Master Circular - Surveillance (Equity Derivatives Segment)

Exchange has been issuing various circulars / notices from time to time. In order to enable members to access all the applicable circulars / notices for Equity Derivatives Segment at one place, Master Circular has been prepared.

This is further to our master circular no. 20230412-45 dated April 12, 2023.

Please note that all the content in this master circular are indicative in nature and updated till March 31, 2024 and the Notices/ Circular issued from time to time by the Exchange and by SEBI including SEBI/Exchange Rule Regulations and Bye Laws issued from time to time shall be applicable and supersede the contents of the Master Circular.

The master circular is set as follows for ease of reference:

PART I - List of important circulars issued during FY. 2023-24

PART II - Master Circular

Index

PART I: List of important circulars issued during FY. 2023-2024

Notice No.	Subject
20230412-45	Master Circular - Surveillance (Equity Derivatives Segment)
20230512-3	Price Reasonability Check for BANKEX Option Contracts
20230603-1	Reversal trade Prevention Check- Update
20230915-33	Advisory for Prevention of Erroneous Orders
20231027-46	Advisory on Market Order Feature

PART II: Master Circular

1 PRICE BAND

(Ref: SEBI circular No. no. SMDRPD/Policy/Cir-37/2001 dated June 28, 2001)

There are no fixed price bands applicable in the equity derivatives segment. However, in order to prevent erroneous order entry dynamic price bands have been prescribed as below.

1.1 For Index Options

1.1.1 Automatic flexing of operating range applicable in Options contracts

When the last trade price of an option contract crosses X% (trigger point) of the prevailing operating range on either side of the base price, OPR may be flexed automatically in the corresponding direction by a certain quantum. The operating price range may be flexed on the basis of multiple factors taken into consideration.

The Exchange can review the trigger point, the quantum of flex and the various parameters to be considered before flexing such ranges from time to time based on experience gained and inputs received from market participants/regulator.

1.1.2 Automatic flexing based on underlying price movement

With a view to bring more efficiency in Index Options, the Exchange has introduced the following additional flex mechanism for Index Options operating price range.

If the prevailing underlying price moves by a defined percentage (in terms of sigma) as set by the Exchange, then the Exchange re-computes and flex the operating range of all the option contracts automatically, subject to the revised (i.e. re-computed) range is more than the current range on the respective side.

1.1.3 Contract level LTP based Option OPR flexing based on moneyness

- OPR flexing shall be applicable to ATM & all the OTM strikes determined based on prevailing underlying price.
- OPR flexing shall be applicable to ITM strikes that are up to 1% away from the prevailing underlying price.
- OPR flexing shall NOT be applicable to ITM strikes that are more than 1 % away from the prevailing underlying price.

1.1.4 Objective criteria to trigger flexing of contract level OPR

Contract level OPR shall be flexed only when a minimum of 5 trades occurs at prices above the trigger point of the prevailing OPR, involving minimum 5 unique UCCs and 3 TMs on each side of such trades.

1.2 For Stock Options

A contract specific dynamic price band based on its delta value computed and updated on a daily basis.

1.3 For Index Futures

At 10% of the base price.

1.4 For Stock Futures

At 10% of the base price.

In the event of a market trend in either direction, the dynamic price bands may be relaxed during the day in co-ordination with the other Exchange subject to fulfilment of following condition.

There should be minimum of 25 trades and 5 different UCCs on both sides of the trade at or above 9.90% of the base price. Such relaxation shall be carried in multiples of 5%.

Ref: SEBI circular No. CIR/MRD/DP/34/2012 dated December 13, 2012

Weblink of Notice:
Revision in Dynamic price band for Stocks Futures /Index Future

Further, pursuant to Para 4 (ii) of Annexure of SEBI Press Release No.18/2020 dated March 20, 2020 and Press Release No. 59/2020 dated November 25, 2020, on Regulatory measures taken by SEBI in view of ongoing market volatility, in addition to the existing requirements, the dynamic price bands are flexed only after a cooling-off period of 15 minutes from the time of meeting the existing criteria specified by stock exchanges for flexing.

Weblink of Notice:
Revision in Dynamic Price Bands for Stocks futures
Revision in Dynamic Price Band for Stock Futures – Update

2 POSITION LIMIT ON INDEX PRODUCTS

There is no Market Wide Position Limits specified for Index Futures and Index Option Contracts.

2.1 Trading Member wise Position

2.1.1 Index Futures:

The trading member position limits in index futures contracts shall be higher of Rs.500 crores or 15% of the total open interest in the market in index futures contracts. This limit would be applicable on open positions in all futures contracts on a particular underlying index.

2.1.2 Index Options:

The trading member position limits in index option contracts shall be higher of Rs.500 crores or 15% of the total open interest in the market in index option contracts. This limit would be applicable on open positions in all option contracts on a particular underlying index.

2.2 FII/ FPI category I & II and MF

2.2.1 Index Futures:

The position limits in index futures contracts shall be higher of Rs.500 crores or 15% of the total open interest in the market in index futures contracts. This limit would be applicable on open positions in all futures contracts on a particular underlying index.

2.2.2 Index Options:

The position limits in index option contracts shall be higher of Rs.500 crores or 15% of the total open interest in the market in index option contracts. This limit would be applicable on open positions in all option contracts on a particular underlying index.

In addition to the position limits above, Mutual Funds/FIIs 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 Fund's /FIIs holding of stocks.
b. Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Mutual Fund's /FIIs holding of cash, government securities, T-Bills and similar instruments.

2.3 Clients/ FPI Category III/FII Sub-Accounts/ Schemes of Mutual Funds & NRIs

2.3.1 Index Futures & Options:

Any person or persons acting in concert who together own 15% or more of the open interest on a particular underlying index is required to report this fact to the Exchange/ Clearing Corporation. Failure to do so shall be treated as a violation and shall attract appropriate penal and disciplinary action in accordance with the Rules, Byelaws and Regulations of the Exchange / Clearing Corporation.

2.4 Revised position limits in equity index derivatives (futures and options)

(i) 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.

(ii) Further to (i) 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.

Weblink of Notice:
Revised position limits in Equity Index Derivatives (Futures and Options)

Further, pursuant to Para 3 of Annexure of SEBI Press Release No.18/2020 dated March 20, 2020 and Press Release No. 59/2020 dated November 25, 2020, on Regulatory measures taken by SEBI in view of ongoing market volatility, in addition to the existing requirements, limits prescribed at 3(i) and 3(ii) of above mentioned SEBI press release dated March 20, 2020, an additional deposit shall be payable by the entity equivalent to the amount of margin chargeable on excess position beyond the limits prescribed at 3(i) and 3(ii) above and the same shall be retained by stock exchanges / clearing corporations for a period of one month.

Weblink of Notice:
Revision in Dynamic Price Band for Securities having dummy Price Band and Stock Futures – Update

3 CHECKS & RISK CONTROL

3.1 PAN-based Self-Trade Prevention Check Functionality [STPC]

With an objective to bring in more transparency, the Exchange, as a proactive measure introduced a functionality called the Self Trade Prevention Check, to prevent self-trades at the time of order matching at the UCC level in first phase, which was introduced in the derivatives segment on February 02, 2015.

The Exchange later extended the same functionality on PAN level on September 14, 2015 in the Equity Derivatives segment.

Self-trade prevention check is a feature that prevents matching between a buy & a sell order entered by single broker or multiple brokers

- In the same order book
- For the same client code - Originating from same or different terminals of the broker
- For different client codes having same PAN - Originating from trading terminals of different Brokers

For more details on the STPC functionality and its applicability, please refer to the notices given below-

Weblink of Notices:

PAN-based Self-trade Prevention Check Functionality for Equity Derivatives segment – Update
PAN-based Self-trade Prevention Check Functionality for Equity Derivatives segment
Self-trade Prevention Check for Equity Derivatives & Currency Derivatives segments - FAQs
Self-trade Prevention Check for Equity Derivatives segment

3.2 PAN-based Reversal Trade Prevention Check (RTPC) Functionality

Reversal Trade Prevention Check (RTPC) was introduced by the Exchange as a pro-active measure with an intention to prevent potential cases of trade reversal taking place on the Exchange trading platform. In this check, the second leg (latest leg) of a reversal trade on the same trading day is automatically cancelled by the Exchange at the time of order matching in an on-line real time manner in the trading system.

For more details on the RTPC functionality and its applicability, please refer to the notices given below-

Weblink of Notices:

Reversal Trade Prevention Check (RTPC) – update
Reversal trade Prevention Check- Update
Reversal Trade Prevention Check (RTPC) – Update I
Reversal Trade Prevention Check (RTPC) – Update

Reversal Trade Prevention Check in Equity Derivatives – FAQs
Prevention of Reversal Trades in Equity Derivatives segment – Go Live
Reversal trade Prevention Check- Update - 20230603-1

3.3 Price Reasonability Check (PRC)

Price reasonability check (PRC) functionality was introduced as a measure to further strengthen the Exchange's pre-trade risk management framework. In PRC functionality, each new (incoming) limit order price is validated with the Exchange defined Price Reasonability Range (PRR). PRR is dynamically computed and applied by the trading system using a real-time reference price. The PRC functionality is applicable for all futures and option contracts of Equity Derivatives segment.

For more details on the PRC functionality and its applicability, please refer to the notices given below-

Weblink of Notices:

Introducing Price Reasonability Check for Equity Derivatives Segment
Revision in Price Reasonability Check for Index and Stock future contracts
Revision in Price Reasonability Check for Index and Stock Options contracts
Revision in Price Reasonability Check for Stock Options contracts
Price Reasonability Check for BANKEX Option Contracts

3.4 Surveillance measures for Deep Out-of-The-Money (OTM) contracts

In the joint surveillance meeting between SEBI, Exchanges and Clearing Corporations, following measures on Out of the Money (OTM) options contracts has been decided.

- Additional margin of 20% on the notional option value shall be levied and collected from the clearing member, in case an entity trades in Equity Derivatives Stock Options contracts and creates fresh Short Open Interest in deep Out of Money strikes (OTM). Deep OTM are those strikes which are 30% away from the underlying price at the time of trade.

  Illustration 1: If the underlying price is say Rs. 100 and an entity trades and creates fresh short positions in Call European (CE) strikes greater than 130 or in Put European (PE) strikes lesser than 70, then an additional margin of 20% on the notional option value shall be levied and collected from the clearing member at the End of day.

- This additional margin shall be levied on the top 10 clients, if they account for more than 30% of the overall fresh short positions created on that trading day (to be computed separately in respect of call and put options).

  Illustration 2: Taking the illustration 1 ahead, Fresh short OI created by all entities in CE strikes greater than 130 shall be clubbed together and in case the top 10 clients account for more than 30% of the fresh short OI than an additional margin of 20% shall be levied and collected from the executing trading members of the top 10 clients. The same method shall be carried out for PE strikes lesser than 70.

- The amount shall be collected from the collaterals of the clearing member on an End of day basis.
- The above margin levied on the participants / clients shall continue till the contracts are squared off or till expiry of the contract.

Weblink of Notices:

Surveillance measures for Deep Out-of-The-Money (OTM) contracts

3.5 Order Based Surveillance Measure (OBSM)

In continuation to the various surveillance measures in force, SEBI and Exchanges in a joint meeting have decided that, in order to further strengthen the order level surveillance mechanism, there shall be an additional order-based surveillance measure to deter persistent noise creators i.e. excessive order modifications/ cancellations with an intent to avoid execution.

The said measure shall be applicable on the daily trading activity at the Client / Proprietary account level in a security / contract.

Weblink:

Order Based Surveillance Measure: Persistent Noise Creators

3.6 Abnormal / non-genuine trades

Exchange has issued notice to trading members advising them to refrain from entering abnormal / non – genuine transactions executed by the market participants primarily with an objective of transferring profit / loss between the concerned entities or creation of artificial volume in securities / contracts across segments. Further, trading members were informed that any such activity observed may also attract levy of penalty of 100% of the traded value / profit made / loss incurred as a result of such trades.

Weblink of Notices:

Abnormal / Non-genuine trades & Guidance note on Abnormal / Non – genuine trades
Advisory for Prevention of Erroneous Orders
Advisory on Market Order Feature

3.7 Surveillance Margin

Securities Exchange Board of India (SEBI), and Exchanges in order to enhance market integrity and safeguard interest of investors, have decided in joint surveillance meetings to impose Additional Surveillance Measure (ASM) on Securities with surveillance concerns.

3.8 Additional Surveillance Margin

Exchange has issued notice no. 20191011-42 dated October 11, 2019 to trading members informing about additional margin of 20% on the notional option value which shall be levied and collected from the clearing member, in case an entity trades in Equity Derivatives Stock Options contracts and creates fresh Short Open Interest in deep Out of Money strikes (OTM). Deep OTM are those strikes which are 30% away from the underlying price at the time of trade.

This additional margin is levied on the top 10 clients, if they account for more than 30% of the overall fresh short positions created on that trading day (to be computed separately in respect of call and put options). The said margin levied on the participants / clients shall continue till the contracts are squared off or till expiry of the contract.

3.9 Short -Term Additional Surveillance Measure (ST- ASM) framework – for Futures and Options contracts on Derivative Stocks

Exchange has issued notice no. 20220428-44 dated April 28, 2022 to trading members informing about Short term additional surveillance measure has extended to Derivative stocks (Stocks on which derivative products are available for trading in Equity Derivative segment of the Exchanges) and all corresponding Futures and Options contracts w.r.t. the shortlisted Derivative stocks. The revised framework made applicable w.e.f. May 02, 2022.

ASM Framework is uniformly applicable across the Exchanges for market as a whole. The ASM Framework inter-alia includes:

- Identification of companies under Short Term ASM based on pre-decided joint criteria on a daily basis based on parameters given in Exchange notices issued from time to time
- Monitoring of the identified securities for moving to various stages as per pre-defined parameters jointly decided by Exchanges and SEBI.

Weblink of Notice:

Short -Term Additional Surveillance Measure (ST- ASM) framework – for Futures and Options contracts on Derivative Stocks

4 TRADING AND SURVEILLANCE OBLIGATIONS FOR TRADING MEMBERS

The Exchange has provided a facility for effective surveillance at the member level wherein the Exchange has derived the transactional alerts that would be downloaded to the trading members which facilitates the trading member to effectively monitor the trading activity of their clients**.**

Weblink of Notice:

Surveillance Obligations for Trading Members

5 REGULATORY DISCLOSURES

The exchange from time to time disseminates the data pertaining to the trading in the derivative segments for the information of the market.

5.1 Participant wise Trading Volume/Open Interest Data

The data relating to Open Positions number of contracts and Open Position in terms of volume are updated on daily basis at End-of-day.

Weblink : Participant wise Trading Volume/Open Interest Data

5.2 Volume and Turnover Data of Top 10 Clearing Members

The data for top clearing members on the basis of Turnover for different product types is updated on daily basis at End-of-day.

Weblink : Volume and Turnover Data of Top 10 Clearing Members

5.3 Client Position Details

The data for the clients having open positions equal to or more than 3% of applicable Market Wide Position limit in an underlying stock, is displayed at End of Day as and when the said criteria satisfies.
Weblink : Client Position Details

5.4 Disclosure of Position of Connected Entities

The data of combined position of any group or group of clients in any of the Derivatives securities having the Higher of 1% of free float capital of the company or 5% of the Total Market Open Interest, is displayed at End of Day as and when the said criteria satisfies. The data is displayed within 5 working days after last date of the preceding fortnight,

Weblink : Disclosure of Position of Connected Entities

5.5 Proprietary Trade Positions-Derivatives Segment

The data shows the percentage of the total open position of the Proprietary trades vis-à-vis the member's total open position and the VaR (Value at Risk) of such proprietary trades for Derivatives segment. The data is disclosed for the previous month on the website as the average figure for open Interest and VaR details, computed daily.

Weblink : Proprietary Trade Positions-Derivatives Segment

** End of Document **