Consultation Paper on the Final Settlement Day (Expiry Day) for Equity Derivatives

1. **Objectives**

1.1. To provide predictability and stability to market participants around expiry days of equity derivatives contracts across exchanges.

1.2. To ensure ideal spacing of expiry days while optimizing the number of such days, to reduce concentration risk, provide room for product innovation and risk management, while ensuring investor protection and market stability.

2. **Background**

2.1. Equity derivatives contracts are generally launched with a minimum tenure of a month. An exception to this is options contracts on a single benchmark index per exchange, where weekly expiries are currently allowed. As per the extant regulatory framework, the specifications of such weekly options contracts, including the choice of expiry day, has been left to the respective stock exchanges to decide. Clause 1.1.10 of Chapter 5 of SEBI Master Circular dated December 30, 2024 for Stock Exchanges and Clearing Corporations states the following about Final Settlement Day for Index Futures:

1.1.10. Final Settlement Day

The Stock Exchanges have the flexibility to set the expiry date/ day for index futures. While doing so, the Stock Exchanges shall have to ensure that there is no change in the contract specifications or the risk management framework, and the integrity of the market is not affected in any manner.

Clauses 2.1.10, 3.1.12, 4.1.10 of the aforesaid SEBI Master Circular provides identical stipulations for Final Settlement Day of Index Options, Stock Futures and Stock Options respectively.

2.2. Recall that aided by technology, increasing digital access, and varied product offering, derivatives market in India has seen significant growth over the past five years. Volumes in index options trading on expiry day, in particular, have seen a meteoric rise, raising concerns around investor protection and market stability. To address such concerns, SEBI announced a series of measures through a circular issued on October 1, 2024.

3. **Existing Practice on Expiry day in Equity Derivatives**
   3.1. Subsequent to the aforesaid circular, from January 2025, the two major exchanges in equity derivatives (i.e. BSE and NSE) have chosen Tuesday and Thursday, respectively, as the expiry days for derivatives contracts on single stocks and indices. One of the exchanges has now proposed to change the final settlement day to Monday. Further, monthly single stocks derivatives contracts on one of the exchanges expire mid-month, whereas monthly index derivatives contracts on these constituents expire in the last week of the month.
   3.2. Spacing out of expiry days through the week reduces concentration risk, and provides an opportunity to exchanges to offer product differentiation to market participants. At the same time, too many expiry days has the potential to revive expiry day hyperactivity, which could jeopardize investor protection and market stability. It is therefore, felt desirable to formalize the final settlement days for equity derivatives contracts across exchanges so that it gives predictability to market participants while avoiding any unwarranted shuffling of such days by the exchanges that may impact market integrity or orderly trading.

4. **Proposal**
   4.1. Expiries of all equity derivatives contracts of an exchange will be uniformly limited to one of either Tuesdays or Thursdays. This would provide optimal spacing between expiries across exchanges, while avoiding choice of either the first day of the week or the last day as an expiry day.
   4.2. Every exchange will continue to be allowed one weekly benchmark index options contract, on their chosen day (Tuesday or Thursday).
   4.3. Besides benchmark index options, all other equity derivatives contracts, viz., all benchmark index futures, non-benchmark index futures / options, and all single stock futures / options will be offered with a minimum tenor of 1 month, and the expiry will be in the last week of every month on their chosen day (that is last Tuesday or last Thursday of the month).
   4.4. Exchanges will now seek prior approval of SEBI for launching or modifying any contract expiry or settlement day.

5. **Invitation for Public Comments**

SEBI invites comments and suggestions, supported by rationale, from all stakeholders—including individual investors, market participants, intermediaries, investor associations, and academic institutions—on the proposals outlined in this paper and summarized in the **Draft Circular (Annexure A)**.

Please submit your comments **by April 17, 2025**, via the online platform at the following link:
https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes

In case of any technical issues with the online submission form, you may email your feedback to: mrd_consultation@sebi.gov.in, with the subject line: "**Issue in submitting comments on Consultation Paper on Final Settlement Day (Expiry Day) for Equity Derivatives"**

Annexure-A

Draft Circular

To

All Recognised Stock Exchanges
All Clearing Corporations

Subject: Final Settlement Day (Expiry Day) for Equity Derivatives

1. The Securities and Exchange Board of India Act, 1992 ("SEBI Act") inter alia requires SEBI to protect the interest of investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit. One of the measures to achieve the aforesaid objective as provided in the SEBI Act is to regulate the market through measures that may provide for regulating the business in the stock exchanges.
2. Presently, the two major exchanges in equity derivatives (i.e. BSE and NSE) have chosen Tuesday and Thursday, respectively, as the expiry days for derivatives contracts on single stocks and indices. monthly single stocks derivatives contracts on one of the exchanges expire mid-month, whereas monthly index derivatives contracts on these constituents expire in the last week of the month for that exchange.
3. Spacing out of Expiry days through the week reduces concentration risk and provides an opportunity to exchanges to offer product differentiation to market participants. At the same time, too many expiry days has the potential to revive expiry day hyperactivity which could jeopardize investor protection and market stability. It has, therefore, been decided to formalize the final settlement days for equity derivatives contracts across exchanges so that it gives predictability to market participants while avoiding any unwarranted shuffling of such days that may impact market integrity or orderly trading.
4. Therefore, in exercise of powers conferred under Section 11 (1) read with Section 11(2)(a) of the SEBI Act, 1992, to protect the interests of investors in securities and

to promote the development of, and to regulate the securities market, following has been decided with regard to final settlement day / expiry day for equity derivatives:

4.1. Expiries of all equity derivatives contracts of an exchange will be uniformly limited to one of either Tuesdays or Thursdays. This would provide optimal spacing between expiries across exchanges, while avoiding choice of either the first day of the week or the last day as an expiry day.

4.2. Every exchange will continue to be allowed one weekly benchmark index options contract, on their chosen day (Tuesday or Thursday).

4.3. Besides benchmark index options, all other equity derivatives contracts, viz., all benchmark index futures, non-benchmark index futures / options, and all single stock futures / options will be offered with a minimum tenor of 1 month, and the expiry will be in the last week of every month on their chosen day (that is last Tuesday or last Thursday of the month).

4.4. Exchanges will now seek prior approval of SEBI for launching or modifying any contract expiry or settlement day.

5. The provisions of this circular shall come in to effect from DD-MM-YYYY.