# Margins and Retail Dynamics: Assessing SEBI's Peak Margin Rules in India's Derivatives Market.


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***Abstract:*** *The Securities and Exchange Board of India (SEBI) implemented phase-wise peak margin rules from December 2020 to September 2021, with the primary objective of promoting market stability and strengthening the risk management mechanism in the derivatives segment of the Indian capital market. It mandates the collection of margin based on retail investors' intraday positions by the brokers to avoid the risk occurring due to heavy leverage trading activities.*

*This study examines the effect of the implementation of phase-wise regulatory reforms in margin rules by SEBI on retail investors' trading activities. The study adopts the method of phase-wise analysis on the participant-wise daily data reports published by the National Stock Exchange from the implementation period, which is December 2020 to September 2021. The findings of the study suggest that the higher margin requirements did not significantly reduce the retail investors' trading activity. However, a shift from futures trading to options trading that involved low upfront costs was observed. This behaviour change indicated the strategic approach adopted by the retail investors rather than exiting the market. Overall, the findings of the study suggest that the regulatory reforms in peak margin rules by SEBI served their primary objective without undermining the inclusivity of the financial market.*



***Keywords:*** *SEBI Regulations, Peak Margin Rules, Indian Derivatives Market, Retail Investors, Trading Behaviour, Futures and Options (F&O), Trading Volume and Open Interest, Market Stability*

***JEL codes:*** *G10, G12, G13, G14, G18, G23, G28, K22, O16*


### 1. Introduction

The derivatives market segment of the Indian capital market plays a crucial role in providing a mechanism and instruments for risk management, price discovery, and opportunities for trading and speculation. (Team, 2024). When we dive deep into the literature available regarding the benefits of the introduction of derivatives in the Indian capital market, we come across two sets of beliefs in relation to their existence in the capital market. (Faisal, 2025). There are theories and literature

that talk about the benefits of derivatives and how they stabilise the market with their mechanism, also known as the stabilisation theory. (Faisal, 2025). These studies suggest that the introduction of derivatives in the underlying market increased the opportunities for trading for investors that were not possible due to certain trade restrictions.

On the other hand, some studies refer to the derivatives being deleterious and resulting in the destabilisation of the market. They argue that the introduction of derivatives drew the traders away from the underlying market, which reduced the liquidity of the underlying market and impacted the price negatively. The derivatives also promote speculative activities due to the lower margin requirements (Upadhyay, 2025). The traders are enticed to carry out aggressive trading activities as the derivatives offer more channels for insider trading. Both ends of the argument hold an important role in portraying the influence of the derivatives on the underlying market. The present study in this regard attempts to understand the effects of changes made in the peak margin rules by SEBI on the retail traders on the NSE (Kim et al., 2023).

National Stock Exchange of India (NSE) is one of the largest hosts of the derivatives market in a global sense. It provides a platform for all types of participants, including retail investors, who are referred to as "Clients" when we look at the data provided on the website of NSE. Retail investors, as the definition goes, are the individuals who trade in the stock market or the capital market for not more than Rs 200000 (Verma Gakhar, 2016). So, in essence, in an IPO, an individual investor who applies for shares worth Rs 2,00,000 is under the category of a retail investor according to SEBI. While in the derivatives market, any individual trader, and specifically not an institution or professional fund, participating in trading or investing activities in the derivatives market with their own funds for their personal benefits, is in the category of retail investors (Verma Gakhar, 2016). The participation of these individuals or retail investors acts as a barometer that provides information regarding market accessibility and financial inclusion for policymakers. This paper attempts to study the impact of regulatory changes on the trading behaviour of retail investors.

The Securities and Exchange Board of India (SEBI) implemented Peak Margin Rules from December 2020 to September 2021 in a phased manner in response to the concerns of market volatility and leverage. (Team, 2024). Peak margin, in its very simple meaning, means that the maximum leverage a broker can give investors for intraday trading, or the minimum amount an investor must maintain in their trading account before trading. When the trading positions of the participants reached a certain threshold, these regulatory changes limited the excessive intraday leverage by the compulsion of higher margin requirements. (Verma Gakhar, 2016). The basic purpose of these regulatory changes was to enhance the stability of the market and to protect the investors. Being margin-sensitive, the retail investors were likely to be affected more due to these changes in their participation than the institutional participants.

The SEBI introduced regulatory reforms in recent years to promote the stability of the market, decrease excessive leverage, and have control over systemic risks, especially through the implementation of strict margin requirements in four phases starting from December 2020 to September 2021 (Faisal, 2025). While the reforms were done to manage the risk and protect investors, there remains a question as to whether these changes had a positive impact, a negative impact, or no impact at all. This paper focuses on examining the effects of SEBI Peak Margin Rules on retail derivatives trading in India. It investigates the effect of changes in margin rules on the trading activities and participation patterns of retail investors.

## 2. Review of literature

SEBI operationalized a peak margin overview recorded for intraday trading in the derivatives

segment of the Indian capital market to verify the framework for the collection of initial margins in cash and derivatives post March 2020 due to the high volatility and rapid retail participation in the derivatives market (Pathak et al., 2015). SEBI circulated a circular on July 20, 2020, that brokers and exchanges would compare their retail investors' peak intraday margin requirement with the actual collection of margins, and the shortfall therein would attract penalties. This circular very much predicted the phase-wise implementation of regulatory reforms. (Verma Gakhar, 2016). The phase-wise peak margin rules implementation started from December 2020 to February 2021 for 25% to 50%, from March 2021 to May 2021, 75%, from June 2021 to August 2021, and finally 100% from September 1, 2021, and onwards.

A study examining how margin requirements affect the volatility, liquidity, and participation in the capital market states that there is not a very significant impact of higher margin requirements on price volatility (Kim et al., 2023). Although higher margins did reduce the leverage and trading activity. Some of the literature also concluded that an increase in margin requirements slows the price change rates and undermines liquidity, indicating a balance between conservative safety and market depth (Pathak et al., 2015). Other theoretical contributions associate the margins with market and funding liquidity helices. The study on clearinghouse margins highlights imbalance and trend-following behaviour in how margins respond to volatility (Faisal, 2025). Overall, the collective understanding is that the margin restrains the risk-taking and open interest but does not consistently suppress volatility. However, they raise the cost of transactions and reduce market depth with varied effects across all asset classes.

Contrary to the findings of these studies, India's peak margin rules reforms set a benchmark within global conservative logic, mandating of upfront payment of margin requirements to reduce leverage and herding behaviour, but it also results in a shift towards other alternative avenues that require low margins. (Team, 2024). The empirical evidence from studies since late 2020 has given us a major understanding of the implementation of these peak margin reforms. The intraday leverage compressions were immediate and mechanical. There were reports that confirmed no extra leverage in the F&O segment from June 2021 to September 2021 (Kushwaha, 2024). It aligned with Phases 3 and 4 of the frameworks. The high margin requirements in intraday trading activities reduced the opportunity for high turnover, which had penetrated the market through low-capital approaches during the pandemic. The retail investors' participation in derivatives shifted towards short-dated index options due to a fall in intraday leverage. (Faisal, 2025). Many reports have stated that India has the majority of the world's equity options contracts post-implementation of these peak margin rules. (Pathak et al., 2015). However, some reports consistently observed losses for individuals and retail investors. A SEBI report from January 2023 showed that 89% of retail investors in the F&O segment lost their money in the financial year 2022, which was extended to the financial year 2024, stating that approximately 93% of retail investors incurred losses over three years.

The study in 2025 indicates that after the SEBI's broad derivatives reforms, along with peak margin, took effect, the retail investors' participation and volume turnover in the derivatives segment reduced significantly. The decline in the F&O segment of the market, along with a 20% decline in retail investors' participation year-on-year, was reported in July-August 2025. These declines, although they were not categorised as a direct effect of peak margin rules reforms, underline the fact that margin-plus product-level constraints can suppress speculative trading activities (Team, 2024).

Margins are necessary to be implemented, but they are not sufficient to resolve the bigger problems of retail investors' losses. Margin rules alter the participation and product choices of the retail investors, but it does not significantly alter

the risk appetite and the outcomes of retail trading activities in the market. (Kim et al., 2023). The shift towards lower upfront margin required investment avenues due to a decline in leverage; higher upfront margin required avenues did not specifically eliminate the speculative activities. Post September 2021, Indian brokers and exchanges observed a decline in high-turnover intraday strategies due to a rise in margins and high trading costs. (Kushwaha, 2024). Policymakers must balance market integrity against the depth and cost of capital, especially for the participants who solely rely on liquid futures.

The phase-wise peak margin rules reforms implemented by SEBI in India achieved their conservative goals, reducing leverage and mandating upfront margin collections. (Kushwaha, 2024). The retail investors, however, migrated to lower-margin-sensitive products; their rate of loss remained higher as usual, which led to other product-level and suitability reforms in 2024-25. Thus, the existing literature frames the peak margins as a necessary point of discussion in relation to the fairness, transparency, and trustworthiness of the market.

**3. Objectives and Research Questions**

The extensive literature review led to the framing of the following key research questions:

Did regulatory changes in the margin requirements decrease the participation of retail investors in derivatives trading?

Was there a shift from futures to options trading due to strict margin requirements in reference to retail traders?

Did the margin rule changes decrease the retail short (selling) activity compared to retail long (buying) positions?

Was there a notable decrease in retail investors (clients) participation compared to overall derivatives market participation across all phases?

**4. Research methodology and Data collection**

The study examines the effect of SEBI's Peak Margin rules on the retail investors' participation in the derivatives market. The study adopts the approach of analysis of secondary data of derivatives trading available publicly on the website of the National Stock Exchange (NSE).

The participant-wise derivatives trading data published by NSE on their website is taken for the analysis for the period of December 2020 to September 2021, corresponding to the four phases of margin rules implementation by SEBI. Hence, the study adopts a phase-wise analysis that matches the implementation phase announced by SEBI.

Source of Data: Daily reports published on NSE on the derivatives trading volume and open interest, bifurcated into participant categories, namely, Clients (retail investors), FPIs (Foreign Portfolio Investors), DIIs (Domestic Institutional Investors), and Pro (proprietary traders).

Sample selection and segmentation: The data is derived from the daily reports of participant-wise derivative trading data published by NSE. The data is organised into four phases according to the phase-wise implementation of the peak margin rules by SEBI.

Phase 1: December 2020 – February 2021 (25% of margin requirement)

Phase 2: March 2021 – May 2021 (50% of margin requirement)

Phase 3: June 2021 – August 2021 (75% of margin requirement)

Phase 4: September 2021 onwards (100% of margin requirement)

The participant-wise data recorded for each trading day reports the position of different market participants. This study only focuses on the analysis of clients representing retail investors.

Analytical Tools: The data is analysed using pivot table analysis in Excel to compute aggregate volumes, open interest, long/short ratios, and client shares relative to the total market trading activity (NLUO, 2025). The analysis is done descriptively, that is, the phase-wise analysis as well as the comparative method, which is the client (retail investors) versus overall market trading activity, and Futures versus Options trading activities by retail investors.

The method adopted to assess the influence of regulatory reforms on retail investors' trading behaviour enables a structured evaluation. The study computes average trading activity and open interest for each phase and compares them across phases. This gives us an idea of whether retail investors' trading activity decreased gradually as the peak margin rules became stricter. To identify which segment was most affected by the margin requirements, separate analysis is done for Futures and Options, and within Options, separate analysis is done between long (buying) and short (selling) positions.

**Hypotheses**

Based on the design of the peel margin framework and the structure of the available data, four hypotheses are framed to evaluate changes in participation, product preference, long-short balance, and relative share of clients (retail investors). Each hypothesis is tested by comparison of phase-wise averages, all totals, and ratios. The hypotheses framed are as follows:

H1: The retail investors' trading activity in derivatives (volume and open interest) shows a progressive decline from Phase 1(25% margin) to Phase 4 (100% margin) implementation.

H2: The retail investors' trading activity in Futures declines rapidly than in Options due to strict margin requirements in Futures.

H3: The retail investors' trading activity position in Short Options (selling) declines as compared to positions in Long Options (buying) due to high margin requirements in selling.

H4: The share of retail investors' trading activity declines across phases of peak margin implementation relative to the total market activity.

**5. Results and Data Interpretation**

This section presents the empirical findings of the study and provides an interpretation of the observed patterns in retail investor trading activity within the derivatives segment of the Indian capital market. (NLUO, 2025). The organisation of the results and findings is done in a way that incorporates the analysis of key indicators of market participation, namely volume and open interest. They indicate the short-term trading intensity and the extent of position-holding, respectively. The data is then summarized through time-series plots and phase-wise averages for a clear understanding and further allows for both trend analysis and comparative insights across different phases.

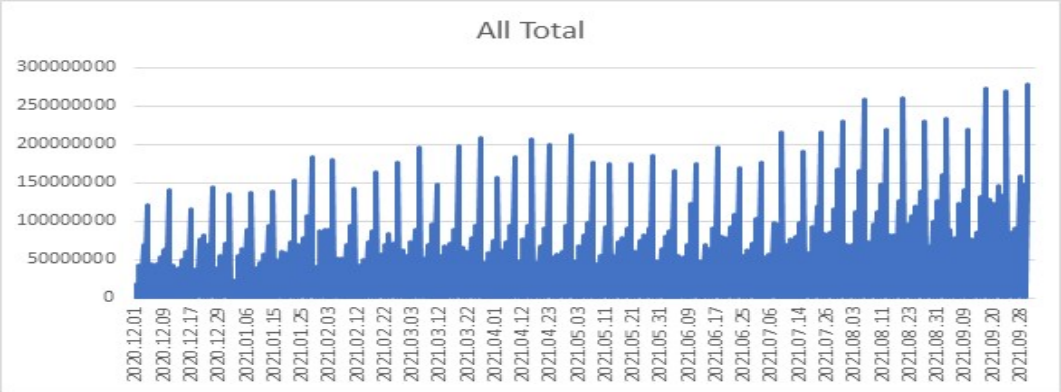



**Figure 1: Time-series plot of trading volume (All total) Source: Author's own work on MsExcel**

The first analysis that is undertaken is the time-series plot of the trading volume that was derived from the total of all types of products named as All total. Figure 1 demonstrates the trading volume (All Total) from December 2020 to September 2021. It is clearly seen that there is an upward trajectory over the period of observation in the trading volume. From December 2020, the trading activity has remained comparatively lower since March 2021, along with moderate fluctuations. It shows an impressive increase after the second quarter of 2021, gradually showing an upward trend in volume and significantly reaching higher levels in September 2021.

The upward trend in this series reflects the strong confidence and broad involvement of the retail investors during the observed period (Solutions, 2025). However, the analysis of the time-series of trading volume only reflects the intensity of market activity in the short term; to analyse the extent of retail investors' holding position, we need to evaluate the same time-series trend analysis for open interest as well. It will give an idea of the outstanding contracts that remain in the market at the end of each trading session. It will distinguish between the momentary increase in trading activities and sustained engagement that will eventually give a clearer and more comprehensive picture of the retail participation in the trading activities in the derivatives market. Figure 2 presents the plotting of the time-series pattern of open interest for the same period as trading volume.

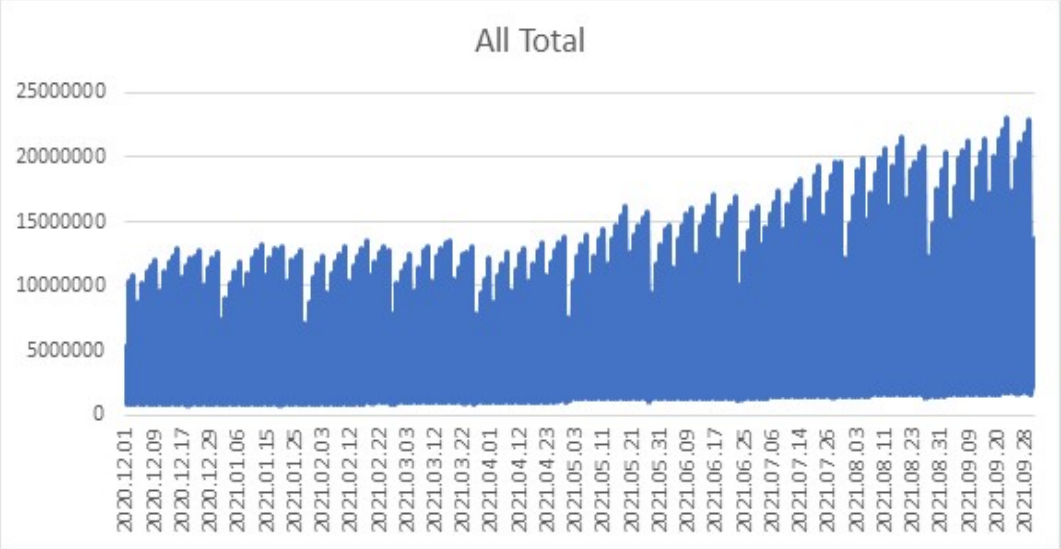



**Figure 2: Time-series plot of Open interest (All total) Source: Author's own work on MsExcel**

In the above Figure 2, the time series plot of open interest shows a consistent upward trend throughout the observation period, supporting the evidence of expansion of retail participation in the derivatives segment despite higher margin requirements over the study period. (Solutions, 2025). As we look at the chart, there are some occasional short-term dips in early months, but as we look at the picture as a whole, we can see that there is an upward movement in the trend.

This reflects that not only did the retail investors enter the market over the observed period, but also maintained their positions over time. When we look at both charts of volume and open interest together, we conclude that there lies market engagement where short-term activity is complemented by the willingness to carry positions further. Both charts reflect the progressive expansion of retail investor participation in the market. The persistent upward

trend in both charts of the two indicators, volume and open interest, respectively, suggests that the participation of retail investors is not only speculative in nature, but it is a more mature and sustained engagement. Hence, it highlights a positive shift in the behaviour of retail investors in the derivatives market during the observed period.

H1: The retail investors' trading activity in derivatives (volume and open interest) shows a progressive decline from Phase 1(25% margin) to Phase 4 (100% margin) implementation.

After the time-series analysis, the data is further analysed on a phase-wise basis, which evaluates the evolution of retail investors' activity over all the market phases. The phase-wise averages are taken for both trading volume and open interest for clarity on the intensification of the decline in retail investors' trading activity over the observed period. (Kumar, 2025). The analysis allows us to compare the short-term trading activities (trading volume) with the extent of position holding (open interest) across different phases.

**Table 1: Phase-wise Average Trading Volume Source: Author's own work on MsExcel**

| Phases | Average Activity (Volume) |
|---|---|
| 1 | **50,586,751.3** |
| 2 | **56,404,308.8** |
| 3 | **73,111,403.7** |
| 4 | **96,406,804.6** |




**Figure 3: Phase-wise Average Trading Volume Source: Author's own work on MsExcel**

Table 1 shows the phase-wise averages of the trading volume across all four phases during the implementation of the SEBI peak margin rule. It is then plotted on the line chart as depicted in Figure 3. The chart reveals a consistent upward movement in the market activity. The average daily volume of trading in Phase 1 stands at 50.6 million, approximately, indicating a moderate participation level, increasing to 56.4 million in Phase 2, 73.1 million in Phase 3, continuing the upward momentum to the average trading volume

of 96.4 million in Phase 4, almost double the level observed in Phase 1. This upward movement, or the trend, suggests that there is a steady increase in the trading volume of retail investors in the derivatives market (Kumar, 2025).

**Table 2: Phase-wise Average Open Interest Source: Author's own work on MsExcel**

| Phases | Average Activity (Open interest) |
|---|---|
| 1 | **9,265,687.9** |
| 2 | **10,001,378.5** |
| 3 | **14,236,151.7** |
| 4 | **17,110,457.4** |

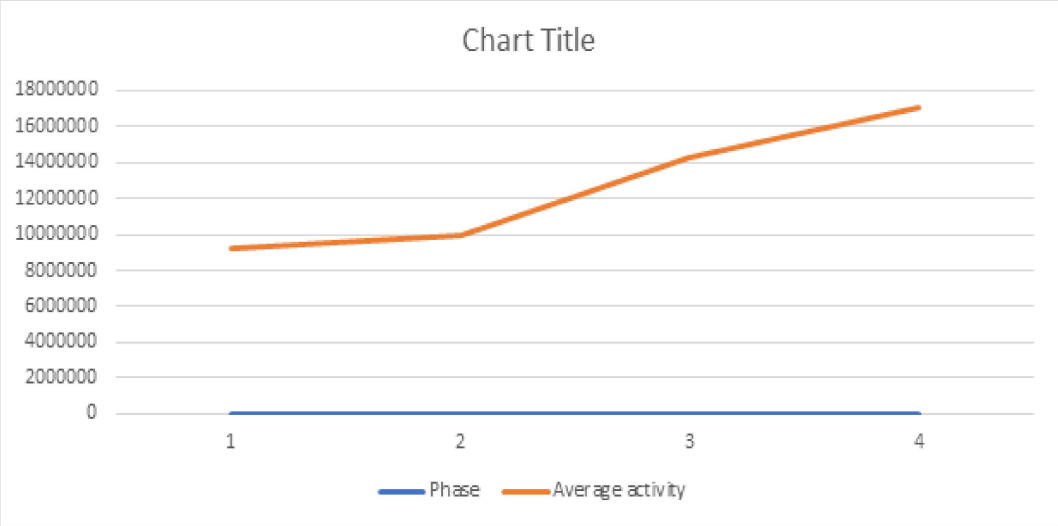



**Figure 4: Phase-wise Average Open Interest Source: Author's own work on MsExcel**

Table 2 and Figure 4 here depict the phase-wise averages of the open interest and plotting of the same values in the line chart, respectively. The phase-wise averages of open interest also show an upward trend, supporting the fact that there is an increase in market depth over the observed period of the study. (Podishetti, 2025). The average open interest is around 9.3 million in Phase 1, increasing up to 10 million in Phase 2, 14.2 million in Phase 3, and recording an average of 17.1 million in Phase 4, nearly doubling the base observed in Phase 1. This gradual increase reflects that the retail investors were holding their positions long with their active trading in the observed period of the study despite the high peak margin rules implemented by SEBI.

The H1 hypothesis proposed that retail investors' trading activity in derivatives (volume and open interest) would show a progressive decline from Phase 1(25% margin) to Phase 4 (100% margin) implementation. However, the results from both the time-series plots and the phase-wise averages of volume and open interest present an opposite trend. The trading volume, instead of declining, increases from 50.6 million in Phase 1 to 96.4 million in Phase 4. The open interest phase-wise averages increased from 9.26 million in Phase 1

to 17.1 million in Phase 4 over the observed period of the study. These results give us the idea that the retail investors in the derivatives market were resilient during the observed period of the study. (Podishetti, 2025). Hence, according to these results, the H1 hypothesis is not accepted.

**H2: The retail investors' trading activity in Futures declines more rapidly than in Options due to strict margin requirements in Futures.**

**Table 3: Clients' Averages of Total Futures (volume) and Total Options (volume) Source: Author's own work on MsExcel**

| Phases | Averages of Futures Total | Average of Options Total |
|---|---|---|
| 1 | **1255522.048** | **32465966.55** |
| 2 | **1132830.3** | **36467827.2** |
| 3 | **1006132.016** | **47732212.69** |
| 4 | **1062001.65** | **63201595.8** |
| (blank) | **1058863.731** | **39471604.28** |
| Grand total | **1071732.077** | **39471604.28** |

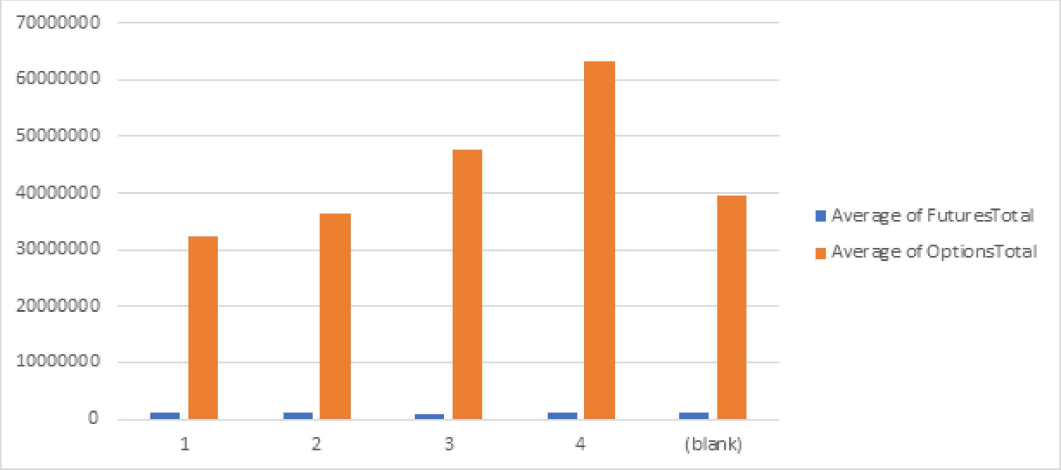



**Figure 5: Graphical representation of Clients' Averages of Total Futures (volume) and Total Options (volume) Source: Author's own work on MsExcel**

Table 3 highlights the phase-wise averages of Total Futures (volume) and Total Options (volume) traded by the retail investors in the observed period of the study. Figure 5 is the plotting of the same values in a clustered bar chart. The results here depict a contrasting trajectory between futures trading volume and options trading volume among the retail investors across the phases. (Zerodha, 2024). The volume data of futures shows a marginal decline from Phase 1 to Phase 4, while the trading volume of options rises significantly across the same phases. This contrast highlights the impact of margin requirements, as futures are more margin-sensitive and hence became less attractive for retail investors, whereas options, being less margin-sensitive with lower upfront costs, gained the retail investors' participation.

**Table 4: Clients' Averages of Total Futures (open interest) and Total Options (open interest) Source: Author's own work on MsExcel**

| Phases | Average of Futures Total | Average of Options Total |
|---|---|---|
| 1 | **1150994.371** | **4833626.113** |
| 2 | **1375617.95** | **5060801.6** |
| 3 | **1673662.016** | **7533438.031** |
| 4 | **1842563.238** | **9286505.571** |
| (blank) | **1805120.26** | **3307399.841** |
| Grand Total | **1733668.116** | **3883107.859** |

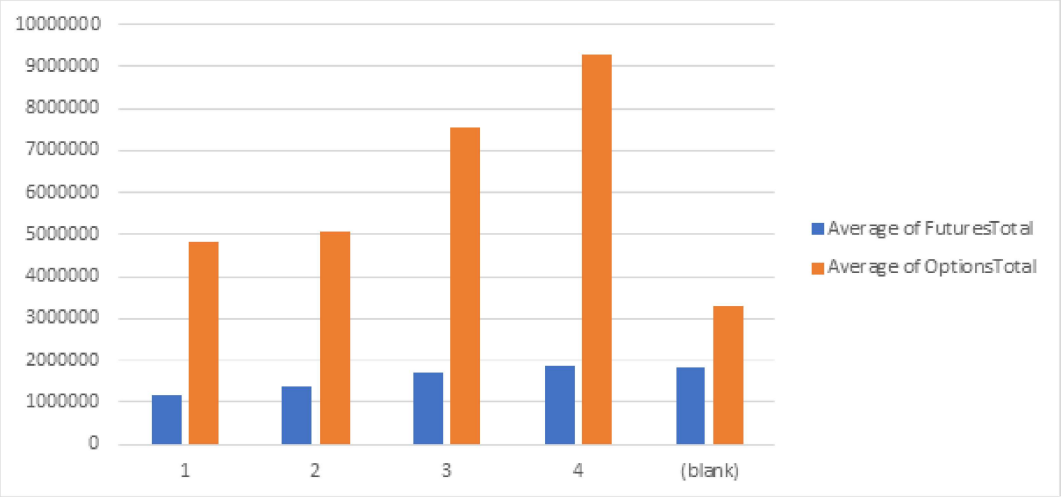



**Figure 6: Graphical representation of Clients' Averages of Total Futures (open interest) and Total Options (open interest) Source: Author's own work on MsExcel**

Table 4 highlights the phase-wise averages of Total Futures (open interest) and Total Options (open interest) traded by retail investors in the observed period of the study. Figure 6 is the plotting of the same values in a clustered bar chart. The results from open interest phase-wise averages for futures and options strengthen the findings of phase-wise averages for futures and options for volume. The futures open interest shows a gradual increase, but relatively slower than options. The options open interest increased across all the phases of the observed period of the study, reflecting a strong and sustained preference among retail investors. (Zerodha, 2024). Some retail investors maintained and held their positions in futures, which resulted in their gradual rise, while the majority sustained their position in options due to their low margin requirements and affordability.

The hypothesis H2, which says that the retail investors' trading activity in Futures declines more rapidly than in Options due to strict margin requirements in Futures, is well supported by this

analysis. The retail investors' activity in Futures remains stagnant or has declined due to high margin requirements in both trading volume and open interest. Option trading, on the other hand, for both volume and open interest, showed strong and consistent growth across all phases of the observed period of the study. (Comerton Forde et al., 2010). The peak margin rules implementation by SEBI had an impact on the divergence between futures and options due to strict margin requirements in futures and comparatively less margin-intensive options. This divergence indicates the response of retail investors towards the peak margin rules implementation by reducing their reliance on futures and shifting towards options. The analysis and its evidence, hence, accept and support the H2 hypothesis.

**H3: The retail investors' trading activity position in Short Options (selling) declines as compared to positions in Long Options (buying) due to high margin requirements in selling.**

**Table 5: Averages of Total Options Long (volume) and Total Options Short (volume) Source: Author's own work on MsExcel**

| Phases | Average of Options Long | Average of Options Short |
|---|---|---|
| 1 | **16865262.71** | **16856225.89** |
| 2 | **18803651.28** | **18797006.22** |
| 3 | **24373058.95** | **24365285.75** |
| 4 | **33423286.33** | **33405865.95** |
| Grand Total | **20459447.21** | **20459447.21** |

**Table 5.1: Averages of Options Short/Long Ratio (volume) Source: Author's own work on MsExcel**

| Phase | Average of Short/Long Ratio |
|---|---|
| 1 | **0.99946** |
| 2 | **0.99965** |
| 3 | **0.99968** |
| 4 | **0.99948** |
| Grand Total | **1.00000** |

Table 5 represents the averages of total Options long (volume) and total Options short (volume) for the retail investors. From Table 5, we computed averages of the options short/long ratio phase-wise in Table 5.1. The options trading volume for both long (buying) and short (selling) positions increased across all phases for the observed period of the study. The ratio between short and long remained consistent around 0.999 in each phase, indicating equal expansion in the trading activity. The analysis did not show any decline in the short (selling) positions due to strict margin requirements; instead, the results reflected that both the buyers' and sellers' trading activity had parallel growth in trading volumes.

**Table 6: Averages of Total Options Long (open interest) and Total Options Short (open interest). Source: Author's own work on MsExcel**

| Phases | Average of Options Long | Average of Options Short |
|---|---|---|
| 1 | **2455172.839** | **2378453.274** |
| 2 | **2531479.3** | **2529322.3** |
| 3 | **3727632.797** | **3805805.234** |
| 4 | **4605346.762** | **4681158.81** |
| Grand Total | **1941553.952** | **1941553.907** |

**Table 6.1: Averages of Options Short/Long Ratio (open interest) Source: Author's own work on MsExcel**

| Phase | Average of Short/Long Ratio |
|---|---|
| 1 | **0.9687** |
| 2 | **0.9991** |
| 3 | **1.0209** |
| 4 | **1.0165** |
| Grand Total | **1.0000** |

Table 6 represents the averages of total Options long (open interest) and total Options short (open interest) for the retail investors. From Table 6, we computed averages of the options short/long ratio phase-wise in Table 6.1. The analysis for the open interest in both long and short positions contradicts to H3, showing increase in short (selling) open interest relatively more than long (buying) open interest, which is due to well capitalized institutional participants who are more likely to be the holder of short (selling) positions continued their selling activity despite of strict margin requirements while the retail investors who are more likely to be the holder of long (buying) positions did not outpace the selling activities.

The analysis and its evidence, therefore, do not support H3, as the trading volume for short positions did not decrease relative to the long positions during the observed period of the study. The short positions increased relative to long positions in open interest analysis. This interpretation also suggests that the institutional sellers were likely to have absorbed the impact of peak margin rules, and retail investors actively did not suppress the selling activity. In essence, SEBI's peak margin rules implementation did not suppress the options writing; instead, it became more stable and strengthened, that do not align with the conventional belief about margin rules having a negative impact on option writing. (Orlov & Sharma, 2024).

**H4: The share of retail investors' trading activity declines across phases of peak margin implementation relative to the total market activity.**

**Table 7: Phase-wise client share (volume) in the total market and client share (open interest) in the total market. Source: Author's own work on MsExcel**

| | ClientTotal (Vol) | OverallMarket Total(Vol) | ClientShare (%)(Vol) | ClientTotal (OI) | OverallMarket Total(OI) | Clientsha (%)(OI) |
|---|---|---|---|---|---|---|
| | **2090732293** | **2090732294** | **99.99999995** | **299684819** | **299684819** | **100** |
| | **2256039450** | **2256039452** | **99.99999991** | **303648096** | **303648096** | **100** |
| | **3119254061** | **3119254064** | **99.99999990** | **482140034** | **482140034** | **100** |
| | **1403412198** | **1403412202** | **99.99999971** | **195016617** | **195016617** | **100** |
| Total | **8869438002** | **42351055732** | **20.94266093** | **1280489566** | **4019016634** | **31.86** |

Table 7 shows the retail investors' share in trading activity relative to overall market activity in volume and open interest, respectively. The analysis of retail investors' participation in volume and open interest, as seen in the table, is 20.94% of the total derivatives trading volume and 31.86% of the total open interest, reflecting the decline in the share of retail investors' trading activity relative to the overall derivatives market across all phases during the observed period of the study. This indicates that the other institutional participants in the derivative segment of the market, such as foreign portfolio investors (FPIs), domestic institutional investors (DIIs), and proprietary traders (Pro), dominate the trading activity in the derivative segment of the Indian capital market. (Orlov & Sharma, 2024).

The H4 hypothesis that the share of retail investors' trading activity declines across phases of peak margin implementation relative to the total market activity is evident through this analysis. Although we did not see any direct decline across the phases in the observation, the results affirm that retail investors' trading activity remains consistently lower compared to institutional participants. Hence, considering this analysis, we accept the H4 hypothesis.

The empirical analysis of the impact of peak margin rules implementation by SEBI from December 2020 to September 2021 in 4 different phases can be concluded into four major insights as follows.

The SEBI's peak margin rules implementation did not suppress the retail investors ' trading activity as expected. The overall trading volume increased phase-wise, which reflected the adaptability of retail investors. (SEBI's Latest Guidelines on F&O Trading, 2025). It also showcases the existence of rising financial awareness among retail investors that allowed them to cope with the high margin requirements rules.

When looking deeply into the phase-wise data analysis, it is discovered that the trading activities in Futures contracted while the volume and open interest for options expanded significantly. These observations confirm the fact that the retail investors shifted towards options from futures, as options are less margin-intensive and have lower upfront costs than futures (Gupta, 2025).

The SEBI's peak margin rules implementation did not reduce the short position in proportion to the long positions. The reason that is understood for this market behaviour is that institutional investors dominantly allowed the options writing activity, while the retail investors remained engaged in speculative intraday buying activities. (Retail Participation In F&O Decline After Sebi Tightens Rules, 2025). Hence, the regulatory changes did not hamper the options writing as expected.

For the observation period of the study, the retail investors accounted for approximately 21% and 32% in volume and open interest, respectively.

The participation of retail investors, however, gradually increased across all phases, but the overall market continued to be dominated by institutional participation. In aggregate, there was still a huge gap and imbalance between retail and institutional investors. (Chen et al., 2024).

In summary, the SEBI's peak margin rules implementation across four phases, starting from December 2020 to September 2021, reduced the speculative leverage at the aggregate level, especially in futures, without decreasing the retail investors' trading activity. The regulatory changes reinforced the shift towards options trading among retail investors. The dominant institutional participants continued to hold their positions and options writing in the overall market trading activities.

## 6. Conclusion

This study examines the effect of SEBI's peak margin rules implementation in four phases from December 2020 to September 2021. The results reflected that the high margin requirements and strict margin rules did not have any negative impact on the overall retail investors' trading activities (Kushwaha, 2024). The regulatory changes made the retail investors adapt and shift towards options trading from futures, which eventually indicates the change in trading behaviour and preferences to accept and adapt according to the situation rather than just exiting the market. (Team, 2024).

The derivatives segment of the Indian capital market, however, is still dominated by institutional investors who absorbed the peak margin rules changes and allowed the retail investors to focus on their speculative long positions. (Kaushik, 2025). The study empirically advocates the fact that the retail investors, although small in share (approx. 21% in volume and 32% in open interest), continue to be more resilient and financially aware, which reflects their growing engagement in the market. Hence, we can conclude that the SEBI's peak margin rules implementation overall did serve its objectives to regulate market stability and protect its investors while allowing the derivatives market to evolve with deeper retail investor participation. (Verma Gakhar, 2016).

## 7. Managerial and practical implications

For the policymakers, the findings of the study suggest that the regulatory reforms performed by SEBI through its phase-wise margin rules implementation have been an effective step in balancing risk containment with market access. The speculations in Futures have been controlled with a reduction in systematic vulnerabilities, allowing retail trading activities to thrive in options trading. However, the shift towards option trading among retail investors raises the need for strong financial awareness and education initiatives to protect them from discrepancies.

For investors, the study suggests that there is a need to understand the margin rules to mitigate the risk of loss involved due to higher margin requirements. As well, when retail investors responded by shifting towards options trading, there lies the exposure of short-dated options that can only be understood by proper financial awareness and education. The brokers can take the findings of the study as empirical evidence of a shift in retail investor behaviour, which needs proper risk advisory and suitability checks. The results of the study affirm the importance of margin reforms and highlight the need for financial education and awareness for their long-term sustainable participation in the market.

## 8. Limitations of the study

This study has a few limitations that should be kept in mind while interpreting the results. The analysis covers only the period from December 2020 to September 2021, which coincides with the four phases of SEBI's peak margin rule implementation. As a result, it reflects only the short-term impact of the regulation and does not capture longer-term market adjustments or the effect of subsequent policy changes.

Another limitation is the use of Excel for phase-wise analysis. While Excel allowed a clear and

simple breakdown of data across phases, it restricted the use of more advanced statistical or econometric methods that could have provided deeper insights into market behaviour.

Lastly, the study relies solely on quantitative secondary data and does not incorporate behavioural or qualitative aspects of retail investors' responses. This narrows the perspective on how investors perceived and adapted to the changes. Despite these limitations, the study offers a valuable snapshot of how retail investors responded to a major regulatory shift, laying a foundation for more detailed future research.

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