

CIRCULAR

HO/47/15/11(1)2025-MRD-TPD1

October 30, 2025

To

All Stock Exchanges

All Clearing Corporations

(Except Commodity Derivatives Exchanges and Clearing Corporations)

Sir/Madam,

Sub: - Implementation of eligibility criteria for derivatives on existing Non-Benchmark Indices

1. Clause 5.7 of SEBI circular no. SEBI/HO/MRD/TPD-1/P/CIR/2025/79 dated May 29, 2025, stipulates the following prudential norms with respect to eligibility criteria for derivatives on Non-Benchmark Indices (NBIs):

5.7.1 In addition to the existing eligibility criteria for derivatives on indices, specified in Clause 1.1.2 of Chapter 5 of SEBI Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024, Stock Exchanges shall follow the following prudential norms before introducing derivatives on non-benchmark indices:

5.7.1.1 Minimum of 14 constituents;

5.7.1.2 Top constituent's weight $\leq$ 20%

5.7.1.3 Combined weight of the top three constituents $\leq$ 45%

5.7.1.4 All other constituents' individual weights must be lower than those of the higher-weighted constituents (i.e. a descending weight structure).

2. The Stock Exchanges were directed to submit their proposal for NBIs having derivatives contracts on them to SEBI, within 30 days from the issuance of the aforesaid circular.
3. As the process of adjustment of constituents and their weights in the existing NBIs can impact passive funds tracking the indices as well as derivatives contracts on these indices, a [public consultation was carried out on August 18, 2025](#), to seek views on whether compliance with prudential norms be achieved through creation of separate index or weight/constituent adjustment in existing index.
4. Based on the feedback received on public consultation and recommendations of Secondary Market Advisory Committee (SMAC), following is stipulated for implementation of eligibility criteria for derivatives contracts on existing NBIs:
 - 4.1 For compliance with the eligibility criteria prescribed at para 1 above, stock exchanges shall undertake necessary constituent / weight adjustments in existing NBIs.
 - 4.2 In order to achieve the objective mentioned at para 4.1 above,
 - 4.2.1. the compliance with prudential norms may be implemented through constituent / weight adjustment in single tranche for the two indices BANKEX (derivatives traded on BSE) and FINNIFTY (derivatives traded on NSE)
 - 4.2.2. the compliance with prudential norms in case of BANKNIFTY (derivatives traded on NSE) may be implemented in a phased manner, over four monthly tranches, as illustrated below, in order to ensure orderly rebalancing of AUM tracking the index:

4.2.2.1. The new constituents would be added in tranche 1. The top 3 constituents will have a target weight at the end of tranche 4. In each adjustment, the weight of top 3 constituents would be checked and if the weights are beyond the prudential norms, the excess would be targeted for reduction equally over the remaining tranches. This is illustrated with an example below.

4.2.2.2. Assume the present weight of a constituent at Rank 1 by weight is 28% and the target weight is 20% (i.e. weight adjustment is 8%).

4.2.2.3. In the first tranche, the weight would be adjusted by 2% (i.e. 8% divided in 4 tranches) to 26%. At the beginning of the next tranche, weights of all the constituents would be re-evaluated for confirmation with prudential norms. Let's assume that the weight of Rank 1 constituent by weight drifted to 25.5% because of inter tranche price movement of constituents. Now, the remaining weight i.e. $25.5 - 20 = 5.5\%$ would be adjusted by 1.83% in the instant tranche (i.e. $5.5/3$) and so on.

4.2.2.4. The iterative process for all tranches is summarized in the table below continuing the same example discussed above:

Month / Tranche	Weight at the start of the month/tranche	Formula	Calculation	Adjusted weight
Start of Month 1:	28%	(Actual weight - desired weight)/4	$(28 - 20) = 2\%$	26%
Start of Month 2:	25.5%	(Actual weight - desired weight)/3	$(25.5 - 20)/3 = 1.83\%$	23.67%
Start of Month 3:	23%	(Actual weight - desired weight)	$(23 - 19.5^*)/2 = 1.75\%$	21.25%



Month / Tranche	Weight at the start of the month/tranche	Formula	Calculation	Adjusted weight
		weight)/2		
Start of Month 4:	20.9%	(Actual weight - desired weight)	20.9-18.5*=2.4%	18.5%

*It is assumed that based on relative price movement of the constituents and hence their free float market cap, the target weight of the instant constituent changed.

4.2.2.5. It may be noted that the example mentioned above is only for illustration purpose and do not represent actual numbers.

4.2.2.6. The excess weight after adjustment from the top constituents would be distributed amongst the other constituents as long as they meet the prudential norms mentioned

4.3 Accordingly, the effective date for implementation of eligibility criteria for Derivatives on NBI for existing NBIs as specified in SEBI circular dated May 29, 2025 at para 6 (sub para 7) as November 3, 2025 is now revised to as under:

4.3.1. upto March 31, 2026 for BANKNIFTY.

4.3.2. upto December 31, 2025 for BANKEX and FINNIFTY.

4.4 Stock Exchanges shall ensure that the process of compliance with prudential norms for the aforementioned indices are implemented latest by the aforementioned timelines.

5. Stock Exchanges and Clearing Corporations are required to take necessary steps to put in place systems and processes for implementation of this Circular, including advance intimation to market participants, necessary amendments to the relevant bye-laws, rules and regulations, if any.

6. This circular is being issued in exercise of powers conferred under Section 11(1) read with Section 11(2)(a) of the SEBI Act, 1992, read with Regulation 51 of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
7. This Circular is available on SEBI website at www.sebi.gov.in under the link “Legal Framework” → “Circulars”.

Yours faithfully,

Darshil D. Bhatt
Deputy General Manager
Technology, Process Re-engineering, Data Analytics
Market Regulation Department
+91-22-26449735
Email: darshilb@sebi.gov.in