The Securities and Exchange Board of India (SEBI) last week tightened the norms for futures and options (F&O) trading by raising the entry barrier and making it more expensive for retail investors to trade in F&Os. In this article, we look at all the details.

SEBI's New Rule for F&O Traders & the Effective Dates

The Securities and Exchange Board of India (SEBI) introduced a new framework for the futures and options (F&O) segment to address various issues such as market stability, investor protection, and risk management. Overall, the new framework is meant to create a more stable, transparent, and investor-friendly F&O market while minimizing undue risks for participants.
Below are the rules proposed by Sebi to regulate F&O trading in India:

1. Increase in Contract Value:

As mentioned in the NSE circular that an index derivative contract shall have a value not less than Rs. 15 lakhs at the time of its introduction in the market. Further, the lot size shall be fixed in such a manner that the contract value of the derivative on the day of review is within Rs. 15 lakhs to Rs. 20 lakhs.

The revised lot size for index derivatives will be as follows:

NSE:

Underlying Index	Existing Lot Size	Revised Market Lot
Nifty 50	25	75
Nifty Bank	15	30
Nifty Financial Services	25	65
Nifty Midcap Select	50	120
Nifty Next 50	10	25

1) The measure shall be effective for all new index derivatives contracts (includes weekly, monthly, quarterly and half-yearly) introduced from November 20, 2024, onwards.

2) The existing weekly and monthly expiry contracts will continue with the existing lot size till its respective expiry date.

3) In case of quarterly and half yearly existing expiry contracts, the same shall be transitioned to the new lot size on December 24, 2024, end of the day for BANKNIFTY and December 26, 2024, end of the day for NIFTY.

BSE:

Underlying Index	Existing Lot Size	Revised Market Lot
BSE Sensex	**10**	**20**
BSE Bankex	**15**	**30**
BSE Sensex 50	**25**	**60**

Change in monthly contracts:-

1)Existing unexpired monthly contracts (i.e. last Monday of the month for BSE BANKEX, last Thursday of the month for BSE SENSEX50 and last Friday of the month for BSE SENSEX) for November 2024, December 2024, and January 2025 shall retain their current market lot.

2) New Monthly Contracts generated after November 20, 2024 (post-November 2024 monthly expiry) shall have the new market lot.

Change in weekly contracts:-

1) Existing unexpired weekly contracts generated till November 20, 2024 (i.e. weekly contracts up to January 3, 2025) shall retain their current market lot.

2) New weekly contracts generated after November 20, 2024 (i.e. end of day on November 22, 2024) shall have the new market lot. In other words, weekly Contracts of January 10, 2025, and beyond shall have the new market lot.

Impact

Increased Capital Requirements: Higher minimum margins mean customers need to allocate more capital for their trades, which could limit their trading activity or investment choices.

Current Situation			
Lot size	**Spot Price**	**Contract Value**	**Margin Required (approx.)**
25	25000	Rs. 6,25,000	Rs. 73,200

After Revision			
Lot size	**Spot Price**	**Contract Value**	**Margin Required (approx.)**
75	25000	Rs. 20,00,000	Rs. 2,34,000

Please find the below expiry changes on Indices:

Sr.	Index Derivatives	Expiration Cycle	Expiry Date	Particulars
1.	NIFTY	Weekly	19th December 2024	Last weekly expiry with existing lot size
		Weekly	2nd January 2025	First weekly expiry with revised lot size
		Monthly	30th January 2025	Last monthly expiry with existing lot size
		Monthly	27th February 2025	First monthly expiry with revised lot size
		Quarterly & Half Yearly	27th March 2025	Lot size of all existing quarterly and half yearly expiry contracts will be revised from December 26, 2024, EOD
2.	BANKNIFTY	Monthly	29th January 2025	Last monthly expiry with existing lot size
		Monthly	26th February 2025	First monthly expiry with revised lot size
		Quarterly	26th March 2025	Lot size of all existing expiry contracts will be revised from December 24, 2024, EOD
3.	FINNIFTY	Monthly	28th January 2025	Last monthly expiry with existing lot size
		Monthly	25th February 2025	First monthly expiry with revised lot size

4.	**MIDCPNIFTY**	**Monthly**	**27th January 2025**	**Last monthly expiry with existing lot size**
		Monthly	**24th February 2025**	**First monthly expiry with revised lot size**
5.	**NIFTYNXT50**	**Monthly**	**31st January 2025**	**Last monthly expiry with existing lot size**
		Monthly	**28th February 2025**	**First monthly expiry with revised lot size**

2. Extreme Loss Margin (ELM):

1) On the day of options contracts expiry, to increase the tail risk coverage, an additional Extreme Loss Margin (ELM) of 2% shall be levied on short index options contracts.

2) The additional ELM of 2% would be applicable for all open short index options at the start of the day, as well on short index options contracts initiated during the day that are due for expiry on that day.

This 2% levy is on the contract value (Previous Day Closing Price * Lot size), meaning the margin requirement will be higher.

For instance:

Contract	Expiry Date	Type	Applicable ELM %		
			20-Nov-24	**21-Nov-24**	**22-Nov-24**
Nifty Options	**21-Nov-24**	**Other than deep out of the money contracts**	**2%**	**4%**	**-**
Nifty Options	**21-Nov-24**	**Deep out of the money contracts**	**3%**	**5%**	**-**
Nifty Options	**28-Nov-24**	**Other than deep out of the money contracts**	**2%**	**2%**	**2%**
Nifty Options	**28-Nov-24**	**Deep out of the**	**3%**	**3%**	**3%**

		money contracts			

Note:- 21st Nov 2024 is weekly expiry & 28 Nov 2024 is monthly expiry.

Impact:

Reduced Leverage: Changes in the Enhanced Leverage Margin (ELM) framework may lead to less available leverage, affecting customers' ability to take larger positions without increasing their capital outlay.

The requirement to deploy shares as margin will rise. The cash component margin deployed with brokers will also increase, and cash carries a cost.

3. No Calendar Spread Benefits on Expiry Day

Starting February 1, 2025, there will be no margin benefits for calendar spreads on expiry day.

Example: Let's say you have a short option expiring on 31st January with a margin of Rs. 1 lakh and a long option expiring on 28th February. Since your short position is hedged by the long one, you get a margin benefit and need only Rs. 50,000 instead of Rs. 1 lakh.

However, on 31st January (expiry day), this margin benefit will no longer be available, and you will have to maintain the full Rs. 1 lakh margin.

Impact:

Due to no Hedge benefit the margin requirement will increase the requirement to deploy shares as margin will rise. The cash component margin deployed with brokers will also increase, and cash carries a cost

Let’s see the margin difference in the illustration below with estimated calculation on SPAN & ELM on expiry day.

4. Revised Exchange Transaction Charges and Securities Transaction Tax:

NSE & BSE have announced a revision of their transaction fees effective October 1, 2024.

Cash Market: The transaction fee has been reduced to a fixed rate of Rs 2.97 per lakh of traded value, down from the prior range of Rs 2.97 to Rs 3.22 under the tiered structure.

Equity Futures: The fee is now established at a uniform Rs 1.73 per lakh of traded value, a decrease from the previous range of Rs 1.73 to Rs 1.88.

Equity Options: The current charge is Rs 35.03 per lakh of premium value, in contrast to the earlier range of Rs 29.50 to Rs 49.50.

BSE adjustments: For BSE, the transaction charges for Equity Futures, Sensex 50, and Stock Options remain unchanged.

MCX: The updated transaction fees for trading futures and options contracts on the Multi Commodity Exchange of India (MCX), the country's largest non-agricultural commodity exchange, have been implemented as of today. Under the new fee structure, the transaction fee for futures contracts is set at Rs 2.10 per lakh of turnover value, whereas options contracts will attract a fee of Rs 41.80 per lakh of premium turnover value. This modification is intended to optimize trading expenses for participants in the commodities market.

Impact on contract trading:

For futures, the STT has increased to 0.02% from 0.0125%, and the transaction charge has slightly decreased from 0.00183% to 0.00173%. This adjustment leads to a net increase of 0.00735%, which translates to ₹735 per crore of futures turnover on the selling side.

In case of options, the Securities Transaction Tax (STT) has risen to 0.1% from the previous rate of 0.0625%, while the transaction charge has been reduced from 0.0495% to 0.035%.

This adjustment leads to a net increase of 0.0005%, which translates to 50 per crore of options turnover on the selling side.

5. Weekly Expiry Contracts

Starting from November 2024, both the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are making significant changes to their weekly derivatives contracts for futures and options (F&O) trading. The key update is that only one weekly index derivatives contract will be available per exchange.

NSE	Will only offer weekly expiry for Nifty 50
BSE	Will only offer weekly expiry for Sensex 30

As a result, popular contracts like Bank Nifty, Nifty Midcap, and Nifty Financial Services on NSE will be discontinued by mid-November 2024.

Last Trading Days for Key Contracts:

Bank Nifty	November 13, 2024
Nifty Midcap	November 18, 2024
Nifty Financial Services	November 19, 2024
Sensex 50	November 14, 2024
Bankex	November 18, 2024

As the implementation dates approach, marketers need to be aware of these developments and adjust their strategies accordingly. The financial community will undoubtedly engage in debate about the potential impact of these changes.

Ultimately, the long-term impact of these regulations will depend on how retailers and marketers adapt to the new environment. Flexibility, adaptability and a deep understanding of the market are key to successfully navigating these changes.

Impact on Brokers

Below are some of the impacts of the changes on the brokers:

- **Increased Margin Requirements:** Brokers will likely require higher margin deposits from traders to cover the increased risk associated with larger contract sizes. This could further limit the ability of some traders to participate.
- **Potential Loss of Clients**: Some traders may choose to switch to brokers (upfront collection of option premiums) that allow leverage or trade in other markets with less restrictive rules.
- **Increased Compliance Burden:** Brokers will have to invest in technology and resources to monitor their clients' positions in real-time and ensure compliance with the new regulations.
- **Impact on Brokerage Revenues:** The reduction in trading activity could affect brokerage revenues, as brokers earn commissions on each trade.

Before you go

SEBI's new F&O trading rules mark a significant departure from the previous regulatory landscape. While aimed at promoting market stability and investor protection, these changes present challenges for traders, especially retail participants.

As the implementation dates draw near, traders must stay abreast of these developments and adjust their strategies accordingly. The financial community will undoubtedly engage in discussions and debates regarding the potential implications of these changes.

Ultimately, the long-term impact of these rules will depend on how traders and brokers adapt to the new environment. Flexibility, adaptability, and a deep understanding of the market will be key to navigating these changes successfully.