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F AND O BAN - AN OPPORTUNITY FOR TRADERS TO GRAB A GOOD PROFIT IN DERIVATIVE MARKET

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Abstract:

In this paper we define future and option F and O ban. How, why and when it comes into action. It also proposes the period of ban, the reason and criteria of banning. It discuss the effect of banning on price of stocks as well as on traders. Finally it concludes about grabbing of handful of profit in banning situation with the help of illustrating examples.

Keywords: Future and Option, trading, stock market.

Introduction:

Futures and options make up the derivatives market. In F and O trading, you do not buy or sell securities when you make a transaction. Instead, you agree to buy or sell the security at a later date and at a predetermined price. F and O trading thus helps to generate profits by speculating on the future price movements of securities. In F and O, you can trade stocks, currencies, commodities and other securities traded in capital markets. However, F and O trading has a limited amount that can be traded. If the limit is exceeded, the National Stock Exchange (NSE) imposes a ban on trading of F and O securities. F and O bans are tools that stock exchanges use to maintain market stability and protect investors from excessive fluctuations. When a stock enters ban period, any new position cannot opened for that stock to prevent the excessive speculation. The only kind of trading which is permitted in this period is to exit the pre-existing positions or to square off the existing positions. **What is ban in stock market?** In the context of the stock market, a "ban" typically refers to a temporary restriction or prohibition imposed by regulatory authorities on certain activities or securities trading. There are some common types of bans in the stock market as follows,

Short Selling Ban: Short selling involves selling securities that the seller does not own, with the intention of buying them back at a lower price in the future. Short selling bans temporarily prohibit or restrict the practice of short selling certain stocks or across the entire market. These bans are often implemented during periods of extreme market volatility or financial crises to prevent further downward pressure on stock prices.

Margin Trading Ban: Margin trading allows investors to borrow funds from their broker to purchase securities, using the securities themselves as collateral. Margin trading bans restrict or prohibit the use of margin accounts for trading in certain securities or across the entire market. These bans are often implemented to mitigate the risks associated with excessive leverage and speculative trading.

Insider Trading Bans: Insider trading involves trading securities based on material, non-public information about the issuer. Insider trading bans prohibit individuals with access to such information from trading securities until the information is made public. These bans help prevent unfair advantages for insiders and maintain a level playing field for all investors.

Why are stocks put on the ban list? Stocks can be put on a ban list or subject to trading restrictions for various reasons, typically related to concerns about market stability, fairness, investor protection, or regulatory compliance. Here we have some casual reasons why stocks might be put on a ban list,

Excessive Volatility: Stocks that experience extreme price fluctuations within a short period may be subject to trading bans or restrictions. Excessive volatility can disrupt market stability and lead to disorderly trading conditions. Regulatory authorities may intervene to impose temporary trading halts or restrictions to prevent further volatility and protect investors. **Manipulative Trading Activity**: Stocks that are subject to manipulation or fraudulent trading practices may be placed on a ban list. Manipulative activities such as pump-and-dump schemes, spoofing, or wash trading can distort market prices and undermine investor confidence. Regulatory authorities may suspend trading in such stocks or impose restrictions to investigate and address the manipulative behaviour.

Insufficient Information Disclosure: Companies that fail to meet disclosure requirements or provide inaccurate or misleading information to investors may face trading bans or restrictions. Lack of transparency can lead to market uncertainty and investor distrust. Regulatory authorities may halt trading in stocks of companies that fail to comply with disclosure obligations until the necessary information is provided.
Regulatory Concerns: Stocks of companies facing regulatory investigations, enforcement actions, or legal proceedings may be placed on a ban list. Regulatory concerns related to issues such as compliance violations, accounting irregularities, or corporate governance failures can prompt trading suspensions or restrictions.

Market Abuse: Stocks that are used for abusive trading practices, such as naked short selling or market manipulation, may be placed on a ban list. Market abuse can distort market prices and undermine market integrity. The MWPL (Market Wide Position Limit) limit changes regularly as the number of shares traded in the market changes daily. The MWPL limit is regularly monitored and updated by the NSE to reflect the total number of open positions in the derivatives market. The limit remains at 95% of MWPL. Therefore, if the aggregate value of all open futures and options contracts exceeds 95% of the stock's MWPL, NSE will ban the stock. There is no set time limit for the ban. The ban will remain in effect until the aggregate value of all open positions in futures and options contracts on the stock falls to or below 80 percent of the MWPL. Once the 80% limit is reached, normal business can resume.
What happens when stocks comes into F and O ban? When a stock comes under the Futures and Options (F&O) ban, it means that trading in futures and options contracts of that particular stock is restricted or suspended by the stock exchange. This restriction is typically imposed by the exchange's regulatory body, such as the Securities and Exchange Board of India (SEBI) in India, due to certain regulatory or risk management concerns.

Restriction on New Positions: Traders are prohibited from opening new futures and options positions in the banned stock. This means that investors cannot buy new futures contracts or open new options positions (both buying and selling) in the stock until the ban is lifted.

Closure of Existing Positions: Traders with existing futures and options positions in the banned stock are allowed to close out their positions. They can either sell their long positions (if they hold futures or call options) or buy back their short positions (if they hold futures or put options).

Methodology

F and O's securities ban directly affects trader when he trade futures and options. If he open a new business somewhere in a prohibited security, he will be fined. Therefore, he should be aware of the ban at the time of its introduction. Even if he trade in the cash segment of the market, banning a stock can lower the price of the stock and thus cause a loss to a new trader. So it's worth being aware of the F and O ban and checking the stock prices. NSE publishes notifications on its portal when open positions in equity futures and options contracts exceed 60% of MWPL. This helps traders assess whether a ban is imminent or not so they can make informed trading decisions. Trading strategies involving futures and options (F&O) bans can be complex and risky, and they require a deep understanding of market dynamics, regulatory requirements, and risk management principles. While some traders may attempt to exploit F&O bans for profit, it's essential to approach such strategies with caution and to be aware of the associated risks. Here we have studied some situations and few considerations: **Monitoring F&O Bans**: Keep a close watch on stocks that are placed under F&O bans by regulatory authorities or stock exchanges. F&O bans are typically imposed due to concerns about excessive speculation, volatility, or regulatory compliance issues. By monitoring the list of banned stocks, traders can identify opportunities or potential risks in the market.

Arbitrage Opportunities: F&O bans may create arbitrage opportunities between the cash and derivatives markets. Traders with access to both markets may exploit price discrepancies between the two markets by simultaneously buying and selling the underlying stock and its corresponding futures or options contracts. However, arbitrage strategies require careful execution and risk management to avoid losses.

Risk Management: Trading strategies involving F&O bans carry inherent risks, including market risk, liquidity risk, and regulatory risk. It's crucial for traders to implement robust risk management practices and to carefully manage their positions to limit potential losses. This may involve setting stop-loss orders, diversifying positions, and avoiding excessive leverage. Here we can see some examples with illustration.

Balrampur Chini Mills, Bandhan Bank, GNFC, Hindustan Copper, Vodafone Idea, Metropolis Healthcare, National Aluminium, Piramal Enterprises, SAIL, and ZEEL are the 10 stocks that are part of the F&O ban list for **April 18**. We see some details about MWPL in the following table.

Stocks that are part of the F&O ban list for April 18

Sr. No.	Stocks	Previous MWPL%	Current MWPL%
1.	HINDCOOPER	90.42	87.89
2.	GNFC	91.03	88.38
3.	BALRAMCHIN	88.64	86.64
4.	ZEEL	92.39	91.60
5.	NATIONALUM	89.17	86.80
6.	SAIL	95.88	91.19
7.	METROPOLIS	102.81	95.56
8.	PEL	94.69	91.92
9.	IDEA	79.24	115.67
10	BANDHANBNK	96.56	91.95

On 18-04-2024 there is no possible exists as the ban is reversed only if the open interest falls below 80%. As we see the above table all values of current MWPL % are greater than 85%. Hence all the stocks which are in the ban list of 18-04-24 are all continued on19-04-24.

Stocks that are part of the F&O ban list for April 19

Sr. No.	Stocks	Previous MWPL%	Current MWPL%
1.	HINDCOOPER	87.89	84.65
2.	GNFC	88.38	83.65
3.	BALRAMCHIN	86.64	83.85
4.	ZEEL	91.60	90.51

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5.	SAIL	91.19	87.20
6.	METROPOLIS	95.56	92.02
7.	PEL	91.92	89.35
8.	IDEA	115.67	108.58
9.	BANDHANBNK	91.95	88.89

The stocks whose current MWPL is below 85% may be out of ban. Thus we can find the **possible exists on 22-04-2024**

Sr. No.	Stocks	Previous MWPL%	Current MWPL%
1.	HINDCOOPER	87.89	84.65
2.	BALRAMCHIN	86.64	83.85
3.	GNFC	88.38	83.65

Traders are not allowed to open new position in the stock that is subject to the F & O ban during this time but by squaring off positions, they can decrease their stake in that stock. There is a chance that a stock may soon be added to the ban list if it's MWPL is greater than 80% similarly a stock has a chance of leaving the ban list in the near future if it's MWPL begins to fall below 95% while it is in the ban list.

Stocks that are part of the F&O ban list for April 22

Sr. No.	Stocks	Previous MWPL%	Current MWPL%
1.	BALRAMCHIN	86.64	83.85
2.	ZEEL	90.51	89.60
3.	SAIL	91.19	87.20
4.	METROPOLIS	92.02	86.05
5.	PEL	89.35	87.19
6.	IDEA	108.58	104.22
7.	BANDHANBNK	88.89	85.25

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As we compare the possible exists list on 19-04-2024 and ban list on 22-04-2024 we see that only **BALRAMCHIN** stock is in the ban list remaining two are out of ban.

Chart 1

Chart 2

Chart 1

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Chart 3

Chart 4

Result and Conclusion

Thus we wisely read the charts and study the ban list we can cautiously predict the stocks which can give us the profit. It's important to note that trading strategies involving F&O bans can be speculative and volatile, and they may not be suitable for all traders. As we have seen F and O ban has both good and bad effect. We can consider this ban situation as an opportunity to get a handful of profit. Before engaging in such strategies, traders should conduct thorough research, assess their risk tolerance, and consider consulting with a financial advisor. Additionally, traders should comply with regulatory requirements and adhere to ethical trading practices at all times. Trading on F and O can be riskier than you think. As a trader, you need to be aware of all possible market movements in order to manage your portfolio effectively. It is also most important that traders not only follow every market update and news but also understand the conditions like MWPL and penalty imposed by exchanges for violating SEBI rules.

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