



3 October 2026

To: SEBI

Dear Sirs/Madams

SEBI - Consultation Paper on Review of Certain Aspects of the Closing Auction Session, Market Timings and Settlement Methodology for Derivatives Contracts

FIA¹ welcomes the opportunity to provide comments to SEBI's "Consultation Paper on Review of Certain Aspects of the Closing Auction Session, Market Timings and Settlement Methodology for Derivatives Contracts".

We appreciate SEBI's willingness to review aspects of the CAS framework in light of its initial operation and market feedback. We also welcome the additional clarity regarding the relationship between the indicative price during CAS, the final closing price and the derivatives settlement price.

Our responses to the specific proposals, together with additional implementation observations, are set out below.

OBSERVATIONS ON THE PROPOSALS

No.	Proposal	Response
1	Whether Option 1 (Blended VWAP – Para 3.4) is the preferred methodology for determining the settlement price of both index and stock derivatives contracts on the expiry day?	Strongly disagree. Option 1 is not the preferred methodology due to concerns that it would be difficult to track in practice and could create market confusion.

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.

No.	Proposal	Response
		a. <u>Ability to Track the Settlement Price</u> Participants should have a practical means of executing at, or closely tracking, the price used to settle their expiring derivatives. Under Option 1, the relative CTS and CAS weights would not be known until CAS had concluded, although the CTS portion of the transaction must be executed beforehand. Participants would therefore have to estimate how to allocate their transactions between CTS and CAS, making the blended settlement price difficult to track in practice and creating a risk of settlement-price mismatch². This difficulty in tracking the settlement price has direct consequences for participants seeking to maintain their total exposure through expiry. These include funds using index futures to hedge their portfolios, arbitrageurs whose derivatives positions are perfectly hedged with underlying stocks, and long-term investors who initially obtained exposure through derivatives for liquidity reasons. To maintain that exposure, participants must buy or sell the underlying index constituents. If their execution price cannot equal, or closely track, the derivatives settlement price, they would face a settlement-price risk that they cannot eliminate, weakening the link between the derivatives and cash markets.

² Under Option 1, each constituent's settlement price would be calculated as $w \times \text{VWAP_CTS} + (1 - w) \times \text{P_CAS}$, where w represents the CTS share of traded value over the combined window. For example, a participant needing to buy 10,000 shares to maintain an expiring long may assume $w = 0.90$ and buy 9,000 shares through a VWAP strategy during the final 30 minutes of CTS at ₹100.00 and 1,000 shares by market order in CAS at ₹103.00, producing an average cost of ₹100.30. If the realised value of w were 0.90, the settlement price would also be ₹100.30. If w were 0.97 because of low auction volume, the settlement price would be ₹100.09 and the participant would lose ₹0.21 per share. If w were 0.70 because of high auction volume, the settlement price would be ₹100.90 and the participant would gain ₹0.60 per share.

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		Accordingly, we recommend against using a blended methodology to determine the settlement price. b. <u>Alignment of the Settlement and Closing Prices</u> Under Option 1, the official closing prices of the underlying stocks, the official closing index value and mutual fund NAVs would remain CAS-based, while derivatives would settle using the blended methodology. Participants using index derivatives to hedge NAV- or benchmark-linked exposures, including passive funds and their liquidity providers, would therefore face a mismatch between the benchmark and their hedge on each expiry. We therefore recommend that SEBI, in consultation with market participants, consider whether the same methodology should be used over the longer term to determine both official closing prices and derivatives settlement prices.
2	Whether Option 2 (CTS VWAP – Para 3.5) is the preferred methodology for determining the settlement price of both index and stock derivatives contracts on the expiry day, before ultimately transitioning to Option 1 in the long term?	Yes, Option 2 is the preferred interim methodology. a. <u>Simplicity and Ability to Track the Settlement Price</u> Option 2 would provide a simpler and more readily understandable methodology while avoiding the uncertainty created by the variable CTS and CAS weights under Option 1. As noted in our response to Proposal 1, participants should have a practical means of executing at, or closely tracking, the derivatives settlement price. Under a CTS VWAP methodology, a participant can execute in proportion to market volume over the relevant window, with a tracking error that is generally small and well understood.

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		b. <u>CAS Liquidity and Any Future Transition</u> As lower trading volumes have been observed during CAS, utilizing the last 30-minute CTS VWAP would reduce exposure to sudden CAS-driven price changes. Against this background, any move to Option 1 should be conditional on a well-defined liquidity trigger demonstrating that CAS has sufficient liquidity to be incorporated into the derivatives settlement price. More generally, further consultation with market participants would be important before any change to the derivatives settlement methodology.
3	Do you agree with the proposal that IEP-derived Indicative Index Value during CAS should not be disseminated, while continuing to disseminate individual security-level IEPs?	No. a. <u>Transparency and Price Discovery</u> The proposed non-dissemination of IEP-derived Indicative Index Values during CAS would be inconsistent with the principles of transparent price discovery. Beyond their potential influence on derivatives trading, Indicative Index Values also help market participants understand how the closing price is forming and provide an objective reference against which market behaviour can be assessed. They are one of the few tools available to observe, in real time, the evolving relationship between constituent securities, the index and associated derivatives. Accordingly, their removal would not prevent market participants from forming expectations about the close but would instead reduce transparency in the price-formation process.

No.	Proposal	Response
		b. <u>Market Surveillance and Position Limit Management</u> The removal of Indicative Index Values would be particularly significant from a surveillance perspective. They provide a valuable benchmark for assessing the behaviour of index futures during the auction and can help distinguish normal price discovery from activity that may warrant closer review, particularly where futures prices diverge materially from the implied value of the underlying basket. More broadly, reducing the availability of information in this manner may not be the most effective means of mitigating manipulation risk. Greater transparency around price formation can support more effective market supervision by helping market participants, exchanges and surveillance teams identify conduct that appears inconsistent with normal market behaviour. Beyond their surveillance function, Indicative Index Values also serve an operational role in managing position limits during the final minutes of CAS. c. <u>Clarification on Expected Settlement Price</u> The consultation introduces an “expected settlement price” (ESP), which appears to be available for an index only when derivatives referencing that index expire. It is unclear whether Indicative Index Values would continue to be disseminated for non-expiring indices on other trading days. We request that SEBI clarify the information that would be available in those circumstances. While clarification on this point would be welcome, , our recommendation remains that Indicative Index Values continue to be disseminated for all indices on non-expiry

No.	Proposal	Response
		days regardless of the settlement methodology adopted.
4	Whether Option A - CTS for CAS Stocks till 3:30 and F&O till 3:45 is the preferred market timing?	Yes. a. <u>Market Timing and Price Discovery</u> Keeping CTS open until 3:30 p.m. would provide a longer period of continuous trading, which is important for price discovery. Option A would also align the derivatives close more closely with the completion of the cash-market closing process. This would improve operational efficiency, simplify participation for investors, and enhance transparency around end-of-day price formation. Clear information on the timing parameters governing the random close, together with a detailed breakdown of the different phases of CAS, would also be important for market participants. b. <u>Position Limit Snapshots</u> While CTS VWAP is used to determine derivatives settlement prices, we recommend there be at least one position-limit snapshot during the final 45 minutes of F&O trading, consistent with the position before CAS was introduced. Should SEBI introduce blended VWAP as the settlement methodology in the future, we further recommend removing the post-close intraday position-limit snapshot. The F&O session would then continue for only approximately five minutes after CAS concludes. Participants would need this time to adjust their positions and comply with end-of-day limits, making an additional intraday snapshot during that period difficult to implement.

No.	Proposal	Response
5	Whether Option B - CTS for CAS Stocks till 3:15 and F&O till 3:30 is the preferred market timing?	No.
6	Do you agree with the proposal to prohibit cancellation of limit orders placed beyond $\pm 1\%$ of the Reference Price during CAS, while permitting only price-improving modifications to such orders?	No. If cancellation restrictions are introduced, they should apply to all orders from a specified point in the auction, rather than selectively according to an order's distance from the Reference Price. This would provide a consistent cancellation framework for all orders. The proposed restriction could prevent participants from cancelling or appropriately modifying orders for legitimate reasons. These may include operational errors, such as fat-finger mistakes, incorrect price or quantity inputs or erroneous algorithmic instructions, as well as subsequent changes in market conditions, available inventory, risk limits, hedging requirements or underlying exposures. The restriction could also incentivise participants to delay placing orders outside the $\pm 1\%$ threshold until later in the auction. This concentration of order entry could increase volatility and raise market-integrity concerns, particularly on index-rebalancing days.
7	Do you agree with the proposal that the pending quantity of an unexecuted Iceberg order at the end of CTS, should be converted into a normal limit order for participation in CAS, with the entire pending quantity disclosed in CAS order book?	Not as proposed. Rather than automatically transitioning the unexecuted quantity of Iceberg orders into CAS, we ask SEBI to consider introducing an optional order-level indicator for all order types. This would enable trading members to specify whether an order should transition into CAS, thereby avoiding ambiguity regarding order eligibility and reducing the risk of inadvertent inclusion.

ADDITIONAL OBSERVATIONS

In addition to our responses to the specific proposals, we set out below further observations relevant to the implementation of the settlement framework, irrespective of whether Option 1 or Option 2 is adopted.

A. Position Limit Management

a. Reference Price for Position Limit Management

Regardless of whether Option 1 or Option 2 is adopted, clarity is required on the price to be used for monitoring utilization of intraday and end-of-day Index Option FutEq OI position limits, on both expiry and non-expiry days.

To avoid confusion arising from the use of differing metrics for the equity derivative settlement mechanism and index option position limit monitoring framework, we recommend the following for SEBI's consideration:

- i. On expiry days, the price for expiring contracts should be settled based on CTS VWAP (i.e. Option 2). CTS VWAP should also serve as the reference price for measuring the utilisation of end-of-day position limits for all index contracts, whether on expiring or non-expiring days.

Linked to this, we propose that the final intraday snapshot of position limit utilization should take place during the CTS, not in a period that overlaps with the CAS, to mitigate uncertainty associated with the CAS while it is maturing. This would effectively be a reversion to the monitoring framework in place before the introduction of the CAS and in turn is something that market participants are operationally familiar with and set-up for.

- ii. Similarly, if blended VWAP is introduced as the equity derivative settlement price mechanism in the future, then it should act as the reference price for managing end-of-day position limits for all index derivative contracts on all days.

b. Regulatory Delta of Expiring Products

If an intraday position limit snapshot is taken after the CTS, we would welcome SEBI's consideration of excluding expiring products from regulatory delta calculations once the CTS VWAP has concluded. This would better align the regulatory delta with the economic

delta by ensuring that the snapshot does not include positions that have economically settled and would not, in any event, be counted towards the end-of-day limit assessment.

B. Guidance on Expiry Hedging

Participants seeking to maintain constant exposure through expiry must trade in the underlying securities in volumes equivalent to their derivatives exposure. Trading in underlying securities around expiry may be subject to heightened scrutiny, which could discourage participation in the settlement mechanism.

We would therefore welcome clear guidance on how participants may appropriately trade in underlying securities around expiry.

We would welcome SEBI's recognition that bona fide expiry-related hedging and other legitimate trading can support liquidity and price discovery during the settlement window. We would also welcome clarity on the factors SEBI will consider in distinguishing such activity from conduct that may raise manipulation concerns. Greater certainty regarding permissible expiry-hedging activity would encourage bona fide participation and thereby support liquidity in the settlement mechanism.

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



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