



CIRCULAR

CIR/DNPD/ 1 /2010

April 27, 2010

Recognized Stock Exchanges
and their Clearing Corporations / Clearing Houses

Dear Sir/Madam,

Sub: Introduction of derivative contracts on Volatility Index

Further to SEBI circular no. SEBI/DNPD/Cir-35/2007 dated January 15, 2008 with regard to introduction of Volatility Index, it has now been decided to permit Stock Exchanges to introduce derivative contracts on Volatility Index, subject to the condition that;

- a. The underlying Volatility Index has a track record of at least one year.
 - b. The Exchange has in place the appropriate risk management framework for such derivative contracts.
2. Before introduction of such contracts, the Stock Exchanges shall submit the following:
- i. Contract specifications
 - ii. Position and Exercise Limits
 - iii. Margins
 - iv. The economic purpose it is intended to serve
 - v. Likely contribution to market development
 - vi. The safeguards and the risk protection mechanism adopted by the exchange to ensure market integrity, protection of investors and smooth and orderly trading
 - vii. The infrastructure of the exchange and the surveillance system to effectively monitor trading in such contracts, and
 - viii. Details of settlement procedures & systems
 - ix. Details of back testing of the margin calculation for a period of one year considering a call and a put option on the underlying with a delta of 0.25 & -0.25 respectively and actual value of the underlying
3. This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.



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Securities and Exchange Board of India

4. The circular shall come into force from the date of the circular.
5. This circular issues with the approval of the competent authority.
6. This circular is available on SEBI website at www.sebi.gov.in., under the category "Derivatives- Circulars".

Yours faithfully,

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