The amendment in the definition of "securities" under SC(R)A (to include derivative contracts in the definition of securities), provided the environment for derivatives trading to takes place under the provisions of the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992.

The Dr. L.C Gupta Committee constituted by SEBI laid down the regulatory framework for derivatives trading in India. SEBI also framed suggestive bye-laws for Derivative Exchanges/Segments and their Clearing Corporation/House which provide the provisions for trading and settlement of derivative contracts. The Rules, Bye-laws & Regulations of the Derivatives Segment of the Exchanges and their Clearing Corporation/House have to be framed in line with the suggestive Bye-laws. SEBI has also specified the eligibility conditions for Derivative Exchange/Segment and its Clearing

Corporation/House. The eligibility conditions have been framed to ensure that Derivative Exchange/Segment & Clearing Corporation/House provide a transparent trading environment, safety with integrity and provide facilities for redressal of investor grievances. Some of the important eligibility conditions are -

1. Derivative trading to take place only through an online screen based Trading System.

2. The Derivatives Exchange/Segment shall have online surveillance capability to monitor positions, prices, and volumes on a real time basis to deter market manipulation.

3. The Derivatives Exchange/ Segment should have suitable arrangements for dissemination of information about trades, quantities and quotes on a real time basis through at least two information vending networks, which are easily accessible to investors across the country.

4. The Derivatives Exchange/Segment should have adequate arbitration and investor grievances redressal mechanism operative from all the four areas / regions of the country.

5. The Derivatives Exchange/Segment should have a satisfactory system for monitoring investor complaints and preventing irregularities in trading.

6. The Derivatives Segment of the Exchange to have a separate Investor Protection Fund.

7. The Clearing Corporation/House shall provide full novation, i.e. the Clearing Corporation/House shall interpose itself between both (parties) legs of every trade, becoming the legal counterparty to both or alternatively should provide an unconditional guarantee / commitment for settlement of all trades.

8. The Clearing Corporation/House shall have the capacity to monitor the overall position of Members across both the derivatives market and the underlying securities (Cash market) market for those Members who are participating in both market.

9. The level of initial margin on Index Futures Contracts shall be related to the risk of loss on the position. The concept of value-at-risk (VaR) shall be used in calculating required level of initial margins. The initial margins should be large enough to cover the probable one-day loss that can be encountered on the position on 99% (confidence level) of the days.

10. The Clearing Corporation/House shall establish facilities for electronic funds transfer (EFT) for instant movement of margin money payments.

11. In the event of a Member defaulting in meeting their liabilities, the Clearing Corporation/House shall transfer client positions and assets to another solvent Member or close-out all open positions.

12. The Clearing Corporation/House should have capabilities to segregate/ identify initial margins deposited by Clearing Members for trades on their own account and on account of the client. The Clearing Corporation/House shall hold the margin money of the clients in trust for only those purposes specified by the clients and should not allow its diversion for any other purpose.

13. The Clearing Corporation/House shall have/maintain a separate Trade Guarantee Fund for the trades executed on the Derivatives Exchange / Segment.