

FAQs on Physical Settlement in Equity Derivatives

1. When should the contract note be issued?

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

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

Contract note is not required to be issued on the date of final settlement. However, Member shall communicate the details of the final settlement on expiry, wherever applicable, through written and irrefutable modes and such communication shall provide relevant details as the contract description, ISIN of security, deliverable quantity/pay-in amount etc.

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

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

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

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

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

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

6. Can the securities, receivable on the physical settlement of derivatives, be considered as collateral for providing Margin Trading Facility (MTF)?

No, margin trading facility cannot be given against the securities receivable in future against physically settled derivatives.

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

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

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