Dear Client(s),

Sub: - Compulsory Settlement by physical Delivery in F&O Segment

We draw your kind attention towards SEBI circular no SEBI/HO/MRD/DP/CIR/P/2018/67 dated 11-04-2018 wherein it has been specified by SEBI:

Physical settlement of stock derivatives

In line with the recommendations made by the L.C Gupta committee regarding physical settlement of stock derivatives and discussion in SMAC regarding the functioning of the Securities Lending and Borrowing mechanism (SLBM), it has been decided that physical settlement of stock derivatives shall be made mandatory in a phased/calibrated manner.

Enhanced eligibility criteria for introduction of stocks in Derivatives Segment ('Enhanced criteria')

1. A stock, on which option and future contracts are proposed to be introduced, shall conform to the following broad eligibility criteria: -

(i) The stock shall be chosen from amongst the top 500 stocks in terms of average daily market capitalization and average daily traded value in the previous six months on a rolling basis',

(ii) The stock's median quarter-sigma order size over the last six months, on a rolling basis, shall not be less than ₹ 25 Lakh,

(iii) The market wide position limit in the stock shall not be less than ₹ 500 crore on a rolling basis, and

(iv) Average daily delivery value in the cash market shall not be less than ₹ 10 crore in the previous six months on a rolling basis.

Above criteria are to be met for a continuous period of six months.

2. Derivatives on stocks (new/existing) which meet the enhanced eligibility criteria (given at para 4 above) shall be cash settled until further notification, however such stocks, if they fail to satisfy any of the enhanced eligibility criteria for a continuous period of three months, shall move from cash settlement to physical settlement. After moving to physical settlement, if such stocks do not meet any of the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) for a continuous period of three months, then they shall exit from derivatives segment.

3. Stocks which are currently in derivatives segment and meet the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) but do not meet the enhanced criteria shall be physically settled. Such stocks, however, shall exit from derivatives segment in case;

(a) They fail to meet any of the eligibility criteria (specified vide circular CIR/DNPD/3/2012 dated July 23, 2012) for a continuous period of three months, or

(b) They fail to meet any of the enhanced eligibility criteria after a period of one year from the date of this circular.

Further the Exchanges were directed to put in place proper systems and procedures for smooth implementation of physical settlement and take necessary action to give effect to this circular. 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.

In order to comply with SEBI directions the Exchange NSE has issued circular no NSE/FAOP/37594 dated 23-04-2018 announcing that Open position in scripts mentioned in these circulars on expiry day shall be compulsory settled by physical delivery. Consequently, if you do not square up your open position in these scripts on expiry day, you have to compulsory give or take delivery depending upon your open position.

For example, if you have LONG POSITION in any scrip and do not square up your position on expiry day you have to take delivery of these shares by paying full delivery amount (Settlement Price * Lot Size * Number of lots) along with STT @ .1% and other statutory charges . Similarly if you have SHORT POSITION and do not square up on expiry day you have to give delivery of shares (LOT SIZE*NUMBER OF LOTS) at least 1 hour before schedule time on pay-in date, failing which exchange shall auction the shares and you have to bear all losses occurred due to such auction along with applicable exchange charges and penalty.

We , therefore request you to keep yourself updated about the scripts which are in compulsory delivery and make sure to square off/ Carry forward your position before expiry day to avoid getting obligation of taking or giving delivery of scripts.

Further, we shall suggest you to kindly square off/ carry forward your open position before expiry week to avoid excessive margin requirement on these scripts and thereby also avoiding chances of getting involved in delivery obligation.

Nakamichi Securities Limited shall not be responsible for loss incurred by any client due to non-fulfillment of obligation arising due to not squaring of open position before expiry.

Thanking you,

Surveillance dept