भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/11 **January 10, 2023**

All Recognized Stock Exchanges
All Recognized Clearing Corporations

Dear Sir/Madam,

Subject: Introduction of future contracts on Corporate Bond Indices

1. In order to enhance liquidity in the bond market and also to provide opportunity to the investors to hedge their positions, SEBI had constituted a working group of representatives of NSE, BSE and MSEI to make recommendations on the matter of 'Derivatives on Bond Indices.'

2. Based on the submissions made by the working group and recommendations of Secondary Market Advisory Committee of SEBI, it has been decided to permit Stock Exchanges to introduce derivative contracts on indices of corporate debt securities rated AA+ and above. To start with, the Stock Exchanges are permitted to launch future contracts on corporate bond indices.

3. The details regarding index composition, contract specifications, position limits, risk management framework, etc. for introduction of future contracts on corporate bond indices are given at ***Annexure A***.

4. The stock exchanges desirous of introducing such contracts shall submit a detailed proposal to SEBI for approval, *inter alia,* providing details relating to underlying corporate bond index, the index methodology, contract specifications, applicable trading, clearing & settlement mechanism, risk management framework, the safeguards to ensure market integrity, investor protection, surveillance systems, etc.

5. For implementation of the above, Stock Exchanges and Clearing Corporations are advised to:
    5.1. take necessary steps and put in place necessary systems.
    5.2. make necessary amendments to the relevant bye-laws, rules and regulations.
    5.3. bring the provisions of this circular to the notice of their members and also to disseminate the same on their websites.

6. This circular is being issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

7. This circular is available on SEBI website at www.sebi.gov.in under the category 'Circulars'.

Yours faithfully,

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Annexure A

Product design and risk management framework for Cash Settled Corporate Bond Index Futures (CBIF)

1. Permitted Corporate Bond Index

   The index underlying the derivative contract shall be as per the following:

   i. The index shall be composed of corporate debt securities.
   ii. Constituents of the index should have adequate liquidity and diversification at issuer level, as decided by the stock exchanges.
   iii. Constituents of the index shall be periodically reviewed (at least on half-yearly basis).
   iv. Constituents of the index shall be aggregated at issuer level for the purpose of determining exposure limits for single issuer, group, sector, etc.
   v. Single issuer shall not have more than 15% weight in the index.
   vi. There shall be at least 8 issuers in the index.
   vii. The index shall not have more than 25% weight in a particular group of issuers [excluding securities issued by Public Sector Undertakings (PSUs), Public Financial Institutions (PFIs) and Public Sector Banks (PSBs)].
   viii. The index shall not have more than 25% weight in a particular sector (excluding securities issued by PSUs, PFIs and PSBs).
   ix. The duration buckets of the index may be decided by the stock exchanges.
   x. The index shall have a track record of at least one year.

2. Contract Value

   The value of the CBIF contracts shall not be less than INR 2 lakhs at the time of introduction. Stock exchanges shall review the contract value or lot size on half-yearly basis and may make revisions, if required, by giving an advance notice to the market.

3. Trading Hours

   The trading hours shall be between 9:00 AM and 5:00 PM on all working days from Monday to Friday. Exchanges shall align the trading hours of CBIF with the trading hours of the underlying market. Stock exchanges and clearing corporation(s) shall have infrastructure and risk management systems in place which are commensurate to the trading hours.

4. Tenure of the Contracts
   i. Tenure: The stock exchanges may introduce contracts of up to a tenure of 3 years.
   ii. Contract Cycle: Weekly, three Serial monthly contracts, one quarterly contract of the cycle March/June/September/December or one half-yearly contract of the cycle June/December.

5. Quotation and Tick value

   The quotation shall be in Indian Rupee. The Tick value shall be decided by the stock exchanges based on the underlying index values or contract size, etc.

6. Contract Expiry

   The expiry or last trading day for the contract shall be the last Thursday of the expiry cycle. If any expiry day is a trading holiday, then the expiry or last trading day shall be the previous trading day.

7. Daily Settlement Price

   The daily settlement price shall be the last half an hour volume weighted average price of the contract.

   In the absence of last half an hour trading, theoretical price shall be considered. The methodology used for the theoretical price computation shall be published on the stock exchange website.

8. Final Settlement Price

   Final settlement price for the derivative contracts shall be the closing price of the underlying index on the expiry day or last trading day of such derivative contracts.

9. Settlement Mechanism

   The contracts would be settled in cash in Indian Rupee (INR).

10. Settlement Day

    Settlement day shall be the next working day of the expiry day.

11. Position Limits

Category	**Position limit**
Trading Members/ Mutual Funds / Insurance Companies /Housing Finance Companies/ Pension Funds / Banks and Primary Dealers dealing as clients/ Institutions belonging to Category I and II FPIs (i.e. other than individuals, family offices and companies)	The gross open positions across all contracts within the respective underlying index shall not exceed 10% of the total open interest or INR 1,200 crore, whichever is higher.
Non-institutions in Category II FPIs (i.e. individuals, family offices and companies), Mutual Fund (Scheme level) and other clients	3% of the total open interest or INR 400 crore whichever is higher.

    No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

12. Price Bands

    For every CBIF, stock exchanges shall set an initial price band at 5% of the previous closing price or base price thus preventing acceptance of orders for execution that are placed beyond the set band. Whenever a trade in any contract is executed at the highest or lowest price of the band, stock exchanges may expand the price band for that contract by 0.5% in that direction after 30 minutes after taking into account market trend. However, no more than 2 expansions in the price band shall be allowed within a day.

13. Risk Management Framework

The clearing corporations shall define appropriate risk management framework (including margining methodology) and the clearing and settlement mechanism etc. for the product, and submit the same to SEBI for approval.

The initial margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be computed to cover a 99.9% VaR over a one day horizon. Further, Extreme Loss Margins and calendar spread margins shall also be prescribed by the clearing corporations. Margins shall be deducted from the liquid assets of the clearing member on real time basis.