

May 14, 2019

**Addendum to the Market Consultation Paper released by NSE Indices on May 02, 2019**

On May 2, 2019, NSE Indices Limited had floated a consultation paper to seek market feedback on the following:

- Introduction of Sectoral weight caps in NIFTY 50 index
- Introduction of surveillance and risk related parameters imposed by the exchanges for selection of stocks in NIFTY indices at the time of periodic reconstitution of NIFTY indices

In order to get more specific feedback to certain questions, we have summarized below the market consultation paper and revised questions of the market consultation paper dated May 02, 2019.

**1. Need to introduce sector weight caps in NIFTY 50 index**

India's benchmark index, the NIFTY 50, tracks the performance of 50 large and liquid stocks listed at NSE. Selection of stocks in NIFTY 50 is based on liquidity and free-float market capitalization. NIFTY 50 represents ~67% of average free-float market capitalization of all NSE listed stocks and ~53% of total turnover at NSE based on data for six months period ending March 2019.

NIFTY 50 index being the most tracked index representing the broader Indian capital market, several index linked products namely Futures & Options, Exchange Traded Funds, Index Funds etc., that are linked to the NIFTY 50 index, have been introduced in India and international markets.

It is observed that over the long period, the weightage in index of certain sectors like Financial Services, Energy, IT, Consumer Goods etc. has changed in line with the changing economy, market conditions, investor interest etc. In last ten years, share of financial services sector amongst all NSE listed companies has increased from 20.72% in June 2009 to 31.88% in March 2019. However, during the same period, share of financial services sector in NIFTY 50 has increased from 21.87% to 37.36%.

In light of the above we are seeking market feedback whether we should cap weightage of a sector NIFTY 50 in order to make the index more diversified and reduce the systemic market risk arising from a large weightage of a sector.

**We seek market feedback on the following**

- 1) Whether there is a need to introduce sector weight caps in NIFTY 50 index?
  - Please provide your response as YES or NO along with rationale
- 2) If your response to above question is 'YES', what, in your opinion, is the most appropriate sectoral weight cap for a sector in NIFTY 50?
  - Options are 20%, 25%, 30%, 35% and 40%

## **2. Need to introduce surveillance and risk related parameters imposed by the exchanges for selection of stocks in NIFTY 50 at the time of periodic reconstitution of NIFTY indices**

Currently, selection of stocks in NIFTY 50 is based on parameters including average free float market capitalization, liquidity, availability of stock in F&O, trading frequency etc. Stocks that are classified under 'BZ' series (in accordance with SEBI circular CIR/MRD/DSA/31/2013 dated September 30, 2013) by NSE are ineligible to be included in any of NIFTY indices including NIFTY 50.

In the past few years, high concentration and extreme volatility have raised surveillance and risk management concerns in equity and equity derivatives markets. To address the same, various surveillance/ risk related measures have been imposed by the stock exchanges that are based on objective criteria laid down by stock exchanges. These surveillance measures include Short Term & Long Term Additional Surveillance Measure (ASM) framework, Graded Surveillance Measure (GSM) framework, Reduction in price bands, Shifting of securities to 'Trade for Trade' segment and Additional surveillance margins in capital market and F&O segment that are based on (a) Intraday volatility, (b) Market Wide Position Limits (MWPL) utilization (**For more details: [NSE Circular](#)**) and (c) High client concentration (**For more details: [NSE Circular](#)**).

At present, criteria for selection of stocks in NIFTY 50 mandates availability of stocks for trading in NSE's F&O segment. Accordingly, amongst the various surveillance/ risk measures imposed by the exchanges mentioned above, Additional surveillance margin requirement as stated above can be additionally considered for selection/exclusion of stocks from NIFTY 50. The framework for these surveillance measures are made available by the stock exchanges on their websites.

### **In light of the above, we seek market feedback on the following**

- 1) Should stocks that are subject to additional surveillance margin requirement for one year period or more be considered ineligible at the time of reconstitution of NIFTY 50?
  - Please provide your response as YES or NO along with rationale

**Feedback from market participant is invited on the proposal contained in this paper.**

**In order to receive greater participation, last date for submitting the feedback has been revised to June 21, 2019 (initial timeline May 31, 2019).**

**[Click here to participate through an online survey.](#)**

The comments may also be sent by [e-mail](#) or by post to:

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