**SETTLEMENT MECHANISM IN DERIVATIVES**

1. **Related to Future Contracts**
2. NSE regulations on Settlement of futures contract on index and securities

1. “The positions in the futures contract for each member is marked to market to the daily settlement price of such futures contract at the end of each trade day. Daily settlement price Daily settlement price for futures contracts shall be the closing price of such contracts on the trading day. The closing price for a futures contract shall be calculated on the basis of the last half an hour weighted average price of such contract or such other price as may be decided by the relevant authority from time to time.
2. The profits/ losses are computed as the difference between the trade price or the previous day's settlement price, as the case may be, and the current day's settlement price. The CMs who have suffered a loss are required to pay the mark-to-market loss amount to NSCCL which is passed on to the members who have made a profit. This is known as daily mark-to-market settlement. After daily settlement, all the open positions are reset to the daily settlement price.
3. CMs are responsible to collect and settle the daily mark to market profits / losses incurred by the TMs and their clients clearing and settling through them. The pay-in and pay-out of the mark-to-market settlement is on T+1 days (T = Trade day). The mark to market losses or profits are directly debited or credited to the CMs clearing bank account.
4. On the expiry of the futures contracts, NSCCL marks all positions of a CM to the final settlement price and the resulting profit / loss is settled in cash.
5. The **final settlement** of the futures contracts is similar to the daily settlement process except for the method of computation of final settlement price. The final settlement profit / loss is computed as the difference between trade price or the previous day's settlement price, as the case may be, and the final settlement price of the relevant futures contract.
6. Final settlement price for a futures contract shall be the closing price of the relevant underlying security/index in the Normal Market of the Capital Market segment of National Stock Exchange on the last trading day of such futures contract.
7. Final settlement loss/ profit amount is debited/ credited to the relevant CMs clearing bank account on T+1 day (T= expiry day).”
8. NSCCL regulations on Settlement of Futures contract
9. “For daily mark to market settlement, all open positions whether long or short of a F&O Clearing Member in Futures Contracts shall be deemed to have been closed out at the daily settlement price, and such member shall be liable to pay to, or entitled to collect from the Clearing Corporation any loss or profit, as the case may be, represented by the difference between the price at which the Futures Contract was bought or sold, or the settlement price of the previous trading day and the daily settlement price of the transaction at the end of the trading day, as the case may be.
10. Daily settlement price shall be the closing price of the Futures Contracts for the trading day or such other price as may be decided by the relevant authority from time to time.
11. For final Settlement, all open positions of F&O Clearing Members in the Futures Contracts at the close of trading hours on the last trading day shall be settled as per the procedure specified by the relevant authority from time to time. On completion of final settlement, open positions in such futures contracts shall ipso facto cease to exist. The Final Settlement Price shall be the closing price of the underlying security on the last trading day of the contract or such other price as may be specified by the relevant authority from time to time.”
12. BSE and ICCL (Indian Clearing Corporation Ltd) regulations on Settlement of futures contract on index and securities
13. “The Daily settlement price for futures contracts shall be the closing price of such contracts on the trading day. The closing price for a futures contract shall be calculated on the basis of the last half an hour weighted average price of such contract or such other price as may be decided by the relevant authority from time to time.
14. All positions (brought forward, traded during the day, closed out during the day) of a clearing member in futures contracts, at the close of trading hours on a day, shall be marked to market at the daily settlement price (for daily mark to market settlement) and settled. The premium payable value or receivable value of clearing members in respect of option contracts is computed after netting the premium payable or receivable positions at trading member level, for each option contract, at the end of each trading day.
15. Final settlement price for futures contract and option contract shall be the closing price of the relevant underlying index/security in the normal market of the Capital Market segment of the Stock Exchange on the last trading day of such futures contract. The closing price of the relevant underlying security is calculated on the basis of the last half an hour weighted average price of the relevant underlying security or such other price as may be decided by the relevant authority from time to time. All positions (brought forward, traded during the last day, closed out during the last day) of a clearing member in futures contracts, at the close of trading hours on the last trading day of the contract, are marked to market at final settlement price (for final settlement) and settled. “

***Note: SEBI’s master circular on Stock Exchange and Clearing Corporation as well as SEBI act, 1992 doesn’t say anything about the settlement mechanism.***

1. **Related to Option Contracts**
2. NSE regulations on Settlement of Options contract on index and securities
3. “The premium payable position and premium receivable positions are netted across all option contracts for each CM at the client level to determine the net premium payable or receivable amount, at the end of each day.
4. The CMs who have a premium payable position are required to pay the premium amount to NSCCL which is in turn passed on to the members who have a premium receivable position. This is known as daily premium settlement.
5. CMs are responsible to collect and settle for the premium amounts from the TMs and their clients clearing and settling through them.
6. The pay-in and pay-out of the premium settlement is on T+1 day (T = Trade day). The premium payable amount and premium receivable amount are directly debited or credited to the CMs clearing bank account.
7. **Final Exercise settlement** is effected for option positions at in-the-money strike prices existing at the close of trading hours, on the expiration day of an option contract. Long positions at in-the money strike prices are automatically assigned to short positions in option contracts with the same series, on a random basis.
8. For index options contracts and options contracts on individual securities, exercise style is European style. Final Exercise is Automatic on expiry of the option contracts.
9. Option contracts, which have been exercised, shall be assigned and allocated to Clearing Members at the client level. Exercise settlement is cash settled by debiting/ crediting of the clearing accounts of the relevant Clearing Members with the respective Clearing Bank.
10. Final settlement loss/ profit amount for option contracts on Index is debited/ credited to the relevant CMs clearing bank account on T+1 day (T = expiry day).
11. Final settlement loss/ profit amount for option contracts on Individual Securities is debited/ credited to the relevant CMs clearing bank account on T+1 day (T = expiry day).
12. Open positions, in option contracts, cease to exist after their expiration day. The pay-in / pay-out of funds for a CM on a day is the net amount across settlements and all TMs/ clients, in F&O Segment”
13. NSCCL regulations on Settlement of Options contract
14. “For daily premium settlement, F&O Clearing Members with premium payable positions are obliged to effect pay-in to Clearing Corporation of the premium value at which the option contracts were purchased, towards settlement. F&O Clearing Members with premium receivable positions are entitled to receive the premium value at which the option contracts were sold, towards settlement, from Clearing Corporation.”
15. On final Settlement obligation can be settled either on cash based or delivery based. Clearing Corporation

***Source:*** *NSE-* [*https://www.nseindia.com/products/content/derivatives/equities/settlement\_mechanism.htm*](https://www.nseindia.com/products/content/derivatives/equities/settlement_mechanism.htm)

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