भारतीय प्रतिभूति और विनिमय बोर्ड
**Securities and Exchange Board of India**

**CIRCULAR**

**SEBI/HO/MRD/DP/CIR/P/2018/67** **April 11, 2018**

**To,**

**All Stock Exchanges (except Commodity Derivatives Exchanges),**

Dear Sir/Madam,

**Sub: Review of Framework for Stocks in Derivatives Segment**

1. Please refer to SEBI circular CIR/DNPD/3/2012 dated July 23, 2012 captioned 'Revision of Eligibility Criteria for Stocks in Derivatives Segment' and circular CIR/DNPD/4/2010 dated July 15, 2010 captioned 'Physical Settlement of Stock Derivatives'.

2. **Discussion Paper/public consultation on Growth and Development of Derivative Market in India**

   With a view to improve market integrity and provide better alignment of cash and derivatives segment, SEBI published discussion papers on July 12, 2017 and September 7, 2017 requesting stakeholders to provide their comments/views thereon. In light of the comments received and assessment thereof, discussion with the stock exchanges and market participants and further discussion in the meeting of Secondary Market Advisory Committee (SMAC) of SEBI held on March 07, 2018, it has been decided to take the following measures in connection with the eligibility criteria, exit criteria and settlement of stock derivatives as given hereunder:

**Physical settlement of stock derivatives**

3. In line with the recommendations made by the L.C Gupta committee regarding physical settlement of stock derivatives and discussion in SMAC regarding the functioning of the Securities Lending and Borrowing mechanism (SLBM), it has been decided that physical settlement of stock derivatives shall be made mandatory in a phased/calibrated manner.

**<u>Enhanced eligibility criteria for introduction of stocks in Derivatives Segment ('Enhanced criteria')</u>**

4. A stock, on which option and future contracts are proposed to be introduced, shall conform to the following broad eligibility criteria: -
   - (i) The stock shall be chosen from amongst the top 500 stocks in terms of average daily market capitalization and average daily traded value in the previous six months on a rolling basis',
   - (ii) The stock's median quarter-sigma order size over the last six months, on a rolling basis, shall not be less than ₹ 25 Lakh,
   - (iii) The market wide position limit in the stock shall not be less than ₹ 500 crore on a rolling basis, and
   - (iv) Average daily delivery value in the cash market shall not be less than ₹ 10 crore in the previous six months on a rolling basis.

   Above criteria are to be met for a continuous period of six months.

5. Derivatives on stocks (new/existing) which meet the enhanced eligibility criteria (given at para 4 above) shall be cash settled until further notification, however such stocks, if they fail to satisfy any of the enhanced eligibility criteria for a continuous period of three months, shall move from cash settlement to physical settlement. After moving to physical settlement, if such stocks do not meet any of the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) for a continuous period of three months, then they shall exit from derivatives segment.

6. Stocks which are currently in derivatives segment and meet the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) but do not meet the enhanced criteria shall be physically settled. Such stocks, however, shall exit from derivatives segment in case;
   - (a) They fail to meet any of the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) for a continuous period of three months, or
   - (b) They fail to meet any of the enhanced eligibility criteria after a period of one year from the date of this circular.

7. After a period of one year from the date of this circular, only those stocks which meet the enhanced eligibility criteria shall remain in derivatives segment.

8. The risk management framework, settlement mechanism and other procedures of the cash segment shall be applicable when a stock derivatives devolves into physical settlement.

9. Stock which meet the enhanced eligibility criteria shall also move to physical settlement albeit in a phased/calibrated manner.

10. The other provisions regarding single stock derivatives shall remain as specified in SEBI circulars CIR/DNPD/3/2012 dated July 23, 2012 and CIR/DNPD/4/2010 dated July 15, 2010.

11. Exchanges are directed to put in place proper systems and procedures for smooth implementation of physical settlement and take necessary action to give effect to this circular. 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.

12. Stock Exchanges are directed to:

    a. take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;

    b. bring the provisions of this circular to the notice of the stock brokers/clearing members and also disseminate the same on their website;

    c. communicate to SEBI the status of implementation of the provisions of this circular through monthly development report.

13. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

14. The circular shall come into force from the date of the circular.

15. This circular is available on SEBI website at www.sebi.gov.in at "Legal Framework→Circulars".

Yours faithfully,

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