Selling Pressure at the F&O Ban: Evidence from NSE Single-Stock Derivatives

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Abstract

When open interest in a single-stock derivative on the National Stock Exchange of India (NSE) exceeds 95% of its market-wide position limit (MWPL), the stock enters an F&O ban: from the next session no new derivative positions may be opened. We ask whether ban entry creates tradable selling pressure in the cash market. Using a pre-registered design with separate development (2020–22), validation (2023–24) and once-opened holdout periods (2025, January–October 2026), we study an intraday cash short entered at 09:16 on the first ban session and covered at 15:15, after realistic transaction costs. Before 2025 the effect is large: net of costs the raw short earns +54.9 bps per trade in development and +52.4 bps in validation, and +30.6 and +40.0 bps after adjusting for market exposure, with the pooled 2020–24 beta-adjusted effect of +35.6 bps significant under two-way (day and stock) clustering (95% CI +16.9 to +54.2). Placebo shorts on non-ban days of the same stocks earn about zero. The selling pressure is broad: it does not depend on the size of the pre-ban run-up or on how crowded the stock was. The effect then disappears. The 2025 holdout earns +2.7 bps (CI −50.4 to +61.6), the effect had already vanished in January–May 2025, before SEBI's revised MWPL rules took effect, and ban entries fell from about 25 a month to about 3. We document the decline in ban frequency, show that it began before SEBI's November 2024 index-derivative measures, and discuss what a rule-driven edge that vanishes with market-structure change implies for research on regulatory price pressure.

Keywords: F&O ban, market-wide position limit, price pressure, single-stock derivatives, event study, pre-registration, India

JEL classification: G12, G14, G18

1. Introduction

A stock's F&O ban turns its derivatives market one-way: holders may close positions but no one may open new ones. Bans usually follow a crowded build-up of leveraged positions, so a ban entry can force a wave of exits on its first session. If those exits spill into the cash market, the stock should face temporary selling pressure that an outside trader could supply liquidity to. This paper tests that idea directly, as a trading rule, under conditions designed to make a false positive hard to produce.

The Indian setting is unusual. Single-stock futures and options are among the most heavily traded derivatives in the world, the ban rule is mechanical and public, and the list of banned stocks is published the evening before each session. Ban entries are therefore known before the open, are not chosen by the researcher, and recur often enough for statistical tests: about 1,000 entries in 2020–26 in the stocks we can price.

We make three contributions.

1. **A pre-registered test of ban-day price pressure, net of costs.** Prior work on MWPL bans studies their effect on volatility and liquidity (Panda, Parida, Balakrishnan and Chari, 2025). We study the returns of an implementable intraday short, with costs modelled from brokerage, taxes, exchange fees and per-stock spread estimates, and with development, validation and holdout periods fixed in advance. The effect is large and consistent in development and validation: about +50 bps per trade raw and +31 to +40 bps after beta adjustment.
2. **Honest inference.** A two-way bootstrap that resamples days and stocks independently overstates uncertainty by about √3 when clustering is weak. We show this by simulation and report proper two-way clustered intervals, under which validation and the pooled 2020–24 effect are clearly significant and development alone is borderline ($p = 0.056$).
3. **The disappearance.** The effect is absent in the 2025 holdout and in 2026. It vanished before SEBI's revised MWPL framework took effect on 1 October 2025, and ban entries fell sharply from November 2024. We show the November 2024 decline began before SEBI's index-derivative measures of 20 November 2024 and that its attribution to stocks leaving the F&O segment depends on the window used.

The result is a clean example of a rule-driven, publicly known edge that survived validation and then ended with changes in market structure. Section 2 describes the institutions, Section 3 the related literature, Sections 4–5 the data and design, Sections 6–8 the results, robustness and the disappearance, and Section 9 the limitations.

2. Institutional background

The F&O ban is a mechanical rule: a stock enters the ban when aggregate derivative open interest across exchanges exceeds 95% of its MWPL, and leaves when it falls below 80%. MWPLs and bans have applied to single-stock derivatives in India since 2004 (Panda et al., 2025). Exchanges publish each evening the list of stocks banned for the next session. During a ban, positions may only be reduced; a member who increases a position is penalised. Index derivatives have no MWPL and are never banned.

What the ban does not restrict. The cash market is unaffected. In particular, a trader may short the stock intraday in the cash market using a broker's intraday product, provided the position is closed the same day. Since September 2021 intraday positions require margin of at least 20% of notional, which allows leverage of up to 5×. The trade studied here is such a cash short; its returns are measured on notional.

How utilisation is measured. Until 30 September 2025 utilisation was gross open interest (futures and options counted equally) divided by the MWPL. SEBI's circular of 29 May 2025 (SEBI/HO/MRD/TPD-1/P/CIR/2025/79) moved the ban test to futures-equivalent open interest, in which each option is weighted by its delta, together with a revised MWPL; the new rules took effect on 1 October 2025. Our utilisation series switches measure on that date.

Timeline of the changes relevant to this study:

Date	Change	Relevance
Sep 2021	Peak-margin rules: intraday margin at least 20% of notional	Sets the 5× leverage limit for the cash short
Nov 2024	Ban entries fall from about 25 to about 9 a month; the fall starts before 20 November	The largest break in ban frequency (Section 8)
20 Nov 2024	SEBI measures on index derivatives take effect	Apply to index derivatives only; not a cause of the November fall (Section 8)
29 May 2025	SEBI circular: futures-equivalent OI and revised MWPL for the ban test	Changes how utilisation is computed
1 Oct 2025	New MWPL and ban rules take effect	Ban entries fall to about 3 a month
3 Aug 2026	Closing-auction session for F&O stocks; no bars after 15:14	Exit moves from 15:15 to 15:14 by pre-registered rule

The closing-auction schedule was revised again by SEBI in October 2026, restoring continuous trading to 15:30 from 7 December 2026. It does not affect the results, since the effect had ended before either change and the trade exits before the close.

3. Related literature

This paper connects three strands: price pressure from non-informational trading, the effects of position limits and trading restrictions, and the reliability of published return predictability.

Price pressure. Demand curves for stocks slope down, so large trades unrelated to information move prices temporarily (Scholes, 1972; Shleifer, 1986). Index additions produce temporary price pressure that reverses (Harris and Gurel, 1986; Greenwood, 2005), and forced sales by mutual funds facing outflows depress prices before recovering (Coval and Stafford, 2007). Grossman and Miller (1988) model the liquidity providers who absorb such flows and are compensated by the subsequent reversal. A ban entry is a natural source of forced, non-informational flow: leveraged derivative positions can be closed but not rolled into new contracts.

Position limits and trading restrictions. The closest prior work is Panda, Parida, Balakrishnan and Chari (2025), who use SEBI's halving of MWPLs during COVID-19 to study position limits in Indian single-stock derivatives. They find lower liquidity and volatility after the cut and higher overnight futures volatility during ban periods, especially for stocks banned repeatedly. They study market quality, not returns. A broader literature studies short-sale restrictions, which also block one side of trading; bans on short selling during the 2008 crisis reduced liquidity and slowed price discovery (Beber and Pagano, 2013; Boehmer, Jones and Zhang, 2013). We study the returns of an implementable trade around the ban itself.

Reliability and decay of anomalies. Many published return patterns weaken after publication or fail out of sample (McLean and Pontiff, 2016), and extensive testing inflates false discoveries (Harvey, Liu and Zhu, 2016; Bailey and López de Prado, 2014). We therefore fix the rule, the periods and the gates before looking at validation or holdout data, correct for multiple testing where many configurations are compared, and report the holdouts once. Our finding that the effect disappeared coincides with structural change in the market rather than with publication.

4. Data and event definition

An event is a **ban entry**: a stock on the NSE ban list for session D but not for the previous session. Because the list for D is published on the evening of D−1, every event is known before D's open. Entries are counted only when the ban files for both sessions exist, so a missing file cannot create a false entry.

Source	Coverage	Use
NSE F&O ban-list archive	2020–2026; a few missing days a year	Event definition
One-minute bars, split- and bonus-adjusted, F&O stock panel	2020–2025, about 264 stocks	Prices, spread estimates
One-minute bars for 2026 event stocks (Kite)	January–October 2026	2026 evidence
Equal-weight F&O panel; NIFTY 50 one-minute	2020–2026	Market adjustment, beta
NSE daily open-interest and MWPL files (combineoi)	2019–2026	Utilisation, crowding measures
NSE F&O membership by month	2020–2026	Universe at each date

An event is kept if the stock is an F&O member on D, its first trade on D is within 20% of the previous close (a guard against split and bonus days that the adjusted series might mishandle), and its entry and exit prices exist. This gives 434 development events (2020–22), 469 validation events (2023–24), 91 events in the 2025 holdout and 33 in January–October 2026, 1,027 in all.

Two data issues were found and fixed before the results reported here. First, six ban lists issued for weekend special sessions were missing from the original event set; adding them changes the validation sample from 466 to 469 events and the 2026 figure from −10.9 to +10.9 bps. Second, the closing-auction schedule from 3 August 2026 removed one-minute bars after 15:14; a pre-registered fallback moves the exit to the 15:14 close from that date.

Coverage limits. The 2026 price data cover only about 30 stocks, and the 33 events of 2026 fall on 30 dates in 10 stocks, so 2026 results are indicative. The 1-minute panel covers the stocks that were F&O members for most of the sample; ban entries in stocks outside it are not priced.

5. Methodology

The design fixes the trade, the periods, the costs and the pass/fail gates before any validation or holdout data is seen, and commits each document to version control with a timestamp before the corresponding results.

The trade. On each ban-entry day D, short the stock at the open of the 09:16 one-minute bar and cover at the open of the 15:15 bar (the 15:14 close from 3 August 2026), with ₹5 lakh notional. The net return of event i, in basis points, is

> net_i = −(P_i(exit) / P_i(09:16) − 1) × 10,000 − c_i

where c_i is the round-trip cost. We also report **beta-adjusted** returns, in which the stock's session return is replaced by its return minus β_i times the equal-weight F&O market's session return, with β_i estimated from the 120 sessions before D. The raw figure is what a trader earns; the beta-adjusted figure isolates the ban effect from market moves on the same day.

Costs. Each trade pays brokerage (0.03% or ₹20 per leg, whichever is lower), securities transaction tax of 0.025% on the sell leg, exchange transaction charges at the rate in force on the date, the SEBI fee, 18% GST on brokerage and fees, and stamp duty of 0.003% on the buy leg: about 4.5 bps in all. To this we add a spread charge of 2.5 times a per-stock-day half-spread estimate, the average of the Corwin and Schultz (2012) and Abdi and Ranaldo (2017) estimators computed from one-minute bars and floored at half a tick. Charging one half-spread to enter and 1.5 to exit is deliberately conservative. Mean round-trip cost is 20.8 bps in 2020–22, 11.0 bps in 2023–24 and 8.6 bps in 2025.

Periods and gates.

Period	Years	Role	Opened
Development	2020–22	Design; overlaps the earlier descriptive study	First
Validation	2023–24	First confirmation	After the rule was fixed
Holdout	2025	Confirmation	Once, after validation passed; ban lists downloaded only then
Evidence	January–October 2026	Further evidence	Once

To pass a period the rule needed a positive mean with its 95% confidence interval above zero, and in validation a red team: the effect had to survive dropping the 10 best events, be positive in each year, beat a placebo, and stay positive under higher costs. Because development overlaps the window of an earlier descriptive study that suggested the effect, only validation, the 2025 holdout and 2026 count as confirmation.

Placebo. The same trade on randomly drawn sessions of the same stocks in the same period with no ban-list appearance within five sessions. If the placebo earned as much, the effect would reflect the stocks rather than the ban.

Inference. Events on the same day share the market's move, and some stocks enter the ban repeatedly, so returns are correlated within days and within stocks. The original analysis used a bootstrap resampling whole days. Our primary inference uses two-way clustering by day and by stock (Cameron, Gelbach and Miller, 2011), with day-only and stock-only clustering and a wild-cluster bootstrap as checks. We do not use the "pigeonhole" two-way bootstrap, which resamples days and stocks independently and weights each event by the product of its day and stock draw counts: when clustering is weak, the product of two independent multinomial weights has variance close to 3 rather than 1, so the bootstrap's standard deviation is inflated by about $\sqrt{3}$. A simulation with independent observations reproduces a ratio of 1.72 against the theoretical 1.73.

Look-ahead checks and reproducibility. A truncation test deletes all data after the decision time for sampled events and recomputes every input; it found no mismatches. All inputs are hashed, and the full pipeline rebuilds the published numbers from a clean environment.

6. Results

Before 2025 the ban-entry short earns about +50 bps per trade net of costs, +31 to +40 bps after beta adjustment, in both development and validation; in 2025 and 2026 it earns nothing distinguishable from zero.

Table 1. Net return per trade of the ban-entry short (bps, after costs), with two-way (day × stock) clustered 95% confidence intervals

Period	Events	Raw net	Raw 95% CI	Beta-adjusted net	Beta-adjusted 95% CI	p (beta-adjusted)	Mean cost
Development 2020–22	434	+54.9	[+14.8, +94.9]	+30.6 (n = 419)	[−0.8, +62.0]	0.056	20.8
Validation 2023–24	469	+52.4	[+22.9, +81.9]	+40.0	[+16.7, +63.3]	0.001	11.0
Pooled 2020–24	903	+53.6	[+29.5, +77.6]	+35.6 (n = 888)	[+16.9, +54.2]	< 0.001	—
Holdout 2025	91	+2.7	[−50.4, +61.6]*	—	—	—	8.6
January–October 2026	33	+10.9	wide; equal to placebo	—	—	—	—

*Day-clustered bootstrap. Beta-adjusted samples exclude events without 120 prior sessions for the beta estimate. The validation row includes the six weekend-session ban lists; with the original lists, validation has 466 events at +50.5 bps (day-clustered CI [+22.6, +78.6]).

Where the return comes from. The stock's underperformance on ban-entry days has two parts. In development, about 21 bps occurs in the opening gap, before a 09:16 entry is possible. The tradable part is the session decline of −52 bps relative to the market (CI −82 to −21). The short captures the session, not the gap.

Placebo. On randomly drawn non-ban sessions of the same stocks in validation, the same short earns −2.7 bps, against +50.5 bps on ban-entry days. The return is specific to the ban, not to the kind of stock that tends to be banned.

Red team (validation, run before the holdout). Dropping the 10 best events leaves +33.8 bps. The effect is positive in each year (2023: +45 bps; 2024: +54 bps) and remains positive under higher costs. Two weaknesses were visible before the holdout: development leaned on 2021, and validation quarters ranged from −41 to +114 bps.

Table 2. The trades in rupees (₹5 lakh notional, after costs)

Period	Trades	Win rate	Mean net (bps, raw)	Median net (bps)	Total net (₹ lakh)	Top-10 trades' share of total
Development 2020–22	434	63.8%	+54.9	+68.2	11.9	41%
Validation 2023–24	469	65.2%	+52.4	+60.8	12.3	34%
Holdout 2025	91	54.9%	+2.7	+18.7	0.12	1,901%
January–October 2026	33	66.7%	+10.9	+35.1	0.18	582%

In 2025 the 10 best trades earned 19 times the year's total: the other 81 trades lost money in aggregate. Before 2025 the profit was broad, with medians above the means and win rates near two thirds.

7. Robustness and mechanism

The effect survives every clustering choice once inference is done correctly, and it is broad: no pre-registered measure of crowding predicts its size.

Inference. Table 3 compares the beta-adjusted 95% intervals under each clustering choice. Day-only, stock-only and two-way clustering agree closely, which shows that clustering is weak in this sample. The pigeonhole bootstrap's intervals are about 1.7 times

wider, the inflation predicted in Section 5, which is why an earlier version of this analysis judged development and validation marginal.

Table 3. Beta-adjusted net (bps) and 95% intervals by inference method

Period	Mean	Day-clustered	Stock-clustered	Two-way (primary)	Pigeonhole bootstrap
Development 2020–22	+30.6	[+1.9, +59.4]	[+1.5, +59.8]	[−0.8, +62.0]	[−21.1, +75.7]
Validation 2023–24	+40.0	[+18.6, +61.4]	[+16.9, +63.1]	[+16.7, +63.3]	[+0.1, +75.2]
Pooled 2020–24	+35.6	[+18.0, +53.2]	[+17.8, +53.4]	[+16.9, +54.2]	[+3.3, +63.2]

Mechanism. If ban-day selling comes from unwinding a crowded build-up, the session decline should be largest where the build-up was largest. We pre-registered three tests on pooled 2020–24 events, splitting them into terciles of each measure and comparing the top and bottom terciles, with Holm's correction across the family. A fourth measure was reported but not gated because its bottom tercile had only 72 events.

Table 4. Beta-adjusted session return (bps) by tercile, pooled 2020–24

Split by	Bottom tercile	Top tercile	Top minus bottom [95% CI]	Holm p
5-day run-up before the ban	−39.1	−41.9	−2.8 [−52.2, +46.6]	1.00
MWPL utilisation on D−1	−48.0	−54.6	−6.6 [−51.3, +38.1]	1.00
5-day change in utilisation	−76.8	−48.8	+28.1 [−9.2, +65.3]	1.00
Futures OI ÷ 20-day cash volume (not gated)	−92.4	−42.9	+49.5 [−0.3, +99.2]	—

No difference is significant, and two point estimates have the wrong sign. Every tercile shows a session decline of 28 to 92 bps. The selling pressure is broad across levels of crowding rather than concentrated in the most crowded names. Only the opening gap leans the expected way: it is more negative after larger run-ups (+3.1 bps in the bottom run-up tercile, −21.6 in the top), reported descriptively and not tradable at 09:16.

Other checks.

- **Threshold design.** A regression-discontinuity comparison of stocks just above and just below the 95% utilisation threshold finds no detectable jump in returns, with wide intervals: the test has little power near the threshold.

- **Winners and losers.** Among the 10 best and 10 worst trades, the best mostly came on days when NIFTY also fell; the worst were idiosyncratic rallies of 10–27% against the market. Neither the run-up nor crowding separated the two groups.
- **Ban exit.** A long trade on the first session after a ban ends earned about −1 bp and was stopped at development.
- **Costs.** Validation remains positive under higher cost assumptions.

8. The disappearance of the effect

The effect ended in early 2025, before SEBI's revised MWPL rules took effect, and ban entries became too rare to trade.

Timing. The 2025 holdout earns +2.7 bps (CI −50.4 to +61.6), below the 95th percentile of its placebo distribution (+31.4); dropping its 10 best events gives −52 bps. Beta-adjusted, January–May 2025 was already +2.8 bps, months before the new rules took effect on 1 October 2025. January–October 2026 (+10.9 bps raw) is in line with its placebo. Pooled, 2025 and 2026 give about +12.5 bps with an interval of roughly ±50 bps.

Frequency. Ban entries fell in steps. A Poisson model with breaks selected by BIC finds four regimes, measured in entries per month per 100 F&O stocks:

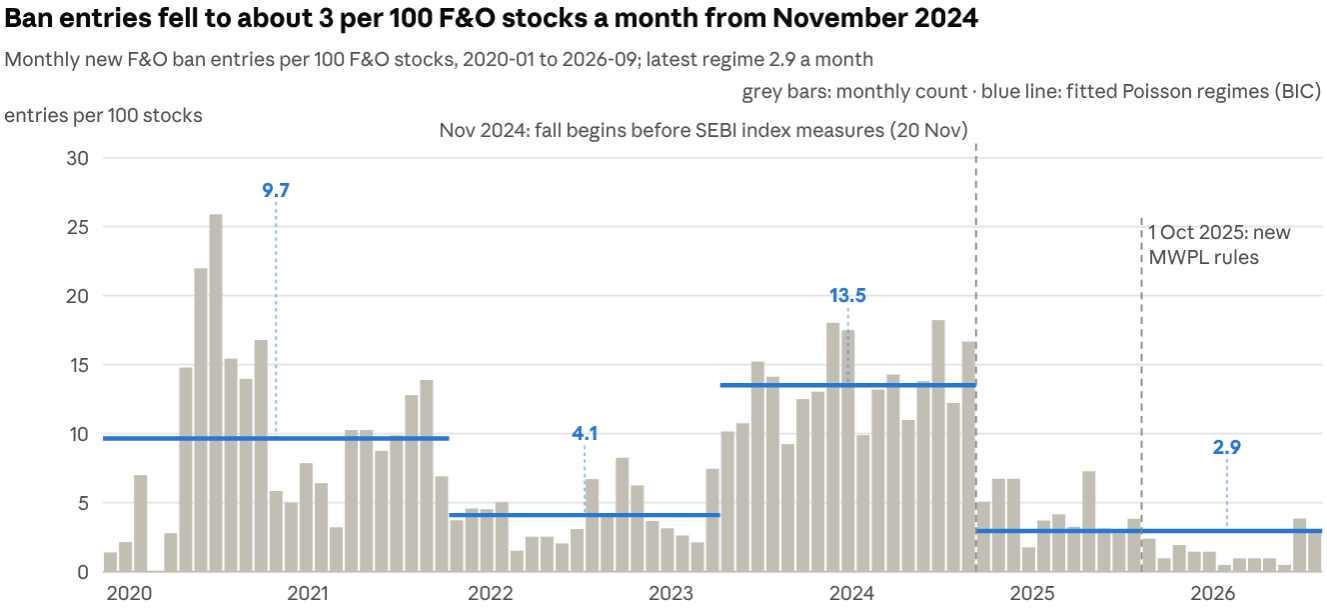


Figure 1. Source: NSE F&O ban lists and monthly F&O membership, January 2020 – September 2026 (October 2026 partial, excluded); regimes from a Poisson model with BIC-selected breaks.

Regime	Starts (95% CI)	Entries per month per 100 F&O stocks
1	January 2020	9.65

Regime	Starts (95% CI)	Entries per month per 100 F&O stocks
2	December 2021 (June 2021 – March 2022)	4.09
3	June 2023 (April – October 2023)	13.51
4	November 2024 (August – November 2024)	2.94

The best single break in the raw monthly count is February 2025 (15.3 entries a month before, 5.2 after). In entries per month, the main steps were November 2024 (about 25 to about 9) and October 2025 (to about 3).

What the November 2024 fall was not. SEBI's measures on index derivatives took effect on 20 November 2024, but the fall had begun before then: 30 entries in October, 6 on 1–19 November and 3 on 20–30 November. Those measures applied to index derivatives and did not change single-stock MWPLs or ban rules.

Who stopped entering the ban. We split the fall in monthly entries into stocks that stayed in the F&O segment, stocks that left it, and new entrants. The answer depends on the window:

Window around 20 Nov 2024	Entries per month before → after	Share of the fall: stayers	Leavers	Entrants
±6 months	24.2 → 9.4	81%	27%	−8%
12 months	25.2 → 9.5	50%	63%	−14%

Over six months most of the fall came from stocks that remained in F&O (whose share of days at or above 95% utilisation halved); over twelve months, stocks leaving F&O account for most of it. We do not identify the cause of the November 2024 fall; it is consistent with changes in leveraged single-stock positioning, the revision of the F&O universe, or both.

Power going forward. The standard deviation of event returns is about 300 bps, so detecting +50 bps with 80% power needs about 280 events. At the 2025–26 rate of about 3.4 entries a month, a forward test would take roughly seven years.

9. Discussion and limitations

The evidence fits a simple account: before 2025, ban entry forced one-sided unwinding that the cash market absorbed at a price, and outside liquidity providers were paid about 30–50 bps for supplying it within the session. Three features support reading this as price

pressure rather than information. The event is mechanical and known before the open. The placebo on the same stocks earns nothing. And the decline does not scale with how crowded the stock was, which is what one would expect if the trigger itself, rather than the stock's fundamentals, drove the flow.

Why the effect ended is less clear. Its disappearance coincides with a sharp fall in ban entries from November 2024, but the effect had also vanished on the bans that still occurred. Plausible explanations include fewer and smaller leveraged positions in ban-prone stocks, changes in the F&O universe, and faster anticipation of entries by other traders once utilisation data became widely tracked. We cannot separate these with the data at hand.

Limitations.

- **Discovery overlap.** Development overlaps the window of the earlier descriptive study that suggested the effect, so only validation, 2025 and 2026 count as confirmation; development alone is borderline under the primary inference.
- **Uneven returns.** Development leaned on 2021 and validation quarters ranged from −41 to +114 bps. The effect is an average over noisy events with a standard deviation near 300 bps.
- **Costs are estimated.** Spreads come from one-minute bar estimators, not quotes. The conservative 2.5× half-spread charge partly protects against underestimation, but measured spreads would be better.
- **Coverage.** The one-minute panel covers about 264 F&O stocks; events in stocks outside it are not priced, and 2026 covers only about 30 stocks.
- **Mechanism unidentified.** We do not observe who unwinds positions at ban entry, and the pre-registered crowding measures do not explain the size of the decline.
- **Capacity.** Results assume ₹5 lakh per trade, small enough not to move prices. At larger size, market impact would reduce returns.

10. Conclusion

Entry into the F&O ban produced economically large, statistically reliable selling pressure in Indian single stocks from 2020 to 2024: an intraday cash short earned about +50 bps per trade after costs, +31 to +40 bps after beta adjustment, in pre-registered development and validation periods, while a placebo on the same stocks earned nothing. The pressure was broad across levels of crowding. It then disappeared: the 2025 holdout and 2026 show no effect, the decline predates SEBI's revised MWPL framework, and ban entries became too rare to sustain a strategy.

Two lessons extend beyond this setting. First, inference choices matter: a plausible-looking two-way bootstrap inflated the uncertainty by about √3 and nearly led us to call a reliable effect marginal. Second, rule-driven edges can be real, validated and still temporary; a pre-registered holdout is what distinguishes an edge that ended from one that never existed.

Data and code availability

The pre-registration documents, analysis code, result tables and a synthetic-data demonstration are in a private repository, available from the author on request; the full pipeline rebuilds every published number from hashed inputs. Exchange and vendor market data are not redistributed. The research design, pre-registration, decision gates and verification are the author's; the implementation was developed with AI coding assistance and checked by independent re-derivation and automated tests. This paper is research, not investment advice.

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Open item before submission: the Panda et al. (2025) reference was checked against the publisher's page; the other bibliographic details were written from memory and should be checked against each source, as should the exact title of the SEBI circular.