

c. lying in any other premises (warehouse, factory etc.), provided the premises is either owned by the hedger or taken on lease by the hedger in its name and the stock exchange has ascertained that such premises are well equipped with quality control safeguards for storage of the relevant commodity and shall be subject to the production of the relevant Bank Certificate/Warehouse Receipt, as the case may be, and also shall be subject to verification regarding ownership of the stocks etc., by the stock exchange in accordance with the procedure laid down by it in this regard.

- vi. At any point of time during the hedge period, hedging positions taken in derivatives contracts by hedger, across multiple stock exchanges/ contracts, shall not exceed his/its actual/anticipated exposure in the physical market, even if there is a usable hedge limit available as per allocation made by the stock exchange to the hedger.
- vii. If under any circumstances a hedger is found availing hedge limit in contrary to the guideline framed by the SEBI/stock exchanges or submits false document or fails to inform stock exchange timely about reduction of underlying exposure based upon which it has been allocated hedge limit by the stock exchange, it shall be liable for expulsion from membership/prohibition from trading as the case may be. Such action shall be without prejudice to other disciplinary actions including penalties prescribed by the stock exchanges.
- viii. A hedger having availed of benefit of hedge limits, shall preserve relevant records for a period of minimum three years for inspection by SEBI/stock exchange.
- ix. The approved hedge limit shall be valid for a period as mentioned in the approval letter and such hedge limit shall stand cancelled automatically upon expiry of such period without any notice.
- x. The stock exchanges shall disclose on their website the hedge position allocated to various hedgers, indicating the period for which approval is valid, in an anonymous manner. The disclosure shall be made in the following format as per Annexure 2h.

3.1.1.1.1. Underlying

The benchmark indices and the various sectoral indices are permitted as per the eligibility criteria.

3.1.1.1.2. Eligibility Criteria

Same as that for index future contracts as specified in clause 1.1.2.

3.1.1.1.3. Trading Hours

- Same as that for index future contracts as specified in clause 1.1.3.
- 3.1.1.1.4. Size of the Contract
- Same as that for index future contracts as specified in clause 1.1.4.
- 3.1.1.1.5. Quotation
- Same as that for index future contracts as specified in clause 1.1.5.
- 3.1.1.1.6. Tenor of the contract
- Same as that for index futures contracts as specified in clause 1.1.6.
The index option contracts on Nifty and SENSEX shall have a maximum maturity up to 5 years.
- 3.1.1.1.7. Available Contracts
- 3.1.1.2. The exchange should ensure that for index options contracts on Nifty and Sensex that there are 8 semi-annual contracts of the cycle June/December in sequence to 3 serial monthly contracts and 3 quarterly contracts of the cycle March/June/September/December. Each maturity shall have a minimum of three strikes (in the money, at the money and out of the money).
- 3.1.1.3. Further, weekly contracts on indices are available. However, from November 20, 2024, weekly contracts would only be available on one benchmark index for each exchange.

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~~3.1.1.3.1. Settlement Mechanism~~

~~Same as that for index future contracts as specified in clause 1.1.8. Initially, the Exchanges shall introduce premium style index options.~~

~~3.1.1.3.2. Settlement Price~~

~~Same as that for index future contracts as specified in clause 1.1.9.~~

~~3.1.1.3.3. Final Settlement Day~~

~~Same as that for index future contracts as specified in clause 1.1.10.~~

~~3.1.1.3.4. Application~~

~~The Derivative Exchange/Segment shall submit their proposal for approval of the index option contract to SEBI which shall include:~~

~~the details of proposed derivative contract to be traded on the exchange which would include:~~

Commented [A34]: Inserted in Product Design

~~3.1.1.4.1. Symbol~~

~~3.1.1.4.2. Underlying~~

~~3.1.1.4.3. Multiplier~~

~~3.1.1.4.4. Strike Price Intervals~~

~~3.1.1.4.5. Premium Quotation~~

~~3.1.1.4.6. Last Trading Day~~

~~3.1.1.4.7. Expiration day/month~~

~~3.1.1.4.8. Exercise Style~~

~~3.1.1.4.9. Settlement of Option Exercise~~

~~3.1.1.4.10. Position and Exercise Limits~~

~~3.1.1.4.11. Margin~~

~~3.1.1.4.12. Trading Hours~~

~~3.1.1.5. the economic purpose it is intended to serve,~~

~~3.1.1.6. likely contribution to market development,~~

~~3.1.1.7. the safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading,~~

~~3.1.1.8. the infrastructure of the exchange and the surveillance system to effectively monitor trading in such contracts, and~~

3.1.1.9. details of settlement procedures & systems with regard to Index Options:

Commented [A35]: Inserted in Para 'Application' of this chapter

3.2. Risk Management

Initial Margin Computation

3.2.1.1. The Initial Margin requirements shall be based on worst case loss of a portfolio of an individual client to cover a 99% VaR over a one day horizon. For Index products, the price scan range is specified at six standard deviation (6σ) scaled up by $\sqrt{2}$ subject to at least 9.3% of the underlying price after considering scaling up and the volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum 4%. In case of index option contracts with residual maturity of more than 9 months, the price scan range shall be based on 6σ , scaled up by $\sqrt{2}$ subject to at least 17.7% of the underlying price.

3.2.1.2. It has further been decided to stipulate Price Scan Range (PSR) for computation of initial margins across index options as SIX standard deviations (6σ) or 9.30% of the underlying value, whichever is higher.

3.2.1.3. It has been decided that Exchanges/ Clearing Corporations shall estimate the appropriate MPOR, subject to a minimum of 2 days, for each equity derivative product based on liquidity therein and scale up the initial margins. For initial margins, the revised MPOR shall be given effect by way of scaling up the PSR used for computing the Worst Scenario Loss.

There is also a minimum margin requirement. There shall be no separate short option minimum charge

The Initial Margin requirement shall be netted at level of individual client and it shall be on gross basis at the level of Trading/Clearing Member. The Initial margin requirement for the proprietary position of Trading/Clearing member shall also be on net basis.

3.2.1.3.1. Portfolio Based Margining

A portfolio based margining approach shall be adopted which will take an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in index futures and index options contracts. The parameters for such a model should include

is k S e e n a n e N u m b e r	P r i e M e v e i n M u l t i p l i c a t i o n	V e l a t i v e M o v e i n M u l t i p l i c a t i o n V e l o c i t y R e s o l u t i o n	Fra ctio n-of Lo ss to be Co nsi der ed
---	--	--	--

1	0	+	10 0%
2	0	+	10 0%
3	+	+	10 0%
4	+	+	10 0%
5	+	+	10 0%
6	+	+	10 0%
7	+	+	10 0%
8	+	+	10 0%
9	+	+	10 0%
10	+	+	10 0%
11	+	+	10 0%
12	+	+	10 0%

1	1	1	10 0%
2	1	1	10 0%
3	1	1	10 0%
4	1	1	10 0%
5	2	0	35 %
6	2	0	35 %

3.2.1.4.2. The price range is defined to be six standard deviations as calculated for VaR purposes in the index futures market for the near month contract. The VSR for is derived as the maximum of a) 25% of annualized EWMA Volatility and b) Minimum VSR of 4%.

3.2.1.4.3. While computing the worst scenario loss, it shall be assumed that the prices of futures of all maturities on the same underlying index move up or down by the same amount.

3.2.1.4.4. For the purpose of the calculation of option values, the exchanges may use any of the following standard Option Pricing Models — Black-Scholes, Binomial, Merton, Adesi-Whaley.

3.2.1.4.5. The maximum loss under any of the scenario (considering only 35% of the loss in case of scenarios 15 and 16 in the table above) is referred to in this circular as the Worst Scenario Loss. Subject to the additions and adjustments mentioned below, the Worst Scenario Loss is the margin requirement for the portfolio.

3.2.1.5. Real Time Computation

The computation of Worst Scenario Loss has two components. The first is the valuation of each option contract under sixteen scenarios using an appropriate option pricing model. The second is the application of these Scenario Contract Values to the actual positions in a portfolio to compute the portfolio values and the Worst Scenario Loss. For computational ease, exchanges are permitted to update

the Scenario Contract Values only at discrete time points each day. However, the latest available Scenario Contract Values would be applied to member/client portfolios on a real time basis.

3.2.1.6. Calendar Spread

The margin for calendar spread would be the same as specified for the index futures contracts. However, the margin shall be calculated on the basis of delta of the portfolio in each month. Thus, a portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of -100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month futures and short 100 far month futures. The Calendar Spread Margin would be charged in addition to the Worst Scenario Loss of the portfolio.

3.2.1.7. Net Option Value

The Net Option Value shall be calculated as the current market value of the option times the number of options (positive for long options and negative for short options) in the portfolio. This Net Option Value shall be added to the Liquid Net Worth of the clearing member. This means that the current market value of short options will be deducted from the Liquid Net Worth and the market value of long options will be added thereto. Thus, market to market gains and losses on option positions will get adjusted against the available Liquid Net Worth. Since the options are premium style, mark to market gains and losses will not be settled in cash for option positions.

3.2.1.8. Cash Settlement of Premium

For option positions, the premium shall be paid in by the buyers in cash and paid out to the sellers in cash on T+1 day.

3.2.1.9. Unpaid Premium

Until the buyer pays in the premium, the premium due shall be deducted from the available Liquid Net Worth on a real time basis.

3.2.1.9.1. Extreme Loss Margin

- 3.2.1.10. Same as that for index future contracts as specified in Section 1.2.6. The notional value is to be computed using the last available closing price of the underlying for the options contracts.
- 3.2.1.11. However, in case of index options contracts that are deep out of the money (i.e. strikes out of the money by more than 10% from the previous day closing underlying price) the applicable Extreme Loss Margin will be 3%.
- 3.2.1.12. In case of index option contracts with residual maturity of more than 9 months, the applicable Extreme Loss Margin will be 5%.
- 3.2.1.12.1. Increase in tail risk coverage on the day of options expiry.
- 3.2.1.13. ELM is levied with the view to cover tail risk outside the scanning risk. On the day of options contracts expiry, given the heightened speculative activity around options positions and the attendant risks, it has been decided to increase the tail risk coverage by levying an additional ELM of 2% for short options contracts.
- 3.2.1.14. This would be applicable for all open short options at the start of the day, as well on short options contracts initiated during the day that are due for expiry on that day. For instance, if weekly expiry on an index contract is on 7th of the month and other weekly/monthly expiries on the index are on 14th, 21st and 28th then, for all the options contracts expiring on 7th, there would be an additional ELM of 2% on 7th.
- 3.2.1.15. This measure shall be effective from November 20, 2024.
- 3.2.1.15.1. Margin on consolidated crystallized obligation
- Same as that for index future contracts as specified in clause 1.2.7.
- 3.2.1.15.2. Real Time Computation
- Same as that for index future contracts as specified in Section 0.
- 3.2.1.15.3. Margin Collection and Enforcement
- Same as that for index future contracts as specified in Section 1.2.11.
- 3.2.1.15.4. Liquid Net Worth and Exposure Limits of a Clearing Member:
- 3.2.1.16. Same as that for index future contracts as specified in Section 1.2.1.



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3.2.1.17. Further it is clarified that for the equity derivatives segment, the liquid net worth shall be arrived at by deducting initial margin and the exposure margin/extreme loss margin from the liquid assets of the clearing member.

3.2.1.17.1. Liquid Assets:

Same as that for index future contracts as specified in clause 1.2.2.

3.2.1.17.2. Bank Guarantees:

Same as that for index future contracts as specified in clause 1.2.3.

3.2.1.17.3. Securities

Same as that for index future contracts as specified in clause 1.2.4.

3.2.1.17.4. Reporting and Disclosure:

Same as that for index future contracts as specified in clause 1.2.14.

3.3. Surveillance and Disclosures

3.3.1.1.1. Unique client code

Same as that for index future contracts as specified in clause 1.3.1.

3.3.1.1.2. Position Limits

3.3.1.2. Market Level

There are no market wide position limits specified for index option contracts.

3.3.1.3. Customer Level/ NRI/

Same as that for index future contracts as specified in clause 1.3.2

3.3.1.4. Trading Member/FPI/Mutual Fund

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Same as that for index future contracts as specified in clause 1.3.2.
This limit would be applicable on open positions in all option contracts on a particular underlying index.

3.3.1.5. Position limits available to FPIs for stock index derivative contracts

Same as that for index future contracts as specified in clauses 1.3.2.

3.3.1.5.1. Monitoring of Position Limits

3.3.1.6. NRI

Same as that for index future contracts as specified in clause 1.3.3.1

FPI

3.3.1.7. Same as that for index future contracts as specified in clause 1.3.3.2

3.3.1.8. Mutual Funds

Same as that for index future contracts as specified in clause 1.3.3.3

3.3.1.9. Intra-day monitoring of position limits

Same as that for index future contracts as specified in clause 1.3.4.

3.3.1.10. Methodology for monitoring of position limits

Same as that for index future contracts as specified in clause 1.3.5.

3.3.1.10.1. Surveillance System

Same as that of index future contracts as specified in clause 1.3.6.

Commented [A37]: Tabulated and inserted in Para - Surveillance

4. STOCK FUTURES

4.1. Product Design

4.1.1.1. Underlying

The stocks listed on exchanges which conform to the eligibility criteria are permitted.

4.1.1.1.2. Eligibility Criteria

A stock on which stock option and single stock future contracts are proposed to be introduced shall conform to the following eligibility criteria:

Table 1

	Crit eria			
	Ave rag e Dail y Mar ket Ca pita lizat ion and		A m e n g e p 5 0	

Rational Effort Change

[illegible]

Rational Effort for Change

Rational reference change hefigured during the last five

Rationality for change, MQSO Scribe with a need

Rationales for change to the increase between 3-4 time

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Rational expectations

	Crit eria			
	The ste ek's Ave rag e dail y deli ver y val ue (AD DV) in the cas h mar ket, in the			

Rationales for change has increased by over 3 times

[illegible]

Rational expectations

Rationality for change executives

Rational expectations

[illegible]



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- 4.1.1.3. The above criteria are to be met for a continuous period of six months, on a rolling basis, based on the data of previous 6 months.
- 4.1.1.4. In case circuit filter on a stock is reduced even once during the past six months, on account of surveillance action, then that stock should undergo a cooling off period of six months before the exchange decides to introduce derivatives on it.
- 4.1.1.5. The Exchange shall be guided by the following for the purpose of calculating quarter sigma order size in a stock:
- 4.1.1.5.1. Quarter sigma order size shall be calculated by taking four snapshots in a day from the order book of the stock in the past six months. These four snapshots shall be randomly chosen from within four fixed ten minutes windows spread through the day.
- 4.1.1.5.2. The sigma (standard deviation) or volatility estimate shall be the daily closing volatility estimate which is also used for day end initial margin calculation in derivative contracts on a stock. For stocks on which derivative contracts are not traded, the daily closing volatility estimate shall be computed in the manner specified by Prof. J. R. Varma Committee on risk containment measures for Index Futures as stated at para 1.2.5.8 above. The daily closing volatility estimate value shall be applied to the day's order book snapshots to compute quarter sigma order size.
- 4.1.1.5.3. The quarter sigma percentage shall be applied to the average of the best bid and offer price in the order book snapshot to compute the order size to move price of the stock by quarter sigma.
- 4.1.1.5.4. The median order size to cause quarter sigma price movement shall be determined separately for the buy side and the sell side. The average of the median order size for the buy and the sell side shall be taken as the median quarter sigma order size.
- 4.1.1.6. The details of calculation methodology and relevant data shall be made available to the public at large on the website of the exchange.
- 4.1.1.7. The quarter sigma order size in a stock shall be calculated on the 15th of each month, on a rolling basis, considering the order book snapshots in the previous six months. Similarly, the average daily market capitalization, average daily traded value and the average daily delivery value shall also be computed on the 15th of each month, on a rolling basis, to arrive at the list of top 500 stocks.
- 4.1.1.8. Stocks which meet the eligibility criteria in the underlying cash market of any stock exchange would be permitted to trade in equity derivatives segment of all stock exchanges. The stock exchanges

shall settle the derivative contracts at a price calculated by the clearing corporations based on volume weighted average price (VWAP) from the cash segment across all exchanges.

4.1.1.9. In addition, other aspects, such as, any surveillance concerns, ongoing investigations, or other administrative considerations shall be taken into account by SEBI, while considering a stock for introduction into derivatives segment.

4.1.1.10. The number of eligible stocks may vary from month to month depending upon the changes in quarter sigma order sizes, average daily market capitalization, average daily traded value and average daily delivery value calculated every month on a rolling basis for the past six months.

4.1.1.10.1. Exit criteria based on performance of the underlying

4.1.1.11. If a stock in derivatives segment fails to meet any of the above criteria, as mentioned at Table-1 above, for a continuous period of three months, on a rolling basis, based on the data for previous six months, then it shall exit from derivatives segment. No new contract shall be issued on stocks that may exit the derivatives segment. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contract months.

4.1.1.12. The abovementioned criteria for exit shall apply to only those stocks which have completed at least 6 months from the date of introduction. After the said gestation period, the stocks failing to meet the eligibility criteria as stated at Table-1 above, shall exit from derivatives segment in the upcoming review cycle.

4.1.1.13. Additionally, for existing stocks in the derivatives segment, there would be a gestation period of 3 months before applicability of the said exit criteria. At the end of the gestation period, stocks not meeting the eligibility criteria, as stated at Table-1 above, shall exit the derivatives segment in the upcoming review cycle.

4.1.1.14. A stock will exit from derivatives segment if it fails in meeting eligibility criteria across all exchanges based on performance in the underlying cash market. If a stock is meeting the eligibility criteria on any exchange, it will continue to be eligible for derivatives segment on all exchanges.

4.1.1.15. Once a stock is excluded from the derivatives segment, it shall not be considered for re-inclusion for a period of one year from its last trading day in the derivatives segment.

- 4.1.1.15.1. Exit norms based on introduction of a Product Success Framework (PSF) for stock derivatives
- 4.1.1.16. On similar lines as the extant PSF for index derivatives, it has been decided to introduce additional exit criteria for stocks from the derivatives segment, by introducing PSF for single stock derivatives also. The criteria for the said PSF framework is as follows:
- 4.1.1.16.1. At least 15% of trading members active in all stock derivatives (trading member who has traded during the month) or 200 trading members, whichever is lower, shall have traded in any derivative contract on the stock being reviewed on an average on monthly basis during the review period;
- 4.1.1.16.2. Trading on a minimum of 75% of the trading days during the review period;
- 4.1.1.16.3. Average daily turnover (futures + options premium) of at least INR 75 crores during the review period; and
- 4.1.1.16.4. Average daily notional open interest (futures + options notional) of at least INR 500 crores during the review period.
- 4.1.1.17. Each of the above criteria shall be satisfied for continuation of the derivatives on the given stock. If any stock fails to satisfy any of the above mentioned criteria for a continuous period of three months, on a rolling basis, based on the data for previous six months, then no fresh contracts shall be issued on that stock. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contracts.
- 4.1.1.18. Further, only those stock derivatives which have completed at least 6 months from the date of introduction shall be considered for review in the upcoming review cycle. After the said gestation period, the stocks failing to meet the eligibility criteria as stated at para 3.1.4.1. above, for three subsequent months, shall exit from derivatives segment.
- 4.1.1.19. For existing stocks, the PSF shall apply after six months from the date of implementation of this circular. At the end of the gestation period, stocks not meeting the PSF criteria as stated at para 3.1.4.1. above, shall exit the derivatives segment in the upcoming review cycle.

- 4.1.1.20. Once a stock is excluded from the derivatives segment due to PSF, it shall not be considered for re-inclusion for a period of one year from its last trading day in the derivatives segment.
- 4.1.1.21. The PSF review cycle shall be aligned with the review of entry and exit norms based on performance in underlying cash market i.e. all the above criteria for PSF shall be calculated on the 15th of each month, on a rolling basis, considering the data for previous six months.
- 4.1.1.22. A stock will exit from derivatives segment if it fails to meet the PSF criteria on all the exchanges. If a stock is meeting the PSF criteria on any exchange, it will continue to be eligible for derivatives segment on all exchanges.
- 4.1.1.23. Illustrations on exit timelines of stocks under various scenarios are placed below:

Exit norm based on performance of the underlying

Table 2

Existing stock as on date	Gestation period	Exit timeline
September 15, 2024	3 months for applicability of exit criteria, aligned with the review cycle	Review conducted on December XX, 2024 (based on past 6 months rolling data for the period ending 15-Oct-2024, 15-Nov-2024 and 15-

		Dec-2024)
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Table-3

New stock introduced on	Gestation period	Exit timeline
September 02, 2024	6 months for applicability of exit criteria from date of introduction and aligned with the review cycle	Review conducted on March XX, 2025 (based on past 6 months rolling data for the period ending 15-Jan-2025, 15-Feb-2025 and 15-Mar-2025)
September 30, 2024	6 months for applicability of exit criteria from date of introduction and aligned with the review cycle	Review conducted on April XX-2025 (based on past 6 months rolling data for the period ending 15-Feb-2025, 15-Mar-2025)

		and 15-Apr-2025)
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Exit norm based on Product Success Framework

Table-4

Existing stock as on date	Gestation period	Exit timeline
September 15, 2024	6 months for applicability of the criteria from date of implementation of circular and aligned with the review cycle	Review conducted on March XX, 2025 (based on past 6 months rolling data for the period ending 15-Jan-2025, 15-Feb-2025 and 15-Mar-2025)

Table-5

New stock introduced on	Gestation period	Exit timeline
September 02, 2024	6 months for conducting a review from date of introduction	Review conducted on May XX 2025 (past 6 months

	and aligned with the review cycle	rolling data for the period ending 15-Mar-2025, 15-Apr-2025 and 15-May-2025)
September 30, 2024	6 months for conducting a review from date of introduction and aligned with the review cycle	Review conducted on Jun-XX-2025 (past 6 months rolling data for the period ending 15-Apr-2025, 15-May-2025 and 15-Jun-2025)

4.1.1.24. A stock which is dropped from derivatives trading may become eligible once again. Derivative contracts on such stocks may be re-introduced by the exchange subject to SEBI approval.

4.1.1.25. The Exchange may compulsorily close out all derivative contract positions in a particular underlying when that underlying has ceased to satisfy the eligibility criteria or the exchange is of the view that the continuance of derivative contracts on such underlying is detrimental to the interest of the market keeping in view the market integrity and safety. The decision of such forced closure of derivative contracts shall be taken in consultation with other exchanges where such derivative contracts are also traded and shall be applied uniformly across all exchanges.

4.1.1.25.1. Trading Hours

Same as that for index future contracts as specified in clause 1.1.3.

4.1.1.25.2. Size of the Contract

It is specified that a derivative contract shall have a value of not less than Rs. 5 Lakhs at the time of its introduction in the market. The lot size for stock derivatives contracts shall be fixed in such a manner that the contract value of the derivative on the day of review is within Rs. 5 lakhs and Rs. 10 lakhs. Further the lot size (in units of underlying) shall be fixed as a multiple of 25, provided the lot size is not less than 50. However, if the contract value of the stock derivatives at the minimum lot size of 50 is greater than Rs. 10 lakhs, then lot size shall be fixed as a multiple of 5, provided the lot size is not less than 10. In case the contract value exceeds Rs.10 lakhs with minimum lot size as 10, Exchange shall fix the lot size as 5 in order to have the contract value between Rs. 5 lakhs to Rs. 10 Lakhs.

The Stock Exchanges shall review the lot size once in every 6 months based on the average of the closing price of the underlying for last one month and wherever warranted, revise the lot size by giving an advance notice of at least 2 weeks to the market. If the revised lot size is higher than the existing one, it will be effective for only new contracts. In case of corporate action, the revision in lot size of existing contracts shall be carried out as given in para 14.6.

The Stock Exchanges shall ensure that the lot size is same for an underlying traded across Exchanges.

4.1.1.28.1. Quotation

Same as that for index future contracts as specified in clause 1.1.5.

4.1.1.28.2. Tenor of the contract

Same as that for index future contracts as specified in clause 1.1.6.

4.1.1.28.3. Available Contracts

Single Stock Futures contract shall have maturity of three months and three contracts of maturity of one month, two month and three

month would be introduced simultaneously. Therefore, at any point in time at least three Single Stock Futures contracts on a particular underlying would be available for trading.

4.1.1.28.4. Settlement Mechanism

4.1.1.28.5. Settlement Price

Same as that for index future contracts as specified in clause 1.1.9.

4.1.1.28.6. Final Settlement Day

Same as that for index future contracts as specified in clause 1.1.10.

4.1.1.28.7. Application

The Derivative Exchange/Segment shall submit their proposal for approval of the Single Stock Futures Contracts to SEBI which shall include:

4.1.1.29. the details of proposed derivative contract to be traded on the exchange which would include:

4.1.1.29.1. Symbol

4.1.1.29.2. Underlying

4.1.1.29.3. Multiplier

4.1.1.29.4. Last Trading Day

4.1.1.29.5. Margins

4.1.1.29.6. Methodology for calculating closing price for mark to market settlement.

4.1.1.29.7. Methodology for calculating closing price at time of expiry

4.1.1.29.8. Trading Hours

4.1.1.30. the economic purpose it is intended to serve,

4.1.1.31. likely contribution to market development,

4.1.1.32. the safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading,

4.1.1.33. the infrastructure of the exchange and the surveillance system to effectively monitor trading in Single Stock Futures contracts,

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4.1.1.34. details of settlement procedures & systems with regard to Single Stock Futures.

4.2. Risk Management

4.2.1.1.1. Initial margin or worst scenario loss

4.2.1.2. The Initial Margin requirements are based on worst scenario loss of a portfolio of an individual client to cover 99% VaR over a one day horizon across various scenarios of price changes and volatility shifts.

4.2.1.3. In the case of Single Stock Futures, the initial margin would be computed as the worst scenario loss of a portfolio comprising of all the positions of a client in all the futures and options contracts. For Single Stock Futures, the price scan range would be six standard deviation (6 sigma) scaled up by $\sqrt{2}$ subject to at least 14.2% of the underlying price after considering scaling up. The price scan range thus arrived at will be further scaled up by $\sqrt{3}$, if the impact cost of the security (as used for categorization of securities for margining in Cash Market) is greater than 1%.

4.2.1.4. It has been decided that Exchanges/ Clearing Corporations shall estimate the appropriate MPOR, subject to a minimum of 2 days, for each equity derivative product based on liquidity therein and scale up the initial margins. For initial margins, the revised MPOR shall be given effect by way of scaling up the Price Scan Range (PSR) used for computing the Worst Scenario Loss.

4.2.1.5. The standard deviation would be calculated as per the methodology specified in the index futures.

4.2.1.6. The Initial Margin requirement shall continue to be netted at level of individual client and shall be calculated on a gross basis at the level of Trading/Clearing Member. The Initial margin requirement for the proprietary position of Trading/Clearing member shall be calculated on a net basis.

4.2.1.6.1. Calendar spread

4.2.1.7. The margin on calendar spread is calculated on the basis of delta of the portfolio consisting of futures and option contract in each month. Thus, a portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of -100 would bear a spread

charge equal to the spread charge for a portfolio which is long 100 near month futures and short 100 far month futures. The Calendar Spread Margin is charged in addition to the Worst Scenario Loss of the portfolio.

4.2.1.8. The margin on calendar spreads shall be at a flat rate of 2.2% of the far month contract.

4.2.1.8.1. Extreme Loss Margin

The Extreme Loss Margin rates for Single Stock Derivatives shall be 3.5% of the notional value. In case of calendar spread positions in futures contracts, extreme loss margin shall be levied on one third of the value of the open position of the far month futures contract.

4.2.1.8.2. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in Section 1.2.7.

4.2.1.8.3. Real Time Computation

4.2.1.9. The computation of Worst Scenario Loss has two components. The first is the valuation of the portfolio under sixteen scenarios. At the second stage, these Scenario Contract Values are applied to the actual portfolio positions to compute the portfolio values and the initial margin (Worst Scenario Loss). For computational ease, exchanges are permitted to update the Scenario Contract Values only at discrete time points each day and the latest available Scenario Contract Values would be applied to member/client portfolios on a real time basis.

4.2.1.10. However, in order to ensure that the most recent scenario are applied for computation of the portfolio values and the initial margin, the scenario contract values shall be updated at least 5 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m., and at the end of the trading session. For the purpose of computing worst scenario loss on a portfolio, the price scan range for stock option and single stock future contracts shall be linked to liquidity, measured in terms of impact cost for an order size of Rs. 5 Lakh, calculated on the basis of order book snapshots in the previous six months. Accordingly, if the mean value of impact cost exceeds

1%, the price scanning range would be scaled up by square root of three. This would be in addition to the requirement of scaling up for the look-ahead period i.e. the time in which mark to market margin is collected. The guidance for computation of impact cost for an order size of Rs. 5 Lakhs is as under:

- 4.2.1.11. Impact cost shall be calculated by taking four snapshots in a day from the order book in the past six months. These four snapshots shall be randomly chosen from within four fixed ten-minutes windows spread through the day.
- 4.2.1.12. The impact cost shall be the percentage price movement caused by an order size of Rs.5 Lakh from the average of the best bid and offer price in the order book snapshot. The impact cost shall be calculated for both, the buy and the sell side in each order book snapshot.
- 4.2.1.13. The mean of the impact cost for both the buy and the sell side in each order book snapshot in the past six months shall be computed to determine the applicable price scan range in the stock. The details of calculation methodology and relevant data shall be made available to the public at large through the website of the Exchanges.
- 4.2.1.14. The mean impact cost shall be calculated at 15th of each month on a rolling basis considering the order book snapshots of the previous six months. If the mean impact cost or a stock moves from less than or equal to 1% to more than 1%, the price scan range in such stock should be scaled up by square root of three and the scaling should be dropped when the impact cost drops to 1% or less. Such changes will be applicable on all existing open position within three days from the 15th of each month.

4.2.1.14.1. Additional margin for highly volatile stocks

- 4.2.1.15. For securities with Intra-day (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) price movement of more than 10% in the underlying market for 3 or more days in last one month, the minimum total margins (SPAN margins, Extreme Loss Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in underlying market in last one month. The same shall be continued till expiry date of derivative contracts which falls after completion of three months from date of levy.
- 4.2.1.16. For securities with Intra-day (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) price movement of more than 10% in the underlying market for 10 or more days in last six months; the

minimum total margins (SPAN margins, Extreme Loss Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in underlying market in last six months. The same shall be continued till expiry date of derivative contracts which falls after completion of one year from date of levy.

4.2.1.16.1. Cross Margining

Same as that for index future contracts as specified in clause 1.2.9.

4.2.1.16.2. Margin Collection and Enforcement

4.2.1.17. Same as that for index future contracts as specified in clause 1.2.11.

4.2.1.18. It is clarified that for stocks which have a mean value of impact cost greater than 1%, in addition to the price scanning range, the minimum initial margin for single stock futures contracts shall also be scaled up by square root of three. In the absence of trading in the last half an hour the theoretical price would be taken for the collection of MTM margin. The Derivative Exchanges/Segment shall define the methodology of calculating the 'theoretical price' at the time of making an application for approval of the stock futures contract to SEBI and methodology for calculating the 'theoretical price' would also be disclosed to the market. In addition, the exchange shall also specify the methodology for arriving at the closing price at the time of expiry.

4.2.1.18.1. Liquid Net Worth of a Clearing Member

4.2.1.19. Same as that for index future contracts as specified in clause 1.2.1.

4.2.1.20. For the equity derivatives segment, the liquid net worth shall be arrived at by deducting initial margin and the exposure margin/extreme loss margin from the liquid assets of the clearing member.

4.2.1.20.1. Liquid Assets:

Same as that for index future contracts as specified in clause 1.2.2.

4.2.1.20.2. Bank Guarantees:

Same as that for index future contracts as specified in clause 1.2.3.

4.2.1.20.3. Securities

Same as that for index future contracts as specified in clause 1.2.4.

4.2.1.20.4. Reporting and Disclosure

Same as that for index future contracts as specified in clause 1.2.14.

4.3. Surveillance and Disclosures

4.3.1.1.1. Unique client code

Same as that for index future contracts as specified in clause 1.3.1.

4.3.1.1.2. Position Limits

4.3.1.2. Market Level

4.3.1.2.1. The market wide position limit for single stock futures and stock option contracts shall be linked to the free float market capitalization and shall be equal to 20% of the number of shares held by non-promoters in the relevant underlying security (i.e., free float holding). This limit would be applicable on aggregate open positions in all futures and all option contracts on a particular underlying stock.

4.3.1.2.2. The Exchange is advised to enforce the market wide limits through administrative measures, in the manner detailed below:

4.3.1.2.2.1. At the end of each day the Exchange shall test whether the market wide open interest for any scrip exceeds 95% of the market wide position limit for that scrip. If so, the Exchange shall take note of open position of all client/TMs as at the end of that day in that scrip, and from next day onwards the members/client shall trade only to decrease their positions through offsetting positions. While the Exchange will take this action only at end of day, they shall disclose real time information about the market wide open interest as a percentage of the market wide position limits.

4.3.1.2.2.2. At the end of each day during which the ban on fresh positions is in force for any scrip, the Exchange shall test whether any member or client has increased his existing positions or has created a new position in that scrip. If so, that client shall be subject to a penalty

Commented [A39]: Segregation of CC related provisions as per S.no 2.14 of the consultation paper.

Commented [A40]: Tabulated in surveillance and position in equity derivatives.

equal to a specified percentage (or basis points) of the increase in the position (in terms of notional value). The penalty shall be recovered before trading begins next day. The Exchange shall specify the percentage or basis points, which shall be set high enough to deter violations of the ban on increasing positions.

4.3.1.2.2.3. The normal trading in the scrip shall be resumed after the open outstanding position comes down to 80% or below of the market wide position limit.

4.3.1.2.3. With a view to operationalize implementation of monitoring of Market Wide Position Limits across Exchanges, the following procedure shall be followed:

At the latest on the Trading Day	Activity
6.30 PM	Each Exchange to disseminate on web the following for every security: a. ISIN of the security, b. Name and symbol of the security, c. MWPL (in terms of no. of shares) of the security, and d. Open Interest (in terms of no. of shares) of the security.
7.00 PM	Each Exchange to disseminate on web the following for every security, after aggregating across Exchanges: a. ISIN of the security,

	b. Name and symbol of the security, c. MWPL (in terms of no. of shares) of the security, d. Open Interest (in terms of no. of shares) of the security, and e. Permissible limits for next day in terms of SEBI Circular SEBI/DNPD/Cir-26/2004/07/16 dated July 16, 2004. Refer section 3.3.2 above.
7.15 PM	Each Exchange to report any discrepancy in the above data to other Exchanges and after correction, disseminate the final data on the web.

2.7. Participants in Commodity Derivatives Markets

2.7.1. Category III Alternative Investment Funds (AIFs)⁴¹

- i. Category III AIFs may participate in all commodity derivatives products that are being traded on the commodity derivatives exchanges as 'clients' and such participation shall be in compliance with all the rules.

⁴¹ Circular no SEBI/HO/CDMRD/DMP/CIR/P/2017/61 dated June 21, 2017

regulations including the SEBI (AIF) Regulations, relevant sections of Master Circular for AIFs etc.

- ii. AIF shall also comply with guidelines issued by the RBI under Foreign Exchange Management Act, 1999 from time to time.
- iii. Category III AIFs shall invest not more than ten percent of the investable funds in one underlying commodity.
- iv. Category III AIFs may engage in leverage or borrow subject to consent from the investors in the fund and subject to a maximum limit, as specified by SEBI from time to time.
- v. Category III AIFs shall make disclosure in private placement memorandum issued to the investors about investment in commodity derivatives. Consent of existing investor(s) shall be taken by AIFs if they intend to invest in commodity derivatives and exit opportunity should be provided to dissenting investor(s).

2.7.2. Foreign Portfolio Investors (FPIs) ⁴²

2.7.2.1. Foreign investors are allowed to participate in Indian Exchange Traded Commodity Derivatives ("ETCDs") through the FPI route, subject to conditions prescribed by SEBI.

- i. FPIs will be allowed to participate in cash settled non-agricultural commodity derivative contracts and indices comprising such non-agricultural commodities.
- ii. FPIs desirous of participating in ETCDs shall be subject to risk management measures applicable, from time to time.
- iii. Exchanges may specify additional safeguards/conditions, as deemed fit, to manage risk and ensure orderly trading in ETCDs.

2.7.3. Portfolio Management Services

⁴² Circular No. SEBI/HO/MRD/MRD-RAC-1/P/CIR/2022/131 dated September 29, 2022



2.7.3.1. Portfolio Managers may participate in ETCDs on behalf of their clients and such participation shall be in compliance with all the rules, regulations including the SEBI (Portfolio Managers) Regulations, and circulars/guidelines and position limit norms as may be applicable to 'clients', issued by SEBI and SEs from time to time.

2.7.4. Mutual Funds

2.7.4.1. Mutual Funds are permitted to participate in ETCDs except in commodity derivatives on 'Sensitive Commodities' and such participation shall be in compliance with all the rules, regulations including SEBI (Mutual Funds) Regulations, relevant sections of Master circular for Mutual Funds etc.

2.8. Product Design in Commodity Derivatives

S.NO / CATEGORY	OPTION IN GOODS ⁴³	OPTION ON COMMODITY FUTURES ⁴⁴
<u>2.8.1 Underlying</u>	2.8.1.1. Goods as notified vide number S.O.1002(E) dated March 01, 2024, under clause (bc) of section 2 of the Securities Contracts (Regulation) Act, 1956. ⁴⁵	2.8.1.2. Commodity futures contract (of a specified month) traded on the corresponding SE.
<u>2.8.2. Eligibility Criteria for Underlying</u>	2.8.2.1. Only those goods shall be eligible as underlying for these options, on which the exchange either is already trading the futures contracts or is proposing to launch the futures contracts on or before the day of launching option in those goods. These option contracts shall have same quality specifications, delivery centres, Final Settlement Price methodology etc. as in the case of corresponding futures contracts.	2.8.2.2. Options would be permitted for trading on a SE only on those commodity futures as underlying, which are traded on its platform and satisfy the criteria specified below on the respective exchange: (i). The average daily turnover of underlying futures contracts of the corresponding commodity during the previous twelve months, shall be at least: a) INR 100 crore for agricultural and agri-processed commodities⁴⁶ b) INR 1000 crore for non-agricultural commodities 2.8.2.3. These provisions shall be applicable for all Options on Futures contracts (agricultural and agri-processed commodities) introduced on or after June 1, 2024 wherein average daily turnover of underlying futures contracts during the previous twelve months is Rs.100 crores.

Commented [A41]: Incorporation of new provision(Mar 05, 2024 circular) as per S.No 2.20 of the consultation paper.

Commented [A42]: Incorporation of new provisions (May 27,2024 circular) as per S.No 2.20 of consultation paper.

⁴³ Circular no SEBI/HO/CDMRD/DMP/CIR/P/2020/05 dated January 16, 2020

⁴⁴ Circular no SEBI/HO.CDMRD/DMP/CIR/P/2017/55 dated June 13, 2017

⁴⁵ Circular No. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/13 dated March 05, 2024

⁴⁶ Circular No. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/61dated May 27, 2024

<u>S.NO / CATEGORY</u>	<u>OPTION IN GOODS⁴³</u>	<u>OPTION ON COMMODITY FUTURES⁴⁴</u>
<u>2.8.3.Settlement Method</u>	2.8.3.1. On exercise, option contract shall be settled through delivery of goods.	2.8.3.2. On exercise, option position shall devolve into underlying futures position as follows: - i. long call position shall devolve into long position in the underlying futures contract ii. long put position shall devolve into short position in the underlying futures contract iii. short call position shall devolve into short position in the underlying futures contract iv. short put position shall devolve into long position in the underlying futures contract All such devolved futures positions shall be opened at the strike price of the exercised options.
<u>2.8.4. Exercise Style</u>	2.8.4.1. All exercise style are permitted.	2.8.4.2. European Style options are permitted
<u>2.8.5.Minimum Strikes</u>	2.8.5.1. Each option expiry shall have minimum three strikes available viz., one each for In the Money ("ITM"), Out of the Money ("OTM") and At the Money ("ATM").	
<u>2.8.6. Exercise Mechanism</u>	2.8.6.1. On expiry, following mechanism shall be adopted by stock exchanges for exercise of the options contracts: i. Option series having strike price closest to the price of the underlying shall be termed as At the Money (ATM) option series. This ATM option series and three option series having strike prices immediately above this ATM strike and three option series having strike prices immediately below this ATM strike shall be referred as 'Close to the money' ("CTM") option series. In case the price of the underlying is exactly midway between two strike prices, then immediate three option	2.8.6.2. On expiry, following mechanism shall be adopted by Stock Exchanges for exercise of the options contracts ⁴⁷ : i. All In the money (ITM) option contracts shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so. ii. All Out of the money (OTM) option contracts shall expire worthless. iii. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.

⁴⁷ Circular No. SEBI/HO/CDMRD/DNP/CIR/P/2022/01 dated January 03, 2022.

S.NO / CATEGORY	OPTION IN GOODS ⁴³	OPTION ON COMMODITY FUTURES ⁴⁴
	series having strike prices just above the price of the underlying and immediate three option series having strike prices just below the price of the underlying shall be referred as 'Close to the money' (CTM) option series. ii. All option contracts belonging to 'CTM' option series shall be exercised only on 'explicit instruction' for exercise by the long position holders of such contracts. iii. All In the money (ITM) option contracts, except those belonging to 'CTM' option series, shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so. iv. All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series, shall expire worthless. v. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.	
2.8.7. Expiry Day	2.8.7.1. Exchanges shall have flexibility to decide upon expiry day of option contracts. In case of Options in futures, Exchange shall decide expiry day based upon period of high liquidity of underlying futures contract and shall be part of option contract specifications. In case of Options in futures, shall decide expiry day	
2.8.8. Minimum Tenor	2.8.8.1. Minimum tenor of such option contracts shall be same as those of corresponding futures contracts.	
2.8.9. Position Limits	2.8.9.1. Position limits for options shall follow the norms as provided in Para 2.5.4. 2.8.9.2. The computation of position limits for 'option in goods' shall be clubbed with position limits of 'options on commodity futures' on the same underlying goods but shall remain separate from position limits of futures contracts on the same underlying. Numerical value for client level/member level limits shall be	2.8.9.3. Position limits for options shall follow the same norms as provided for futures. 2.8.9.4. Position limits of options would be separate from position limits of futures contracts and numerical value for client level/member level limits shall be twice of corresponding numbers applicable for futures contracts.

Commented [A43]: Standardization and Simplification of norms as per S.No 2.1 of consultation paper.

S.NO / CATEGORY	OPTION IN GOODS ⁴³	OPTION ON COMMODITY FUTURES ⁴⁴
	<u>twice of the corresponding numbers applicable for futures contracts.</u>	<u>2.8.9.5. Due to separate position limits for options, there is a possibility that post exercise of options i.e. after devolvement of options into corresponding futures positions open positions for clients/members may exceed their permissible position limits for future contracts. For such clients/members stock exchanges may permit maximum up to two trading days post option expiry day to reduce their futures positions to bring them within the permissible position limits.</u>

2.9. Commodity Indices⁴⁸

2.9.1. Types of Indices: Composite (i.e., comprising of commodities from more than one sector) as well as sectoral indices, meeting the eligibility criteria specified herein are permitted. For being eligible to launch derivatives upon, SEs shall ensure that indices are compliant with IOSCO Principles for Financial Benchmarks and make necessary disclosures in this regard on their websites. Further, SEs shall also ensure that an index is not susceptible to manipulation and shall make mandatory disclosure with respect to the Index design parameters on their website.

2.9.2. Name: The name of index should include the name of the stock exchange on which the constituents of index are traded.

2.9.3. Re-balancing

- i. The index constituents and their weightages shall be at least annually selected and rebalanced. Exchanges shall decide and announce/disclose the constituents and weightages of the index at least three months before the actual re-balancing of the index. Exchanges shall ensure that constituents meet the eligibility criteria as mentioned above while deciding the constituents and weightages for rebalancing.
- ii. However, in case of an extraordinary event such as ban / suspension of trading of an index constituent, following action shall be taken by exchanges-

⁴⁸ Circular no SEBI/HO/CDMRD/DNPMP/CIR/P/2019/71 dated June 18, 2019



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

- a) Reselection of commodities (excluding banned / suspended commodities)
- b) Recalculation of weightage

Exchanges shall ensure that constituents meet the eligibility criteria as mentioned above.

- iii. The index changes shall be implemented only after market hours.

2.9.4. Weights of constituents

- i. Index constituents shall be assigned weightages based on their production value and liquidity value with appropriate weightages pre-

decided by SE for production value and liquidity value (provided that weightage of either shall not be less than 25%). The liquidity value shall be total traded value of the index constituent on the SE platform in the preceding twelve months prior to the construction / announcement of re-balancing of the index. The production value shall be average of the value of deliverable supply of underlying commodity for past five financial years prior to the construction / announcement of re-balancing of the index.

- ii. In order to ensure that no single commodity dominates a composite index, maximum weightage for any index constituent in a composite index shall be capped at 30% and minimum weightage shall be at least 1%. However, these weightage caps shall not be applicable for sectoral indices subject to exchanges ensuring that any single constituent does not get heavily weighted in an index.

- iii. In case of an index having multiple commodity groups, exchanges may put in place maximum and minimum weightages for a commodity group.

2.9.5. Computation and roll over

- i. The index value shall ordinarily be computed using the nearest expiry futures prices of the index constituents so that prices of liquid contracts are used for index construction.

- ii. Exchange shall put in place a transparent methodology (including the dates of roll over, the various constituents which will be rolled over from nearest to next expiry, weights of nearest and next expiry contracts during each of the roll over day for such constituents etc.) for gradual roll over of the index constituents to next expiry taking into account the liquidity in the underlying nearest /next expiry contracts.

2.9.6. **Real time dissemination:** The index value shall be updated on real time continuous basis and shall be displayed on the Exchange website.

2.9.7. **Dissemination of methodology:** Exchange shall ensure a transparent methodology of index construction, calculation, dates and details of roll over, dates and other details of periodic rebalancing, report on compliance with IOSCO principles etc., and disseminate the same on its website.

2.10. Product Design on Commodity Indices

S.No	Futures on Commodity Indices ⁴⁹	Options on Commodity Indices ⁵⁰
2.10.1. Underlying	2.10.1.1 Constituent futures contracts	2.10.1.2. The underlying shall be commodity indices
2.10.2. Eligibility Criteria for Underlying	i. Constituent futures contracts should be in existence on the respective SE for at least previous twelve months. (All constituents shall meet this criterion) ii. The contracts have traded for at least 90% of the trading days during the previous twelve months. (All constituents shall meet this criterion)	

⁴⁹ Circular no SEBI/HO/CDMRD/DNPMP/CIR/P/2019/71 dated June 18, 2019

⁵⁰ Circular No. SEBI/HO/CDMRD/DNP/CIR/P/2022/34 dated March 24, 2022

S.No	Futures on Commodity Indices ⁴⁹		Options on Commodity Indices ⁵⁰
	iii. The average daily turnover of the constituent futures contracts during the previous twelve months is at least: a) INR 75 Crore for agricultural and agri-processed commodities b) INR 500 Crore for all other commodities. (Constituents having at least 80% combined weightage in the index shall meet this criterion and no single constituent not meeting this criterion shall have a weightage of more than 15% in the index) However, the above turnover requirements shall not be applicable for sectoral indices subject to exchanges ensuring that constituent futures have adequate liquidity. Option contracts may be introduced on those indices on which futures contracts are available.		
2.10.3. Size of the Contract	2.10.3.1. At least INR 5 lakh at the time of introduction in the market.		
2.10.4. Tenor of the Contract	2.10.4.1 Maximum tenor of contracts shall be 12 months.		
2.10.5. Available Contracts	2.10.5.1. Exchanges shall decide the number of contracts, duration of contracts and launch calendar based on market requirements.		NA
2.10.6. Position Limits	Client level	2.10.6.1. Higher of 5% of the total open interest in the market in commodity index futures or 1000 lots	2.10.6.3. Higher of: 10% of the total open interest in the market in commodity index options Or 2000 lots
	Trading Member level	2.10.6.2. Higher of 15% of the total open interest in the market in commodity index futures or 10000 lots	2.10.6.4. Higher of: 30% of the total open interest in the market in commodity index options Or 20000 lots The computation of position limits for 'options' shall remain separate from position limits of futures contracts on the same underlying
<u>2.10.7. Settlement Mechanism</u>	<u>2.10.7.1. Final Settlement for futures on commodity index shall be done in cash.</u>		<u>2.10.7.2. On exercise, options contract shall be settled in cash.</u>
<u>2.10.8. Exercise Style</u>	NA		<u>2.10.8.1. European style options.</u>
<u>2.10.9. Minimum Strikes</u>	NA		<u>2.10.9.1. Each option expiry shall have minimum three strikes</u>

S.No	Futures on Commodity Indices ⁴⁹	Options on Commodity Indices ⁵⁰
		available viz., one each for In the Money ("ITM"), Out of the Money ("OTM") and At the Money ("ATM").
2.10.10.Exercise Mechanism	NA	2.10.10.1. On expiry, following mechanism shall be adopted by stock exchanges for exercise of the options contracts: i. All ITM option contracts shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so. ii. All OTM option contracts shall expire worthless. iii. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.
2.10.112. Expiry date	2.10.112.1. Exchanges shall have the flexibility to set the expiry date for contracts. However, the expiry date may not coincide with the roll-over period of the constituents of the underlying index.	

[2.11. Contract approval and modifications in commodity derivatives segment](#)

[2.11.1. Permission for Trading in Futures Contracts](#) ^{51,52}

⁵¹ Circular No. CIR/CDMRD/DRMP/CIR/2016/88 dated September 20, 2016

⁵² Circular No. SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/69 dated May 30, 2024

2.11.1.1. Check-list of information/details to be submitted along with proposal for launch of new contract:

2.11.1.1.1. All derivative contracts approved by SEBI from time to time, are allowed to be traded in respective Stock exchange(s) on a continuous basis without requiring further approval unless SEBI advises/directs otherwise.

2.11.1.1.2. All proposals of exchange for launch of new contract shall be accompanied by complete information covering all the points appended at **Annexure 2i** regarding illustrative Checklist of information/details for launch of new contract. The parameters / items listed in the check-list for compliance are illustrative and not exhaustive. Any additional relevant parameter/information as deemed necessary may also be furnished while sending proposal for contracts.

2.11.1.2. **Approval for futures contracts** : Approval for futures trading in the commodities approved by SEBI is subject to the following terms and conditions:

Approval for trading in futures contracts is subject to Rules, Byelaws and Regulations of the concerned Stock Exchange.

i. Exchanges shall launch future contracts with contract specifications including launch calendar as approved by SEBI. Contract specifications and contract launch calendar shall be notified well in advance to the market participants on the website of the Stock Exchange.

ii. Except for the specifications permitted to be modified at stock exchange level, contracts specifications should not be changed without prior approval. For any modification in contract specification, the Stock Exchange(s) shall give prior appropriate notice to the market participants. Once the contracts are commenced, no terms of the contract specifications should be changed without prior approval of SEBI.

iii. Exchanges shall launch a contract within six months of approval by SEBI, failing which the stock exchange shall apply for fresh approval from SEBI for launching the contract.

iv. In case the exchange decides not to launch new contract for trading or to de-list the already running contracts (s) having nil open interest, then SE shall keep SEBI informed with adequate reasons for such decision.

v. The contracts approved for continuous trading in agri-commodities shall continue to follow the lean month expiry policy as laid down and shall be subject to any other directions

as may be issued by SEBI from time to time. Also, apart from the approved quality standards, the stock exchange should ensure that the commodity deposited should comply with the regulations laid down by the other authorities like Food Safety Standard Authority of India, Agmark, BIS etc. Exchanges shall ensure that the prescribed position limits on open position of each member and non-member client and the limits on daily price fluctuation as specified in the contract specification are adhered to.

vi. The permission granted for the contracts is subject to daily Mark to Market settlement of outstanding contracts as per the procedure and delivery mechanism/process specified in the Bye-laws, the Rules and the Regulations of the stock exchange.

vii. Exchanges shall ensure that there is no unhealthy speculative trading in the market, which may result in cornering or artificial rigging up or down of the prices by a particular member or group or class of members.

Commented [A44]: Incorporation of new provisions (May 30, 2024 circular) as per S.No 2.20 of consultation paper.

2.11.1.3. Multiple contracts⁵³: in same commodity

SSSEs may be allowed to launch multiple contracts in same commodity

2.12. Modifications in the Contract Specifications of Commodity Derivatives Contracts⁵⁴

2.12.1. The modifications in contract specification parameters are categorized in following three categories:

A. **Category A:** Non-material modifications which can be made at stock exchange level in yet to be launched and running contracts.

B. **Category B:** Material modifications which can be made at the stock exchange level in yet to be launched contracts or running contracts which have nil open interest. These modifications shall require approval from Product Advisory Committee and approval of Regulatory Oversight Committee to be obtained post facto.

⁵³ SEBI Circular No SEBI/HO/MRD/MRD-POD-1/P/CIR/2023/12 dated January 11, 2023 Circular No SEBI/HO/MRD/MRD-POD-1/P/CIR/2023/12 dated January 11, 2023

⁵⁴ Circular no. SEBI/HO/CDMRD/DOP/CIR/P/2019/135 dated November 14, 2019.



C. **Category C:** Material modifications which can be made only after approval from SEBI. These modifications shall require deliberations and approval from Product Advisory Committee and Regulatory Oversight Committee before seeking permission from SEBI.

2.12.2. The list of various contract specification parameters as per the above stated categories along with the timelines for advance intimation of modification to SEBI and market participant is given at **Annexure 2j** on Categorization of contract specification parameters in commodity derivatives contracts.

2.12.3. The permission to modify contract specification parameters of commodity derivatives contracts is subject to the condition that before introduction of any modification in contract specifications the stock exchanges shall inform SEBI and market participants along with reasons for the modifications as per the timeline mentioned in Annexure 2j. However, this shall not apply to certain modifications which are required to be effected immediately considering the exigencies of the situation as per surveillance measure.

2.13. Alignment of Trading Lot and Delivery Lot size⁵⁵

- 2.13.1. Trading Lot Size represents the standard quantity of the underlying commodity corresponding to a single derivatives contract position, i.e. trading can be done only in multiple of the Trading lot size, and
- 2.13.2. Delivery Lot Size represents the standard quantity of the underlying commodity, in multiple of which delivery is permitted after the expiry of the contract.
- 2.13.3. Exchanges shall follow the policy of having uniform trading and delivery lot size for the commodity derivatives contracts.
- 2.13.4. An exception to the above may be provided on case to case basis, subject to the recognized SEs submitting detailed rationale including physical market practices, feedback from stakeholders etc., for keeping different lot size for trading and delivery with respect to any contract, to SEBI for approval.
- 2.13.5. In such cases exchanges shall put in place an adequate mechanism to ensure that no participant is put to disadvantageous position and that it does not constitute a barrier to delivery or otherwise impedes the physical delivery of the commodity.

⁵⁵ Circular No. SEBI/HO/CDMRD/DNPMP/CIR/P/2019/023 dated January 23, 2019

~~4.3.1.2.4. The above data shall be in a machine readable, open format (preferably XML format).~~

~~4.3.1.2.5. Further, the Exchange shall check on a monthly basis, whether a stock has remained subject to the ban on new position for a significant part of the month consistently for three months. If so, then the Exchange shall phase out derivative contracts on that underlying.~~

~~4.3.1.3. Customer Level/ NRI~~

~~4.3.1.3.1. The gross open position across all derivative contracts on a particular underlying stock should not exceed the higher of:~~

~~1% of the free float market capitalization (in terms of number of shares).~~

~~or~~

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

~~4.3.1.3.2. These position limits would be applicable on the combined position in all derivative contracts on an underlying stock at an exchange.~~

~~4.3.1.3.3. This requirement may not be monitored by the exchange on a real time basis, but if during any investigation or otherwise, any violation is proved, penalties can be levied.~~

~~4.3.1.4. Stock Brokers/ FPIs (Category I)/ Mutual Funds for stock derivatives contracts~~

~~The combined futures and options position limit shall be 20% of the applicable Market Wide Position Limit (MWPL).~~

~~4.3.1.5. FPIs (Category II- other than FPIs in sub-category individuals, family offices, corporates) for stock derivatives contracts~~

~~The combined futures and options position limit shall be 10% of the applicable Market Wide Position Limit (MWPL).~~

~~4.3.1.6. FPIs (Category II FPIs in sub-category individuals, family offices, corporates) for stock derivatives contracts~~

~~The combined futures and options position limit shall be 5% of the applicable Market Wide Position Limit (MWPL).~~

~~4.3.1.6.1. Monitoring of Position Limits~~

~~4.3.1.7. NRI~~

~~Same as that for index future contracts as specified in clause 1.3.3.1.~~

~~4.3.1.8. FPI~~

~~Same as that for index future contracts as specified in clause 1.3.3.2.~~

~~4.3.1.9. Mutual Funds~~

~~Same as that for index future contracts as specified in clause 1.3.3.3.~~

~~4.3.1.10. Methodology for monitoring of position limits~~

~~Same as that for index future contracts as specified in clause 1.3.5.~~

~~4.3.1.10.1. Surveillance System~~

~~Same as that of index future contracts as specified in clause 1.3.6.~~

5. STOCK OPTIONS

5.1. Product Design

5.1.1.1. Underlying

The stocks listed on exchanges which conform to the eligibility criteria are permitted.

5.1.1.1.2. Eligibility Criteria

Same as that for stock future contracts as specified in clause 3.1.2.

5.1.1.1.3. Trading Hours

Same as that for index future contracts as specified in clause 1.1.3.

5.1.1.1.4. Size of the Contract

Same as that for stock future contracts as specified in clause 3.1.4.

5.1.1.1.5. Quotation

Same as that for index future contracts as specified in clause 1.1.5.

5.1.1.1.6. Tenor of the contract

Same as that for stock future contracts as specified in clause 3.1.6.

5.1.1.1.7. Available Contracts

Same as that for stock future contracts as specified in clause 3.1.7. Each maturity shall have minimum of three strikes (in the money, at the money and out of the money)

5.1.1.1.8. Settlement Mechanism



Same as that for index future contracts as specified in 1.1.8. The Exchanges shall introduce Premium Settled American / European Style Stock Options.

Commented [A45]: Tabulated in equity derivatives section

~~5.1.1.1.9.~~ **Settlement Price**

~~Same as that for index future contracts as specified in clause 1.1.9.~~

~~5.1.1.1.10.~~ **Final Settlement Day**

~~Same as that for index future contracts as specified in clause 1.1.10.~~

Commented [A46]: Moved to equity derivatives section

~~5.1.1.1.11.~~ **Application**

~~The Derivative Exchange/Segment shall submit their proposal for approval of the stock option contract to SEBI which shall include:~~

~~5.1.1.2. the details of proposed derivative contract to be traded on the exchange which would include:~~

- ~~1. Symbol~~
- ~~2. Underlying—giving details of the calculations mentioned above and ensuring that the stock fulfills the eligibility criterion specified.~~
- ~~3. Lot Size / Multiplier~~
- ~~4. Strike Price Intervals~~
- ~~5. Premium Quotation~~
- ~~6. Last Trading Day~~
- ~~7. Expiration day/month~~
- ~~8. Exercise Style~~
- ~~9. Mode of Assignment~~
- ~~10. Time period of settlement of Option Exercise~~
- ~~11. Position and Exercise Limits~~
- ~~12. Margin~~
- ~~13. Trading Hours~~

~~5.1.1.3. the economic purpose it is intended to serve;~~

~~5.1.1.4. likely contribution to market development;~~

~~5.1.1.5. the safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading;~~

~~5.1.1.6. the infrastructure of the exchange and the surveillance system to effectively monitor trading in such contracts, and~~

~~5.1.1.7. details of settlement procedures & systems with regard to Stock Options.~~

~~5.1.1.8. details of back testing of the margin calculation for a period of one year considering a call and a put option on the underlying with a delta of +25 & -25 and actual price of the underlying security.~~

~~5.2. Risk Management~~

~~5.2.1.1.1. Initial Margin Computation:~~

~~5.2.1.2. The Initial Margin requirements are based on worst scenario loss of a portfolio of an individual client to cover 99% VaR over a one day horizon across various scenarios of price changes and volatility shifts. For stock option contracts the price scan range is specified at six standard deviation (6 sigma) scaled up by $\sqrt{2}$ subject to at least 14.2% of the underlying price after considering scaling up and the volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum of 10%. It has been decided that Exchanges/ Clearing Corporations shall estimate the appropriate MPOR, subject to a minimum of 2 days, for each equity derivative product based on liquidity therein and scale up the initial margins. For initial margins, the revised MPOR shall be given effect by way of scaling up the Price Scan Range (PSR) used for computing the Worst Scenario Loss.~~

~~5.2.1.3. There is also a minimum margin requirement. There shall be no separate short option minimum charge.~~

~~5.2.1.3.1. Portfolio Based Margining~~

~~Same as that for index option contracts as given in clause 2.2.2.~~

~~5.2.1.3.2. Extreme Loss Margin~~

~~The Extreme Loss Margin rates for Single Stock Derivatives shall be 3.5% of the notional value. In case of single stock options contracts that are deep out of the money (i.e., strikes out of the money by more than 30% from the previous day closing underlying price), the applicable Extreme Loss Margin shall be 5.25%.~~

~~5.2.1.3.3. Margin on consolidated crystallized obligation~~

~~Same as that for index future contracts as specified in clause 1.2.7.~~

5.2.1.3.4. **Additional margin for highly-volatile stocks**

5.2.1.4. For securities with Intra-day maximum of [High-Low], [High-Previous Close], [Low-Previous Close] price movement of more than 10% in the underlying market for 3 or more days in last one month, the minimum total margins (SPAN margins, Extreme Loss Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in underlying market in last one month. The same shall be continued till expiry date of derivative contracts which falls after completion of three months from date of levy.

5.2.1.5. For securities with Intra-day maximum of [High-Low], [High-Previous Close], [Low-Previous Close] price movement of more than 10% in the underlying market for 10 or more days in last six months; the minimum total margins (SPAN margins, Extreme Loss Margin and Additional margin) shall be equal to the maximum intraday price movement of the security observed in underlying market in last six months. The same shall be continued till expiry date of derivative contracts which falls after completion of one year from date of levy.

5.2.1.5.1. **Real Time Computation**

Same as that for stock future contracts as specified in clause 3.2.5.

5.2.1.5.2. **Margin Collection and Enforcement**

Same as that for index future contracts as specified in clause 1.2.11.

5.2.1.5.3. **Liquid Net Worth and Exposure Limits of a Clearing Member**

5.2.1.6. Same as that for index future contracts as specified in clause 1.2.1.

5.2.1.7. For the equity derivatives segment, the liquid net worth shall be arrived at by deducting initial margin and the exposure margin/extreme loss margin from the liquid assets of the clearing member.

5.2.1.7.1. **Liquid Assets:**

Same as that for index future contracts as specified in clause 1.2.2.

5.2.1.7.2. **Bank Guarantees:**

Same as that for index future contracts as specified in clause 1.2.3.

5.2.1.7.3.— **Securities**

Same as that for index future contracts as specified in clause 1.2.4.

5.2.1.7.4.— **Reporting and Disclosure:**

Same as that for index future contracts as specified in clause 1.2.14

Commented [A47]: Segregation of CC provisions as per S.no 2.14 of the consultation paper.

5.3.— **Surveillance and Disclosures**

5.3.1.1.1.— **Unique client code**

Same as that for index future contracts as specified in clause 1.3.1.

5.3.1.1.2.— **Position Limits**

5.3.1.2.— **Market Level**

Same as that for stock future contracts as specified in clause 3.3.2.1.

5.3.1.3.— **Customer Level/ NRI/Sub Accounts**

Same as that for stock future contracts as specified in clause 3.3.2.2.

5.3.1.4.— **Stock Brokers / FPIs (Category I) / Mutual Funds for stock derivatives contracts**

Same as that for stock future contracts as specified in clause 3.3.2.3.

5.3.1.5.— **FPIs (Category II—other than FPIs in sub-category individuals, family offices, corporates) for stock derivatives contracts**

Same as that for stock future contracts as specified in clause 3.3.2.4.

5.3.1.6.— **Stock Brokers / FPIs (Category II—FPIs in sub-category individuals, family offices, corporates) for stock derivatives contracts**

Same as that for stock future contracts as specified in clause 3.3.2.5.

5.3.1.6.1.— **Monitoring of Position Limits**

5.3.1.7. **NRI**

Same as that for index future contracts as specified in clause 1.3.3.1.

5.3.1.8. **FPI**

Same as that for index future contracts as specified in clause 1.3.3.2.

5.3.1.9. **Mutual Funds**

Same as that for index future contracts as specified in clause 1.3.3.3.

5.3.1.10. **Methodology for monitoring of position limits**

Same as that for index future contracts as specified in clause 1.3.5.

5.3.1.10.1. **Surveillance System**

Same as that for index future contracts as specified in clause 1.3.6.

Commented [A48]: Moved and tabulated in para surveillance of equity derivatives

3. CURRENCY DERIVATIVES

before applying for this segment

3.1. Application for launching currency derivative contract

3.1.1. Before the start of trading in the currency futures/options segment, Stock Exchange shall submit the proposal for approval of the contract to SEBI giving:

3.1.1.1. The details of the proposed currency futures/currency options contract to be traded on the exchange;

3.1.1.2. The economic purposes it is intended to serve;

3.1.1.3. Its likely contribution to market development;

3.1.1.4. The safeguards and the risk protection mechanisms adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading;

3.1.1.5. The infrastructure of the exchange and surveillance system to effectively monitor trading in such contracts.

~~The trading members and clearing members of the currency futures and currency options segment should be registered as such with SEBI. This would be in addition to their membership of a segment of a stock exchange.~~

may

3.2. Product Design⁵⁶

S.NO. / CATEGORY	CURRENCY FUTURES	CURRENCY OPTIONS ⁵⁷	CROSS- CURRENCY FUTURES AND OPTIONS
3.2.1. Underlying	3.2.1.1. US Dollar – Indian Rupee (US\$-INR), Euro-Indian Rupee (EUR-INR), Pound Sterling – Indian Rupee (GBP-INR) and Japanese Yen – Indian Rupee (JPY-INR)	3.2.1.2. US Dollar – Indian Rupee (US\$-INR) spot rate Euro-Indian Rupee (EUR-INR) spot rate Pound Sterling – Indian Rupee (GBP-INR) spot rate and Japanese Yen – Indian Rupee (JPY-INR) spot rate.	3.2.1.3. Euro - US Dollar spot rate (EUR-USD), Pound Sterling – US Dollar spot rate (GBP-USD), US Dollar – Japanese Yen spot rate (USD-JPY)

⁵⁶ Circular SEBI/HO/MRD/DP/CIR/P/2016/0000000038 dated March 09, 2016

⁵⁷ Circular SEBI/HO/MRD/DP/CIR/P/2016/0000000038 dated March 09, 2016

S.NO. / CATEGORY	CURRENCY FUTURES	CURRENCY OPTIONS ⁵⁷	CROSS- CURRENCY FUTURES AND OPTIONS
3.2.2. Size of the contract	3.2.2.1. The minimum contract size of the currency futures/ currency options contract at the time of introduction would be US\$ 1000, EUR 1000, Pound Sterling 1000 and Japanese Yen 1,00,000 for the US Dollar – Indian Rupee (US\$-INR), Euro-Indian Rupee (EUR-INR), Pound Sterling – Indian Rupee (GBP-INR) and Japanese Yen – Indian Rupee (JPY-INR) respectively. The contract size would be periodically aligned to ensure that the size of the contract remains close to the minimum size.		3.2.2.2. The minimum contract size of the currency futures contract at the time of introduction would be EUR 1000, GBP 1000 and USD1000 for the Euro – US Dollar (EUR-US\$), Pound Sterling-US Dollar (GBP-US\$) and US Dollar-Japanese Yen (US\$-JPY) respectively. The contract size would be periodically aligned to ensure that the size of the contract remains close to the minimum size.
3.2.3. Quotation	3.2.3.1. The currency futures contract/ Premium would be quoted in rupee terms. However, the outstanding positions would be in Dollar, Euro, Pound Sterling and Japanese Yen terms for the US Dollar – Indian Rupee (USD-INR), Euro-Indian Rupee (EUR-INR), Pound Sterling – Indian Rupee (GBP-INR) and Japanese Yen – Indian Rupee (JPY-INR) contracts respectively The premium would be quoted in rupee terms. However, the outstanding positions would be in Dollar, Euro, Pound Sterling and Japanese Yen terms for the US Dollar – Indian Rupee (US\$-INR), Euro-Indian Rupee (EUR-INR), Pound Sterling – Indian Rupee (GBP-INR) and Japanese Yen – Indian Rupee (JPY-INR) contracts respectively.		3.2.3.2. The cross currency futures contracts would be quoted in US Dollar terms for the Euro – US Dollar (EUR-US\$) and the Pound Sterling-US Dollar (GBP-US\$) contracts, while it would be quoted in Japanese Yen terms for the US Dollar-Japanese Yen (US\$-JPY) contracts. The outstanding positions would be in Euro and Pound Sterling for the Euro – US Dollar (EUR-US\$) and the Pound Sterling-US Dollar (GBP-US\$) contracts and in US Dollar for US Dollar-Japanese Yen (US\$-JPY) contracts respectively.
3.2.4. Tenor of the contract	3.2.4.1. The currency/ cross currency futures/options contract shall have a maximum maturity of 12 months.		
3.2.5. Available contracts	3.2.5.1. All monthly maturities from 1 to 12 months would be made available.	3.2.5.2. Three serial monthly contracts followed by three quarterly contracts of the cycle March/June/September/December.	3.2.5.3. For Futures contracts: Twelve (12) serial monthly contracts. 3.2.5.4. For Options contracts (Premium styled European Call and Put Options): Three (3) serial monthly contracts followed by three (3) quarterly contracts of the cycle March / June / September/ December.

S.NO. / CATEGORY	CURRENCY FUTURES	CURRENCY OPTIONS ⁵⁷	CROSS- CURRENCY FUTURES AND OPTIONS
3.2.6. Strike Price of option contracts	NA	3.2.6.1. Minimum of three in-the-money, three out-of-the-money and one near-the-money strikes would be provided for all available contracts. Minimum of three in-the-money, three out-of-the-money and one near-the-money strikes would be provided for all available contracts.	Minimum of three (3) in-the-money, three (3) out-of-the-money and one (1) near-the-money strikes shall be provided for all available option contracts.
3.2.7. Settlement mechanism	The currency derivatives contracts shall be settled in cash in Indian Rupee. <u>Daily settlement shall be on T+1 basis and the Final Settlement shall be on T+2 basis.</u>		
3.2.8. Last Trading day	3.2.7.1. The last day for trading of the contract shall be two working days prior to the final settlement day. <u>In case of cross-currency futures and options the last trading day of the contracts shall be two working days prior to the final settlement day at 12:30 PM.</u> 3.2.9.2. The last trading day for the contracts shall be two working days prior to the last working day of the expiry month at 12:30 p.m. If any last trading day is a trading holiday, then the last trading day shall be the previous trading day.		
3.2.9. Final settlement day.	3.2.8.1. <u>The contract would settle on the last working day (excluding Saturdays) of the month. The last working day would be taken to be the same as that for Interbank Settlements in Mumbai. The rules for Interbank Settlements, including those for 'known holidays' and 'subsequently declared holiday' would be those as laid down by FEDAI.</u>		
3.2.10. Exercise at Expiry	NA	3.2.10.1. <u>Only for options</u> : On expiry date, all open long in-the-money option contracts, on a particular strike of a series, at the close of trading hours would be automatically exercised at the final settlement price and assigned on a random basis to the open short positions of the same strike and series. On expiry date, all open long in-the-money contracts, on a particular strike of a series, at the close of trading hours would be automatically exercised at the final settlement price and assigned on a random basis to the open short positions of the same strike and series.	

S.NO. / CATEGORY	CURRENCY FUTURES	CURRENCY OPTIONS ⁵⁷	CROSS- CURRENCY FUTURES AND OPTIONS
3.2.11. Daily Settlement price	3.2.11.1. The daily settlement price of cross-currency derivatives contracts shall be the last half an hour volume weighted average price of the contract. 3.2.11.2. In the absence of last half an hour trading, the daily settlement price shall be the theoretical price as calculated by the stock exchange. Stock exchanges shall be required to disclose the model / methodology used for arriving at the theoretical price.	3.2.11.3. The daily settlement price of cross-currency derivatives contracts shall be the last half an hour volume weighted average price of the contract. 3.2.11.4. In the absence of last half an hour trading, the daily settlement price shall be the theoretical price as calculated by the stock exchange. Stock exchanges shall be required to disclose the model / methodology used for arriving at the theoretical price. 3.2.11.5. For arriving at the settlement value in INR for EUR-USD and GBP-USD contracts, the latest available RBI reference rate for USD-INR shall be used. For USD-JPY contracts, the settlement value in INR shall be arrived at using the latest available exchange rate published by RBI for JPY-INR.	
3.2.12. Final Settlement price	3.2.12.1. The settlement price would be the Reserve Bank Reference Rate on the date of expiry for US\$ and Euro and Exchange rate published by the Reserve Bank in its Press Release captioned - RBI Reference Rate for US\$ and Euro for Pound Sterling and Japanese Yen. The methodology of computation and dissemination of the Reference Rate may be as publicly disclosed by RBI.	3.2.12.2. The final settlement price of the cross-currency derivatives contracts shall be computed using the RBI reference rate for USD-INR and the corresponding exchange rate published by RBI for EUR-INR, GBP-INR and JPY-INR, as applicable, on the last trading day of the contract. 3.2.12.3. For arriving at the final settlement value in INR for EUR-USD and GBP-USD contracts, the RBI reference rate for USD-INR on the last trading day of the contract shall be used. For USD-JPY contracts, the final settlement value in INR shall be arrived at using the exchange rate published by RBI for JPY-INR on the last trading day of the contract.	

Participants

3.3. Participants in Currency Derivatives segment.

3.3.1. Stock brokers, Domestic Institutional Investors, FPIs, NRIs and Clients, are allowed to take positions in the exchange traded currency derivative contracts subject to terms and conditions mentioned in this circular and the relevant directions issued by RBI from time to time.

3.3.1.1. Reserve Bank of India (RBI) vide A.P. (DIR Series) Circular no. 30 dated February 02, 2017 (latest RBI directions may be referred to) has permitted Non Resident Indians (NRIs) to participate in the exchange traded currency derivatives market to hedge the currency risk arising out of their investments in India under FEMA, 1999 (latest FEMA directions may be referred to).⁵⁸

3.3.1.2. NRIs are permitted to trade in the currency derivatives segment of stock exchanges, subject to terms and conditions mentioned in the aforesaid RBI circular, directions issued by RBI from time to time and this circular.

3.3.1.3. NRIs shall take position in the currency derivatives segment of a recognised stock exchange as specified in the para 3.4.1.2.3. subject to the following conditions:

3.3.1.3.1. NRIs shall designate an Authorised Dealer Category-I bank who is also a clearing member of the clearing corporation for the purpose of monitoring and reporting their combined positions in the OTC and ETCD segments.

3.3.1.3.2. NRIs may take positions in the currency futures / exchange traded options market to hedge the currency risk on the market value of their permissible (under FEMA, 1999, latest FEMA directions may be referred to) Rupee investments in debt and equity and dividend due and balances held in NRE accounts.

3.3.1.3.3. The onus of complying with the relevant provisions of the RBI A.P. (DIR Series) Circular no. 30 dated February 02, 2017 (latest RBI Master direction on Risk Management and Inter-Bank Dealings may be referred to) shall rest with the NRI and in case of any contravention, the NRI shall render itself liable to any action that may be warranted by RBI as per the provisions of Foreign Exchange Management Act (FEMA), 1999 (latest FEMA directions may be referred to).

3.3.1.4. The exchange clearing corporation shall provide details of all transactions of the NRIs to the designated bank to enable monitoring of positions of NRIs as per the provisions of the RBI A.P. (DIR Series) Circular no. 30 dated February 02, 2017 (latest RBI Master direction on Risk Management and Inter-Bank Dealings may be referred to).

⁵⁸ Circular No. SEBI/HO/MRD/DP/CIR/P/2017/63 dated June 28, 2017



3.3.1.5. To enable Banks to become Clearing Member and/or Trading Member of the Currency Derivatives Segment of an Exchange, an Exchange shall amend its bye-laws, as under:

"Any bank, included in the Second Schedule to the Reserve Bank of India Act, 1934, and specifically authorized by RBI for this purpose,

a. is eligible to become Clearing Member and/or Trading Member of the Currency Derivatives Segment of an Exchange, on the recommendation of the governing body of the Exchange.

b. such bank can act as member for their proprietary dealings, to act on their own account, in the Currency Derivatives Segment of the Exchange.

c. such bank can also act as member or an agent for any other person, client or customer in the Currency Derivatives Segment of an Exchange.

d. such bank shall abide by circulars and directions issued by RBI and SEBI in respect of dealing of such banks in the Exchange."

	<u>Eligible Participants</u> <u>Eligible market participants, i.e., stock brokers, domestic institutional investors, FPIs and clients, are allowed to take positions in the exchange traded cross-currency futures and option contracts in the EUR-USD, GBP-USD and USD-JPY currency pairs and exchange-traded currency option contracts in EUR-INR, GBP-INR and JPY-INR currency pairs, subject to terms and conditions mentioned in this circular and the relevant directions of RBI.</u>
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6. CURRENCY FUTURES

6.1. Product Design

6.1.1.1. Underlying

US Dollar—Indian Rupee (US\$-INR), Euro—Indian Rupee (EUR-INR), Pound Sterling—Indian Rupee (GBP-INR) and Japanese Yen—Indian Rupee (JPY-INR).

6.1.1.1.2. — Trading Hours

The trading on currency futures would be available from 9 a.m. to 5 p.m.

6.1.1.1.3. — Size of the contract

The minimum contract size of the currency futures contract at the time of introduction would be US\$ 1000, EUR 1000, Pound Sterling 1000 and Japanese Yen 1,00,000 for the US Dollar – Indian Rupee (US\$-INR), Euro-Indian Rupee (EUR-INR), Pound Sterling – Indian Rupee (GBP-INR) and Japanese Yen – Indian Rupee (JPY-INR) respectively. The contract size would be periodically aligned to ensure that the size of the contract remains close to the minimum size.

6.1.1.1.4. — Quotation

The currency futures contract would be quoted in rupee terms. However, the outstanding positions would be in Dollar, Euro, Pound Sterling and Japanese Yen terms for the US Dollar – Indian Rupee (USD-INR), Euro-Indian Rupee (EUR-INR), Pound Sterling – Indian Rupee (GBP-INR) and Japanese Yen – Indian Rupee (JPY-INR) contracts respectively.

6.1.1.1.5. — Tenor of the contract

The currency futures contract shall have a maximum maturity of 12 months.

6.1.1.1.6. — Available contracts

All monthly maturities from 1 to 12 months would be made available.

6.1.1.1.7. — Settlement mechanism

The currency futures contract shall be settled in cash in Indian Rupee.

6.1.1.1.8. — Settlement price

The settlement price would be the Reserve Bank Reference Rate on the date of expiry for US\$ and Euro and Exchange rate published by the Reserve Bank in its Press Release captioned – RBI Reference Rate for US\$ and Euro for Pound Sterling and Japanese Yen. The methodology of computation and dissemination of the Reference Rate may be as publicly disclosed by RBI.

6.1.1.1.9. — Final settlement day

The last day for trading of the contract shall be two working days prior to the final settlement day. The currency futures contract would expire on the last working day (excluding Saturdays) of the month. The last working day would be taken to be the same as that for Interbank Settlements in Mumbai. The rules for Interbank Settlements, including those for 'known holidays' and 'subsequently declared holiday' would be those as laid down by Foreign Exchange Dealers Association of India (FEDAI)

6.1.1.1.10.1.1.1.1. — Participants

6.1.1.2. — Reserve Bank of India (RBI) vide A.P. (DIR Series) Circular no. 30 dated February 02, 2017 (latest RBI directions may be referred to) has permitted Non Resident Indians (NRIs) to participate in the exchange traded currency derivatives market to hedge the currency risk arising out of their investments in India under FEMA, 1999 (latest FEMA directions may be referred to).

6.1.1.3. — NRIs are now permitted to trade in the currency derivatives segment of stock exchanges, subject to terms and conditions mentioned in the aforesaid RBI circular and this circular.

6.1.1.4. — NRIs shall take position in the currency derivatives segment of a recognised stock exchange as specified in the para 5.3.2.3.2 subject to the following conditions:

6.1.1.4.1. NRIs shall designate an Authorised Dealer Category I bank who is also a clearing member of the stock exchange/ clearing corporation for the purpose of monitoring and reporting their combined positions in the OTC and ETCD segments.

6.1.1.4.2. NRIs may take positions in the currency futures / exchange traded options market to hedge the currency risk on the market value of their permissible (under FEMA, 1999, latest FEMA directions may be referred to) Rupee investments in debt and equity and dividend due and balances held in NRE accounts.

6.1.1.4.3. The onus of complying with the relevant provisions of the RBI A.P. (DIR Series) Circular no. 30 dated February 02, 2017 shall rest with the NRI and in case of any contravention, the NRI shall render itself liable to any action that may be warranted by RBI as per the

provisions of Foreign Exchange Management Act (FEMA), 1999
(latest FEMA directions may be referred to).

6.1.1.5. The exchange/ clearing corporation shall provide details of all transactions of the NRIs to the designated bank to enable monitoring of positions of NRIs as per the provisions of the RBI A.P. (DIR Series) Circular no. 30 dated February 02, 2017 (latest RBI directions may be referred to).

6.1.1.6. To enable Banks to become Clearing Member and/or Trading Member of the Currency Derivatives Segment of an Exchange, an Exchange shall amend its bye-laws, as under:

"Any bank, included in the Second Schedule to the Reserve Bank of India Act, 1934, and specifically authorized by RBI for this purpose,

- a. is eligible to become Clearing Member and/or Trading Member of the Currency Derivatives Segment of an Exchange, on the recommendation of the governing body of the Exchange.
- b. such bank can act as member for their proprietary dealings, to act on their own account, in the Currency Derivatives Segment of the Exchange.
- c. such bank can also act as member or an agent for any other person, client or customer in the Currency Derivatives Segment of an Exchange.
- d. such bank shall abide by circulars and directions issued by RBI and SEBI in respect of dealing of such banks in the Exchange."

Commented [A49]: Moved and tabulated to Product Design of Currency derivatives

6.2. Risk Management Measures

In exchange traded derivative contracts, the Clearing Corporation acts as a central counterparty to all trades and performs full novation. The risk to the clearing corporation can only be taken care of through a stringent margining framework. Also, since derivatives are leveraged instruments, margins also act as a cost and discourage excessive speculation. A robust risk management system should therefore, not only impose margins on the members of the clearing corporation but also enforce collection of margins from the clients.

6.2.1.1. Initial Margin

6.2.1.2. The Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price

changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the price scan range shall be based on 6σ , subject to the minimum percentage of underlying price as tabulated below:

Currency Derivative	Minimum percentage of underlying Price
USDINR	1.50%
EURINR	2.15%
GBPINR	2.25%
JPYINR	2.65%

6.2.1.3. The volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum 3%. The initial margin shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

6.2.1.3.1. Formula for determining standard deviation

6.2.1.4. The exponential moving average method would be used to obtain the volatility estimate every day. The estimate at the end of time period t (σ_t) is estimated using the volatility estimate at the end of the previous time period, i.e. as at the end of $t-1$ time period (σ_{t-1}), and the return (r_t) observed in the futures market during the time period t . The formula would be as under:

$$(\sigma_t)^2 = \lambda (\sigma_{t-1})^2 + (1 - \lambda) (r_t)^2$$

where

6.2.1.4.1. λ is a parameter which determines how rapidly volatility estimates changes. The value of λ is fixed at 0.995.

6.2.1.4.2. σ (sigma) means the standard deviation of daily returns in the currency futures market.

6.2.1.4.3. The "return" is defined as the logarithmic return: $r_t = \ln(C_t/C_{t-1})$ where C_t is the Currency futures price at time t . The plus/minus 6 sigma limits for a 99% VAR based on logarithmic returns would have to be converted into percentage price changes by reversing the logarithmic transformation. The percentage margin on short positions would be equal to $100(\exp(-6\sigma_t) - 1)$ and the percentage

margin on long positions would be equal to $100(1 - \exp(-6\sigma_t))$. This implies slightly larger margins on short positions than on long positions. The derivatives exchange/clearing corporation may apply the higher margin on both the buy and sell side.

6.2.1.4.4. During the first time period on the first day of Currency futures trading, the sigma would be equal to 0.5%.

6.2.1.4.5. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute what the margin would be for any given closing level of the currency futures price. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

6.2.1.4.6. — Portfolio based margining

A portfolio based margining approach shall be adopted to take an integrated view of the risk involved in the portfolio of each individual client comprising his positions in futures contracts across different maturities. The client wise margins would be grossed across various clients at the Trading/Clearing Member level. The proprietary positions of the Trading/Clearing Member would be treated as that of a client.

6.2.1.4.7. — Real time computation

The computation of worst scenario loss would have two components. The first is the valuation of the portfolio under the various scenarios of price changes. At the second stage, these scenario contract values would be applied to the actual portfolio positions to compute the portfolio values and the initial margin. The exchanges shall update the scenario contract values at least 5 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m. and at the end of the trading session. The latest available scenario contract values would be applied to member/client portfolios on a real time basis.

6.2.1.4.8. — Calendar spread margins

A currency futures position at one maturity which is hedged by an offsetting position at a different maturity would be treated as a calendar spread. The calendar spread charge in respect of various products shall be as follows:

Product	Calendar Spread charge for spreads in months (INR)			
	Less than or equal to 1 month	More than 1 month and Less than or equal to 2 months	More than 2 months and Less than or equal to 3 months	More than 4 months
USDINR	500	600	900	1100
EURINR	750	1050	1550	1550
GBPINR	1575	1975	2075	2075
JPYINR	675	1075	1575	1575

6.2.1.4.9. Extreme Loss margin

The Extreme Loss Margin rates shall be as under:

Product	ELM: Futures	ELM: Options
USDINR	0.50%	0.75%
EURINR	0.15%	0.75%
GBPINR	0.25%	0.75%
JPYINR	0.35%	0.75%

6.2.1.4.10. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in clause 1.2.7.

6.2.1.4.11. Liquid network

The initial margin and the extreme loss margin shall be deducted from the liquid assets of the clearing member. The clearing member's liquid net worth after adjusting for the initial margin and extreme loss margin requirements must be at least Rs. 50 Lakhs at all points in time. The minimum liquid network shall be treated as a capital cushion for days of unforeseen market volatility.

6.2.1.4.12. Liquid assets

The liquid assets for trading in currency futures would be maintained separately in the currency futures segment of the clearing corporation. However, the permissible liquid assets, the applicable haircuts and

minimum cash equivalent norms would be mutatis mutandis applicable from the equity derivatives segment.

6.2.1.4.13. Mark to market settlement

6.2.1.5. The mark to market gains and losses shall be settled in cash before the start of trading on T+1 day. If mark to market obligations are not collected before start of the next day's trading, the clearing corporation shall collect correspondingly higher initial margin to cover the potential for losses over the time elapsed in the collection of margins.

6.2.1.6. The daily closing price of currency futures contract for mark to market settlement would be calculated on the basis of the last half an hour weighted average price of the futures contract. In the absence of trading in the last half an hour the theoretical price would be taken. The eligible exchanges shall define the methodology for calculating the 'theoretical price' at the time of making an application for approval of the currency futures contract to SEBI. The methodology for calculating the 'theoretical price' would also be disclosed to the market.

6.2.1.6.1. Margin collection and enforcement

6.2.1.7. The client margins (initial margin, extreme loss margin, calendar spread margin and mark to market settlements) have to be compulsorily collected and reported to the Exchange by the members. The Exchange shall impose stringent penalty on members who do not collect margins from their clients. The Exchange shall also conduct regular inspections to ensure margin collection from clients.

6.2.1.8. Upfront collection of Margins

Same as that for index future contracts as specified in Section 1.2.12.

6.2.1.8.1. Safeguarding client's money

The Clearing Corporation should segregate the margins deposited by the Clearing Members for trades on their own account from the margins deposited with it on client account. The margins deposited on client account shall not be utilized for fulfilling the dues which a Clearing Member may owe the Clearing Corporation in respect of trades on the member's own account. The client's money is to be held in trust for client purpose only. The following

process is to be adopted for segregating the client's money vis-à-vis the clearing member's money:

- 6.2.1.9. At the time of opening a position, the member should indicate whether it is a client or proprietary position.
- 6.2.1.10. Margins across the various clients of a member should be collected on a gross basis and should not be netted off.
- 6.2.1.11. When a position is closed, the member should indicate whether it was a client or his own position which is being closed.
- 6.2.1.12. In the case of default, the margins paid on the proprietary position would only be used by the Clearing Corporation for realising its dues from the member.

6.2.1.12.1. Periodic risk evaluation report

The Clearing Corporation of the Exchange shall on an ongoing basis and at least once in every six months, conduct back testing of the margins collected vis-à-vis the actual price changes. A copy of the study shall be submitted to SEBI along with suggestions on changes to the risk containment measures, if any.

Commented [A50]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

3.4. Surveillance and Disclosures

6.3. 3.4.1.

The exchanges as first level regulators should have an online surveillance capability which monitors positions, prices and volumes in real time so as to deter market manipulation.

6.3.1.1.1. Unique client code

The Exchange shall ensure that each client is assigned a client code which is unique across all members. The unique client code shall be assigned with the use of PAN number.

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6.3.1.1.2. Position limits for Currency Derivatives

- 6.3.1.2. Position limits act as an important surveillance measure designed to prevent large concentrated positions which may affect market integrity. However, the regulation of position limits needs to be viewed differently

in the currency futures market as compared to the equity derivatives market. In the equity derivatives market, the maximum underlying shares available for trading is restricted to the extent of the free float market capitalization, whereas, there is no such constraint in the foreign exchange market.

6.3.1.3. The two markets also differ in terms of participation and the extent of positions held by each participant. Large transactions are executed by banks and corporates who wish to hedge their underlying exposure. Therefore, the monitoring of limits has to be with respect to the overall open interest in the market. Open interest is a dynamic measure which changes with every executed trade. Further, the objective of the position limits in the currency futures market would be more to detect market manipulation in the futures market rather than to address the threat of short squeeze in the underlying. Therefore, the following is stated with respect to monitoring and enforcement of position limits in the currency futures market:

6.3.1.3.1. Ideally, position limits have to be monitored on an online, real-time basis. However, the exchanges have represented that open interest of both the participant and the market are dynamic and therefore, monitoring on a real time basis would be difficult. Therefore, to begin with, The positions during the day shall be monitored based on the total open interest at the end of the previous day's trade.

6.3.1.3.2. The above monitoring should be for both client level positions (based on the unique client code) and for trading member level positions.

6.3.1.3.3. The exchange shall treat violation of position limits as an input for further surveillance action. Upon detecting large open positions, the exchange shall conduct detailed analysis based on the overall nature of positions, the trading strategy, positions in the underlying market, the positions of related entities (concept of persons acting in concert would be applied), etc.

— The violators of position limits shall be accountable for their large positions and should submit detailed information pertaining to their trading activities whenever the information is sought by the exchange. The clearing member would be accountable for positions of all trading members and clients of trading members clearing through him. Similarly, the trading member would be accountable for the positions

of his clients. The exchange may also call for information directly from the client itself.

3.4.1.1. Exchanges have the responsibility to monitor the position limits. However, exchanges may outsource the work to Clearing Corporations subject to entering into a formal agreement clearly outlining their respective roles, responsibilities and the commercials on arm's length basis.

6.3.1.3.4.

3.4.1.2. The following position limits would be applicable in the currency derivatives market. Eligible market participants are allowed to take positions in the exchange traded cross-currency futures and options contracts without having to establish underlying exposure subject to the position limits as prescribed.

The following position limits would be applicable in the currency futures market:

<u>S.No/ Category</u>	<u>Currency Pair</u>	<u>CURRENCY FUTURES & CURRENCY OPTIONS</u>	<u>CROSS CURRENCY FUTURES AND OPTIONS</u>
<u>3.4.1.2.1 Stock Brokers (bank and non-bank), Domestic Institutions, AD Category-1 banks (for cross currency futures and options)</u>	<u>USD-INR</u>	<u>3.4.1.2.1.1. Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher.</u> <u>3.4.1.2.1.2. However, for bank stock brokers, authorized by RBI, the gross open position across all contracts shall not exceed 15% of the total open interest or USD 1 billion, whichever is higher.⁵⁹</u>	<u>NA</u>
	<u>EUR-INR</u>	<u>3.4.1.2.1.3. Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 50 million, whichever is higher.</u>	<u>NA</u>
	<u>GBP-INR</u>	<u>3.4.1.2.1.4. Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 50 million, whichever is higher.</u>	<u>NA</u>
	<u>JPY-INR</u>	<u>3.4.1.2.1.5. Gross open position across all contracts shall not</u>	<u>NA</u>

Commented [A52]: Clarification of provisions as per S.No 2.5 of the consultation paper.

⁵⁹ Circular CIR/MRD/DP/02/2016 dated January 15, 2016



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S.No/ Category	Currency Pair	CURRENCY FUTURES & CURRENCY OPTIONS	CROSS CURRENCY FUTURES AND OPTIONS
		exceed 15% of the total open interest or JPY 2000 million, whichever is higher.	
	EUR-USD	NA	3.4.1.2.1.6. Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 100 million, whichever is higher.
	GBP-USD	NA	3.4.1.2.1.7. Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 100 million, whichever is higher.
	USD-JPY	NA	3.4.1.2.1.8. Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher.
	Position limits stated above shall be the total limits available to the stock brokers for taking positions on proprietary basis and for positions of their clients.		
<u>3.4.1.2.2. FPIs (Category I and II FPIs other than individuals, family offices and corporates)</u>	FPIs are allowed to take positions in the exchange traded cross-currency futures and option contracts in the EUR-USD, GBP-USD and USD-JPY currency pairs and exchange traded currency option contracts in EUR-INR, GBP-INR and JPY-INR currency pairs, subject to terms and conditions as mentioned in this circular 3.4.1.2.2.1. The gross open positions of the FPIs across all contracts in the respective currency pairs shall not exceed the limits as mentioned below: 3.4.1.2.2.2. For the purpose of computing the FPI level gross open position, Long position shall be considered as Long Futures, Long Calls, and Short Puts and Short Position shall be considered as Short Futures, Short Calls, and Long Puts. 3.4.1.2.2.3. FPIs are allowed to take positions in the exchange traded cross-currency futures and option contracts in the EUR-USD, GBP-USD and USD-JPY currency pairs and exchange traded currency option contracts in EUR-INR, GBP-INR and JPY-INR currency pairs, subject to terms and conditions as mentioned in this circular.		



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<u>S.No/ Category</u>	<u>Currency Pair</u>	<u>CURRENCY FUTURES & CURRENCY OPTIONS</u>	<u>CROSS CURRENCY FUTURES AND OPTIONS</u>
	<u>USD-INR</u>	<u>3.4.1.2.2.4. Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher.</u>	<u>NA</u>
	<u>EUR-INR</u>	<u>3.4.1.2.2.5. Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 50 million, whichever is higher.</u>	<u>NA</u>
	<u>GBP-INR</u>	<u>3.4.1.2.2.6. Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 50 million, whichever is higher.</u>	<u>NA</u>
	<u>JPY-INR</u>	<u>3.4.1.2.2.7. Gross open position across all contracts shall not exceed 15% of the total open interest or JPY 2000 million, whichever is higher.</u>	<u>NA</u>
	<u>EUR-USD</u>	<u>NA</u>	<u>FPIs are allowed to take positions in the exchange traded cross-currency futures and option contracts in the EUR-USD, GBP-USD and USD-JPY currency pairs and exchange-traded currency option contracts in EUR-INR, GBP-INR and JPY-INR currency pairs, subject to terms and conditions as mentioned in this circular</u> <u>3.4.1.2.2.8. Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 100 million, whichever is higher.</u>
	<u>GBP-USD</u>	<u>NA</u>	<u>3.4.1.2.2.9. Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 100</u>



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<u>S.No/ Category</u>	<u>Currency Pair</u>	<u>CURRENCY FUTURES & CURRENCY OPTIONS</u>	<u>CROSS CURRENCY FUTURES AND OPTIONS</u>
			million, whichever is higher.
	<u>USD-JPY</u>	<u>NA</u>	3.4.1.2.2.10. Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher.
3.4.1.2.3. i. Position limits for Clients (per stock exchange)⁶⁰, NRIs (Only for Currency futures and options), and ii. Category II FPIs that are individuals, family offices, corporates.	<u>USD-INR</u>	3.4.1.2.3.1. Gross open position across all contracts shall not exceed 6% of the total open interest or USD 20 million, whichever is higher.	<u>NA</u>
	<u>EUR-INR</u>	3.4.1.2.3.2. Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 10 million, whichever is higher.	<u>NA</u>
	<u>GBP-INR</u>	3.4.1.2.3.3. Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 10 million, whichever is higher.	<u>NA</u>
	<u>JPY-INR</u>	3.4.1.2.3.4. Gross open position across all contracts shall not exceed 6% of the total open interest or JPY 400 million, whichever is higher.	<u>NA</u>
	<u>EUR-USD</u>	<u>NA</u>	3.4.1.2.3.5. Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 10 million, whichever is higher.
	<u>GBP-USD</u>	<u>NA</u>	3.4.1.2.3.6. Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 10 million, whichever is higher.
	<u>USD-JPY</u>	<u>NA</u>	3.4.1.2.3.7. Gross open position across all contracts shall not exceed 6% of the total open

⁶⁰ Circular No. SEBI/HO/MRD2 DCAP/P/CIR/2021/626 dated September 07, 2021

<u>S.No/ Category</u>	<u>Currency Pair</u>	<u>CURRENCY FUTURES & CURRENCY OPTIONS</u>	<u>CROSS CURRENCY FUTURES AND OPTIONS</u>
			<u>interest or USD 10 million, whichever is higher.</u>
<u>3.4.1.2.4. Proprietary positions of stock brokers</u> ⁶¹	<u>3.4.1.2.4.1 The Stock Brokers (bank and non-bank) shall ensure that all proprietary positions created in FCY-INR pairs(USD-INR, EUR-INR, GBP-INR and JPY-INR) is within the following consolidated position limits:</u>		<u>3.4.1.2.4.3. For Non-bank stock brokers:</u> ⁶²
	<u>Single INR limit for proprietary position for bank stock brokers</u>	<u>Single INR limit for proprietary position for non-bank stock brokers</u>	<u>3.4.1.2.4.3.1. EUR-USD:</u> <u>Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 50 million, whichever is higher.</u>
	<u>Higher of 15% of Total OI across all FCY-INR pairs or USD 200 million.</u>	<u>Higher of 15% of Total OI across all FCY-INR pairs or USD 100 million.</u>	<u>3.4.1.2.4.3.2. GBP-USD:</u> <u>Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 50 million, whichever is higher.</u>
	<u>3.4.1.2.4.2. Exchanges, in consultation with each other, shall implement a uniform methodology for computing and monitoring of the aforementioned proprietary positions limits in INR.</u>		<u>3.4.1.2.4.3.3. USD-JPY:</u> <u>Gross open position across all contracts shall not exceed 15% of the total open interest or USD 50 million, whichever is higher.</u>
<u>3.4.1.2.5. Clearing Member Level</u>	<u>3.4.1.2.5.1. No separate position limit is specified at the level of clearing member. However, the clearing member shall ensure that its own trading position and the positions of each trading member clearing through it is within the limits specified above.</u>		

~~6.3.1.4.~~

~~6.3.1.4.1. Position limits for Stock-Brokers (bank and non-bank), Domestic Institutions: The position limits shall be as given in the table below.~~

Currency Pair	Position limits
USD-INR	Gross open position across all contracts

⁶¹ Circular no. SEBI/HO/MRD/DP/CIR/P/2017/102 dated September 13, 2017

⁶² Circular no. SEBI/HO/MRD/DP/CIR/P/2016/038 dated March 09, 2016, June 20, 2014 and April 08, 2015

	shall not exceed 15% of the total open interest or USD 100 million, whichever is higher. However, for as bank stock brokers, authorized by RBI, the gross open position across all contracts shall not exceed 15% of the total open interest or USD 1 billion, whichever is higher. (RBI shall keep SEBI and the stock exchanges informed about the bank stock brokers that are authorised to have such enhanced position limits)
EUR- INR	Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 50 million, whichever is higher.
GBP- INR	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 50 million, whichever is higher.
JPY-INR	Gross open position across all contracts shall not exceed 15% of the total open

	interest or JPY 2000 million, whichever is higher.
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~~6.3.1.4.2. Position limits stated at para 5.3.2.3.1 above shall be the total limits available to the stock brokers for taking positions on proprietary basis and for positions of their clients.~~

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~~6.3.1.4.3. Position limits for FPIs~~

~~3.4.1.3. Exchanges shall impose appropriate penalties for violation of position limits by stock brokers / FPIs / domestic clients.~~

~~6.3.1.4.3.1. Position limits of Category I and II FPIs other than individuals, family offices and corporates:~~

~~The gross open positions of the above FPIs across all contracts in the respective currency pairs shall not exceed the limits as mentioned below.~~

~~For the purpose of computing the FPI level gross open position, Long position shall be considered as Long Futures, Long Calls, and Short Puts and Short Position shall be considered as Short Futures, Short Calls, and Long Puts.~~

Currency Pairs	Position Limits
USD- INR	Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher.
EUR- INR	Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 50 million,

	whichever is higher.
GBP-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 50 million, whichever is higher.
JPY-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or JPY 2000 million, whichever is higher.

6.3.1.4.3.2. Position limits for Clients (per stock exchange): The position limits shall be as given in the table below:

Currency Pair	Position limits
USD-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or USD 20 million, whichever is higher.
EUR-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 10 million, whichever is higher.
GBP-INR	Gross open position across all contracts

	shall not exceed 6% of the total open interest or GBP 10 million, whichever is higher.
JPY-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or JPY 400 million, whichever is higher.

The revised position limits shall also apply to Non Resident Indians (NRIs) and Category II FPIs that are individuals, family offices and corporates.

6.3.1.4.3.3. In case of positions taken to hedge underlying exposure, the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound in the event a drop of total open interest in a currency pair at a stock exchange. However, participants shall not be allowed to increase their existing positions or create new positions in the currency pair till they comply with the position limits.

6.3.1.4.4. Position limits for NRIs in the permitted currency pairs shall be as given in para 5.3.2.3.3.2 above.

6.3.1.4.5. Proprietary positions of stock brokers: The Stock Brokers (bank and non-bank) shall ensure that all proprietary positions created in FCY-INR pairs(USD-INR, EUR-INR, GBP-INR and JPY-INR) is within the following consolidated position limits:

Single INR limit for proprietary position for bank stock brokers	Single INR limit for proprietary position for non-bank stock brokers
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Higher of 15% of Total OI across all FCY-INR pairs or USD 200 million.	Higher of 15% of Total OI across all FCY-INR pairs or USD 100 million.
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~~6.3.1.4.6. Stock exchanges, in consultation with each other, shall implement a uniform methodology for computing and monitoring of the aforementioned proprietary positions limits in INR.~~

~~6.3.1.4.7. Further, the aforementioned positions limits are in addition to the requirement of monitoring of proprietary position limits prescribed vide SEBI circular CIR/MRD/DP/20/2014 dated June 20, 2014 and SEBI circular CIR/MRD/DP/30/2014 dated October 22, 2014~~

~~6.3.1.4.8. Clearing Member Level: No separate position limit is specified at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.~~

~~6.3.1.4.9. Stock exchanges shall impose appropriate penalties for violation of position limits by stock brokers / FPIs / domestic clients.~~

3.4.1.4. With the view to ease trading requirements in the currency derivatives segment, it is clarified that the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound in the event of a drop of total open interest in a currency pair at the stock exchange.⁶³

~~6.3.1.4.10.—~~

3.4.1.5. However, in the aforementioned scenario, the eligible market participants shall not be allowed to increase their existing positions or

~~6.3.1.4.11.~~3.4.1.6. create new positions in the currency pair till they comply with the applicable position limits.

~~6.3.1.4.12.~~3.4.1.7. Notwithstanding the above, in view of risk management or surveillance concerns with regard to such positions of the market participants, ~~stock~~ exchanges may direct the market participants to bring down their positions to comply with the applicable position limits within the time period prescribed by the ~~stock~~ exchange.

⁶³ Circular no. SEBI/HO/MRD/DP/CIR/P/2016/60 dated June 22, 2016

6.3.1.4.13.3.4.1.8. Limits for FPIs and Domestic Clients based on Underlying Exposure⁶⁴ [\(Currency Futures\)](#)

6.3.1.5.3.4.1.8.1. Domestic clients / Foreign Portfolio Investors (FPIs) may take long or short positions without having to establish existence of underlying exposure, upto a single limit of USD 100 million equivalent, across all currency pairs involving INR, put together, and combined across all the stock exchanges.

6.3.1.6.3.4.1.8.2. FPIs shall ensure that their short positions at all stock exchanges across all contracts in FCY-INR pairs do not exceed USD 100 million.

6.3.1.7.3.4.1.8.3. In the event a FPI breaches the short position limit, stock exchanges shall restrict the FPI from increasing its existing short positions or creating new short positions in the currency pair till such time FPI complies with the said requirement.

6.3.1.8.3.4.1.8.4. To take long positions in excess of USD 100 million in all contracts in FCY-INR pairs, FPIs shall be required to have an underlying exposure in Indian debt or equity securities, including units of equity/debt mutual funds.

6.3.1.9.3.4.1.8.5. Domestic clients may take positions in excess of USD 100 million in in all contracts in FCY-INR pairs, subject to the conditions specified in the [RBI A.P. \(DIR Series\) Circular no. dated June 20, 2014](#) and [RBI A.P. \(DIR Series\) Circular no. 90 dated March 31, 2015](#) (latest RBI Master direction on Risk Management and Inter-Bank Dealings may be referred to). ~~applicable RBI directions. RBI A.P. (DIR Series) Circular no. dated June 20, 2014 (latest RBI directions may be referred to) and RBI A.P. (DIR Series) Circular no. 90 dated March 31, 2015.~~

3.4.1.8.6. The onus of complying with the provisions of the [RBI A.P. \(DIR series\) Circular no. 18 dated February 26, 2018](#) (latest RBI Master direction on Risk Management and Inter-Bank Dealings may be referred to), ~~applicable RBI directions~~ [A.P. \(DIR Series\) Circular no. 18 dated February 26, 2018](#) (latest RBI directions may be referred to) shall rest with the client / FPI and in case of any contravention, the client shall render itself liable to any action that may be warranted by RBI as per the provisions of Foreign Exchange Management Act, 1999 (latest FEMA directions may be referred to) and Regulations, Directions, etc. framed thereunder. These limits shall be monitored by stock exchanges ~~and/or clearing corporations~~ and breaches, if

⁶⁴ Circular no. SEBI/HO/MRD/DP/CIR/P/2018/50 dated March 15, 2018

any, shall be reported to the Market Surveillance Team of Financial Markets Regulation Department (FMRD), RBI. In this regard, stock exchanges ~~/clearing corporations~~ shall devise a suitable mechanism to monitor the aforesaid limits, subject to appropriate regulatory concurrence.

~~6.3.1.10.~~

~~6.3.1.11.~~ 3.4.1.8.7. With regard to enabling monitoring of positions of FPIs as per the provisions of the [RBI A.P. \(DIR Series\) Circular no. 148 dated June 20, 2014 and Circular no. 91 dated March 31, 2015 \(latest RBI Master direction on Risk Management and Inter-Bank Dealings may be referred to\)](#), ~~applicable RBI directions~~ [RBI A.P. \(DIR Series\) Circular no. 148 dated June 20, 2014 and Circular no. 91 dated March 31, 2015 \(latest RBI directions may be referred to\)](#), the following shall be implemented by the ~~clearing corporations~~ [Exchanges SEs](#) and the custodians of securities of the FPIs:

3.4.1.8.7.1. The ~~clearing corporation~~ [Exchanges](#) shall provide details on the FPI's day-end and day's highest open positions at end of day to the custodians of securities of the FPI.

~~6.3.1.11.1.~~

3.4.1.8.7.2. The custodian of securities of the FPI shall aggregate the positions taken by the FPI on the currency derivatives segments of all the stock exchanges and forward such details to the designated bank of [the FPI as 6.3.1.11.2.](#) ~~the FPI as~~ defined at regulation 2(1)(h) of the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019. The custodian of securities of the FPI shall also provide the market value of applicable underlying exposure of the FPI to the designated bank of the FPI.

6.3.1.11.3. Surveillance system

The surveillance systems of the exchanges should be designed keeping in view all the relevant aspects including the following—

6.3.1.12. The alerts in the online surveillance system should automatically generate material aberrations from normal activity.

6.3.1.13. The surveillance systems and processes should be able to

1. monitor open interest, cost of carry and volatility
2. monitor closing prices
3. capture and process client level details
4. develop databases of trading activity by brokers as well as clients.
5. generate trading pattern by a broker over a period of time or by a client/ group of clients over a period of time

6.3.1.14. — The information and feedback received from member inspections is vital input for effective surveillance. For this, it is necessary that member inspections are taken up in a rational manner keeping in view the level of trading activity, client profile, number and nature of complaints received against the member, history of risk management related defaults and regulatory violations etc. Information obtained through member inspections should also be made available to the monitoring/surveillance departments of stock exchanges.

6.3.1.15. — The information gathered by the risk management departments/clearing corporations while enforcing the risk management measures and settlement processes are critical inputs. Such information could include pattern of defaults related to specified contracts and special risk management measures taken keeping in view the market conditions.

6.3.1.16. — The exchanges should call for information from members in a standard form, and preferably in electronic form, to facilitate faster analysis as well as building up of databases. It may also be ensured that duly authenticated information is submitted by the member or his designated agent.

6.3.1.17. — While implementing a stock watch type of system for currency futures, the system should be designed to provide online access to relevant historical data on derivatives trading for at least a year.

6.3.1.18. — In the interest of better surveillance, it is necessary that relevant information obtained through surveillance at one exchange should be shared with other exchanges. Exchanges are, therefore, advised to share information on positions in currency futures and any extraordinary movement in price / volume or concentration periodically or upon specific request by any stock exchange. The Clearing Corporations of the various eligible exchanges must meet periodically, say once a week, to discuss market integrity and other surveillance issues.

6.3.1.19. — Exchanges should study surveillance practices in various Global Forex Derivative Markets. Surveillance practices in commodities and bullion markets could also be studied where appropriate. Case studies on some market manipulations in various derivatives markets could be looked at to see what lessons could be drawn. Periodical benchmarking, at least once in every six months, against international practices, systems performance etc., must be performed and documented.

6.3.1.20. — The reporting of currency derivative transactions to the media and the newspapers should be in a uniform format. Accordingly, the Currency Derivative Exchanges/ Segments and their Clearing Corporations may be asked to report the following details for the transactions in derivative contracts, to the media/newspapers, on a daily basis:

- a. — Contracts Description
- b. — Number of contracts traded
- c. — Notional Value
- d. — Open
- e. — High
- f. — Low
- g. — Close
- h. — Open Interest (in number of contracts)

Commented [A54]: Moved to Miscellaneous section - surveillance system

Surveillance measures

6.4.

With the view to ensure orderly trading and market integrity, stock exchanges shall implement a mechanism of Dynamic Price Bands in the currency derivatives segment on the lines below so as to prevent acceptance of orders placed beyond the price limits set by the stock exchanges:

6.4.1.1.1. Dynamic Price Bands for currency futures contracts (including cross-currency futures contracts)

6.4.1.2. Stock exchanges shall set the daily dynamic price bands of the currency futures contracts as mentioned in the table below:

Contracts with tenure up to 6 months	± 3% of the theoretical price or the previous day closing price, as applicable
Contracts with tenure greater than 6 months	± 5% of the theoretical price or the previous day closing price, as applicable

6.4.1.3. The dynamic price bands shall be relaxed in increments of 1% as and when a market wide trend is observed.

6.4.1.3.1. Dynamic Price Bands for currency options contracts (including cross-currency options contracts)

6.4.1.4. Stock exchanges shall implement a dynamic price band mechanism based on theoretical price of contracts to determine price bands for currency options.

6.4.1.5. Stock exchanges shall implement uniform mechanism for computation and relaxation of dynamic price bands for currency options contracts.

6.4.1.6. Stock exchanges shall take into consideration factors such as movement in the underlying price, volatility in the price of the underlying, any news on concerned foreign currency and its likely impact, movement of the price of the underlying at other stock exchanges, etc. while relaxing such price bands.

~~6.4.1.7. Stock exchanges shall ensure that the mechanism for relaxation of dynamic price bands are not misused by market participants for manipulation in options contracts.~~

~~6.4.1.7.1. Stock exchanges shall frame suitable rules with mutual consultation for such relaxation of dynamic price bands and shall make it known to the market.~~

~~6.5. Eligibility Criteria of the Segment, Exchanges and Trading Members~~

~~6.5.1.1.1. Eligibility criteria of currency futures segment~~

~~6.5.1.2. Recognized stock exchanges and their respective Clearing Corporations/Clearing Houses shall not deal in or otherwise undertake the business relating to currency futures unless they hold an authorization issued by the Reserve Bank under section 10 (1) of the Foreign Exchange Management Act, 1999 (latest FEMA directions may be referred to).~~

~~6.5.1.3. 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:~~

~~6.5.1.3.1. The trading should take place through an online screen-based trading system, which also has a disaster recovery site.~~

~~6.5.1.3.2. The clearing of the currency derivatives market should be done by an independent Clearing Corporation, which satisfies the conditions listed under 5.5.2.~~

~~6.5.1.3.3. The exchange must have an online surveillance capability which monitors positions, prices and volumes in real time so as to deter market manipulation.~~

~~6.5.1.3.4. The exchange shall have a balance sheet net worth of at least Rs. 100 crores.~~

~~6.5.1.3.5. 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.~~

~~6.5.1.3.6. The segment should have at least 50 members to start currency derivatives trading.~~

~~6.5.1.3.7. The exchange should have arbitration and investor grievances redressal mechanism operative from all the four areas/regions of the country.~~

~~6.5.1.3.8. The exchange should have adequate inspection capability.~~

~~6.5.1.3.9. If already existing, the exchange should have a satisfactory record of monitoring its members, handling investor complaints and preventing irregularities in trading.~~

~~6.5.1.4. A recognized stock exchange where other securities are also being traded may set up a separate currency futures segment in the following manner:~~

~~6.5.1.4.1. The trading and the order driven platform of currency futures should be separate from the trading platforms of the other segments.~~

~~6.5.1.4.2. The membership of the currency futures segment should be separate from the membership of the other segments.~~

~~6.5.1.4.3. Stock Exchanges offering currency derivatives segment shall be in compliance with relevant laws including SECC Regulations.~~

~~6.5.1.4.4. **Eligibility criteria for the Clearing Corporation of the currency futures segment**~~

~~6.5.1.5. A Clearing Corporation in the currency futures segment can function only after obtaining SEBI approval. To be eligible for such approval, it should satisfy the following conditions:~~

~~6.5.1.5.1. The Clearing Corporation should be a company incorporated under the Companies Act, 2013 and should be distinct from the exchange.~~

~~6.5.1.5.2. Clearing Corporation dealing with currency derivatives segment shall be in compliance with relevant laws including SECC Regulations.~~

~~6.5.1.5.3. The Clearing Corporation must perform full novation, i.e. the clearing corporation should interpose itself between both legs of every trade, becoming the legal counterparty to both or alternatively should provide an unconditional guarantee for settlement of all trades.~~

~~6.5.1.5.4. The clearing corporation should enforce the margin requirements and the mark to market settlement as outlined above.~~

~~6.5.1.5.5. In the event of unusual positions of a member, the clearing corporation should charge special margin over and above the normal margins.~~

~~6.5.1.5.6. The clearing corporation must establish facilities for electronic funds transfer (EFT) for swift movement of margin payments. In~~

~~situations where EFT is unavailable, the clearing corporation should collect correspondingly larger initial margin to cover the potential for losses over the time elapsed in collection of mark to market margin. For example, if two days lapse in moving funds, then the value at risk should be calculated based on the prospective two-day loss.~~

~~6.5.1.5.7. In the event of a member's default in meeting his liabilities, the Clearing Corporation should have processing capability to require either the prompt transfer of client positions and assets to another member or to close out all open positions.~~

~~6.5.1.5.8. Eligibility criteria for members in the currency futures segment~~

~~6.5.1.6. Refer SEBI master circular for Stock Brokers dated August 09, 2024~~

~~6.5.1.6.1. Regulatory and legal aspects~~

~~6.5.1.7. Before the start of the currency futures segment, the exchange shall obtain prior approval of SEBI. In the case of existing exchanges, where equity derivatives are permitted for trading, the rules, regulations and bye-laws of the derivatives segment of the exchange/clearing corporation may be made applicable for the currency futures segment also. The exchange/clearing corporation shall make suitable changes to that effect. Any requirement which is specific to the currency futures segment shall be provided for after seeking SEBI's approval. Further, any amendments to the rules, regulations and byelaws shall be made after seeking SEBI approval.~~

~~6.5.1.8. Before the start of trading, the currency futures segment shall submit the proposal for approval of the contract to SEBI giving:~~

~~6.5.1.8.1. The details of the proposed currency futures contract to be traded in the exchange;~~

~~6.5.1.8.2. The economic purposes it is intended to serve;~~

~~6.5.1.8.3. Its likely contribution to market development;~~

~~6.5.1.8.4. The safeguards and the risk protection mechanisms adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading;~~

~~6.5.1.8.5. The infrastructure of the exchange and surveillance system to effectively monitor trading in such contracts.~~

- 6.5.1.9. ~~The trading members and clearing members of the currency futures segment should be registered as such with SEBI. This would be in addition to their membership of a segment of a stock exchange.~~
- 6.5.1.10. ~~A SEBI-RBI constituted committee would meet periodically to sort out issues, if any, arising out of overlapping jurisdiction of the currency futures market.~~

7. CURRENCY OPTIONS

7.1. Product Design

7.1.1.1.1. Underlying

- US Dollar — Indian Rupee (US\$ INR) spot rate.
- Euro — Indian Rupee Spot Rate (EUR INR)
- Pound Sterling — Indian Rupee Spot Rate (GBP INR)
- Japanese Yen — Indian Rupee Spot Rate (JPY INR)

7.1.1.1.2. Trading Hours

- Same as that for currency future contracts as specified in clause 5.1.2.

7.1.1.1.3. Size of the contract

- The minimum contract size of the currency futures contract at the time of introduction would be US\$ 1000, EUR 1000, Pound Sterling 1000 and Japanese Yen 1,00,000 for the US Dollar — Indian Rupee (US\$ INR), Euro Indian Rupee (EUR INR), Pound Sterling — Indian Rupee (GBP INR) and Japanese Yen — Indian Rupee (JPY INR) respectively.

7.1.1.1.4. Quotation

- The premium would be quoted in rupee terms. However, the outstanding positions would be in Dollar, Euro, Pound Sterling and Japanese Yen terms for the US Dollar — Indian Rupee (US\$ INR), Euro Indian Rupee (EUR INR), Pound Sterling — Indian Rupee (GBP INR) and Japanese Yen — Indian Rupee (JPY INR) contracts respectively.

7.1.1.1.5. Tenor of the contract

- Same as that for currency future contracts as specified in clause 5.

7.1.1.1.6. Available contracts



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Three serial monthly contracts followed by three quarterly contracts of the cycle March/June/September/December. Minimum of three in-the-money, three out of the money and one near the money strikes would be provided for all available contracts.

7.1.1.1.7. Settlement mechanism

Same as that for currency future contracts as specified in clause 5.1.7.

7.1.1.1.8. Settlement price

Same as that for currency future contracts as specified in clause 5.1.8.

7.1.1.1.9. Final settlement day

Same as that for currency future contracts as specified in clause 5.1.9.

7.1.1.1.10. Participants

Same as that for currency future contracts as specified in clause 5.1.10.

7.1.1.1.11. Exercise at Expiry

On expiry date, all open long in-the-money contracts, on a particular strike of a series, at the close of trading hours would be automatically exercised at the final settlement price and assigned on a random basis to the open short positions of the same strike and series.

Commented [A55]: Moved and tabulated to product design in currency derivatives

7.2. Risk Management Measures

In exchange traded derivative contracts, the Clearing Corporation acts as a central counterparty to all trades and performs full novation. The risk to the clearing corporation can only be taken care of through a stringent margining framework. Also, since derivatives are leveraged instruments, margins also act as a cost and discourage excessive speculation. A robust risk management system should therefore, not only impose margins on the members of the clearing corporation but also enforce collection of margins from the clients.

7.2.1.1.1. Initial Margin

7.2.1.2. The price scan range shall be based on 6σ, subject to the minimum percentage of underlying price as tabulated below:

Currency Derivative	Minimum percentage of underlying Price
USDINR	1.50%
EURINR	2.15%
GBPINR	2.25%
JPYINR	2.65%

7.2.1.3. The Initial Margin requirement would be based on a worst scenario loss of a portfolio of an individual client comprising his positions in options and futures contracts on the same underlying across different maturities and across various scenarios of price and volatility changes as given in table (below).

Risk Scenario Number:	Price Move in Multiples of Price Range	Volatility Move in Multiples of Volatility Range	Fraction of Loss to be Considered
1	0	1	100%
2	0	-1	100%
3	+1/3	1	100%
4	+1/3	-1	100%
5	-1/3	1	100%
6	-1/3	-1	100%
7	+2/3	1	100%
8	+2/3	-1	100%
9	-2/3	1	100%
10	-2/3	-1	100%
11	1	1	100%
12	1	-1	100%
13	-1	1	100%
14	-1	-1	100%
15	2	0	35%
16	-2	0	35%

7.2.1.4. The price range for generating the scenarios would be 6 standard deviation. The VSR for all Currency Derivatives Contracts is derived as

the maximum of a) 25% of annualized EWMA Volatility and b) applicable Minimum VSR%. While computing the worst scenario loss, it shall be assumed that the prices of futures of all maturities on the underlying move up or down by the same amount.

7.2.1.5. The maximum loss under any of the scenario (considering only 35% of the loss in case of scenarios 15 and 16) is referred to in this circular as the Worst Scenario Loss.

7.2.1.6. The sigma would be calculated using the methodology specified for currency futures in Para 5.2.2 and would be the standard deviation of daily logarithmic returns of FCY-INR futures price.

7.2.1.7. For the purpose of calculation of option values, the following standard option pricing models — Black Scholes, Binomial, Merton — would be used.

7.2.1.8. The initial margin would be deducted from the liquid assets of the clearing member on an online, real time basis.

7.2.1.8.1. Portfolio based margining

A portfolio based margining approach shall be adopted to take an integrated view of the risk involved in the portfolio of each individual client comprising his positions in options and futures contracts across different maturities. The client wise margins would be grossed across various clients at the Trading/Clearing Member level. The proprietary positions of the Trading/Clearing Member would be treated as that of a client.

7.2.1.8.2. Real time computation

Same as that for currency future contracts as specified in clause 5.2.4.

7.2.1.8.3. Calendar spread margins

7.2.1.9. A long currency option position at one maturity and a short option position at a different maturity in the same series, both having the same strike price would be treated as a calendar spread. The margin for options calendar spread would be the same as specified for FCY-INR currency futures calendar spread.

7.2.1.10. The margin would be calculated on the basis of delta of the portfolio in each month. A portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of -100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month currency futures and short 100 far month currency futures.

Portfolio would mean portfolio consisting of futures and /or options contract on a particular underlying. Option positions of different expiry, irrespective of their strike prices, shall also attract calendar spread margin.

7.2.1.10.1. Settlement of Premium

7.2.1.11. Premium would be paid in by the buyer in cash and paid out to the seller in cash on T+1 day.

7.2.1.12. Until the buyer pays in the premium, the premium due shall be deducted from the available Liquid Net Worth on a real time basis.

7.2.1.12.1. Extreme Loss margin

The Extreme Loss Margin rates shall be as under:

Product	ELM: Futures	ELM: Options
USDINR	0.50%	0.75%
EURINR	0.15%	0.75%
GBPINR	0.25%	0.75%
JPYINR	0.35%	0.75%

7.2.1.12.2. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in Section 1.2.7.

7.2.1.12.3. Net Option Value

The Net Option Value is the current market value of the option times the number of options (positive for long options and negative for short options) in the portfolio. The Net Option Value would be added to the Liquid Net Worth of the clearing member. Thus, mark to market gains and losses would not be settled in cash for options positions.

7.2.1.12.4. Liquid net worth

Same as that for currency future contracts as specified in clause 5.2.8.

7.2.1.12.5. Liquid assets

~~Same as that for currency future contracts as specified in clause 5.2.9.~~

~~7.2.1.12.6. Margin collection and enforcement~~

~~Same as that for currency future contracts as specified in clause 5.2.11.~~

~~7.2.1.12.7. Safeguarding client's money~~

~~Same as that for currency future contracts as specified in clause 5.2.12.~~

~~7.2.1.12.8. Periodic risk evaluation report~~

~~Same as that for currency future contracts as specified in clause 5.2.13.~~

Commented [A56]: Segregation of provisions related to CC as per S.No 2.14 of the consultation paper.

~~7.3. Surveillance and Disclosures~~

~~Same as that for currency future contracts as specified in clause 5.3.~~

~~7.3.1.1.1. Unique client code~~

~~Same as that for currency future contracts as specified in clause 5.3.1.~~

~~7.3.1.1.2. Position limits~~

~~Same as that for currency future contracts as specified in clause 5.3.2.~~

~~7.3.1.1.3. Surveillance system~~

~~Same as that for currency future contracts as specified in clause 5.3.4.~~

~~7.3.1.1.4. Surveillance Measures~~

~~Same as that for currency future contracts as specified in clause 5.4.~~

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~~7.4. Eligibility Criteria of the Segment, Exchanges and Trading Members~~

~~7.4.1.1.1. Eligibility criteria of currency options segment~~

~~Same as that for currency future contracts as specified in clause 5.5.1.~~

~~7.4.1.1.2.— Eligibility criteria for the Clearing Corporation of the currency options segment~~

~~Same as that for currency future contracts as specified in clause 5.5.2.~~

~~7.4.1.1.3.— Eligibility criteria for members in the currency futures segment~~

~~Same as that for currency future contracts as specified in clause 5.5.3.~~

~~7.4.1.1.4.— Regulatory and legal aspects~~

~~7.4.1.2.— Same as that for currency future contracts as specified in clause 5.5.4.~~

~~7.4.1.3.— A SEBI-RBI constituted committee would meet periodically to sort out issues, if any, arising out of overlapping jurisdiction of the currency options market.~~

8. EXCHANGE TRADED CROSS CURRENCY FUTURES AND OPTIONS CONTRACTS

8.1. Product Design

8.1.1.1.1. Permitted Underlying

- _____ Euro US Dollar spot rate (EUR-USD)
- _____ Pound Sterling US Dollar spot rate (GBP-USD)
- _____ US Dollar Japanese Yen spot rate (USD-JPY)

8.1.1.1.2. Trading Hours

The trading on currency futures would be available from 9 AM to 7:30 PM.

8.1.1.1.3. Size of the contract

The minimum contract size of the currency futures contract at the time of introduction would be EUR 1000, GBP 1000 and USD1000 for the Euro US Dollar (EUR-US\$), Pound Sterling US Dollar (GBP-US\$) and US Dollar Japanese Yen (US\$-JPY) respectively. The contract size would be periodically aligned to ensure that the size of the contract remains close to the minimum size.

8.1.1.1.4. Quotation

The cross currency futures contract would be quoted in US Dollar terms for the Euro US Dollar (EUR-US\$) and the Pound Sterling US Dollar (GBP-US\$) contracts, while it would be quoted in Japanese Yen terms for the US Dollar Japanese Yen (US\$-JPY) contracts. The outstanding positions would be in Euro and Pound Sterling for the Euro US Dollar (EUR-US\$) and the Pound Sterling US Dollar (GBP-US\$) contracts and in US Dollar for US Dollar Japanese Yen (US\$-JPY) contracts respectively.

8.1.1.1.5. Available contracts

8.1.1.2. Futures contracts: Twelve (12) serial monthly contracts.

8.1.1.3. Options contracts (Premium styled European Call and Put Options): Three (3) serial monthly contracts followed by three (3) quarterly contracts of the cycle March / June / September / December.

Commented [A58]: Moved to currency derivatives section

8.1.1.3.1.—Strike-price-of-option-contracts

~~Minimum of three (3) in-the-money, three (3) out-of-the-money and one (1) near-the-money strikes shall be provided for all available contracts.~~

8.1.1.3.2.—Last trading day

~~The last trading day for the contracts shall be two working days prior to the last working day of the expiry month at 12:30 p.m. If any last trading day is a trading holiday, then the last trading day shall be the previous trading day.~~

8.1.1.3.3.—Final Settlement Day

~~The contract would settle on the last working day (excluding Saturdays) of the month. The last working day would be taken to be the same as that for Interbank Settlements in Mumbai. The rules for Interbank Settlements, including those for 'known holidays' and 'subsequently declared holiday' would be those as laid down by FEDAI.~~

8.1.1.3.4.—Settlement mechanism

~~The contracts would be settled in cash in Indian Rupee (INR).~~

8.1.1.3.5.—Daily Settlement Price

~~8.1.1.4.—The daily settlement price of cross-currency derivatives contracts shall be the last half an hour volume weighted average price of the contract.~~

~~8.1.1.5.—In the absence of last half an hour trading, the daily settlement price shall be the theoretical price as calculated by the stock exchange. Stock exchanges shall be required to disclose the model / methodology used for arriving at the theoretical price.~~

~~8.1.1.6.—For arriving at the settlement value in INR for EUR-USD and GBP-USD contracts, the latest available RBI reference rate for USD-INR shall be used. For USD-JPY contracts, the settlement value in INR shall be arrived at using the latest available exchange rate published by RBI for JPY-INR.~~

8.1.1.6.1.—Final Settlement price

~~8.1.1.7.—The final settlement price of the cross-currency derivatives contracts shall be computed using the RBI reference rate for USD-INR and the~~



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corresponding exchange rate published by RBI for EUR-INR, GBP-INR and JPY-INR, as applicable, on the last trading day of the contract.

8.1.1.8. For arriving at the final settlement value in INR for EUR-USD and GBP-USD contracts, the RBI reference rate for USD-INR on the last trading day of the contract shall be used. For USD-JPY contracts, the final settlement value in INR shall be arrived at using the exchange rate published by RBI for JPY-INR on the last trading day of the contract.

8.1.1.8.1. Settlement day

Daily Settlement shall be on T+1 settlement basis and the Final Settlement shall be on T+2 settlement basis.

8.1.1.8.2. Exercise of options at expiry

On expiry date, all open long in-the-money contracts, on a particular strike of a series, at the close of trading hours would be automatically exercised at the final settlement price and assigned on a random basis to the open short positions of the same strike and series.

8.1.1.8.3. Eligible Participants

Eligible market participants, i.e., stock brokers, domestic institutional investors, FPIs and clients, are allowed to take positions in the exchange traded cross-currency futures and option contracts in the EUR-USD, GBP-USD and USD-JPY currency pairs and exchange traded currency option contracts in EUR-INR, GBP-INR and JPY-INR currency pairs, subject to terms and conditions mentioned in this circular and the relevant directions of RBI.

8.1.1.8.4. Position limits per stock exchange

Eligible market participants are allowed to take positions in the exchange traded cross-currency futures and options contracts without having to establish underlying exposure subject to the position limits as prescribed below:

8.1.1.9. Position limits for Stock Brokers (bank and non bank), Domestic Institutional Investors (DIIs) as permitted by the respective sectoral regulators and AD Category I banks:

Currency Pair	Position limits
EUR-USD	Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 100 million, whichever is higher.
GBP-USD	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 100 million, whichever is higher.
USD-JPY	Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher.

The aforementioned limits shall be the total limits available to the stock brokers for taking positions on proprietary basis and for positions of their clients.

8.1.1.10. Position limits for FPIs

8.1.1.10.1. FPIs are allowed to take positions in the exchange traded cross-currency futures and option contracts in the EUR-USD, GBP-USD and USD-JPY currency pairs and exchange traded currency option contracts in EUR-INR, GBP-INR and JPY-INR currency pairs, subject to terms and conditions as mentioned below

Position limits of Category I and II FPIs other than individuals, family offices and corporates:

Currency Pairs	Position Limits
EURUSD	Gross open position across all contracts shall

	not exceed 15% of the total open interest or EUR 100 million, whichever is higher.
GBPUSD	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 100 million, whichever is higher.
USDJPY	Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher.

Position limits of category II FPIs that are individuals, family offices and corporates:

Currency Pair	Position Limits
EURUSD	Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 10 million, whichever is higher.
GBPUSD	Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 10 million, whichever is higher.
USDJPY	Gross open position across all contracts shall not exceed 6% of the total open interest or USD 10 million, whichever is higher.

8.1.1.10.2. The following shall be implemented by the clearing corporations and the custodians of the FPIs for enabling monitoring of positions of FPIs:

8.1.1.10.2.1. The clearing corporation shall provide details on the FPI's day-end and day's highest open positions at end of day to the custodians of the FPI.

8.1.1.10.2.2. The custodian of the FPI shall aggregate the positions taken by the FPI on the currency derivatives segments of all the stock

exchanges and forward such details to the designated bank of the FPI. The custodian of securities of the FPI shall also provide the market value of applicable underlying exposure of the FPI to the designated bank of the FPI.

8.1.1.10.3. The onus of complying with the above provisions shall rest with the FPI and in case of any contravention, the FPI shall render itself liable to any action that may be warranted by RBI as per the provisions of Foreign Exchange Management Act, 1999 and Regulations, directions, etc. framed thereunder (latest FEMA directions may be referred to). These limits shall be monitored by stock exchanges and/or clearing corporations and breaches, if any, shall be reported to RBI. In this regard, stock exchanges/ clearing corporations shall devise a suitable mechanism to monitor the aforesaid limits, subject to appropriate regulatory concurrence.

8.1.1.11. Proprietary positions of non-bank stock brokers:

Currency Pair	Position limits
EUR USD	Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 50 million, whichever is higher.
GBP USD	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 50 million, whichever is higher.
USD JPY	Gross open position across all contracts shall not exceed 15% of the total open interest or USD 50 million, whichever is higher.

8.1.1.12. Position limits for Clients:

Currency Pair	Position limits
EUR-USD	Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 10 million, whichever is higher.
GBP-USD	Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 10 million, whichever is higher.
USD-JPY	Gross open position across all contracts shall not exceed 6% of the total open interest or USD 10 million, whichever is higher.

- 8.1.1.13. **Clearing Member Level:** No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.
- 8.1.1.14. The existing limits of USD 15 million for USD-INR contracts and USD 5 million for non USD-INR contracts (i.e. EUR-INR, GBP-INR and JPY-INR), all put together, per exchange, without having to establish underlying exposure, shall remain unchanged.
- 8.1.1.15. In case of positions taken to hedge underlying exposure, the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound in the event a drop of total open interest in a currency pair at a stock exchange. However, participants shall not be allowed to increase their existing positions or create new positions in the currency pair till they comply with the position limits.
- 8.1.1.16. Stock exchanges shall impose appropriate penalties for violation of position limits by stock brokers / FPIs / domestic clients.

Commented [A59]: Moved to Position limits of currency derivatives section

8.2. Risk Management

The margins shall be collected in INR. For this purpose, RBI reference rate of previous day for USD-INR and the corresponding exchange rate published by RBI for JPY-INR, as applicable, shall be used till 02:00 p.m. The latest available RBI reference rate for USD-INR and the corresponding exchange rate published by RBI for JPY-INR, as applicable, shall be used post 02:00 p.m.

8.2.1.1.1. Initial Margin

8.2.1.2. The Initial Margin requirement would be based on a worst scenario loss of a portfolio of an individual client comprising his positions in options and futures contracts on the same underlying across different maturities and across various scenarios of price and volatility changes.

8.2.1.3. The PSR for all Currency and Interest Rate Derivatives Contracts is derived as the maximum of 6σ and Minimum Percentage of Underlying Price.

Product	PSR	Minimum Initial Margin
Currency Contracts		
EURUSD	6σ	2.50%
GBPUSD	6σ	2.50%
USDJPY	6σ	2.50%

8.2.1.4. Since the margins shall be collected in INR, the price scanning range shall be scaled up by the total futures margin rate of the contract involving the quoted currency in cross-currency pair and INR.

8.2.1.5. However, for first two days of trading, the initial margin shall be computed using a sigma of 1.15% for EUR-USD contracts, 0.95% for GBP-USD contracts and 0.60% for USD-JPY contracts. Thereafter, the sigma would be calculated using the methodology specified for currency futures and would be the standard deviation of daily logarithmic returns of futures price.

8.2.1.6. For the purpose of calculation of option values, the following standard option pricing models—Black-Scholes, Binomial, Merton would be used.

8.2.1.7. The initial margin shall be deducted from the liquid assets of the clearing member on an online, real time basis.

8.2.1.7.1. Extreme Loss margin

8.2.1.8. The extreme loss margin shall be deducted from the liquid assets of the clearing member on an online, real time basis. The Extreme Loss Margin rates shall be as under:

Product	ELM: Futures	ELM: Options
EUR-USD	0.50%	0.50%
GBP-USD	0.50%	0.50%
USD-JPY	0.50%	0.50%

8.2.1.8.1. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in clause 1.2.7.

8.2.1.8.2. Net Option Value

The Net Option Value is the current market value of the option times the number of options (positive for long options and negative for short options) in the portfolio. The Net Option Value would be added to the Liquid Net Worth of the clearing member. Thus, mark to market gains and losses would not be settled in cash for options positions.

8.2.1.8.3. Calendar spread margin

8.2.1.9. A currency futures position at one maturity which is hedged by an offsetting position at a different maturity would be treated as a calendar spread. For a calendar spread position, the extreme loss margin shall be charged on one third of the mark to market value of the far month contract.

Product	Calendar Spread charge for spreads in months (INR)			
	Less than or equal to 1 month	More than 1 month and Less than or equal to 2 months	More than 2 months and Less than or equal to 3 months	More than 4 months
EURUSD	1600	1900	2100	2200

GBPUSD	1600	1900	2100	2200
USDJPY	1600	1900	2100	2200

8.2.1.10. A long currency option position at one maturity and a short option position at a different maturity in the same underlying would be treated as a calendar spread. The margin for options calendar spread would be the same as specified for the corresponding currency futures calendar spread.

8.2.1.11. The margin would be calculated on the basis of delta of the portfolio in each month. A portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of -100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month cross currency futures and short 100 far month cross currency futures. Option positions of different expiry, irrespective of their strike prices, shall also attract calendar spread margin.

8.2.1.12. The benefit for a calendar spread would continue till expiry of the near month contract. The calendar spread margin shall be charged in addition to the worst scenario loss of the portfolio.

8.2.1.12.1. Settlement of Premium

8.2.1.13. Premium would be settled in INR and would be paid in by the buyer in cash and paid out to the seller in cash on T+1 day. Until the buyer pays in the premium, the premium due shall be deducted from the available liquid assets on a real time basis.

8.2.1.14. For arriving at the settlement value in INR for EUR-USD and GBP-USD contracts, the latest available RBI reference rate for USD-INR shall be used. For USD-JPY contracts, the settlement value in INR shall be arrived at using the latest available exchange rate published by RBI for JPY-INR.

8.2.1.14.1. Updation of risk parameters

The clearing corporation of the stock exchange shall undertake two additional updates of the SPAN risk management parameters during the extended trading hours. Accordingly, SPAN parameters shall be updated at Beginning-of-Day, 11:00 a.m., 12:30 p.m., 02:00 p.m., 03:30 p.m., 05:00 p.m., 06:30 p.m., End-of-Day.

Commented [A60]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

8.3. Surveillance measures

With the view to ensure orderly trading and market integrity, stock exchanges shall implement a mechanism of Dynamic Price Bands in the currency derivatives segment on the lines below so as to prevent acceptance of orders placed beyond the price limits set by the stock exchanges:

8.3.1.1.1. Dynamic Price Bands for currency futures contracts (including cross-currency futures contracts)

8.3.1.2. Stock exchanges shall set the daily dynamic price bands of the currency futures contracts as mentioned in the table below:

Contracts with tenure up to 6 months	± 3% of the theoretical price or the previous day closing price, as applicable
Contracts with tenure greater than 6 months	± 5% of the theoretical price or the previous day closing price, as applicable

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4. INTEREST RATE DERIVATIVES

9.1.1.1. may The dynamic price bands shall be relaxed in increments of 1% as and when a market-wide trend is observed.

9.1.1.1.1. Dynamic Price Bands for currency options contracts (including cross-currency options contracts)

9.1.1.2. Stock exchanges shall implement a dynamic price band mechanism based on theoretical price of contracts to determine price bands for currency options.

9.1.1.3. Stock exchanges shall implement uniform mechanism for computation and relaxation of dynamic price bands for currency options contracts.

9.1.1.4. Stock exchanges shall take into consideration factors such as movement in the underlying price, volatility in the price of the underlying, any news on concerned foreign currency and its likely impact, movement of the price of the underlying at other stock exchanges, etc. while relaxing such price bands.

9.1.1.5. — Stock exchanges shall ensure that the mechanism for relaxation of dynamic price bands are not misused by market participants for manipulation in options contracts.

9.1.1.5.1. — Stock exchanges shall frame suitable rules with mutual consultation for such relaxation of dynamic price bands and shall make it known to the market.

Commented [A61]: Moved to Trading chapter as per S.No 2.18 of the consultation paper.

10. ~~INTEREST RATE FUTURES on 10-Year GoI Security~~

4.1. ~~Product Design~~

<u>S.No/ Category</u>	<u>INTEREST RATE FUTURES on 10- Year GoI Security</u>	<u>INTEREST RATE FUTURES on 91- Day GoI Treasury-Bill (T- Bill)</u>	<u>INTEREST RATE FUTURES on 2 Year Notional Coupon Bearing GOI security</u>	<u>INTEREST RATE FUTURES on 5 Year Notional Coupon Bearing GOI security</u>
<u>4.1.1. Underlying</u>	<u>4.1.1.1. 10-Year Notional Coupon- bearing Government of India (GoI) security</u>	<u>4.1.1.2. 91-day GOI T-Bill</u>	<u>4.1.1.3. Notional coupon bearing 2- year GoI security</u>	<u>4.1.1.4. Notional coupon bearing 5- year GoI security</u>
<u>4.1.2. Coupon</u>	<u>4.1.2.1. The notional coupon would be 7% with semi-annual compounding.</u>	--	<u>4.1.2.2. Notional coupon of 7% paid semi-annually and face value of Rs. 100.</u>	
<u>4.1.3. Size of the Contract</u>	<u>Rs. 2 lakh.</u>			
<u>4.1.4. Quotation</u>	<u>4.1.4.1. The Quotation would be similar to the quoted price of the GoI security.</u> <u>The day count convention for interest payments would be on the basis of a 360-day year, consisting of 12 months of 30 days each and half yearly coupon payment.</u>	<u>4.1.4.2. 100 minus futures discount yield (i.e. for a yield of 5% the quote would be 100-5=95). The value of 1 basis point change in the futures discount yield would be Rs. 5.</u>	<u>4.1.4.3. The Quotation would be similar to the quoted price of the GoI security</u>	
<u>4.1.5. Day count convention</u>	<u>4.1.5.1. The day count convention for interest payments would be on the basis of a 360-day year, consisting of 12 months of 30 days each and half yearly coupon payment.</u>	<u>4.1.5.2. The day count convention for interest payments would be on the basis of a 365-day year.</u>	<u>4.1.5.3. The day count convention for interest payments would be on the basis of a 360-day year.</u>	
<u>4.1.6. Tenor of the Contract</u>	<u>4.1.6.1. The maximum maturity of the contract would be 12 months.</u>			

<u>S.No/Category</u>	<u>INTEREST RATE FUTURES on 10-Year Govt Security</u>	<u>INTEREST RATE FUTURES on 91-Day Govt Treasury-Bill (T-Bill)</u>	<u>INTEREST RATE FUTURES on 2 Year Notional Coupon Bearing GOI security</u>	<u>INTEREST RATE FUTURES on 5 Year Notional Coupon Bearing GOI security</u>
<u>4.1.7. Available Contracts</u>	<u>4.1.7.1. The Contract Cycle would consist of Four fixed quarterly contracts for entire year, expiring in March, June, September and December.</u>	<u>4.1.7.2. Three serial monthly contracts followed by three quarterly contracts of the cycle March/June/September/December.</u>	<u>4.1.7.3. Three serial monthly contracts can be introduced</u>	
<u>4.1.8. Delivery Month and Delivery Period</u>	<u>4.1.8.1. The delivery month shall be the last month of the expiring contract, i.e., March, June, September and December. Exchanges to set any period of time during the delivery month as the delivery period for the deliverable grade securities.</u>	<u>4.1.8.2. Cash Settled</u>	<u>Not Applicable as Cash settled.</u>	

<u>4.1.9. Deliverable Grade Securities</u>	<u>4.1.9.1. Exchanges shall select their own basket of securities from the eligible Deliverable Grade Securities, viz., Govt securities maturing at least 7.5 years but not more than 15 years from the first day of the delivery month with a minimum total outstanding stock of Rs 10,000 crore.</u> <u>4.1.9.2. Exchanges shall disclose upfront to the market participants the composition of the basket of deliverable grade securities and the</u>	<u>4.1.9.3. Not Applicable as Cash settled.</u>
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	associated conversion factors for each of the quarterly contracts. To the basket of deliverable grade securities disclosed upfront by the Exchange for each of the quarterly contracts, additions, if any, shall be made not later than 10 business days before the first business day of the delivery month.			
4.1.10. Conversion Factor	4.1.10.1. The Conversion Factor for deliverable grade security would be equal to the price of the deliverable security (per rupee of the principal), on the first day (calendar day) of the delivery month, to yield 7% with semiannual compounding. 4.1.10.2. For deliveries into 10-Year Notional Coupon-bearing GoI security futures, the deliverable security's remaining term to maturity shall be calculated in complete three-month quarters, always rounded down to the nearest quarter. If, after rounding, the deliverable security lasts for an exact number of 6-month periods, the first coupon shall be assumed to be paid after 6 months. If, after rounding, the deliverable security does not last for an exact number of 6-month periods (i.e. there are an extra 3 months), the first coupon would be assumed to be paid after 3 months and accrued interest would be subtracted.		<u>NANA</u>	
as NA4.1.11. Last Trading day / Expiry Day	4.1.11.1. Exchange to set any day of the delivery month as last trading day.	4.1.11.2. The expiry / last trading day / final settlement day for the contract would be the last Wednesday of the expiry month.	4.1.11.3. The expiry / last trading day for the contract would be the last Thursday of the expiry month.	
4.1.11.4. If any expiry day is a trading holiday, then the expiry /last trading day would be the previous trading day.				
4.1.12. Last Delivery Day	4.1.12.1. Last business day of the delivery month.	<u>NA</u>	<u>NA</u>	<u>NA</u>
4.1.13. Daily Settlement	4.1.13.1. The Daily Settlement Price would be the closing price of the 10-year Notional Coupon-bearing GoI	4.1.13.6. Daily Contract	4.1.13.8. Daily Contract Settlement Value = 2000 * Pw	

Price and Final settlement price.	security futures contract on the trading day. (Closing price = Weighted Average price of the futures for last half an hour). In the absence of last half an hour trading the theoretical price, to be determined by the exchanges, would be considered as Daily Settlement Price. The daily settlement price (DSP) shall be determined in the following manner: 4.1.13.2. Step 1: The DSP is the volume weighted average price (VWAP) of the trades in the last 30 minute of trading, provided there are at least 5 trades for a minimum aggregate notional value of Rs. 10 crore. Failing which, trades during the last 60 minutes shall be used for the calculation of VWAP, subject to at least 5 trades for Rs.10 crore. Failing which trades during the last 120 minutes shall be used for the calculation of VWAP, subject to at least 5 trades for Rs.10 crore. 4.1.13.3. Step 2: If the DSP cannot be calculated as above, a theoretical price shall be used. This theoretical price shall be the minimum of the theoretical futures prices of all the securities in the delivery basket chosen by the Exchange. The theoretical futures price of each security is the weighted average cash price of outright trades of that security during the day on the NDS Order Matching platform, adjusted for cost of carry, subject to at least 5 trades for Rs.10 crore. If there are not enough trades as required above or there is a material market event during the trading hours, the theoretical futures price of each security shall be the FIMMDA / PDAI / Bloomberg revaluation price(s) (published on the FIMMDA website on a daily basis), adjusted for cost of carry. The cost of carry shall be computed for the period up to the last business day of the delivery month.	Settlement value⁶⁶ Rs. 2000 * (100 – 0.25 * yw) (Here yw is weighted average futures yield of last half an hour). In the absence of last half an hour trading, theoretical futures yield would be considered for computation of Daily Contract Settlement Value. 4.1.13.7. Final contract Settlement value: Rs. 2000 * (100 – 0.25 * yf) (Here yf is weighted average discount yield obtained from weekly auction of 91-day T-Bill on the day of expiry). The methodology of computation and dissemination of the weighted average discount yield would be as publicly disclosed by RBI.	(Here Pw is weighted average futures quote of last half an hour). In the absence of last half an hour trading, theoretical futures price would be considered for computation of Daily Contract Settlement Value. Exchanges would be required to disclose the model/methodology used for arriving at the theoretical price. 4.1.13.9. Final Contract Settlement Value = 2000 * Pf where Pf is the settlement price of the notional bond.
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⁶⁶ Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/27 dated February 20, 2018

	<u>4.1.13.4. If, however, the near quarter contract is liquid (5 trades for Rs. 10 crore during the last 30 minutes, 60 minutes or 120 minutes, as the case may be), the VWAP of the near quarter contract shall be adjusted for cost of carry to arrive at the theoretical price for subsequent quarter contracts. Further, if near quarter contract is illiquid while the next quarter contract is liquid, then the VWAP of the nearest liquid quarter contract shall be used to derive the prices of the illiquid previous as well as the subsequent quarter contracts.</u> <u>4.1.13.5. Daily Contract Settlement Value ⁶⁵</u> <u>4.1.13.5.1. The Daily Contract Settlement Value shall be = $Pw \times 2000$ (Here Pw is volume weighted average futures price of last half an hour).</u> <u>4.1.13.5.2. In the absence of last half an hour trading, theoretical futures price shall be considered for computation of Daily Contract Settlement Value.</u> <u>4.1.13.5.3. For computing theoretical futures price, volume weighted average price of underlying bond in last two hours of trading on NDS-OM shall be considered. In case, there are no trades in the last two hours of trading on NDS-OM, either of the following shall be considered:</u> <u>A theoretical price with reference to FIMMDA rates shall be used</u> OR <u>a. The volume weighted average price of underlying bond in the entire day shall be considered.</u> <u>b. In case there are no trades in the entire day on NDS-OM, then the previous day's theoretical price shall be considered. The same can be</u>		
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⁶⁵ Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/27 dated February 20, 2018

	considered up to maximum 5 trading days. c. If case there are no trades for more than 5 consecutive days, then a theoretical price with reference to FIMMDA rates shall be used. 4.1.13.5.4. Exchanges shall be required to disclose the model/methodology used for arriving at the theoretical price. 4.1.13.5.5. The cost of carry for the above purpose shall include the financing cost @ 91-day Treasury bill rate and the coupon of the particular security. The exchanges will be required to disclose the model/methodology used for arriving at the theoretical price.		
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10.1. **Margins and Position Limits**

10.1.1.1.1. Underlying

10-Year Notional Coupon-bearing Government of India (GoI) security

10.1.1.1.2. Coupon

The notional coupon would be 7% with semi-annual compounding.

10.1.1.1.3. Trading Hours

The Trading Hours would be from 9 a.m. to 5.00 p.m. on all working days from Monday to Friday.

10.1.1.1.4. Size of the Contract

The Contract Size would be Rs. 2 lakh.

10.1.1.1.5. Quotation

The Quotation would be similar to the quoted price of the GoI security. The day count convention for interest payments would be on the basis of a 360-day year, consisting of 12 months of 30 days each and half yearly coupon payment.

10.1.1.1.6. Tenor of the Contract

The maximum maturity of the contract would be 12 months.

10.1.1.1.7. Available Contracts

The Contract Cycle would consist of four fixed quarterly contracts for entire year, expiring in March, June, September and December.

10.1.1.1.8. Delivery Month and Delivery Period

The delivery month shall be the last month of the expiring contract, i.e., March, June, September and December. Exchanges to set any period of time during the delivery month as the delivery period for the deliverable grade securities.

10.1.1.1.9. Daily Settlement Price

10.1.1.2. The Daily Settlement Price would be the closing price of the 10-year Notional Coupon-bearing GoI security futures contract on the trading day. (Closing price = Weighted Average price of the futures for last half an hour). In the absence of last half an hour trading the theoretical price, to be determined by the exchanges, would be considered as Daily Settlement Price. The daily settlement price (DSP) shall be determined in the following manner:

10.1.1.2.1. Step 1: The DSP is the volume-weighted average price (VWAP) of the trades in the last 30 minute of trading, provided there are at least 5 trades for a minimum aggregate notional value of Rs. 10 crore. Failing which, trades during the last 60 minutes shall be used for the calculation of VWAP, subject to at least 5 trades for Rs.10 crore. Failing which trades during the last 120 minutes shall be used for the calculation of VWAP, subject to at least 5 trades for Rs.10 crore.

10.1.1.2.2. Step 2: If the DSP cannot be calculated as above, a theoretical price shall be used. This theoretical price shall be the minimum of the theoretical futures prices of all the securities in the delivery basket chosen by the Exchange. The theoretical futures price of each security is the weighted average cash price of outright trades of that security during the day on the NDS Order Matching platform.

adjusted for cost of carry, subject to at least 5 trades for Rs.10 crore. If there are not enough trades as required above or there is a material market event during the trading hours, the theoretical futures price of each security shall be the FIMMDA / PDAI / Bloomberg revaluation price(s) (published on the FIMMDA website on a daily basis: URL <http://www.fimmda.org/default.asp?access=na>), adjusted for cost of carry. The cost of carry shall be computed for the period upto the last business day of the delivery month.

10.1.1.3. If, however, the near quarter contract is liquid (5 trades for Rs. 10 crore during the last 30 minutes, 60 minutes or 120 minutes, as the case may be), the VWAP of the near quarter contract shall be adjusted for cost of carry to arrive at the theoretical price for subsequent quarter contracts. Further, if near quarter contract is illiquid while the next quarter contract is liquid, then the VWAP of the nearest liquid quarter contract shall be used to derive the prices of the illiquid previous as well as the subsequent quarter contracts.

10.1.1.4. Daily Contract Settlement Value

The Daily Contract Settlement Value shall be $= Pw \times 2000$

(Here Pw is volume weighted average futures price of last half an hour).

In the absence of last half an hour trading, theoretical futures price shall be considered for computation of Daily Contract Settlement Value.

For computing theoretical futures price, volume weighted average price of underlying bond in last two hours of trading on NDS-OM shall be considered. In case, there are no trades in the last two hours of trading on NDS-OM, either of the following shall be considered:

A theoretical price with reference to FIMMDA rates shall be used)

OR

- a. The volume weighted average price of underlying bond in the entire day shall be considered.
- b. In case there are no trades in the entire day on NDS-OM, then the previous day's theoretical price shall be considered. The same can be considered up to maximum 5 trading days.

c. If case there are no trades for more than 5 consecutive days, then a theoretical price with reference to FIMMDA rates shall be used.

Exchanges shall be required to disclose the model/methodology used for arriving at the theoretical price.

10.1.1.5. The cost of carry for the above purpose shall include the financing cost @ 91-day Treasury bill rate and the coupon of the particular security. The exchanges will be required to disclose the model/methodology used for arriving at the theoretical price.

10.1.1.5.1. Settlement Mechanism

The contract would be settled by physical delivery of deliverable grade securities using the electronic book entry system of the existing Depositories (NSDL and CDSL) and Public Debt Office (PDO) of the RBI. The delivery of the deliverable grade securities shall take place from the first business day of the delivery month till the last business day of the delivery month. The owner of a short position in an expiring futures contract shall hold the right to decide when to initiate delivery. However, the short position holder shall have to give intimation, to the Clearing Corporation, of his intention to deliver two business days prior to the actual delivery date.

10.1.1.5.2. Deliverable Grade Securities

Exchanges shall select their own basket of securities from the eligible Deliverable Grade Securities, viz., Govt securities maturing at least 7.5 years but not more than 15 years from the first day of the delivery month with a minimum total outstanding stock of Rs 10,000 crore. Exchanges shall disclose upfront to the market participants the composition of the basket of deliverable grade securities and the associated conversion factors for each of the quarterly contracts. To the basket of deliverable grade securities disclosed upfront by the Exchange for each of the quarterly contracts, additions, if any, shall be made not later than 10 business days before the first business day of the delivery month.

10.1.1.5.3. Conversion Factor

10.1.1.6. The Conversion Factor for deliverable grade security would be equal to the price of the deliverable security (per rupee of the principal), on the first day (calendar day) of the delivery month, to yield 7% with semiannual compounding.

10.1.1.7. For deliveries into 10-Year Notional Coupon-bearing GoI security futures, the deliverable security's remaining term to maturity shall be calculated in complete three-month quarters, always rounded down to the nearest quarter. If, after rounding, the deliverable security lasts for an exact number of 6-month periods, the first coupon shall be assumed to be paid after 6 months. If, after rounding, the deliverable security does not last for an exact number of 6-month periods (i.e. there are an extra 3 months), the first coupon would be assumed to be paid after 3 months and accrued interest would be subtracted.

10.1.1.7.1. Invoice Price

Invoice Price of the respective deliverable grade security would be the futures settlement price times a conversion factor plus accrued interest.

10.1.1.7.2. Delivery Schedule and Delivery Process/Mechanism

Buyer and seller in Interest rate Futures on 10-year Notional Coupon bearing GoI security shall take and give securities respectively in the demat or PDO mode. The delivery schedule shall be as follows:

T +0 day

10.1.1.8. Delivery notice: It is the day when the selling Clearing Member (CM) sends a notice to the Clearing Corporation (CC) expressing his intention to deliver along with details of the security to be delivered. CM shall send the notice before 6:00 pm IST on the second business day prior to the day he wishes to deliver. For example, if he wishes to deliver on 4th September 2009 and 2nd and 3rd are business days, he shall give notice before 6 PM on 2nd September 2009. Along with the notice, he shall provide the notional face value (equal to its short position in the expiring contract), security ISIN, coupon, maturity date, issuance date, coupon convention, and other details as may be sought by the CC. Based on these details CC shall calculate the invoice price.

Commented [A62]: Moved and tabulated to interest rate derivatives section



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~~10.1.1.9. Allocation: The CC shall identify the eligible long positions for allocation and assign the deliveries to long position holders at client level starting with the highest vintage till the allocation is over. Vintage data shall be computed and maintained at client level for every contract and shall be tracked by the CC on end of day basis. For a given vintage, if the contracts to be allocated (Short) are less than the total long positions, the allocation to such long position holders shall be done on a 'random' basis.~~

~~10.1.1.10. Based on the client level allocations as above, CC shall compute CM level deliverable/receivable obligations using multilateral netting and intimate the identified long position holders, by 8 pm IST on the date of receipt of notice, the details of the securities that they would be receiving and the invoice price.~~

~~10.1.1.11. The seller CM shall not be permitted to fulfill an individual futures contract by delivering a mixed portfolio of deliverable security (for example, Rs.1,20,000 face value of one issue and Rs. 80,000 face value of another issue is not permissible). However, a selling CM making delivery for more than one futures contract, say two contracts, may deliver two deliverable securities for two different contracts (Rs.2,00,000 face value of one issue for one contract and Rs.2,00,000 face value of another issue for the other contract).~~

~~_____~~
~~_____ T + 2 day~~
~~_____~~

~~10.1.1.12. On the second business day following the receipt of the delivery notice, the CMs shall discharge their obligations and the CC shall complete the settlement accordingly.~~

~~_____~~
~~10.1.1.12.1. Last Trading Day~~
~~_____~~

~~_____ Exchange to set any day of the delivery month as last trading day.~~
~~_____~~

~~10.1.1.12.2. Last Delivery Day~~
~~_____~~

~~_____ Last business day of the delivery month.~~
~~_____~~

~~10.1.1.12.3. Initial Margin~~
~~_____~~

~~10.1.1.13. Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so~~

computed so as to cover a more than 99% VaR over a one day horizon. In order to achieve this, the price scan range shall be based on 6σ, subject to the minimum percentage of underlying price as tabulated below:

Interest Rate Derivative	Minimum percentage of underlying Price
Interest Rate Derivatives	1.75%
91 Day T Bill	0.065%
MIBOR	5.50%

10.1.1.14. The volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum 3%. Methodology A, as specified in 7.1.21, shall be adopted for computation of initial margin. For this purpose, the yield for 10 Year benchmark GoI security, as published by FIMMDA, shall be used.

10.1.1.15. For the purpose of intra-day updation of VaR, the Exchanges shall use the yield of the benchmark 10 Year bond, from the NDS Order Matching platform. The initial margin so computed would be subject to a minimum of 2.33% of the value of the futures contract on the first day of trading in 10-year Notional Coupon-bearing GoI security futures and 1.6% of the value of the futures contract thereafter. The initial margin shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

10.1.1.15.1. Extreme Loss Margin

The Extreme Loss Margin rates shall be as under:

Product	ELM: Futures	ELM: Options
Interest Rate Derivatives	0.25%	0.25%

91 Day T Bill	0.015%	
MIBOR	0.50%	

10.1.1.15.2. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in clause 1.2.7.

10.1.1.15.3. Calendar Spread Margin

Interest rate futures position at one maturity hedged by an offsetting position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be as follows:

Calendar Spread charge for spreads in months (INR)				
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10.1.1.15.4. Model for Determining Standard Deviation

10.1.1.16. EWMA method would be used to obtain the volatility estimate every day fixing the price scan range based on 6σ , subject to the minimum percentage of underlying price as tabulated below:

Interest Rate Derivative	Minimum percentage of underlying Price
Interest Rate Derivatives	1.75%
91 Day T Bill	0.065%
MIBOR	5.50%

10.1.1.16.1. —

10.1.1.17. The volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum 3%. During the first time period on the first day of trading in 10-year Notional Coupon-bearing GoI security futures, the sigma to be considered shall be the historical volatility of FIMMDA marked nodal points for that tenor..



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0.1.1.17.1. Formula for Determining Standard Deviation

0.1.1.18. The EWMA method would be used to obtain the volatility estimate every day. The estimate at the end of time period t (σ_{yt}) is arrived at using the volatility estimate at the end of the previous time period i.e. as at the end of $t-1$ time period (σ_{yt-1}), and the return (r_{yt}) observed in the futures market during the time period t . The formula would be as under:

$$(\sigma_{yt})^2 = \lambda (\sigma_{yt-1})^2 + (1 - \lambda) (r_{yt})^2$$

Where

λ (lambda) is a parameter which determines how rapidly volatility estimates changes. The value of λ is fixed at 0.995.

- i. σ_{yt} (sigma) is the standard deviation of daily logarithmic returns of yield of 10-year Notional Coupon-bearing GoI security futures at time t .
- ii. The "return" is defined as the logarithmic return: $r_t = \ln(Y_t/Y_{t-1})$ where Y_t is the yield of 10-year Notional Coupon-bearing GoI security futures at time t .

For computing the margin, two methodologies can be considered.

Methodology A. The plus/minus 6 sigma limits for a 99% VAR based on logarithmic returns on yield of 10-year Notional Coupon-bearing GoI security futures would have to be converted into price volatility through the following formula:

$$\sigma_{pt} = D * \sigma_{yt} * Y_t$$

where

σ_{pt} is the standard deviation of percentage change in price at time t ;

D is Modified Duration;

Y_t is the yield of 10-year Notional Coupon-bearing GoI security futures at time t ; and

σ_{yt} (sigma) is the standard deviation of daily logarithmic returns of yield of 10-year Notional Coupon-bearing GoI security futures at time t .

The percentage margin on long position would be equal to $100 (D * 6 \sigma_{yt} * Y_t)$ and the percentage margin on short position would be equal to $100 (D * (-6 \sigma_{yt}) * Y_t)$. The Modified Duration for 10-Year Notional Coupon-bearing GoI security futures shall be 10.

Methodology B. The potential price change corresponding to 99% VAR can be computed by multiplying the appropriate yield change by the modified duration. That is,

$$\delta P = D * \delta Y,$$

$$\delta Y = Y_t - Y_0, \text{ and}$$

$$Y_t = Y_0 e^{\pm \sigma_y * \sqrt{t/252} * z}$$

Where,

δP = Percentage change in price

δY = Change in yield

Y_t = Yield of 10-year Notional Coupon-bearing GoI security futures at time t ; and

σ_y = Annualized yield volatility of 10-year Notional Coupon-bearing GoI security futures

z = One-tailed standard normal variate (value 6 as mentioned in footnote 5)

Thus, the percentage margin on long positions would be equal to

$$\delta P_{Long} = D * Y_0 * (e^{\sigma_y * \sqrt{t/252} * 3.5} - 1)$$

and the percentage margin on short positions would be equal to

$$\delta P_{Short} = D * Y_0 * (e^{-\sigma_y * \sqrt{t/252} * 3.5} - 1)$$

10.1.1.19. Alternatively, the exchanges can adopt uniform margins for both short and long positions, equivalent to the higher of the two values derived above.

10.1.1.20. An illustration of the two methodologies discussed above is enclosed at Annex A.

10.1.1.21. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute the margin for any given closing level of the interest rate futures price. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

Commented [A63]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

4.2. Position Limits

S.No/ Category	INTEREST RATE FUTURES on 10-Year GoI Security	INTEREST RATE FUTURES on 91 Day GoI T-Bill	INTEREST RATE FUTURES on 2 Year Notional Coupon Bearing GOI security	INTEREST RATE FUTURES on 5 Year Notional Coupon Bearing GOI security
4.2.1. Client level	4.2.1.1. The gross open positions of the client across all contracts should not exceed 6% of the total open interest or Rs 300 crores whichever is higher. The Exchange will disseminate alerts whenever the gross open position of the client exceeds 3% of the total open interest at the end of the previous day's trade.			
4.2.2. Trading Member level	4.2.2.1. The gross open positions of the trading member across all contracts should not exceed 15% of the total open interest or Rs. 1000 crores whichever is higher.			

<u>4.2.3. Clearing Member level</u>	<u>4.2.3.1. No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that its own trading position and the positions of each trading member clearing through it is within the limits specified above.</u>
<u>4.2.4. FPIs</u>	<u>4.2.4.1. In case of Foreign Portfolio Investors registered with SEBI the total gross long (bought) position in cash and Interest Rate Futures markets taken together should not exceed their individual permissible limit for investment in government securities and the total gross short (sold) position, for the purpose of hedging only, should not exceed their long position in the government securities and in Interest Rate Futures, at any point in time.</u>

4.2.5. With a view to ease trading requirements in the Interest Rate Futures⁶⁷ contracts, it is clarified that the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket. However, in the scenario, such market participants shall not be allowed to increase their existing positions or create new positions in the Interest Rate Futures contracts of the respective maturity bucket till they comply with the applicable position limits.

4.2.6. Notwithstanding the above, in view of risk management or surveillance concerns about the positions of such market participants, stock exchanges may direct them to bring down their positions to comply with the applicable position limits within the time prescribed by the stock exchanges.

Exchanges have the responsibility to monitor the position limits. However, exchanges may outsource the work to Clearing Corporations subject to entering into a formal agreement clearly outlining their respective roles, responsibilities and the commercials on arm's length basis.

4.2.7.

Commented [A64]: Clarification of provisions as per S.No 2.5 of the consultation paper.

10.1.1.21.1.

10.1.1.22. Client level: ~~The gross open positions of the client across all contracts should not exceed 6% of the total open interest or Rs 300 crores whichever is higher. The Exchange will disseminate alerts whenever the~~

⁶⁷ Circular no. SEBI/HO/MRD/DRMNP/CIR/P/2017/32 dated April 18, 2017



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gross open position of the client exceeds 3% of the total open interest at the end of the previous day's trade.

10.1.1.23. Trading Member level: The gross open positions of the trading member across all contracts should not exceed 15% of the total open interest or Rs. 1000 crores whichever is higher.

10.1.1.24. Clearing Member level: No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

10.1.1.25. FPIs: In case of Foreign Portfolio Investors registered with Securities and Exchange Board of India the total gross long (bought) position in cash and Interest Rate Futures markets taken together should not exceed their individual permissible limit for investment in government securities and the total gross short (sold) position, for the purpose of hedging only, should not exceed their long position in the government securities and in Interest Rate Futures, at any point in time.

10.1.1.26. With a view to ease trading requirements in the Interest Rate Futures contracts, it is clarified that the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket.

10.1.1.27. However, in the scenario, such market participants shall not be allowed to increase their existing positions or create new positions in the Interest Rate Futures contracts of the respective maturity bucket till they comply with the applicable position limits.

10.1.1.28. Notwithstanding the above in view of risk management or surveillance concerns about the positions of such market participants, stock exchanges may direct them to bring down their positions to comply with the applicable position limits within the time prescribed by the stock exchanges.

10.2. Risk Management Measures

10.2.1.1.1. Introduction

In exchange traded derivative contracts, the Clearing Corporation acts as a central counterparty to all trades and performs full novation. The risk to the Clearing Corporation can only be taken care of through a stringent margining framework. Also, since derivatives are leveraged instruments, margins also act as a cost and discourage excessive speculation. A robust

risk management system should therefore, not only impose margins on the members of the Clearing Corporation but also enforce collection of margins from the clients.

10.2.1.1.2. Portfolio Based Margining

The Standard Portfolio Analysis of Risk (SPAN) methodology shall be adopted to take an integrated view of the risk involved in the portfolio of each individual client comprising his positions in futures contracts across different maturities. The client-wise margins would be grossed across various clients at the Trading / Clearing Member level. The proprietary positions of the Trading / Clearing Member would be treated as that of a client.

10.2.1.1.3. Real-Time Computation

The computation of worst scenario loss would have two components. The first is the valuation of the portfolio under the various scenarios of price changes. At the second stage, these scenario contract values would be applied to the actual portfolio positions to compute the portfolio values and the initial margin. The exchanges shall update the scenario contract values at least 6 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m., 3:30 p.m. and at the end of the trading session. The latest available scenario contract values would be applied to member/client portfolios on a real time basis.

10.2.1.1.4. Liquid Network

The initial margin and the extreme loss margin shall be deducted from the liquid assets of the clearing member. The clearing member's liquid net worth after adjusting for the initial margin and extreme loss margin requirements must be at least Rs. 50 Lakhs at all points in time. The minimum liquid network shall be treated as a capital cushion for days of unforeseen market volatility.

10.2.1.1.5. Liquid Assets

The liquid assets for trading in Interest Rate Futures would have to be provided separately and maintained with the Clearing Corporation.

However, the permissible liquid assets, the applicable haircuts and minimum cash equivalent norms would be mutatis mutandis applicable from the equity/currency derivatives segment.

10.2.1.1.6. Mark-to-Market (MTM) Settlement

10.2.1.2. The MTM gains and losses shall be settled in cash before the start of trading on T+1 day. If MTM obligations are not collected before start of the next day's trading, the Clearing Corporation shall collect correspondingly higher initial margin to cover the potential for losses over the time elapsed in the collection of margins.

10.2.1.3. The daily closing price of interest rate futures contract for mark to market settlement would be calculated on the basis of the last half an hour weighted average price of the futures contract. In the absence of trading in the last half an hour the theoretical price would be taken. The eligible exchanges shall define the methodology for calculating the 'theoretical price' at the time of making an application for approval of the interest rate futures contract to SEBI. The methodology for calculating the 'theoretical price' would also be disclosed to the market.

10.2.1.3.1. Margin Collection and Enforcement

The client margins (initial margin, extreme loss margin, calendar spread margin and mark to market settlements) have to be compulsorily collected and reported to the Exchange by the members. The Exchange shall impose stringent penalty on members who do not collect margins from their clients. The Exchange shall also conduct regular inspections to ensure margin collection from clients.

10.2.1.3.2. Upfront collection of Margins

Same as that for index future contracts as specified in clause 1.2.12.

10.2.1.3.3. Safeguarding Client's Money

The Clearing Corporation should segregate the margins deposited by the Clearing Members for trades on their own account from the margins deposited with it on client account. The margins deposited on client account shall not be utilized for fulfilling the dues which a Clearing Member may owe the Clearing Corporation in respect of trades on the member's own account. The client's money is to be held in trust for client purpose



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only. The following process is to be adopted for segregating the client's money vis-à-vis the clearing member's money:

- 10.2.1.4. At the time of opening a position, the member should indicate whether it is a client or proprietary position.
- 10.2.1.5. Margins across the various clients of a member should be collected on a gross basis and should not be netted off.
- 10.2.1.6. When a position is closed, the member should indicate whether it was a client or his own position which is being closed.
- 10.2.1.7. In the case of default, the margins paid on the proprietary position would only be used by the Clearing Corporation for realizing its dues from the member.

10.2.1.7.1. Periodic Risk Evaluation Report

The Clearing Corporation of the Exchange shall on an ongoing basis and atleast once in every six months, conduct back testing of the margins collected vis-à-vis the actual price changes. A copy of the study shall be submitted to SEBI along with suggestions on changes to the risk containment measures, if any.

Commented [A65]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

10.3. Regulatory and Legal aspects

10.3.1.1.1. Exchange:

The Interest Rate Derivative contracts shall be traded on the Currency Derivative Segment of a recognized Stock Exchange. The members registered by SEBI for trading in Currency/Equity Derivative Segment shall be eligible to trade in Interest Rate Derivatives also, subject to meeting the Balance Sheet networth requirement of Rs 1 crore for a trading member and Rs 10 crores for a clearing member. Before the start of trading, the Exchange shall submit the proposal for approval of the contract to SEBI giving:

- 10.3.1.2. The details of the proposed interest rate futures contract to be traded in the exchange;
- 10.3.1.3. The economic purposes it is intended to serve;
- 10.3.1.4. Its likely contribution to market development;
- 10.3.1.5. The safeguards and the risk protection mechanisms adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading;



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~~10.3.1.6. The infrastructure of the exchange and surveillance system to effectively monitor trading in such contracts.~~

~~10.3.1.7. the proposed amendments to the Bye-laws of the Exchange/ Clearing Corporation / Clearing House.~~

~~10.3.1.8. Product design, margins and position limits as laid down in clause 8.1 are complied with.~~

~~10.3.1.9. Risk management measures are complied with.~~

~~10.3.1.9.1. Clearing Corporation / Clearing House~~

~~The Clearing Corporation / Clearing House of Interest Rate Futures shall be the same as for currency derivatives segment.~~

~~10.3.1.9.2. Clearing Member and Trading Member~~

~~The members registered by SEBI for trading in Currency/Equity Derivative Segment shall be eligible to trade in Interest Rate Derivatives also, subject to fulfilling the requirements mentioned in 6.4.1.~~

~~10.3.1.9.3. SEBI-RBI Coordination Mechanism~~

~~A SEBI-RBI constituted committee would meet periodically to sort out issues, if any, arising out of overlapping jurisdiction of the interest rate futures market.~~

~~10.4. Miscellaneous Issues~~

~~Banks Participation in Interest Rate Futures:~~

~~4.2.5.~~

4.2.8.1.

It is stated in the RBI Report on Interest Rate Futures that "...the current approval for banks' participation in IRF for hedging risk in their underlying investment portfolio of government securities classified under the Available for Sale (AFS) and Held for Trading (HFT) categories should be extended to the interest rate risk inherent in their entire balance sheet – including both on, and off, balance sheet items – synchronously with the re-introduction of the IRF."

~~10.4.1.1.1. Extending the Tenor of Short Sales~~

~~In the RBI Report on Interest Rate Futures, it has been recommended that the time limit on short selling be extended so that term / tenor / maturity of the short sale is co-terminus with that of the futures contract and a system of transparent and rule-based pecuniary penalty for SGL bouncing be put in place, in lieu of the regulatory penalty currently in force.~~

~~10.4.1.1.2. Penalties~~

~~In case there is a failure to honour the settlement obligation by the CM, the following action shall be followed:~~

~~10.4.1.2. Selling CM fails to deliver the securities~~

~~**T+0 day:** Selling CM gives intention to deliver the securities~~

~~**T+2 day:** Buying CM pays in funds and the selling CM fails to deliver the securities~~

~~**T+2 or T+3 day:** CC shall conduct buy-in auction of the securities.~~

~~In case of successful auction, the defaulting CM shall be debited by:
the actual auction price,
difference in invoice price and auction price, if the auction price is less than the invoice price, and
a penalty of 2% of the face value of security short delivered.~~

~~In case of unsuccessful auction, transaction shall be closed out wherein the defaulting CM shall be debited by:
invoice price, and
a penalty of 5% of the face value of security short delivered.~~

~~In respect of the seller in an auction failing to honour the auction obligations, he shall be debited by:
invoice price, and
a penalty of 3% of the face value of security short delivered~~

~~These penalties shall be passed on to the buying CM, who shall pass it on to the buying client.~~

~~10.4.1.3. — Buying CM fails to pay in funds~~

~~T+0 day: Selling CM gives intention to deliver the securities~~

~~T+2 day: Selling CM delivers securities and the buying CM fails to pay in funds.~~

~~The CC shall pay-out funds to the selling CM on T+2 day~~

~~Further,~~

~~10.4.1.3.1. — In case of a settlement shortage of Rs. 5 lakh or more, the trading facility of all trading members clearing through the buying CM shall be withdrawn in the Currency Derivatives Segment and the securities pay-out to the buying CM shall be withheld.~~

~~10.4.1.3.2. — If the buying CM is short for an amount of Rs. 2 lakh or more on six or more occasions in the preceding three months, the trading facility of all the trading members clearing through the buying CM shall be withdrawn in the Currency Derivatives Segment and the securities pay-out to the buying CM shall be withheld.~~

~~10.4.1.3.3. A penalty of 0.07% per day shall be levied on the amount of the shortage.~~

~~The trading facility shall be restored and securities withheld shall be released on the buying CM making good the shortage amount in all the above cases.~~

~~**Regulatory Penalty:** In case a selling CM defaults in delivering securities 5 times during a period of preceding 6 months, the trading facility of all the trading members clearing through the CM shall be withdrawn for 7 days.~~

~~10.4.1.4. — Margins and action on deliverable positions~~

~~10.4.1.4.1. **Margins on physical delivery positions:** For positions marked for delivery, a margin equal to VaR of the futures on the invoice price plus 5% of face value along with mark to market adjustments shall be charged both to the buying client and selling client. The margins shall be levied from the intention day and shall be released on the completion of the settlement.~~

~~10.4.1.4.2. **Margins from last trading day to last intention day:** For positions from last trading date till date of intention in cases where no intention is provided, a margin amount equal to VaR of the futures on the invoice price of the costliest security from the deliverable basket plus 5% of face value along with mark to market adjustments~~

~~based on the underlying closing prices of the costliest security from the deliverable basket shall be charged on both buying client and selling client. The margins shall be levied from the last trading day till the day of receipt of intention to deliver.~~

~~**Action in case no intent to deliver is provided:** In case no intent is provided by the selling CM till two business days prior to the last delivery date, it shall be presumed that selling CM has failed to deliver the security and the auction mechanism, as specified for security shortages, shall be activated. The auction shall take place one business day prior to the last delivery date.~~

11. INTEREST Rate Futures on 91-Day Government of India (GoI) Treasury Bill (T-Bill)

11.1. Product Design, Margins and Position Limits

11.1.1.1. Underlying

91-day GoI T-bill.

11.1.1.1.2. Trading hours

9 a.m. to 5 p.m.

11.1.1.1.3. Size of the contract

Rs. 2 lakh.

11.1.1.1.4. Quotation

100 minus futures discount yield (i.e. for a yield of 5% the quote would be 100-5=95). The value of 1 basis point change in the futures discount yield would be Rs. 5.

11.1.1.1.5. Tenor of the contract

The maximum maturity of the contract would be 12 months.

11.1.1.1.6. Contract months

Three serial monthly contracts followed by three quarterly contracts of the cycle March/June/September/December.

11.1.1.1.7. Settlement mechanism

The 91-day T-Bill future would be settled in cash in Indian Rupees.

11.1.1.1.8. Contract value

$$\text{Rs. } 2000 * (100 - 0.25 * y)$$

where y is the futures discount yield.

For example, for a futures discount yield of 5%, the contract value would be:

$$2000 * (100 - 0.25 * 5) = \text{Rs. } 197,500$$

11.1.1.1.9. Daily Contract Settlement value

$$\text{Rs. } 2000 * (100 - 0.25 * y_w)$$

(Here y_w is weighted average futures yield of last half an hour).

In the absence of last half an hour trading, theoretical futures yield would be considered for computation of Daily Contract Settlement Value.

11.1.1.1.10. Expiry/Last trading day/Final settlement day

The expiry / last trading day / final settlement day for the contract would be the last Wednesday of the expiry month. If any expiry day is a trading holiday, then the expiry/ last trading day/ final settlement day would be the previous trading day.

11.1.1.1.11. Final Contract Settlement value

$$\text{Rs. } 2000 * (100 - 0.25 * y_f)$$

(Here y_f is weighted average discount yield obtained from weekly auction of 91-day T-Bill on the day of expiry).

The methodology of computation and dissemination of the weighted average discount yield would be publicly disclosed by RBI.

Commented [A66]: Moved and tabulated to Interest Rate derivatives section.

11.1.1.1.12. Initial margin

The Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the price scan range shall be based on 6σ, subject to the minimum percentage of underlying price as tabulated below:

Interest Rate Derivative	Minimum percentage of underlying Price
Interest Rate Derivatives	1.75%
91 Day T Bill	0.065%
MIBOR	5.50%

The volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum 3%. The initial margin so computed would be subject to a minimum of 0.1% of the notional value of the contract on the first day of trading in 91-day T-bill futures and 0.05% of the notional value of the contract thereafter (the notional value of the contract shall be Rs. 2,00,000). The initial margin shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

11.1.1.1.13. Extreme Loss margin

The Extreme Loss Margin rates shall be as under:

Product	ELM: Futures	ELM: Options
Interest Rate Derivatives	0.25%	0.25%
91 Day T Bill	0.015%	-
MIBOR	0.50%	-

11.1.1.1.14. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in clause 1.2.7.

11.1.1.1.15. Calendar spread margin

Interest rate futures position at one maturity hedged by an offsetting position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be as follows:

Product	Calendar Spread charge for spreads in months (INR)			
	Less than or equal to 1 month	More than 1 month and Less than or equal to 2 months	More than 2 months and Less than or equal to 3 months	More than 4 months
Interest Rate Derivatives	1700	2000	2300	3200
91 Day T-Bill	110	160	210	260
MIBOR	7000	7500	8000	8000

11.1.1.1.16. Formula for determining standard deviation

The exponential moving average method would be used to obtain the volatility estimate every day. The estimate at the end of time period t (σ_{ydt}) is estimated using the volatility estimate at the end of the previous time period, i.e. as at the end of $t-1$ time period (σ_{ydt-1}) and the return (r_{ydt}) observed in the futures market during the time period t . The formula would be as under:

$$(\sigma_{ydt})^2 = \lambda (\sigma_{ydt-1})^2 + (1 - \lambda) (r_{ydt})^2$$

where

λ is a parameter which determines how rapidly volatility estimates change. The value of λ is fixed at 0.995.

i. $\sigma_{y_{dt}}$ (sigma) means the standard deviation of daily logarithmic returns of discount yield of 91-day T-Bill futures at time t .

ii. The "return" is defined as the logarithmic return: $r_{y_{dt}} = \ln(Y_{dt}/Y_{dt-1})$ where Y_{dt} is the discount yield of 91-day T-Bill futures at time t . The plus/minus 6 sigma limits for a 99% VAR based on logarithmic returns on discount yield of 91-day T-Bill futures would have to be converted into price changes through the following formula:

$$\sigma_{pt} = D * \sigma_{y_{dt}} * Y_{dt}$$

where

σ_{pt} means the standard deviation of percentage change in price at time t

D means Modified Duration

Y_{dt} = Discount Yield for 91-day T-Bill futures at time t

$\sigma_{y_{dt}}$ (sigma) means the standard deviation of daily logarithmic returns of discount yield at time t

The margin on long position would be equal to $100 * (D * 6\sigma_{y_{dt}} * Y_{dt})$ percentage of the notional value of the futures contract and the margin on short position would be equal to $100 * (D * 6\sigma_{y_{dt}} * Y_{dt})$ percentage of the notional value of the futures contract. The Modified Duration for 91-day T-Bill Futures shall be 0.25.

iii. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute the margin for any given closing level of the interest rate futures price. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

iv. During the first time period on the first day of trading in 91-day T-bill futures, the sigma would be equal to 2.7%.

Commented [A67]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

11.1.1.1.17. Position limits

11.1.1.1.2. **Client Level:** The gross open positions of the client across all contracts should not exceed 6% of the total open interest or Rs. 300 crores whichever is higher. The



Exchange will disseminate alerts whenever the gross open position of the client exceeds 3% of the total open interest at the end of the previous day's trade.

11.1.1.3. — Trading Member Level: The gross open positions of the trading member across all contracts should not exceed 15% of the total open interest or Rs. 1000 crores, whichever is higher.

11.1.1.4. — Clearing Member Level: No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

11.1.1.5. — FPIs: In case of Foreign Portfolio Investors, registered with Securities and Exchange Board of India, the total gross long (bought) position in cash and Interest Rate Futures markets taken together should not exceed their individual permissible limit for investment in government securities and the total gross short (sold) position, for the purpose of hedging only, should not exceed their long position in the government securities and in Interest Rate Futures, at any point in time.

11.1.1.6. — With a view to ease trading requirements in the Interest Rate Futures contracts, it is clarified that the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket.

11.1.1.7. — However, in the scenario, such market participants shall not be allowed to increase their existing positions or create new positions in the Interest Rate Futures contracts of the respective maturity bucket till they comply with the applicable position limits.

11.1.1.8. — Notwithstanding the above, in view of risk management or surveillance concerns about the positions of such market participants, stock exchanges may direct them to bring down their positions to comply with the applicable position limits within the time prescribed by the stock exchanges.

Commented [A68]: Moved and Tabulated in Interest Rate derivatives section

11.2. — Regulatory and Legal aspects

11.2.1.1.1. — Exchange

The Interest Rate Futures on 91-day T-Bill shall be traded on the Currency Derivative Segment of a recognized Stock Exchange. Eligible Stock Exchanges may introduce these contracts after obtaining prior approval from SEBI.

12. INTEREST Rate Futures on 2 Year Notional Coupon Bearing Government of India (GoI) Security

12.1. Product Design, Margins and Position Limits

12.1.1.1. Underlying

Notional coupon bearing 2-year GoI security with a notional coupon of 7% paid semi-annually and face value of Rs. 100.

12.1.1.1.2. Trading hours

The trading hours would be from 9 a.m. to 5.00 p.m.

12.1.1.1.3. Size of the contract

Rs. 2 lakh.

12.1.1.1.4. Quotation

The quotation would be similar to the quoted price of the GoI security.

12.1.1.1.5. Tenor of the contract

The maximum maturity of the contract would be 12 months.

12.1.1.1.6. Contract months

To begin with, three serial monthly contracts can be introduced.

12.1.1.1.7. Settlement mechanism

12.1.1.2. The futures on notional GoI security would be settled in cash in Indian Rupees. The settlement price of the notional bond would be determined on the basis of the yields of a basket of eligible bond(s) selected by the exchange with the yields of the bonds in the basket to be determined through a polling process carried out by Fixed Income, Money Market and Derivatives Association (FIMMDA) as detailed in Para 10.1.18.

12.1.1.3. Exchanges shall disclose upfront to the market participants the composition of the basket of securities for each of the contracts. Eligible bonds would comprise of GoI securities maturing at least 1.5 years but not more than 2.5 years from the expiry day.

12.1.1.3.1. Contract Value

The contract value would be: $= \text{Quoted price} * 2000$

12.1.1.3.2. Daily Contract Settlement Value

The Daily Contract Settlement Value would be: $= 2000 * P_w$

(Here P_w is weighted average futures quote of last half an hour).

In the absence of last half an hour trading, theoretical futures price would be considered for computation of Daily Contract Settlement Value. Exchanges would be required to disclose the model/methodology used for arriving at the theoretical price.

12.1.1.3.3. Expiry/Last trading day

The expiry / last trading day for the contract would be the last Thursday of the expiry month. If any expiry day is a trading holiday, then the expiry/ last trading day would be the previous trading day.

12.1.1.3.4. Final Contract Settlement Value

The Final Contract Settlement Value would be $= 2000 * P_t$

where P_t is the settlement price of the notional bond.

Commented [A69]: Moved and tabulated in Interest Rate derivatives section.

12.1.1.3.5. Initial Margin

12.1.1.4. The Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the price scan range shall be based on 6σ, subject to the minimum percentage of underlying price as tabulated below.

Interest Rate Derivative	Minimum percentage of underlying Price
Interest Rate Derivatives	1.75%
91 Day T Bill	0.065%
MIBOR	5.50%

12.1.1.5. The volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum 3%. The initial margin so computed would be subject to a minimum of 0.35% of the notional value of the contract on the first day of trading in Futures on 2 Year Notional Coupon Bearing Government of India (GoI) Security and 0.3% of the notional value of the contract thereafter. The initial margin shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

12.1.1.5.1. Extreme Loss margin

The Extreme Loss Margin rates shall be as under:

Product	ELM: Futures	ELM: Options
Interest Rate Derivatives	0.25%	0.25%
91 Day T Bill	0.015%	-

 भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India		
 भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India		
MIBOR	0.50%	-

12.1.1.5.2. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in clause 1.2.7.

12.1.1.5.3. Calendar spread margin

2 Year Notional Coupon Bearing Government of India (GoI) Security futures position at one maturity hedged by an offsetting 2 Year Notional Coupon Bearing Government of India (GoI) Security futures position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be as follows:

Product	Calendar Spread charge for spreads in months (INR)			
	Less than or equal to 1 month	More than 1 month and Less than or equal to 2 months	More than 2 months and Less than or equal to 3 months	More than 4 months
Interest Rate Derivatives	1700	2000	2300	3200
91 Day T Bill	110	160	210	260
MIBOR	7000	7500	8000	8000

12.1.1.5.4. Formula for determining standard deviation

The exponential moving average method would be used to obtain the volatility estimate every day. The estimate of volatility (σ_t) for the time period t is estimated using the volatility estimate (σ_{t-1}) for the previous time period and the return (r_{t-1}) observed in the futures market during the previous time period. The formula would be as under:

$$\{\sigma_t\}^2 = \lambda \{\sigma_{t-1}\}^2 + (1 - \lambda) \{r_{t-1}\}^2$$

where

λ is a parameter which determines how rapidly volatility estimates change. The value of λ is fixed at 0.995.

12.1.1.6. — σ_t (sigma) means the standard deviation of daily logarithmic returns of futures price of 2 Year Notional Coupon Bearing Government of India (GoI) Security at time t .

12.1.1.7. — The "return" is defined as the logarithmic return: $r_t = \ln(P_t/P_{t-1})$ where P_t is the futures price of 2 Year Notional Coupon Bearing Government of India (GoI) Security at time t . The plus/minus 6 sigma limits for a 99% VaR based on logarithmic returns would have to be converted into percentage price change by reversing the logarithmic transformation. The percentage margin on short positions would be equal to $100(\exp(6\sigma) - 1)$ and the percentage margin on long positions would be equal to $100(1 - \exp(-6\sigma))$. This implies slightly larger margins on short positions than on long positions. The derivatives exchange/clearing corporation may apply the higher margin on both the buy and sell side.

12.1.1.8. — The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute the margin for any given closing level of the interest rate futures price. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

12.1.1.9. — During the first time period on the first day of trading in 2 Year Notional Coupon Bearing Government of India (GoI) Security futures, the sigma would be equal to 0.10%.

Commented [A70]: Segregation of cc related provisions as per S.No 2.14 of the consultation paper.

12.1.1.9.1. — **Position Limits**

12.1.1.10. — **Client Level**

The gross open positions of the client across all contracts should not exceed 6% of the total open interest or Rs 300 crores whichever is higher. The Exchange will disseminate alerts whenever the gross open position of the client exceeds 3% of the total open interest at the end of the previous day's trade.

12.1.1.11. — **Trading Member Level**

The gross open positions of the trading member across all contracts should not exceed 15% of the total open interest or Rs. 1000 crores whichever is higher.

12.1.1.12. — Clearing Member Level

No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

12.1.1.13. — FPIs

12.1.1.13.1. In case of Foreign Portfolio Investors registered with Securities and Exchange Board of India the total gross long (bought) position in cash and Interest Rate Futures markets taken together should not exceed their individual permissible limit for investment in government securities and the total gross short (sold) position, for the purpose of hedging only, should not exceed their long position in the government securities and in Interest Rate Futures, at any point in time.

12.1.1.13.2. With a view to ease trading requirements in the Interest Rate Futures contracts, it is clarified that the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket.

12.1.1.13.3. However, in the scenario, such market participants shall not be allowed to increase their existing positions or create new positions in the Interest Rate Futures contracts of the respective maturity bucket till they comply with the applicable position limits. Notwithstanding the above, in view of risk management or surveillance concerns about the positions of such market participants, stock exchanges may direct them to bring down their positions to comply with the applicable position limits within the time prescribed by the stock exchanges.

Commented [A71]: Moved and Tabulated in Interest Rate derivatives section

12.1.1.13.4. — Settlement Mechanism

12.1.1.14. — Polling shall be carried out by the Fixed Income, Money Market and Derivatives Association, i.e., FIMMDA;

12.1.1.15. — The yields (Bid and Ask) of the GoI securities shall be polled from Primary Dealers (PDs) registered with the Reserve Bank of India;

12.1.1.16. — Each poll shall involve ten PDs who would be selected at random from the universe of PDs;

12.1.1.17. — Polling would be conducted at three instances, i.e., 11.00 am, 11.30 am and 12.00 pm daily;

12.1.1.18. — At each instance of polling, for each bond, out of the ten buy yields, two highest and two lowest yields would be treated as outliers and would be ignored. Similarly outliers from ten sell yields would be identified and ignored.

12.1.1.19. — After rejecting the outliers in above step, there will be [6 * 2 * 3 * Number of Bonds in Basket] number of remaining yields.

12.1.1.20. — Average settlement yield (Ys) is the simple average of the remaining yields. Ys will be rounded off to 4 decimal digits.

12.1.1.21. — Ys determined in above step would be used to calculate present value of notional underlying bond on the basis of formula given below. This will be the final settlement price of the contract.

Final settlement price =

$$\left[\frac{100}{\left(1 + \frac{Y_s}{2}\right)^4} \right] + \left[\sum_{k=1}^4 \frac{100 * \frac{C}{2}}{\left(1 + \frac{Y_s}{2}\right)^k} \right]$$

where,

Ys: — Settlement yield

C: — The notional coupon of underlying bond = 7%

Worked out example of settlement price calculation described above has been given below:

Worked out Example of Settlement price calculation:

Yield Figures Obtained by Polling of Dealers						
11:00 AM	Bond 1		Bond 2		Bond 3	
Dealer	Buy Yields	Sell Yields	Buy Yields	Sell Yields	Buy Yields	Sell Yields

Dealer-1	5.9600	5.9500	(6.0100)	(6.0000)	(6.0250)	(6.0425)
Dealer-2	5.9625	5.9500	6.0025	5.9925	6.0450	6.0300
Dealer-3	5.9650	(5.9550)	6.0050	5.9950	6.0450	6.0350
Dealer-4	(5.9600)	(5.9550)	(6.0025)	5.9975	(6.0425)	6.0375
Dealer-5	5.9625	5.9500	(6.0025)	5.9900	(6.0550)	(6.0275)
Dealer-6	(5.9725)	5.9525	(6.0175)	5.9975	(6.0575)	6.0375
Dealer-7	(5.9700)	5.9500	6.0100	(5.9900)	6.0475	(6.0275)
Dealer-8	(5.9600)	5.9500	6.0100	(6.0000)	6.0500	(6.0400)
Dealer-9	5.9625	(5.9475)	6.0050	5.9950	6.0450	6.0350
Dealer-10	5.9700	(5.9500)	6.0100	(5.9900)	6.0450	6.0350

-						
11:30 AM	Bond-1		Bond-2		Bond-3	
Dealer	Buy Yields	Sell Yields	Buy Yields	Sell Yields	Buy Yields	Sell Yields
Dealer-1	5.9700	5.9600	6.0150	6.0050	(6.0600)	(6.0500)
Dealer-2	(5.9750)	5.9600	6.0150	6.0000	6.0550	6.0375
Dealer-3	5.9750	(5.9650)	6.0175	(6.0075)	6.0575	(6.0475)
Dealer-4	5.9700	(5.9650)	6.0125	(6.0075)	6.0525	6.0475
Dealer-5	(5.9700)	(5.9500)	(6.0100)	(5.9900)	(6.0450)	(6.0250)
Dealer-6	5.9725	5.9600	6.0125	6.0000	6.0550	6.0400
Dealer-7	(5.9775)	5.9575	(6.0200)	6.0000	(6.0600)	6.0400
Dealer-8	5.9750	5.9550	(6.0200)	6.0000	6.0550	(6.0350)
Dealer-9	5.9750	(5.9550)	6.0150	6.0050	6.0600	6.0400
Dealer-10	(5.9700)	5.9600	(6.0050)	(5.9950)	(6.0500)	6.0400

-						
12:00 PM	Bond-1		Bond-2		Bond-3	
Dealer	Buy Yields	Sell Yields	Buy Yields	Sell Yields	Buy Yields	Sell Yields

Dealer 1	5.9750	(5.9650)	6.0200	(6.0100)	(6.0650)	(6.0550)
Dealer 2	5.9750	5.9600	6.0175	6.0025	6.0575	6.0450
Dealer 3	5.9750	(5.9650)	6.0175	(6.0075)	6.0575	(6.0475)
Dealer 4	(5.9700)	(5.9500)	6.0150	(5.9950)	6.0600	6.0400
Dealer 5	(5.9800)	5.9600	(6.0225)	6.0025	(6.0625)	6.0425
Dealer 6	5.9750	(5.9550)	6.0200	6.0000	6.0600	(6.0400)
Dealer 7	(5.9800)	5.9600	6.0200	(6.0000)	6.0600	(6.0400)
Dealer 8	5.9800	5.9600	(6.0250)	6.0050	6.0625	6.0425
Dealer 9	5.9750	5.9650	(6.0150)	6.0050	(6.0550)	6.0450
Dealer 10	(5.9750)	5.9650	(6.0150)	6.0050	(6.0575)	6.0475

* — () : Outlier yields, which are two highest and two lowest values on sell and buy side for individual bond at a particular instant of polling

* — Average of all the yields except those in parentheses () = **6.005787**

* — Settlement Yield = Average yield rounded off to 4 decimal digits = **6.0058**

Futures Settlement Price =

$$\left[\frac{100}{\left(1 + \frac{.060058}{2}\right)^4} \right] + \left[\sum_{k=1}^4 \frac{100 * \frac{.07}{2}}{\left(1 + \frac{.060058}{2}\right)^k} \right]$$

= **Rs. 101.8476**

Commented [A72]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

12.2. Regulatory and Legal aspects

12.2.1.1.1. Exchange



~~The Interest Rate Futures on 2-year GoI Securities shall be traded on the Currency Derivative Segment of a recognized Stock Exchange. Eligible Stock Exchanges may introduce these contracts after obtaining prior approval from SEBI.~~

13. INTEREST Rate Futures on 5 Year Notional Coupon Bearing Government of India (GoI) Security

13.1. Product Design, Margins and Position Limits

13.1.1.1. Underlying

Notional coupon bearing 5-year GoI security with a notional coupon of 7% paid semi-annually and face value of Rs. 100.

13.1.1.1.2. Trading hours

The trading hours would be from 9 a.m. to 5.00 p.m.

13.1.1.1.3. Size of the contract

Rs. 2 lakh.

13.1.1.1.4. Quotation

The quotation would be similar to the quoted price of the GoI security.

13.1.1.1.6. Tenor of the contract

The maximum maturity of the contract would be 12 months.

13.1.1.1.7. Contract months

To begin with, three serial monthly contracts can be introduced.

13.1.1.1.8.— Settlement mechanism

13.1.1.2.— The futures on notional GoI security would be settled in cash in Indian Rupees. The settlement price of the notional bond would be determined on the basis of the yields of a basket of eligible bond(s) selected by the exchange with the yields of the bonds in the basket to be determined through a polling process carried out by Fixed Income, Money Market and Derivatives Association (FIMMDA) as detailed in Para 11.1.19.

13.1.1.3.— Exchanges shall disclose upfront to the market participants the composition of the basket of securities for each of the contracts. Eligible bonds would comprise of GoI securities maturing at least 4.5 years but not more than 5.5 years from the expiry day.

13.1.1.3.1.— Contract Value

The contract value would be: $= \text{Quoted price} * 2000$

13.1.1.3.2.— Daily Contract Settlement Value

The Daily Contract Settlement Value would be: $= 2000 * P_w$

(Here P_w is weighted average futures quote of last half an hour).

In the absence of last half an hour trading, theoretical futures price would be considered for computation of Daily Contract Settlement Value. Exchanges would be required to disclose the model/methodology used for arriving at the theoretical price.

13.1.1.3.3.— Expiry/Last trading day

The expiry / last trading day for the contract would be the last Thursday of the expiry month. If any expiry day is a trading holiday, then the expiry/ last trading day would be the previous trading day.

13.1.1.3.4.— Final Contract Settlement Value

The Final Contract Settlement Value would be $= 2000 * P_f$

where P_t is the settlement price of the notional bond.

Commented [A73]: Moved and tabulated to Product design of Interest rate derivatives

13.1.1.3.5. Initial Margin

13.1.1.4. The Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the price scan range shall be based on 6σ , subject to the minimum percentage of underlying price as tabulated below.

Interest Rate Derivative	Minimum percentage of underlying Price
Interest Rate Derivatives	1.75%
91 Day T Bill	0.065%
MIBOR	5.50%

13.1.1.5. The volatility scan range is specified at 25% of annualized EWMA volatility subject to minimum 3%. The initial margin so computed would be subject to a minimum of 0.7% of the notional value of the contract on the first day of trading in Futures on 5 Year Notional Coupon Bearing GoI Security and 0.6% of the notional value of the contract thereafter. The initial margin shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

13.1.1.5.1. Extreme Loss margin

The Extreme Loss Margin rates shall be as under:

Product	ELM: Futures	ELM: Options
Interest Rate Derivatives	0.25%	0.25%
91 Day T Bill	0.015%	-
MIBOR	0.50%	-

13.1.1.5.2. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in clause 1.2.7.

13.1.1.5.3. Calendar spread margin

5 Year Notional Coupon Govt Security futures position at one maturity hedged by an offsetting 5 Year Notional Coupon Bearing Govt Security futures position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be as follows:

Product	Calendar Spread charge for spreads in months (INR)			
	Less than or equal to 1 month	More than 1 month and Less than or equal to 2 months	More than 2 months and Less than or equal to 3 months	More than 4 months
Interest Rate Derivatives	1700	2000	2300	3200
91 Day T Bill	110	160	210	260
MIBOR	7000	7500	8000	8000

13.1.1.5.4. Formula for determining standard deviation

The exponential moving average method would be used to obtain the volatility estimate every day. The estimate of volatility (σ_t) for the time period t is estimated using the volatility estimate (σ_{t-1}) for the previous time period and the return (r_{t-1}) observed in the futures market during the previous time period. The formula would be as under:

$$(\sigma_t)^2 = \lambda (\sigma_{t-1})^2 + (1 - \lambda) (r_{t-1})^2$$

where

λ is a parameter which determines how rapidly volatility estimates change. The value of λ is fixed at 0.995.

i. σ_t (sigma) means the standard deviation of daily logarithmic returns of futures price of 5 Year Notional Coupon Bearing Government of India (Govt) Security at time t .

ii. The "return" is defined as the logarithmic return: $r_t = \ln(P_t/P_{t-1})$ where P_t is the futures price of 5 Year Notional Coupon Bearing Govt Security at time t . The plus/minus 6 sigma limits for a 99% VaR based on logarithmic returns would have to be converted into percentage price change by reversing the logarithmic transformation. The percentage margin on short positions would

be equal to $100(\exp(6\sigma) - 1)$ and the percentage margin on long positions would be equal to $100(1 - \exp(-6\sigma))$. This implies slightly larger margins on short positions than on long positions. The derivatives exchange/clearing corporation may apply the higher margin on both the buy and sell side.

iii. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute the margin for any given closing level of the interest rate futures price. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

iv. During the first time period on the first day of trading in 5 Year Notional Coupon Bearing Govt Security futures, the sigma would be equal to 0.2%.

Commented [A74]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

13.1.1.5.5. **Position Limits**

13.1.1.6. **Client Level**

The gross open positions of the client across all contracts should not exceed 6% of the total open interest or Rs 300 crores whichever is higher. The Exchange will disseminate alerts whenever the gross open position of the client exceeds 3% of the total open interest at the end of the previous day's trade.

13.1.1.7. **Trading Member Level**

The gross open positions of the trading member across all contracts should not exceed 15% of the total open interest or Rs. 1000 crores whichever is higher.

13.1.1.8. **Clearing Member Level**

No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

13.1.1.9. **FPIs**

13.1.1.9.1. In case of Foreign Portfolio Investors registered with Securities and Exchange Board of India the total gross long (bought) position in cash and Interest Rate Futures markets taken together should not exceed their individual permissible limit for investment in

government securities and the total gross short (sold) position, for the purpose of hedging only, should not exceed their long position in the government securities and in Interest Rate Futures, at any point in time.

13.1.1.9.2. With a view to ease trading requirements in the Interest Rate Futures contracts, it is clarified that the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket.

13.1.1.9.3. However, in the scenario, such market participants shall not be allowed to increase their existing positions or create new positions in the Interest Rate Futures contracts of the respective maturity bucket till they comply with the applicable position limits.

13.1.1.9.4. Notwithstanding the above, in view of risk management or surveillance concerns about the positions of such market participants, stock exchanges may direct them to bring down their positions to comply with the applicable position limits within the time prescribed by the stock exchanges.

Commented [A75]: Moved and tabulated in Interest Rate derivatives section.

13.1.1.9.5. Settlement Mechanism

13.1.1.10. Polling shall be carried out by the Fixed Income, Money Market and Derivatives Association, i.e., FIMMDA;

13.1.1.11. The yields (Bid and Ask) of the GoI securities shall be polled from Primary Dealers (PDs) registered with the Reserve Bank of India;

13.1.1.12. Each poll shall involve ten PDs who would be selected at random from the universe of PDs;

13.1.1.13. Polling would be conducted at three instances, i.e., 11:00 am, 11:30 am and 12:00 pm daily;

13.1.1.14. At each instance of polling, for each bond, out of the ten buy yields, two highest and two lowest yields would be treated as outliers and would be ignored. Similarly outliers from ten sell yields would be identified and ignored.

13.1.1.15. After rejecting the outliers in above step, there will be $[6 * 2 * 3 * \text{Number of Bonds in Basket}]$ number of remaining yields.

13.1.1.16. Average settlement yield (Ys) is the simple average of the remaining yields. Ys will be rounded off to 4 decimal digits.

13.1.1.17. Ys determined in above step would be used to calculate present value of notional underlying bond on the basis of formula given below. This will be the final settlement price of the contract.

Final settlement price =

$$\left[\frac{100}{\left(1 + \frac{Y_s}{2}\right)^{10}} \right] + \left[\sum_{k=1}^{10} \frac{100 * \frac{C}{2}}{\left(1 + \frac{Y_s}{2}\right)^k} \right]$$

where,

Y_s : Settlement yield

C : The notional coupon of underlying bond = 7%

Worked out example of settlement price calculation described above has been given below.

Worked out Example of Settlement price calculation

Yield Figures Obtained by Polling of Dealers						
11:00 AM	Bond 1		Bond 2		Bond 3	
Dealer	Buy Yields	Sell Yields	Buy Yields	Sell Yields	Buy Yields	Sell Yields
Dealer 1	5.9600	5.9500	(6.0100)	(6.0000)	(6.0250)	(6.0425)
Dealer 2	5.9625	5.9500	6.0025	5.9925	6.0450	6.0300
Dealer 3	5.9650	(5.9550)	6.0050	5.9950	6.0450	6.0350
Dealer 4	(5.9600)	(5.9550)	(6.0025)	5.9975	(6.0425)	6.0375
Dealer 5	5.9625	5.9500	(6.0025)	5.9900	(6.0550)	(6.0275)
Dealer 6	(5.9725)	5.9525	(6.0175)	5.9975	(6.0575)	6.0375
Dealer 7	(5.9700)	5.9500	6.0100	(5.9900)	6.0475	(6.0275)
Dealer 8	(5.9600)	5.9500	6.0100	(6.0000)	6.0500	(6.0400)
Dealer 9	5.9625	(5.9475)	6.0050	5.9950	6.0450	6.0350
Dealer 10	5.9700	(5.9500)	6.0100	(5.9900)	6.0450	6.0350
-						
11:30 AM	Bond 1		Bond 2		Bond 3	
Dealer	Buy Yields	Sell Yields	Buy Yields	Sell Yields	Buy Yields	Sell Yields
Dealer 1	5.9700	5.9600	6.0150	6.0050	(6.0600)	(6.0500)
Dealer 2	(5.9750)	5.9600	6.0150	6.0000	6.0550	6.0375
Dealer 3	5.9750	(5.9650)	6.0175	(6.0075)	6.0575	(6.0475)
Dealer 4	5.9700	(5.9650)	6.0125	(6.0075)	6.0525	6.0475

Dealer-5	(5.9700)	(5.9500)	(6.0100)	(5.9900)	(6.0450)	(6.0250)
Dealer-6	5.9725	5.9600	6.0125	6.0000	6.0550	6.0400
Dealer-7	(5.9775)	5.9575	(6.0200)	6.0000	(6.0600)	6.0400
Dealer-8	5.9750	5.9550	(6.0200)	6.0000	6.0550	(6.0350)
Dealer-9	5.9750	(5.9550)	6.0150	6.0050	6.0600	6.0400
Dealer-10	(5.9700)	5.9600	(6.0050)	(5.9950)	(6.0500)	6.0400

-						
12:00 PM	Bond 1		Bond 2		Bond 3	
	Buy	Sell			Buy	Sell
Dealer	Yields	Yields	Buy Yields	Sell Yields	Yields	Yields
Dealer 1	5.9750	(5.9650)	6.0200	(6.0100)	(6.0650)	(6.0550)
Dealer 2	5.9750	5.9600	6.0175	6.0025	6.0575	6.0450
Dealer 3	5.9750	(5.9650)	6.0175	(6.0075)	6.0575	(6.0475)
Dealer 4	(5.9700)	(5.9500)	6.0150	(5.9950)	6.0600	6.0400
Dealer 5	(5.9800)	5.9600	(6.0225)	6.0025	(6.0625)	6.0425
Dealer 6	5.9750	(5.9550)	6.0200	6.0000	6.0600	(6.0400)
Dealer 7	(5.9800)	5.9600	6.0200	(6.0000)	6.0600	(6.0400)
Dealer 8	5.9800	5.9600	(6.0250)	6.0050	6.0625	6.0425
Dealer 9	5.9750	5.9650	(6.0150)	6.0050	(6.0550)	6.0450
Dealer 10	(5.9750)	5.9650	(6.0150)	6.0050	(6.0575)	6.0475

- * () : Outlier yields, which are two highest and two lowest values on sell and buy side for individual bond at a particular instant of polling
- * Average of all the yields except those in parentheses () = **6.005787**
- * Settlement Yield = Average yield rounded off to 4 decimal digits = **6.0058**

Futures Settlement Price =

$$\left[\frac{100}{\left(1 + \frac{.060058}{2}\right)^{10}} \right] + \left[\sum_{k=1}^{10} \frac{100 * \frac{.07}{2}}{\left(1 + \frac{.060058}{2}\right)^k} \right]$$

= **Rs. 104.2397**

13.2. Regulatory and Legal aspects

13.2.1.1.1. Exchange

Commented [A76]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.



~~The Interest Rate Futures on 5-year GoI Securities shall be traded on the Currency Derivative Segment of a recognized Stock Exchange. Eligible Stock Exchanges may introduce these contracts after obtaining prior approval from SEBI.~~

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14.4.3. Exchange Traded Cash Settled Interest Rate Futures (IRF) On 6 Year, 10 Year And 13 Year Government Of India Security⁶⁸

4.3.1. The product specifications, position limits and risk management framework for cash settled futures on 6-year 10-year and 13-year Gol security is given in subsequent paragraphs. Two different designs (Option-A: Coupon bearing Government of India security as underlying and Option-B Notional coupon bearing 6-year, 10-year and 13-year Government of India security with settlement price based on basket of Securities as underlying) are permitted for cash settled futures on 6-year, 10-year and 13-year Gol Security. Exchanges are permitted to launch contracts on either one or both of these options.

4.3.2. Before the launch of the product, the Stock Exchange/Clearing Corporation shall submit the proposal to SEBI for approval giving the details of contract specifications, risk management framework, the safeguards and the risk protection mechanisms, the surveillance systems etc.

S.No / Category		6 Years	10 Years	13 Years
4.3.3.Underlying	Option A	4.3.3.1. Gol security of face value INR 100 with semi-annual coupon and residual maturity between 4 years and 8 years on the day of expiry of IRF contract, as decided by stock exchanges in consultation with FIMMDA.	4.3.3.3. Gol security of face value Rs 100 with semi-annual coupon and residual maturity between 8 and 11 years on the day of expiry of IRF contract, as decided by stock exchanges in consultation with FIMMDA.	4.3.3.5. Gol security of face value INR 100 with semi-annual coupon and residual maturity between 11 years and 15 years on the day of expiry of IRF contract, as decided by stock exchanges in consultation with FIMMDA.
	Option B	4.3.3.2. Notional coupon bearing 6-year Gol security with a notional coupon paid semi-annually and face value of INR 100. For each	4.3.3.4. Notional coupon bearing 10-year Gol security with a notional coupon paid semi-annually and face value of Rs	4.3.3.6. Notional coupon bearing 13-year Gol security with a notional coupon paid semi-annually and face value of INR 100. For each contract, there shall be basket of Government of India

⁶⁸ Revised vide Circular No. CIR/MRD/DRMNP/35/2013 dated December 05, 2013 and CIR/MRD/DRMNP/11/2015 dated June 12, 2015

S.No / Category		6 Years	10 Years	13 Years
		contract, there shall be basket of Government of India Securities, with residual maturity between 4 years and 8 years on the day of expiry of IRF contract, with appropriate weight assigned to each security in the basket. Exchanges shall determine criteria for including securities in the basket and determining their weights such as trading volumes in cash market, minimum outstanding etc.	100. For each contract, there shall be basket of Government of India Securities, with residual maturity between 8 and 11 years on the day of expiry of IRF contract, with appropriate weight assigned to each security in the basket. Exchanges shall determine criteria for including securities in the basket and determining their weights such as trading volumes in cash market, minimum outstanding etc.	Securities, with residual maturity between 11 years and 15 years on the day of expiry of IRF contract, with appropriate weight assigned to each security in the basket. Exchanges shall determine criteria for including securities in the basket and determining their weights such as trading volumes in cash market, minimum outstanding etc.
4.3.3.7. Exchanges shall disclose the criteria for selection of the underlying bond/s in both options of cash settled Interest Rate Futures on 6-Years, 10 Years and 13 –Year Government of India security.				
4.3.4. Coupon	Option A	4.3.4.1. Coupon shall be same as that of the underlying bond		
	Option B:	4.3.4.2. To be decided by the exchange to reflect the interest rate environment during the launch of the contract.		
4.3.5. Size of the Contract		4.3.5.1. Each futures contract shall represent 2000 underlying bonds of total face value of INR 2,00,000/-.		
4.3.6. Quotation		4.3.6.1. The Quotation shall be similar to the quoted price of the Government of India security.		
4.3.7. Tenure of the Contracts		4.3.7.1. Three serial monthly contracts followed by maximum three additional quarterly contracts of March/June/September/December cycle may be made available by Stock Exchanges.		
4.3.8. Contract Value		4.3.8.1. The contract value shall be: = Quoted price * 2000		
4.3.9. Expiry/Last trading day		4.3.9.1. The expiry / last trading day for the contract shall be the last Thursday of the expiry month. If any expiry day is a trading holiday, then the expiry/ last trading day shall be the previous trading day.		
4.3.10. Settlement Day		4.3.10.1 Settlement day shall be the next working day of the Expiry day.		
4.3.11. Settlement Mechanism		4.3.11.1. Settlement shall happen in cash in INR.		
4.3.12. Daily Settlement Value		4.3.12.1. The Daily Contract Settlement Value shall be = $Pw \times 2000$ (Here Pw is volume weighted average futures price of last half an hour).		

S.No / Category	6 Years	10 Years	13 Years
	In the absence of last half an hour trading, theoretical futures price shall be considered for computation of Daily Contract Settlement Value. 4.3.12.2. For computing theoretical futures price, volume weighted average price of underlying bond in last two hours of trading on NDS-OM shall be considered. In case, there are no trades in the last two hours of trading on NDS-OM, either of the following shall be considered:- A theoretical price with reference to FIMMDA rates shall be used. OR a) The volume weighted average price of underlying bond in the entire day shall be considered. b) In case there are no trades in the entire day on NDS-OM, then the previous day's theoretical price shall be considered. The same can be considered up to maximum 5 trading days. c) If case there are no trades for more than 5 consecutive days, then a theoretical price with reference to FIMMDA rates shall be used. Exchanges shall be required to disclose the model/methodology used for arriving at the theoretical price		
4.3.13. Final Contract Settlement Value	4.3.13.1. The Final Contract Settlement Value shall be = $2000 * P_f$ where P_f is the final settlement price of the Underlying/Notional bond, which shall be determined as given below. Option-A: P_f will be arrived at by calculating the weighted average price of the underlying bond based on the prices during the last two hours of the trading on NDS-OM. If less than 5 trades are executed in the underlying bond during the last two hours of trading, then FIMMDA price shall be used for final settlement. Option-B: The final settlement price shall be based on average settlement yield (Y_s) which shall be the weighted average of the yields of bonds in the underlying basket, where weights will be the assigned weight of the bonds in the underlying basket. Y_s will be rounded off to 4 decimal digits. For each bond in the basket, yield shall be calculated by determining weighted average yield of the bond based on last two hours of the trading in NDS-OM. If less than 5 trades are executed in the bond during the last two hour of trading, then FIMMDA price shall be used for determining the yields of individual bonds in the basket. $P_f =$ $\left[\frac{100}{\left(1 + \frac{Y_s}{2}\right)^{2n}} \right] + \left[\sum_{k=1}^{2n} \frac{100 * \frac{C}{2}}{\left(1 + \frac{Y_s}{2}\right)^k} \right]$ where, Y_s: Average Settlement yield		

S.No / Category	6 Years	10 Years	13 Years
	C: The notional coupon of underlying bond n = 6 (for 6 year IRF); 10 (for 10 year IRF); 13 (for 13 year IRF)		

14.1. Underlying

14.1.1.1.1. 6 Years

Option A: Gov security of face value INR 100 with semi annual coupon and residual maturity between 4 years and 8 years on the day of expiry of IRF contract, as decided by stock exchanges in consultation with FIMMDA.

Option B: Notional coupon bearing 6 year Gov security with a notional coupon paid semi-annually and face value of INR 100. For each contract, there shall be basket of Government of India Securities, with residual maturity between 4 years and 8 years on the day of expiry of IRF contract, with appropriate weight assigned to each security in the basket. Exchanges shall determine criteria for including securities in the basket and determining their weights such as trading volumes in cash market, minimum outstanding etc.

14.1.1.1.2. **10 Years**

Option A: Gov security of face value Rs 100 with semi annual coupon and residual maturity between 8 and 11 years on the day of expiry of IRF contract, as decided by stock exchanges in consultation with FIMMDA.

Option B: Notional coupon bearing 10 year Gov security with a notional coupon paid semi-annually and face value of Rs 100. For each contract, there shall be basket of Government of India Securities, with residual maturity between 8 and 11 years on the day of expiry of IRF contract, with appropriate weight assigned to each security in the basket. Exchanges shall determine criteria for including securities in the basket and determining their weights such as trading volumes in cash market, minimum outstanding etc.

14.1.1.1.3. **13 Years**

Option A: Gov security of face value INR 100 with semi annual coupon and residual maturity between 11 years and 15 years on the day of expiry of IRF contract, as decided by stock exchanges in consultation with FIMMDA.

Option B: Notional coupon bearing 13 year Gov security with a notional coupon paid semi-annually and face value of INR 100. For each contract, there shall be basket of Government of India Securities, with residual maturity between 11 years and 15 years on the day of expiry of IRF contract, with appropriate weight assigned to each security in the basket. Exchanges shall determine criteria for including securities in the basket and determining their weights such as trading volumes in cash market, minimum outstanding etc.

Exchanges shall disclose the criteria for selection of the underlying bond/s in both options of cash settled Interest Rate Futures on 6 Years, 10 Years and 13 Year Government of India security.

14.2. **Coupon**

Option A: Coupon shall be same as that of the underlying bond.

Option B: To be decided by the exchange to reflect the interest rate environment during the launch of the contract.

14.3. Trading Hours

9 a.m. to 5.00 p.m. on all working days from Monday to Friday. Exchanges shall align the trading hours of IRF with that of underlying market in case of change of trading hours of underlying NDS-OM platform.

14.4. Size of the Contract

Each futures contract shall represent 2000 underlying bonds of total face value of INR 2,00,000/-.

14.5. Quotation

The Quotation shall be similar to the quoted price of the Government of India security.

14.6. Tenure of the Contracts

Three serial monthly contracts followed by maximum three additional quarterly contracts of March/June/September/December cycle may be made available by Stock Exchanges.

14.7. Contract Value

The contract value shall be: = Quoted price * 2000

14.8. Daily Contract Settlement Value

The Daily Contract Settlement Value shall be = $P_w \times 2000$
(Here P_w is volume weighted average futures price of last half an hour).
In the absence of last half an hour trading, theoretical futures price shall be considered for computation of Daily Contract Settlement Value.
For computing theoretical futures price, volume weighted average price of underlying bond in last two hours of trading on NDS-OM shall be considered. In case, there are no trades in the last two hours of trading on NDS-OM, either of the following shall be considered:-
A theoretical price with reference to FIMMDA rates shall be used.
OR
a) The volume weighted average price of underlying bond in the entire day shall be considered.
b) In case there are no trades in the entire day on NDS-OM, then the previous day's theoretical price shall be considered. The same can be considered up to maximum 5 trading days.

e) If case there are no trades for more than 5 consecutive days, then a theoretical price with reference to FIMMDA rates shall be used.

Exchanges shall be required to disclose the model/methodology used for arriving at the theoretical price

14.9. **Expiry/Last trading day**

The expiry / last trading day for the contract shall be the last Thursday of the expiry month. If any expiry day is a trading holiday, then the expiry/ last trading day shall be the previous trading day.

14.10. **Settlement Day**

Settlement day shall be the next working day of the Expiry day.

14.11. **Settlement Mechanism**

Settlement shall happen in cash in INR.

14.12. **Final Contract Settlement Value**

The Final Contract Settlement Value shall be $= 2000 * P_f$ where P_f is the final settlement price of the Underlying/Notional bond, which shall be determined as given below.

Option-A:

P_f will be arrived at by calculating the weighted average price of the underlying bond based on the prices during the last two hours of the trading on NDS-OM. If less than 5 trades are executed in the underlying bond during the last two hours of trading, then FIMMDA price shall be used for final settlement.

Option-B:

The final settlement price shall be based on average settlement yield (Y_s) which shall be the weighted average of the yields of bonds in the underlying basket, where weights will be the assigned weight of the bonds in the underlying basket. Y_s will be rounded off to 4 decimal digits. For each bond in the basket, yield shall be calculated by determining weighted average yield of the bond based on last two hours of the trading in NDS-OM. If less than 5 trades are executed in the bond during the last two hour of trading, then FIMMDA price shall be used for determining the yields of individual bonds in the basket.

Pf =

$$\left[\frac{100}{\left(1 + \frac{Y_s}{2}\right)^{2n}} \right] + \left[\sum_{k=1}^{2n} \frac{100 * \frac{C}{2}}{\left(1 + \frac{Y_s}{2}\right)^k} \right]$$

where,

Ys: Average Settlement yield

C: The notional coupon of underlying bond

n = 6 (for 6 year IRF); 10 (for 10 year IRF); 13 (for 13 year IRF)

Commented [A77]: Moved and tabulated in Interest rate derivatives section.

4.4.4.3.14. Position Limits⁶⁹

Following position limits shall be applicable for IRF contracts:

4.4.1.1.1.4.3.14.1. Client/ Non-institutions belonging to Category II FPI (i.e., individuals, family offices and companies)/ Category III FPI/ Scheme of Mutual Fund Level:

The gross open positions across all contracts within the respective maturity bucket shall not exceed 3% of the total open interest in the respective maturity bucket or INR 200 crore, whichever is higher.

4.4.1.1.2.4.3.14.2. Trading Member/ Mutual Fund/ Insurance Companies /Housing Finance Companies/ Pension Funds Level/ Banks and Primary Dealers dealing as clients/ Institutions belonging to Category I and II FPIs (i.e., other than individuals, family offices and companies):

The gross open positions across all contracts within the respective maturity bucket shall not exceed 10% of the total open interest in the respective maturity bucket or INR 600 crore, whichever is higher.

4.4.1.1.3.4.3.14.3. Position limits ~~have been revised~~ for Interest Rate Derivatives falling in 8-11 years residual maturity bucket. ~~The revised position limits for all the buckets~~ shall be as under:

⁶⁹ Circular No. SEBI/HO/MRD/CIR/P/2019/103 dated September 26, 2019

Category	Position limits for 8-11 year bucket	Position limits each for 4-8 and 11-15 years bucket
Trading members, institutions in Category I and II FPIs (i.e. other than individuals, family offices and companies), banks and Primary Dealers, Mutual Funds (at AMC level), Insurance Companies, Pension Funds and Housing Finance companies	10% of Open Interest or INR1,200 crore whichever is higher	10% of Open Interest or INR 600 crore whichever is higher
Non-institutions in Category II FPIs (i.e. individuals, family offices and companies), Mutual Fund (Scheme level) and other clients	3% of Open Interest or INR 400 crore whichever is higher	3% of Open Interest or INR 200 crore whichever is higher

4.4.1.1.4.3.14.4. Additional restriction for FPIs:

The total gross short (sold) position of each FPI in IRF shall not exceed its long position in the government securities and in Interest Rate Futures, at any point in time. The total gross long (bought) position in cash and IRF markets taken together for all FPIs shall not exceed the aggregate permissible limit for investment in government securities for FPIs.

FPIs shall ensure compliance with the above limits. Stringent action shall be taken against FPI in case of violation of the limits.

4.4.1.1.5.4.3.14.4.1. Clearing Member Level

No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

4.4.1.1.6.4.3.14.4.2. Exchange Level Overall Position Limit

At any Exchange overall open interest on IRF contracts on each underlying shall not exceed 25% of the outstanding of underlying bond.

~~4.4.1.1.7.4.3.14.4.3.~~ With a view to ease trading requirements in the Interest Rate Futures contracts, it is clarified that the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket.

~~4.4.1.1.8.4.3.14.4.4.~~ However, in the scenario, such market participants shall not be allowed to increase their existing positions or create new positions in the Interest Rate Futures contracts of the respective maturity bucket till they comply with the applicable position limits.

~~4.4.1.1.9.4.3.14.4.5.~~ Notwithstanding the above, in view of risk management or surveillance concerns about the positions of such market participants, stock exchanges may direct them to bring down their positions to comply with the applicable position limits within the time prescribed by the stock exchanges.

4.5. Price Bands

~~4.5.1.1.1.~~ For every IRF contract, Stock Exchanges shall set an initial price band at 3% of the previous closing price thus preventing acceptance of orders _____ for execution that are placed beyond the set band. Whenever a trade in any contract is executed at the highest/lowest price of the band, stock exchanges may expand the price band for that contract by 0.5% in that direction after 30 minutes after taking into account market trend. However, no more than 2 expansions in the price band shall be allowed within a day.

~~4.5.1.1.2.4.3.14.5.~~ Further, SEBI in consultation with RBI may halt the trading in case of extreme volatility in the IRF market.

4.6. Risk Management Framework

~~4.6.1.1.1.~~ Clearing Corporations shall determine appropriate risk management framework for the product and submit the same to SEBI for approval.

~~4.6.1.1.2.~~ The Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. Further

Extreme Loss margins and calendar spread margins shall also be prescribed by clearing corporations. Margins shall be deducted from the liquid assets of the clearing member on an on-line, real time basis.

4.7. Margin on consolidated crystallized obligation

Same as that for index future contracts as specified in clause 1.2.7.

Commented [A78]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

5. DERIVATIVE CONTRACTS ON FOREIGN INDICES

5.1.Underlying	5.1.1. Derivative contracts on foreign stock indices are permitted as per the eligibility criteria.																																																								
5.2.Eligibility Criteria	5.2.1. A stock exchange may introduce derivatives on a foreign stock index if: Derivatives on that Index is available on any of the stock exchanges listed in table given below: <table> <tr> <th>S No.</th><th>Exchange</th></tr> <tr> <td colspan="2">Americas</td></tr> <tr> <td>1.</td><td>BM&FBOVESPA</td></tr> <tr> <td>2.</td><td>Chicago Board Options Exchange (CBOE)</td></tr> <tr> <td>3.</td><td>CME Group</td></tr> <tr> <td>4.</td><td>ICE Futures U.S.</td></tr> <tr> <td>5.</td><td>International Securities Exchange (ISE)</td></tr> <tr> <td>6.</td><td>MexDer</td></tr> <tr> <td>7.</td><td>Montréal Exchange</td></tr> <tr> <td>8.</td><td>NASDAQ OMX PHLX</td></tr> <tr> <td colspan="2">Asia Pacific</td></tr> <tr> <td>1.</td><td>Australian Securities Exchange</td></tr> <tr> <td>2.</td><td>Bursa Malaysia</td></tr> <tr> <td>3.</td><td>Hong Kong Exchanges</td></tr> <tr> <td>4.</td><td>Korea Exchange</td></tr> <tr> <td>5.</td><td>Osaka Securities Exchange</td></tr> <tr> <td>6.</td><td>Singapore Exchange</td></tr> <tr> <td>7.</td><td>TAIFEX</td></tr> <tr> <td>8.</td><td>Tokyo Stock Exchange Group</td></tr> <tr> <td colspan="2">Europe, Africa, Middle East</td></tr> <tr> <td>1.</td><td>Borsaitaliana</td></tr> <tr> <td>2.</td><td>Eurex</td></tr> <tr> <td>3.</td><td>Johannesburg SE</td></tr> <tr> <td>4.</td><td>MEFF</td></tr> <tr> <td>5.</td><td>NASDAQ OMX Nordic Exchange</td></tr> <tr> <td>6.</td><td>NYSE Liffe (European markets)</td></tr> <tr> <td>7.</td><td>Oslo Børs</td></tr> <tr> <td>8.</td><td>Tel Aviv SE</td></tr> </table> 5.2.2. In terms of trading volumes (number of contracts), derivatives on that Index figures among the top 15 Index derivatives globally. OR That Index has a market capitalization of at least USD 100 billion.	S No.	Exchange	Americas		1.	BM&FBOVESPA	2.	Chicago Board Options Exchange (CBOE)	3.	CME Group	4.	ICE Futures U.S.	5.	International Securities Exchange (ISE)	6.	MexDer	7.	Montréal Exchange	8.	NASDAQ OMX PHLX	Asia Pacific		1.	Australian Securities Exchange	2.	Bursa Malaysia	3.	Hong Kong Exchanges	4.	Korea Exchange	5.	Osaka Securities Exchange	6.	Singapore Exchange	7.	TAIFEX	8.	Tokyo Stock Exchange Group	Europe, Africa, Middle East		1.	Borsaitaliana	2.	Eurex	3.	Johannesburg SE	4.	MEFF	5.	NASDAQ OMX Nordic Exchange	6.	NYSE Liffe (European markets)	7.	Oslo Børs	8.	Tel Aviv SE
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	5.2.3. That index is "broad based". An Index is broad based if : 5.2.3.1. The Index consists of a minimum of 10 constituent stocks and 5.2.3.2. No single constituent stock has more than 25% of the weight, computed in terms of free float market capitalization, in the Index.
5.3.Failure to meet Eligibility Criteria	5.3.1. After introduction of derivatives on a particular stock index, if that stock index fails to meet any of the eligibility criteria for three months consecutively, no fresh contract shall be introduced on that Index. However, the existing unexpired contracts would be traded till expiry and new strikes may be introduced on those contracts.
5.4.Currency Denomination	5.4.1. The absolute numerical value of the underlying foreign stock index shall be denominated in Indian Rupees (INR). The derivatives contracts on that foreign stock index would be denominated traded and settled in Indian rupees.
5.5.Risk Management Framework	5.5.1. The stock exchange shall submit the risk management framework along with its application for introduction of derivatives on foreign stock indices.
5.6. Position Limits	5.6.1. The Trading Member/Mutual Funds position limits (higher of Rs. 500 crore or 15% of the total open interest in Index derivatives) as well as the disclosure requirement for clients whose position exceed 15% of the open interest of the market, as applicable to domestic stock index derivatives, shall be applicable to derivatives on foreign stock indices.
5.7.Information Sharing	5.7.1. The stock exchange shall ensure that material price sensitive information and information relating to regulatory actions and corporate actions relating to constituent stocks of the foreign stock index, as available in public domain, are available to Indian investors.
5.8. Legal Compliance	5.8.1. The stock exchange shall ensure compliance with any other legal provisions relating to introduction of derivatives on foreign stock indices and obtain requisite approvals from the concerned regulatory bodies.
5.9. Enforcement	5.9.1. Any kind of market demeanor in the market for the derivatives on foreign stock indices shall be subject to the appropriate enforcement actions, as applicable to the market for any securities.
5.10.Trading	5.10.1. Trading in derivatives on Foreign Stock Indices shall be restricted to residents in India.

5.1. Underlying

Derivative contracts on foreign stock indices are permitted as per the eligibility criteria.

5.2. Eligibility Criteria

A stock exchange may introduce derivatives on a foreign stock index if:

5.2.1.1.1. Derivatives on that Index is available on any of the stock exchanges listed in table given below:

S No.	Exchange
Americas	
1.	BM&FBOVESPA
2.	Chicago Board Options Exchange (CBOE)
3.	CME Group
4.	ICE Futures U.S.
5.	International Securities Exchange (ISE)
6.	MexDer
7.	Montréal Exchange
8.	NASDAQ OMX PHLX
Asia Pacific	
1.	Australian Securities Exchange
2.	Bursa Malaysia
3.	Hong Kong Exchanges
4.	Korea Exchange
5.	Osaka Securities Exchange
6.	Singapore Exchange
7.	TAIFEX
8.	Tokyo Stock Exchange Group
Europe, Africa, Middle East	
1.	Borsaitaliana
2.	Eurex
3.	Johannesburg SE
4.	MEFF
5.	NASDAQ OMX Nordic Exchange
6.	NYSE Liffe (European markets)
7.	Oslo Børs
8.	Tel Aviv SE

5.2.1.1.2. In terms of trading volumes (number of contracts), derivatives on that Index figures among the top 15 Index derivatives globally.

OR

That Index has a market capitalization of at least USD 100 billion.

5.2.1.1.3. That index is “broad based”. An Index is broad based if :

5.2.1.2. The Index consists of a minimum of 10 constituent stocks and

5.2.1.3. No single constituent stock has more than 25% of the weight, computed in terms of free float market capitalization, in the Index.

5.3. Failure to meet Eligibility Criteria

After introduction of derivatives on a particular stock index, if that stock index fails to meet any of the eligibility criteria for three months consecutively, no fresh contract shall be introduced on that Index. However, the existing unexpired contracts would be traded till expiry and new strikes may be introduced on those contracts.

5.4. Currency Denomination

The absolute numerical value of the underlying foreign stock index shall be denominated in Indian Rupees (INR). The derivatives contracts on that foreign stock index would be denominated traded and settled in Indian rupees.

5.5. Risk Management Framework

The stock exchange shall submit the risk management framework along with its application for introduction of derivatives on foreign stock indices.

5.6. Position Limits

The Trading Member/Mutual Funds position limits (higher of Rs. 500 crore or 15% of the total open interest in Index derivatives) as well as the disclosure requirement for clients whose position exceed 15% of the open interest of the market, as applicable to domestic stock index derivatives, shall be applicable to derivatives on foreign stock indices.

5.7. Information Sharing

The stock exchange shall ensure that material price sensitive information and information relating to regulatory actions and corporate actions relating to constituent stocks of the foreign stock index, as available in public domain, are available to Indian investors.

5.8. Legal Compliance

The stock exchange shall ensure compliance with any other legal provisions relating to introduction of derivatives on foreign stock indices and obtain requisite approvals from the concerned regulatory bodies.

5.9. Enforcement

Any kind of market demeanour in the market for the derivatives on foreign stock indices shall be subject to the appropriate enforcement actions, as applicable to the market for any securities.

5.10. Trading

Trading in derivatives on Foreign Stock Indices shall be restricted to residents in India.

Commented [A79]: Moved to Foreign Derivatives index section.

6. MISCELLANEOUS

6.1. Product Success Framework for Index Derivatives

The product success framework shall be applicable to all index derivatives at the underlying level. The framework shall not be applicable to flagship index of the exchange.

6.1.1.1.1. The criteria for evaluation of the index derivatives for product success framework are as follows:

- a) 15% of trading members active in all index derivatives or 20 trading members whichever is lower should have traded in any derivative contract on the index being reviewed in each of the month during the review period,
- b) Trading on a minimum of 75% of the trading days during the review period,
- c) Average daily turnover of at least INR 10 crore during the review period, and
- d) Average daily open interest of INR 4 crore during the review period

Each of the above criteria shall be satisfied for continuation of the derivatives on the given index. If any index fails to satisfy any of the above mentioned criteria, then no fresh contracts shall be issued on that index. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contracts.

6.2. Surrogate / Pseudo index

- a) However, even if an index does not fulfil all the criteria during a review, the Exchange may not discontinue derivatives on that index provided there is a surrogate/pseudo index in another exchange(s), which continue to meet the evaluation criteria on the respective exchange. The index under review must have been surrogate/pseudo to another index on the date of review and must have remained as such for the major duration of the review period.

- b) For this purpose, an index may be considered to be surrogate/pseudo of another index, if all the following conditions are met:

- i. The number of constituents is equal in both the indices. If not, then the number of constituents in the smaller index (index with smaller number of constituents) is not less than 80% of the number of constituents in the larger index;

- II. At least 50% of the constituent stocks in the larger index are also part of the smaller index, and
- III. The correlation between the two indices is at least 0.90 for the previous 6 months on a rolling basis.
- e) An index in an exchange shall have only one pseudo/surrogate index per exchange.
- d) All index derivatives would be reviewed semi-annually in the first week of April and October based on the data for the preceding six months i.e. period of review would be October to March for the April review and April to September for the October review.
- e) Only those index derivatives which have completed at least 21 months from the launch month would be liable for review.
- f) Once an index is excluded from the derivatives list, it shall not be considered for re-inclusion for a period of at least six months. Exchanges may consider re-launching derivative contracts on the same index after carrying out suitable modification(s) in contract specifications based on market feedback, after a cooling off period of at least six months, subject to SEBI approval.

Commented [A80]: Included in Para Product Design of Equity Derivatives segment

6.3. Framework to Enable Verification of Upfront Collection of Margins

Based on deliberations with the market participants, with an objective to enable uniform verification of upfront collection of margins from clients by TM/ CM and levy of penalty across segments, it has been decided that the Stock Exchanges/ Clearing Corporations shall adopt the framework specified in the Annexure, for the purpose of 'Mechanism for regular monitoring of and penalty for short collection/ non-collection of margins from clients' in Cash and Derivatives segments as specified vide para 14.11 below, para 9.5 of SEBI master circular for Commodity Derivatives segment dated August 04, 2023 and para 40 of SEBI master circular for Stock Brokers dated August 09, 2024

- 6.3.1.1.1. It is reiterated that the applicable upfront margins are required to be collected from the clients in advance of the trade. The aforesaid framework prescribed in the Annexure is only for the purpose of verification of upfront collection of margin and levy of penalty.

Annexure

6.3.1.1.2. Framework to Enable Verification of Upfront Collection of Margins

- i. Clearing Corporations shall send minimum 4 snapshots of client wise margin requirement to TMs/CMs for them to know the intraday margin requirement per client in each segment. The number of times snapshots need to be sent in a day may be decided by the respective Clearing Corporation depending on market timings subject to a minimum of 4 snapshots in a day. The snapshots would be randomly taken in pre-defined time windows.
- ii. The client wise margin file (MG-12/13) provided by the CCs to TMs/CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.
- iii. The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:
 - a. EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.

AND

- b. Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.

Higher of the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

- iv. The verification of availability of margins with TM/ CM, as at (iii)(a) and (iii)(b) above, shall be done by exchanges/ clearing corporations on a weekly basis by verification of the balances in the books/ ledgers of the TM/ CM in respect of the client.

Phased adoption

- 6.3.1.1.3. The peak margin obligation of client across snapshots, as at (iii)(b) above, shall be adopted in a phased manner, as given below:**

- Phase 1 (for 3 months from the date of implementation) – 25% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.
- Phase 2 (for subsequent 3 months) – 50% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.
- Phase 3 (for subsequent 3 months) – 75% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.
- Phase 4 (subsequently) – 100% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.

6.3.1.1.4. Shortfall in collection of margins, as detailed in Para (iii) above, shall be calculated by taking into consideration the aforesaid phased adoption of peak margin obligation of client. Further, during the aforesaid period of phased adoption, the member should be able to demonstrate that the balance peak margin obligation (i.e., [peak margin obligation of the client across the snapshots] minus [25%/ 50%/ 75% of Peak margin obligation of the client across the snapshots, depending on the phase]) has been funded from the member's own funds and not from any other client.

6.3.1.1.5. Changes to the framework of verification of upfront margins from clients

- a. In view of the representations received from market participants and based on deliberations with various stakeholders, it has now been decided that EOD and Intra-day margin collection requirement from clients, in derivatives segments (including commodity derivatives), shall also be calculated based on the fixed BOD margin parameters.
- b. It is clarified that the above mentioned change is only for the purpose of verification of upfront collection of margins from clients. The margin parameters applicable for collection of margin obligation by Clearing Corporations shall continue to be updated on intra-day and EOD basis, as per the extant provisions.

6.4. Upfront Collection of option premiums

~~6.4.1.1.1. The above framework stipulates that TM/CM to collect Initial Margin (IM) and Extreme Loss Margin (ELM) upfront from their clients.~~

~~6.4.1.1.2. In addition to above, from February 01, 2025, for the equity derivatives segment, the upfront collection margin requirement shall also include net options premium payable at the client level.~~

~~6.4.1.1.3. The same may be included in the intraday snapshots conducted by Clearing Corporations for verification of upfront collection of margins, and for imposition of penalty in the event of non-compliance.~~

6.5. Segregation and Monitoring of Collateral at client level

The framework, as outlined at para 1.1.12. of Chapter 4 – Comprehensive Risk Management for Cash Market and Debt segment, would be applicable in the derivatives segment also

Commented [A81]: Segregation of Provisions related to Clearing Corporations

6.6. FUTURE CONTRACTS ON INTRODUCTION OF FUTURE CONTRACTS ON CORPORATE BOND INDICES⁷⁰

~~6.6.1.1.1. In order to enhance liquidity in the bond market and also to provide opportunity to the investors to hedge their positions, SEBI had constituted a working group of representatives of NSE, BSE and MSEI to make recommendations on the matter of 'Derivatives on Bond Indices.'~~

~~6.6.1.1.2.6.1. Based on the submissions made by the working group and recommendations of Secondary Market Advisory Committee of SEBI, it has been decided to permit~~ Stock Exchanges are permitted to introduce derivative contracts on indices of corporate debt securities rated AA+ and above. To start with, the Stock Exchanges are permitted to launch future contracts on corporate bond indices.

~~6.6.1.1.3.6.2.~~ The details regarding index composition, contract specifications, position limits, risk management framework, etc. for introduction of future contracts on corporate bond indices are given at Annexure A below.

⁷⁰ Circular No SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/11 dated January 10, 2023



6.6.1.1.4.6.3. The stock exchanges desirous of introducing such contracts shall submit a detailed proposal to SEBI for approval, *inter alia*, providing details relating to underlying corporate bond index, the index methodology, contract specifications, applicable trading, clearing & settlement mechanism, risk management framework, the safeguards to ensure market integrity, investor protection, surveillance systems, etc.

Annexure A

6.6.1.1.5.6.4. Product design and risk management framework for Cash Settled Corporate Bond Index Futures (CBIF)

1-6.4.1. Permitted Corporate Bond Index

The index underlying the derivative contract shall be as per the following:

- i. The index shall be composed of corporate debt securities.
- ii. Constituents of the index should have adequate liquidity and diversification at issuer level, as decided by the stock exchanges.
- iii. Constituents of the index shall be periodically reviewed (at least on half-yearly basis).
- iv. Constituents of the index shall be aggregated at issuer level for the purpose of determining exposure limits for single issuer, group, sector, etc.
- v. Single issuer shall not have more than 15% weight in the index.
- vi. There shall be at least 8 issuers in the index.
- vii. The index shall not have more than 25% weight in a particular group of issuers [excluding securities issued by Public Sector Undertakings (PSUs), Public Financial Institutions (PFIs) and Public Sector Banks (PSBs)].
- viii. The index shall not have more than 25% weight in a particular sector (excluding securities issued by PSUs, PFIs and PSBs).
- ix. The duration buckets of the index may be decided by the stock exchanges.
- x. The index shall have a track record of at least one year.

2-6.4.2. Contract Value

The value of the CBIF contracts shall not be less than INR 2 lakhs at the time of introduction. Stock exchanges shall review the contract value or lot size on half-



yearly basis and may make revisions, if required, by giving an advance notice to the market.

~~3. Trading Hours~~

~~The trading hours shall be between 9:00 AM and 5:00 PM on all working days from Monday to Friday. Exchanges shall align the trading hours of CBIF with the trading hours of the underlying market. Stock exchanges and clearing corporation(s) shall have infrastructure and risk management systems in place which are commensurate to the trading hours.~~

4.6.4.3. Tenure of the Contracts

- i. Tenure: The stock exchanges may introduce contracts of up to a tenure of 3 years.
- ii. Contract Cycle: Weekly, three Serial monthly contracts, one quarterly contract of the cycle March/June/September/December or one half-yearly contract of the cycle June/December.

5.6.4.4. Quotation and Tick value

The quotation shall be in Indian Rupee. The Tick value shall be decided by the stock exchanges based on the underlying index values or contract size, etc.

6.6.4.5. Contract Expiry

The expiry or last trading day for the contract shall be the last Thursday of the expiry cycle. If any expiry day is a trading holiday, then the expiry or last trading day shall be the previous trading day.

~~7. Daily Settlement Price~~

~~The daily settlement price shall be the last half an hour volume weighted average price of the contract.~~



~~In the absence of last half an hour trading, theoretical price shall be considered. The methodology used for the theoretical price computation shall be published on the stock exchange website.~~

~~8. Final Settlement Price~~

~~Final settlement price for the derivative contracts shall be the closing price of the underlying index on the expiry day or last trading day of such derivative contracts.~~

~~9.6.4.6. Settlement Mechanism~~

~~The contracts would be settled in cash in Indian Rupee (INR).~~

~~10.6.4.7. Settlement Day~~

~~Settlement day shall be the next working day of the expiry day.~~

~~6.4.8. Daily Settlement Price~~

~~The daily settlement price shall be the last half an hour volume weighted average price of the contract. In the absence of last half an hour trading, theoretical price shall be considered. The methodology used for the theoretical price computation shall be published on the stock exchange website.~~

~~6.4.9. Final Settlement Price~~

~~Final settlement price for the derivative contracts shall be the closing price of the underlying index on the expiry day or last trading day of such derivative contracts.~~

~~11.6.4.10. Position Limits~~

Category	Position limit
----------	----------------

6.4.10.1. Trading Members/ Mutual Funds / Insurance Companies /Housing Finance Companies/ Pension Funds / Banks and Primary Dealers dealing as clients/ Institutions belonging to Category I and II FPIs (i.e. other than individuals, family offices and companies)	6.4.10.1.1. The gross open positions across all contracts within the respective underlying index shall not exceed 10% of the total open interest or INR 1,200 crore, whichever is higher.
6.4.10.2. Non-institutions in Category II FPIs (i.e. individuals, family offices and companies), Mutual Fund (Scheme level) and other clients	6.4.10.2.1. 3% of the total open interest or INR 400 crore whichever is higher.

[6.4.10.3.](#) No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

7. VOLATILITY AND BOND INDEX

7.1. Volatility Index

[7.1.1.](#) Exchanges shall construct a Volatility Index and disseminate the same. The Exchanges are free to decide whether they want to adopt any of the Volatility Index computation models available globally or may like to develop their own model for computation of Volatility Index. The detailed methodology for computing the Volatility Index shall be disseminated by the Exchange for the benefit of the market participants and investors.

7.2. Derivatives on Volatility Index

7.2.1. Exchanges are permitted to introduce derivative contracts on Volatility Index, subject to the conditions that:

7.2.1.1. The underlying Volatility Index has a track record of at least one year.

7.2.1.2. The Exchange shall ensure that the appropriate risk management framework for such derivative contracts is adopted by CC.

7.3. Before introduction of such contracts, the Stock Exchanges shall submit the following to SEBI:

7.3.1. Contract specifications

7.3.2. Position and Exercise Limits

7.3.3. Margins

7.3.4. The economic purpose it is intended to serve

7.3.5. Likely contribution to market development

7.3.6. The safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading

7.3.7. The infrastructure of the exchange and the surveillance system to effectively monitor trading in such contracts, and

7.3.8. Details of settlement procedures & systems

7.3.9. Details of back testing of the margin calculation for a period of one year considering a call and a put option on the underlying with a delta of 0.25 & -0.25 respectively and actual value of the underlying

7.4. Bond Index

Exchanges shall construct a Bond Index (both corporate & GOI) and disseminate the same. The Exchanges are free to decide whether they want to adopt any of the Bond Index computation models available globally or may like to develop their own model for computation of Bond Index. The detailed methodology for computing the Bond Index shall be disseminated by the Exchange for the benefit of the market participants and investors. Based on experience gained and

awareness generated, derivatives on Bond Index shall be considered for introduction in due course of time.

12. ~~Price Bands~~

~~For every CBIF, stock exchanges shall set an initial price band at 5% of the previous closing price or base price thus preventing acceptance of orders for execution that are placed beyond the set band. Whenever a trade in any contract is executed at the highest or lowest price of the band, stock exchanges may expand the price band for that contract by 0.5% in that direction after 30 minutes after taking into account market trend. However, no more than 2 expansions in the price band shall be allowed within a day.~~

13. ~~Risk Management Framework~~

~~The clearing corporations shall define appropriate risk management framework (including margining methodology) and the clearing and settlement mechanism etc. for the product, and submit the same to SEBI for approval.~~

~~The initial margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be computed to cover a 99.9% VaR over a one day horizon. Further, Extreme Loss Margins and calendar spread margins shall also be prescribed by the clearing corporations. Margins shall be deducted from the liquid assets of the clearing member on real time basis.~~

8. MISCELLANEOUS

8.1. Eligibility Criteria for introducing Derivatives Segment on the Exchange

8.1.1. The exchange shall obtain prior approval of SEBI before start of trading in any derivatives contract. The exchanges shall not deal in or otherwise undertake the

Commented [A82]: Removal of redundancy and Consolidation of requirement as per S.No 2.12 of the consultation paper.



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Securities and Exchange Board of India

business relating to currency futures⁷¹ or options unless they hold an authorization issued by the Reserve Bank under section 10 (1) of the Foreign Exchange Management Act, 1999 (latest FEMA directions may be referred to). The Clearing and settlement of derivatives trades shall be through a SEBI approved Clearing Corporation. The existing stock exchanges having cash trading are permitted to trade in derivative contracts through a separate segment with separate membership. A derivative segment of an exchange shall be separate from the cash segment and other derivative segments in the following areas-

8.1.1.1. The legal framework governing trading of each derivative segment should be separate from the cash market segment and other derivative segments. In other words, the Regulations and / or Bye-laws of derivative segment, as the case may be for specific exchanges, shall be separate from the cash market segment and other derivative segments.

8.1.1.2. Membership of each derivative segment shall be separate from the cash market segment and other derivative segments. The exchange shall comply with the relevant provisions as laid down by the SECC Regulations and any other relevant provisions in this regard.

8.1.1.3. The separation, if any, as regard the functional, operational and administrative modalities shall be at the discretion of the Exchange.

6.7. Corporate Action Adjustments:

⁷¹ Circular No. CIR/MRD/DP/17/2015 dated October 08, 2015

6.7.1.1.1. Options on common stock trade on both NSE & BSE the corporate adjustment for the Option on the same underlying should be uniform across markets. While a uniform adjustment methodology could be adopted for certain corporate action, it would be difficult to specify any uniform policy for all corporate actions at this stage. For this purpose, it has been decided to constitute a group comprising NSE, BSE and other knowledgeable persons, which would decide a uniform course of action for adjusting stock option contracts on corporate actions, taking into account best practices followed internationally, where a uniform criterion cannot be laid down at present. However, certain adjustments for Corporate Actions for Stock Options would be as follows:

6.7.1.1.2. The basis for any adjustment for corporate action shall be such that the value of the position of the market participants on cum and ex date for corporate action shall continue 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 money. This will also address issues related to exercise and assignments.

6.7.1.1.3. Any adjustment for corporate actions shall be carried out on the last day on which a security is traded on a cum basis in the underlying cash market.

6.7.1.1.4. Adjustments shall mean modifications to positions and/or contract specifications as listed below such that the basic premise of adjustment laid down in para a. above is satisfied:

- i. Strike Price
- ii. Position
- iii. Market Lot/Multiplier

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

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

- 6.7.1.2. Bonus
- 6.7.1.3. Rights
- 6.7.1.4. Merger/De-merger
- 6.7.1.5. Amalgamation
- 6.7.1.6. Splits
- 6.7.1.7. Consolidations
- 6.7.1.8. Hive off
- 6.7.1.9. Warrants, and
- 6.7.1.10. Secured Premium Notes (SPNs) among others.
- 6.7.1.11. Extraordinary dividends

6.7.1.11.1. The methodology proposed to be followed for adjustment of various corporate actions to be carried out are as follows:

Bonus, Stock Splits and Consolidations

Strike Price: The new strike price shall be arrived at by dividing the old strike price by the adjustment factor as under.

Market Lot / Multiplier: The new market lot/multiplier shall be arrived at by multiplying the old market lot by the adjustment factor as under.

Position: The new position shall be arrived at by multiplying the old position by the adjustment factor as under.

The adjustment factor for Bonus, Stock Splits and Consolidations is arrived at as follows:

Bonus

Ratio — A: B Adjustment factor: $(A+B)/B$

Stock Splits and Consolidations

Ratio — A: B Adjustment factor: A/B

Right

Ratio — A: B and Issue price of rights is S.

Adjustment factor: $(P-E)/P$

Where P = Spot price on last cum date

$E = (P-S) \times A / (A+B)$

Strike Price: The new strike price shall be arrived at by multiplying the old strike price by the adjustment factor as under.

Market Lot / Multiplier: The new market lot/multiplier shall be arrived at by dividing the old market lot by the adjustment factor as under.

6.7.1.11.2. The above methodology may result in fractions due to the corporate action e.g. a bonus ratio of 3:7. With a view to minimizing fraction settlements, the following methodology is proposed to be adopted:

6.7.1.12. Compute value of the position before adjustment

6.7.1.13. Compute value of the position taking into account the exact adjustment factor

6.7.1.14. Carry out rounding off for the Strike Price and Market Lot

6.7.1.15. Compute value of the position based on the revised strike price and market lot

6.7.1.15.1. The difference between 14.6.8.1 and 14.6.8.4 above, if any, shall be decided in the manner laid down by the group by adjusting Strike Price or Market Lot, so that no forced closure of open position is mandated.

6.7.1.15.2. Dividends which are below 2% of the market value of the underlying stock would be deemed to be ordinary dividends and no adjustment in the Strike Price would be made for ordinary dividends. For extra-ordinary dividends, at or above 2% of the market value of the underlying stock, the adjustment in derivatives shall be carried out.

The Exchange may on a case to case basis carry out adjustments for other corporate actions as decided by the group in conformity with the above guideline. The basis for any adjustment for corporate action shall be such that the value of the position of the market participants on cum and ex-date for corporate action shall continue to remain the same as far as possible.

The exchanges shall take into account best practices followed internationally.

The Exchanges shall consider the circumstances of a particular case and the general interest of investors in the market.

The Exchanges shall ensure that the adjustment methodology for a corporate action is uniform across all exchanges.

6.7.1.15.3.s.

6.7.1.15.4. Stock Exchanges to give notice of four weeks to the market for any change in the contract specifications and also in case of change in a constituent of an Index on which derivatives are available. Further, the stock exchanges may give a notice of less than four weeks prior to ex-date in case of change in a constituent of an Index on which derivatives are available on account of merger. In case of stocks ongoing demerger and which are also part of indices on which derivatives are available, the stock exchange may give a notice of less than 4 weeks from the date of exclusion of spun off entity from the index.

6.7.1.15.5. All the following conditions shall be met in the case of shares of a company undergoing restructuring through any means for eligibility to re-introduce derivative contracts on that company from the first day of listing of the



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post restructured company/(s)'s (as the case may be) stock (herein referred to as post restructured company) in the underlying market;

6.7.1.16. the futures and options contracts on the stock of the original (pre restructure) company were traded on any exchange prior to its restructuring;

6.7.1.17. the pre restructured company had a market capitalisation of at least Rs.1000 crores prior to its restructuring;

6.7.1.18. the post restructured company would be treated like a new stock and if it is, in the opinion of the exchange, likely to be at least one-third the size of the pre restructuring company in terms of revenues, or assets, or (where appropriate) analyst valuations; and

6.7.1.19. in the opinion of the exchange, the scheme of restructuring does not suggest that the post restructured company would have any characteristic (for example extremely low free float) that would render the company ineligible for derivatives trading;

6.7.1.19.1. If the above conditions are satisfied, then the exchange shall take the following course of action in dealing with the existing derivative contracts on the pre restructured company and introduction of fresh contracts on the post restructured company:

6.7.1.20. In the contract month in which the post restructured company begins to trade, the Exchange shall introduce near month, middle month and far month derivative contracts on the stock of the restructured company.

6.7.1.21. In subsequent contract months, the normal rules for entry and exit of stocks in terms of eligibility requirements would apply. If these tests are not met, the exchange shall not permit further derivative contracts on this stock and future month series shall not be introduced.

6.7.1.21.1. The Exchanges shall determine the manner of adjustment in derivative contracts at the time of corporate actions in conformity with the following principles:

6.7.1.22.1.1.1. The basis for any adjustment for corporate action shall be such that the value of the position of the market participants on cum and ex date for corporate action shall continue to remain the same as far as possible.



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~~6.7.1.23.1.1.1.1. The exchanges shall take into account best practices followed internationally.~~

~~6.7.1.24.1.1.1.1. The Exchanges shall consider the circumstances of a particular case and the general interest of investors in the market.~~

~~6.7.1.25.1.1.1.1. The Exchanges shall ensure that the adjustment methodology for a corporate action is uniform across all exchanges.~~

Commented [A83]: Moved to Equity derivatives section.

6.8.8.2. Reporting and Reporting and Disclosures (Applicable for all Exchange Traded Derivative Segments).

8.2.1. Exchanges are required to report the following details of the transactions in derivatives contracts, on their respective websites on a daily basis:

6.8.1.1.1. Reporting of derivative transactions to the media and the newspapers

Commented [A84]: Simplification and clarification as per S.No 2.8 of the consultation paper.

The Derivative Exchanges/ Segments and their Clearing House/ Corporation are required to report the following details for the transactions in derivative contracts, to the media/newspapers, on a daily basis:

6.8.1.2.8.2.1.1. Contracts Description

6.8.1.3.8.2.1.2. Number of contracts traded

6.8.1.4.8.2.1.3. Notional Value (for option contracts, notional value would be calculated as [strike + Premium] * lot size * number of contracts traded).

6.8.1.5.8.2.1.4. Open

6.8.1.6.8.2.1.5. High

8.2.1.6. Low

6.8.1.7.

6.8.1.8.8.2.1.7. Value of premium traded (for option contracts)

6.8.1.9.8.2.1.8. Open Interest (in number of contracts)

8.3. Surveillance System of the Exchanges

Commented [A85]: Removal of redundancy as per S.No 2.13 of the consultation paper.

8.3.1. The surveillance systems of the exchanges should be designed keeping in view all the relevant aspects including the following –

8.3.1.1. The alerts in the online surveillance system should automatically generate material aberrations from normal activity.

8.3.1.2. The surveillance systems and processes should be able to-

8.3.1.2.1. Monitor open interest, cost of carry/impact cost and volatility.

8.3.1.2.2. Monitor closing prices.

- 8.3.1.2.3. In case of equity derivatives, the open positions in the derivative market should be seen in conjunction with the open positions in the cash market. i.e. the position deltas should be monitored.
- 8.3.1.2.4. The timing of disclosure by corporates should be monitored as this could influence the prices of the contract at the time of introduction and expiry.
- 8.3.1.2.5. Strike prices with large open positions should be monitored as this could influence the prices of the contract at the time of introduction and expiry.
- 8.3.1.2.6. Strike prices with large open positions should be monitored, as such strike prices could be a target price to be achieved in the cash market to derive maximum benefit from the derivative position.
- 8.3.1.2.7. Capture and process client level details.
- 8.3.1.2.8. Develop databases of trading activity by brokers as well as clients.
- 8.3.1.2.9. Generate trading pattern in individual products or group of products by a broker over a period of time or by a client / group of clients over a period of time.
- 8.3.1.2.10. Generate the pattern of trading in a product over a period of time giving such details as the purchases/sales/positions/open interest held by different brokers or clients/group of clients.
- 8.3.1.2.11. Monitor proportion of trading in derivatives market vis-à-vis trading in the underlying in the cash market and aberrations as compared to historical data and as compared to market average.
- 8.3.1.2.12. Monitor large trades, call put ratio's and exercise patterns.
- 8.3.1.2.13. Ensure that there is no unhealthy speculative trading in the market, which may result in cornering or artificial rigging up or down of the prices by a particular member or group or class of members.
- 8.3.1.3. In case of Equity Derivatives, for integration of surveillance in cash and derivatives markets, the persons who carry out monitoring/analysis in the derivatives market should have access to data of the underlying security in cash market and vice versa. The co-ordination between surveillance and derivatives segment should ensure monitoring of positions at broker/client level across cash and derivatives market with a view to identifying possible fraudulent or manipulative activity. Examination of derivatives trading details should be taken up on the basis of cash market surveillance also, and vice versa.

- 8.3.1.4. While the surveillance system may be able to generate a large amount of information, it is only the first step towards analysing market behaviour to identify potential problems. The exchange surveillance staff should be able to carry out quick and effective analysis of information generated by the surveillance system, and should document this analysis properly. The documentation should be properly authenticated and verified by a designated authority of the stock exchange.
- 8.3.1.5. The information and feedback received from broker inspections is vital input for effective surveillance. For this it is necessary that broker inspections are taken up in a rational manner keeping in view the level of trading activity, client profile, number and nature of complaints received against the broker, history of risk management related defaults and regulatory violations etc. For this it is necessary that broker inspections are taken up in a rational manner keeping in view the level of trading activity, client profile, number and nature of complaints received against the broker, history of risk management related defaults and regulatory violations etc. Information obtained through broker inspections should also be made available to the monitoring/surveillance departments of stock exchanges.
- 8.3.1.6. The information gathered by the risk management departments/clearing corporations while enforcing the risk management measures and settlement processes are critical inputs. Such information could include pattern of defaults related to specific scrips/contracts and special risk management measures taken keeping in view the market conditions.
- 8.3.1.7. The exchanges should call for information from brokers in a standard form, and preferably in electronic form, to facilitate faster analysis as well as building up of databases. It may also be ensured that duly authenticated information is submitted by the broker or his designated agent.
- 8.3.1.8. While implementing a stock watch type of system for derivatives, the system should be designed to provide online access to relevant historical data on derivatives trading for at least a year.

8.3.1.9. In the interest of better surveillance, it is necessary that relevant information obtained through surveillance at one exchange should be shared with other exchanges. Exchanges are, therefore, advised to share information on positions in underlying stocks, their derivatives, currency derivatives and any extraordinary movement in price / volume or concentration periodically or upon specific request by any stock exchange.

8.3.1.10. Exchanges should study surveillance practices in various Global Equity Derivative Markets/ Global Forex Derivative Markets. Surveillance practices in commodities and bullion markets could also be studied where appropriate. Case studies on some market manipulations in various derivatives markets could be looked at in order to see what lessons could be drawn. Periodical benchmarking, at least once in every six months, against international practices, systems performance etc., must be performed and documented.

8.3.1.11. Compliance with the above requirements may be indicated in the monthly reports on surveillance and investigations submitted by exchanges to SEBI.

6.9. **Straight through Processing**

6.9.1.1.1. Straight Through Processing (STP) is generally understood to be a mechanism that automates the end to end processing of transactions of financial instruments. It involves use of a system to process or control all elements of the work flow of a financial transaction, what are commonly known as the Front, Middle, Back office and General Ledger. In other words, STP allows electronic capturing and processing of transactions in one pass from the point of order origination to final settlement. STP thus streamlines the process of trade execution and settlement and avoids manual entry and re-entry of the details of the same trade by different market intermediaries and participants. Usage of STP enables orders to be processed, confirmed, settled in a shorter time period and in a more cost effective manner with fewer errors. Apart from compressing the clearing and settlement time, STP also provides a flexible, cost effective infrastructure, which enables e-business expansion through online processing and access to enterprise data.

Commented [A86]: Moved to Trading Software and Technology Chapter as per S.No 2.17 of the consultation paper.

- 6.9.1.1.2. To resolve the issue of inter-operability between the STP Service Providers, a STP Centralised Hub would be setup in consultation with the stock exchanges and the STP Service Providers. Currently this STP Centralised Hub has been setup and made operational by NSE. NSE has obtained the necessary approvals from Department of Telecommunications (DoT) as an Internet Service Provider (ISP). Subsequently this STP Centralised Hub would be further developed jointly with BSE.
- 6.9.1.1.3. In view of the aforesaid developments, it has been decided that all the institutional trades executed on the stock exchanges would be mandatorily processed through the STP System. An institutional trade for the purpose of STP shall mean a trade which is settled through a custodian. Institutional trades where electronic contract note in the prescribed format is issued, no physical contract note (for such a trade) shall be issued by the brokers. The system flow of the STP framework would be as follows:
- 6.9.1.2. A STP user intending to send an instruction would send the message to his STP service provider after digitally signing the same.
- 6.9.1.3. The STP service provider would verify the signature of the STP user and forward it to the
- 6.9.1.3.1. Recipient STP user, if the recipient STP user is availing services of the same STP service provider; or the
- 6.9.1.3.2. STP centralized hub if the recipient STP user is not with the same STP service provider. In such a case the STP service provider would be required to prepare a message as per the STP centralized hub prescribed message format, enclose the user's message, digitally sign the message and then send it to the STP centralized hub
- 6.9.1.4. On receipt of the message by the STP centralized hub, the STP centralized hub would
- 6.9.1.4.1. verify the signature of the sending STP service provider only.
- 6.9.1.4.2. send an acknowledgment to the sending STP service provider.
- 6.9.1.5. The STP centralized hub would forward the message to the recipient STP service provider after digitally signing on the message.
- 6.9.1.6. The recipient STP service provider on receipt of the message from the STP centralized hub shall verify the signature of the STP

centralized hub, verify if the recipient STP user is associated with itself and send an appropriate acknowledgment with digital signature to the STP centralized hub. The STP centralized hub would in turn forward the acknowledgment (received from the recipient STP service provider) duly signed to the sending STP service provider.

6.9.1.7. The recipient STP service provider shall forward the message to the recipient STP user. The recipient STP user would receive the message and verify the signature of the recipient STP service provider and sending STP user.

6.9.1.7.1. To enable inter operation, the STP centralized hub would provide a utility/ client software to the STP service provider. The STP service provider's point of interface with the STP centralized hub would be through this utility/ client software. The PKI (Public key infrastructure) system for the interface shall be implemented at a later stage. The block diagram of the entire STP System is enclosed in **ANNEXURE I**

6.9.1.7.2. SEBI in order to regulate the STP service has issued the SEBI (STP centralised hub and STP service providers) Guidelines, 2004 (herein referred to as "STP Guidelines") which also prescribes the model agreement between the STP centralised hub and the STP service providers.

6.9.1.7.3. The STP guidelines prescribes the eligibility criteria and conditions of approval for the STP centralised hub and the STP service providers, obligations and responsibilities of the STP centralized hub and the STP service providers and code of conduct for the STP service providers. The STP centralised hub and the STP service providers shall abide by these Guidelines. The guidelines are given as **ANNEXURE II**

6.9.1.7.4. To prescribe contractual obligations between the STP centralised hub and the STP service providers and to facilitate standardisation of service, a model agreement between the STP centralised hub and the STP service providers has also been prescribed by SEBI and is prescribed as Schedule II of the STP Guidelines. The agreement between the STP centralised hub and the STP service provider shall include the provisions included in the model agreement.

6.9.1.7.5. STP users shall be required to use IFN 515 messaging standard for issue of contract note, IFN 548/ 598 for confirmation of the contract note by the custodian/ fund manager to the broker and messaging formats IFN 540 to 547 for settlement instructions and

their confirmations between the fund manager and the custodians for settlement of such trades.

6.9.1.7.6. The messaging formats prescribed for STP in India is based on the internationally accepted ISO 15022 messaging standards. However the descriptors for each messaging format had been formulated in a manner to describe the practices followed in the Indian securities' market (from the perspective of settlement obligation of a stock broker). However it has been observed that that there has been some confusion in certain sections of the market with respect to the intended use of the messaging format on account of the messaging descriptors.

6.9.1.7.7. Accordingly, it is clarified that the descriptors shall mean the following:

- 6.9.1.8. IFN 540: settlement instruction for a buy trade free of payment
- 6.9.1.9. IFN 541: settlement instruction for a buy trade against payment
- 6.9.1.10. IFN 542: settlement instruction for a sell trade free of payment
- 6.9.1.11. IFN 543: settlement instruction for a sell trade against payment
- 6.9.1.12. IFN 544: confirmation of a settlement instruction for a buy trade free of payment (response to IFN 540)
- 6.9.1.13. IFN 545: confirmation of a settlement instruction for a buy trade against payment (response to IFN 541)
- 6.9.1.14. IFN 546: confirmation of a settlement instruction for a sell trade free of payment (response to IFN 542).
- 6.9.1.15. IFN 547: confirmation of a settlement instruction for a sell trade against payment (response to IFN 543)

6.9.1.15.1. It is also clarified that in the IFN 515 message, if the trade is intended to be settled by the custodian with the Clearing Corporation (by accepting the settlement obligation), then it shall be termed as "FREE" and if the trade is intended to be settled by the broker with the Clearing Corporation then it shall be termed as "APMT" (meaning against payment) in the tag 22H of the IFN 515 message.

6.9.1.15.2. In order to integrate the Securities Transaction Tax (STT) in the STP system, it would be necessary to provide for necessary fields in the appropriate messaging standards. After deliberation with the STP centralised hub and the STP service providers, it has been decided to make the following modifications in the prescribed messaging formats:



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6.9.1.16. Message Types that shall be modified are IFN515, IFN540, IFN541, IFN542 and IFN543

6.9.1.17. A Qualifier shall be used to identify Securities Transaction Tax Amount: "COUN", Country, National Federal Tax.

6.9.1.18. The change in the ISO Structure for the impacted message types shall be as follows:

M	16R	14.3.3	AMT	Start of block	14.3.2
					Format: (Qualifier) //(Currency Code) (Amount) For: Securities Transaction tax Amount To identify the Securities Transaction Tax Amount Qualifier: "COUN" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: Up to 10 digits (only Integer value allowed) followed by a comma (used as decimal sign). Comma is mandatory. Amount can be zero or greater than zero.
M	19A	Amount	4!c/3!a11d		
M	16S	14.3.3	AMT	End of block	14.3.4

6.9.1.19. Securities Transaction Tax Block shall be placed before the Settlement Amount Block in the stated Message Types. (IFN515, IFN540, IFN541, IFN542 and IFN543)

6.9.1.20. Securities Transaction Tax block will be **mandatory amount block** in IFN515 and **optional amount block** in IFN540, IFN541, IFN542 and IFN543.

6.9.1.21. If the Contract Note (issued by means of IFN 515) is rejected on the basis of Securities Transaction Tax amount then the reason for the rejection shall be specified in the "Tag70D Narrative" field and "Tag 24B Reason" specified should be "NARR".

6.9.1.21.1. SEBI has extended the facility of issuance of ECNs as a legal document using Straight Through Processing (STP) to the equity derivatives segment also. Accordingly a model contract note in electronic form (IFN 515 messaging format) and confirmation of electronic contract note (IFN 598 messaging format) are enclosed as ~~ANNEXURE – III~~. The Exchanges are advised to modify/amend their bye-laws, rules and regulations to;

6.9.1.22. Permit issuance of electronic contract note including all the standard pre-printed terms and conditions as given in the physical contract note.

6.9.1.23. Permit signing of the electronic contract note with a digital signature so as to make the modified format of the electronic contract note a valid legal document like the physical contract note.

6.9.1.24. Prescribe a standard format for the issuance of the electronic contract note.

6.10. Certification

~~The guidelines for conduct of certification examination for broker/dealers and salespersons in the derivative market to be followed are given as per SEBI (Certification of Associated Persons in the Securities Market) Regulation, 2007 ANNEXURE IV.~~

Commented [A87]: Removal of obsolete requirements as per S.No 2.7 of the Consultation paper.

6.11. Introduction of Volatility and Bond Index

6.11.1.1.1. Volatility Index

~~Exchanges shall construct a Volatility Index and disseminate the same. The Exchanges are free to decide whether they want to adopt any of the Volatility Index computation models available globally or may like to develop their own model for computation of Volatility Index. The detailed methodology for computing the Volatility Index shall be disseminated by the Exchange for the benefit of the market participants and investors.~~

6.11.1.1.2. Derivatives on Volatility Index

6.11.1.2. Stock Exchanges are permitted to introduce derivative contracts on Volatility Index, subject to the conditions that:

6.11.1.2.1. The underlying Volatility Index has a track record of at least one year.

6.11.1.2.2. The Exchange has in place the appropriate risk management framework for such derivative contracts.

6.11.1.3. Before introduction of such contracts, the Stock Exchanges shall submit the following to SEBI:

6.11.1.3.1. Contract specifications

6.11.1.3.2. Position and Exercise Limits

6.11.1.3.3. Margins

6.11.1.3.4. The economic purpose it is intended to serve

6.11.1.3.5. Likely contribution to market development

6.11.1.3.6. The safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading

6.11.1.3.7. The infrastructure of the exchange and the surveillance system to effectively monitor trading in such contracts, and

6.11.1.3.8. Details of settlement procedures & systems

6.11.1.3.9. Details of back testing of the margin calculation for a period of one year considering a call and a put option on the underlying with a delta of 0.25 & -0.25 respectively and actual value of the underlying

6.11.1.3.10. Bond Index

It has been decided that, to begin with, Exchanges shall construct a Bond Index (both corporate & GOI) and disseminate the same. The Exchanges are free to decide whether they want to adopt any of the Bond Index computation models available globally or may like to develop their own model for computation of Bond Index. The detailed methodology for computing the Bond Index shall be disseminated by the Exchange for the benefit of the market participants and investors. Based on experience gained and awareness generated, derivatives on Bond Index shall be considered for introduction in due course of time.

Commented [A88]: Moved to volatility index section.

6.12. Short collection/Non-collection of client margins

6.12.1.1.1. "Short collection/Non-collection of client margins (Derivatives segments)", it is clarified that the 'margins', for Equity Derivatives Segment, shall include, initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements, mark to market settlements or any other margin as specified by the Exchange/Clearing Corporation to be collected by

Clearing Members from their clients (i.e. Custodial Participants and Trading Members—for their proprietary positions) and by Trading Members from their clients

- 6.12.1.1.2. Stock Exchanges shall levy following penalty on trading members for short collection/non collection of margins from clients in Equity and Currency Derivatives segments:

For each member	
'a'	as % age of 'a'
(<Rs 1 lakh) And (< 10% of applicable margin)	0.5
(≥ Rs 1 lakh) Or (≥ 10% of applicable margin)	1.0

Where a = Short collection/non collection of margins per client per segment per day

- 6.12.1.1.3. If short/non collection of margins for a client continues for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall.
- 6.12.1.1.4. If short/non collection of margins for a client takes place for more than 5 days in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.
- 6.12.1.1.5. Notwithstanding the above, if short collection of margin from clients in equity derivatives segment is caused due to movement of 3% or more in the index (close to close value of Nifty/Sensex for all equity derivatives) on a given day, (day T), then, the penalty for short collection shall be imposed only if the shortfall continues to T+2 day.

Further, in currency derivatives segment, if short collection/non collection of margin from clients is caused due to movement of 1% or more in the USD-INR currency pair (close to close settlement price of the near month currency futures) on a given day then the penalty for short collection shall be imposed only if shortfall continues to T+2 day. The currency pair being considered for this movement would be only the USD-INR and the condition of two days of continued shortfall shall be applicable for all currencies.

- 6.12.1.1.6. All instances of non-reporting shall amount to 100% short collection and the penalty as applicable shall be charged on these instances in respect of short collection.

6.12.1.1.7. If during inspection it is found that a member has reported falsely the margin collected from clients, the member shall be penalized 100% of the falsely reported amount along with suspension of trading for 1 day in that segment.

6.12.1.1.8. The penalty shall be collected by the Stock Exchange within five days of the last working day of the trading month and credited to its Investor Protection Fund.

6.12.1.1.9. The margin statement which is forwarded on a daily basis by the broker to the clients shall include a column stating the margin charged by the Exchange/Clearing Corporation.

6.12.1.1.10. When penalty is being collected by a broker for short collection / non-collection from a client, then the broker shall provide the relevant supporting documents to the client.

6.12.1.1.11. SEBI shall examine implementation of the provisions mentioned above during inspection of Stock Exchanges.

6.12.1.1.12. Section 1.1.10 and Section 1.1.13 under Chapter 4 of this circular may also be referred in respect of further provisions regarding penalties for short collection / non-collection of margins.

6.13. Rationalization of imposition of fines for false/incorrect reporting of margins or non-reporting of margins by TM/CM

6.13.1.1.1. The Stock Exchanges and Clearing Corporations, in all segments, in consultation with one another, shall devise a standard framework for imposition of fine on the TM/CM for incorrect/false reporting and non-reporting of margin collected from the clients.

6.13.1.1.2. Considering the principle of 'proportionality', the fine shall be charged to the member based on the materiality of non-compliance done by the member which may include factors such as number of instances, repeated violations, etc. The amount of fine to be charged upon the member may extend to 100% of such false/incorrectly/non reported amount of margin and/or suspension of trading for appropriate number of days.

6.14. Liquidity Enhancement Schemes for Illiquid Securities in Equity Derivatives Segment

Refer Section 6 under Chapter 1 of this circular.

Commented [A89]: Segregation of CC related provisions as per S.No 2.14 of the consultation paper.

6.15.8.4. Requirement of Base Minimum Capital for Trading Member

~~6.15.1.1.1.8.4.1.~~ Base Minimum Capital (BMC) is the deposit given by the member of the exchange against which no exposure for trades is allowed. The BMC deposit requirement was prescribed to be commensurate with the risks, other than market risk, that the broker may bring to the system. ~~It has been decided to realign.~~ The BMC requirements has been realigned with the risk profiles of the stock brokers / trading members in cash / derivative segment of the stock exchange.

~~6.15.1.1.2.8.4.2.~~ Accordingly, the requirement of BMC would be implemented in the following manner –

~~6.15.1.2.8.4.2.1.~~ Stock Exchanges shall ensure that Stock brokers / trading members shall maintain the prescribed BMC based on their profiles:

Categories	BMC Deposit (in INR)
Only Proprietary trading without Algorithmic trading (Algo)	10 Lacs
Trading only on behalf of Client (without proprietary trading) and without Algo	15 Lacs
Proprietary trading and trading on behalf of Client without Algo	25 Lacs
All Trading Members/Brokers with Algo	50 Lacs
<u>Execution Only Platform (EOP) – Category 2 EOP⁷²</u>	<u>10 Lacs</u>

~~This BMC deposit requirement stipulated in the table above, is applicable to all stock brokers / trading members of exchanges. Explanation: The profiling of members may be explained with the following example – A scenario may arise, wherein, a member has registration as a “stock broker” as well as a “trading member” and is engaged as a principal doing proprietary trading on cash segment and is also engaged as an agent and transacting only on behalf of the clients in the derivatives segment. Further, the member may not have availed facility for algorithmic trading. In such a case, the profile of such a member shall be assessed as “Proprietary trading and trading on behalf of client without Algo”. The applicable BMC deposit for such a member shall be INR 25 Lacs.~~

Commented [A90]: Removal of obsolete requirements as per S.No 2.6 of the Consultation paper.

⁷² Circular No. SEBI/HO/MRD/POD-III/CIR/2023/165 dated October 06, 2023

~~6.15.1.3. This BMC deposit requirement stipulated in the table above, is applicable to all stock brokers / trading members of exchanges having nation-wide trading terminals.~~

~~6.15.1.4-8.4.2.2. For stock brokers / trading members of exchanges not having nation-wide trading terminals, the deposit requirement shall be 40% of the above said BMC deposit requirements.~~

~~6.15.1.5-8.4.2.3. The BMC deposit shall be maintained for meeting contingencies in any segment of the exchange. For members having registration for more than one segment of the same exchange, the BMC deposit requirement shall not be additive for such number of segments and shall be the highest applicable BMC deposit, across various segment.~~

~~6.15.1.6-8.4.2.4. No exposure shall be granted against such BMC deposit. The Stock Exchanges shall be permitted to prescribe suitable deposit requirements, over and above the SEBI prescribed norms, based on their perception and evaluation of risks involved.~~

~~8.4.2.5. Minimum 50% of the deposit shall be in the form of cash and cash equivalents. The existing guidelines on collateral composition shall continue to remain applicable.~~

~~8.4.3. BMC requirement for stock exchanges having average daily turnover of less than Rs. 1 crore: Stock Exchanges shall maintain the BMC at Rs. 1 lakh if the average daily turnover is less than Rs.1 crore for any three consecutive months.~~

~~6.15.1.7. —~~

~~6.15.1.7.1. —~~

~~6.16. Securities as margin obligation to be given by way of pledge/re-pledge in the depository system~~

~~Refer clause 41 of SEBI master circular on Stock Brokers dated August 09, 2024~~

~~6.16.1.1. Rationalisation of strike intervals for long-dated index options and framework to disable existing long-dated strikes~~

~~— The stock exchanges shall implement the below framework.~~

~~1. Strike Scheme framework for long-dated options~~

Commented [A91]: Demerger of stock broker related provisions as per S.No 2.15 of the consultation paper.

~~SEBI has permitted Exchanges to provide long dated options contracts on the benchmark index. The product design allows for 8 semi-annual contracts of the cycle June/December in sequence to 3 serial monthly contracts and 3 quarterly contracts of the cycle March/June/September/December. Each maturity shall have a minimum of three strikes (in the money, at the money and out of the money). Accordingly, the exchange decided on the strike interval and strike scheme for the respective index.~~

~~In conjunction with product design specification and recommendations of the SMAC, strike scheme will be minimum of 1—1—1 and maximum of 5—1—5.~~

~~In addition to the proposed minimum and maximum number of strikes, the exchanges have mutually agreed to have a **minimum percentage-based coverage** by the strike intervals and at the same time adhere to the suggested strike scheme. The strike intervals will be designed to ensure a minimum coverage of 5% on either side of the index value. For example—~~

~~• If Index Value is 10,000 then minimum strike value will be 100 i.e. $((10000*5\%)/5)$~~

~~• If index value is 20,000 then minimum strike value will be 200 i.e. $((24000*5\%)/5)$~~

~~• If index value is 40,000 then minimum strike value will be 400 i.e. $((40000*5\%)/5)$~~

~~The above conditions of minimum & maximum strike scheme and minimum percentage-based coverage of strikes on either side would ensure lower number of strikes at the time of introduction as well as opening of new strikes due to index movement over the period of the contract. The strike scheme may be reviewed on semi-annual basis i.e. in June and December and revisions, if any required, will be implemented on the expiry of the June and December contracts. In case of exceptional market wide movements, all exchanges may jointly review the mechanism.~~

~~The strikes retained as part of periodic review, would not be included in the calculation of the maximum number of strikes at the time of review/introduction.~~

~~Further, the interference on additional deliberations on alternate method of defining strike interval as percentage of index value is placed in **Annexure 1**. The stock exchanges will individually notify SEBI of their new strike scheme for long dated options based on the above mutually agreed framework.~~

~~2. Policy to conduct periodic review and disable illiquid option contracts outside the strike scheme~~

~~Stock exchanges with guidance from SEBI have mutually agreed to conduct periodic review of available strikes in long dated options and disable the illiquid option contracts outside the strike scheme.~~

As the first step, implementation of the new strike scheme for long dated options and the disablement of illiquid option contracts outside the new strike scheme will be implemented on the same day. This will be after completion of March 2020 expiry.

Further, the review and disablement of illiquid option contracts would be conducted on semi-annual basis on the expiry day of June and December contracts. The detailed process to be followed for disabling the illiquid option contracts will be as follows:

- A contract is defined as combination of Instrument—Symbol—Option Type—Strike Price—Expiry date (contract descriptor)
- Long dated index options are defined as 8 semi-annual contracts of the cycle June/December in sequence to 3 serial monthly contracts and 3 quarterly contracts of the cycle March/June/September/December
- All long dated index option contracts **outside** the applicable strike scheme and with zero open interest will be **disabled**.
- All long dated index option contracts **inside** the revised strike scheme range **but not as per the revised strike** scheme and with zero open interest will be **disabled**.
- All long dated index option contracts **outside** the revised strike scheme and having open interest will continue to be **available** irrespective of the contract strike.
- All long dated index option contracts **inside** the revised strike scheme and with zero open interest will continue to be **available**.

The above policy measure is illustrated with example in **Annexure 2**.

Annexure 1

The exchanges deliberated on the additional method of determining the strikes as a fixed percentage of the index value and concluded that it would act as a deterrent to the market participants for the reasons mentioned below.

- a. Strikes as a percentage of index value would result in generation of strike intervals of arbitrary values resulting in a non-linear fashioned option chain. This would lead to difficulties for participants in planning & execution of their trading strategy. Example if index value is at 5000 and strike percentage is fixed at 2% then the strikes at introduction will be 5000, 5100, 5200 and so on. When the index value changes to 6000, the new strikes will be in multiples of 120. The resultant strikes in totality will be 5000, 5100, 5120, 5200, 5240, 5300, 5360 and so on. This would result in increasing the number of strikes over the contract tenor and may not be beneficial from market participants view as well.
- b. Market participants prefer change in strike scheme to be in multiple/ sync with the existing strike. For example, if the existing strike scheme was in multiple of 5, then the preference would be the new strike scheme would be in multiple of 10 and not multiple of 4 or 6. This ensures a smooth transition of open

interest in strikes based on the existing strike scheme to the new striking scheme.

- c. A continuous revision may be required in the strike interval to handle the requirement of pre-defined percentage range may be hindrance for participants who are already holding position in one strike and may want to roll to another sequential strike. Further, the market participants always prefer certainty in terms of available number of strikes and strike interval which may be difficult to maintain due to revision in the strike intervals necessitated by the percentage based requirements, if any.

Annexure-2

The policy for disabling the illiquid option contracts is illustrated below with dummy figures and does not represent any index or exchange.

Particulars	Existing	Proposed
Strike Scheme	12 — 1 — 12	5 — 1 — 5
Strike Interval	100	200
Index ATM Level	10000	10000
Strikes (ITM — ATM — OTM)	8800 — 10000 — 11200	9000 — 10000 — 11000

The number of strikes available in the existing long dated options contracts for an option type and expiry date will be as follows:

Existing Strikes Scheme	Open Interest	Proposed Strike Scheme	Action	Reason for action
8800	0	-	Disable	Outside strike scheme and OI is zero
8900	50	-	Continue	Outside strike scheme with OI
9000	100	9000	Continue	As per new strike scheme
9100	0	-	Disable	Not as per new strike scheme and OI is zero
9200	0	9200	Continue	As per new strike scheme
9300	1250	-	Continue	Contract with OI
9400	1500	9400	Continue	As per new strike scheme
9500	1750	-	Continue	Contract with OI
9600	2000	9600	Continue	As per new strike scheme
9700	2200	-	Continue	Contract with OI
9800	2500	9800	Continue	As per new strike scheme
9900	3000	-	Continue	Contract with OI
10000	5500	10000	Continue	As per new strike scheme
10100	6500	-	Continue	Contract with OI
10200	7000	10200	Continue	As per new strike scheme
10300	5500	-	Continue	Contract with OI
10400	5000	10400	Continue	As per new strike scheme

10500	4500	-	Continue	Contract with OI
10600	3000	10600	Continue	As per new strike scheme
10700	1500	-	Continue	Contract with OI
10800	0	10800	Continue	As per new strike scheme
10900	0	-	Disable	Not as per new strike scheme and OI is zero
11000	0	11000	Continue	As per new strike scheme
11100	0	-	Disable	Outside strike scheme and OI is zero
11200	0	-	Disable	Outside strike scheme and OI is zero

6.16.1.1.1. The above mechanism will ensure that all contracts available outside the revised strike interval range and not having any open interest will be disabled.

9. ANNEXURES

Annexure 1a: Illustration of position creation during ban period

<u>Day</u>	<u>EoD Position</u>	<u>Comments</u>
<u>1</u>	<u>Long Futures 1 lot</u>	<u>Stock went into ban period EoD day</u> <u>1. Delta position is positive. Any</u> <u>decrease till 0 is permissible on</u> <u>subsequent days.</u>
<u>2</u>	<u>Long Futures 1 lot</u> <u>(with</u> <u>underlying</u> <u>appreciating by 5%)</u>	<u>Passive increase in EoD delta by</u> <u>5% as no new position is created.</u> <u>Permissible.</u>
<u>3</u>	<u>Long Futures 1 lot +</u> <u>Long</u> <u>Put option 1 lot</u>	<u>Overall delta reduction as long put</u> <u>has negative delta. Permissible.</u>
<u>4</u>	<u>Long Futures 1 lot +</u> <u>Long</u> <u>Put option 1 lot +</u> <u>Short</u> <u>OTM Call option 1 lot</u>	<u>Further delta reduction as short call</u> <u>has negative delta. As long as EoD</u> <u>delta above 0, permissible.</u>
<u>5</u>	<u>Long Futures 2 lot +</u> <u>Long</u> <u>Put option 1 lot +</u> <u>Short</u> <u>Call option 1 lot</u>	<u>Additional Delta creation in positive</u> <u>side compared to previous day. Not</u> <u>permissible.</u>

7. _____ Annexure 2a -

Goods notified u/s 2(bc) of SCRA

<u>S. No.</u>	<u>Goods</u>
<u>(I)</u>	<u>CEREALS AND PULSES</u>
<u>1</u>	<u>Bajra</u>
<u>2</u>	<u>Barley</u>
<u>3</u>	<u>Gram (including Dal)</u>
<u>4</u>	<u>Jowar</u>
<u>5</u>	<u>Kulthi</u>
<u>6</u>	<u>Lakh (Khesari)</u>
<u>7</u>	<u>Maize/Corn</u>
<u>8</u>	<u>Masoor (including dals)</u>
<u>9</u>	<u>Moong and Products (including Chuni, Dal)</u>
<u>10</u>	<u>Moth</u>
<u>11</u>	<u>Peas (including Yellow Peas)</u>
<u>12</u>	<u>Ragi</u>
<u>13</u>	<u>Rice or Paddy (Including Basmati)</u>
<u>14</u>	<u>Small Millets (KodanKulti, Kodra, Korra, Vargu, Sawan, Rala, Kakun, Samai, Vari and B anti)</u>
<u>15</u>	<u>Tur/Arhar (Including Chuni, Dal)</u>
<u>16</u>	<u>Urad/Mash (Including Dal)</u>
<u>17</u>	<u>Wheat</u>
<u>(II)</u>	<u>OILSEEDS, OILCAKES AND OILS</u>
<u>18</u>	<u>Castor Complex (including seed, oil, oilcake)</u>
<u>19</u>	<u>Coconut / Copra complex (including seed / fruit, oil, oilcake)</u>
<u>20</u>	<u>Cottonseed complex (including seed, oil, oilcake)</u>



भारतीय प्रतिभूति और विनिमय बोर्ड
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<u>S. No.</u>	<u>Goods</u>
<u>21</u>	<u>Palm oil complex (including seed, oil, oilcake)</u>
<u>22</u>	<u>Groundnut complex (including nut, oil, oilcake)</u>
<u>23</u>	<u>Linseed complex (including seed, oil, oilcake)</u>
<u>24</u>	<u>Rapeseed Mustardseed complex (including seed, oil, oilcake, meal)</u>
<u>25</u>	<u>Rice bran complex (including bran, oil, oilcake)</u>
<u>26</u>	<u>Safflower complex (including seed, oil, oilcake)</u>
<u>27</u>	<u>Sesamum complex (including seed, oil, oilcake)</u>
<u>28</u>	<u>Soy complex (including bean, oil, oilcake, meal)</u>
<u>29</u>	<u>Sunflower complex (including seed, oil, oilcake)</u>
<u>(III)</u>	<u>SPICES</u>
<u>30</u>	<u>Aniseed</u>
<u>31</u>	<u>Cardamom</u>
<u>32</u>	<u>Celeryseed</u>
<u>33</u>	<u>Chillies</u>
<u>34</u>	<u>Cinnamon</u>
<u>35</u>	<u>Cloves</u>
<u>36</u>	<u>Coriander seed</u>
<u>37</u>	<u>Ginger</u>
<u>38</u>	<u>Jeera (Cumin seed)</u>
<u>39</u>	<u>Methi</u>
<u>40</u>	<u>Nutmegs</u>
<u>41</u>	<u>Pepper</u>
<u>42</u>	<u>Turmeric</u>
<u>43</u>	<u>Garlic</u>
<u>(IV)</u>	<u>METALS</u>
<u>44</u>	<u>Aluminium and Aluminium Alloys</u>
<u>45</u>	<u>Brass</u>

<u>S. No.</u>	<u>Goods</u>
46	Copper and Copper Alloys
47	Iron Ore
48	Lead and Lead Alloys
49	Nickel and Nickel Alloys
50	Pig Iron
51	Sponge Iron
52	Steel
53	Tin
54	Zinc and Zinc Alloys
55	Manganese
(V)	<u>PRECIOUS METALS</u>
56	Gold (including variants such as coins, bars etc.)
57	Platinum (including variants such as bars etc.)
58	Silver (including variants such as coins, bars etc.)
59	Palladium(including variants such as coins, bars etc.)
(VI)	<u>GEMS and STONES</u>
60	Diamond
(VII)	<u>FIBRES</u>
61	Art Silk Yarn
62	Cotton complex (including Kapas, fibre, loose, half-pressed, full-pressed, yarn, pods, cloth)
63	Jute and Jute goods (including raw jute, mesta, hessian, sackings, cloth, bags, twines, yarns and any other products made of jute)
64	Staple Fibre Yarn
(VIII)	<u>ENERGY</u>
65	Carbon Credit
66	Coal (including variants such as coking, thermal, lignite etc.)

<u>S. No.</u>	<u>Goods</u>
<u>67</u>	<u>Crude Oil</u>
<u>68</u>	<u>Electricity</u>
<u>69</u>	<u>Bio-fuel (Including Ethanol, Bio-diesel)</u>
<u>70</u>	<u>Furnace Oil</u>
<u>71</u>	<u>Gasoline/Petrol</u>
<u>72</u>	<u>Diesel</u>
<u>73</u>	<u>Methanol</u>
<u>74</u>	<u>Natural Gas</u>
<u>(IX)</u>	<u>SWEETENERS</u>
<u>75</u>	<u>Gur</u>
<u>76</u>	<u>Sugar (including S, M and other grades and khandsari)</u>
<u>(X)</u>	<u>PLANTATION</u>
<u>77</u>	<u>Cocoa</u>
<u>78</u>	<u>Coffee</u>
<u>79</u>	<u>Rubber</u>
<u>80</u>	<u>Tea</u>
<u>(XI)</u>	<u>DRY FRUITS</u>
<u>81</u>	<u>Almond</u>
<u>82</u>	<u>Cashew</u>
<u>(XII)</u>	<u>FRUITS AND VEGETABLES</u>
<u>83</u>	<u>Apple</u>
<u>(XIII)</u>	<u>DAIRY AND POULTRY</u>
<u>84</u>	<u>Skimmed Milk Powder</u>
<u>85</u>	<u>White Butter</u>
<u>(XIV)</u>	<u>ACTIVITIES, SERVICES, RIGHTS, INTERESTS AND EVENTS</u>
<u>86</u>	<u>Weather</u>
<u>87</u>	<u>Freight including trucks, railways, waterways, airways</u>

<u>S. No.</u>	<u>Goods</u>
<u>(XV)</u>	<u>FORESTRY</u>
<u>88</u>	<u>Processed Products of Timber</u>
<u>89</u>	<u>Processed Products of Bamboo</u>
<u>(XVI)</u>	<u>CHEMICALS</u>
<u>90</u>	<u>Bitumen</u>
<u>(XVII)</u>	<u>CONSTRUCTION</u>
<u>91</u>	<u>Cement</u>
<u>(XVIII)</u>	<u>OTHERS</u>
<u>92</u>	<u>Betelnuts</u>
<u>93</u>	<u>Camphor</u>
<u>94</u>	<u>Chara or Berseem (including chara seed or berseem seed)</u>
<u>95</u>	<u>Eggs</u>
<u>96</u>	<u>Gram Husk (Gram Chilka)</u>
<u>97</u>	<u>Guar Seed and products (including Guar Gum split, Guar Gum powder, Korma, Churi)</u>
<u>98</u>	<u>Isabgol</u>
<u>99</u>	<u>Mentha Oil and Products (including Crystals, Flakes etc.)</u>
<u>100</u>	<u>Onion</u>
<u>101</u>	<u>Polymer</u>
<u>102</u>	<u>Potato</u>
<u>103</u>	<u>Seedlac</u>
<u>104</u>	<u>Shellac</u>

Annexure 2b - Template on Criteria for Eligibility of Commodity Derivative Products

Section I

<u>Particulars</u>	<u>Weight</u>	<u>Sub-score</u>	<u>Details</u>
<u>Parameter I - Commodity Fundamentals</u>			
<u>Size of commodity</u>			<u>This parameter relates to production, imports, carryover stocks etc...</u>
<u>Volume in cash market</u>			<u>The daily volumes in the underlying cash/spot/physical market may be a good indicator of the depth</u>
<u>Durability and Storability</u>			<u>Relates to the durability and duration for which the commodity can be stored</u>
<u>Homogeneous/ Standardization</u>			<u>Scope for standardization</u>
<u>Parameter I Score</u>			-
<u>Parameter II - Ease of doing Business</u>			
<u>Particulars</u>	<u>Weight</u>	<u>Sub-score</u>	<u>Details</u>
<u>Prevalence of price controls</u>			<u>These parameters relate to the ease of doing business in commodity markets. Issues such as price controls, storage controls, Taxation etc., have a bearing on the trade. These parameters are also an indicator of what reforms should be brought in the commodity space in a regulated environment to be best in class globally.</u>
<u>Minimum Support Price (MSP) for the commodity</u>			
<u>Storage controls/ Stock Limits</u>			
<u>Government. Policy</u>			
<u>Applicability of other Laws</u>			
<u>Parameter II Score =</u>			-

Section II

<u>Particulars</u>	<u>Weight</u>	<u>Sub-score</u>	<u>Details</u>
<u>Parameter III - Trade/ Business</u>			
<u>Global Trade - Imports or Exports</u>			<u>Importance in global trade and to our economy. Ability to add value to the base commodity. Commercial application, nature of buyers, Supply/demand gap etc.</u>
<u>Domestic market / Geographical coverage</u>			
<u>Presence of Value Chain participants (VCPs)</u>			
<u>Supply/ Demand</u>			
<u>Parameter III Score</u>			-
<u>Parameter IV - Risk Management</u>			
<u>Particulars</u>	<u>Weight</u>	<u>Sub-score</u>	<u>Details</u>
<u>Correlation</u>			<u>The risk parameters viz., volatility, correlation with either domestic traded prices or globally traded prices, seasonality, liquidity, benefits to hedgers / farmer through direct / indirect participation and scope to hedge the price risk forms part of the Risk Management</u>
<u>Seasonality</u>			
<u>Basis Risk</u>			
<u>Volatility</u>			
<u>Hedging Incentive</u>			
<u>Liquidity</u>			
<u>Parameter IV Score</u>			-
<u>Parameter V - Benchmark Potential</u>			
<u>Particulars</u>	<u>Weight</u>	<u>Sub-score</u>	<u>Details</u>
<u>Existence of Forward Trading in OTC markets</u>			-
<u>Suitability for Futures/ Options Trading</u>			-
<u>Potential to create a Domestic Benchmark</u>			-
<u>Potential to create a Global Benchmark</u>			-
<u>Parameter V Score</u>			-

Section I Score = Parameter I Score + Parameter II Score

Section II Score = Parameter III Score + Parameter IV Score + Parameter V Score

Overall Score = Section I Score + Section II Score

Note:

- Weight-ages in % and total of all weight-ages should be 100
- Scores/Sub-scores are to be given in a range of 1 to 5
- The following scale is to be used for scoring the parameters:
 - 1 : Poor
 - 2 : Reasonable
 - 3 : Good
 - 4 : Very Good
 - 5 : Excellent

Annexure 2c - Parameters for Performance Review of Commodity Derivative Contract

1) Background

- Brief about the commodity such as sample picture, lifecycle and various varieties/grade of the commodity found in India
- Commodity fundamentals and balance sheet as per the following format (to be prepared based on publicly available information on best effort basis):

Table - Fundamentals & Balance sheet (quantity)

<u>Global Scenario</u>	<u>Previous FY</u>	<u>Current FY</u>
<u>Opening Stocks</u>	-	-
<u>Production</u>	-	-
<u>Others (if any)</u>		
<u>Consumption</u>	-	-
<u>Closing Stocks</u>	-	-

<u>Indian Scenario</u>	<u>Previous FY</u>	<u>Current FY</u>
<u>Opening Stocks</u>	-	-
<u>Production</u>	-	-
<u>Imports</u>	-	-
<u>Total Supply</u>	-	-
<u>Exports</u>	-	-
<u>Domestic Consumption</u>	-	-
<u>Closing Stocks</u>	-	-

<u>Top 10 Major producing countries</u>	<u>Previous FY</u>	<u>Current FY</u>
-	-	-

<u>Top 10 Major consuming countries</u>	<u>Previous FY</u>	<u>Current FY</u>
-	-	-

<u>Top 10 Major exporting countries</u>	<u>Previous FY</u>	<u>Current FY</u>
-	-	-

<u>Top 10 Major importing countries</u>	<u>Previous FY</u>	<u>Current FY</u>
-	-	-

<u>Top 10 Major producing states in India</u>	<u>Previous FY</u>	<u>Current FY</u>
-	-	-

- Major changes in the policies governing trade in the spot markets of the commodity
- Geopolitical issues in the commodity and its impact on Indian scenario.

2) Trading related parameter

- Monthly and Annual traded volume (quantity in appropriate units)
- Annual traded volume as proportion of total deliverable supply (quantity in appropriate units)
- Annual traded volume as proportion of total annual production (quantity in appropriate units)
- Annual average Open interest as proportion of total production
- Annual average Open interest as proportion of total deliverable supply
- Monthly and Annual value of trade (in Rs. Crores)
- Monthly and Annual quantity of delivery (in appropriate units)
- Monthly and Annual value of delivery (in Rs. Crores)
- Monthly and Annual Average Open Interest (OI) (in appropriate units)
- Annual average volume to open interest ratio
- Total number of unique members and clients who have traded during the financial year
- Ratio of open interest by FPOs/farmers/Hedge/VCP positions to total open interest (Annual average as well as maximum daily value)
- Number of unique FPOs / farmers and VCPs/hedgers who traded in the financial year
- Algorithmic trading as percentage of total trading
- Delivery defaults
 - Number of instances
 - Quantity involved
 - Value involved

3) Price movements

- Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international futures price (wherever relevant comparable are available).

- b. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international spot price (wherever relevant comparable are available) and domestic spot price (exchange polled price).
- c. Correlation between exchange futures & domestic spot prices along with ratio of standard deviation.
- d. Correlation between international futures & international spot prices along with ratio of standard deviation (wherever relevant comparable are available).
- e. Comparison of Exchange polled price and mandi price (in case of agricultural commodities) / other relevant price (in case non-agricultural commodities) at basis centre.
- f. Maximum & Minimum value of daily futures price volatility and spot price volatility along with disclosure of methodology adopted for computing the volatility.
- g. Number of times the futures contract was in backwardation/contango by more than 4% for the near month contract in the period under review

4) Other parameters

- a. Qualitative and quantitative measure for Hedge effectiveness ratio and basis Risk (Volatility of Basis) along with disclosure of methodology adopted for such calculations.
- b. Details about major physical markets of the commodity vis-à-vis market reach in terms of availability of delivery centers (information to be provided state-wise and UT-wise).
- c. Details about major physical markets of the commodity and average Open Interest for each month generated from those regions.
- d. Details, such as number and target audience, of stakeholders' awareness programs carried out by the exchange.
- e. Steps taken / to be undertaken to improve hedging effectiveness of the contracts as well as to improve the performance of illiquid contracts.

5) Any other information to be disclosed as deemed important by the exchange or as suggested by the PAC.

Annexure 2d - Clubbing of Open Positions

A. Guidelines for Clubbing of Open Positions:

- 1) When a person is a partner in one or more partnership firms and /or is a director in one or more companies and/or is a manager(karta) of a Hindu Undivided Family (HUF), the total open position of
 - a. the person as an individual operator;
 - b. the firm or firms in which he is a partner;
 - c. the Company or companies in which he is a director; and
 - d. the HUF of which he is a manager(karta)taken together shall not exceed the prescribed limit.

- 2) Where two or more persons are partners in a partnership firm or firms and where two or more persons are director in a company or companies and where two or more persons are Kartas of HUFs, the total open position held by
 - a. all the partners of partnership firm or firms;
 - b. the concerned partnership firm or firms;
 - c. all the directors of the company or companies;
 - d. the concerned company or companies;
 - e. all the Kartas of the HUFs; and
 - f. the concerned HUFstaken together shall not exceed the limit as mentioned above.

- 3) Where a person or persons operating as individuals and /or being partners in one or more partnership firms and/or being directors in one or more companies and/or being kartas of HUFs are also trustees in one or more trusts, the total open position of
 - a. the person as individual operator;
 - b. the firm or firms in which they are partners;
 - c. the company or companies in which they are directors;
 - d. the HUFs in which they are Kartas; and
 - e. the trust or trusts in which they are trustees.taken together shall not exceed the limit as mentioned above.

Provided that, if at any time more deliveries than one are running in the same commodity, the above limit shall apply to the combined open position of the member or the non-member, as the case may be, in all such deliveries running concurrently.

- 4) Open position of a member shall be the total of the open position acquired by him by trading through or with other member and by appropriating the business of his clients (collectively for all clients).

- 5) The open position of a non-member shall be the total of the open position acquired by him trading through or with one or more members.

B. Exemptions from Clubbing

- 1) In the agriculture marketing set up of the rural India, co-operative societies play a crucial role. Primary Agriculture Marketing Societies registered under the state cooperative Acts, thus, are active in different agricultural commodities. These societies are also member of Federations at the State and National level. Due to this Federal structure there may be some instances when these societies have common Directors. Also, the persons from State Governments/RCS may be nominated as Directors in these societies. In view of this, the position of different societies if they are members of a Federation will not be clubbed with the open interest position of the Federation for the purpose of determining the open interest position of the Federal or vice versa. Similarly, if Govt/RCS nominated directors sits on the Boards of different societies, this will not amount to common interest for the purpose of clubbing of positions.
- 2) As a practice of good corporate governance, the companies now have independent directors on their Board with no financial interest in the company. Similarly, companies also have Govt/Financial Institutions nominated Directors without any financial interest in the company. In such cases, when the Directors don't have any financial interest in the company. The Commission has taken a view that the position of such companies/corporates may not be clubbed just because they have common directors.

- C.** The above stated guidelines are indicative only. The Exchanges are directed to take suitable measures for clubbing of open positions on the basis of the criteria laid down above and also include other criteria such as PAN, patterns such as 'acting in concert' through common ownership and control structures and any other relevant criteria to club open positions that may be observed during the course of regular monitoring and surveillance that may appear to compromise market integrity.

Annexure 2e - Position Limit Violation

The following penal provisions are made to discourage/ prevent open interest violations at Commodity level / near month contract level-

- 1) Monetary penalty on the concerned member for violations in the open interest (either on own account or on account of clients) are linked to the quantum/ value of violation committed and to be charged from the concerned member for each such violation as under:



- a. Where the violation is more than 2% of the prescribed limit(s) –
Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is higher.
 - b. Where the violation is up to 2% of the prescribed limit(s) –
Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is lower.
 - c. The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of violation. In case such violation continues, the Exchange would square-off the excess position without any further notice to the member by putting the orders on behalf of the member in that client code and will not be responsible for the consequences of such action
- 2) In case, the instance at 1 (a) above is observed for more than 3 times in a month across the market, the Exchange would suspend the concerned member for a period of one week. For instances at 1 (b) above, the Exchange may devise its norms to deal with habitual defaulters.
- 3) Further, in case repeated violations of such nature are observed by SEBI, SEBI may consider action against the concerned Exchange.

The monetary penalty as stated above, will be credited to the Investor Protection Fund of the Exchange.



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Annexure 2f - Format for Dissemination of Information on Website

<u>Commodity</u>	<u>Units</u>	<u>Source of Data</u>	<u>Average Deliverable Supply during past five Financial Year</u>				<u>Classification</u>	<u>Deliverable Supply during Financial Year</u>			<u>Member Limit*</u>		<u>Client Limit</u>		<u>Overall Exchange wide limit</u>
			<u>Production</u>	<u>Import</u>	<u>Total</u>	<u>Total (in Cr)</u>		<u>Production</u>	<u>Import</u>	<u>Total</u>	<u>Overall</u>	<u>Net Month</u>	<u>Overall</u>	<u>Net Month</u>	
			<u>In Units</u>												

** A member's open interest limit at overall (all contracts) level will be either the absolute number indicated above or 15% of the total market wide open position in the commodity, whichever is higher. (As per para 2.5.4.2.1)*

Annexure 2g - Client Level Numerical Position Limits for Non-Agricultural Commodities

<u>Sr.</u>	<u>Commodity</u>	<u>Unit</u>	<u>Client Level Numerical Position Limit for Overall Commodity</u>
1.	Aluminum	MT	25,000
2.	Brent Crude Oil	BBL	400,000
3.	Copper	MT	7,000
4.	Crude Oil	BBL	480,000
5.	Gold	Kgs	5,000
6.	Lead	MT	3,500
7.	Natural Gas	mmBtu	6,000,000
8.	Nickel	MT	1000
9.	Silver	MT	100

10.	Steel	MT	120,000
11.	Zinc	MT	7,000
12.	Electricity	MWh	3,00,000

Commented [A92]: Incorporation of new provisions as per S.No 2.20 of Consultation Paper

Annexure 2h – Disclosure of Hedge position

<u>S.no</u>	<u>Name of the commodity</u>	<u>Hedger</u>	<u>Long Hedg e Limit s</u>	<u>Short Hedg e Limit s</u>	<u>Date of making application</u>	<u>Application Approval Date</u>	<u>Approval start date</u>	<u>Date till approval is valid</u>
1.		Hedger 1						
2.		Hedger 2						

Annexure 2i - Checklist of information/details for launch of new contract

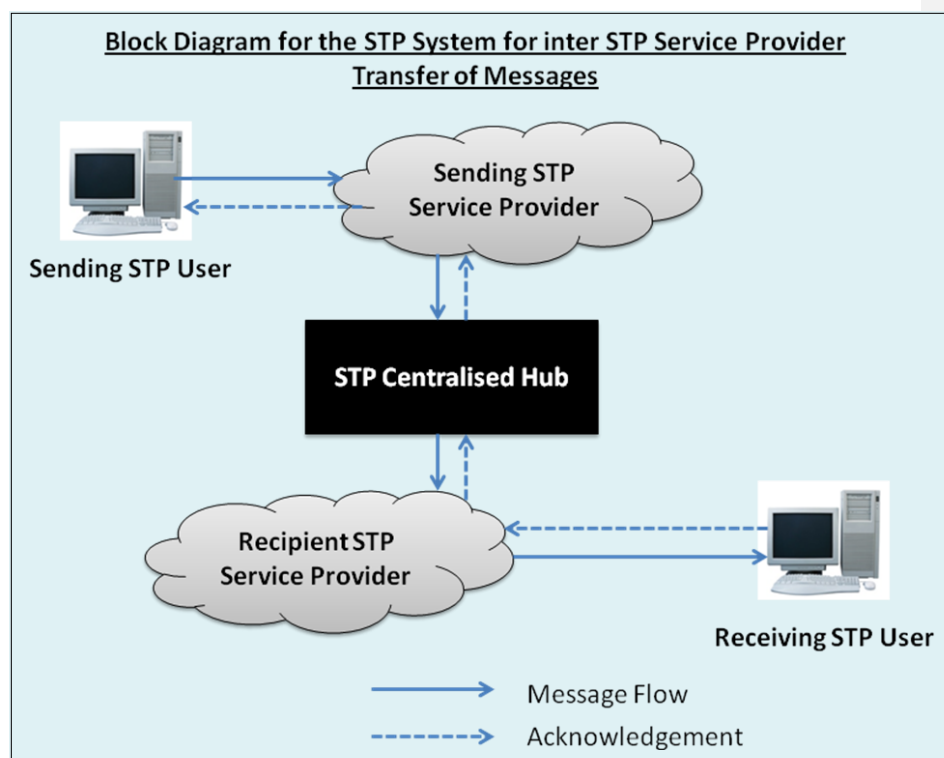
<u>Serial Number</u>	<u>Information required</u>	<u>Comments</u>
1	<u>GENERAL-</u> Justification for introducing of futures trading in the commodity including its relevance /importance to the economy (in brief) with information for preceding 3 financial years on :	
a.	<u>Its annual production</u>	
b.	<u>Import-export data</u>	
c.	<u>Details of domestic consumption</u>	
d.	<u>Main area of cultivation</u>	
e.	<u>Patterns of consumption/utilization</u>	
f.	<u>Commercialization rate (annual exports/annual supply)</u>	
g.	<u>Crop cycle</u>	
h.	<u>Warehouse facilities in the cultivation area</u>	

<u>Serial Number</u>	<u>Information required</u>	<u>Comments</u>
i.	<u>Preferred trade quantity in physical market</u>	
j.	<u>Shelf-life of the commodity</u>	
k.	<u>Global level production / consumption figures, major exporting & importing countries with figures</u>	
l.	<u>Monthly price movement in futures market –both domestic and international for last 3 years</u>	
m.	<u>Prevailing spot prices in the domestic physical market in the last three years and immediate 3 preceding months prior to the application</u>	
n.	<u>Which are the other exchanges where the proposed contract is already being traded and its/ their respective market share in terms of volumes & percentage of trades (estimated)?</u>	
o.	<u>Value Chain of the commodity</u>	
p.	<u>Degree of standardisation</u>	
q.	<u>Political sensitivity/price controls</u>	
r.	<u>Whether commodity is under purview of Essential commodities act / APMC Act / The Food Control Regulation Act etc.</u>	
s.	<u>Geographical coverage</u>	
t.	<u>Correlation with International Market</u>	
u.	<u>Seasonality</u>	
v.	<u>Price Volatility</u>	
2	<u>CONTRACT Specifications with reasons</u>	
a.	<u>Lot size</u>	
b.	<u>Tick size</u>	
c.	<u>Period of the contract (one month, two months, etc.)</u>	
d.	<u>Quality standards (should meet FSSAI standards and any other statutory prescribed standards)</u>	
e.	<u>Lean period</u>	
f.	<u>Basis Centers</u>	
g.	<u>Mechanism for allocation of delivery on the Exchange platform in a transparent manner</u>	

<u>Serial Number</u>	<u>Information required</u>	<u>Comments</u>
<u>h.</u>	<u>Rationale behind adopting “intention matching contract” as against “compulsory delivery” contract, if the case is so, in the proposed contract.</u>	
<u>i.</u>	<u>Mechanism of spot price polling –whether AGMARK prices used to track spot prices-other measures/precautions taken to ensure transparency and credibility</u>	
<u>j.</u>	<u>Settlement system with settlement price formula</u>	
<u>k.</u>	<u>Trading units and Delivery units</u>	
<u>3.</u>	<u>EXPECTED PARTICIPATION IN THE CONTRACT</u>	
<u>a.</u>	<u>Hedgers participation</u>	
<u>b.</u>	<u>Warehouse participation</u>	
<u>c.</u>	<u>What efforts Exchange had made to educate hedgers / market participants about the contract</u>	
<u>4.</u>	<u>COST OF TRADING IN CONTRACT :-</u>	
<u>a.</u>	<u>Details of Delivery Centers, their respective storage capacity, and price neutralization formula for non-preferred delivery centers etc.</u>	
<u>b.</u>	<u>Detailed break-up of charges proposed to be levied by the Exchanges for trading / warehouse for storage / delivery charges and cost in respect of failed deliveries, etc.</u>	
<u>5.</u>	<u>MARKET SURVEILLANCE AND RISK MANAGEMENT :-</u>	
<u>a.</u>	<u>Permitted price variation in a day</u>	
<u>b.</u>	<u>Open position limits in respect of client, member and market as a whole</u>	
<u>c.</u>	<u>Checks and balances for high frequency/ Algo trades</u>	
<u>d.</u>	<u>Initial margin, M -o-M margin, and conditions under which special / additional margins could be levied by Exchanges</u>	
<u>e.</u>	<u>Settlement / trade guarantee</u>	
<u>f.</u>	<u>Staggered delivery system</u>	
<u>6.</u>	<u>Status of awareness programmes for Hedgers/Potential Hedgers/Industry Associations / processors etc. organised during last 1 year.</u>	
<u>7.</u>	<u>ANY OTHER COMMENTS/ EXPLANATIONS TO OFFER, IF ANY (IN BRIEF)</u>	

7.1. ANNEXURE I

Commented [A93]: Demerger to Trading Software and Technology Chapter as per S.No 2.17 of the consultation paper.



7.2. ANNEXURE II

SECURITIES AND EXCHANGE BOARD OF INDIA (STP CENTRALISED HUB AND STP SERVICE PROVIDERS) GUIDELINES, 2004

1) PRELIMINARY

(1) These Guidelines shall be called the Securities and Exchange Board of India (STP Centralised Hub and STP Service Providers) Guidelines, 2004.

(2) These Guidelines are being issued under section 11 of the Securities and Exchange Board of India Act, 1992 to promote the development of the securities market.

(3) They shall come into force on 26th day of May, 2004

2) DEFINITIONS

(1) In these Guidelines, unless the context otherwise requires:-

(a) "Act" means the Securities and Exchange Board of India Act, 1992;

(b) "Certifying Authority" means a certifying authority who has been granted a license under section 24 of the Information Technology Act, 2000;

(c) "SEBI" means the Securities and Exchange Board of India established under Section 3 of the Act;

(d) "STP" means straight through processing;

(e) "STP centralised hub" means an infrastructure set-up by a person or entity for the purpose of rendering STP service by providing a platform for communication between different STP service providers;

(f) "STP message" means and includes all the messages for electronic trade processing with a common messaging standard as may be defined by SEBI from time to time;

(g) "STP service" means the setting up and maintaining of infrastructure to create an electronic communication network to facilitate information exchange with respect to securities market transactions between various market participants from the stage of trade initiation to final settlement through a STP system flow as may be determined by SEBI from time to time;

(h) "STP service provider" means a person or entity providing STP service to STP users to the extent of conveying messages between a STP user and the STP centralised hub and/or between two STP users;

(i) "STP user" means all the users of the STP service and includes such users as are stipulated by SEBI; and,

(j) "TRAI" means the Telecom Regulatory Authority of India established under the Telecom Regulatory Authority of India Act, 1997.



(2) Words and expressions used and not defined in these Guidelines, but defined in the Act or in the Securities Contracts (Regulation) Act, 1956 or in any rules or regulations made thereunder, shall have the meanings respectively assigned to them in such Acts, rules or regulations.

3) ELIGIBILITY CRITERIA FOR STP CENTRALISED HUB AND STP SERVICE PROVIDERS

(1) No person shall act as an STP centralised hub or a STP Service provider unless it obtains approval from SEBI to provide such service.

(2) For the grant of a certificate of approval SEBI shall take into account the following:

- i. whether the applicant is a person or entity with a minimum networth as may be prescribed from time to time.
- ii. whether the applicant has adequate infrastructure facilities setup in India like office space, equipment and manpower with adequate experience in dealing in securities market and adequate expertise in providing necessary services and software solutions.

4) OBLIGATIONS AND RESPONSIBILITIES OF STP CENTRALISED HUB

(1) The STP centralised hub shall comply with the following:

- i. The STP centralised hub shall at all times comply with the requirement of eligibility criteria, specified by SEBI.
- ii. The STP centralised hub shall abide by all the provisions of the Act, Rules, Regulations, Guidelines, Resolutions, Notifications, Directions, Circular, etc. as may be issued by the Government of India / TRAI / Department of Telecommunications and SEBI from time to time as may be applicable to the STP centralised hub.
- iii. The STP centralised hub shall obtain such approval/s from such authorities as may be necessary to function as a centralised hub.
- iv. The STP centralised hub shall obtain a digital signature certificate from a Certifying Authority and shall ensure that such digital signature certificate is valid and in force at all times. A copy of the certificate shall be submitted to all the recognized STP service providers.
- v. The STP centralised hub shall deliver a consistent and secure communication platform and shall establish continuous connectivity with all the recognized STP service providers to the best of its ability.
- vi. The STP centralised hub shall verify the digital signature certificate furnished by the STP Service Provider before connecting it to the STP centralized hub.



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- vii. The STP centralised hub shall confirm authenticity, integrity and non-reputability of all messages submitted by the STP Service Provider.
- viii. The STP centralised hub shall ensure that the message received from the STP service provider is in the specified messaging standard.
- ix. The STP centralised hub shall promptly deliver the messages to the recipient STP service provider and shall ensure that only the intended STP Service Provider receives the message.
- x. The STP centralised hub shall digitally sign all messages sent to the STP service provider.
- xi. The STP centralised hub shall maintain a directory of all STP service providers and STP users.
- xii. The STP centralised hub shall maintain a complete record of the flow of messages processed. The records of the STP centralised hub shall be open for inspection by SEBI or any other person duly authorised by SEBI for this purpose.
- xiii. The STP centralised hub shall not modify / amend the communication protocol without consulting all the approved STP service providers.
- xiv. The STP centralised hub shall ensure that the message is not misused or tampered with while in its possession.
- xv. The STP centralised hub shall maintain confidentiality of information about its users and shall not divulge the same to other clients, the press or any other person except in accordance with law or as per the directions of any court of law or of SEBI.
- xvi. The STP centralised hub may charge reasonable fees from the STP service providers.

5) OBLIGATIONS AND RESPONSIBILITIES OF STP SERVICE PROVIDER

(1) The STP Service provider shall comply with the following :-

- i. The STP service provider shall at all times comply with the requirement of eligibility criteria, specified by SEBI.
- ii. The STP service provider shall establish connectivity with the STP centralised hub before providing STP service to its users.
- iii. The STP service provider shall provide the necessary details of the STP users connected with it and all its details to the STP centralised hub for the purpose of creating and maintaining a directory of STP service providers and STP users.
- iv. The STP service provider shall comply with the minimum specifications specified by the STP centralised hub and as may be mutually agreed upon.

- v. The STP service provider shall abide by the service standards as may be specified by SEBI and / or the STP centralised hub in consultation with the STP service providers.
- vi. The STP Service Provider shall obtain a digital signature certificate from a Certifying Authority and submit a copy of the Certificate to the STP centralised hub.
- vii. The STP Service Provider shall ensure that the digital signature certificate is valid and in force.
- viii. The STP service providers shall deliver a consistent and secure communication platform and shall establish continuous connectivity with the STP centralised hub to the best of its ability.
- ix. The STP service provider shall ensure that the message sent to the STP centralised hub is in the prescribed messaging standard.
- x. The STP service provider shall verify the digital signature certificate furnished by the STP centralised hub before connecting itself to the STP centralised hub.
- xi. The STP service provider shall confirm authenticity, integrity and nonrepudiability of all messages submitted to the STP centralised hub. The STP service provider shall keep complete track of the flow of messages for record and audit.
- xii. The STP service providers may charge reasonable fees from the STP users.
- xiii. The STP service provider shall exchange messages between other STP service providers only through the STP centralised hub. Provided that in force majeure measures or any other circumstances due to which the connectivity of the STP centralised hub is not available, the STP service providers after mutual discussion may exchange messages directly among themselves for such period.
- xiv. The STP service providers shall digitally sign all messages sent from it to the STP centralised hub.
- xv. The STP service provider shall enter into an agreement with all its STP users which shall also specify the fees payable by the STP user for the services.
- xvi. The STP service provider shall maintain a directory of the STP users connected to it.
- xvii. The STP service provider shall maintain a complete record of the flow of messages handled. The records of the STP service provider shall be open for inspection by SEBI or any other person duly authorised by SEBI for this purpose.
- xviii. The STP Service Provider shall verify the Digital signature on the message of the STP user connected to the STP Service Provider



xix. The STP service provider shall ensure that the message from the STP user is in the specified messaging format.

xx. The STP service provider shall promptly deliver messages to and from the STP user.

xxi. In respect of inter STP service provider messages, the STP service provider shall perform all actions to the best of its ability in the same manner, diligence, speed and with all checks and balances as if the message is to be delivered / received by the same service provider.

(2) Nothing in these guidelines shall exempt the STP service provider from discharging any obligations placed on it by any law, regulations and guidelines.

6) CONDITIONS OF APPROVAL FOR STP CENTRALISED HUB AND STP SERVICE PROVIDERS

(1) Terms of approval:

- i. The approval by SEBI shall be for an initial period of five years for STP centralised hub and for a period of three years for STP service providers and must be renewed periodically.
- ii. The STP centralised hub and STP service provider must ensure continuous validity of approval by SEBI in order to function as a STP service provider.
- iii. The Board shall have the right to suspend / cancel the approval of the STP centralised hub and/or STP service provider in case of violation of the terms of the guidelines.

7) CODE OF CONDUCT FOR STP SERVICE PROVIDERS

Every STP service provider shall abide by the Code of Conduct as specified in Schedule I.

8) MODEL AGREEMENT

The STP centralised hub shall enter into an agreement with every STP service provider on the lines of the Model Agreement given in Schedule II.

SCHEDULE I

CODE OF CONDUCT FOR STP SERVICE PROVIDERS (Clause 7 of the Guidelines)

a. The STP service provider shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.

b. The STP service provider shall disclose to the clients its possible sources or potential areas of conflict of duties and interest and provide unbiased services.

c. The STP service provider herein agrees and undertakes to perform its duties as a STP service provider with the highest standards of integrity and fairness in all its dealings.

d. The STP service provider shall abide by the obligation as specified under these Guidelines and the terms of the agreement entered into by the STP service provider with the STP users / STP centralised hub.

e. The STP service provider shall maintain true and correct record of the messages processed by it under the scheme and in particular the records in respect of:-

i. the STP users

ii. the messages exchanged within the same STP service provider

iii. the messages exchanged with other STP service providers through the STP centralised hub

f. The STP service provider shall ensure that the message is not misused or tampered with while in its possession.

g. The STP service provider shall maintain confidentiality of information about its users and shall not divulge the same to other clients, the press or any other interested party except in accordance with law or as per the directions of any court of law.

h. The STP service provider shall abide by all the provisions of the Act, Rules, Regulations, Guidelines, Resolutions, Notifications, Directions, Circular, etc. as may be issued by the Government of India / Telecom Regulatory Authority of India / Department of Telecommunications and Securities and Exchange Board of India from time to time as may be applicable to the STP service provider.

SCHEDULE II

MODEL AGREEMENT BETWEEN STP CENTRALISED HUB AND STP SERVICE PROVIDER

(Clause 8 of the Guidelines)

THIS AGREEMENT is made at _____ on this the ____ day of _____ between _____ having its Registered office at _____ (hereinafter referred to as the 'STP Centralised Hub' which expression shall, unless it be repugnant to the context or the meaning thereof, be deemed to include its successors, legal representatives and assigns) of the First Part;

And _____ a Company incorporated under the Companies Act, 1956 and having its registered office at _____ (hereinafter referred to as the 'STP Service Provider' which



expression shall unless it be repugnant to the context or the meaning thereof, be deemed to include its successors, legal heirs, legal representatives and assigns as the case may be) of the Second Part.

WHEREAS

1. The Securities and Exchange Board of India has mandated Straight Through Processing (hereinafter referred to as 'STP') for facilitating settlement of institutional trades.
2. In terms of the Securities and Exchange Board of India (STP Centralised Hub and STP Service Providers) Guidelines, 2004 an agreement has to be entered into between the STP Centralised Hub and the STP Service Provider.
3. The STP centralised hub has obtained such approval/s as may be necessary to function as a centralised hub.

NOW THIS AGREEMENT WITNESSETH AND IT IS HEREBY AGREED BY AND BETWEEN _____ AND _____ AS UNDER:

A. DEFINITIONS

1. DoT means Department of Telecommunications, India, Government of India and /or its successors.
2. EFFECTIVE DATE: The date on which this Agreement is entered into.
3. EMERGENCY means an emergency of any kind, including any circumstances whatever resulting from major accidents and natural disasters.
4. INTERNET: Internet is a global information system that:
 - ☐ is logically linked together by a globally unique address, based on Internet Protocol (IP) or its subsequent enhancements / upgradations;
 - ☐ is able to support communications using the Transmission Control Protocol / Internet Protocol (TCP/IP) suite or its subsequent enhancements / upgradations, and all other IP compatible protocols; and
5. "TELECOM AUTHORITY" shall mean The Director General, DoT, Government of India and includes any officer empowered by him to perform all or any of the functions of the Telegraph Authority under the Indian Telegraph Act, 1885 or such other authority as may be established by law.
6. "TRAI" shall mean the Telecom Regulatory Authority of India established under the TRAI Act, 1997.

B. FEES PAYABLE BY STP SERVICE PROVIDER –

The STP Service Provider agrees to pay Fees as listed in the Annexure III(A) in consideration for the services provided by STP centralised hub hereof. The said fees may be revised by STP centralised hub as may be mutually agreed upon with the

STP Service Providers. The STP service provider shall also be liable to pay interest @ ____% p.a. in case of delay in payments on the amount due till the actual date of payment.

C. STP SERVICE PROVIDER OBLIGATION

1. The STP Service Provider shall obtain a digital signature certificate from a Certifying Authority, which has been issued a license by the Controller of Certifying Authorities appointed under the Information Technology Act, 2000. A copy of the Certificate shall be submitted to STP centralised hub.
2. The STP Service Provider shall verify the Digital signature on the message of the STP User connected to the STP Service Provider before sending the message to the STP Centralized hub.
3. The STP Service Provider agrees to comply with the minimum specifications prescribed by STP centralised hub and as may be mutually agreed upon.
4. The STP Service Provider shall adhere to the guidelines prescribed by SEBI from time to time.
5. The STP Service Provider acknowledges that the software for STP Centralized Hub including the STP Centralized hub client software is the legal property of STP centralized hub. The permission given by STP centralised hub to access and use STP Centralized Hub through the STP Centralized hub client software will not convey any proprietary or ownership rights in the above software. The access of the STP Service Provider is limited to the STP Centralized hub Client software.
6. The STP Service Provider shall not attempt to modify, translate, disassemble, decompile or reverse engineer Centralized the STP Centralized hub client software or create any derivative product based on that software.
7. The STP Service Provider shall have a non-exclusive right to access STP Centralized Hub through the STP Centralized hub client software. This right is not transferable under any circumstances and shall be used by the STP Service Provider itself or by its authorized agent as may be mutually agreed.
8. The STP Service Provider shall not use the infrastructure or the facilities provided by STP centralised hub for any other purpose other than those mentioned in this Agreement.
9. The STP Service Provider shall indemnify STP centralised hub against any damage, loss, expenses, costs etc incurred by it due to negligence (intentional or unintentional) of the STP Service Provider.
10. The STP Service Provider shall ensure that by using the Hub client software provided by STP centralised hub
 - a. No damage will be caused to the STP Centralized hub, and that it does not propagate virus infected information

b. It will pass on only relevant information to be exchanged with the other STP service provider.

c. It will not try to probe any other information available on the STP Centralized Hub

D. STP CENTRALISED HUB OBLIGATIONS

1. STP centralised hub shall obtain a digital signature certificate from a Certifying Authority, which has been issued a license by the Controller of Certifying Authorities appointed under the Information Technology Act, 2000. A copy of the Certificate shall be submitted to STP service provider.

2. STP centralised hub acknowledges that STP infrastructure of the STP service provider is the legal property of STP service provider. The permission given by STP service provider to STP centralised hub's STP hub client software to co-locate on STP infrastructure will not convey any proprietary or ownership rights in the STP infrastructure.

3. STP centralised hub may subcontract and employ agents to carry out any of its obligations under such terms and conditions as may be mutually agreed.

4. STP centralised hub shall be solely responsible for installation, networking and operation of applicable systems. STP centralised hub shall clearly display and publicise specifications of STP Service Providers terminal equipment at Service Provider premises which are necessary for interfacing to network.

5. STP centralised hub shall abide by the guidelines issued by SEBI from time to time on the STP framework.

6. STP centralised hub shall confirm authenticity, integrity and non-repudiability of all messages submitted by the STP Service Provider.

7. The STP Centralized Hub would keep complete track of the flow of messages for record and audit.

8. STP centralised hub shall ensure that only the intended STP Service Provider receives the message.

9. STP centralised hub shall not misuse/ alter / reverse engineer / decompile the content of the messages submitted by the STP Service Providers.

10. STP centralised hub will digitally sign all messages sent from the STP Centralized Hub to the STP Service Provider.

11. STP centralised hub agrees to PKI enable the STP Hub client software within --- months after the agreement would come into force. STP centralised hub shall digitally sign all messages at STP Centralized Hub prior to sending it to STP Service Providers. hub client software will maintain unsigned logs of such events.

12. STP centralised hub shall indemnify the STP service provider against any damage, loss, expenses, costs etc incurred by it due to its negligence (intentional or unintentional). STP centralised hub shall not use the infrastructure or the facilities



provided by STP service provider for any other purpose other than those mentioned in this Agreement.

13. Hub client software provided by STP centralised hub will ensure that :

- a. No damage will be caused to the service providers system.
- b. It will not propagate virus infected information
- c. It will pass on only relevant information to be exchanged with the other STP service provider.
- d. It will not try to probe any other information available on the STP Service Providers setup
- e. It will not try to modify, translate, disassemble, de-compile or reverse engineer the software to gain access to restricted information or create any derivative product based on STP service provider's system.

E. COMPLIANCE WITH LAWS

1. Both the parties represent that they have taken all necessary corporate action to authorise the execution and consummation of this agreement and shall furnish satisfactory evidence of the same upon request to other party.

2. Both the parties hereto agree that they shall comply with all applicable Central, state and local laws, ordinances, regulations and codes in performing their obligations hereunder, including the procurement of licenses, permits and certificates and payment of taxes where required.

3. The parties shall fully inform themselves of all necessary obligations and statutes under Indian Law (including the security measures prevalent in India) and shall not hold the other party responsible for any lapse in this regard. This shall include, but not be limited to, the knowledge and understanding of the physical, environmental and technical standards required for the provision and operation of the Equipment, software and services within India. The monetary obligations, if any, devolving on either of the parties due to statutory changes subsequent to the conclusion of the Agreement, shall be borne by the respective party, if applicable.

F. SERVICE CHANGES AND DISCONTINUATION

STP centralised hub shall if directed by regulatory authorities, suspend the STP Service Provider's access to the STP Centralized Hub at any time without notice. The STP Service Provider agrees that STP centralised hub will not be liable to any third party for any modification or discontinuance of the STP Centralized Hub. If STP centralised hub receives prior notice of such direction it shall be communicated to the service provider immediately.

In order to maintain the security and integrity of the service STP centralised hub may also suspend the STP Service Provider's access to the STP Centralized Hub. The STP Service Provider agrees that STP centralised hub will not be liable to or any third party for any modification or discontinuance of the STP Centralized Hub. The Parties

shall make every effort to resolve amicably by direct informal negotiation any disagreement or dispute arising between them under or in connection with the arrangement. In the case of any issues arising out of the security and integrity of the messages being exchanged through the hub, the same shall be resolved by mutual discussion. In the event the parties are not able to settle the same within the time frame agreed between the parties either party may, by written notice of 30 days sent to the other party, temporarily suspend the arrangements, in whole or in part, till the parties find a technical solution to the security and technical issues. The notice of termination shall specify the termination is at whose instance, the extent to which performance of the agreement is suspended, and the date upon which such suspension becomes effective.

G. FORCE MAJEURE

If the performance of any obligations by any party as specified in this agreement is prevented, restricted, delayed or interfered by reason of force majeure then notwithstanding anything hereinbefore contained, the party affected shall be excused from its performance to the extent such performance relates to such prevention, restriction, delay or interference and provided the party so affected uses its best efforts to remove such cause of non-performance and when removed the party shall continue performance with utmost urgency. For the purpose of this clause "Force Majeure" means & includes fire, explosion, cyclone, floods, war, revolution, blockage or embargo, any law, order, demands or requirements of any Government or statutory authority, strikes, which are not instigated for the purpose of avoiding obligations herein or any other circumstances beyond the control of the party affected.

H. AMENDMENT TO THE AGREEMENT

The rights and obligations of the parties are governed only by this agreement. This agreement may be amended, altered, modified, varied or added to from time to time only by a written instrument duly signed by both the parties to this agreement. All previous communications, both oral and written between the parties and related to this agreement, but inconsistent with the terms and conditions of this agreement, are hereby declared null and void.

I. VALIDITY

This Agreement is valid so long as STP service provider holds valid approval from SEBI and STP centralised hub holds valid approval as STP Centralised Hub from SEBI. This Agreement shall be valid for an initial period of _____ years (hereinafter referred to as the 'Term'). After the term, the arrangement may be extended on mutually acceptable terms.

J. TERMINATION

Without prejudice to the rights, liabilities, interests and obligations that have accrued to the parties prior to the date of terminations

1. Either party may terminate this agreement upon material breach by the other of any provision of this agreement, and (if such breach is remediable) that other fails to remedy such breach within a mutually agreed time frame in writing.

2. This agreement may, at any time during its Term, be terminated by either party by a written 90 days' notice to the other party without prejudice to the rights, liabilities, interests and obligations that have accrued to the parties prior to the date of such termination. The grounds upon which this agreement may be terminated pursuant to this clause are as under:

i) In case a Receiver has been appointed with respect to all or substantially all the assets of the parties. Provided that this clause shall not be applicable when winding up proceedings have been initiated to facilitate an amalgamation with another company proposing to carry on the same business

ii) if one of the parties enters into an arrangement of composition with its creditors.

3. This agreement may, at any time during its Term, be terminated by STP centralised hub by a written notice in case the ISP license of STP centralised hub is revoked or the services are taken over by DoT / Telecom Authority in the event of an emergency or otherwise. If STP centralised hub receives prior notice of the same it shall be provided to the service provider immediately.

4. This agreement may, for convenience, at any time during its term, be terminated by either party, by a written notice of 90 days to the other party.

5. The provisions contained hereinabove shall not preclude the other party from recourse to any other remedies available to itself by statute or otherwise, at law or in equity.

6. In order to maintain the security and integrity of its infrastructure STP service provider may also suspend the STP hub client software access to its system at any time without notice.

K. NOTICE

Any notice to be given by one party to the other pursuant to this agreement shall be sent by registered post A.D., speed post or facsimile transmission to the address mentioned below:

1. _____ (NAME OF THE STP CENTRALISED HUB)

_____ (ADDRESS)

2. _____ (NAME OF STP SERVICE PROVIDER)

_____ (ADDRESS)

L. WAIVER OF RIGHTS

No forbearance, delay or indulgence by any party in enforcing any of the provisions of this agreement shall prejudice or restrict the rights of that party nor shall any waiver of its rights operate as a waiver of any subsequent breach and no rights, powers, remedies herein conferred upon or reserved for the parties is exclusive of any other right, power or remedy available to that party and each right, power or remedy shall be cumulative.

M. ARBITRATION AND JURISDICTION

In the case of any dispute or any difference between the parties arising out of or in relation to this agreement including dispute or difference as to the validity of this agreement or interpretation of any of the provisions of this agreement or losses or damages arising under clause C-8 and the relevant clause under STP Centralized hub of this agreement, the same shall be resolved by mutual discussion. If the parties fail to settle the dispute or difference mutually, then the same shall be resolved in accordance with and subject to the provisions of the Arbitration and Conciliation Act, 1996 or any modifications or amendments thereto, or any enactment for the time being in force subject to the stipulation that only courts at Mumbai shall have exclusive jurisdiction in all such matters. The provisions of this clause shall survive the termination of this agreement.

N. GOVERNING LAW

1. This agreement shall be governed by and construed and interpreted in accordance with the laws of India, SEBI Act, Regulations, Rules and SEBI (STP centralised hub and STP service providers) Guidelines, 2004.

2. If any term or provision of this agreement should be declared invalid by a court of competent jurisdiction, the remaining terms and provisions of this agreement shall remain unimpaired and in full force and effect.

O. DISCLAIMER

STP centralised hub shall use its best endeavor only to ensure that the services provided shall be in conformity with the terms of this agreement. STP centralised hub shall not be liable for bad/slow connection or any technical glitches on account of reasons beyond its control.

P. CONFIDENTIALITY

The Parties hereto shall at all times maintain and keep secret and confidential any knowhow, information and data which it has or may acquire from time to time relating to the business, activities or operations of the other Party and shall not disclose or divulge the same or any part thereof to any third party. The terms of this clause shall survive termination of the Agreement.

~~The obligations shall not apply with respect to information which:~~

- ~~1) is or becomes publicly available other than through a breach of this Agreement or is unlawfully appropriated;~~
- ~~2) is already in the possession of the other party without any breach of this Agreement ;~~
- ~~3) is obtained by the other party from a third party without any breach of this Agreement .~~
- ~~4) is required to be produced before a judicial authority and only where the other party is compelled to do so by such an authority, provided that the said authority (or individual representing such authority) has the authority, under the laws in force, to compel such disclosure.~~

~~Notwithstanding the foregoing, before making any use or disclosure on any of the foregoing exceptions, the Party disclosing such information shall intimate the Other Party as soon as practicable the applicable exceptions (s) and circumstances giving rise thereto.~~



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7.2.1.1.1. ANNEXURE-II(A)

STP centralised hub shall charge a fee of Rs. _____. The fees shall be charged to the sending service provider. The billing shall be on a _____ basis.

One message shall mean and include the following—

- One ISO message sent by a service provider to the STP centralised hub
- Acknowledgement message sent by the STP centralised hub to the Sending service provider
- The message forwarded to the receiving service provider
- Acknowledgement received from the receiving service provider for the message
- Forwarding the acknowledgement received from the receiving service provider to the sending service provider

In consideration of the fees STP centralised hub shall endeavour to provide the following service standards—

- Infrastructure availability
 - 99% Uptime for business hours from 0930 hrs till 1930 hrs computed on a quarterly basis. Planned Outage excluded
 - Uptime on best effort basis between 1930 hrs to 0930 hrs
 - Resolution time: 4 hours for called logged between 0930 to 1800 hrs
- Trouble Ticketing
 - Business Hrs— Telephonic reporting of Fault on STP centralised hub Helpdesk
 - Non Business Hrs— Telephonic reporting of Fault on STP centralised hub Operations
 - Call closure confirmation— STP service Provider to give respective telephone numbers



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7.3. ANNEXURE-III

Message IFN-515:

Mandatory Block A (General Information)					14.3.5-
14.3.1	14.3.2	14.3.3	14.3.4	14.3.5	14.3.6
Status	Field	Field Name	Content and Options	Remarks	Rules
M	16R	14.3.1	GENL	Start of block	14.3.13
M	20G	Reference	:4!c//16x	Type of CN, Exchange number and CN No.	Format: (Qualifier)/ /(References) Qualifier: "SEME" (4 Uppercase Characters) References: (Contract Type/ Exchange No. / Contract Number) Contract Type: A or B (1 Character Set) Exchange number (2 digits - e.g. Calcutta Stock Exchange will be 03) Contract Number: xxxxxxxxxx (13 Characters) The reference should not start or end with slash '/' and must not contain two consecutive slashes '//'. Format: (Function) Function: "NEWM"
M	23G	14.3.1	4!c	To indicate new message or cancellation of a previous message	Format: (Qualifier)/(Date) Qualifier: "PREP" (4 Uppercase Characters) Date: YYYYMMDD (8 Digits)
Q	98A	Date	:4!c//8!n	Preparation Date	Format: (Qualifier)/(Indicator) Qualifier: "TRTR" (4 Uppercase Characters)
M	22F	Indicator	:4!c//4!c	Dummy (taken since mandatory)	Format: (Qualifier)/(Indicator) Qualifier: "TRTR" (4 Uppercase Characters)

					Indicator: "TRAD" (4 Uppercase Characters)
14.3.	14.3.	14.3.	14.3.18	14.3.19	14.3.20
Mandatory Subsequence A1 Linkages			14.3.21	14.3.22	14.3.23
14.3.	14.3.	14.3.	14.3.27	14.3.28	14.3.29
M	16R	14.3.	LINK	Start of block	14.3.31
M	20C	14.3.	:4!c//16x	To indicate the cancelled contract note (CANC). In case of NEWM, the field should contain "DUMMY"	Format: (Qualifier) //(Reference) Qualifier: " PREV" (4 Uppercase Characters) Reference: The reference no. as given in field SEME of the earlier contract note that is being cancelled. (16 Characters) [In case of NEWM, the field should contain "DUMMY"]
M	16S	14.3.	LINK	End of Block	14.3.34
14.3.	14.3.	14.3.	14.3.38	14.3.39	14.3.40
End of Mandatory Subsequence A1 Linkages			14.3.41	14.3.42	14.3.43
14.3.	14.3.	14.3.	14.3.47	14.3.48	14.3.49
M	16S	14.3.	GENL	End of block	14.3.51
14.3.	14.3.	14.3.	14.3.55	14.3.56	14.3.57
Mandatory Block C (Confirmation details)			14.3.58	14.3.59	14.3.60
14.3.	14.3.	14.3.	14.3.64	14.3.65	14.3.66
M	16R	14.3.	CONFDET	Start of block	14.3.68
M	98A	Trade Date	:4!c//8!n	To give details of the trade date.	Format: (Qualifier)/(Date) Qualifier: "TRAD" (4 Uppercase Characters) Date: "YYYYMMDD" (8 Digits)
M	98A	Settlement Date	:4!c//8!n	To give details of the settlement date.	Format: (Qualifier) / (Date) Qualifier: "SETT" (4 Uppercase Characters) Date: "YYYYMMDD" (8 Digits)

M	99B	Price	:4!c//4!c/3! a15d	To indicate the trade rate	Format: (Qualifier)/ (Amount Type Code)/ (Currency Code) (Price) Qualifier: "DEAL" (4 Uppercase Characters) Amount Type Code: "ACTU" (4 Uppercase Characters) Currency Code: "INR" (3 Uppercase Alphabets) Price: Upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.
Q	92A	Price	:4!c//[N]15 d	To indicate brokerage rate per share	Format: (Qualifier)/ (Amount Type Code)/ (Currency Code) (Price) Qualifier: "CORA" (4 Uppercase Characters) Sign: (-/+) Price: Upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.
M	94B	Place	:4!c//4!c/30 x	To identify the exchange	Format: (Qualifier)/ (Place Code)/ (MAPIN code) / Narrative Qualifier: "TRAD" (4 Uppercase Characters) Place Code: "EXCH" (4 Uppercase Characters)
M	22H	Indicator	:4!c//4!c	To indicate whether the trade is Buy	Format: (Qualifier)/(Indicator) Qualifier: "BUSE" (4 Uppercase Characters)

				[BUY] / Sell [SELL]	Indicator: "BUY" or "SELL" (4 Uppercase Characters)
M	22H	Indicator	:4!c//4!c	To indicate where the trades is against payment [APMT] or free of payment [FREE]	Format: (Qualifier)/(Indicator) Qualifier: "PAYM" (4 Uppercase Characters) Indicator: "FREE" for clearing house trades or "APMT" for DVP trades (4 Uppercase Characters)
14.3.	14.3.	14.3.	14.3.72	14.3.73	14.3.74
Mandatory Sub-Block C1 (Confirmation Parties)			14.3.75	14.3.76	14.3.77
14.3.	14.3.	14.3.	14.3.81	14.3.82	14.3.83
M	16R	14.3.8	CONFPRTY	Start of block	14.3.85
M	95Q	Party	:4!c//4*35x	To give details of the client as mentioned on the contract note.	Format: (Qualifier)/(SEBI Regn. No.) Subsequent to SEBI's mandating, Map In will be used for the same.
14.3.	14.3.	14.3.8	14.3.89	14.3.90	Qualifier: "INVE" (4 Uppercase Characters)
14.3.	14.3.	14.3.9	14.3.94	14.3.95	14.3.96
14.3.	14.3.	14.3.9	14.3.100	14.3.101	14.3.102
14.3.	14.3.	14.3.9	14.3.106	14.3.107	14.3.108
14.3.	14.3.	14.3.9	14.3.112	14.3.113	14.3.114
E	97A	Account	:4!c//35x	To identify the safekeeping account. All clients need to obtain a code as specified in the circular	Format: (Qualifier)/(Code as specified in the circular)
14.3.	14.3.	14.3.9	14.3.118	14.3.119	Qualifier: "SAFE" (4 Uppercase Characters) Code as specified in the circular (35 characters)
M	16S	14.3.9	CONFPRTY	End of block	14.3.121



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14.3.	14.3.	14.3.	14.3.125	14.3.126	14.3.127
End of Mandatory Subsequence C1 (Confirmation Parties)				14.3.128	14.3.129
14.3.	14.3.	14.3.1	14.3.133	14.3.134	14.3.135
M	36B	Quantity of Financial Instrument	:4!c//4!c/15d	To define the trade quantity	Format: (Qualifier)/(Quantity Type Code) / (Quantity)Qualifier: "CONF" (4 Uppercase Characters)Quantity Type Code: "UNIT" (4 Uppercase Characters)Quantity: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.
M	35B	Identification of Security	[ISIN]1!e12!c[4*35x]	To identify the ISIN of the Scrip and company name.	Format: (Identification of Security)(Description of Security)Identification of Security: "ISIN" which will always be present. (ISIN of the security). Additionally, the first line (35 characters) of the description may be used if required and may contain the scrip code (4 lines of 35 Characters). The contract descriptor shall be provided in the first line of 35 characters
M	70E	Narrative	:4!c//10*35x	To identify Segment Type i.e. Rolling (DR) or Inter FII (DI) or Auction Rolling (AR) or Trade to Trade (TT) or Others (OT)	Format: (Qualifier) / (Narrative)Qualifier: "TPRO" (4 Uppercase Characters)Narrative: Line 1: "DR" or "DI" or "AR" or "TT" or "OT" / Settlement Number as mentioned on

				/Settlement Number	Stock Exchange system (35 Character Sets)
Q	98G	Date/Time	:4!c//8!n6! n	To Identify order time	Format: (Qualifier) //(Date)/ (Time) Qualifier: "PROC" (4 Upper Characters) Date: YYYMMDD Time: HHMMSS
M	16S	14.3.1	CONFDE T	End of block	14.3.137
14.3.	14.3	14.3.1	14.3.141	14.3.142	14.3.143
End of Sequence C (Confirmation Details)				14.3.144	14.3.145
14.3.	14.3	14.3.1	14.3.149	14.3.150	14.3.151
Mandatory Sequence D (Settlement Details)					14.3.152
14.3.	14.3	14.3.1	14.3.156	14.3.157	14.3.158
M	16R	14.3.1	SETDET	Start of block	14.3.160
M	22F	Indicator	:4!c//4!c	Dummy (since mandatory)	Format: (Qualifier) //(Indicator) Qualifier: "SETR" (4 Upper Characters) Indicator: "TRAD" (4 Upper Characters)
14.3.	14.3	14.3.1	14.3.164	14.3.165	14.3.166
Mandatory Subsequence D1 (Settlement Parties)					14.3.167
14.3.	14.3	14.3.1	14.3.171	14.3.172	14.3.173
M	16R	14.3.1	SETPRTY	Start of block	14.3.175
M	95P	Party	:4!c//4!a2!a 2!c[3!c]	Indicates the contracting broker Broker BIC code is used	shall not be used



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14.3.	In case the BIC code doesn't exist				
14.3.	95Q	Party	:4!c//4*35x	Indicates the Broker	Format: (Qualifier)/(SEBI regn no. of broker) MAPIN will used on SEBI mandating the same Qualifier: "BUYR" in case of a Sale "SELL" in case of a Purchase Name of the contracting broker
Q	70G	Narrative	:4!c//4*35x	To provide additional broker contact details	Format: (Qualifier) /(Narrative) Qualifier: "PACO" (4 Uppercase Upper Characters) Narrative: Broker Exchange Broker code (140 Characters)
Q	70E	Narrative	:4!c//10*35x	To provide for Declaration	Format: (Qualifier) /(Narrative) Qualifier: "DECL" (4 Uppercase Upper Characters) Narrative: Arbitration Clause (10 lines of 35 char each) Line 1: This contract is subject to Rules, Line 2: Byelaws and Regulations and Line 3: usages of (name of the exchange). In event Line 4: of any claim (whether admitted or Line 5: not), difference or dispute arising Line 6: between you and me/us out of these Line 7: transactions, the matter shall be Line 8: referred to arbitration as provided Line 9: in the Rules, Byelaws

					and Line 10: Regulations of (name of the exchange). Line 11: Consolidated Stamp Duty paid
14.3.	14.3.	14.3.1	14.3.181	14.3.182	14.3.183
M	16S	14.3.1	SETPRTY	End of block	14.3.185
14.3.	14.3.	14.3.1	14.3.189	14.3.190	14.3.191
M	16R	14.3.1	SETPRTY	Start of block	14.3.193
14.3.	14.3.	14.3.1	14.3.197	14.3.198	14.3.199
14.3.	14.3.201				
M	95Q	Party	:4!c//4*35x	Indicates the Delivery Type. The name of the clearing corporation is to be used in case of a clearing house trade. In case of a hand delivery trade, the brokers name is to be used.	Format: (Qualifier)/(Name of Clearing House) Qualifier: "REAG" in case of a Sale "DEAG" in case of a Purchase - "BOISL" for BSE trades, or - "NSCCL" for NSE trades (For Clearing House Trades) and SEBI reg number of the broker (For Hand Delivery Trades)
14.3.	14.3.	14.3.2	14.3.205	14.3.206	14.3.207
M	16S	14.3.2	SETPRTY	End of block	14.3.209
14.3.	14.3.	14.3.2	14.3.213	14.3.214	14.3.215
End of Subsequence D1 (Settlement Parties)				14.3.216	14.3.217
14.3.	14.3.	14.3.2	14.3.221	14.3.222	14.3.223
Mandatory Subsequence D3 (Amounts)				14.3.224	14.3.225

14.3.	14.3.	14.3.2	14.3.229	14.3.230	14.3.231
M	16R	14.3.2	AMT	Start of block	14.3.233
M	19A	Amount	:4!c//3!a15 d	To identify the Deal Amount	Format: (Qualifier) //(Currency Code) (Amount) For: Deal Amount Qualifier: "DEAL" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit. Deal amount = trade quantity * trade rate
14.3.	14.3.	14.3.2	14.3.237	14.3.238	14.3.239
M	16S	14.3.2	AMT	End of block	14.3.241
14.3.	14.3.	14.3.2	14.3.245	14.3.246	14.3.247
M	16R	14.3.2	AMT	Start of block	14.3.249
14.3.	14.3.	14.3.2	14.3.253	14.3.254	14.3.255
M	19A	Amount	:4!c//3!a15 d	To identify the brokerage	For Brokerage: Qualifier: "EXEC" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.
14.3.	14.3.	14.3.2	14.3.259	14.3.260	14.3.261
M	16S	14.3.2	AMT	End of block	14.3.263
14.3.	14.3.	14.3.2	14.3.267	14.3.268	14.3.269
M	16R	14.3.2	AMT	Start of block	14.3.271



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14.3.	14.3.	14.3.2	14.3.275	14.3.276	14.3.277
M	19A	Amount	:4!c//3!a15 d	To identify the service tax	For Service Tax: Qualifier: "TRAX" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.
14.3.	14.3.	14.3.2	14.3.281	14.3.282	14.3.283
M	16S	14.3.2	AMT	End of block	14.3.285
14.3.	14.3.	14.3.2	14.3.289	14.3.290	14.3.291
M	16R	14.3.2	AMT	Start of block	14.3.293
14.3.	14.3.	14.3.2	14.3.297	14.3.298	14.3.299
M	19A	Amount	:4!c//3!a11 d	To identify the Securities Transaction Tax amount	For Securities Transaction Tax Amount Qualifier: "COUN" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 10 digits (excluding decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.
14.3.	14.3.	14.3.3	14.3.303	14.3.304	14.3.305
M	16S	14.3.3	AMT	End of block	14.3.307
14.3.	14.3.	14.3.3	14.3.311	14.3.312	14.3.313
M	16R	14.3.3	AMT	Start of block	14.3.315



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14.3.	14.3.	14.3.3	14.3.319	14.3.320	14.3.321
M	19A	Amount	:4!c//3!a15 d	To identify the settlement amount	For Settlement Amount Qualifier: "SETT" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: upto 15 digits (including decimal places and decimal sign) comma has to be used as decimal sign and is mandatory. Integer part of amount must contain atleast one digit.
14.3.	14.3.	14.3.3	14.3.325	14.3.326	14.3.327
M	16S	14.3.3	AMT	End of block	14.3.329
14.3.	14.3.	14.3.3	14.3.333	14.3.334	14.3.335
End of Mandatory Subsequence D3 (Amounts)				14.3.336	14.3.337
14.3.	14.3.	14.3.3	14.3.341	14.3.342	14.3.343
M	16S	14.3.3	SETDET	End of block	14.3.345
14.3.	14.3.	14.3.3	14.3.349	14.3.350	14.3.351
End of Sequence D Settlement Details				14.3.352	14.3.353
14.3.	14.3.	14.3.3	14.3.357	14.3.358	14.3.359
Optional Sequence E (Other Parties)				14.3.360	14.3.361
14.3.	14.3.	14.3.3	14.3.365	14.3.366	14.3.367
M	16R	14.3.3	OTHRPRT ¥	Start of block	14.3.369
M	95Q	Party	:4!c//4*35x	Dummy (since mandatory)	Format: (Qualifier) /(Narrative) Qualifier: "EXCH" (4 Upper case Characters) Narrative: "ORDER DETAILS"
Q	70D	Party	:4!c//6*35x	To identify the trade Ref. Number. The same field can be repeated multiple times to identify	Format: (Qualifier) /(Narrative) Qualifier: "PART" (4 Upper case Characters) Narrative: Trade Ref. No (15 Digits) Trade Ref. Qty (15 Digits) Trade Ref. Rate (15 Digits)

				different order numbers	comma at appropriate place) Date: YYYYMMDD HHMMSS (15 Character Sets)
E	20C	Reference	:4!c//16x	To identify the Order number	Format: _____ (Qualifier) //(Reference) Qualifier: "PROC" (4 Character) Reference : Order number (16 Character Sets)
M	16S	14.3.3	OTHRPRT ¥	End of block	14.3.371—
14.3.	14.3	14.3.3	14.3.375	14.3.376—	14.3.377—
End of Sequence E Other Parties				14.3.378—	14.3.379—
14.3.	14.3	14.3.3	14.3.383	14.3.384—	14.3.385—
14.3.	14.3	14.3.3	14.3.389	14.3.390—	14.3.391—

Message IFN-598 :

Format Sequence					
14.	1	14.3.394	14.3.	14.3.396—	14.3.397—
Status	Tag	Generic Field-Name	Content/Options	Purpose	Rules
Mandatory Sequence A General Information					
M	16R	14.3.398	GENL	Start of Block	14.3.399—
M	20C	Reference	:4!c//16x	Sender's Reference	Format: _____ (Qualifier) //(Reference number) Qualifier: "SEME" Reference Number: _____ 16 Characters _____ (Alphanumeric) The reference should not start or end with slash '/' and must not contain two consecutive slashes '//'. Value = 548
M	12	Sub-message type	3!n	To identify sub-message type	

M	23 G	14.3.400	4!c	To convey that this message is meant to indicate a transaction status [INST]	Format: (Qualifier)Qualifier: "INST"
Q	98 A	Date/Time	:4!c//8!n	Preparation Date	Format: (Qualifier) //(Date)Qualifier: "PREP" (4 Characters)Date: YYYYMMDD (8 number)
Mandatory Subsequence A1 Linkages	1	14.3.402	14.3.	14.3.404	14.3.405
M	16 R	14.3.406	LINK	Start of Block	14.3.407
Q	13 A	Link Message Indicator	:4!c//3d	To indicate the corresponding message type received from client. Though this tag is optional, the tag should be made mandatory requirement for Indian Market. Value = 515	Will contain the corresponding message type of client received from client. Should be 515
M	20 G	Reference	:4!c//16x	To indicate the reference number of the related contract note.	Format: (Qualifier)//(Reference)Qualifier: "RELA" (4 Uppercase Characters)Reference: The reference no. as given in field SEME of the

					contract note that is being updated. (16 Characters)
M	16 S	14.3.408	LINK	End-of-Block	14.3.409
End-of-Subsequence A1 Linkages					14.3.410
14.3.411	1	14.3.413	14.3.414	14.3.415	14.3.416
Mandatory Subsequence A2 Status					14.3.417
M	16 R	14.3.418	STAT	Start-of-Block	14.3.419
M	25 D	Status	:4!c//4! e	To display the status of the contract note (vis-a-vis Trade Instruction received from client)	Format:(Qualifier)//(Status Code)
				Within the scope of this module, the status updates of matched / unmatched contract notes are being defined.	The possible options are MTCH//MACH: The contract note matches with the trade instruction received from client MTCH//NMAT: The contract note has not been matched
14.3.421	1	14.3.422	14.3.423	14.3.424	14.3.425
Optional Subsequence A2a Reason					14.3.426
M	16 R	14.3.427	REAS	Start-of-Block	14.3.428
M	24 B	Reason:	:4!c//4! e	To display the reason for the	Format:(Qualifier)//(Reason Code)

		This block is optional and can be omitted in case the status codes is match.		status of the contract note [in case the contract note is not matched].	CADE – Disagreement Repurchase Call Delay The instruction has not been matched because the repurchase call delay does not match. CLAT - Counterparty too late for Matching The instruction has not been matched. Counterparty's instruction was too late for matching. CMIS-Matching Instruction Not Found The instruction has not been matched; the matching instruction from your counterparty could not be found. CPCA-Counterparty Cancelled Instruction Your instruction is unmatched. Your counterparty has cancelled their instruction. DDAT – Disagreement Settlement Date The instruction has not been matched; the counterparty disagrees with the settlement date/time. DDEA – Disagreement Deal Price The deal price does not match. DELN- Disagreement Direction of Trade The instruction has not been matched; the counterparty expects a delivery from you, not a receipt, or vice versa. DEPT- Disagreement Place of Settlement
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					The instruction has not been matched; the counterparty disagrees with the place of settlement. DMON- Disagreement Settlement Amount The instruction has not been matched; the counterparty disagrees with the settlement amount. DQUA- Disagreement Quantity The instruction has not been matched; the counterparty disagrees with the quantity of securities. DSEC- Disagreement Security The instruction has not been matched; the counterparty disagrees with the security/issue (i.e. ISIN differs, Financial Instrument Attributes differs...). DTRA- Not Recognised The instruction has not been matched; the counterparty has been contacted or has contacted us. Counterparty does not recognise the transaction. DTRD- Disagreement Trade Date The instruction has not been matched; the counterparty disagrees with the trade date. FORF- Disagreement Forfeit Repurchase Amount The forfeit repurchase amount does not match. FRAP- Disagreement Payment Code
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					The instruction is unmatched because the wrong instruction was sent; your instruction is free, counterparty is against payment or vice versa. ICAG Incorrect Agent The instruction has not been matched; incorrect delivering or receiving agent. (counterparty is incorrect). ICUS Disagreement receiving or delivering custodian The instruction has not been matched; incorrect delivering or receiving custodian. IEXE Incorrect Buyer or Seller The instruction has not been matched; incorrect buyer (receiver) or seller (deliverer). IIND Disagreement common reference The instruction has not been matched; the counterparty disagrees with the common reference (for markets where a common reference is used as a matching criterion). LATE Your Instruction Too Late for Matching The instruction has not been matched. Your instruction was too late for matching. NARR Narrative Other (see narrative reason). NCRR Disagreement Currency Settlement Amount The instruction has not been matched; the counterparty disagrees with the currency of the settlement amount.
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					NMAS— No Matching Started The instruction has not been matched; the matching process did not yet start. PHYS— Disagreement Physical settlement The instruction has not been matched. The counterparty is for physical settlement, your instruction is not, or vice versa. PLCE— Disagreement Place of Trade Place of trade does not match. PODU— Possible Duplicate Instruction The instruction has not been matched. It is a possible duplicate instruction. REGD— Disagreement Registration Details The instruction has not been matched; there are discrepancies in the registrations details linked to the transaction. REPA— Disagreement Repurchase Amount Repurchase amount does not match. REPO— Disagreement Repurchase Rate Repurchase rate does not match. REPP— Disagreement Repurchase Premium Amount Repurchase premium amount does not match. RERT— Disagreement Repurchase Rate Type Repurchase rate type does not
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					match. RSPR Disagreement Repurchase Spread Rate Repurchase spread rate does not match. RTGS Disagreement RTGS System The instruction has not been matched. The counterparty is for RTGS settlement system, you are for non-RTGS, or vice versa. SAFE Disagreement Safekeeping Account The safekeeping account used as matching criteria on the market concerned (buyer/seller's account, direct client's account at the receiving/delivering agent, receiving or delivering agent's account at the CSD) does not match. SETR Disagreement Settlement Transaction Settlement transaction type does not match (relates to the settlement transaction type codes available for sequence E field 22F, qualifier SETR). TERM Disagreement Closing date/time Closing date/time does not match. VASU Disagreement Variable Rate Support Variable rate support does not match (repo). DMKT Disagreement in market type
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					SLMT — Security under RBI Limits
Q	70 D	Narrative	:4!c//6* 35x	Reason Narrative (for un-matched transactions) [This is mandatory in case the reason-code in 24B is NARR]	Format:(Qualifier)(Narrative)Qualifier: "REAS" Narrative: 6 lines of 35 characters each
				14.3.429	14.3.429
				14.3.430	14.3.431
				14.3.432	14.3.433
M	16 S	14.3.434	REAS	End of Block	14.3.435
End of Subsequence A2a Reason					14.3.436
14.3.437	1	14.3.439	14.3.440	14.3.441	14.3.442
M	16 S	14.3.443	STAT	End of Block	14.3.444
End of Subsequence A2 Status					14.3.445

14.3.448	1	14.3.448	14.3.449	14.3.450	14.3.451
M	16 S	14.3.452	GENL	End of Block	14.3.453
End of Sequence A General Information					14.3.454
14.3.457	1	14.3.457	14.3.458	14.3.459	14.3.460
Optional Sequence B Settlement Transaction Details					14.3.461
M	16 R	14.3.462	SETTR AN	Start of Block	<i>Note: This sequence is to be used only in case of the contract being against payment.</i>
M	35 B	Security	[ISIN] [12c] [4*35x]	Identification of the Financial Instrument	Format: (Identification of Security)(Description of Security)Identification of Security: "ISIN" which will always be present. (ISIN of the security). Additionally, the first line (35 characters) of the description may be used if required and may contain the scrip code (4 lines of 35 Characters). The contract descriptor shall be provided in the first line of 35 characters.
M	36 B	Quantity of Financial Instrument	[4c][4] [15d]	Quantity of Financial Instrument to be Settled	Format: (Qualifier)/(Quantity Type Code)/(Quantity) Qualifier: "SETT" (4 Uppercase Characters) Quantity Type Code: "UNIT" or "FAMT" (4 Uppercase Characters) Quantity: 15 digits (including decimal comma) FAMT indicates Quantity into Face Value.
14.3.465	1	14.3.465	14.3.466	14.3.467	14.3.468
O	19 A	Amount	[4c][3] [15d]	To indicate the settlement amount as was displayed in	Format: (Qualifier)/(Currency Code)(Amount)Qualifier: "SETT" (4 Upper case Characters) Narrative: "INR" (3 Upper Letters) Amount: 15

				the contract note	digits (including decimal comma)
14.3.471	1	14.3.471	14.3.471	14.3.473	14.3.474
M	97A	Account	:4!c//35x	To indicate the custodian participant code that will be displayed in the contract note	Format: (Qualifier) //(Custodian Participant Code) Qualifier: "SAFE" (4 Upper Characters) Custodian Participant Code: (35 Characters)
14.3.477	1	14.3.477	14.3.477	14.3.479	14.3.480
M	22F	Dummy Indicator	:4!c//4!e	Dummy (since mandatory according to ISO)	Format: (Qualifier) //(Indicator) Qualifier: "SETR" (4 Upper Characters) Indicator: "TRAD" (4 Upper Characters)
M	22H	Receive/Deliver Indicator	:4!c//4!e	To indicate if the trade was a buy or a sell	Format: (Qualifier) //(Indicator) Qualifier: "REDE" (4 Upper Characters) Indicator: "DELI" for a sale (4 Upper Characters) Or "RECE" for a purchase (4 Upper Characters)
M	22H	Payment Indicator	:4!c//4!e	To indicate if the trade was free of payment or against payment	Format: (Qualifier) //(Indicator) Qualifier: "PAYM" (4 Upper Characters) Indicator: "APMT" for DVP Trades for against payment (4 Upper Characters) Or "FREE" for Clearing House trades (4 Upper Characters)
14.3.483	1	14.3.483	14.3.483	14.3.485	14.3.486
M	98A	Settlement Date	:4!c//8!n	To give details of the settlement date (as is given in the incoming MT515 Contract Note)	Format: (Qualifier) //(Date) Qualifier: "SETT" (4 Uppercase Characters) Date: "YYYYMMDD" (8 Digits)
14.3.489	1	14.3.489	14.3.489	14.3.491	14.3.492
Mandatory Subsequence B1 (Settlement Parties)*					14.3.493

M	16 R		SETP RTY	Start of block	14.3.494—
14.3.497—	14.3.499—	14.3.500—			
M	95 Q	Party	:4!c//4* 35x	Indicates the SEBI Reg. No. / MAP-IN id of contracting broker. This tag should contain the same information as was uploaded in the corresponding contract note message.	Format: (Qualifier)//SEBI Reg. No. / MAP-IN id of contracting broker) Qualifier: "BUYR" in case of a Sale "SELL" in case of a Purchase
M	16 S		SETP RTY	End of block	14.3.501—
14.3.504—	14.3.506—	14.3.507—			
Mandatory Subsequence B1 (Settlement Parties)*					14.3.508—
M	16 R		SETP RTY	Start of block	14.3.509—
14.3.512—	14.3.514—	14.3.515—			
M	95 Q	Party	:4!c//4* 35x	Indicates the party with whom trade has to be settled. SEBI reg. Number / MAP-IN id of broker / custodian / seller / clearing house This tag should contain the same information as	Format: (Qualifier)//(SEBI reg. No. / MAP-IN of settling party) Qualifier: "REAG" in case of a Sale "DEAG" in case of a Purchase

				was uploaded in the corresponding contract note message	
M	16 S		SETP RTV	End of block	14.3.516
M	16 S	14.3.517	SETPR AN	End of Block	14.3.518
14.3.521	14.3.521	14.3.521	14.3.523	14.3.524	14.3.524

Annexure 2j - Categorization of contract specification parameters in commodity derivatives contracts

<u>Category</u>	<u>Type of Modification</u>	<u>Parameter</u>	<u>Number of days of advance intimation to be given to SEBI and market participants</u>
<u>Category A</u>	Non-material modifications which can be made at the exchange level in yet to be launched and running contracts	• <u>Symbol</u> • <u>Description</u> • <u>Contract Commencement Day(Y/L)</u> • <u>Quotation/Base value (Y/L)</u> • <u>Maximum Order Size</u> • <u>Tick Size (Minimum Price Movement)</u> • <u>Strike Interval (Y/L)</u> • <u>Number of Strikes</u> • <u>Initial Margin</u> • <u>Extreme Loss Margin</u> • <u>Delivery Period Margin</u> • <u>Pre-expiry Margin</u> • <u>Other Margins</u>	10 days

<u>Category</u>	<u>Type of Modification</u>	<u>Parameter</u>	<u>Number of days of advance intimation to be given to SEBI and market participants</u>
		Underlying Quotation (Y/L)	
Category B	Material modifications which can be made at the exchange level in yet to be launched contracts or running contracts which have nil open interest. These modifications shall require approval from Product Advisory Committee and approval of Regulatory Oversight Committee to be obtained post facto.	- Last Trading Day /Due Date/Expiry Date# - Trading Unit - Price Quote (Basis) - Delivery Centre - Delivery Unit - Additional Delivery Centre(s) - Quality Specifications - Quantity Variation - Tolerance Limit - Trading Session - Premium/Discount - Underlying Price Quote (basis) - Maximum Allowable Open Position	10 days ⁷³
Category C	Material modifications which can be made only after approval from SEBI. These modifications shall require	- Contract Launch Calendar - Trading Period - Aggregate Daily Price Limit - Delivery Logic	10 days ⁷⁴

⁷³ Circular no. SEBI/HO/CDMRD DOP/P/CIR/2021/592 dated July 08, 2021
Prior to the amendment, the requirement was of 30 days.

⁷⁴ Circular no. SEBI/HO/CDMRD DOP/P/CIR/2021/592 dated July 08, 2021
Prior to the amendment, the requirement was of 30 days.

<u>Category</u>	<u>Type of Modification</u>	<u>Parameter</u>	<u>Number of days of advance intimation to be given to SEBI and market participants</u>
	deliberations and approval from Product Advisory Committee and Regulatory Oversight Committee before seeking permission from SEBI.	- Settlement of Contract/ Settlement Logic/Final settlement Method - Exercise of Options - Mechanism of Exercise - Due Date Rate (Final Settlement Price) - Tender Period - Start Date of Near Month Staggered Delivery Period/Tender Period - Option Type	

(Y/L)-Modification can only be carried out in yet to be launched contracts

#—However in case of advancement of expiry date of running contract due to physical market being closed in the notified basis centre on the expiry day of the contract due to sudden events like festivals, strikes, erratic weather conditions etc, the decision can be taken by the Exchange with the prior approval of Managing Director of the Exchange. Further, decision about such advancing of expiry date of running contract shall be intimated to the trade participants by giving adequate notice before the revised expiry date. ~~with open interest.~~

Commented [A94]: Simplification and standardization as per S.No 2.4 of the consultation paper.

GUIDELINES FOR CONDUCT OF CERTIFICATION EXAMINATION

1. Objective:

The examination should attempt to test the practical knowledge and skills required to operate in the derivatives market ensuring that the caliber of persons entering the market is kept high so that investors' interests are best served.

2. Curriculum:

Any certification programme to be approved by SEBI should ensure that candidates have a basic knowledge of financial derivatives and an understanding of various Acts and Rules, Regulations and Byelaws of the Exchange. The certification programme should at least cover the following:

- Characteristics of financial derivatives including futures and options.
- Principles of trading, hedging and investment strategies.
- Principles of clearing, margining, delivery and settlement and exercise.
- Risk management systems and procedures.
- Basics of Stock Index composition and calculation, including contract specifications.
- Existing regulatory and legal structure in the securities and futures market (including SCRA, SEBI Act, SEBI (Stock Broker and Sub-Broker) Regulations, 1992, Dr. L.C. Gupta Committee Report, Suggestive Byelaws and any other special regulatory requirements of the Derivatives market).
- Rules, Regulations and Byelaws of the Exchange (cash segment and derivatives segment).
- Broker-Client relationship (Rights and obligations).
- Accounting standards for derivatives.

3. Fully automated testing environment:

The administration of the test and its subsequent evaluation should be computerised. The test should be online computer based where the candidate is required to answer multiple choice questions and forward them electronically. In such an environment the candidate's performance is also known instantaneously. Procedure for dispatch of Computerised test also avoid certain malpractices which may arise.

4. **Nationwide access:**

The test should be conducted in all regions of the country including all metros. The test should progressively be conducted in other cities to provide wider access to the participants.

5. **Flexibility of test dates:**

Test dates should be announced in advance and should be held atleast once every quarter. Candidates should be allowed to state their preference of date and test centre.

6. **Random generation of questions and Degree of difficulty:**

The certifying institute should have a rich database of questions which are randomly picked for each candidate taking the test. The questions may be graded on different levels of difficulty though uniformity should be maintained in selection of questions from each level for each candidate. Thus the level of difficulty of a particular test for a particular candidate should be the same as that for any other candidate.

7. **Administrative monitoring:**

The certifying institute should have adequate administrative capability to efficiently run the certification programme. Procedures for enquiries and registration for the certification test should be clearly laid down. The certificate to be issued to successful candidates should carry the photograph of the candidate. The examination should be undertaken on a "no profit" basis. The institution applying for recognition to SEBI shall mention the procedure it expects to follow for sending the candidate's scores to prospective employers. At present the examination should be kept at a 'Basic Entry Level' and later with the development of the market more advanced courses/modules may be added.

Commented [A95]: Removal of obsolete requirements as per S.no 2.7 of the consultation paper.

8.10. REFERENCE – List of Circulars

S. No.	Circular/Communication Details
1	Circular No. SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018
2	Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/155 dated December 17, 2018
3	CIR/MRD/DoP-1/P/00108/2018 July 05, 2018
4	SEBI/HO/MRD/DRMNP/CIR/78 May 04, 2018
5	SEBI/HO/MRD/DRMNP/CIR/P/2018/75 May 02, 2018
6	SEBI/HO/MRD/DP/CIR/P/2018/67 April 11, 2018
7	SEBI/HO/MRD/DP/CIR/P/2018/50 March 15, 2018
8	SEBI/HO/MRD/DRMNP/CIR/P/2018/27 dated February 20, 2018
9	CIR/MRD/DRMNP/008/2018 January 08, 2018
10	SEBI/HO/MRD/DP/CIR/P/2017/102 dated September 13, 2017
11	Circular No. SEBI/HO/MRD/DP/CIR/P/2017 /98 dated August 31, 2017
12	Circular No. SEBI/HO/MRD/DP/CIR/P/2017/63 dated June 28, 2017
13	SEBI/HO/MRD/DRMNP/CIR/P/2017/32 April 18, 2017
14	SEBI/HO/MRD/DP/CIR/P/2016/143 dated December 27, 2016
15	CIR/MRD/DRMNP/65/2016 dated July 15, 2016
16	SEBI/HO/MRD/DP/CIR/P/2016/60 June 22, 2016
17	March 09, 2016 - Introduction of Exchange Traded Cross Currency Derivatives contracts on EUR-USD, GBP-USD and USD-JPY currency pairs and Exchange Traded Option contracts on EUR-INR, GBP-INR and JPY-INR currency pairs.
18	January 15, 2016 - Revised Position Limits for Currency Derivatives Contracts.
19	July 13, 2015 - Review of minimum contract size in equity derivatives segment.
20	June 12, 2015 - Exchange Traded Cash Settled Interest Rate Futures (IRF) on 6 year, 10 year and 13 year Government of India (GoI) Security.
21	April 08, 2015 - Revision of limits relating to requirement of underlying exposure for currency derivatives contracts
22	October 21, 2014 - Modification of client codes of non-institutional trades executed on stock exchanges (All Segments)
23	September 15, 2014 - Position Limits for Mutual Funds in 10-year Interest Rate Futures (IRF)
24	January 20, 2014 - FII Position Limits in Exchange Traded Interest Rate Futures (IRF)
25	December 05, 2013 - Exchange Traded Cash Settled Interest Rate Futures (IRF) on 10-Year Government of India Security.
26	July 08, 2013 - Revised Position Limits for Exchange Traded Currency Derivatives.
27	March 20, 2013 - Acceptance of Corporate bonds and Government securities as collateral from FIIs
28	Dec 19, 2012 - Requirement of Base Minimum Capital for Stock Broker and Trading Member
29	Nov 20, 2012 - Mini derivative (Futures & Options) contract on Index (Sensex & Nifty)
30	Jul 23, 2012 - Revision of Eligibility Criteria for Stocks in Derivatives Segment

S. No.	Circular/Communication Details
31	May 23, 2012- Revised Position Limits for Trading Member (Banks) in Exchange Traded USD:INR derivative contracts
32	December 30, 2011-Interest Rate Futures on 2-year and 5-year Government of India Security
33	Aug 10, 2011-Short-collection/Non-collection of client margins (Derivatives Segments)
34	Jul 05, 2011-Modification of Client Codes of Non-institutional Trades Executed on Stock Exchanges (All Segments)
35	Jun 02, 2011-Liquidity enhancement schemes for illiquid securities in equity derivatives segment
36	May 13, 2011-Self Clearing Member in the Currency Derivatives Segment
37	March 7, 2011-Futures on 91-day Government of India Treasury-Bill (T- Bill)
38	Jan 11, 2011-Introduction of Derivative Contracts on Foreign Stock Indices
39	Oct 27, 2010- European Style Stock Options
40	Jul 30, 2010- Options on USD-INR Spot Rate
41	Jul 15, 2010- Physical Settlement of Stock Derivatives
42	Jul 07, 2010- Revised Exposure Margin for Exchange Traded Equity Derivatives
43	May 04, 2010- Introduction of Index options with tenure up to 5 years
44	Apr 27, 2010- Introduction of derivative contracts on Volatility Index
45	Jan 19, 2010- Currency Futures on Additional Currency pairs
46	Jan 11, 2010- Market Wide Position Limits across Stock Exchanges
47	Jan 08, 2010- Standardized lot size for derivative contracts on individual securities
48	Dec 22, 2009- Delivery Period for Interest Rate Futures
49	Nov 13, 2009- Expiry Date for Equity Derivative Contracts
50	Oct 23, 2009- Trading Hours on Stock Exchanges
51	Aug 28, 2009- Exchange traded Interest Rate Futures
52	Mar 24, 2009- Revised Position Limits for Exchange Traded Currency Derivatives
53	Dec 02, 2008- Cross Margining across Exchange traded Equity (Cash) and Exchange traded Equity Derivatives (Derivatives) segments
54	Nov 06, 2008- Issuance of Electronic Contract Notes in Equity Derivatives Segment
55	Oct 20, 2008- Revised Exposure Margin for Exchange Traded Equity Derivatives
56	Oct 15, 2008- Revised Exposure Margin for Exchange Traded Equity Derivatives
57	Oct 06, 2008 -Eligibility criteria for introduction of derivatives on shares
58	Aug 08, 2008- Extending calendar spread treatment till expiry of the near month contract
59	Aug 06, 2008- Exchange Traded Currency Derivatives
60	Jan 15, 2008- Introduction of Volatility Index
61	Jan 11, 2008- Introduction of Index options with longer tenure
62	Dec 27, 2007- Introduction of mini derivative (Futures and Options) contract on Index - Sensex and Nifty
63	Sep 11, 2007- Circular on acceptance of Foreign Sovereign Securities as collateral from Foreign Institutional Investors (FIIs) for Exchange Traded Derivative Transactions

S. No.	Circular/Communication Details
64	Feb 15, 2006- Clarification to Circular No. DNPD/Cir-31/2006 dated January 20, 2006
65	Jan 20, 2006- Modification of the Trading Member/FII/Mutual Fund position limits for stock based exchange traded derivative contracts
66	Jan 20, 2006- Review of the eligibility criteria of stocks for derivatives trading especially on account of corporate restructuring
67	Sep 14, 2005- Trading by Mutual Funds in Exchange Traded Derivative Contracts
68	Nov 22, 2004- Clarification on the definition of institutional trades and use of physical contract note
69	Sep 28, 2004- Modifications in the STP messaging formats on account of implementation of the Securities Transaction Tax STT
70	Jul 16, 2004- Risk containment measures, position limits and the broad eligibility criteria of Stocks and Index on which futures and options could be introduced
71	Jul 08, 2004- Clarification for circular no. DNPD/Cir-25/04 dated June 10, 2004
72	Jun 10, 2004- Transaction work flow for the system of Straight Through Processing in the Indian Securities Market and standardisation of the messaging formats
73	May 26, 2004- Straight Through Processing Service in the Indian Securities Market
74	Apr 01, 2004- Mandatory use of STP system for all institutional trades executed on the stock exchanges
75	Mar 09, 2004- Trading by FIIs and NRIs in Exchange Traded Interest Rate Derivative Contracts
76	Feb 25, 2004- Issuance of Electronic Contract Notes - Debt Market
77	Feb 23, 2004- Minimum contract size for Exchange traded derivative contracts
78	Feb 06, 2004- Recognition of credit ratings given by reputed foreign credit rating agencies
79	Feb 03, 2004- Issuance of Electronic Contract Notes
80	Jan 05, 2004- Scheme for introduction of Exchange Traded Interest Rate Derivative Contracts on a basket of Government Securities
81	Oct 29, 2003- Trading by FIIs and NRIs in Exchange Traded Derivative Contracts
82	Apr 29, 2003- Issuance of Contract Notes in electronic form
83	Apr 19, 2003 -Circular-Scheme for introduction of Exchange Traded Interest Rate Derivative Contracts
84	Mar 13, 2003- Monthly Reporting Format-Circular
85	Dec 18, 2002- Adjustment in stock option contracts and single stock future contracts at the time of corporate actions
86	Dec 18, 2002- Review of recommendations of Dr. L. C. Gupta Committee on Derivatives.
87	Dec 18, 2002- Risk containment measures and broad eligibility criteria of stocks on which stock options and single stock futures could be introduced
88	Oct 03, 2002- Introduction of Straight Through Processing
89	May 13, 2002- Format of the Monthly Reporting Format
90	Feb 12, 2002- Scheme of FII Trading in all Exchange Traded Derivative Contracts
91	Nov 02, 2001 Scheme for introduction of Single Stock Futures and the Risk Containment Measures

S. No.	Circular/Communication Details
92	Aug 24, 2001- Reporting of derivative transactions to the media and the newspapers
93	Jun 21, 2001- Adjustment of Corporate Actions for Stock Option
94	Jun 20, 2001 -Reporting of option contracts to SEBI
95	Jun 20, 2001 -Risk containment measures for Stock Option
96	Feb 13, 2001 -SMDRP/Policy/Cir-10/2001
97	Dec 15, 2000 -Use of Digital Signature on Contract Notes
98	Dec 11, 2000- Risk containment measures for Option on Indices
99	Jun 20, 2000- Daily reports for trading and settlement of derivative trades
100	May 31, 2000- Circular No.8726
101	Jul 28, 1999 -Risk Containment Measures for the Index Futures Market
102	Dec 03, 1998- Client Registration Form, Client Agreement, Clearing Member - Trading Member Agreement and Risk Disclosure Document for Derivatives Segment
103	Jun 29, 1998- Circular No.1847- Guidelines on Conduct of Certification Examination
104	Jun 16, 1998- Derivatives trading in India
105	Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019
106	Circular No. SEBI/HO/MRD/CIR/P/2019/103 dated September 26, 2019
107	Circular No. IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019
108	Circular No. SEBI/HO/MRD/DOP1/CIR/P/2019/128 dated November 08, 2019
109	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
110	Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020
111	SEBI Email dated May 4, 2020 on Rationalisation of Strikes on Long dated options
112	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated Jul 20, 2020
113	Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021
114	Circular No. SEBI/HO/MRD2_DCAP/P/CIR/2021/626 dated September 07, 2021
115	Circular No. SEBI/HO/MRD2/DCAP/P/CIR/2022/0022 dated February 24, 2022
116	Circular No. SEBI/HO/MRD2/MRD2_DCAP/P/CIR/2022/90 dated June 28, 2022
117	Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors dated December 19, 2022.
118	Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/11 dated January 10, 2023
119	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/016 dated February 01, 2023
120	Press Release No. 18/2020 dated March 20, 2020
121	Press Release No. 59/2020 dated November 25, 2020
122	SEBI letter SEBI/HO/MRD2/2021/11510/01 dated June 03, 2021
123	SEBI letter SEBI/HO/MRD/11350 dated April 12, 2018
124	MIRSD/ON/114/2013 dated April 05, 2013
125	SEBI Email dated May 4, 2020 on Rationalisation of Strikes on Long dated options
126	Circular No. CIR/MRD/DP/12/2014 dated April 07, 2014
127	Circular No. CIR/MRD/DP/20/2014 dated June 20, 2014

S. No.	Circular/Communication Details
128	Circular No. CIR/MRD/DP/17/2015 dated October 08, 2015
129	Circular No. SEBI/ HO/MRD/DOPI/CIR/P/2019/28 dated February 08, 2019
130	Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021
131	Circular No. SEBI/HO/MRD2_DCAP/P/CIR/2021/626 dated September 07, 2021
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136	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/016 dated February 01, 2023
137	Press Release No. 18/2020 dated March 20, 2020
138	Press Release No. 59/2020 dated November 25, 2020
139	SEBI letter SEBI/HO/MRD2/2021/11510/01 dated June 03, 2021
140	SEBI letter SEBI/HO/MRD/11350 dated April 12, 2018
141	MIRSD/ON/114/2013 dated April 05, 2013
142	SEBI Email dated May 4, 2020 on Rationalisation of Strikes on Long dated options
143	Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/24 dated April 23, 2024
144	Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/65 dated May 29 2024
145	SEBI Letter SEBI/HO/MRD/MRD-POD-2/P/OW/2024/ 6845/1 dated February 21, 2024
146	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/116 dated August 30, 2024
147	Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/132 dated October 01, 2024
148	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/140 dated October 15, 2024
149	Circular No SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016
150	Circular No SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017
151	Circular no. CDMRD/DMP/CIR/32/2016 dated January 29, 2016
152	Circular No SEBI/HO/CDMRD/DMP/CIR/P/2018/96 dated June 11, 2018
153	Circular NO. SEBI/HO/CDMRD/DMP/CIR/P/2016/71 dated August 19, 2016
154	Circular no SEBI/HO/CDMRD/DMP/CIR/P/2017/61 dated June 21, 2017
155	Circular no. SEBI/HO/MRD/MRD-RAC-1/P/CIR/2022/131 dated September 29, 2022
156	Circular no SEBI/HO/CDMRD/DMP/CIR/P/2020/05 dated January 16, 2020
157	Circular no SEBI/HO.CDMRD/DMP/CIR/P/2017/55 dated June 13, 2017
158	Circular No. SEBI/HO/CDMRD/DNP/CIR/P/2022/01 dated January 03, 2022.
159	Circular no SEBI/HO/CDMRD/DNPMP/CIR/P/2019/71 dated June 18, 2019
160	Circular No. SEBI/HO/CDMRD/DNP/CIR/P/2022/34 dated March 24, 2022

S. No.	Circular/Communication Details
161	Circular No. CIR/CDMRD/DRMP/CIR/2016/88 dated September 20, 2016
162	Circular no. SEBI/HO/CDMRD/DOP/CIR/P/2019/135 dated November 14, 2019.
163	Circular no. SEBI/HO/CDMRD DOP/P/CIR/2021/592 dated July 08, 2021
164	Circular no SEBI/HO/MRD/MRD-PoD-1/P/CIR/2025/087 dated June 12, 2025
165	Circular no SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/61 dated May 27,2024
166	Circular no SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/69 dated May 30, 2024
167	Circular no SEBI/HO/MRD/TPD-1/P/CIR/2025/76 dated May 26, 2025
168	Circular no SEBI/HO/MRD/TPD-1/P/CIR/2025/41 dated March 28, 2025
169	Circular no SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025
170	Circular no SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/13 dated March 05, 2024
171	Circular no SEBI/HO/MRD/TPD-1/P/CIR/2025/122 dated September 01, 2025