



NATIONAL STOCK EXCHANGE OF INDIA LIMITED

DEPARTMENT : INSPECTION	
Download Ref. No.: NSE/INSP/38376	Date : July 20, 2018
Circular Ref. No.: 334/2018	

To All Members,

Sub: Clarifications on physically settled Equity Derivatives

This has reference to SEBI circular SEBI/HO/MRD/DP/CIR/P/2018/67 dated April 11, 2018 and Exchange circular NSE/FAOP/37594 dated April 23, 2018 on the introduction of physical settlement of equity derivatives.

Based on representations received from Members, Exchange is pleased to issue clarifications on the subject in the form of frequently asked questions (FAQs). The FAQs are enclosed as **Annexure-A** for your reference.

All members are advised to take note and comply with the same.

**For and on behalf of
National Stock Exchange of India Limited**

Srijith Menon
Chief Manager- Inspection

Enclosed: Annexure A

In case of any clarifications, Members may contact below offices:

CENTRE	CONTACT NO.	EMAIL ID
Ahmedabad	079-49008632	inspectionahm@nse.co.in
Chennai	044-66309915/17	inspection_cro@nse.co.in
Delhi	011-23459127/38/46	delhi_inspection@nse.co.in
Kolkata	033-40400411/06	inspection_kolkata@nse.co.in
Mumbai	022-25045224/259/264	compliance_wro@nse.co.in
Help Desk	1800 22 00 51	compliance_assistance@nse.co.in

FAQ on Physical Settlement in Equity Derivatives

1. When should the contract note be issued?

As per the existing practice, contract note shall be issued at the time of trade. Wherever applicable, the contract note issued shall bear an indication in the remarks column that the open position of the traded contract is to be physically settled. In case of Institutional clients, where contract notes are issued through STP, members can communicate the details through appropriate & irrefutable modes such as client's registered e-mail or physical letters.

2. Whether contract note is mandatory at the time of physical settlement?

Contract note is not required to be issued on the date of final settlement. However, Member shall communicate the details of the final settlement on expiry, wherever applicable, through written and irrefutable modes and such communication shall provide reference of the corresponding original trade, including the contract description, date, trade no. etc.

3. Whether any statement needs to be separately sent to clients for physically settled transactions?

No separate statement for physically settled transactions need to be sent. Members can provide information about physical settlement to the clients in the existing quarterly statement of accounts or the statement sent at the time of monthly/quarterly settlement.

4. What are the guidelines pertaining to levy of brokerage for physically settled derivative contracts?

Members can have a separate brokerage slab for physically settled contracts. In case a Member is levying brokerage on the physically settled contracts, details of such brokerage shall be informed to the client and included in the tariff sheet. However, the rate of brokerage shall not exceed the maximum % of brokerage permitted under the regulations in the respective segment.

5. Whether there is any guideline for maximum brokerage that can be charged by member in Securities lending & Borrowing Scheme (SLBS)?

With respect to SLBS, the Brokerage charged shall not exceed 2.5 % of the lending fees on the SLBS transaction.

6. What is the disclosure required to be made to the client for delivery margin?

Delivery margin is applicable from the expiry date till the date of settlement or early pay-in. The details of the delivery margin should be included under the "Total upfront Margin" column of the daily margin statement issued to the clients (Refer circular NSE/INSP/38154 dated June 27, 2018)

7. Whether STT shall be applicable on the physical settlement of specified stock derivatives?

As specified by Exchange circular NSE/FATAX/38348 dated July 17, 2018, STT @ 0.10% on settlement price shall be payable by the purchaser (buyer) on the futures contract which are settled by way of physical delivery effective from the first expiry date of derivatives contract i.e. from July 26,2018. However this shall be subject to any clarification or amendment by CBDT in this regard.

It is also clarified that, except the above, there is no change in the existing levy of STT with respect to taxable securities transaction of a) sale of an option in securities, b) sale of an option in securities, where option is exercised and c) sale of a futures in securities as stipulated under the Chapter VII of Finance Act (No.2) Act, 2004. (Kindly refer Exchange Circular NSE/FATAX/32385 dated May 16, 2016).