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GRC BULLETIN

OCTOBER - 2024, VOLUME: II

SEBI

Measures to Strengthen Equity Index Derivatives Framework for Increased Investor Protection and Market Stability

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CORPORATE LAWS

Authority

Securities and Exchange Board of India

Circular Date

Oct 01, 2024

Circular Number

SEBI/HO/MRD/TPD-1/P/CIR/2024/132

Effective Date

Feb 01, 2025

SEBI - MEASURES TO STRENGTHEN EQUITY INDEX DERIVATIVES FRAMEWORK FOR INCREASED INVESTOR PROTECTION AND MARKET STABILITY

Applicability:

Applicable to all Stock Exchanges, Clearing Corporations (Except Commodity Derivatives Exchanges and Clearing Corporations).

On October 1, 2024, the Securities and Exchange Board of India (SEBI) issued Circular, introducing significant amendments aimed at strengthening the equity index derivatives framework. In response to the evolving market dynamics and the increasing participation of retail investors, these measures seek to enhance investor protection and promote market stability. The amendments include crucial changes in the management of option premiums, position limits, contract sizes, and the treatment of calendar spreads on expiry days.

Key Amendments:

Upfront Collection of Option Premium:

- Trading Members (TMs) and Clearing Members (CMs) must collect the options premium upfront from buyers to prevent undue intraday leverage.
- Effective from February 01, 2025. Compliance includes updating systems to capture the net options premium as part of margin collection.

Removal of Calendar Spread Treatment on Expiry Day:

- No calendar spread benefits will be available for contracts expiring on the expiry day due to significant basis risk.
- This rule will be in effect from February 01, 2025. Exchanges must adjust margin calculations accordingly.

Intraday Monitoring of Position Limits:

- Exchanges must monitor existing position limits for equity index derivatives intraday, with a minimum of four snapshots taken throughout the trading day.
- Implementation effective from April 01, 2025. Exchanges should establish protocols for tracking and enforcing position limits.

Revised Contract Size for Index Derivatives:

- The minimum contract size for index derivatives will be increased to a value of Rs. 15 lakhs, ensuring suitability for participants.

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Revised Contract Size for Index Derivatives:

- The minimum contract size for index derivatives will be increased to a value of Rs. 15 lakhs, ensuring suitability for participants.
- Effective for all new contracts introduced after November 20, 2024. Compliance requires adjusting contract specifications.

Rationalization of Weekly Index Derivatives Products:

- Exchanges may only offer weekly derivatives contracts for one benchmark index. This aims to reduce excessive trading and volatility.
- This measure takes effect on November 20, 2024. Exchanges need to evaluate their product offerings accordingly.

Increased Tail Risk Coverage on Options Expiry Day:

- An additional 2% Extreme Loss Margin (ELM) will be levied on short options contracts due for expiry, covering tail risks on expiry day.
- Effective from November 20, 2024. Exchanges must update their margin policies to reflect this change.

SOURCE: Click here for more details

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