

**Annexure 1 - Norms/salient features regarding Net Settlement of Cash segment and Futures & Options (F&O) segment upon expiry of stock derivatives**

**1. Obligation Netting**

- a. Upon expiry of stock derivatives, obligations in physical settlement of F&O segment for a particular expiry will be netted with obligations in Equity cash segment of corresponding trade date. CCs will continue to settle obligations on net basis at CM level
- b. The benefit of netting (merged settlements) will be available to those clients where Clearing member (CM) -Trading member (TM) – Client (UCC) combination is common across Equity cash and F&O segments for the same security. Clients whose TM clears trades through different CM /Clearing Corporation (CC) will not be able to avail the benefit of netting.
- c. Netting of delivery obligations will be only for the purpose of settlement. Therefore, Securities Transaction Tax (STT) and Stamp Duty will continue to be computed, levied, and reported on a segment wise level as at present.
- d. Netting of settlement will be available for non-institutional Custodial Participants (CPs) clearing through the same entity registered both as a custodian in Equity cash market and as a CM in F&O segment, except and otherwise for those investors/ clients/ participants (for instance Portfolio Managers-PMS) which have been mandatorily directed to enter into delivery backed transactions only

**2. Settlement of Securities**

- a. The net sell or buy obligations will be settled in Equity Cash segment under settlement/market type and settlement number of Equity Cash segment.
- b. Once the mechanism of netting settlement obligation is applied, ICCL will not issue separate settlement calendar for F&O physical settlement and F&O physical Auction market since the settlement would take place under Equity cash segment.
- c. Going forward, CMs registered in F&O Segment will provide requests for voluntary auction for internal shortages of F&O physical in settlement type, settlement number and security series applicable in Equity cash segment.

**3. Settlement of Funds**

- a. Funds will be settled through the settlement bank account designated to Equity Cash segment. CMs who have not designated ICCL as clearing corporation in Equity Cash Segment, will be required to open separate account for settlement and provide the information of the same to ICCL.

#### **4. Offsetting Positions – Margin Benefit**

- a. Margin benefit will be allowed to the extent of offsetting positions of open interest in stock derivatives devolving into delivery and obligations in the underlying Equity Cash segment.
- b. Benefit of margins will be provided on total margins in Equity Cash segment and delivery margin in F&O Segment.
- c. In order to avail the margin benefit, offsetting positions should be in the same security-CM-TM-UCC combination across the Equity Cash and F&O Segments.
- d. The margins on the balance positions post netting, shall continue to be applicable in the respective segments.

#### **5. Early Pay-In of Funds and Securities:**

- a. Early pay-in of funds/securities in a segment will be considered towards net obligations after arriving at the offsetting positions as mentioned in above.
- b. Early pay-in of funds will be made through the settlement bank account designated to Equity Cash Segment only.
- c. Early pay-in of securities for net sell obligation (through any manner i.e. by way of block/pool mechanism/client EPI allocation request) shall be provided in market type and settlement number pertaining to Equity Cash Segment only.
- d. The benefit of Early Payin of funds/ securities will be provided in the chronology as mentioned below:
  - i. Equity Cash Segment
  - ii. Residual amount allocated at client/client-security level if any, will be considered towards net buy obligations in F&O segment provided such obligation is on the same CM-TM-UCC-security combination.

#### **6. Member Files**

- a. Existing Obligation reports before netting will continue to be provided to members in F&O segment.
- b. Equity cash obligation reports will contain data post netting effect.
- c. An additional file giving details of net obligation details will be provided to Clearing Member/Trading Member as per the following format.

**File name: Detail Net obligation file details for Clearing Member/Trading Member**

**File nomenclature:**

CM File name: NETOBLG\_SETTNO\_CM\_MEMCODE\_DDMMYYYY.CSV

TM File name: NETOBLG\_SETTNO\_TM\_MEMCODE\_DDMMYYYY.CSV

## **Data Fields**

1. Settlement type
2. Settlement No
3. CM Code/Custodian code
4. TM Code/CP Code
5. Client Code
6. Symbol
7. Security group
8. Net qty to receive/deliver (EQ cash segment)
9. Net value (EQ cash segment)
10. Net qty to receive/deliver (F&O segment)
11. Net value (F&O segment)
12. Net qty to receive/deliver
13. Net value

**7. Do not Exercise facility:**

The facility of do not exercise available for stock options on expiry date will be discontinued.

The above changes will be effective from **March 2023 expiry of F&O contracts.**