

CENTRE FOR REGULATORY STUDIES

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POLICY WHITE PAPER

# Compliance Preparedness for Futures and Options Market Participants Under the Securities Markets Code, 2025

*A Comprehensive White Paper on Regulatory Transition, Structural Deltas, and Global Benchmarking*

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# 1. Executive Summary

The Securities Markets Code, 2025 (“SMC” or “the Code”), introduced in the Lok Sabha on 18 December 2025, represents the most significant structural overhaul of India’s securities market regulation since economic liberalisation. By consolidating three foundational statutes—the Securities Contracts (Regulation) Act, 1956 (“SCRA”), the Securities and Exchange Board of India Act, 1992 (“SEBI Act”), and the Depositories Act, 1996 (“Depositories Act”)—into a unified legislative framework, the Code fundamentally reconstitutes the compliance architecture governing futures and options (“F&O”) market participants.

This white paper provides a comprehensive compliance preparedness framework for F&O market participants, with particular focus on major brokerage firms, clearing members, and active traders. The analysis proceeds through five interconnected dimensions:

**First**, we establish the regulatory baseline by examining the pre-SMC architecture across the three constituent enactments and the substantial October-November 2024 SEBI reforms to the F&O framework, which introduced enhanced lot sizes, modified margin requirements, and rationalised weekly expiry structures.

**Second**, we conduct a thematic analysis of the structural deltas introduced by the SMC, moving beyond provision-level comparison to identify the philosophical and operational shifts that will reshape compliance obligations. Key deltas include the unified definitional framework for derivatives, reconstituted registration architecture with delegation powers, enhanced governance requirements for Market Infrastructure Institutions (“MIIs”), statutory entrenchment of investor protection, and a transformed enforcement regime emphasising decriminalisation and proportionality.

**Third**, we benchmark the SMC against leading global regulatory frameworks—the United States’ SEC-CFTC dual regime under Dodd-Frank, the European Union’s MiFID II/EMIR architecture, the United Kingdom’s post-Brexit FCA framework, and Singapore’s MAS Securities and Futures Act regime—to identify best practices and assess the Code’s alignment with international standards.

**Fourth**, we develop participant-specific compliance preparedness frameworks, providing actionable guidance for stock brokers, clearing members, proprietary traders, foreign portfolio investors, alternative investment funds, and retail participants.

**Fifth**, we construct a transition roadmap anticipating the phased implementation of the Code, with particular attention to commodity derivatives where the SMC’s consolidation of SCRA provisions introduces novel regulatory considerations.

## Key Findings and Recommendations:

- 1. Registration Architecture Transformation:** The SMC enables SEBI to delegate registration functions to MIIs and Self-Regulatory Organisations (“SROs”), potentially creating a multi-tiered registration system. Brokerage firms should prepare for potential re-registration requirements and anticipate enhanced ongoing compliance obligations.
- 2. Enforcement Regime Shift:** The decriminalisation of minor contraventions coupled with substantially enhanced civil penalties (up to ₹100 crore for certain offences) requires recalibration of compliance risk assessment. The eight-year limitation period for initiating inspections and inves-

tigations introduces temporal boundaries that firms should incorporate into record retention policies.

3. **Settlement Finality:** The statutory codification of settlement finality and netting provisions, with explicit insolvency-proofing of clearing corporation claims, provides enhanced legal certainty for F&O transactions but requires review of existing documentation and operational frameworks.
4. **Investor Protection Statutory Mandate:** The transition from regulatory-level investor protection to statutory entrenchment through the Investor Charter (Section 71), grievance redressal mechanisms (Section 72-78), and Ombudsperson framework requires brokerage firms to institutionalise these obligations within their operational infrastructure.
5. **Commodity Derivatives Integration:** The SMC's unified treatment of equity and commodity derivatives under a single regulatory framework necessitates compliance architecture harmonisation for multi-asset brokerage operations.
6. **Global Convergence:** The SMC aligns with global trends toward consolidated supervision, enhanced reporting, and proportionate enforcement, positioning Indian markets for deeper international integration while maintaining appropriate domestic adaptations.

Participants are advised to commence compliance gap assessments immediately upon parliamentary passage, with full implementation readiness targeted within 180 days of notification.

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## 2. Introduction: The Regulatory Inflection Point

### 2.1 Context and Significance

India's securities markets have operated for nearly seven decades under a regulatory architecture assembled incrementally across distinct legislative moments. The SCRA emerged in 1956 to regulate stock exchanges and prevent undesirable transactions in securities during India's post-independence developmental phase. The SEBI Act followed in 1992 as a response to the securities scam and the broader liberalisation imperative, establishing SEBI as the apex regulator. The Depositories Act completed the triumvirate in 1996, creating the legal infrastructure for dematerialisation and electronic holding of securities.

This fragmented architecture, while functional, has generated cumulative inefficiencies: overlapping definitions, duplicative compliance requirements, interpretational ambiguities across statutes, and enforcement complexities arising from multiple legislative sources. For F&O market participants specifically, this fragmentation has manifested in unclear jurisdictional boundaries between equity and commodity derivatives, inconsistent treatment of similar market participants across different statutory frameworks, and procedural complexities in enforcement proceedings.

The SMC represents Parliament's response to these accumulated inefficiencies. Announced in the Union Budget 2021-22 and developed through extensive consultation, the Code consolidates, rationalises, and modernises the regulatory framework while introducing substantive reforms that will fundamentally alter compliance obligations.

### 2.2 Scope and Methodology of This White Paper

This white paper adopts a compliance preparedness orientation, treating the SMC as a near-certain regulatory development whose substantive provisions, while potentially subject to parliamentary modification, signal the directional trajectory of Indian securities regulation. The analysis therefore proceeds prescriptively, identifying compliance gaps and developing preparedness frameworks rather than engaging in speculative assessment of legislative prospects.

The methodology combines doctrinal analysis of the SMC provisions against the three predecessor statutes with comparative regulatory analysis across the identified foreign jurisdictions. Participant-specific compliance frameworks are developed through functional analysis of typical operational structures within each participant category.

## 2.3 The F&O Market Context

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The Indian F&O market has experienced exponential growth, with average daily turnover in equity derivatives exceeding ₹400 lakh crore in 2024. This growth has been accompanied by significant retail participation—approximately 50% of trading volumes in index derivatives—prompting regulatory concern about speculative activity and investor protection. SEBI's October 2024 study documenting ₹1.81 lakh crore in net losses by individual traders between FY2022-24 catalysed the substantial regulatory reforms implemented in November 2024.

The SMC must therefore be understood not merely as a consolidation exercise but as part of a broader regulatory recalibration aimed at enhancing market integrity, investor protection, and sustainable market development. Compliance preparedness requires appreciation of this broader regulatory philosophy.

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## 3. The Pre-SMC Regulatory Architecture

Understanding the compliance delta introduced by the SMC requires systematic examination of the three constituent statutes and the current regulatory baseline established by SEBI's October-November 2024 reforms.

### 3.1 Securities Contracts (Regulation) Act, 1956

The SCRA constitutes the foundational legislation governing the organisation, recognition, and regulation of stock exchanges and contracts in securities. Its key provisions relevant to F&O market participants include:

**Recognition and Regulation of Stock Exchanges (Sections 3-5):** The SCRA established the framework for recognition of stock exchanges by the Central Government, including conditions for recognition, power to call for periodical returns, and procedures for withdrawal of recognition. The SMC reconstitutes this framework under Chapter V, transferring recognition authority to SEBI while enhancing governance requirements.

**Contracts in Securities (Sections 13-19):** The SCRA prohibited contracts in securities except those made between members of recognised stock exchanges or through such members, with specific provisions for spot delivery contracts and contracts for differences. Section 18A, inserted in 1999, legalised derivatives trading in India by exempting derivatives from the prohibition on wagering agreements. The SMC consolidates these provisions under Chapter VI (Regulation of Contracts), providing a more comprehensive treatment of contract legality, validity, and enforceability.

**Listing of Securities (Sections 21-21A):** The SCRA established listing requirements and conditions, including continuous listing obligations and delisting procedures. The SMC expands this framework under Chapter VIII, introducing enhanced disclosure requirements and refining the regulatory treatment of delisting.

**Penalties and Procedures (Sections 23-28):** The SCRA established penalty provisions for various contraventions, including offences by companies and composite penalties. The SMC substantially transforms this framework, introducing the decriminalisation of minor contraventions while enhancing civil penalty ceilings.

**Key Compliance Baseline from SCRA:** - Mandatory trading through recognised exchanges or their members - Contract validity contingent on compliance with exchange bye-laws - Listing and continuous disclosure obligations - Criminal liability for various contraventions

## 3.2 SEBI Act, 1992

The SEBI Act established SEBI as a statutory regulatory body with comprehensive powers over the securities markets. For F&O participants, the key provisions include:

**Establishment and Constitution (Sections 3-6):** The SEBI Act established SEBI as a body corporate with perpetual succession, originally comprising a Chairman and four members (subsequently increased to nine). The SMC reconstitutes the Board composition, expanding membership to fifteen including at least five whole-time members, introducing enhanced conflict of interest provisions, and strengthening the appointment and removal framework.

**Powers and Functions (Section 11):** Section 11 granted SEBI broad regulatory powers including registration of intermediaries, regulation of stock exchanges, prohibition of fraudulent practices, and investor protection. The SMC expands and clarifies these powers under Section 11, introducing explicit authority for regulatory impact assessment, capacity building, and database maintenance.

**Registration of Intermediaries (Sections 11AA, 12):** The SEBI Act required registration of various intermediaries including stockbrokers, sub-brokers, share transfer agents, merchant bankers, underwriters, portfolio managers, and investment advisers. The SMC consolidates and expands the intermediary framework under Chapter IV, introducing the novel concepts of “securities markets service provider” and “market participant” while enabling registration delegation to MIs and SROs.

**Prohibition of Manipulative Practices (Section 11(2)(e), 12A):** The SEBI Act prohibited fraudulent and unfair trade practices relating to securities markets. Section 12A specifically prohibited insider trading and market manipulation. The SMC enhances this framework under Chapter XII, introducing the distinct concept of “market abuse” with dedicated provisions and enhanced penalties.

**Adjudication and Penalties (Sections 15A-15HA):** The SEBI Act established an adjudication framework with designated adjudicating officers and specified penalties for various contraventions. The SMC substantially transforms this framework, introducing structured adjudication procedures, factors for penalty determination, enhanced maximum penalties, and explicit provisions for disgorgement and restitution.

**Securities Appellate Tribunal (Sections 15K-15Z):** The SEBI Act established the Securities Appellate Tribunal (“SAT”) for hearing appeals against SEBI orders. The SMC continues the SAT framework under Chapter XI with enhanced provisions for tribunal composition, procedures, and appellate jurisdiction.

**Key Compliance Baseline from SEBI Act:** - Mandatory registration for all intermediaries - Prohibition on fraudulent and unfair trade practices - Compliance with SEBI regulations, circulars, and directions

- Subject to SEBI inspection, investigation, and adjudication - Appeal rights to SAT

## 3.3 Depositories Act, 1996

The Depositories Act created the legal framework for the establishment and regulation of depositories for dematerialised securities. For F&O participants, the relevant provisions include:

**Depository Services (Sections 3-8):** The Depositories Act defined the scope of depository services including holding securities in dematerialised form, recording ownership, and facilitating transfer. The

SMC consolidates these provisions under Chapter VII, introducing enhanced provisions for other regulated instruments beyond securities.

**Rights and Obligations (Sections 9-14):** The Depositories Act established the rights of beneficial owners, the registered owner concept (where the depository is the registered owner holding securities on behalf of beneficial owners), and provisions for pledge and hypothecation of dematerialised securities. The SMC continues these concepts with enhanced clarity on the rights and obligations of depositories, depository participants, and beneficial owners.

**Evidence and Presumptions (Section 15):** The Depositories Act made the Bankers' Books Evidence Act applicable to depositories, facilitating evidentiary treatment of depository records. The SMC continues this provision at Section 63.

**Key Compliance Baseline from Depositories Act:** - Mandatory dematerialisation for listed securities - Rights and obligations framework for beneficial owners - Pledge and hypothecation procedures for dematerialised securities - Depository participant compliance obligations

### 3.4 The Current F&O Regulatory Baseline: October-November 2024 SEBI

Framework Any compliance preparedness assessment must incorporate the substantial reforms to the F&O framework implemented by SEBI in October-November

2024. These reforms establish the current compliance baseline against which SMC-induced deltas must be measured.

#### 3.4.1 Contract Size Recalibration

Effective 20 November 2024, SEBI increased the minimum contract size for index futures and options from ₹5-10 lakh to ₹15-20 lakh at the time of introduction. The implementation involved revised lot sizes for all new index derivative contracts introduced from this date, with existing weekly and monthly contracts continuing at current lot sizes until expiry.

**Compliance Implications:** - Enhanced capital requirements for maintaining equivalent exposure - Margin recalculation for all index derivative positions - System modifications to accommodate new lot sizes

- Client communication regarding changed contract specifications

#### 3.4.2 Weekly Expiry Rationalisation

From 20 November 2024, each exchange may offer weekly expiry contracts for only one benchmark index. NSE discontinued weekly expiries for Bank Nifty, Nifty Financial Services, Nifty Midcap Select, and Nifty Next 50, retaining only Nifty 50. BSE retained only Sensex for weekly expiries.

**Compliance Implications:** - Product offering rationalization - Client advisory regarding discontinued products - Position management for transition to monthly contracts - Strategy reconfiguration for traders dependent on multiple weekly expiries

### 3.4.3 Enhanced Tail Risk Coverage

From 20 November 2024, an additional 2% Extreme Loss Margin (“ELM”) applies to short index options positions on expiry days, applicable to both positions held at start of day and new short positions initiated during the day expiring on that day.

**Compliance Implications:** - Enhanced margin collection requirements on expiry days - System modifications for ELM calculation and collection - Client notification regarding enhanced margin requirements - Capital planning for expiry day positions

### 3.4.4 Calendar Spread Benefit Removal

From 10 February 2025, margin benefits for calendar spreads will not be available on expiry days for contracts expiring on that day. Traders maintaining hedged positions across expiries will face full margin requirements on the expiring leg on expiry day.

**Compliance Implications:** - Margin system reconfiguration - Enhanced capital requirements for spread positions on expiry days - Client advisory on changed margin treatment - Strategy reassessment for calendar spread traders

### 3.4.5 Upfront Premium Collection

From 1 February 2025, option buyers must pay the entire option premium upfront. While major brokers like Zerodha already follow this practice, the regulatory mandate ensures uniform application across all market participants.

**Compliance Implications:** - System verification for upfront collection compliance - Client communication on premium collection requirements - Removal of any leverage facilities on option premium

### 3.4.6 Intraday Position Limit Monitoring

From 1 April 2025, position limits for equity index derivatives will be monitored multiple times during the trading day (minimum four snapshots) rather than only at end of day. On expiry days, breaches will attract penalties or surveillance deposits.

**Compliance Implications:** - Real-time position monitoring system implementation - Automated alerts for position limit approach/breach - Enhanced compliance infrastructure for intraday monitoring - Client communication on position limit consequences

This October-November 2024 framework represents the operative compliance baseline for F&O participants. The SMC-induced deltas must be understood as additional to, rather than substitutive of, these requirements.

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## 4. The Securities Markets Code, 2025: Philosophical and Structural

Foundations

### 4.1 Legislative Genesis and Rationale

The SMC's genesis lies in the recognition that India's securities market regulatory framework, assembled incrementally across decades, had developed internal inconsistencies and cumulative inefficiencies that legislative consolidation could address. The Statement of Objects and Reasons identifies several motivating factors:

**First**, the three constituent statutes were enacted at different historical moments responding to distinct regulatory challenges, producing definitional inconsistencies and overlapping provisions that complicated compliance and enforcement.

**Second**, the evolution of securities markets—particularly the growth of derivatives, electronic trading, and algorithmic strategies—had outpaced the original legislative frameworks, requiring modernisation that piecemeal amendment could not adequately achieve.

**Third**, the international trend toward consolidated securities legislation provided models for integrated regulatory frameworks that could enhance India's position as a globally competitive financial centre.

**Fourth**, the emphasis on ease of doing business and regulatory rationalization created political momentum for consolidation exercises across regulatory domains, with the SMC forming part of a broader programme including the proposed Income Tax Code and labour law consolidation.

### 4.2 Core Architectural Principles

The SMC embodies several architectural principles that inform its detailed provisions:

#### 4.2.1 Unified Regulatory Authority

The Code consolidates regulatory authority in SEBI across the domains previously governed by separate statutes. SEBI's powers under Section 11 encompass registration and regulation of MFIs, intermediaries, and SROs; regulation of issue, listing, delisting, and transfer of securities; prohibition of fraudulent practices and market abuse; and investor protection including grievance redressal. This consolidation eliminates the need for jurisdictional determination across statutes and simplifies the regulatory interface for market participants.

#### 4.2.2 Principle-Based Regulation

The Code shifts toward principle-based regulation, establishing broad regulatory objectives while delegating detailed implementation to SEBI regulations, subsidiary instructions, and MII bye-laws. Section 147 requires SEBI to follow a consultative process for issuing regulations, including publication of draft regulations for stakeholder comment and consideration of representations received. This approach provides regulatory flexibility while ensuring stakeholder participation.

#### 4.2.3 Proportionality in Enforcement

The Code explicitly incorporates proportionality principles in enforcement. Section 19 requires adjudicating officers to ensure that orders are “proportionate to the default or contravention committed by the noticee and act as a deterrent against the commission of such default or contravention by the noticee or any other person in future.” Section 111 enumerates specific factors for penalty determination including nature and seriousness of contravention, duration and frequency, unlawful gains, loss to investors, impact on market integrity, and past conduct.

#### 4.2.4 Temporal Limitations

The Code introduces explicit temporal limitations on regulatory action. Section 16 bars initiation of inspections or investigations after eight years from the date of default or contravention, except where matters are referred by investigating agencies or where contraventions had systemic impact on securities markets. This limitation period, unprecedented in Indian securities regulation, provides certainty for market participants regarding regulatory exposure while reserving SEBI’s authority for systemically significant matters.

#### 4.2.5 Settlement and Remediation

The Code formalises and expands the settlement framework through Section 26, allowing voluntary disclosure of contraventions and settlement of pending proceedings subject to SEBI-specified conditions. The settlement framework encompasses both administrative and civil proceedings, with SEBI constituting advisory committees for settlement determination.

### 4.3 The Consolidation Imperative

The consolidation achieved by the SMC operates across several dimensions:

**Definitional Consolidation:** The Code establishes unified definitions applicable across all regulatory domains. Section 2 provides 48 definitions including “securities,” “derivatives,” “intermediary,” “market infrastructure institution,” and “market participant”—each applying consistently throughout the Code rather than requiring reconciliation across separate statutes.

**Procedural Consolidation:** The Code establishes unified procedures for registration, inspection, investigation, adjudication, and appeal applicable to all market participants. Chapter III provides the comprehensive framework for inspection (Section 12), investigation (Sections 13-15), search and seizure (Section 15), and adjudication (Sections 17-27).

**Institutional Consolidation:** The Code integrates the regulatory treatment of stock exchanges, clearing corporations, and depositories under the unified MII category (Chapter V), while introducing the SRO framework (Section 36) and securities markets service provider concept (Section 2(zk)) for comprehensive coverage of market participants.

**Enforcement Consolidation:** The Code establishes a unified penalty and offence framework (Chapter XIII) applicable across all market participants, replacing the separate penalty provisions of the three predecessor statutes with a comprehensive system distinguishing between criminal offences (limited to market abuse and non-compliance with SEBI/SAT orders) and civil contraventions (all other violations).

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## 5. Thematic Analysis of Key Structural Deltas

This section analyses the substantive changes introduced by the SMC through thematic examination of key regulatory domains, identifying the compliance implications for F&O market participants.

### 5.1 Unified Definitional Framework

#### 5.1.1 The “Securities” Definition

Section 2(zi) provides an expansive definition of “securities” encompassing:

- ▶ Shares, scrips, stocks, bonds, secured or unsecured debentures, warrants, or debenture stock of companies, pooled investment vehicles, or body corporates
- ▶ Hybrid instruments and convertible instruments
- ▶ **Derivatives** (explicitly included)
- ▶ Units of investment schemes and pooled investment vehicles
- ▶ Security receipts under SARFAESI
- ▶ Certificates acknowledging beneficial interest in debt or receivables
- ▶ Global and Indian depository receipts
- ▶ Notes or papers issued for capital raising, listed or proposed to be listed
- ▶ Electronic Gold Receipts
- ▶ Government securities (subject to RBI regulation)
- ▶ Zero coupon zero principal instruments
- ▶ Bullion spot delivery contracts and depository receipts (for IFSC)
- ▶ Onshore rupee bonds by multilateral institutions
- ▶ Other regulated instruments permitted for listing under Section 119
- ▶ Notified instruments
- ▶ **Rights or interests in securities**

**Delta from SCRA:** The SCRA definition at Section 2(h) was narrower and had been amended multiple times to accommodate new instruments. The SMC definition is both broader and more future-proof through the residuary notification power.

**Compliance Implication:** F&O participants must ensure their compliance frameworks encompass all instruments falling within the expanded definition. The explicit inclusion of “rights or interests in securities” potentially brings within scope certain structured arrangements previously of uncertain regulatory status.

#### 5.1.2 The “Derivatives” Definition

Section 2(m) provides a comprehensive definition of “derivative” including:

- ▶ Securities derived from underlying
- ▶ Contracts for actual or intended delivery of underlying on future date (excluding spot delivery)
- ▶ Contracts deriving value from prices, indices, or differences thereof, settled physically or in cash
- ▶ Contracts providing rights (with or without obligation) for future delivery
- ▶ Swaps for exchange of cash flows or underlying
- ▶ Contracts for exchange of payments based on underlying value
- ▶ Derivatives structured upon other derivatives
- ▶ Notified instruments
- ▶ Combinations of the above

The definition explicitly excludes derivatives under Section 45U of the RBI Act (interest rate, foreign exchange, credit derivatives regulated by RBI) and other notified instruments.

**Delta from SCRA:** SCRA Section 2(ac), inserted in 1999, defined “derivative” more narrowly as “a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security” and included contracts settling through differences. The SMC definition is more comprehensive and explicitly addresses modern derivative structures.

**Compliance Implication:** The expanded definition may bring within regulatory scope certain instruments previously of uncertain classification. F&O participants should review their product offerings against the new definition to ensure all traded instruments are properly classified and compliant.

### 5.1.3 New Participant Categories

The SMC introduces several new definitional categories:

**Securities Markets Service Provider** (Section 2(zk)): Encompasses intermediaries, MIs, and SROs—creating a unified category for entities providing services to the securities markets.

**Market Participant** (Section 2(w)): Defined as a person or agent participating in securities markets as issuer or investor, with intermediaries deemed market participants when acting as investors or issuers.

**Other Regulated Instrument** (Section 2(z)): Instruments primarily regulated by other regulatory authorities, enabling coordination with other sectoral regulators under Chapter XV.

**Delta from Prior Framework:** These categories have no direct equivalent in the predecessor statutes, representing conceptual innovations enabling more sophisticated regulatory treatment.

**Compliance Implication:** F&O participants must understand their classification under these categories as it determines applicable obligations, particularly the registration and conduct requirements under Chapters IV and V.

## 5.2 Reconstituted Registration Architecture

### 5.2.1 Unified Registration Requirement

Section 28(1) establishes the universal registration requirement: no person shall carry on business as an intermediary, SRO, or sponsor/carry on any pooled investment vehicle or investment scheme without

SEBI registration. This consolidates the separate registration requirements under SEBI Act Section 12 and various SEBI regulations.

### 5.2.2 Delegation of Registration Powers

Section 31 introduces a significant innovation: SEBI may delegate registration powers for any class of intermediaries or investors to MIs or SROs, subject to specified conditions. The delegatee must maintain “standards of fairness and confidentiality” and may not refuse registration except by reasoned order after hearing.

**Delta from Prior Framework:** The SEBI Act did not provide explicit delegation authority for registration functions. Registration was exclusively a SEBI function, though MIs administered their own membership frameworks.

**Compliance Implication:** F&O participants should anticipate potential devolution of registration functions to exchanges or SROs, which may involve: - Modified application procedures routed through MIs/SROs - Additional membership-level requirements beyond SEBI registration - Potentially faster registration processing through delegated authority - Multi-tiered compliance oversight (SEBI + delegatee)

### 5.2.3 Enhanced Surrender Framework

Section 29(1) provides a structured framework for surrender of registration, requiring SEBI to specify conditions which may include obligations to be fulfilled before surrender. This formalises exit procedures previously governed only by regulations.

**Compliance Implication:** F&O participants considering exit from regulated activities must plan for structured surrender requirements, which may involve client transition obligations, record transfer, and compliance clearances.

## 5.3 Market Infrastructure Institutions: Enhanced Governance

### 5.3.1 Unified MI Framework

Section 2(v) defines “market infrastructure institution” to include stock exchanges, clearing corporations, and depositories, with power to notify additional classes. Chapter V provides unified registration, regulation, and governance requirements for all MIs.

### 5.3.2 Ownership and Governance Requirements

Section 42 mandates: - Diversified ownership with specified limits on member collective holdings - Maximum ownership percentages for different person classes - Cross-holding restrictions among MIs - Fit and proper criteria for governing board members - Independent director requirements

- User/participant representation on governing boards - Demutualisation

(segregation of ownership/management from trading/clearing rights)

**Delta from Prior Framework:** While SEBI regulations previously addressed MII ownership and governance, statutory entrenchment provides enhanced legal certainty and enforceability.

**Compliance Implication for Clearing Members:** Enhanced clearing corporation governance may affect: - Clearing member representation on governance structures - Default waterfall procedures and member contributions - Collateral management frameworks - Inter-CCP coordination procedures

### 5.3.3 Bye-law Making Powers

Section 39 provides comprehensive bye-law making authority for MIIs covering: - Investor and beneficial owner safeguards - Holding, custody, pledging, transfer, settlement procedures - Risk management and abuse prevention measures - Listing, delisting, and trading suspension - Disclosure requirements - Internal control standards - Member-client agreements - Fee regulation and dealing provisions - Accreditation of service providers - Dispute resolution procedures

**Compliance Implication:** F&O participants must ensure compliance with potentially enhanced bye-law requirements. Section 39(3) requires bye-laws to promote Code objectives, ensure non-discriminatory access, minimise market abuse, foster transparency, and ensure interoperability.

## 5.4 Derivatives-Specific Regulatory Provisions

### 5.4.1 Contract Legality Framework

Chapter VI (Sections 45-53) consolidates the contract regulation framework. Section 45 maintains the fundamental principle that contracts for sale or purchase of securities are illegal unless between or through exchange members, but with express provision for Central Government notification of exempt contract categories.

**Section 46** provides that contracts traded on exchanges or settled on clearing corporations are legal and valid if made in accordance with the Code and rules/regulations/bye-laws—providing enhanced legal certainty for exchange-traded derivatives.

**Section 47** addresses contracts contravening bye-laws, rendering them void regarding: - Rights of contravening exchange members - Rights of knowing participants in contravening transactions. Importantly, Section 47 protects innocent non-member counterparties who had no knowledge of the bye-law contravention.

**Compliance Implication:** F&O participants must ensure all transactions comply with applicable bye-laws to preserve contractual validity. The innocent counterparty protection provides some assurance for clients transacting through non-compliant intermediaries, but intermediary liability remains.

### 5.4.2 Exempted Contracts

Section 48 provides exemptions from the exchange-trading requirement for: - Spot delivery contracts - Non-transferable specific delivery contracts - Pre-emption rights, tag-along, drag-along provisions in shareholder agreements - Option contracts in shareholder agreements meeting specified conditions

(one-year holding, price compliance, physical delivery) - Standing commodity delivery arrangements - RBI-regulated derivatives under Chapter IIID - Notified contract categories

**Delta from SCRA:** The exemption framework is more comprehensive and explicit than SCRA provisions, providing enhanced certainty regarding off-exchange contract validity.

**Compliance Implication:** F&O participants engaging in structured arrangements (such as rights of first refusal or drag-along arrangements with listed shares as underlying) must verify compliance with Section 48 conditions for the exemption to apply.

### 5.4.3 Commodity Derivatives Integration

Section 49 provides that the Central Government may, in consultation with SEBI, notify commodities in respect of which derivatives may be entered into. This continues the commodity notification framework but under consolidated authority.

Section 50 provides regulatory treatment for: - **Non-transferable specific delivery contracts:** Subject to Central Government regulation where expedient - **Spot delivery contracts:** Similarly subject to regulation - **Transferable specific delivery contracts:** Must be entered into on stock exchanges (except RBI-regulated contracts)

**Compliance Implication:** Commodity derivative participants must ensure operations align with notified commodity lists and comply with the specific delivery contract framework.

## 5.5 Settlement Finality and Netting Framework

### 5.5.1 Settlement Finality Provisions

Section 68 provides robust settlement finality provisions:

**Section 68(1)(a):** Settlement of transactions on stock exchanges or clearing corporations shall be conducted in accordance with settlement procedures (including netting or gross settlement) specified in bye-laws with SEBI approval.

**Section 68(1)(b):** A settlement, whether gross or net, shall be **final and irrevocable** as soon as the money, securities, or other assets payable is determined under the bye-laws and applicable regulations.

**Delta from Prior Framework:** While settlement finality was addressed in SEBI regulations and clearing corporation bye-laws, statutory entrenchment provides enhanced legal certainty, particularly regarding insolvency scenarios.

**Compliance Implication:** The statutory finality protection provides enhanced certainty for F&O settlement but requires verification that settlement procedures comply with approved bye-laws to benefit from the protection.

### 5.5.2 Clearing Corporation Priority

Section 70 establishes that clearing corporation rights shall have **precedence over other rights and attachments**. This creates a statutory super-priority for clearing corporation claims on collateral, enhancing the legal foundation for central clearing.

**Delta from Prior Framework:** While clearing corporation priority was addressed in IBC provisions and SEBI regulations, statutory confirmation provides enhanced legal foundation.

**Compliance Implication:** The clearing corporation priority affects: - Collateral arrangements with clearing members - Default waterfall expectations - Insolvency planning for F&O participants - Margin documentation requirements

## 5.6 Enforcement Architecture: Decriminalisation and Proportionality

### 5.6.1 Criminal vs. Civil Distinction

The SMC distinguishes between criminal offences (Chapter XIII, Sections 94-96) and civil penalties (Sections 97-109):

**Criminal Offences** are limited to: - Failure to comply with SEBI/SAT orders (Section 94): imprisonment up to 10 years, fine ₹10 lakh to ₹25 crore - Failure to comply with Investigating Officer directions (Section 95): imprisonment up to 1 year, fine up to ₹1 crore - **Market abuse** (Section 96): imprisonment up to 10 years, fine ₹10 lakh to ₹25 crore

**Civil Penalties** apply to: - Failure to furnish information/documents (Section 97): up to ₹1 lakh per day - Default by securities markets service provider (Section 98): up to ₹1 crore - Default by stock broker (Section 99): up to ₹1 crore - Failure to redress investor grievances (Section 100): up to ₹1 lakh per day - Failure to dematerialise securities (Section 101): up to ₹50 lakh - Failure to reconcile records (Section 102): up to ₹1 crore - Other non-compliances (Section 103): up to ₹1 crore - Failure to conduct business per Code (Section 104): up to ₹1 crore - Failure to furnish returns (Section 105): up to ₹1 lakh per day - Failure to comply with Ombudsperson orders (Section 106): up to ₹1 crore - Default by pooled investment vehicle managers (Section 107): up to ₹1 crore - Excess dematerialisation/delivery of unlisted securities (Section 108): three times the unlawful gain or ₹25 crore, whichever higher - Residuary penalty (Section 109): up to ₹10 lakh

**Delta from Prior Framework:** The SEBI Act provisions applied criminal liability more broadly. The SMC's decriminalisation represents significant philosophical shift toward proportionate enforcement.

**Compliance Implication:** The decriminalisation substantially reduces criminal exposure for F&O participants, but civil penalty ceilings have increased significantly. Compliance frameworks should recalibrate risk assessment accordingly: - Reduced criminal defence planning for most contraventions - Enhanced civil penalty provisioning - Specific focus on market abuse avoidance (primary remaining criminal exposure)

### 5.6.2 Market Abuse as Distinct Category

Section 93 defines “**market abuse**” to encompass: - Insider trading - Misuse of non-public information - Price manipulation - Dissemination of false or misleading information

The explicit categorisation of market abuse as the primary criminal offence (beyond non-compliance with orders) signals regulatory priority and requires enhanced compliance attention.

**Compliance Implication:** F&O participants must ensure robust systems for: - Insider trading prevention (information barriers, restricted lists, pre-clearance) - Prevention of market manipulation (surveillance, pattern detection) - Information verification (to avoid false/misleading dissemination)

### 5.6.3 Adjudication Factors

Section 111 requires adjudicating officers to consider: - Amount of unlawful gain or loss caused - Repetitive nature of default - Impact on securities market integrity - Whether contravention is continuing - Past conduct and compliance history - Such other factors as determined by regulations

**Compliance Implication:** F&O participants should document: - Compliance history and prior contraventions - Good faith efforts at compliance - Remedial measures undertaken - Cooperation with regulatory proceedings

These factors may mitigate penalty determination.

### 5.6.4 Temporal Limitation

Section 16 introduces the eight-year limitation period for initiating inspections or investigations, subject to exceptions for: - Matters referred by investigating agencies - Contraventions with systemic market impact

Section 16(2) addresses continuing contraventions (fresh period runs from each moment of continuing contravention) and Section 16(3) addresses series of connected contraventions (period runs from last contravention).

**Compliance Implication:** F&O participants should: - Establish record retention policies aligned with eight-year limitation (plus additional period for potential proceedings) - Document systemic impact assessments for significant transactions - Monitor for continuing or connected contraventions that may extend limitation periods

## 5.7 Investor Protection: Statutory Entrenchment

### 5.7.1 Investor Charter

Section 71 empowers SEBI to frame an **Investor Charter** outlining principles for investor protection and enhanced market participation. This statutory foundation for investor protection represents a significant shift from purely regulatory-level provisions.

**Compliance Implication:** F&O participants should anticipate detailed Investor Charter provisions requiring: - Disclosure and transparency standards - Fair dealing principles - Complaint handling procedures - Service quality benchmarks

### 5.7.2 Grievance Redressal Mechanism

Section 72 mandates every securities markets service provider (including stock brokers) to establish an investor grievance redressal mechanism with specified timelines and procedures.

**Compliance Implication:** F&O brokerage firms must institutionalise: - Dedicated grievance redressal infrastructure - Documented procedures with time-bound resolution - Escalation mechanisms

- ▶ Record maintenance for regulatory review

### 5.7.3 Ombudsperson Framework

Sections 73-78 establish the Ombudsperson framework:

**Section 73:** SEBI to designate Ombudsperson(s) from its officers for grievance redressal **Section 74:** Specified procedure for filing grievances (after exhausting internal redressal) and complaints **Section 75:** Ombudsperson order-making power **Section 76:** Duty to inform SEBI of Code contraventions discovered during proceedings **Section 77:** Civil court powers for Ombudsperson **Section 78:** Ombudsperson orders do not bar SEBI from taking separate action

**Compliance Implication:** F&O participants must prepare for: - Ombudsperson proceedings as formal dispute resolution mechanism - Enhanced documentation requirements to defend against complaints - Potential SEBI referrals arising from Ombudsperson proceedings

## 5.8 Self-Regulatory Organisations: Formal Recognition

Section 2(zl) defines SRO as a person formed and promoted by a class of intermediaries or investors. Section 28(1) requires SRO registration with SEBI. Section 36 requires SEBI approval of SRO governing norms covering: - Governance and operation - Contracts and agreements between SRO and members - Internal constitution and management

**Delta from Prior Framework:** While SEBI recognised SROs under regulations, statutory recognition provides enhanced foundation for SRO development.

**Compliance Implication:** F&O participants may face: - SRO membership requirements for specific intermediary categories - SRO-level compliance obligations in addition to SEBI requirements - Potential registration delegation to SROs under Section 31

## 5.9 Regulatory Sandbox: Innovation Enablement

Section 128 establishes the **regulatory sandbox** framework for testing new products, contracts, or services in securities markets with investor safeguards and regulator consultation. This statutory foundation formalises SEBI's existing sandbox initiatives.

**Compliance Implication:** F&O participants developing innovative products (such as new derivative structures, algorithmic trading systems, or distributed ledger applications) should consider sandbox participation for compliant product development.

## 5.10 Inspection, Investigation, and Adjudication: Procedural Reforms

### 5.10.1 Investigation Timelines

Section 13(2) requires investigation completion within 180 days, with extension by whole-time member upon recorded reasons and request from investigating officer.

**Compliance Implication:** The timeline imposes discipline on regulatory proceedings, providing some certainty regarding investigation duration.

### 5.10.2 Search and Seizure Framework

Section 15 requires **Special Court authorisation** for search and seizure, providing judicial oversight of coercive investigative powers. The Special Court must consider the investigating officer's application and may authorise entry, search, and seizure where it believes records may be destroyed, mutilated, altered, concealed, falsified, or secreted.

**Delta from Prior Framework:** SEBI's search and seizure powers under the SEBI Act required lesser procedural safeguards.

**Compliance Implication:** The enhanced procedural requirements provide protection against arbitrary searches but require F&O participants to maintain records in condition that precludes reasonable belief of intended destruction/alteration.

### 5.10.3 Adjudicating Officer Independence

Section 17(2) establishes disqualification criteria for adjudicating officers, preventing designation of persons who have: - Authorised the inspection/investigation - Conducted the inspection/investigation - Decided to appoint the adjudicating officer - Considered settlement applications - Passed interim orders in the matter

**Delta from Prior Framework:** These explicit independence requirements exceed prior provisions, enhancing procedural fairness.

**Compliance Implication:** F&O participants in adjudication proceedings should verify adjudicating officer qualification against Section 17(2) criteria and object to non-compliant designations.

### 5.10.4 Disgorgement and Restitution

Section 25 provides explicit authority for disgorgement of unlawful gains and restitution to affected persons. SEBI may provide restitution where: - Loss is directly attributable to the contravention - Affected persons are identifiable - Disgorged amount is sufficient for restitution - Other specified conditions are met

**Compliance Implication:** F&O participants should assess potential disgorgement exposure for contraventions involving quantifiable gains and plan for restitution obligations.

## 5.11 Interim Order Framework: Enhanced Procedural Safeguards

The SMC introduces a structured interim order framework at Section 27 that substantially differs from the prior SEBI Act provisions.

### 5.11.1 Pre-Adjudication Interim Orders

Section 27(1) authorises the Chairperson, whole-time Member, or officer not below Division Chief rank to pass interim orders where, pending or upon completion of inspection/investigation (but before adjudicating officer designation), there are reasonable grounds to believe the person is taking or about to take action that: - Contravenes Code provisions - May prevent inspection/investigation conduct - May adversely affect adjudication conduct

Critically, Section 27(1) proviso bars persons who conducted the inspection/investigation from passing interim orders in that matter—establishing separation between investigative and interim order-making functions.

### 5.11.2 Hearing Requirements

Section 27(2) requires interim orders to be passed for recorded reasons and establishes: - **General Rule:** Opportunity of being heard before passing interim order - **Urgency Exception:** Hearing may be dispensed with (for recorded reasons) where the object would be defeated by delay - **Post-facto Hearing:** Where urgency exception invoked, hearing must be provided as soon as practicable thereafter **Delta from Prior Framework:** The SEBI Act interim order powers had less structured hearing requirements, with the urgency exception less clearly bounded.

**Compliance Implication:** F&O participants subject to potential interim orders should: - Ensure legal representation availability for rapid response to hearing notices - Prepare standard submissions addressing common interim order grounds - Understand post-facto hearing rights where urgency exception invoked

### 5.11.3 Duration Limits

Section 27(3) limits interim order validity to 180 days. Section 27(4) provides extension mechanism: where inspection/investigation not completed or adjudicating officer not designated, up to three persons from Chairperson and whole-time Members may extend for up to two years.

**Compliance Implication:** Interim orders have defined endpoints, providing planning certainty. However, the two-year extension possibility for complex matters means prolonged restriction remains possible.

## 5.12 Settlement Framework: Comprehensive Statutory Treatment

Section 26 provides the most comprehensive statutory treatment of settlement in Indian securities regulation.

### 5.12.1 Settlement Eligibility

Section 26(1) enables settlement applications from persons who: - Seek to voluntarily disclose true and vital information amounting to potential contravention, or - Face initiated or pending proceedings before SEBI, any court, or Tribunal

This dual pathway—voluntary disclosure and litigation settlement—provides flexibility for participants seeking regulatory resolution.

### 5.12.2 Settlement Procedure

Section 26(2) empowers SEBI to constitute advisory committees for settlement recommendations. Section 26(3) requires SEBI to consider nature, gravity, and impact of contravention, committee advice, and specified factors before determining settlement terms.

Where settlement is proposed during pending court/Tribunal proceedings, SEBI must place the proposal before the relevant court/Tribunal for appropriate order (Section 26(3) proviso).

### 5.12.3 Adjudication Interplay

Section 26(4) addresses the relationship between settlement and ongoing adjudication: - Adjudication continues despite settlement application - No order under Section 20 until settlement decided - If settlement agreed: adjudicating officer dismisses show cause notice - If settlement rejected: adjudication continues to Section 20 order

**Compliance Implication:** Settlement provides a parallel track that does not pause adjudication risk. Participants must prepare for both outcomes.

### 5.12.4 Consequence of Non-Compliance

Section 26(5) provides that failure to comply with settlement terms results in continuation/initiation of proceedings. This creates strong incentive for settlement compliance once agreed.

**Compliance Implication:** Settlement commitments must be implementable and complied with rigorously.

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## 6. Comparative Analysis: Global Regulatory Frameworks

This section benchmarks the SMC against leading international regulatory frameworks to identify best practices, assess alignment, and inform compliance strategy.

### 6.1 United States: SEC-CFTC Dual Regime under Dodd-Frank

#### 6.1.1 Regulatory Structure

The United States maintains a bifurcated regulatory structure for derivatives: - **Securities and Exchange Commission (SEC)**: Regulates security-based swaps and options on securities - **Commodity Futures Trading Commission (CFTC)**: Regulates commodity futures, options on futures, and swaps. The Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) substantially expanded both agencies' authority over derivatives following the 2008 financial crisis, introducing mandatory clearing, trade reporting, and margin requirements for OTC derivatives.

#### 6.1.2 Key Dodd-Frank Provisions

**Clearing Mandate:** Standardised OTC derivatives must be cleared through registered derivatives clearing organisations (CFTC) or clearing agencies (SEC).

**Trade Reporting:** All swaps and security-based swaps must be reported to swap data repositories (SDRs) or security-based swap data repositories (SBSDRs).

**Swap Dealer Registration:** Swap dealers and major swap participants must register with the CFTC and comply with capital, margin, business conduct, and reporting requirements.

**Margin Requirements:** Uncleared swaps are subject to mandatory initial margin (IM) and variation margin (VM) requirements for swap dealers and major swap participants.

**Position Limits:** CFTC imposes position limits on commodity derivatives to prevent excessive speculation.

#### 6.1.3 SMC Comparison

DIMENSION	US (DODD-FRANK)	SMC 2025	ASSESSMENT
Regulatory Structure	Bifurcated (SEC/CFTC)	Unified (SEBI)	SMC provides consolidated oversight, avoiding jurisdictional complexity
Clearing Mandate	Mandatory for standardised OTC	Implicit through exchange-trading requirement	SMC focuses on exchange trading; OTC derivatives

Trade Reporting	Mandatory to SDRs	Through MII reporting	regulatory treatment differs SMC relies on MII infrastructure rather than dedicated repositories
Margin Requirements	Mandatory IM/VM for un-cleared	SEBI regulations	SMC defers to regulations; current framework addresses exchange-traded margin
Position Limits	Statutory with CFTC discretion	SEBI regulatory authority	Similar approach with regulatory flexibility

### 6.1.4 Compliance Insight

F&O participants with US operations should note that the SMC's unified structure contrasts with the US bifurcated approach. Cross-border compliance requires careful jurisdictional mapping. The SMC's reliance on exchange-trading requirements rather than explicit OTC clearing mandates reflects India's market structure where exchange-traded derivatives predominate.

## 6.2 European Union: MiFID II and EMIR Framework

### 6.2.1 Regulatory Structure

The EU derivatives framework operates through two primary instruments: - **Markets in Financial Instruments Directive II (MiFID II)** and **Regulation (MiFIR)**: Govern trading venues, investor protection, transparency, and conduct requirements - **European Market Infrastructure Regulation (EMIR)**: Governs clearing, reporting, and risk mitigation for OTC derivatives

Recent amendments through **EMIR 3** (effective 24 December 2024) introduced the "active account requirement" mandating that certain EU entities clear specified derivative classes through EU-authorized CCPs.

### 6.2.2 Key MiFID II/EMIR Provisions

**Central Clearing (EMIR)**: Mandatory clearing through CCPs for standardised OTC derivatives. Financial counterparties (FCs) must clear all in-scope classes; non-financial counterparties (NFCs) must clear if exceeding thresholds.

**Trade Reporting (EMIR)**: Mandatory reporting to trade repositories within one working day. Over 80 data items required, split between counterparty data and common data.

**Margin Requirements (EMIR)**: IM and VM requirements for non-centrally cleared OTC derivatives, phased by counterparty size.

**Position Limits (MiFID II)**: Limits on commodity derivatives positions, with position reporting for all commodity derivatives.

**Best Execution (MiFID II):** Investment firms must execute client orders on terms most favourable to the client.

**Transparency (MiFIR):** Pre- and post-trade transparency requirements for derivatives traded on trading venues.

### 6.2.3 SMC Comparison

DIMENSION	EU (MIFID II/EMIR)	SMC 2025	ASSESSMENT
Regulatory Structure	Directive + Regulation	Unified Code	SMC provides single legislative source; EU framework more complex
Clearing Mandate	Explicit EMIR mandate	Exchange-trading focus	Different approaches reflecting market structure
Trade Reporting	Detailed EMIR requirements	MII/regulatory reporting	EU more prescriptive on data fields
Margin (uncleared)	Mandatory IM/VM	Limited OTC market	SMC addresses exchange-traded; uncleared OTC derivatives less prevalent in India
Position Limits	MiFID II commodity focus	SEBI regulatory authority	Similar enabling frameworks
Investor Protection	MiFID II conduct rules	Chapter X statutory provisions	SMC provides statutory foundation; detailed rules expected in regulations

### 6.2.4 Compliance Insight

F&O participants with EU operations face potentially overlapping requirements under EMIR (particularly EMIR 3's active account requirement) and SMC. The SMC's investor protection provisions (Sections 71-78) align philosophically with MiFID II conduct requirements but will require detailed regulatory implementation for practical comparison.

## 6.3 United Kingdom: Post-Brexit FCA Regime

### 6.3.1 Regulatory Structure

Post-Brexit, the UK maintains its own derivatives framework through: - **UK EMIR:** Onshored EMIR with UK-specific modifications - **FCA Handbook:** Conduct and prudential requirements for investment firms - **UK MiFIR:** Onshored transparency and trading requirements

The UK regime has diverged from EU EMIR through modifications to reporting requirements (effective 30 September 2024) and has not adopted EMIR 3's active account requirement.

### 6.3.2 Key Features

**Clearing Obligation:** Maintained for standardised OTC derivatives with UK CCPs or recognised third-country CCPs.

**Reporting:** UK EMIR reporting to UK-registered trade repositories with UK-specific data fields (distinct from EU EMIR REFIT fields).

**Margin:** UK EMIR margin requirements for uncleared derivatives, largely aligned with BCBS-IOSCO standards.

**Overseas Persons Exemption:** Provides exemption from FCA regulation for non-UK firms dealing with UK counterparties in certain circumstances.

### 6.3.3 SMC Comparison

The UK regime demonstrates how consolidated securities legislation can operate post-separation from a larger regulatory bloc. The SMC similarly consolidates disparate statutory sources into unified framework. UK divergence from EU standards provides cautionary insight regarding regulatory fragmentation costs.

## 6.4 Singapore: MAS Securities and Futures Act Framework

### 6.4.1 Regulatory Structure

Singapore's Monetary Authority of Singapore (MAS) regulates derivatives under the Securities and Futures Act (SFA), providing consolidated regulatory authority similar to the SMC's approach.

Key regulatory instruments include: - **Securities and Futures Act 2001:** Primary legislation governing capital markets - **Securities and Futures (Reporting of Derivatives Contracts) Regulations 2013:** Trade reporting requirements - **Securities and Futures (Clearing of Derivatives Contracts) Regulations 2018:** Clearing mandates - **Guidelines on Margin Requirements for Non-Centrally Cleared OTC Derivatives Contracts:** Margin requirements

### 6.4.2 Key Features

**Capital Markets Services Licence:** Required for dealing in capital markets products, including derivatives.

**Trade Reporting:** Specified derivatives contracts must be reported to approved trade repositories within two business days.

**Clearing:** Mandatory clearing for interest rate swaps and forward rate agreements meeting specified thresholds.

**Margin:** Guidelines require IM and VM exchange for non-centrally cleared OTC derivatives between covered entities.

**Financial and Margin Requirements:** Capital and margin requirements for CMS licence holders based on risk-weighted exposures.

### 6.4.3 SMC Comparison

DIMENSION	SINGAPORE (MAS)	SMC 2025	ASSESSMENT
Regulatory Structure	Unified (MAS/SFA)	Unified (SEBI/SMC)	Similar consolidated approaches
Licensing	CMS licence	Registration under Chapter IV	Comparable frameworks
Trade Reporting	Prescribed derivatives to TRs	MII-based reporting	Different infrastructure approaches
Clearing	Mandatory for specified classes	Exchange-trading focus	Different market structure focus
Margin	Guidelines-based for OTC	Regulations-based	Similar delegation to sub-legislative instruments

### 6.4.4 Compliance Insight

Singapore provides the most comparable regulatory model to the SMC given its unified regulatory authority and Asian market context. F&O participants may look to Singapore precedents for interpreting SMC provisions.

## 6.5 Synthesis: Best Practices and SMC Alignment

The comparative analysis reveals several global best practices and assesses SMC alignment:

**Consolidated Regulatory Authority:** The SMC aligns with Singapore and contrasts with the US bifurcated approach. Unified authority reduces regulatory arbitrage and compliance complexity.

**Proportionate Enforcement:** The SMC's decriminalisation approach aligns with EU trends toward civil/administrative penalties for minor contraventions, reserving criminal sanctions for serious market abuse.

**Settlement Finality:** The SMC's statutory settlement finality provisions (Section 68) align with global standards for legal certainty in cleared transactions.

**Investor Protection:** The SMC's statutory entrenchment of investor protection aligns with MiFID II's conduct requirements, though detailed implementation awaits regulation.

**Trade Reporting:** The SMC relies on MII-based reporting rather than the dedicated trade repository infrastructure in US/EU/Singapore. This reflects India's predominately exchange-traded derivatives market but may require enhancement for comprehensive OTC monitoring.

**Position Limits and Monitoring:** The SMC provides regulatory authority (Section 11) comparable to global frameworks, with detailed implementation through SEBI regulations and MII bye-laws.

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## 7. Compliance Preparedness Framework for F&O Participants

This section provides participant-specific compliance preparedness guidance for the SMC transition.

### 7.1 Stock Brokers and Trading Members

Stock brokers represent the primary interface between retail/institutional investors and the F&O markets. The SMC introduces several compliance-relevant changes:

#### 7.1.1 Registration Transition

**Current State:** Stock brokers are registered with SEBI under SEBI (Stock Brokers) Regulations, 2024 and hold trading membership with stock exchanges.

**SMC Position:** Section 28 mandates registration as an intermediary. Section 31 enables potential delegation of registration functions to MIIs or SROs.

**Preparedness Actions:**

1. **Registration Review:** Assess current registration status against SMC intermediary definition (Section 2(q)). Stock brokers are explicitly listed at Section 2(q)(xvii).
2. **Documentation Audit:** Compile and update all registration-related documentation anticipating potential re-registration or validation requirements under transitional provisions.
3. **Delegation Monitoring:** Monitor SEBI notifications regarding delegation of registration functions to exchanges. Prepare for potential dual compliance obligations (SEBI + delegatee).
4. **Net Worth Compliance:** Verify compliance with existing net worth requirements and anticipate potential enhancement under SMC regulations.

#### 7.1.2 Conduct Obligations

**Current State:** Stock broker conduct governed by SEBI (Stock Brokers) Regulations, SEBI circulars, and exchange bye-laws.

**SMC Position:** Section 34(2) mandates stock brokers to charge fair brokerage, deliver securities, and make payments within prescribed periods. Section 35 requires fair disclosure and information furnishing to SEBI.

**Preparedness Actions:**

1. **Brokerage Review:** Audit brokerage structures for “fairness” compliance. While “fair” awaits regulatory definition, anticipate requirements for transparency, non-discrimination, and reasonableness.
2. **Delivery and Payment Systems:** Verify delivery and payment systems ensure compliance with prescribed timelines. Enhance SLA monitoring for client-facing obligations.

3. **Disclosure Framework:** Establish proactive disclosure protocols anticipating SMC regulation requirements. Current LODR and broker regulation disclosures provide baseline.
4. **Information Systems:** Ensure systems can furnish information to SEBI in prescribed formats within prescribed timelines. Enhance data extraction and reporting capabilities.

### 7.1.3 Investor Protection Compliance

**Current State:** Investor grievance redressal through exchange platforms (SCORES, exchange-level mechanisms) and SEBI complaint mechanisms.

**SMC Position:** Sections 71-78 establish statutory investor protection framework including mandatory grievance redressal mechanism (Section 72) and Ombudsperson proceedings (Sections 73-78).

**Preparedness Actions:**

1. **Grievance Redressal Infrastructure:** Establish or enhance dedicated grievance redressal mechanism with documented procedures, escalation matrices, and time-bound resolution protocols.
2. **Investor Charter Compliance:** Anticipate Investor Charter requirements (Section 71) requiring service standards, disclosure protocols, and client treatment principles.
3. **Ombudsperson Preparedness:** Train relevant personnel on Ombudsperson procedures. Establish documentation standards supporting defence in Ombudsperson proceedings.
4. **Client Communication:** Prepare client communication regarding enhanced investor protection framework and grievance redressal procedures.

### 7.1.4 Market Abuse Prevention

**Current State:** SEBI (Prohibition of Insider Trading) Regulations and SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations govern market abuse prevention.

**SMC Position:** Section 92 prohibits fraudulent or unfair practices. Section 93 specifically prohibits “market abuse” including insider trading, information misuse, price manipulation, and false information dissemination. Section 96 imposes criminal penalties (up to 10 years imprisonment, ₹10 lakh to ₹25 crore fine).

**Preparedness Actions:**

1. **Surveillance Enhancement:** Strengthen surveillance systems for detecting potential market abuse by clients or proprietary operations. Algorithmic pattern detection for manipulation indicators.
2. **Insider Trading Controls:** Review information barriers, restricted lists, and pre-clearance procedures. The explicit “market abuse” categorisation elevates priority.
3. **Client Due Diligence:** Enhance KYC procedures to identify higher-risk clients. Monitor client trading patterns for manipulation indicators.
4. **Reporting Protocols:** Establish protocols for reporting suspected market abuse to SEBI as required under Section 35.

### 7.1.5 Penalty Exposure Assessment

**Current State:** SEBI Act provides penalty framework for broker contraventions.

**SMC Position:** Section 99 imposes penalty up to ₹1 crore for stock broker defaults. Section 104 imposes similar penalty for failure to conduct business per Code provisions.

**Preparedness Actions:**

1. **Risk Assessment Update:** Recalibrate compliance risk assessment with updated penalty exposure (up to ₹1 crore vs. prior limits).
2. **Compliance Investment:** Justify enhanced compliance investment based on increased penalty exposure. Present business case for systems and personnel enhancement.
3. **Insurance Review:** Review professional indemnity and directors' liability coverage against enhanced penalty exposure.
4. **Compliance Culture:** Reinforce compliance culture recognising enhanced regulatory consequences.

## 7.2 Clearing Members

Clearing members interface between trading members and clearing corporations, bearing settlement obligations and default risk. The SMC introduces specific compliance considerations:

### 7.2.1 Registration and Governance

**Current State:** Clearing members registered with clearing corporations under exchange/CC bye-laws, subject to SEBI oversight.

**SMC Position:** Clearing members fall within "member" definition (Section 2(x)(i)). Enhanced MII governance requirements (Section 42) affect clearing corporation operations and indirectly clearing member obligations.

**Preparedness Actions:**

1. **Membership Review:** Assess clearing membership status against SMC definitions and anticipate potential enhanced membership requirements.
2. **Governance Participation:** Understand enhanced clearing corporation governance requirements and clearing member representation mechanisms.
3. **Capital and Margin Compliance:** Verify compliance with clearing corporation capital and margin requirements anticipating potential enhancement.

### 7.2.2 Settlement Finality Benefits

**Current State:** Settlement finality addressed in clearing corporation bye-laws and SEBI regulations.

**SMC Position:** Section 68 provides statutory settlement finality. Section 70 establishes clearing corporation claim priority over other rights and attachments.

**Preparedness Actions:**

1. **Documentation Review:** Review clearing member agreements and collateral documentation against statutory settlement finality provisions.
2. **Collateral Management:** Assess collateral management practices against Section 70 priority provisions.
3. **Default Procedures:** Review default waterfall understanding against statutory priority framework.

### 7.2.3 Default Management

**Current State:** Default management per clearing corporation bye-laws and default funds.

**SMC Position:** Sections 68-70 provide statutory foundation for settlement and clearing corporation rights. Detailed default management remains in bye-laws subject to SEBI approval.

**Preparedness Actions:**

1. **Default Fund Participation:** Review default fund contribution requirements anticipating potential enhancement under SMC framework.
2. **Default Procedures:** Understand clearing corporation default procedures and clearing member obligations.
3. **Liquidity Planning:** Ensure liquidity arrangements for meeting enhanced margin calls and potential default fund calls.

## 7.3 Proprietary Traders and Algorithmic Trading Entities

Proprietary traders and algorithmic trading entities face specific compliance considerations under the SMC:

### 7.3.1 Registration Status

**Current State:** Proprietary trading conducted through trading membership; algorithmic trading subject to SEBI algorithmic trading guidelines and exchange approval.

**SMC Position:** Section 2(w) defines “market participant” to include persons participating in securities markets as investors. The registration requirements under Section 28 apply to intermediaries; proprietary traders operating through registered trading members may not require separate registration but must comply with member-level requirements.

**Preparedness Actions:**

1. **Classification Assessment:** Assess entity classification under SMC definitions. Proprietary traders operating as principals through trading members vs. entities requiring direct registration.
2. **Algorithmic Trading Compliance:** Algorithmic trading entities should monitor SEBI regulations under SMC for potential enhanced requirements.
3. **Trading Member Relationship:** Review trading member agreements for SMC compliance obligations passed through to proprietary clients.

### 7.3.2 Market Abuse Risk

**Current State:** Algorithmic trading entities face elevated scrutiny for potential market manipulation.

**SMC Position:** Section 93 market abuse prohibition applies to all persons. Section 96 criminal penalties (up to 10 years imprisonment) create significant exposure.

**Preparedness Actions:**

1. **Algorithm Review:** Comprehensive review of trading algorithms for potential market abuse characteristics (spoofing, layering, momentum ignition indicators).

2. **Kill Switch Implementation:** Ensure robust kill switch capabilities for algorithm suspension upon detection of aberrant behavior.
3. **Audit Trail Enhancement:** Enhanced audit trails for algorithm decision-making supporting defence against market abuse allegations.
4. **Compliance Monitoring:** Real-time compliance monitoring of algorithmic trading activity.

### 7.3.3 Position Limit Monitoring

**Current State:** Position limits monitored by exchanges; intraday monitoring from April 2025.

**SMC Position:** Section 11(2)(b) empowers SEBI to regulate business in securities markets including through position limits.

**Preparedness Actions:**

1. **Real-Time Monitoring:** Implement real-time position monitoring systems meeting April 2025 intraday monitoring requirements.
2. **Automated Alerts:** Automated alerts for position limit approach and breach.
3. **Position Reduction Protocols:** Documented protocols for rapid position reduction upon limit approach.

## 7.4 Foreign Portfolio Investors

Foreign Portfolio Investors (FPIs) represent significant F&O market participants with specific compliance considerations:

### 7.4.1 Registration Framework

**Current State:** FPIs registered with designated depository participants under SEBI (Foreign Portfolio Investors) Regulations, 2019.

**SMC Position:** Section 30 empowers SEBI to specify classes of investors requiring registration. Section 31 enables delegation of registration to MIs or SROs.

**Preparedness Actions:**

1. **Registration Continuity:** Monitor SEBI notifications regarding FPI registration framework under SMC.
2. **Designated DP Relationship:** Maintain relationship with designated depository participant for registration and compliance support.
3. **Documentation Update:** Update documentation for SMC compliance requirements.

### 7.4.2 Derivatives Participation

**Current State:** FPI derivatives participation subject to position limits and exposure norms.

**SMC Position:** Section 45 contract legality framework applies to FPIs. Position limits and exposure norms under SEBI regulations continue.

**Preparedness Actions:**

1. **Position Limit Compliance:** Ensure position limit monitoring systems meet SMC framework requirements.
2. **Exposure Norm Compliance:** Verify exposure norm compliance under continuing SEBI regulations.
3. **Reporting Compliance:** Ensure reporting systems meet MII and SEBI requirements.

#### 7.4.3 Cross-Border Compliance

**Current State:** FPIs subject to home jurisdiction and Indian regulatory requirements.

**SMC Position:** Section 11(2)(t) empowers SEBI to call for information from and furnish information to foreign authorities under appropriate arrangements.

**Preparedness Actions:**

1. **Dual Compliance Review:** Review compliance obligations under home jurisdiction and SMC framework.
2. **Information Sharing Assessment:** Assess potential information sharing between SEBI and home jurisdiction regulators.
3. **Global Compliance Coordination:** Coordinate compliance across jurisdictions.

### 7.5 Alternative Investment Funds and Portfolio Managers

AIFs and portfolio managers engaging in F&O face specific compliance considerations:

#### 7.5.1 Pooled Investment Vehicle Framework

**Current State:** AIFs registered under SEBI (Alternative Investment Funds) Regulations, 2012; portfolio managers under SEBI (Portfolio Managers) Regulations, 2020.

**SMC Position:** Section 33 defines “pooled investment vehicle” encompassing AIFs, mutual funds, REITs, InvITs. Section 2(q)(xiii) lists pooled investment vehicles as intermediaries requiring registration.

**Preparedness Actions:**

1. **Registration Assessment:** Assess current registration against SMC pooled investment vehicle and intermediary definitions.
2. **Derivatives Strategy Compliance:** Review F&O strategies against SMC contract legality framework.
3. **Investor Protection Compliance:** Enhanced investor protection obligations under Sections 71-78 apply to pooled investment vehicles.

#### 7.5.2 Borrowing and Security Interest

**Current State:** AIF borrowing subject to category-specific restrictions under AIF Regulations.

**SMC Position:** Section 33(2) provides statutory authority for pooled investment vehicles to borrow and issue debt securities. Section 33(3) permits security interest provision to lenders against trust assets.

**Preparedness Actions:**

1. **Leverage Framework Review:** Review leverage and borrowing framework against SMC statutory provisions.
2. **Security Interest Documentation:** Review security interest documentation for compliance with SMC framework.
3. **Trust Deed Amendment:** Consider trust deed amendments incorporating SMC statutory provisions.

## 7.6 Retail Market Participants

While retail participants are not directly subject to SMC registration requirements, they benefit from and must understand the enhanced investor protection framework:

### 7.6.1 Enhanced Investor Protection

**SMC Position:** Sections 71-78 establish statutory investor protection including Investor Charter, grievance redressal, and Ombudsperson framework.

**Implications for Retail Participants:**

1. **Grievance Redressal Rights:** Enhanced statutory rights for grievance redressal with specified procedures and timelines.
2. **Ombudsperson Access:** Access to Ombudsperson proceedings after exhausting broker-level grievance redressal.
3. **Investor Charter Protections:** Benefits under SEBI-prescribed Investor Charter.

### 7.6.2 Contract Validity Protection

**SMC Position:** Section 47 protects innocent non-member counterparties from contract invalidity for bye-law contraventions they did not knowingly participate in.

**Implications:**

1. **Transaction Protection:** Enhanced protection for retail investors against broker bye-law contraventions.
2. **Documentation Importance:** Maintaining transaction documentation to establish good faith participation.

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## 8. Commodity Derivatives: Special Regulatory Considerations

The SMC's consolidation of SCRA provisions introduces specific considerations for commodity derivative participants.

### 8.1 Unified Regulatory Framework

**Current State:** Commodity derivatives regulated under SCRA and SEBI (Commodity Derivatives) Regulations following SEBI's assumption of commodity derivatives regulation from FMC in 2015.

**SMC Position:** The Code provides unified treatment of equity and commodity derivatives under the expanded "securities" definition (Section 2(z)(iv) includes derivatives) and "derivative" definition (Section 2(m)).

**Compliance Implication:** Participants operating across both equity and commodity derivatives should harmonise compliance frameworks recognising unified regulatory treatment.

### 8.2 Commodity Notification Framework

**SMC Position:** Section 49 provides that the Central Government may, in consultation with SEBI, notify commodities in respect of which derivatives may be entered into.

**Compliance Implication:** Commodity derivative participants must monitor notifications identifying tradeable commodities. New commodity introduction requires Central Government notification.

### 8.3 Delivery Contracts

**SMC Position:** Section 50 addresses: - Non-transferable specific delivery contracts: Subject to Central Government regulation - Spot delivery contracts: Subject to Central Government regulation - Transferable specific delivery contracts: Must be exchange-traded (except RBI-regulated contracts)

**Compliance Implication:** Commodity market participants must ensure delivery contracts comply with the applicable framework: - Physical delivery contracts classified as specific delivery contracts must meet Section 50 requirements - Cash-settled commodity derivatives follow standard exchange-trading requirements

## 8.4 Warehouse and Delivery Infrastructure

**Current State:** Warehouse receipt-based delivery for commodity derivatives under exchange-specific frameworks.

**SMC Position:** The Code does not specifically address warehouse infrastructure but Section 2(q)(xxi) lists “vault manager” as an intermediary category, indicating continued regulatory attention to storage/custody infrastructure for commodity markets.

**Compliance Implication:** Commodity derivative participants should anticipate continued regulatory framework for delivery infrastructure under SMC regulations.

## 8.5 Position Limits for Commodities

**Current State:** SEBI-imposed position limits for commodity derivatives.

**SMC Position:** Section 11(2)(b) provides general authority for business regulation including position limits. MiFID II comparison suggests potential for enhanced commodity position limit framework.

**Compliance Implication:** Commodity derivative participants should anticipate potential position limit framework development under SMC regulations, particularly for physically-settled contracts and storage capacity-linked positions.

## 8.6 Agricultural Commodity Derivatives

Agricultural commodity derivatives warrant special attention given their policy sensitivity:

**Current State:** Derivatives trading in sensitive agricultural commodities subject to periodic restrictions based on price volatility and food security considerations.

**SMC Position:** Section 45(3) empowers the Central Government to prohibit contracts in specified securities by notification. Section 49 requires Central Government consultation for commodity notification.

**Compliance Implication:** Agricultural commodity derivative participants must: - Monitor Central Government notifications regarding trading restrictions - Maintain flexibility in trading strategies to accommodate potential suspensions - Understand the policy considerations driving agricultural commodity regulation

## 8.7 Commodity Exchanges Integration

**Current State:** National commodity exchanges (MCX, NCDEX) operate under SEBI oversight following FMC merger.

**SMC Position:** Commodity exchanges fall within the MII definition (Section 2(v)) and are subject to the same registration and governance framework as equity exchanges under Chapter V.

**Compliance Implication:** Participants trading on commodity exchanges should anticipate enhanced governance requirements and potentially modified bye-laws as commodity exchanges align with the unified MII framework.

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## 8A. Practical Compliance Scenarios

This section illustrates SMC compliance obligations through practical scenarios commonly encountered by F&O market participants.

### Scenario 1: Retail Client Complaint Escalation

**Situation:** A retail client files a complaint against a stock broker alleging delayed settlement and incorrect margin calculation, resulting in forced liquidation losses of ₹5 lakh.

**Pre-SMC Process:** 1. Client files complaint with broker's grievance cell 2. If unresolved, escalation to stock exchange grievance mechanism 3. If unresolved, complaint to SEBI through SCORES 4. Potential arbitration under exchange bye-laws

**SMC Process:** 1. Client must first utilise broker's mandatory grievance redressal mechanism (Section 72) 2. If unresolved within specified period (anticipated: 180 days from receipt), client may file complaint with SEBI-designated Ombudsperson (Section 74) 3. Ombudsperson has civil court powers (Section 77) and may pass binding orders (Section 75) 4. Ombudsperson may also inform SEBI of Code contraventions discovered during proceedings (Section 76), potentially triggering separate enforcement action

**Broker Compliance Actions:** - Establish dedicated grievance redressal mechanism with documented procedures - Train personnel on grievance handling procedures - Maintain comprehensive records of client transactions, margin calls, and communications - Establish escalation matrix with defined timelines - Prepare for Ombudsperson proceedings with appropriate documentation - Review insurance coverage for grievance-related liability

### Scenario 2: Algorithmic Trading Market Manipulation Investigation

**Situation:** SEBI receives surveillance alerts suggesting potential spoofing activity in Nifty options through rapid order placement and cancellation patterns originating from a proprietary trading firm's algorithmic trading systems.

**Pre-SMC Enforcement Process:** 1. SEBI initiates investigation under SEBI Act 2. Investigation potentially extends indefinitely 3. If contravention found, adjudication under SEBI Act 4. Potential criminal prosecution under Section 24 for manipulation

**SMC Enforcement Process:** 1. SEBI orders investigation under Section 13 2. Investigation must complete within 180 days (Section 13(2)), extendable by whole-time Member for recorded reasons 3. If investigation reveals market abuse evidence, Section 93 prohibitions and Section 96 criminal penalties apply 4. Search and seizure requires Special Court authorisation (Section 15) 5. Adjudicating officer designated under Section 17 with independence requirements (Section 17(2)) 6. Settlement possible under Section 26 (voluntary disclosure pathway or post-notice settlement)

**Compliance Actions for Algorithmic Trading Firms:** - Implement pre-trade controls preventing spoofing patterns - Maintain comprehensive audit trails of algorithm decision-making - Establish real-time surveillance for aberrant trading patterns - Develop kill switch capabilities for immediate algorithm

suspension - Document algorithm design rationale and testing procedures - Train personnel on market abuse identification and prevention - Establish protocols for voluntary disclosure if systems malfunction - Engage legal counsel specialised in market abuse defence

### Scenario 3: Clearing Member Default Scenario

**Situation:** A clearing member experiences financial distress and fails to meet margin obligations to the clearing corporation.

**Pre-SMC Framework:** 1. Clearing corporation initiates default procedures per bye-laws 2. Default fund utilisation 3. Collateral enforcement subject to competing claims uncertainty

**SMC Framework:** 1. Settlement finality provisions (Section 68) ensure completed settlements are final and irrevocable 2. Section 70 establishes clearing corporation claim priority over other rights and attachments 3. Clearing corporation may enforce collateral with statutory priority 4. Default fund utilisation per bye-laws (Section 39)

**Compliance Actions for Clearing Members:** - Ensure collateral arrangements align with Section 70 priority provisions - Review clearing member agreements for SMC consistency - Maintain adequate liquidity buffers for margin obligations - Establish early warning systems for financial stress indicators - Document default fund contribution and recovery expectations

### Scenario 4: FPI Position Limit Breach

**Situation:** An FPI's combined positions across F&O segments approach position limits, with intraday monitoring detecting potential breach.

**Pre-SMC Framework:** 1. End-of-day position limit monitoring (historically) 2. Penalty for breach under SEBI regulations

**SMC Framework** (incorporating October 2024 changes): 1. Intraday position monitoring (minimum 4 snapshots from April 2025) 2. Position limit breaches detected during day may trigger penalties or surveillance deposits 3. Section 11(2)(b) authority for SEBI to regulate trading positions continues

**Compliance Actions for FPIs:** - Implement real-time position monitoring across all F&O segments - Establish automated alerts for position limit approach (e.g., 80%, 90% thresholds) - Develop rapid position reduction protocols - Coordinate position monitoring across multiple accounts if applicable - Train traders on position limit consequences and monitoring procedures

### Scenario 5: Settlement of Insider Trading Investigation

**Situation:** A listed company's CFO is under investigation for suspected insider trading in the company's stock options ahead of earnings announcement. The CFO wishes to explore settlement.

**Pre-SMC Framework:** 1. Settlement under SEBI (Settlement Proceedings) Regulations 2. Settlement terms determined case-by-case

**SMC Framework:** 1. Section 26(1)(b) enables settlement application during pending proceedings 2. Advisory committee constituted under Section 26(2) reviews proposal 3. SEBI considers nature, gravity, and impact per Section 26(3) 4. Market abuse (insider trading) is serious contravention—settlement terms likely stringent 5. Adjudication continues despite settlement application (Section 26(4)) 6. If settlement rejected, criminal prosecution under Section 96 remains possible

**Compliance Actions:** - Engage experienced securities law counsel immediately - Assess strength of evidence and litigation risk - Prepare comprehensive settlement proposal addressing: - Disgorgement of unlawful gains - Monetary penalty - Future conduct undertakings - Cooperation commitments - Understand that settlement does not preclude SEBI discovery of additional contraventions - Ensure full compliance with any settlement terms (Section 26(5) consequences)

### Scenario 6: Multi-Asset Brokerage Compliance Harmonisation

**Situation:** A major brokerage firm operates across equity derivatives, currency derivatives, and commodity derivatives segments, currently maintaining separate compliance frameworks.

**Pre-SMC Framework:** 1. Equity derivatives under SEBI Act + SCRA

2. Currency derivatives under RBI + SEBI dual regulation 3. Commodity derivatives under SCRA + SEBI regulations (post-FMC merger) 4. Separate compliance frameworks for each segment

**SMC Framework:** 1. Unified “securities” definition encompasses equity and commodity derivatives (Section 2(zi)) 2. Currency derivatives excluded (RBI-regulated under Section 2(m) exclusion) 3. Single registration framework under Section 28 4. Unified conduct obligations under Section 34 5. Unified investor protection under Sections 71-78 6. Unified enforcement under Chapter XIII

**Compliance Actions for Multi-Asset Brokerages:** - Conduct comprehensive compliance framework review across segments - Identify inconsistencies in policies, procedures, and controls - Develop unified compliance framework covering: - Registration and licensing - Client onboarding and KYC - Margin and risk management - Investor protection and grievance handling - Market abuse prevention - Record retention - Reporting - Maintain separate treatment only where regulatory requirements differ (currency derivatives) - Update compliance reporting to senior management and board - Train personnel on unified framework

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## 9. Transition Roadmap and Implementation Timeline

### 9.1 Legislative Process

The SMC was introduced in the Lok Sabha on 18 December 2025. The anticipated legislative process includes:

1. **Parliamentary Standing Committee Review:** The Bill may be referred to the Standing Committee on Finance for detailed examination.
2. **Parliamentary Debate:** Lok Sabha and Rajya Sabha debate and potential amendments.
3. **Presidential Assent:** Following passage by both Houses.
4. **Notification:** Section 1(2) provides that different provisions may be appointed on different dates.

### 9.2 Anticipated Implementation Phases

Based on the Code's structure and comparable legislative implementations, the following phased implementation is anticipated:

#### Phase 1: Immediate Effect Provisions (Upon Notification)

- ▶ SEBI establishment and constitution provisions (Section 3-4)
- ▶ Definitional framework (Section 2)
- ▶ Basic powers and functions (Section 11)
- ▶ Repeal and savings (Section 152)

#### Phase 2: Registration Transition (6-12 Months)

- ▶ Intermediary registration framework (Section 28)
- ▶ MII registration framework (Section 37)
- ▶ Surrender and cancellation provisions (Sections 29, 38)

#### Phase 3: Operational Framework (12-18 Months)

- ▶ Contract regulation framework (Chapter VI)
- ▶ Settlement and netting framework (Chapter IX)
- ▶ Investor protection framework (Chapter X)

## Phase 4: Enforcement Framework (18-24 Months)

- ▶ Adjudication framework (Sections 17-27)
- ▶ Penalty provisions (Sections 94-112)
- ▶ Special Courts (Sections 113-117)

## 9.3 Participant Transition Checklist

F&O participants should undertake the following transition activities:

### Immediate (Upon Bill Passage)

- ▶  Conduct comprehensive gap assessment against SMC provisions
- ▶  Establish SMC transition project team
- ▶  Engage legal counsel for SMC compliance assessment
- ▶  Brief board and senior management on SMC implications

### Short-Term (0-6 Months Post-Notification)

- ▶  Update compliance policies and procedures
- ▶  Modify systems for new definitions and requirements
- ▶  Train personnel on SMC compliance obligations
- ▶  Review and update client agreements

### Medium-Term (6-18 Months Post-Notification)

- ▶  Complete registration transition activities
- ▶  Implement investor protection compliance framework
- ▶  Establish enhanced grievance redressal mechanisms
- ▶  Update market abuse prevention systems

### Long-Term (18-36 Months Post-Notification)

- ▶  Complete full compliance framework implementation
- ▶  Conduct compliance audit against SMC requirements
- ▶  Remediate any identified gaps
- ▶  Institutionalise ongoing compliance monitoring

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## 10. Conclusion and Strategic Recommendations

### 10.1 Summary of Key Compliance Deltas

The Securities Markets Code, 2025 introduces structural changes that require comprehensive compliance recalibration by F&O market participants:

1. **Unified Regulatory Framework:** The consolidation of three statutes eliminates jurisdictional ambiguity but requires compliance framework harmonisation.
2. **Reconstituted Registration Architecture:** Potential delegation of registration functions to MIIs/SROs creates multi-tiered compliance environment.
3. **Enhanced Investor Protection:** Statutory entrenchment of investor protection through Investor Charter, grievance redressal, and Ombudsperson framework requires institutionalisation.
4. **Transformed Enforcement Regime:** Decriminalisation of minor contraventions with enhanced civil penalties requires recalibration of compliance risk assessment and penalty provisioning.
5. **Settlement Finality Codification:** Statutory settlement finality and clearing corporation priority provide enhanced legal certainty while requiring documentation review.
6. **Market Abuse Prioritisation:** Explicit categorisation of market abuse as primary criminal offence elevates prevention priority.
7. **Temporal Limitations:** Eight-year limitation period introduces compliance planning certainty and record retention considerations.
8. **Global Alignment:** SMC provisions broadly align with international best practices, facilitating cross-border compliance coordination.

### 10.2 Strategic Recommendations

#### For Major Brokerage Firms (Zerodha, Angel One, etc.)

1. **Establish SMC Transition Programme:** Designate senior executive accountability for SMC transition with dedicated project resources.
2. **Conduct Comprehensive Gap Assessment:** Engage internal and external resources for systematic gap assessment against SMC provisions.
3. **Prioritise Investor Protection Compliance:** Given statutory entrenchment, investor protection compliance (grievance redressal, Ombudsperson preparedness) should receive immediate attention.

4. **Enhance Market Abuse Prevention:** Strengthen surveillance and prevention systems recognising elevated criminal exposure for market abuse.
5. **Review Client Documentation:** Systematically review and update client agreements, disclosures, and communications for SMC compliance.
6. **Prepare for Regulatory Engagement:** Engage proactively with SEBI on regulation and subsidiary instruction development.

#### For Clearing Members

1. **Assess Settlement Framework Implications:** Review clearing member documentation and collateral arrangements against statutory settlement finality provisions.
2. **Monitor MII Governance Evolution:** Understand enhanced clearing corporation governance requirements and clearing member implications.
3. **Plan for Default Fund Enhancements:** Anticipate potential default fund contribution enhancements under SMC framework.

#### For Proprietary and Algorithmic Traders

1. **Conduct Algorithm Compliance Review:** Systematic review of trading algorithms for market abuse characteristics.
2. **Implement Enhanced Monitoring:** Real-time position and compliance monitoring meeting April 2025 intraday monitoring requirements.
3. **Establish Audit Trail Excellence:** Enhanced audit trails supporting compliance demonstration and defence.

#### For Foreign Portfolio Investors

1. **Monitor FPI Framework Development:** Track SEBI notifications regarding FPI registration and compliance under SMC.
2. **Coordinate Cross-Border Compliance:** Coordinate SMC compliance with home jurisdiction requirements.
3. **Engage Designated DPs:** Maintain close engagement with designated depository participants for compliance support.

## 10.3 Concluding Observations

The Securities Markets Code, 2025 represents a generational transformation of India's securities market regulation. While consolidation and modernisation objectives are sound, the transition will impose significant compliance burden on F&O market participants. Proactive engagement with the transition—through gap assessment, system enhancement, and compliance framework development—will differentiate market participants who effectively navigate the regulatory transition from those who face enforcement consequences.

The Code's alignment with global regulatory trends positions Indian markets for enhanced international integration, but participants must recognise that compliance complexity may initially increase even

as long-term coherence improves. Investment in compliance infrastructure is therefore not merely a regulatory cost but a strategic investment in market position.

F&O market participants are advised to commence transition activities immediately upon parliamentary passage, targeting full compliance readiness within 180 days of notification while anticipating phased implementation over 18-36 months.

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## 11. Annexures

## Annexure A: Comparative Definition Analysis

TERM	SCRA	SEBI ACT	DEPOSITORIES ACT	SMC 2025
Securities	Section 2(h)	Section 2(1)(i) (refers to SCRA)	Section 2(1)(i) (refers to SCRA)	Section 2(zi) - Expanded
Derivative	Section 2(ac)	Not defined	Not defined	Section 2(m) - Comprehensive
Stock Exchange	Section 2(j)	Not defined	Not defined	Section 2(zn)
Depository	Not defined	Not defined	Section 2(1)(e)	Section 2(k)
Intermediary	Not defined	Not defined	Not defined	Section 2(q) - Comprehensive

## Annexure B: Penalty Comparison Matrix

CONTRAVENTION	SEBI ACT	SMC 2025	CHANGE
Failure to furnish information	Section 15A: up to ₹1 lakh/day	Section 97: up to ₹1 lakh/day	Maintained
Stock broker default	Section 15F: up to ₹1 crore	Section 99: up to ₹1 crore	Maintained
Market manipulation	Section 15HA: up to ₹25 crore or 3x gain	Section 96: Criminal - up to 10 years + ₹10L-25Cr	Enhanced + Criminalised
Failure to comply with SEBI order	Section 15HB: up to ₹1 crore	Section 94: Criminal - up to 10 years + ₹10L-25Cr	Enhanced + Criminalised

## Annexure C: SMC Chapter-wise Summary

CHAPTER	TITLE	SECTIONS	KEY PROVISIONS
I	Preliminary	1-2	Short title, definitions

II	Board Establishment	3-11	SEBI constitution, powers
III	Inspection/Investigation	12-27	Enforcement procedures
IV	Registration	28-36	Intermediary registration
V	MII Regulation	37-44	MII framework
VI	Contract Regulation	45-53	Contract validity
VII	Securities Holding	54-63	Dematerialisation
VIII	Listing/Delisting	64-67	Listing requirements
IX	Netting/Settlement	68-70	Settlement finality
X	Investor Protection	71-78	Grievance redressal
XI	SAT	79-91	Appellate tribunal
XII	Market Abuse	92-93	Prohibited practices
XIII	Offences/Penalties	94-112	Penalty framework
XIV	Special Courts	113-117	Criminal proceedings
XV	Inter-regulatory	118-122	Coordination
XVI	Finance/Accounts	123-127	SEBI finances
XVII	Miscellaneous	128-153	Sandbox, NISM, rules
XVIII	Amendments	154-157	Consequential amendments

## Annexure D: Global Framework Comparison Summary

DIMENSION	INDIA (SMC)	US (DODD-FRANK)	EU (MIFID II/EMIR)	UK	SINGAPORE
Primary Regulator	SEBI (unified)	SEC + CFTC (bifurcated)	National authorities + ESMA	FCA + BoE	MAS (unified)
Legislative Framework	Single Code	Multiple Acts	Directive + Regulation	Onshored law	EU Single Act
Exchange Trading	Mandatory (with exceptions)	Mandatory for certain swaps	Trading obligation for derivatives	Similar to EU	Similar
Central Clearing	Through exchange framework	Mandatory for standardised	EMIR clearing obligation	UK EMIR	Mandatory for specified
Trade Reporting	MII-based	SDR-based	TR-based	UK TR-based	TR-based
Position Limits	Regulatory authority	CFTC limits	MiFID II commodity limits	FCA limits	MAS authority

Investor tection	Pro- Chapter	Statutory Chapter	SEC rules	MiFID II duct	con-	FCA conduct	MAS conduct
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**Disclaimer:** This white paper is intended for informational purposes and does not constitute legal advice. Participants should consult qualified legal counsel for specific compliance guidance. The Securities Markets Code, 2025 is subject to parliamentary process and potential amendment prior to enactment.

## Annexure E: Detailed Compliance Checklist for Stock Brokers

### E.1 Registration Compliance

REQUIREMENT	SMC REFERENCE	CURRENT STATUS	ACTION REQUIRED	TIMELINE
Valid SEBI registration	Section 28	<input type="checkbox"/> Compliant	Review validity	Pre-notification
Net worth compliance	Section 28(2) (regulations)	<input type="checkbox"/> Compliant	Verify current, plan for enhancement	Ongoing
Fit and proper criteria	Section 28(2) (regulations)	<input type="checkbox"/> Compliant	Self-assessment	Pre-notification
Registration documentation	Section 28(2)	<input type="checkbox"/> Complete	Compile and update	0-3 months
Delegation preparedness	Section 31	<input type="checkbox"/> N/A	Monitor SEBI notifications	Ongoing

### E.2 Conduct Compliance

REQUIREMENT	SMC REFERENCE	CURRENT STATUS	ACTION REQUIRED	TIMELINE
Fair brokerage charges	Section 34(2)	<input type="checkbox"/> Compliant	Audit brokerage structures	0-6 months
Timely securities delivery	Section 34(2)	<input type="checkbox"/> Compliant	SLA review and enhancement	0-6 months
Timely payment to investors	Section 34(2)	<input type="checkbox"/> Compliant	Payment process audit	0-6 months
Fair disclosure	Section 35(1)	<input type="checkbox"/> Compliant	Disclosure framework review	0-6 months
Information furnishing to SEBI	Section 35(2)	<input type="checkbox"/> Compliant	Systems capability assessment	0-6 months

### E.3 Investor Protection Compliance

REQUIREMENT	SMC REFERENCE	CURRENT STATUS	ACTION REQUIRED	TIMELINE
Grievance redressal mechanism	Section 72	<input type="checkbox"/> Established	Review and enhance	0-6 months
Investor Charter compliance	Section 71	<input type="checkbox"/> Pending	Await SEBI regulations	Post-regulation
Ombudsperson process readiness	Sections 73-78	<input type="checkbox"/> Prepared	Train personnel, establish documentation	6-12 months
Client communication	General	<input type="checkbox"/> Updated	Prepare SMC transition communications	0-3 months

### E.4 Market Abuse Prevention

REQUIREMENT	SMC REFERENCE	CURRENT STATUS	ACTION REQUIRED	TIMELINE
Insider trading prevention	Section 93	<input type="checkbox"/> In place	Enhanced surveillance systems	0-6 months
Market manipulation detection	Section 93	<input type="checkbox"/> In place	Algorithmic pattern detection	0-6 months
Information barriers	Section 93	<input type="checkbox"/> Implemented	Review and strengthen	0-6 months
Suspicious activity reporting	Section 35	<input type="checkbox"/> Established	Formalise protocols	0-6 months

### E.5 Systems and Technology

REQUIREMENT	SMC REFERENCE	CURRENT STATUS	ACTION REQUIRED	TIMELINE
Real-time position monitoring	Section 11 (regulations)	<input type="checkbox"/> Implemented	Meet April 2025 requirement	Immediate
Margin calculation systems	MII bye-laws	<input type="checkbox"/> Current	Update for enhanced ELM	Immediate
Reporting systems	Section 35	<input type="checkbox"/> Adequate	Assessment and enhancement	0-6 months
Record retention (8+ years)	Section 16	<input type="checkbox"/> Compliant	Policy update	0-3 months

## Annexure F: Detailed Compliance Checklist for Clearing Members

### F.1 Membership and Registration

REQUIREMENT	SMC REFERENCE	CURRENT STATUS	ACTION REQUIRED	TIMELINE
Valid clearing membership	Section 2(h), 2(x)	<input type="checkbox"/> Valid	Verify status	Pre-notification
Compliance with CC bye-laws	Section 39, 41	<input type="checkbox"/> Compliant	Review against enhanced requirements	0-6 months
Capital adequacy	CC bye-laws	<input type="checkbox"/> Adequate	Stress testing	Ongoing
Default fund contributions	CC bye-laws	<input type="checkbox"/> Current	Plan for potential enhancement	Ongoing

### F.2 Settlement and Collateral

REQUIREMENT	SMC REFERENCE	CURRENT STATUS	ACTION REQUIRED	TIMELINE
Settlement procedure compliance	Section 68	<input type="checkbox"/> Compliant	Documentation review	0-6 months
Collateral documentation	Section 70	<input type="checkbox"/> Current	Review against statutory priority	0-6 months
Margin adequacy	CC bye-laws	<input type="checkbox"/> Adequate	Stress testing	Ongoing
Liquidity arrangements	General	<input type="checkbox"/> In place	Assess against enhanced scenarios	Ongoing

## Annexure G: Key Terminology Transition Reference

PRE-SMC TERM	SMC TERM	SMC REFERENCE	NOTES
Recognised stock exchange	Stock exchange (registered)	Section 2(zn), 37	Registration replaces recognition
Securities (SCRA definition)	Securities (SMC definition)	Section 2(zi)	Expanded definition
Derivative (SCRA definition)	Derivative (SMC definition)	Section 2(m)	Comprehensive definition
Stock broker	Stock broker / Intermediary	Section 2(q)(xvii), 34	Part of intermediary category
Sub-broker	(To be determined by regulations)	Section 2(q)(xxii)	May be notified as intermediary

SEBI Act penalty	Civil penalty / Criminal offence	Chapter XIII	Distinguished categories
SAT	Tribunal	Section 2(zq), Chapter XI	Terminology change

## Annexure H: Record Retention Requirements Under SMC

The eight-year limitation period under Section 16 and potential proceedings necessitate enhanced record retention policies:

RECORD CATEGORY	MINIMUM RETENTION	SMC BASIS	RATIONALE
Client onboarding records	8 years + 5 years	Section 16	Limitation + potential proceedings
Transaction records	8 years + 5 years	Section 16	Limitation + potential proceedings
Margin records	8 years + 5 years	Section 16	Limitation + potential proceedings
Compliance records	8 years + 5 years	Section 16	Limitation + potential proceedings
Grievance records	8 years + 5 years	Sections 16, 72	Limitation + Ombudsperson
Communication records	8 years + 5 years	Section 16	Limitation + potential proceedings
Board/Committee records	Permanent	Good governance	Corporate governance
Audit records	8 years + 5 years	Section 16	Limitation + potential proceedings

**Note:** For contraventions with potential systemic impact (Section 16 proviso), the limitation period does not apply, potentially requiring longer retention for systemically significant matters.

## Annexure I: Penalty Exposure Summary for F&O Participants

PARTICIPANT CATEGORY	CATE-	KEY CONTRAVENTIONS	MAXIMUM PENALTY	CRIMINAL EXPOSURE
<b>Stock Broker</b>		General defaults	₹1 crore (Section 99)	Market abuse only
		Business conduct failures	₹1 crore (Section 104)	Market abuse only
		Grievance redressal failure	₹1 lakh/day (Section 100)	No
		Information furnishing failure	₹1 lakh/day (Section 97)	No
		Market abuse	₹10L-25Cr (Section 96)	Yes - up to 10 years
		Non-compliance with orders	₹10L-25Cr (Section 94)	Yes - up to 10 years
<b>Clearing Member</b>		General defaults	₹1 crore (Section 98)	Market abuse only
		Settlement failures	₹1 crore (Section 104)	Market abuse only
<b>Proprietary Trader</b>		Market abuse	₹10L-25Cr (Section 96)	Yes - up to 10 years

	Position limit breach	As per regulations	No
<b>FPI</b>	General defaults	₹1 crore (Section 98)	Market abuse only
	Market abuse	₹10L-25Cr (Section 96)	Yes - up to 10 years
<b>AIF/PM</b>	Manager defaults	₹1 crore (Section 107)	Market abuse only
	Investor protection failures	₹1 crore (Section 104)	Market abuse only

## Annexure J: SEBI October-November 2024 F&O Changes - Compliance

### Summary

#### J.1 Contract Size and Lot Size Changes

INDEX	PREVIOUS LOT SIZE	NEW LOT SIZE	EFFECTIVE DATE	CONTRACT VALUE RANGE
Nifty 50	25	75 → 65 (revised Oct 2025)	20 Nov 2024 onwards	₹15-20 lakh
Bank Nifty	15	30	20 Nov 2024 onwards	₹15-20 lakh
Sensex	10	20	20 Nov 2024 onwards	₹15-20 lakh
Other indices	Various	Enhanced	20 Nov 2024 onwards	₹15-20 lakh

**Compliance Requirement:** Margin systems must reflect enhanced lot sizes; client advisories required.

#### J.2 Weekly Expiry Rationalisation

EXCHANGE	INDEX WITH WEEKLY EXPIRY	DISCONTINUED INDICES
NSE	Nifty 50 only	Bank Nifty, Fin Nifty, Nifty Midcap Select, Nifty Next 50
BSE	Sensex only	Bankex, Sensex 50

**Compliance Requirement:** Product offering updates; client communications; strategy transition support.

#### J.3 Margin Requirement Changes

REQUIREMENT	SPECIFICATION	EFFECTIVE DATE
Additional ELM on expiry	2% on short index options	20 Nov 2024
Calendar spread benefit removal	No benefit on expiry day	10 Feb 2025
Upfront option premium	Full premium upfront	1 Feb 2025

Intraday position monitoring

Minimum 4 snapshots

1 Apr 2025

**Compliance Requirement:** Margin system updates; enhanced capital planning; client communications.

## Annexure K: Comparative Analysis - Position Limit Frameworks

JURISDICTION	FRAMEWORK	KEY FEATURES	SMC ALIGNMENT
<b>India (Current)</b>	SEBI Circular-based	Index: % of MWPL; Stock: % of MWPL + OI	Continues under Section 11
<b>US (CFTC)</b>	Statutory + Rule	Commodity-specific limits; exemptions for bona fide hedging	Similar enabling approach
<b>EU (MiFID II)</b>	Article 57	Commodity derivatives; competent authority determination	More prescriptive
<b>UK (FCA)</b>	Onshored MiFID II	Similar to EU with UK modifications	Similar
<b>Singapore (MAS)</b>	Guidelines-based	Prudential approach for CMS licensees	Similar principles

**SMC Position:** Section 11 provides regulatory authority; detailed limits continue through SEBI regulations and MII bye-laws. Convergence with international approaches while maintaining India-specific calibration.

## Annexure L: Inter-Regulatory Coordination Framework

Chapter XV (Sections 118-122) establishes the framework for coordination between SEBI and other regulatory authorities:

PROVISION	CONTENT	APPLICATION TO F&O
Section 118	Issuance/holding of other regulated instruments	Potential overlap with RBI for currency derivatives
Section 119	Listing/trading of other regulated instruments	Enables listing of instruments primarily regulated by other authorities
Section 120	Cooperation between SEBI and other regulatory authorities	Information sharing, coordinated enforcement
Section 121	General conditions for coordination	Consultation, conflict resolution
Section 122	SEBI action against entities registered with other authorities	Cross-regulatory enforcement

**Compliance Implication:** F&O participants in currency derivatives or other products with multi-regulator oversight should monitor inter-regulatory coordination developments.

## Annexure M: Glossary of Key Terms

TERM	DEFINITION	SMC REFERENCE
Adjudicating Officer	Person designated by SEBI for adjudication proceedings	Section 2(a), 17
Beneficial Owner	Person whose name is recorded with depository as owner of securities	Section 2(c)
Clearing Corporation	Person undertaking clearing and settlement of trades in securities	Section 2(g)
Clearing Member	Person having clearing and settlement rights per CC bye-laws	Section 2(h)
Derivative	Comprehensive definition including futures, options, swaps, structured products	Section 2(m)
Intermediary	22 categories of persons facilitating securities market activities	Section 2(q)
Market Abuse	Insider trading, information misuse, manipulation, false information	Section 93
Market Infrastructure Institution	Stock exchange, clearing corporation, depository, or notified entities	Section 2(v)
Market Participant	Person participating in securities markets as issuer or investor	Section 2(w)
Securities	Comprehensive definition including derivatives, units, receipts, and interests	Section 2(zi)
Securities Markets Service Provider	Intermediary, MII, or SRO	Section 2(zk)
Self-Regulatory Organisation	Person formed by intermediary or investor class	Section 2(zl)
Settlement Finality	Irrevocable completion of settlement per approved bye-laws	Section 68
Trading Member	Person having trading rights in stock exchange, includes stock broker	Section 2(zp)
Underlying	Security, commodity, currency, index, or other reference for derivative	Section 2(zr)
Unlawful Gain	Profit made and loss averted through contravention	Section 2(zt)

## Annexure N: Implementation Monitoring Dashboard Template

F&O participants should maintain an implementation monitoring dashboard tracking SMC transition progress:

## SMC COMPLIANCE TRANSITION DASHBOARD

Organisation: \_\_\_\_\_

Reporting Period: \_\_\_\_\_

Overall Status: [ ] Green [ ] Amber [ ] Red

## 1. REGISTRATION COMPLIANCE

Current Status: \_\_\_\_\_% Complete

Key Actions Pending: \_\_\_\_\_

Target Completion: \_\_\_\_\_

## 2. SYSTEMS AND TECHNOLOGY

Current Status: \_\_\_\_\_% Complete

Key Actions Pending: \_\_\_\_\_

Target Completion: \_\_\_\_\_

## 3. POLICIES AND PROCEDURES

Current Status: \_\_\_\_\_% Complete

Key Actions Pending: \_\_\_\_\_

Target Completion: \_\_\_\_\_

## 4. PERSONNEL TRAINING

Current Status: \_\_\_\_\_% Complete

Key Actions Pending: \_\_\_\_\_

Target Completion: \_\_\_\_\_

## 5. CLIENT COMMUNICATION

Current Status: \_\_\_\_\_% Complete

Key Actions Pending: \_\_\_\_\_

Target Completion: \_\_\_\_\_

## 6. INVESTOR PROTECTION

Current Status: \_\_\_\_\_% Complete

Key Actions Pending: \_\_\_\_\_

Target Completion: \_\_\_\_\_

## 7. MARKET ABUSE PREVENTION

Current Status: \_\_\_\_\_% Complete

Key Actions Pending: \_\_\_\_\_

Target Completion: \_\_\_\_\_

## 8. DOCUMENTATION UPDATE

Current Status: \_\_\_\_\_% Complete

Key Actions Pending: \_\_\_\_\_

Target Completion: \_\_\_\_\_

## RISK AREAS REQUIRING ATTENTION:

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

## BUDGET STATUS:

Allocated: ₹ \_\_\_\_\_

Spent: ₹ \_\_\_\_\_

Projected: ₹ \_\_\_\_\_

NEXT REVIEW DATE: \_\_\_\_\_

## Annexure O: Frequently Asked Questions

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**Q1: When will the SMC come into force?**

A: The SMC is currently before Parliament. Upon passage and Presidential assent, Section 1(2) allows the Central Government to notify different provisions on different dates. Full implementation is anticipated over 18-36 months post-notification.

**Q2: Will existing SEBI registrations continue under the SMC?**

A: Section 152 provides for repeal and savings. Existing registrations are expected to continue subject to transitional provisions to be notified. Participants should monitor SEBI notifications for specific transition requirements.

**Q3: How does the SMC affect current F&O margin requirements?**

A: The SMC does not directly modify margin requirements, which continue under SEBI regulations and MII bye-laws. The October-November 2024 SEBI changes remain the operative baseline. The SMC provides the enabling framework for continued regulatory development.

**Q4: What is the most significant compliance change for stock brokers?**

A: The statutory entrenchment of investor protection (Sections 71-78) requiring mandatory grievance redressal mechanisms and Ombudsperson process preparedness represents the most operationally significant change for most brokers.

**Q5: Does the SMC change criminal liability exposure?**

A: Significantly. The SMC decriminalises most contraventions, limiting criminal liability to market abuse (Section 96) and non-compliance with SEBI/SAT orders (Sections 94-95). However, civil penalty ceilings have increased substantially.

**Q6: How does the eight-year limitation period work?**

A: Section 16 bars initiation of inspections or investigations after eight years from the date of default or contravention. Exceptions apply for matters referred by investigating agencies and contraventions with systemic market impact. Continuing contraventions trigger fresh limitation periods.

**Q7: What are the key changes for commodity derivative participants?**

A: The SMC provides unified treatment of equity and commodity derivatives under consolidated definitions. Section 49 continues the commodity notification framework; Section 50 addresses specific delivery contracts. Compliance framework harmonisation across product lines is recommended.

**Q8: How should participants prepare for the Ombudsperson framework?**

A: Participants should establish robust internal grievance redressal mechanisms (prerequisite for Ombudsperson access), document procedures and resolutions comprehensively, and train relevant personnel on Ombudsperson procedures.

**Q9: Does the SMC affect algorithmic trading?**

A: The SMC does not contain specific algorithmic trading provisions but provides the enabling framework for SEBI regulations. Market abuse provisions (Section 93) apply to algorithmic trading activities. Participants should ensure algorithms do not exhibit manipulation characteristics.

**Q10: What is the timeline for compliance preparation?**

A: Participants should commence gap assessment immediately upon parliamentary passage, targeting full compliance readiness within 180 days of notification while anticipating phased implementation over 18-36 months.

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