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ASIFMA Response to SEBI Consultation on Individual Scrip wise Price Bands/Circuit Filters on F&O Scrips

Dear Manish,

On behalf of its members, Asia Securities Industry & Financial Markets Association¹ ("ASIFMA") conveys its sincere appreciation to SEBI for requesting Industry feedback regarding its Consultation on Individual Scrip wise Price Bands/Circuit Filters on F&O Scrips ("Consultation"). ASIFMA members appreciate the concerns raised by SEBI re potential massive erosion of investors' wealth due to extreme market volatility and that such risks need to be addressed. This is an issue of concern to many regulators around the world and has been highlighted as a key risk by IOSCO in their paper 'Mechanisms Used by Trading Venues to Manage Extreme Volatility and Preserve Orderly Trading' published August 2018. We apologize for the delay in our response beyond the requested 20 February deadline as we needed time both to collect feedback from our members and to confirm Industry consensus. Our members' concerns regarding the proposed options are outlined below:

Name of entity/ person: Asia Securities Industry & Financial Markets Association (ASIFMA)			
Sl. No.	Reference Para of the discussion paper	Suggestions / comments	Rationale
1	12.1 Option 1 – Price Bands / Circuit Filters (Hard limits)	Our members do not recommend Option 1.	<ul style="list-style-type: none"> Option buyers pay premium from the perspective of being long volatility. Enforcing fixed/hard limits may result in a manufactured loss for option buyers (as underlying price moves become restricted after a certain point) but favor option writers for the same reason. It is unclear what the unintended consequences might be as market equilibrium becomes distorted with pricing divergence between derivatives and underlying. With hard limits triggering many derivatives positions to become out of the money, if investors further hedge to protect their existing positions, this may further increase market volatility.

¹ ASIFMA is an independent, regional trade association with over 100 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional and consulting firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

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2	12.2 Option 2 – Combination of Dynamic and Fixed price band / circuit filter or call auction mechanism	Our members do not recommend Option 2.	<ul style="list-style-type: none"> • Call auctions may create further challenges on timely re-computation of the indices, as already noted by SEBI. Given the current dominance in the market by retail investors, such complexity may cause more damage to retail investors first than to other market participants.
3	12.3. Option 3 – No change in the existing framework	<p>Our members suggest staying with Option 3.</p> <p>Our members also recommend considering circuit breakers to derivatives on the NIFTY 50, in line with current circuit breakers on the NIFTY 50 itself.</p>	<ul style="list-style-type: none"> • Our members agree that the derivatives segments should maintain consistency and co-exist with and follow the cash segment when in the same session, regardless of whether circuit filters are involved. Such will prevent distortions to market equilibrium (as previously noted re option 1). We do note that there are currently no circuit filters on stocks and we believe this should continue. • Our members suggest to consider introducing circuit breakers to derivatives on the NIFTY 50 to be in line with the current circuit breakers on the NIFTY 50 itself, which may serve to stall and halt falling prices. Unnatural volatility can be curtailed by imposing dynamic price bands on both the cash and derivatives segments which open up after short intervals (say 10 / 15 minutes). • What might be useful is to do some backtesting against the options to assess the theoretical impact based on historical activity. In the interim, before more scientific study and more robust industry discussions, our members suggest staying with Option 3.

We are currently discussing with regional members a potential review of markets across Asia to assess current vulnerabilities and to make recommendations to improve the market structure, but this will take some time. We appreciate the urgency on the part of SEBI to address this important issue, but hope to build consensus at a regional level to conduct this study and to come back with more substantive recommendations.

Should you have any questions, please do not hesitate to contact Lyndon Chao via email (lchao@asifma.org) or by telephone (+852 2531 6550).

Sincerely,



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