



9 September 2025

To: SEBI

Dear Sirs/Madams

SEBI - Consultation Paper on Introduction of Closing Auction Session in the Equity Cash Segment

FIA¹ appreciates the opportunity to provide comments to SEBI's "Consultation Paper on Introduction of Closing Auction Session in the Equity Cash Segment".

We welcome SEBI's efforts to align Indian market infrastructure with global best practices and to improve price discovery, liquidity, and fairness in closing price formation.

Below we set out our consolidated views on specific proposals in the paper, as well as certain broader considerations.

OBSERVATIONS ON THE PROPOSALS

Reference	Proposal	Comments
1	Should CAS framework be implemented for determining the closing price of stocks in the cash segment?	<p>We welcome SEBI's proposal as an enhancement over the current framework. Introducing a closing auction can deepen liquidity in the cash market, provide a more robust and transparent basis for settlement price determination, and enable passive funds to rebalance more efficiently, thereby reducing tracking error. Together, these measures will strengthen the reliability of the Indian market's closing process and bring it closer to global best practices.</p> <p>While the proposed closing auction mechanism aligns India with corresponding international practices, it is important to note that India's still has further room to deepen, leading to heavy reliance on futures liquidity for hedging positions. The assumption that there will be</p>

¹ FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers. 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. As the principal members of derivatives clearinghouses worldwide, FIA's clearing firm members play a critical role in the reduction of systemic risk in global financial markets. Further information is available at www.fia.org.

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		<p>sufficient liquidity during the Closing Auction Session is therefore critical, as buyers must be able to find sellers. It will be important to monitor this risk closely in the initial sessions and to calibrate the framework further based on observed outcomes.</p> <p>In addition, while the introduction of CAS is intended to help long-only funds reduce slippage and tracking error, it is worth noting that BSE and NSE will each operate their own closing auction. This may lead to differences in closing prices and executed volumes across the two venues, which could limit the intended benefits when settlement prices are consolidated. We encourage SEBI to consider steps to harmonise the process between exchanges to ensure greater consistency in the closing price mechanism, and to provide clarification on how any divergences between NSE and BSE will be addressed.</p> <p>Finally, clarification is also required on the methodology for index settlement under the revised framework.</p>
2	Should CAS framework be implemented initially on the stocks that are available for trading in the derivative segment?	<p>We believe the CAS framework should ultimately be extended to all stocks, rather than limited to the F&O segment. Rebalancing typically spans a broad set of stocks beyond the F&O segment, and applying different mechanisms across segments would introduce unnecessary execution challenges.</p> <p>At the same time, we recognise that not all stocks in the derivative segment share similar liquidity characteristics, with a significant gap between the top 15 most liquid names and the bottom 50. We therefore recommend that market impact be monitored closely during implementation, with flexibility to make adjustments as needed.</p>
3	Should the CAS be conducted without extending the existing market hours?	<p>Yes. We support SEBI's intent to ensure that CAS does not extend the trading day beyond 3:30 pm. The proposal should be designed in a way that avoids delays to downstream processing and clearing, and preserves the integrity of end-of-day market operations.</p>

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4	Do you agree with the proposed framework as stated at para 11.4 with respect to market orders during the CAS?	No comment
5	Do you agree with the proposed framework for extending the timing for derivatives segment, as stated in para 11.6?	<p><u>Observations</u></p> <p>We wish to note the following observations regarding the proposed structure, which we believe warrant further consideration:</p> <ul style="list-style-type: none"> i. We note that the proposed framework would result in multiple close timings — 3:30 pm for index derivatives, 3:35 pm for near-month stock contracts, and 4:00 pm for non-expiry stock contracts. This staggered approach is likely to create operational complexity, increase the risk of confusion among participants, and add to the burden of systems and process realignment. ii. A five-minute expiry window (3:30–3:35 pm) is considered insufficient for participants to manage expiring single stock options and futures. The challenge is compounded by thin liquidity in the post-close session. For example, if the auction settlement level results in certain call options expiring in-the-money, participants who do not hold the underlying would have very limited opportunity to react, increasing the risk of adverse outcomes. iii. The proposed structure creates a 25-minute period (3:35–4:00 pm) on expiry days where non-expiring single stock options and futures would continue to trade without an underlying cash market reference price, limiting participants’ ability to hedge effectively. iv. Liquidity in the post-close session is generally thin, and cannot realistically be relied upon to square unwanted delivery positions.

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		<p>v. For index options expiry, members highlighted the need for clarity on whether the 30-minute VWAP methodology will continue to apply or whether CAS will be used instead. If CAS were to be adopted, there would need to be clarity on whether options themselves continue to trade during the auction period.</p> <p>vi. It was further noted that passive funds, both locally and globally, generally do not trade in derivatives, while arbitrage and active futures funds typically allow contracts to expire if they wish to take physical delivery. This indicates that the design of extended derivative timings should focus on the needs of active participants, where clarity and operational efficiency are most critical.</p> <p><u>Suggestions for Consideration</u></p> <p>In light of the observations outlined above, we respectfully offer the following suggestions for SEBI's consideration:</p> <p>i. We suggest that SEBI avoid a staggered close structure and instead move towards greater harmonisation of close timings across derivative products. A single close at 4:00 pm would reduce operational complexity, provide participants with adequate time to manage delivery obligations, and improve consistency across contracts.</p> <p>ii. We recommend retaining the existing 30-minute VWAP methodology for expiring front month index options in the interim, with a view to migrating to CAS once the process has been proven robust.</p> <p>iii. Another key consideration is the system and technology development work required to support any change. Realigning settlement, clearing, and margining processes is inherently complex, and members emphasised the need for sufficient lead</p>

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		<p>time for market participants and infrastructure providers to adjust.</p> <p>iv. Looking further ahead, SEBI may also wish to revisit the concept of devolving SSOs into futures as a structural enhancement, should settlement challenges persist despite the proposed changes.</p>
6	Whether a price band of +/- 3% from the reference price should be applied to the CAS in the cash segment?	No comments
7	Should the reference prices for the cash segment be determined based on the VWAP of trades executed during the 15 minutes period from 3:00 pm to 3:15 pm?	No comments
8	Should the execution priority in CAS be accorded to market orders over limit orders?	No comments
9	Should the order execution priority in pre-open session be aligned with the order execution priority in CAS?	No comments
10	Should limit orders carried over from the continuous trading session to CAS be disallowed from modification during CAS?	<p>We note that Proposal 10 specifically asks whether limit orders carried over from the continuous trading session into CAS should be disallowed from modification. While we support the intent of this question, we would also like to highlight another important issue raised in the proposal relating to margin treatment.</p> <p>Currently, during continuous trading, FPIs and domestic institutions can bid for stocks without margin being</p>

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		<p>blocked or prefunding requirements. In contrast, under the proposed CAS framework, participants would need to maintain 100% upfront margin in the demat account to place new orders in the auction. This requirement could prove impractical in situations where, for example, a stock is trading lower and participants wish to buy at the close. Prefunding demat accounts in anticipation of such opportunities would significantly increase trading costs and may reduce participation in CAS.</p> <p>We respectfully request that SEBI reconsiders the margining framework for CAS so as not to discourage liquidity provision or impair the efficiency of the auction process.</p>
11	Should real-time dissemination be provided during the CAS for the cumulative imbalance quantity and the imbalance quantity attributable to market orders in a stock?	No comments
12	Should the passive Mutual Funds be allowed to borrow funds on an overnight basis, to meet the liquidity requirements arising due to net negative cash balances, on account of the trade undertaken in CAS?	No comments
13	Should any other relaxation be allowed to the market participants, from the extant regulatory requirements, to enable greater participation in CAS?	No comments



We welcome the opportunity to work with SEBI to address these comments. Please feel free to contact me at bherder@fia.org or TzeMin Yeo, Head of Legal & Policy, Asia Pacific at tmyeo@fia.org should you wish to further discuss.

Yours

A handwritten signature in black ink, appearing to read 'Bill Herder', is written over a light grey circular background.

Bill Herder
Head of Asia-Pacific