

Exchanges

Reduction in index derivative contract size augurs well for retail participation

We believe miniaturisation of contracts may help in spurring retail participation. This may further gain prominence post the reduction of market lots in derivative contracts by the NSE as announced on Apr 2, '24 ([link](#)). This, in our view, could lead to an increase in the number of orders, and hence, be construed positive for brokerage plays. However, premium/notional value may not change much ideally as seen in the case of Bank Nifty lot size reduction in Jun'23.

SEBI regulation regarding index options contract size necessitates periodic revision downwards with increase in index value

As per the SEBI: "A derivative contract shall have a value of not less than INR 0.5mn at the time of its introduction in the market. The lot size for derivatives contracts in index derivatives segment shall be fixed in such a manner that the contract value of the derivative on the day of review is within INR 0.5mn and INR 1mn. Further, the lot size (in units of underlying) shall be fixed as a multiple of 5, provided the lot size is not less than 10"

Source: SEBI Chapter 5: Exchange Traded Derivatives - [Link](#)

Changes in lot size by the NSE

With the current contract lot size, NIFTY 50 contracts are breaching the INR 1mn limit set by the SEBI on current ATM strike price of 22,500. Hence, the revision is taking place on an immediate basis. On current lot sizes in FIN NIFTY and MIDCAP NIFTY, INR 1mn limit is still not being breached at current ATM strike price of 21,200 and 10,800, respectively. Hence, the revision is not immediate by the NSE (first monthly contract expiry with revised lot sizes for FIN NIFTY and MIDCAP NIFTY will be in Jul'24 and first weekly expiry with revised lot size will be on Aug 6,'24) (refer Exhibits 2-3 for calculation).

Exhibit 1: Changes in index derivatives lot size by NSE

Index Derivatives contract	Existing Lot Size	New Lot Size
NIFTY 50	50	25
FIN NIFTY	40	20
MIDCAP NIFTY	75	50
BANK NIFTY	15	No Change

Source: I-Sec research, NSE

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Exhibit 2: Contract notional value with current lot size

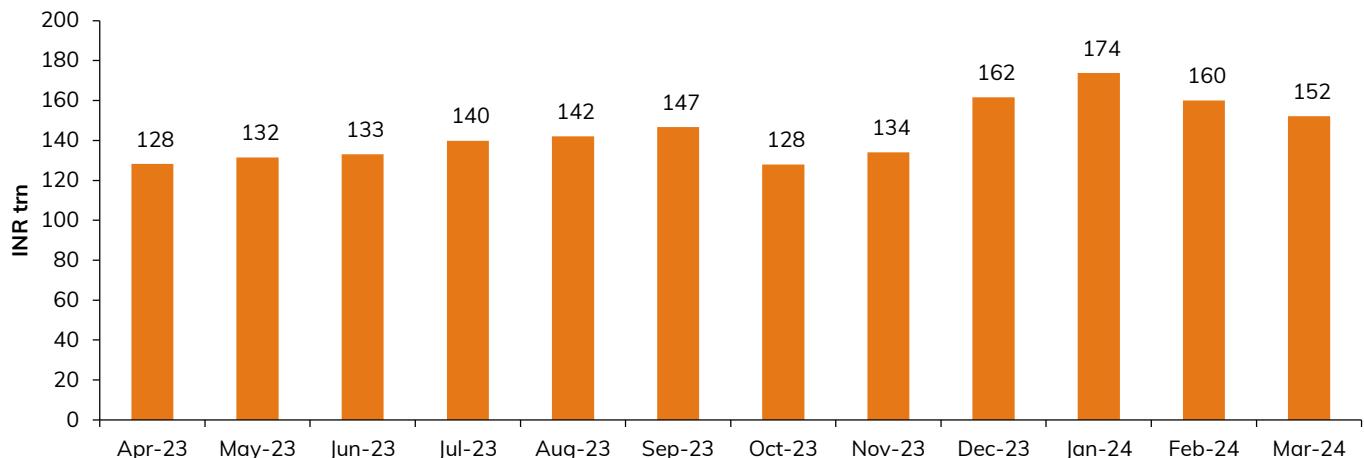
Option Contract	ATM Strike Price as of 2nd Apr'24	Old Lot Size	Total Notional Value (INR)
NIFTY 50	22,500	50	11,25,000
FIN NIFTY	21,200	40	8,48,000
MIDCAP NIFTY	10,800	75	8,10,000
BANK NIFTY	47,600	15	7,14,000

Source: I-Sec research, NSE

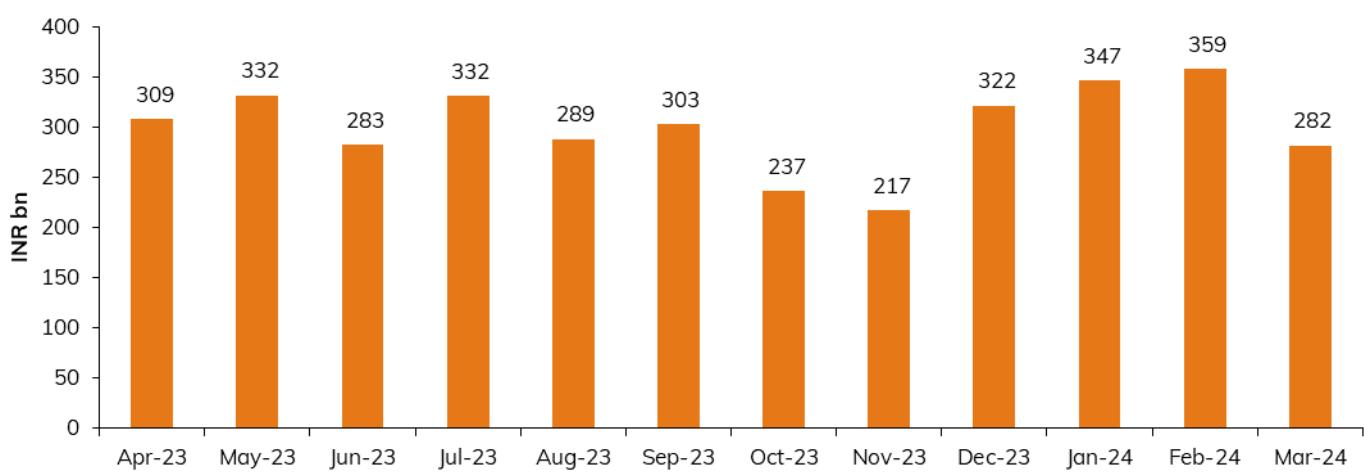
Exhibit 3: Contract notional value with revised lot size

Option Contract	ATM Strike Price as of 2nd Apr'24	New Lot Size	Total Notional Value (INR)
NIFTY 50	22,500	25	5,62,500
FIN NIFTY	21,200	20	4,24,000
MIDCAP NIFTY	10,800	50	5,40,000

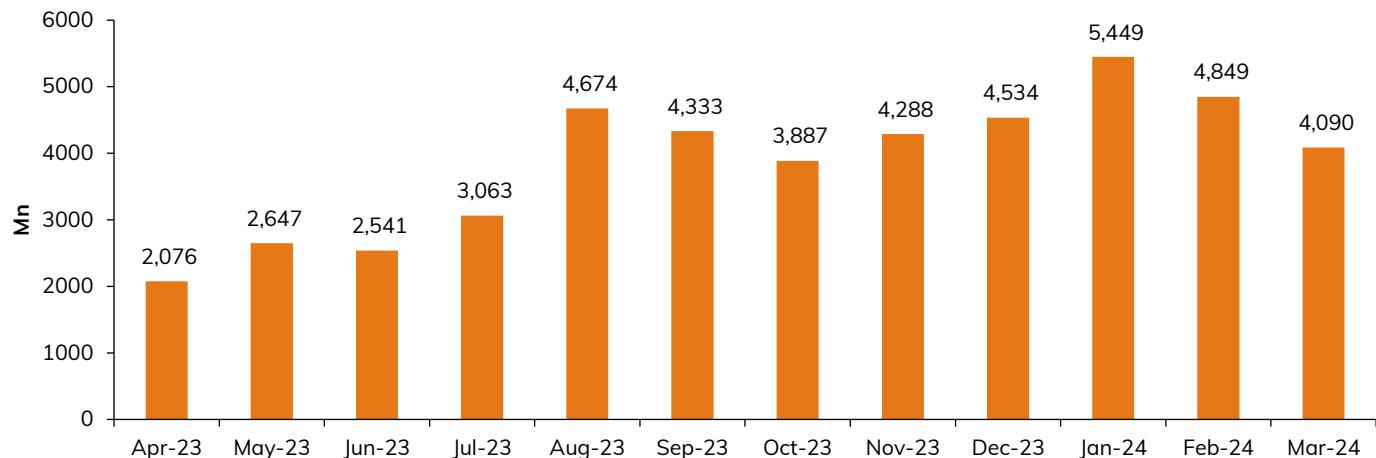
Source: I-Sec research, NSE

Exhibit 4: BANK NIFTY options notional ADTV did not change much after reduction in lot size


Source: I-Sec research, NSE

Exhibit 5: BANK NIFTY options premium ADTV did not change much after reduction in lot size


Source: I-Sec research, NSE

Exhibit 6: BANK NIFTY's number of contracts increased substantially after reduction in lot size

Source: I-Sec research, NSE

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