भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/116 **August 30, 2024**

To

All Recognized Stock Exchanges

Sir/Madam,

Subject: Review of eligibility criteria for entry/exit of stocks in derivatives segment.

1. **Background**

1.1. Derivative markets enhance price discovery and market liquidity. However, without sufficient depth in the underlying cash market, sufficient volumes in derivatives markets, and appropriate position limits around leveraged derivatives, there can be higher risks of market manipulation, increased volatility, and compromised investor protection.

1.2. To help develop the securities market while being mindful of these concerns, SEBI vide section 3.1.2 of Chapter 5 of Master Circular on Stock Exchanges and Clearing Corporations, dated October 16, 2023, has, *inter-alia*, laid down the eligibility criteria for entry/exit of stocks in derivatives segment.

1.3. Given the need to ensure that only high quality stocks with sufficient market depth are allowed to trade in derivatives segment and considering the growth witnessed in market parameters since the last review conducted in 2018, the eligibility criteria for entry/exit of stocks in derivatives segment has been revised as under.

2. **Entry Norms for stocks in derivatives segment**

2.1. The stocks meeting the below stated eligibility criteria, based on performance of the underlying cash market, for a continuous period of six months, on a rolling basis, based on the data for previous 6 months, shall be eligible for entry into the derivatives segment.

Table-1

S. No.	Criteria	Existing criteria	Revised criteria	Rationale for change
1.	Average Daily Market Capitalization and Average Daily Traded value (ADTV) in the previous six months on a rolling basis	Amongst top 500 stocks	Amongst top 500 stocks	No Change
2.	The stock's Median Quarter Sigma Order Size (MQSOS) over the previous six months, on a rolling basis, shall not be less than:	INR 25 lakhs	INR 75 lakhs	Since average market turnover is now over 3.5 times the figure during the last review, MQSOS criteria would need to increase between 3-4 times.

S. No.	Criteria	Existing criteria	Revised criteria	Rationale for change
3.	The stock's market wide position limit (MWPL), over the period of previous six months, on a rolling basis shall not be less than	INR 500 crores	INR 1,500 crores	Market capitalisation is now 2.8 times the last review.
4.	The stock's Average daily delivery value (ADDV) in the cash market, in the previous six months on a rolling basis, shall not be less than	INR 10 crores	INR 35 crores	Average Daily Delivery Value has increased by over 3 times since the last review. Note that upon expiry, unlike index derivatives that are cash settled, single stock derivatives are physically settled.

2.2. 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.

2.3. 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.

3. **Exit norms based on performance in underlying cash market**

3.1. 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.

3.2. 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.

3.3. 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.

3.4. 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.

3.5. 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. **Exit norms based on introduction of a Product Success Framework (PSF) for stock derivatives**

4.1. 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. 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,

4.1.2. Trading on a minimum of 75% of the trading days during the review period,

4.1.3. Average daily turnover (futures + options premium) of at least INR 75 crores during the review period, and

4.1.4. Average daily notional open interest (futures + options notional) of at least INR 500 crores during the review period.

4.2. 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.

4.3. 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 4.1. above, for three subsequent months, shall exit from derivatives segment.

4.4. 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 4.1. above, shall exit the derivatives segment in the upcoming review cycle.

4.5. 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.

4.6. 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 15^{th} of each month, on a rolling basis, considering the data for previous six months.

4.7. 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.

5. Illustrations on exit timelines of stocks under various scenarios are placed below:

5.1. 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)

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)

5.2. 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 and aligned with the review cycle	Review conducted on May XX 2025 (past 6 months 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)

6. All other provisions mentioned in Master Circular No. SEBI/HO/MRD2/PoD-2/CIR/P/2023/171 dated October 16, 2023, shall continue to be applicable

7. The Stock exchanges are directed to:

   7.1. Make amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision, as may be applicable/necessary;
   7.2. Carry out system changes, if any, to implement the above;
   7.3. Disseminate the provisions of this circular on their website;
   7.4. Communicate to SEBI, the status of implementation of provisions of this circular.

8. The circular would be effective from the date of issuance.

9. The circular is being issued in exercise of powers conferred under Section 11(1) and Section 11(2)(a) of the Securities and Exchange Board of India Act, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and regulating business in stock exchanges and any other securities markets.

Yours faithfully,

Vishal Shukla
General Manager
Policy Vertical- POD 2
Market Regulation Department