CIRCULAR

SEBI/HO/MRD/TPD-1/P/CIR/2024/58 May 24, 2024

To

All Stock Exchanges

(Except Commodity Derivatives Exchanges)

Sir/Madam,

Enhancement of Dynamic Price Bands for scrips in the Derivatives segment

1. For scrips excluded from the requirement of price bands, a mechanism of dynamic price bands (or operating range) has been implemented by Stock Exchanges. The present formulation for dynamic price band for underlying in cash market and derivatives contracts on them as per Clause 2.5 of Chapter 1 and Clause 1.10.3 of Chapter 4 of SEBI Master circular dated October 16, 2023 for Stock Exchanges and Clearing Corporations and existing practice, is summarized below:
    a. Underlying in cash market and futures contracts have start of the day price band as 10% of yesterday's closing price of that scrip/contract as a dynamic price band.
    b. These price bands can be flexed by 5% of yesterday's closing price during the day as many times as required subject to the following conditions followed by the cooling off period
    c. In the event market trends in either direction, the conditions precedent for flexing is minimum of 25 trades to be executed with minimum 5 different UCCs on each side of the trade at or above 9.90% and so on. That is to say if 25 trades from 5 different UCCs on each side occurred at or above 9.90%, the dynamic price band is flexed to 15%, if 25 trades from 5 different UCCs on each side occurred at or above 14.90%, the dynamic price band is again flexed to 20% etc.

d. Cooling Off: After the aforesaid conditions are satisfied, a cooling off period of 15 minutes is provided before the price band is flexed. It may be noted that during the cooling off period, trading continues in the underlying scrip / futures contracts albeit with the prevalent price floor/ceiling as applicable.
e. The options contracts continue to trade in their applicable price bands when underlying cools off after hitting the price band.
f. If price band in cash market is flexed for a scrip, then the price band for the futures contracts is also flexed.
g. Whenever price band of a scrip or futures contracts is flexed in one direction (i.e. in the direction of price trend), the price band on the other side remains unchanged.

2. Principles behind construct of dynamic price band, existing formulation and the need for enhancement were summarized by SEBI in its consultation paper dated May 20, 2023 titled *Price Band formulation for scrips in Equity Derivatives segment to strengthen volatility management and minimise information asymmetry*. On the basis of feedback received from various stakeholders, discussions held with Secondary Market Advisory Committee of SEBI and Stock Exchanges, the modified framework for price band formulation for scrips in the derivatives segment is provided below.

(A) Enhancing conditions precedent before flexing price band

3. To take care of issues related to sudden price movement / fat finger error etc., the conditions precedents, as mentioned at Para 1(c) of this Circular, are enhanced to 50 trades, 10 unique UCCs and 3 trading members on each side.

(B) Aligning price bands between underlying and its futures contracts

4. In modification of the requirement mentioned at Para 1(f) of this circular, exchanges shall ensure that when conditions for flexing the price bands are satisfied on either underlying in cash market or current month futures contracts on any exchange, the price band would be flexed for the scrip and all the futures contracts on this scrip across all exchanges at the end of subsequent cooling off period.

(C) Strengthening Volatility/Risk Management and minimizing information asymmetry for extreme price movement

5. As scrip price keeps trending in one direction, it is required to provide adequate time to market participants to assimilate any company / market specific news flow thereby resulting in orderly price movement while reducing strain on settlement systems on account of extreme price movements in one direction. Accordingly, in modification of the requirement mentioned at Para 1(b) and 1(d) of this circular, it has been decided that the cooling off period of 15 minutes would be increased and the flexing percent of 5% would be decreased, in a calibrated manner, as follows:
    a. For the first two instances of flexing, the price band would be flexed by 5% of yesterday's closing price after the cooling off period. This cooling off period would be 15 minutes if conditions for flexing are satisfied before last half an hour of trading and 5 minutes if conditions for flexing are satisfied in the last half an hour of trading.
    b. For subsequent two instances of flexing, price band would be flexed by 3% of yesterday's closing price after the cooling off period of 30 minutes.
    c. For subsequent instances of flexing, price band would be flexed by 2% of yesterday's closing price after the cooling off period of 60 minutes.

(D) Sliding price band on account of flexing

6. In modification of the practice mentioned at Para 1(g) of this circular, whenever price band of a scrip or futures contracts is flexed in one direction, the price band on the other side would be flexed concurrently by equivalent amount in the direction of price movement. Orders pending in the erstwhile price band and the new price band, after sliding, would be cancelled by exchanges. This would limit the dynamic price band as scrip price trends in one direction and in effect limit the price volatility. This would also provide an opportunity to market participants to place their orders nearer to the prevailing market price.
7. For instance, yesterday's closing price was Rs. 100 and today's lower band and upper band were Rs. 90 and Rs. 110 respectively. If price trends upwards, resulting in upper price band being flexed to Rs. 115 (after satisfying enhanced conditions precedent), the lower band would shift upwards to Rs. 95 and orders lying between Rs. 90 to Rs. 95 would be cancelled by exchange. It may be

noted that if the price subsequently trends downwards on the same day and hits the new lower band i.e. Rs. 95, the same would be flexed downwards to Rs. 90 after satisfying the aforesaid enhanced conditions.

8. Stock Exchanges would put in place necessary mechanism to intimate trading members/clients regarding such cancelled orders.

(E) Trading in options segment during cooling off in underlying / futures contracts

9. In modification of the practice mentioned at Para 1(e) of this circular, a temporary price floor or ceiling for options in the sentimental direction of price trend in the underlying, as applicable, would be placed in the options, once underlying scrip triggers cooling off. This is summarised below:
    a. If the Last Traded Price (LTP) of the options contract is available and not stale, the temporary floor or ceiling as applicable, would be linked to LTP of options contract.
    b. If the LTP of the options contract is unavailable or stale, the temporary floor or ceiling as applicable, would be linked to theoretical price of the options contract.
    c. Such temporary floor or ceiling would allow certain absolute rupee movement or percentage movement over the last traded price/ theoretical price to allow market participants to, for instance, hedge/close their open positions by executing trades in options during cooling off.
    d. Once price band for underlying scrip is flexed, at the end of cooling off period, the price band for options contracts would be flexed concurrently, thereby doing away with temporary floor or ceiling.
    e. Stock Exchanges would put in place uniform formulation around the above requirements.

10. The Stock Exchanges are directed to:
    a. Prepare a comprehensive Standard Operating Procedure, within 45 days from the date of the circular, to implement various operational issues emanating from the circular and suitably intimate market participants regarding the same in due course;

b. Take necessary steps to put in place requisite infrastructure and systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;
c. Bring the provisions of this circular to the notice of their members and also disseminate the same on their website; and
d. Communicate to SEBI, the status of implementation of the provisions of this circular as per the stipulated timelines.

11. The circular would be implemented by Stock Exchanges in a phased manner. Requirements mentioned at Para (A) of the circular would be effective from June 03, 2024, those at Para (B) and (C) would be effective from August 19, 2024 and those at Para (D) and (E) would be effective from October 21, 2024 onwards.

12. The circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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