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Sebi tightens rules for booming equity derivatives market effective Nov 20

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Reuters | MUMBAI

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India's market regulator tightened the rules for equity derivatives trading on Tuesday, raising the entry barrier and making it more costly to trade in the asset class, despite pushback from investors.

The Securities and Exchange Board of India (SEBI) lowered the number of weekly options contracts available to trade for investors to one per exchange and raised the minimum trading amount nearly three times, according to a circular uploaded on the regulator's website.

Reuters first reported SEBI's intent to tighten its derivatives trading rules, in line with proposals it made in July, last month.

The minimum trading amount has been increased from 500,000 rupees ($5,967) to 1.5 million to 2 million rupees, Sebi said in the circular.

The measures are effective Nov. 20.

Sebi said that existing regulatory measures have been reviewed to ensure investor protection and the orderly development and strengthening of the equity derivatives market.

Indian authorities had raised concerns about the unchecked explosion of retail investor trading in derivatives and the possibility that it could create future challenges for the markets, investor sentiment and household finances.

The monthly notional value of derivatives traded was 10,923 trillion Indian rupees in August - the highest globally, data from the regulator showed.

According to a Sebi study published last month, individual Indian traders made net losses totalling 1.81 trillion rupees in futures and options in the three years to March 2024, with only 7.2% making a profit.

For the 12 months to March 30, 2024 retail investors made gross losses totalling 524 billion rupees but proprietary traders, acting on behalf of financial institutions, and foreign investors made gross profits of 330 billion rupees and 280 billion rupees, respectively.

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