



CIRCULAR

SEBI/HO/CDMRD/DNPMP/CIR/P/2020/89

May 26, 2020

To,

**The Managing Directors / Chief Executive Officers
All Recognized Stock Exchanges and Clearing Corporations having
Commodity Derivatives Segment (except those in International Financial
Services Centre)**

Dear Sir / Madam,

**Sub: Guidelines for identification and selection of location as a delivery
centre(s) for commodity derivatives contract**

1. The delivery centre(s), whether basis or additional, plays an important role in the pricing and settlement of the physically delivered commodity derivatives contract. The choice of delivery centre(s) is of vital importance to help the buyers/sellers in taking informed decisions about taking or giving deliveries. In the absence of a well-defined laid down criteria for identification and selection of a location as a delivery centre, it is observed that each stock exchange has adopted different criteria for different commodities as per their internal policy decision.
2. Based on the market feedback and in the interest of the stakeholders there is a need to bring in uniformity in the guidelines to be followed by the stock exchanges for identification and selection of a location as a delivery centre. Based on the recommendations of Commodity Derivatives Advisory Committee (CDAC) and in consultation with the stock exchanges, it has been decided to lay down guidelines that are to be followed by the stock exchanges while identifying and selecting a location as a delivery centre.
3. Considering the inter-play of various factors, a particular location can be identified and selected as a delivery centre by a stock exchange based on all or combination of the following guidelines.



3.1. Demand/supply dynamics:

- 3.1.1. There should be adequate consumption demand throughout the year and/or adequate supply at least during the expiry month(s) in and around the location;
- 3.1.2. The location should have a sizeable production catchment area and arrivals;
- 3.1.3. The location should be an active consumption centre/trading centre attracting adequate supplies from other production centres to fulfil demand for processing, consumption, trade, etc.

3.2. Liquidity of the contract: The location should have high potential to attract trading and delivery participation in the derivatives contract.

3.3. Value chain participants: There should be adequate participation or representation from different segments of the commodity value chain of the commodity viz., farmers/producers, traders, millers, processors, exporters, users, etc. who are interested in trading / delivering the commodity at such location proposed to be designated as a delivery centre.

3.4. Infrastructure Support:

- 3.4.1. There should be presence of sufficient and sizeable number of warehouses in and around the location capable of handling the deliveries on expiry of the contract and capable of getting registration with Warehousing Development and Regulatory Authority (WDRA) wherever applicable, before the launch of the contracts.
- 3.4.2. There should be adequate transport links (road or rail connectivity), presence of assaying and testing facilities, processing plants, etc., for effecting smooth deliveries.

3.5. Trade Feedback: Feedback from all the stake holders including Farmers/ Farmer Producers Organization (FPOs)/ Traders/ Value Chain Participants (VCPs)/ Corporates/ Micro, Small & Medium Enterprises (MSMEs), Processors, Exporters etc., should be obtained and duly considered before selecting a location for designating as delivery centre(s) of a particular commodity.



4. Review of delivery centre:

- 4.1. The stock exchanges shall carry out a review of the delivery centre(s) already designated and notified for the existing commodity derivatives contracts, based on the aforesaid guidelines.
- 4.2. The review shall also include those locations which though satisfy the above mentioned guidelines but have not been selected as the delivery centre(s) by the stock exchanges and examine reasons for not selecting these locations as delivery centre.
- 4.3. The stock exchanges shall submit their assessment in the form of a comprehensive review report to their Product Advisory Committee (PAC) constituted for respective commodity for consideration and advice.

5. The stock exchanges shall undertake and complete the aforesaid Review stated at Para 4 above for Financial Year 2019-20 within 3 months from the date of this Circular. Comments/ observations/ suggestions from PAC leading to change/replacement in any of the existing delivery centre(s) may be shared with SEBI for information purpose, within 1 month of completion of the said Review.

6. SEBI vide Circular no. [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/89](#) dated August 07, 2019 has issued guidelines about the PAC in which the terms of reference, inter-alia, includes choice of basis and additional delivery centre, review of the delivery centres etc. Henceforth, the requisite information highlighted at Para 3 and 4 above shall form part of the information to be submitted to PAC for their consideration in terms of the reference provided in the aforesaid Circular. All the above stated information shall also be submitted by the stock exchanges to SEBI while submitting application for contract approval or renewal.

7. The provisions of this Circular shall be effective from August 01, 2020.

8. This Circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

9. The Stock Exchanges and Clearing Corporations are advised to:

- 9.1. to make necessary amendments to the relevant bye-laws, rules and regulations, if required.
- 9.2. bring the provisions of this Circular to the notice of the stock brokers of the Exchange and also to disseminate the same on their website.



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- 9.3. communicate to SEBI, the status of the implementation of the provisions of this Circular.
10. This Circular is available on SEBI website www.sebi.gov.in under the category “Circulars” and “Info for Commodity Derivatives”.

Yours faithfully,

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