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Dear Mr Padole

Discussion Paper on the Growth and Development of the Equity Derivatives Market in India

FIA welcomes the opportunity to respond to the Discussion Paper on the Growth and Development of the Equity Derivatives Market in India published by the Securities and Exchange Board of India ("**SEBI**") on 12 July 2017.

FIA is the leading global trade organisation for the futures, options and centrally cleared derivatives markets, with offices in London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries as well as technology vendors, lawyers and other professionals serving the industry. FIA's mission is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. Further information is available at www.fia.org.

FIA's members are active in exchange traded derivatives around the world and we strongly believe that derivatives markets are critically important to economic growth. We support the continued development and growth of India's derivatives markets to facilitate the risk management, investment and trading needs of market participants.

Our detailed responses to certain questions raised in the Discussion Paper are set out in the Appendix (in the form requested by SEBI).

Thank you for the opportunity to share our views and we are available to discuss these issues in further detail with you if required. If you have any questions, please contact me or Phuong Trinh, Vice President of Legal & Policy, Asia Pacific at ptrinh@fia.org.

Yours faithfully

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APPENDIX

No.	Issue	Suggestions	Rationale
i.	Ratio of turnover in derivatives to turnover in cash market is around 15 times. To what extent the drivers of this ratio in India are comparable with drivers in other markets.	We caution against placing too much emphasis on comparing the ratios in India with other markets due to varying levels of data that makes it difficult to meaningfully compare across jurisdictions.	The data collected across markets can vary greatly due to several differing factors including: • Different asset classes form part of the data calculations in other markets for example, in Korea we understand the data also includes debt and currencies • Different contract specifications across markets (including contact size and contract value) makes it difficult to compare 'like for like' volume across markets. • Mode of trading: other markets permit OTC trading of equity derivatives so that not all equity derivatives are traded on exchange. Therefore, the complete size of a country's equity derivatives market is not necessarily reflected in their F&O data.
ii.	What are the global best practices and experience in international markets to align cash and derivative markets.	Cash and derivatives meet different investor needs so it is not unusual for growth paths and development between the cash and derivatives markets to diverge. FIA's primary focus and expertise is on derivatives markets so we will not comment in detail on the cash market. However, SEBI may wish to review areas that could incentivise growth and development of the cash market (for example, reviewing transaction tax arrangements or amending and modernising market making regulations). We also ask that the industry be further consulted on any proposed changes so that new regulatory measures do not have the unintended consequence of detrimentally impacting the derivatives market and market participants.	
iii.	Considering the participants' profile, what measures would be required to create balanced participation in the equity derivatives market?	We recommend the introduction of omnibus accounts to facilitate ease of market access for a diverse range of market participants and particularly institutional investors (both domestic and foreign). Omnibus account structures are commonly used to facilitate	The advantages of an omnibus account structure include more efficient trade management and lower costs which can lead to increased participation in markets and greater liquidity.

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		relationships among brokers especially when operating in different jurisdictions and to facilitate cross border trading.	In the futures markets, an omnibus account is defined as an account between two brokerage firms where many individual customer accounts of one firm ("originating broker") are grouped into a single account at a second firm ("carry broker"). The carry broker is subject to a regulatory obligation to segregate the customer assets of the originating broker from its own assets in order to make them bankruptcy remote. Because the carry broker may, in many cases, not have information about the underlying individual client accounts of the originating broker, omnibus account structures are often thought to be inconsistent with the regulatory policy objectives of an individual investor ID jurisdiction. However omnibus account trading structures may readily be adapted to investor ID requirements (for example, carry brokers and originating brokers carrying omnibus accounts can be required to confirm the eligibility status of all underlying client accounts, to ensure that omnibus accounts are not used as a means of circumventing applicable investor ID regulations). Trading activity in omnibus accounts can be required to be reported to exchanges and regulators at the level of the underlying client (this is the case for omnibus accounts originated by foreign brokers accessing US exchanges through US futures dealers, under the rules of the US Commodities Futures Trading Commission and of US exchanges). Such omnibus reporting mechanisms therefore provide an effective way for regulators and exchanges to monitor participation in their markets and to meet regulatory objectives. In conclusion, omnibus trading structures can be implemented to facilitate market access (by creating a convenient alternative to direct brokerage for foreign investors), without sacrificing visibility and accountability to domestic regulators and exchanges.
v	Considering participants' profile, product mix and leverage in equity derivatives, what could be the guiding	In response to SEBI's question on guiding principles for establishing position limits, we believe a formula-based dynamic position limit methodology should be adopted rather than having any static position limits based on a set number of contracts. We also	In equity derivatives markets, there can be significant diversity in underlying stocks (e.g. market capitalisation and turnover). These differences are better accommodated for under a formula based position limits methodology as a 'one size fits all' approach will not

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	principles for setting minimum contract size and open position limits for equity derivatives.	recommend the introduction of a hedge exemption for risk management activity.	be appropriate where there is varying market liquidity. We also recommend that position limits be reviewed regularly and adjusted accordingly if required. We appreciate that position limits are implemented as a tool to control the burden of excessive speculation. However, we recommend that a hedge exemption be introduced to allow qualified investors to exceed position limits for genuine hedging and risk management activity. Many international derivatives markets have introduced hedging exemptions as part of their position limit regimes to help facilitate effective risk management and to contribute to market stability.
viii	Whether there are any inefficiencies in the market that needs to be addressed.	**(a) Trading and market access** To encourage greater market participation and particularly by institutional investors, we recommend the introduction of omnibus accounts and block trading.	As noted in response to question iii, we recommend the introduction of omnibus accounts to facilitate market access for a diverse range of market participants and particularly institutional investors (both domestic and foreign). We also recommend the introduction of block trading in India's derivatives markets to encourage greater participation through minimising transaction costs and increasing overall efficiencies. Block trades can be useful in meeting institutional trading needs. A block trade is a privately negotiated futures, options or combination transaction that meets certain quantity thresholds as predetermined by an exchange or trading venue and that therefore may be executed away from the central marketplace under applicable regulations. In general, block trades are subject to certain eligibility, disclosure, price, volume threshold, time of execution, reporting and books and records requirements as set by the relevant exchange rules. Such an arrangement minimises price impact and time delays that may occur when transacting an order of large size in the central market. Block trades are traded bilaterally, with a customer typically asking another party to make a market for a specified number of contracts

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		(b) Standardisation and operational efficiency We believe India's derivatives markets could benefit from industry-wide standard processes and documentation which can lead to increased operational efficiencies and lower costs, encouraging greater market participation. We recommend that SEBI and applicable exchanges consider areas where operational efficiencies and industry standardisation can be achieved. FIA and our members welcome further discussion in this area and we would be happy to share our experiences from other markets around the globe.	above the block trade volume threshold, and subsequently reported to the exchange for clearing purposes. FIA has published a document, "Block Trade Fundamentals"[1] which provides further information and may be a useful guide. For example, in other markets around the world, give-up arrangements have been automated. Give up arrangements apply when orders are executed by one broker ('executing broker') and then "given up" for clearing to another broker ('clearing broker'). This arrangement is documented under a widely adopted industry standard give-up agreement[2] which documents the discharge of the executing broker's obligations and to create like obligations on the part of the clearing broker. In response to industry needs, an industry utility known as the Electronic Give-Up System (EGUS)[3] was also developed which allows brokers, traders and customers to electronically execute give-up agreements and other client documents and serves as a central repository for signed documentation. The EGUS system is utilised globally and has been implemented in many markets across the globe and is particularly useful for firms who operate across multiple jurisdictions.

[1] https://fia.org/sites/default/files/FIA%20Block%20Trade%20Fundamentals.docx%20updated.pdf
[2] https://www.fiadocumentation.org/fia/pages/standard-give-up-agreements_1_1
[3] https://tech.fia.org/