



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

MASTER CIRCULAR

SEBI/HO/CDMRD/DNPMP/CIR/P/2020/118

July 10, 2020

To,

All Stock Exchanges and Clearing Corporation with Commodity Derivatives Segment

Dear Sir / Madam,

Sub: Master Circular for Commodity Derivatives Market

1. Securities and Exchange Board of India (SEBI) has been issuing various circulars/directions from time to time for commodity derivatives market.
2. This Master Circular is a compilation of the circulars issued by Commodity Derivatives Market Regulation Department (CDMRD) pertaining to domestic commodity derivatives segment, which have been issued till the date of this circular. Further, references in the circular to the Statutes/Regulations which now stand repealed have been suitably updated. Efforts have also been made to incorporate certain applicable provisions of existing circulars (as on date) issued by other departments of SEBI relevant to commodity derivatives markets.
3. It is hereby clarified that in case of any inconsistency between the Master Circular and the original applicable circular, the content of the original circular shall prevail.
4. This Master Circular shall supersede previous Master Circular CDMRD/DMP/CIR/P/2018/126 dated September 07, 2018.
5. This circular is available on SEBI Website at www.sebi.gov.in.

Yours faithfully,

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Introduction

1. The term “national commodity derivatives exchanges” or “regional commodity derivatives exchanges” or “commodity derivatives exchanges” have been suitably replaced with stock exchanges; wherein stock exchanges means recognized stock exchange having commodity derivatives segment.
2. References to the various Statutes/Regulations which now stand repealed have been suitably updated.
3. Efforts have been made to incorporate certain applicable provisions of existing circulars (as on date) issued by other departments of SEBI relevant to commodity derivatives markets.
4. In case of any inconsistency between the Master Circular and the original applicable circular, the content of the original circular shall prevail.



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Abbreviations

<i>AD -I</i>	<i>AUTHORIZED DEALER CATEGORY-I BANK</i>
<i>AIFs</i>	<i>ALTERNATIVE INVESTMENT FUNDS</i>
<i>AMCs</i>	<i>ASSET MANAGEMENT COMPANIES</i>
<i>AMFI</i>	<i>ASSOCIATION OF MUTUAL FUNDS IN INDIA</i>
<i>API</i>	<i>APPLICATION PROGRAMMING INTERFACE</i>
<i>APMC</i>	<i>AGRICULTURAL PRODUCE MARKETING COMMITTEE</i>
<i>ASBs</i>	<i>AUTHORIZED STOCK BROKERS</i>
<i>AT</i>	<i>ALGORITHMIC TRADING</i>
<i>ATM</i>	<i>AT THE MONEY</i>
<i>BCP</i>	<i>BUSINESS CONTINUITY PLAN</i>
<i>BG</i>	<i>BANK GUARANTEE</i>
<i>BIS</i>	<i>BUREAU OF INDIAN STANDARDS</i>
<i>BMC</i>	<i>BASE MINIMUM CAPITAL</i>
<i>CBI</i>	<i>CENTRAL BUREAU OF INVESTIGATION</i>
<i>CCs</i>	<i>RECOGNISED CLEARING CORPORATIONS</i>
<i>CISA</i>	<i>CERTIFIED INFORMATION SYSTEM AUDITORS</i>
<i>CISM</i>	<i>CERTIFIED INFORMATION SECURITIES MANAGER</i>
<i>CISSP</i>	<i>CERTIFIED INFORMATION SYSTEMS SECURITY PROFESSIONAL</i>
<i>CPF</i>	<i>CONSUMER PROTECTION FUND</i>
<i>CSR Fund</i>	<i>CORPORATE SOCIAL RESPONSIBILITY FUND</i>
<i>CTCL</i>	<i>COMPUTER TO COMPUTER LINK SOFTWARE</i>
<i>CTM</i>	<i>CLOSE TO THE MONEY</i>
<i>DMA</i>	<i>DIRECT MARKET ACCESS</i>
<i>DPL</i>	<i>DAILY PRICE LIMITS</i>
<i>DR</i>	<i>DISASTER RECOVERY</i>
<i>DRS</i>	<i>DISASTER RECOVERY SITE</i>
<i>DSP</i>	<i>DAILY SETTLEMENT PRICE</i>
<i>E</i>	<i>EXPIRY DAY</i>
<i>EFE</i>	<i>ELIGIBLE FOREIGN ENTITIES</i>
<i>ELM</i>	<i>EXTREME LOSS MARGINS</i>
<i>eNWRs</i>	<i>ELECTRONIC NEGOTIABLE WAREHOUSE RECEIPTS</i>



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<i>EOD</i>	<i>END OF DAY</i>
<i>ETCD</i>	<i>EXCHANGE TRADED COMMODITY DERIVATIVES</i>
<i>EWMA</i>	<i>EXPONENTIALLY WEIGHTED MOVING AVERAGE</i>
<i>FAQs</i>	<i>FREQUENTLY ASKED QUESTIONS</i>
<i>FATF</i>	<i>FINANCIAL ACTION TASK FORCE</i>
<i>FCRA</i>	<i>FORWARD CONTRACTS (REGULATION) ACT, 1952</i>
<i>FDR</i>	<i>FIXED DEPOSIT RECEIPTS</i>
<i>FED</i>	<i>FINAL EXPIRY DATE</i>
<i>FEMA</i>	<i>FOREIGN EXCHANGE MANAGEMENT ACT, 1999</i>
<i>FPIs</i>	<i>FOREIGN PORTFOLIO INVESTORS</i>
<i>FPOs</i>	<i>FARMER PRODUCER ORGANIZATIONS</i>
<i>FSD</i>	<i>FINANCIAL SECURITY DEPOSIT</i>
<i>FSP</i>	<i>FINAL SETTLEMENT PRICE</i>
<i>FSSAI</i>	<i>FOOD SAFETY STANDARD AUTHORITY OF INDIA</i>
<i>FVCI</i>	<i>FOREIGN VENTURE CAPITAL INVESTORS</i>
<i>GDS</i>	<i>GOLD DEPOSIT SCHEME</i>
<i>GLEIF</i>	<i>GLOBAL LEGAL ENTITY IDENTIFIER FOUNDATION</i>
<i>GMS</i>	<i>GOLD MONETISATION SCHEME</i>
<i>Gold ETFs</i>	<i>GOLD EXCHANGE TRADED FUNDS</i>
<i>IBT</i>	<i>INTERNET BASED TRADING</i>
<i>IGRC</i>	<i>INVESTOR GRIEVANCE REDRESSAL COMMITTEE</i>
<i>IGRP</i>	<i>INVESTORS GRIEVANCE RESOLUTION PANEL</i>
<i>IM</i>	<i>INITIAL MARGINS</i>
<i>IML</i>	<i>INTERMEDIATE MESSAGING LAYER</i>
<i>IOC</i>	<i>IMMEDIATE OR CANCEL</i>
<i>IPF</i>	<i>INVESTOR PROTECTION FUND</i>
<i>ISACA</i>	<i>INFORMATION SYSTEMS AUDIT AND CONTROL ASSOCIATION</i>
<i>ISC</i>	<i>INVESTOR SERVICE COMMITTEE</i>
<i>ISF</i>	<i>INVESTOR SERVICES FUND</i>
<i>ITM</i>	<i>IN THE MONEY</i>
<i>KMP</i>	<i>KEY MANAGEMENT PERSONNEL</i>
<i>KYC</i>	<i>KNOW YOUR CLIENT</i>
<i>KYD</i>	<i>KNOW YOUR DEPOSITOR</i>



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<i>LEI</i>	<i>LEGAL ENTITY IDENTIFIER</i>
<i>LES</i>	<i>LIQUIDITY ENHANCEMENT SCHEME</i>
<i>LTP</i>	<i>LAST TRADED PRICE</i>
<i>MCR</i>	<i>MONTHLY CUMULATIVE REPORT</i>
<i>MDR</i>	<i>MONTHLY DEVELOPMENT REPORT</i>
<i>MFs</i>	<i>MUTUAL FUNDS</i>
<i>MII</i> s	<i>MARKET INFRASTRUCTURE INSTITUTIONS</i>
<i>MoUs</i>	<i>MEMORANDUM OF UNDERSTANDING</i>
<i>MPOR</i>	<i>MARGIN PERIOD OF RISK</i>
<i>MSMEs</i>	<i>MICRO, SMALL AND MEDIUM ENTERPRISES</i>
<i>MT</i>	<i>METRIC TON</i>
<i>MTM</i>	<i>MARK TO MARKET</i>
<i>NABL</i>	<i>NATIONAL ACCREDITATION BOARD FOR CALIBRATION AND TESTING LABORATORIES</i>
<i>NAV</i>	<i>NET ASSET VALUE</i>
<i>NISM</i>	<i>NATIONAL INSTITUTE OF SECURITIES MARKET</i>
<i>NRIs</i>	<i>NON-RESIDENT INDIA</i>
<i>NS</i>	<i>NEAR SITE</i>
<i>OI</i>	<i>OPEN INTEREST</i>
<i>OTM</i>	<i>OUT OF THE MONEY</i>
<i>PAC</i>	<i>PRODUCT ADVISORY COMMITTEE</i>
<i>PAN</i>	<i>PERMANENT ACCOUNT NUMBER</i>
<i>PDC</i>	<i>PRIMARY DATA CENTRE</i>
<i>PFMI</i>	<i>PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURE</i>
<i>PIDs</i>	<i>PUBLIC INTEREST DIRECTORS</i>
<i>PMLA</i>	<i>PREVENTION OF MONEY LAUNDERING ACT, 2002</i>
<i>RBI</i>	<i>RESERVE BANK OF INDIA</i>
<i>RBI</i>	<i>RESERVE BANK OF INDIA</i>
<i>RMS</i>	<i>RISK MANAGEMENT SYSTEM</i>
<i>RPF</i>	<i>RISK PARAMETER FILE</i>
<i>RPO</i>	<i>RECOVERY POINT OBJECTIVE</i>
<i>RTO</i>	<i>RECOVERY TIME OBJECTIVE</i>
<i>SCRA</i>	<i>SECURITIES CONTRACTS (REGULATION) ACT, 1956</i>
<i>SCRR</i>	<i>SECURITIES CONTRACT (REGULATION) RULES, 1957</i>



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<i>SD</i>	<i>SECURITY DEPOSIT</i>
<i>SEBI</i>	<i>SECURITIES AND EXCHANGE BOARD OF INDIA</i>
<i>SECC Regulations</i>	<i>SECURITIES CONTRACTS (REGULATION) (STOCK EXCHANGES AND CLEARING CORPORATIONS) REGULATIONS, 2018</i>
<i>SGF</i>	<i>SETTLEMENT GUARANTEE FUND</i>
<i>SOP</i>	<i>STANDARD OPERATING PROCEDURE</i>
<i>SOR</i>	<i>SMART ORDER ROUTING</i>
<i>STWT</i>	<i>SECURITIES TRADING USING WIRELESS TECHNOLOGY</i>
<i>TAC</i>	<i>TECHNICAL ADVISORY COMMITTEE</i>
<i>TGF</i>	<i>TRADE GUARANTEE FUND</i>
<i>TOR</i>	<i>TERMS OF REFERENCE</i>
<i>UAT</i>	<i>USER ACCEPTANCE TEST</i>
<i>UCC</i>	<i>UNIQUE CLIENT CODE</i>
<i>VaR</i>	<i>VALUE AT RISK</i>
<i>VCP</i>	<i>VALUE CHAIN PARTICIPANTS</i>
<i>VWAP</i>	<i>VOLUME WEIGHTED AVERAGE PRICE</i>
<i>WDRA</i>	<i>WAREHOUSE DEVELOPMENT AND REGULATORY AUTHORITY</i>
<i>WMA</i>	<i>WEIGHTED MOVING AVERAGE</i>
<i>WSP</i>	<i>WAREHOUSE SERVICE PROVIDER</i>



CHAPTER 1. TRADING

1.1.Trading Hours and Holidays ¹

1.1.1. Trading Hours

- i. Trading shall be permitted only from Monday to Friday.
- ii. Trading hours shall be fixed by the stock exchanges within the time limits as mentioned in the table below ²:

S. No	Commodity category	Trade start time	Trade end time	
			After start of US day light savings in spring season	After end of US day light savings in fall season
1	Non-agricultural commodities	09:00 AM	11:30 PM	11:55 PM
2	Agricultural and agri-processed commodities	09:00 AM	09:00 PM	

¹ SEBI Circular No. [SEBI/HO/CDMRD/DMP/CIR/P/2016/75](#) dated August 30, 2016

² Substituted vide SEBI circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2018/146](#) dated November 30, 2018.
Prior to substitution, the earlier provisions read as under:

“Trading hours shall be fixed by the exchange within the time limits as mentioned in the table below:

S. No	Commodity category	Trade start time	Trade end time	
			After start of US day light savings in spring season	After end of US day light savings in fall season
1	Internationally referencable non-agri commodities	10:00 AM	11:30 PM	11:55 PM
2	Internationally referencable agri commodities*	10:00 AM	09:00 PM	09:30 PM
3	All Other Commodities	10:00 AM	05:00 PM	
*Presently traded internationally referencable Agri commodities are Crude Palm Oil, Cotton, Kapas, Soya Oil and Sugar.				



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- iii. The extension of the trade timing is subject to the stock exchanges and its clearing corporation(s) putting in place adequate risk management system, surveillance system and infrastructure commensurate with the increased trading hours.
- iv. Regarding Muhurat Trading on Diwali (Lakshmi Poojan) day, all stock exchanges shall jointly decide the common trade timing and notify the same to the market under prior intimation to SEBI.
- v. Stock exchanges shall ensure that they have necessary risk management system and infrastructure in place commensurate to their trading hours.

1.1.2. Trading Holidays

- i. All stock exchanges shall jointly decide upon the common holiday list within the broad framework of the Negotiable Instruments Act, 1881 and also taking into consideration Central/State/Local holidays and notify the same to the market well in advance under prior intimation to SEBI.
- ii. On such trading holidays, stock exchanges may permit trading of internationally referenceable commodities in evening session i.e. post 5:00 PM, in case corresponding international markets are open.
- iii. While finalizing trading holidays list, stock exchanges shall suitably consider the views of market participants. Frequent changes in holiday List shall be avoided i.e. once decided, same holidays should be followed every year irrespective of the holidays falling on a working day or a non-working day in that year.

1.2.Transaction Charges ³

- 1.2.1. The stock exchanges collect transaction charges from the members for the trades executed on their trading platform. In order to promote competition in the market and bring in greater efficiencies and lower transaction costs to market participants, following norms shall be applicable levying transaction charges-

³ SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/82](#) dated September 07, 2016



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- i. The stock exchanges can levy different transaction charges for different commodities' contracts and even in the case of contracts of the same commodity.
- ii. The stock exchanges will ensure that the ratio between highest to lowest transaction charges in the turnover slab of any contract is not more than 2:1.⁴
- iii. In the slab system the concessional transactional charges shall be charged only on the incremental volume/turnover and not on the entire volume/turnover.
- iv. The transaction charges are to be charged-on post-facto basis that is after the trades are executed.

1.2.2. It is also emphasized that, while revising the transaction charges, the stock exchanges shall also comply with the following guidelines:

- i. Its system is capable of handling additional load.
- ii. It does not affect the existing risk management system.
- iii. It does not favour selective trades or selective category of investor.
- iv. It does not encourage generation of artificial demand.
- v. It does not result in any market irregularities.
- vi. It is uniformly applied to trades of similar nature.
- vii. It is imposed in fair and transparent manner.

1.3.Spot Price Polling⁵

1.3.1. The stock exchanges have been using a 'Spot Price Polling Mechanism' to arrive at the prevailing spot prices. Transparent discovery of spot prices is a critical factor in smooth running of futures market as the same are used as reference prices for settlement of contracts traded on the exchange platform. To arrive at the prevailing spot prices, the stock exchanges are polling the spot prices from various spot price polling participants. Some stock exchanges undertake this activity themselves whereas some have outsourced this work to an external agency.

⁴ Substituted vide SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2018/1](#) dated January 03, 2018. *Prior to substitution, the earlier provisions read as under:*

"The exchanges will ensure that the ratio between highest to lowest transaction charges in the turnover slab of any contract is not more than 1.5:1"

⁵ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/78](#) dated September 02, 2016



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1.3.2. In order to maintain the transparency of spot price polling process and dissemination of spot prices arrived at through spot price polling process, the stock exchanges shall:

- i. have a well laid down and documented policy for the spot price polling mechanism.
- ii. display the spot price polling mechanism adopted for every contract on its website along with following details:

<i>S. No.</i>	<i>Particulars</i>	<i>Details</i>
1.	Details of the contract	
2.	Mechanism of spot price polling	
3.	How spot prices are arrived at	
4.	Whether these prices include or exclude taxes and other levies / costs	
5.	Whether spot prices polling has been outsourced to any external agency and if so, the details thereof.	
6.	Criteria for selection of these polling participants	
7.	Any other information that the Exchange may consider	

- iii. disclose, for every contract, following details with respect to individual spot price polling participants on its website:

<i>Participants</i>	<i>Location</i>	<i>Profession</i>	<i>Price quoted</i>	<i>Time, Date</i>
A ₁				
A ₂				
<ul style="list-style-type: none"> <i>The exchanges may assign a code such A1, A2, A3...etc. for polling participants of a particular contract and reveal his location and price (s) for the day.</i> <i>This information shall be updated on exchange website every day for every contract traded on the exchange platform.</i> <i>The information shall continue to be displayed even after the expiry of the contract for a period of 3 years.</i> 				



- iv. endeavor in increasing the sample size used for fixing the daily spot prices during the last 15 days of the contract.
- v. review on a monthly basis the prices polled by the participants to identify participants habitually polling unrealistic prices. These participants could be put under watch and subsequently removed from the panel if such instances reoccur despite appropriate communications.
- vi. provide a separate feedback window for receiving complaints in this regard. The exchanges shall address such complaints in a time-bound manner. Further the exchanges shall keep the audit trail of all such complaints received and the steps taken for redressal.

1.4.Unique Client Code (UCC) and Mandatory Requirement of Permanent Account Number ⁶

- 1.4.1. It shall be mandatory for the members to have Unique Client Code (UCC) for all clients transacting on the stock exchanges. The stock exchanges shall not allow execution of trades without uploading of the UCC details by the members of the exchange. For this purpose, members shall collect after verifying the authenticity and maintain in their back office the copies of Permanent Account Number (PAN) issued by the Income Tax Department, to all their clients.
- 1.4.2. PAN would be the sole identification number and mandatory for all entities/persons who are desirous of transacting on the commodity derivatives exchanges.

However, the investors residing in the State of Sikkim are exempted from the mandatory requirement of PAN. The exchanges should, however, ensure a system of proper verification to verify that such members / investors are residents of the State of Sikkim.

Further, PAN may not be insisted in the case of Central Government, State Government, and the officials appointed by the courts e.g. Official liquidator, Court receiver etc. (under the category of Government) for transacting in the securities market. The intermediary shall verify the veracity of the claim of the specified organizations, by collecting sufficient documentary evidence in support of their claim for such an exemption.

⁶ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/87](#) dated September 16, 2017



- 1.4.3. The stock exchanges shall ensure that their members shall:
- collect copies of PAN cards issued to their existing as well as new clients after verifying with the original.
 - cross-check the aforesaid details collected from their clients with the details on the website of the Income Tax Department.
 - upload details of PAN so collected to the stock exchanges as part of UCC.
 - verify the documents with respect to the UCC and retain a copy of the document.
- 1.4.4. The member shall also be required to furnish the above particulars of their clients to the commodity derivatives exchanges and the same would be updated on a monthly basis. Such information for a specific month should reach the exchange within 7 working days of the following month.
- 1.4.5. The stock exchanges shall impose penalty on the member at the rate of 1% of the value of every trade that has been carried out by the member without uploading the UCC details of the clients. The penalty so collected by the stock exchanges shall be transferred to the Investor Protection Fund (IPF). Further, if the client details are not uploaded within a month of the trade, the member is liable to be suspended.
- 1.4.6. The stock exchanges shall be required to maintain a database of client details submitted by members. Historical records of all such submissions shall be maintained for a period of 7 years by the stock exchange.

1.5.Modification of Client Codes Post Execution of Trades ⁷

- 1.5.1. The stock exchanges may allow modifications of client codes of non-institutional trades only to rectify a genuine error in entry of client code at the time of placing/ modifying the related order in all segments. It is also re-emphasized here that this facility is expected to be used more as an exception rather than a routine.⁸
- 1.5.2. For this purpose, the following shall be classified as genuine errors:

⁷ SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/73](#) dated August 19, 2016

⁸ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/43](#) dated March 29, 2016



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- i. Error due to communication and / or punching or typing such that the original client code / name and the modified client code / name are similar to each other.
- ii. Modification within relatives (*'Relative' for this purpose would mean as defined under Companies Act, 2013*)

1.5.3. Error Account

- i. Shifting of trades to the 'Error account' of broker would not be treated as modification of client code, provided that trades in 'Error account' are subsequently liquidated in the market and not shifted to some other code.
- ii. Further, broker shall disclose the codes of accounts which are classified as 'Error accounts' to the stock exchanges. Each broker should have a well-documented error policy approved by the management of the broker. The stock exchanges shall periodically review the trades flowing to the error accounts of the brokers.

1.5.4. If stock exchange wishes to allow trading members to modify client codes of non-institutional trades, it shall

- i. lay down strict objective criteria (in line with the Para '1.5.2' above), with the approval of its Governing Board, for identification of genuine errors in client codes which may be modified, and disclose the same to market in advance,
- ii. set up a mechanism to monitor that the trading members modify client codes only as per the strict objective criteria, and
- iii. ensure that modification of client codes is covered in the internal audit of trading members.
- iv. shall not allow proprietary trades to be modified as client trades and vice versa.
- v. shall levy a penalty and collect from trading members and credit the same to its Investor Protection Fund as under:

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2



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<i>'a' as % of 'b'</i>	<i>Penalty as % of 'a'</i>
<i>Where</i> <i>a = Value (turnover) of non-institutional trades where client codes have been modified by a trading member in a segment during a month.</i> <i>b = Value (turnover) of non-institutional trades of the trading member in the segment during the month</i>	

- vi. shall undertake stringent disciplinary actions against brokers who undertake frequent client code modifications. If 'a' as % of 'b', as defined above, exceeds 1% during a month, then the stock exchange shall conduct a special inspection of the trading member to ascertain whether the modifications of client codes are being carried on as per the strict objective criteria set by the stock exchange. Appropriate disciplinary action shall be taken by the stock exchange, if any deficiency is observed.

1.5.5. Waiver of Penalty

- i. The stock exchanges may waive penalty for a client code modification where broker is able to produce evidence to the satisfaction of the exchange to establish that the modification was on account of a genuine error. However, not more than one such waiver per quarter may be given to a broker for modification in a client code

Explanation: If penalty waiver has been given with regard to a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the stock broker in the quarter for modifications related to client codes AB and BA.

- ii. The stock exchanges shall submit a report to SEBI every quarter regarding all such client code modifications where penalties have been waived.



1.6. Disclosure of Proprietary Trading by Broker to Client ⁹

- 1.6.1. With a view to increase the transparency in the dealings between the broker and the client, every broker shall disclose to his client whether he does client based business or proprietary trading as well.
- 1.6.2. The broker shall disclose the aforesaid information to his existing clients within a period of one month from the date of this circular.
- 1.6.3. Further, the broker shall disclose this information upfront to his new clients at the time of entering into the KYC agreement.
- 1.6.4. In case of a broker who at present does not trade on proprietary account, chooses to do so at a later date, he shall be required to disclose this to his clients before carrying out any proprietary trading.

1.7. “Pro – account” Trading Terminals ¹⁰

- 1.7.1. Facility of placing orders on “pro-account” through trading terminals shall be extended only at one location of the members as specified / required by the members
- 1.7.2. Trading terminals located at places other than the above location shall have a facility to place orders only for and on behalf of a client by entering client code details as required / specified by the stock exchange / SEBI.
- 1.7.3. In case any member requires the facility of using “pro-account” through trading terminals from more than one location, such member shall be required to submit an undertaking to the exchange stating the reason for using the “pro-account” at multiple locations and the exchange may, on case to case basis after due diligence, consider extending the facility of allowing use of “pro-account” from more than one location.
- 1.7.4. Exchanges to take necessary disciplinary action wherever such facility is being misused by any member.

⁹ SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/49](#) dated April 25, 2016

¹⁰ SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/49](#) dated April 25, 2016



1.8.Sharing of Information in Case of Declaration of Member as Defaulter in case of Multiple Membership ¹¹

- 1.8.1. Whenever a member of any segment is declared defaulter, the concerned stock exchange/clearing corporation shall immediately declare it a defaulter in all its segments. It shall also immediately inform all other stock exchanges/clearing corporations the details of the defaulter member such as name of the member, the names of the proprietors/ partners/ promoters/ dominant shareholders, as applicable.
- 1.8.2. Immediately on receipt of the information about default of a member, the other stock exchange / clearing corporation shall declare the said member defaulter on all its segments.
- 1.8.3. The stock exchanges / clearing corporations shall take appropriate action against the associates of defaulter member. For this purpose, the term 'associate' shall include a person:
- i. who, directly or indirectly, by itself, or in combination with other persons, exercises control over the member, whether individual, body corporate or firm or holds substantial share of not less than 15% in the capital of such entities; or
 - ii. in respect of whom the member, individual or body corporate or firm, directly or indirectly, by itself or in combination with other persons, exercises control; or
 - iii. whose director or partner is also a director or partner of the member, body corporate or the firm, as the case may be.

Explanation: The expression "control" shall have the same meaning as defined under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations.

1.9.Liquidity Enhancement Scheme (LES) ¹²

- 1.9.1. The stock exchanges may introduce LES in commodity derivatives segment subject to the following:

¹¹ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/102](#) dated September 27, 2016

¹² SEBI circular no [SEBI/HO/CDMRD/DRMP/CIR/P/2018/55](#) dated March 26, 2018



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- i. The scheme shall have the prior approval of the Exchange's Board and its implementation and outcome shall be monitored by the Board at quarterly intervals.
 - ii. The scheme shall be objective, transparent, non-discretionary and nondiscriminatory.
 - iii. The scheme shall specify the incentives available to the market makers/ liquidity providers and such incentives may include discount in fees, adjustment in fees in other segments, cash payment or issue of shares, including options and warrants.
 - iv. The scheme shall not compromise market integrity or risk management.
 - v. The effectiveness of the scheme shall be reviewed by the exchange every six months and the exchange shall submit half-yearly reports to SEBI.
 - vi. The scheme, including any modification therein or its discontinuation, shall be disclosed to the market at least 15 days in advance.
 - vii. Outcome of the scheme (incentives granted, and volume achieved – market maker wise and security wise) shall be disseminated monthly.
 - viii. The scheme shall comply with all the relevant laws.
- 1.9.2. The stock exchange shall formulate its own benchmarks for selecting the commodity derivative product for liquidity enhancement with the broad objective of enhancing liquidity in illiquid securities.
- i. The stock exchanges shall introduce LES on any commodity derivative product for a maximum period of three years. Once the scheme is discontinued, the scheme can be re-introduced on the same commodity derivative product provided it is less than the three-year period since the introduction of scheme on that security.
 - ii. Further, an exchange may introduce LES in commodity derivative product where LES has been introduced in another exchange. Such schemes cannot be continued beyond the period of LES of the initiating exchange.
 - iii. The list of commodity derivative product eligible for liquidity enhancement shall be disseminated to the market.
 - iv. Any commodity that is classified as 'Sensitive Commodity' by the Exchange, shall not be eligible for LES.
 - v. If any commodity derivative product is 'liquid' on any of the exchanges i.e. there is at least one exchange where the average daily turnover in Options or/and Futures on similar underlying commodity



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is more than or equal to INR 200 crore for agricultural and agri-processed commodity, and INR 1000 crore for non-agricultural commodity during the last six months, then no other exchange is eligible to launch LES on the same derivative product, unless the exchange where the product is liquid, has itself also launched a LES on said product.

- 1.9.3. The incentives under LES shall be transparent and measurable, and may take either of the following:
- i. Discount in fees, adjustment in fees in other segments or cash payment - The incentives during a financial year shall not exceed 25% of the net profits or 25% of the free reserves of the exchange, whichever is higher, as per the audited financial statements of the preceding financial year.
 - ii. Shares, including options and warrants, of the exchange - The shares that may accrue on exercise of warrants or options, given as incentives under all liquidity enhancement scheme, during a financial year, shall not exceed 25% of the issued and outstanding shares of the stock exchange as on the last day of the preceding financial year. Further, the exchange shall ensure that this is in compliance with the SECC Regulations at all times.
- 1.9.4. An exchange in early years of its formation /commencement of business may not be able to generate profits or have free reserves from business operations. In this regard, such exchanges are exempted, during their first five years of operation from the date of SEBI's approval for commencement/recommencement of their business, from the applicability of abovementioned para (clauses given in 1.9.3 above)¹³ subject to adherence to the following conditions:
- i. The yearly incentives that such an exchange can earmark for LES shall not exceed 25% of the audited net-worth of the said exchange as on the last day of the previous financial year.
 - ii. Such exchange shall create a reserve specifically to meet its LES incentives/expenses and transfer funds to such reserve accordingly. However, such reserves shall not be included in the calculation of exchange net worth.
 - iii. Such exchange shall continuously comply with the minimum net-worth requirements as per SECC Regulations.

¹³ Inserted via SEBI Circular No [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/84](#) dated July 26, 2019



- 1.9.5. Market integrity - The exchange shall ensure the following:
- Exchanges shall put in place a mechanism to ensure that the LES does not create artificial volumes, does not take away liquidity from the market, is not manipulative in nature and shall not lead to misselling of the product in the market.
 - The exchange shall have systems and defined procedures in place to monitor collusion between brokers indulging in trades solely for seeking incentives and prevent payment of incentives in such cases.
 - Incentives shall not be provided for the trades where the counterparty is self, i.e., same UCC is on both sides of the transaction.
 - Any violations of clauses in this para shall be viewed most seriously.
- 1.9.6. Market maker / liquidity enhancer - The exchange shall prescribe and monitor the obligations of liquidity enhancers (liquidity provider, market-maker, maker-taker or by whatever name called)
- All market maker / liquidity enhancer orders / trades should be identifiable by the exchange.
 - A conflict of interest framework shall be put in place by the exchange for the liquidity enhancement scheme. Such a framework shall provide for obligation on the part of the market maker / liquidity enhancer to disclose any conflict of interest while participating in the scheme. The same shall be disclosed by the exchange on their website.
- 1.9.7. For the present, schemes which incentivize brokers based on activation of new UCC, number of trades or open interest shall not be permissible under LES.

1.10. Framework for Utilization of Regulatory Fee Forgone by SEBI ¹⁴

- 1.10.1. With a view to encourage the participation by Farmers/Farmer Producer Organizations (FPOs) in agricultural commodity derivatives markets, SEBI has reduced the regulatory fee on Stock Exchanges with respect to turnover in agricultural commodity derivatives. The objective was to reduce the cost burden on farmers/FPOs from the amount saved by the Exchanges due to reduction of regulatory fee.

¹⁴ SEBI circular no [SEBI/HO/CDMRD/DMP/IR/P/2019/40](#) dated March 20, 2019



- 1.10.2. In order to pass on the desired benefits from reduction of regulatory fees on agricultural commodity derivatives, the stock exchanges dealing with agricultural commodity derivatives shall create a separate fund earmarked for the benefit of farmers/FPOs in which, the regulatory fee forgone by SEBI shall be deposited and utilized exclusively for the benefit of and easy participation by Farmers and FPOs in the agri-commodity derivatives market. Any income on investments from the fund shall also be ploughed back into the same fund.
- 1.10.3. In this regard, exchanges shall follow the guiding principles outlined below for the purpose of utilization of the earmarked fund –
- i. The fund shall be used exclusively for the benefit of and for easy participation by Farmers and FPOs in the agri-commodity derivatives market.
 - ii. It shall be the endeavour of the exchange to utilise the earmarked fund primarily for reducing cost of transaction and for facilitating ease of trading by farmers/FPOs.
 - iii. Exchange shall draw an action plan for full utilisation of regulatory fee foregone by SEBI in any financial year to be utilised during the succeeding financial year. Such action plan shall be drawn up by the 10th of April (of the year in which the fund must be utilised) keeping in view the amount of fund available for the purpose.
 - iv. Exchange shall disseminate the details of the action plan including the financial assistance proposed to be rendered to farmers/FPOs, activities to be subsidised/facilitated with respect to participation by farmers/FPOs during the financial year on their website under intimation to SEBI.
 - v. The aforesaid earmarked fund shall not be clubbed with any other funds such as Investor Protection Fund (IPF) /Investor Services Fund (ISF) /Corporate Social Responsibility (CSR) Funds etc.
 - vi. The stock exchange shall ensure that the farmers/FPOs participating on the exchange are treated in a fair and equitable manner while utilising the proceeds of the fund for their benefit. Accordingly, the choice of activities for utilizing the fund and the rate of benefit should be such that benefits with respect to the activity are imparted to all farmers/FPOs participating during the year and are not restricted to a select few farmers/FPOs.



1.10.4. While preparing the action plan for a financial year, the exchanges may consider one or more of the following activities for utilization of the fund for benefit of farmers/FPOs –

- i. **Funding of Warehousing and/or Assaying charges** – Waiver/subsidy in warehousing and/or assaying charges for agricultural commodities deposited for delivery on exchange platform by the farmers/FPOs.
- ii. **Cost of bags and transportation for the Farmers / FPOs for delivery on exchange platform-** The cost of bags can be reimbursed or bags can be provided to Farmers / FPOs for deposits on exchange platform. To incentivize delivery-based participation by Farmers / FPOs, certain percentage of transportation expenses can also be considered for reimbursement to farmers/FPOs.
- iii. **Cost of Mark to market (MTM) funding** – The cost of or a part of the cost of MTM funding by Exchange/Clearing Corporation (CC) on the sell positions of the Farmers / FPOs who make early pay-in of the commodities in approved warehouses.
- iv. **Broker fee** – Broker fee for farmers/FPOs can be subsidized.
- v. **Delivery fee/charge-** As delivery fee is one of the largest constituents of the overall transaction costs in the delivery based agri- commodity derivatives markets, Exchanges may reduce/subsidize this cost head.
- vi. **Repository related fee** – Exchanges may subsidize repository related charges for farmers/FPOs - account opening, maintenance and transfer charges or any other similar charges.
- vii. Any other activity as may be permitted by SEBI.

1.10.5. The exchanges shall allow utilization of the fund for the activities mentioned above with certain conditions such as overall amount per activity, maximum amount per farmer/FPO, maximum period etc., as may be applicable from time to time, so as to ensure fair and equitable distribution of benefit to farmers/FPOs.

1.11. *Price Dissemination through SMS / Electronic Communication Facility*¹⁵

1.11.1. Exchanges shall make efforts for registration of subscribers of Price Dissemination services and disseminate derivatives prices to them on a daily basis. Such direct price dissemination service would provide information to

¹⁵ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/76](#) dated August 30, 2016



subscribers instantly in an efficient and transparent manner and thus shall be of great benefit to market participants.

- 1.11.2. The Exchanges may provide price dissemination through SMS or any other electronic communication facility (instant messengers, email etc.) for all commodities.
- 1.11.3. The service is to be provided free of cost to the subscribers. However, the expenditure incurred for such price dissemination may be reimbursed from the interest accrued on the Investor Protection Fund (IPF).

1.12. Programmes Sponsored by the Exchanges through Media Channels¹⁶

- 1.12.1. The Exchanges being neutral platforms, either as an institution or through their functionaries, shall not sponsor or associate themselves in any manner with programmes/seminars/workshops/ activities etc. at various fora including but not limited to TV/Radio/Social Networks/Websites or any other media in which the discussions/suggestions are related to the price behaviour, price outlook, trading strategy, buy/sell recommendations, or similar subjects related to commodity derivatives.
- 1.12.2. Exchanges shall also ensure that the staff members of the Exchanges are not associated with such activities as mentioned above. The Exchanges shall lay down a suitable code of conduct for their executives and other staff members in this regard.

1.13. Maintenance and Preservation of Records¹⁷

- 1.13.1. In terms of Rules 14 and 15 of SCRR (Securities Contract (Regulation) Rules, 1957), every recognized stock exchange and its members are required to maintain and preserve the specified books of account and documents for a period ranging from two years to five years. Further, as per regulation 18 of Broker Regulations, every stock broker shall preserve the specified books of account and other records for a minimum period of five years. In case such documents are maintained in electronic form, provisions of Information Technology Act, 2000 in this regard shall be complied with.
- 1.13.2. Further, it has been noticed that enforcement agencies like CBI, Police, Crime Branch etc. have been collecting copies of the various records/documents during the course of their investigation. The originals of

¹⁶ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/72](#) dated August 19, 2016

¹⁷ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/74](#) dated August 30, 2016



such documents maintained either in physical or in electronic form or in both would be required by such enforcement agencies during trial of the case also.

- 1.13.3. In view of the above it is clarified that if a copy is taken by such enforcement agency either from physical or electronic record then the respective original is to be maintained till the trial or investigation proceedings have concluded.

1.14. Forward Segment¹⁸

- 1.14.1. Participants in Forward Segment are not allowed to enter into fresh contracts.

1.15. Disclosure Requirements for stock exchanges on their websites¹⁹

- 1.15.1. In order to promote transparency in the markets, the stock exchanges shall make following disclosures on their website:
- Position of top 10 trading clients in buy side as well as sell side in order of maximum open interest in anonymous manner every day after the end of trading session.
 - The delivery intent of the hedgers on a daily basis in an anonymous manner.
 - The pay-in and pay-out of commodities made by top 10 clients including hedgers 10 days after completion of settlement, for the information of the market.
 - Their members' proprietary position on monthly basis. The disclosure shall include average daily proprietary position (during the month) as a percentage of member's average daily total position (including clients) and average daily margin on proprietary position (during the month) as a percentage of margins on member's average daily total position (including clients).
 - The percentage of proprietary trade and client trade done and also specify as to what percentage of this trade is by algorithmic trading/HFT. This information shall be displayed before opening of the markets on the next day.
 - Members' data (as mentioned in Annexure on format for dissemination of member's data on website).

¹⁸ SEBI circular no [CIR/CDMRD/DMP/2/2016](#) dated January 15, 2016

¹⁹ SEBI circular no [SEBI/HO/CDMRD/DMP/2016/101](#) dated September 27, 2016



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- vii. List of the members whose request of surrender has been approved by the Exchange, along with date of approval
 - viii. Break up of funds contributed into Settlement Guarantee Fund and will be updated on quarterly basis.
 - ix. Disclosure of information regarding trading activity during life cycle of contract **(as mentioned in Annexure on disclosure of information regarding trading activity during life cycle of contract).**
- 1.15.2. **Disclosure of suspended /expelled /defaulter members**: The Exchanges which are suspending/expelling/declaring defaulter their members for irregularities/violation of regulatory measures and other various reasons, shall disclose following information on their website-
- i. The details of member (Name, Address, Names of Promoters/ Owners/Partners/Directors of Company, Registration No. etc.)
 - ii. The details of disciplinary action taken by the stock exchange.
- 1.15.3. **Disclosure of disablement of member terminals**²⁰: The disablement of terminals of the members along with duration of disablement due to shortage of funds, margin money etc., shall be disclosed by Exchange on its website at the end of every quarter i.e., 30th June, 30th September, 31st December and 31st March.
- 1.15.4. **Category-wise disclosure of Open Interest and turnover**: All recognized stock exchanges shall also make additional disclosures on their websites **(as per the format at Annexure on format for disclosure of Open Interest (OI) and turnover for various categories of market participants at individual commodity as well as overall market level and at Annexure on commodity wise format of disclosure for top participants, members and market wide position limits)**²¹. The Annexure on format for disclosure of Open Interest (OI) and turnover for various categories of market participants at individual commodity contains a disclosure format for Open Interest and turnover for various categories of participants at Commodity as well as market level. While the **Annexure on Commodity wise format of disclosure for top participants, members and market wide position limits** contains commodity wise format of disclosure for top participants, members and market wide position limits. In this regard the stock exchanges shall:

²⁰ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated 26 September 2016

²¹ Inserted vide SEBI Circular no [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/08](#) dated January 04, 2019



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- i. categorize the participants in the following six categories:
 - a) **Farmers/FPOs:** It includes participants such as farmers, farmers' cooperatives, Farmers Producers Organizations (FPOs) and such entities of like nature.
 - b) **Value chain participants (VCPs):** It includes participants such as Processors, Commercial users as Dal and Flour Millers, Importers, Exporters, Physical Market Traders, Stockists, Cash & Carry participants, Producers, SMEs/MSMEs & Wholesalers etc., but exclude farmers/FPOs.
 - c) **Proprietary traders:** It includes the members of stock exchanges trading in their proprietary account.
 - d) **Domestic financial institutional investors:** It includes participants such as Mutual Funds (MFs), Portfolio Managers, Alternative Investment Funds (AIFs), Banks, Insurance Companies and Pension Funds etc., which are allowed to trade in commodity derivatives.
 - e) **Foreign participants:** It includes participants such as Eligible Foreign Entities (EFEs), NRIs etc. which are allowed to trade in commodity derivatives markets.
 - f) **Others:** All other participants which cannot be classified in the above categories.
- ii. The categorization of the clients/members shall be made on self-declaration basis for each commodity. However, exchanges can re-classify any participant where it deems necessary to do so based on the information available with it. Exchanges shall be required to conduct periodical exercise to capture the above data. Thus, the exchange shall put in place necessary systems to capture the requisite information.
- iii. In case self-declaration is not obtained for a particular client for a particular commodity, positions of such client in such commodity shall be clubbed with "Others" category.
- iv. In case there are less than 10 participants in any category, the stock exchanges while disclosing the number of participants can disclose as "less than 10".
- v. Such Disclosures shall be made on daily basis by 6:00 PM on T+1 day.
- vi. Stock Exchanges shall make disclosures on daily basis, latest within a month of the date of this circular. Such disclosures for any day are to be made before start of trading on the next day. The recognized



stock exchange shall make necessary disclaimer that the grouping of clients is based on the “Guidelines on Clubbing of Open Positions” issued by it.

- vii. Exchanges shall also maintain complete historical data of the above disclosures on their website in spread sheet format.

1.16. Disclosures regarding commodity risks by listed entities ²²

- 1.16.1. Regulation 34(3) read with clause 9(n) of Part C of Schedule V of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR Regulations”) mandates listed entities to make disclosures regarding commodity price risk and hedging activities in the Corporate Governance Report section of the Annual Report of a listed entity.
- 1.16.2. In order to benefit the shareholders and to bring further clarity in disclosures to be made in the annual reports by listed entities, all listed entities shall make the disclosures in the format *as per the Annexure on Disclosures regarding commodity risks by listed entities* as part of the Corporate Governance Report in the Annual Report under clause 9(n) of Part C of Schedule V.

²² SEBI Circular no [SEBI/HO/CFD/CMD1/CIR/P/2018/141](#) dated November 15, 2018



CHAPTER 2. PRODUCTS RELATED GUIDELINES

2.1. Goods notified under SCRA²³

- 2.1.1. Pursuant to the repeal of the Forward Contracts (Regulation) Act, 1952 (FCRA) and amendment to the Securities Contracts (Regulation) Act, 1956 (SCRA), the Central Government, in exercise of the powers conferred by clause (bc) of section 2 of the SCRA and in consultation with the SEBI, have vide Notification No. S.O. 3068(E) dated September 27, 2016 notified the goods specified therein, for the purpose of clause (bc) of section 2 of the SCRA with effect from the date of the said notification.
- 2.1.2. As specified in the aforesaid Gazette notification, list of notified goods are **at annexure on Goods notified u/s 2(bc) of SCRA.**

2.2. Criteria for Eligibility, Retention and Re-introduction of Derivative Contracts on Commodities²⁴

- 2.2.1. The commodities which are to be recommended by SEBI for notification by the Government or on which the exchange proposes to launch a contract should pass through some test based upon the objective parameters and upon satisfaction, should be allowed for trading. It is also important that the contracts available for trading in the commodity derivatives market are liquid enough for the contracts to trade smoothly.
- 2.2.2. The following criteria for eligibility, retention and re-introduction of derivative contracts on commodities shall be followed by all stock exchanges.
- 2.2.3. **Eligibility criteria for allowing derivative contracts on commodities:** Exchanges shall examine following basic parameters and the commodity may be permitted to be included under derivatives if such commodity satisfies these parameters.

²³ SEBI circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2016/105](#) dated September 28, 2016

²⁴ SEBI circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2017/6](#) dated January 20, 2017



i. Commodity Fundamentals

- a) Size of the market / Volume of the market: The total supply value of the commodity in each year is taken as a measure of the physical market size of that commodity in that year. A higher physical market size could create higher futures trading volume by attracting more hedgers and speculators into the futures market.
- b) Homogeneity/Standardization: The commodity should be either Homogeneous or should be conducive to standardization. This is required so that participants trading the commodity on exchange platform should be able to unambiguously understand exactly what they are trading as on exchange only standardized contracts can be traded.
- c) Durable / Storable: The commodity should be durable and storable for better price discovery. Durability i.e. higher shelf life makes commodity conducive for storage, which creates opportunity for cash and carry and hence would attract arbitragers thus make it more suitable for derivatives trading.

ii. Trade Factors

- a) Global: Global market in a commodity could be a positive indicator as internationally linked commodity prices are influenced by various global factors and thus create multiple reference points for price discovery which may make it conducive for derivatives trading.
- b) Value chain: The term “value chain” describes the full range of value adding activities required to bring a product or service through the different phases of production, including procurement of raw materials and other inputs”, connected along a chain of producing, transforming and bringing goods and services to end-consumers through a sequenced set of activities and a strategic network among a number of business organizations”. Larger is the value chain larger would be the number of participants interested in derivatives trading of such commodity.
- c) Geographical coverage: The commodity should ideally have a vast distribution across the country. The coverage can be in the form of production of commodity or the distribution of the commodity across the country. Higher coverage would attract higher number of participants to the derivatives.



iii. **Ease-of- doing-business**

- a) Price Control: Price controls are government mandated minimum or maximum prices that can be charged for specified goods. Government sometimes implements price controls when prices on essential items, such as food grain or oil are rising rapidly. Such goods which are prone to price control may be less conducive for derivatives markets
- b) Applicability of other laws: The Food control Regulation Act, Essential commodities Act, APMC Act etc., may have an impact on the commodities to be introduced for derivatives trading. Commodities which have excessive restrictions may be less conducive for derivatives markets.

iv. **Risk management**

- a) Correlation with International Market: Commodities which have a strong correlation with the global market have higher need for price risk management. Such commodities are conducive for derivatives trading.
 - b) Seasonality: The Indian commodity sphere is characterized by seasonality. The prices fluctuate with the supply season and the off season. The derivatives market is necessary to even out this fluctuation and facilitate better price discovery. Thus the commodities with higher seasonality are conducive for derivatives trading.
 - c) Price Volatility: Commodities with high volatility of prices have high need for hedging. Such commodities are conducive for Derivatives trading.
- v. In order to bring in uniformity among the commodity derivatives exchanges, the indicative template (as enclosed at Annexure on template on criteria for eligibility of commodity derivative products) shall be adopted by the exchanges. In this regard the exchanges shall decide upon the specific numerical weight ages as approved by their oversight committee for 'Product Design'.
- vi. The exchanges shall also analyze all the proposed commodities/ commodity derivatives contracts on the afore-said parameters comprised in the template and submit the same to SEBI while applying



for the approvals along with necessary supporting documentary evidence.

2.2.4. Applicability of the template on the commodities presently being traded

- i. As regards the commodities which are presently being traded on the exchange platforms, the exchanges shall apply the afore-said parameters comprised in the template on each of the commodities.
- ii. The results of such exercise is to be submitted to SEBI within a period of 3 months.

2.2.5. Criteria for retention and reintroduction of derivative contracts on commodities

- i. For any commodity to continue to be eligible for Futures trading on Exchange, it should have annual turnover of more than Rs.500 Crore across all stock exchanges in at least one of the last three financial years. For validating this criteria, gestation period of three years is provided for commodities from the launch date/re-launch date, as may be applicable.
- ii. Once, a commodity becomes ineligible for derivatives trading due to not satisfying the retention criteria, the exchanges shall not reconsider such commodity for re-launching contract for a minimum period of one year.
- iii. Further, a commodity which is discontinued/suspended by the exchange from derivatives trading on its platform, shall not be re-considered by the concerned exchange for re-launching of derivatives contract on such commodity at least for a minimum period of one year.



2.3.Role of Regulatory Oversight Committee regarding Product Design ²⁵

2.3.1. The Regulatory Oversight Committee of the stock exchanges is one of the mandatory oversight committee of the Governing Board of the stock exchange. The functions of Regulatory oversight committee with respect to the “Product Design” is as under-

- i. Oversee matters related to product design and review the design of the already approved and running contracts
- ii. Oversee SEBI inspection observation on Product Design related issues.
- iii. Estimate the adequacy of resources dedicated to Product design related function.

2.3.2. The head(s) of department(s) handling above matters shall report directly to the committee and also to the Managing Director. Any action against the head(s) of department shall be subject to an appeal to the committee, within such period as may be determined by the governing board.

2.4.Product Advisory Committee ²⁶

2.4.1. Each recognized stock exchange dealing in commodity derivatives segment shall constitute a Product Advisory Committee (PAC) for each group/complex of commodities having common stakeholders/value chain

²⁵ SEBI circular no. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019. Prior to substitution, the earlier provisions vide SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2018/12](#) dated January 22, 2018 read as under:

1. “The functions of the oversight committee for ‘Product Design’ in all the commodity exchanges shall be as under-
 - To oversee matters related to product design such as introduction of new products/contracts, modifications of existing product/contract designs etc. and review the design of the already approved and running contracts.
 - To oversee SEBI inspection observation on Product Design related issues.
 - To estimate the adequacy of resources dedicated to Product design related function.
2. The head(s) of department(s) handling the above matters shall report directly to the committee and also to the Managing Director. Any action of the Exchange against the aforesaid head(s) shall be subject to an appeal to the committee, within such period as may be determined by the governing board.”

²⁶ SEBI circular no [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/89](#) dated August 07, 2019



participants, on which derivatives are traded or being proposed to be traded on the exchange.

2.4.2. **Terms of Reference:** The PAC shall be consulted for the following:

- i. Contract design on new commodities and review of design of existing contracts, to ensure that contract specifications represent the industry's needs:
 - a. alignment of quality/quantity specifications of the product with the physical market
 - b. choice of basis and additional delivery centers
 - c. appropriate premium/discount for additional deliverable quality/ delivery at additional delivery center, etc.
- ii. Discussion on the “State of the Markets for the commodity” at every meeting.
- iii. Review of the delivery centres as well as recommendations with respect to modifications of delivery centres.
- iv. Review of suggestions/feedback/complaints received by the exchange regarding the commodity/contract and action taken thereon.
- v. Performance review of the existing contracts on various parameters.
- vi. Any other related matter thereof.
- vii. Exchange shall have the right to accept, reject or modify any recommendations made to it by the PAC, by recording the reasons thereof

2.4.3. **Composition**

- i. The PAC shall have a balanced representation from amongst the following categories of stakeholders:
 - a. Representatives from Trade Associations representing various value chain participants
 - b. Representatives from various Stakeholders and value chain participants such as producers, traders, consumers, Farmers & Farmers Producers Organisations (FPOs) / Cooperative societies in case of agricultural commodities, SMEs / MSMEs etc.
 - c. Representative(s) from warehousing/ assaying sector
 - d. Independent Expert(s) in the specific commodity group



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- e. Representative(s) from financial sector (such as Financial Institutions, brokers, etc.)
 - f. Representative(s) from Exchange / clearing corporation responsible for specific commodity.
- ii. Each PAC meeting shall be headed by a Chairman (who shall be an independent person with experience in the specific commodity) selected as such for the meeting based on attendees' choice. PAC shall have an exchange executive as Vice Chairman for administrative coordination/decision.

2.4.4. **Proceeding of meetings**

- i. The PAC shall meet at least twice a year and more frequently as and when required.
- ii. The Exchange shall prepare the agenda for the meeting based on the views and requirements of value chain participants and also taking into account any suggestions/feedback/complaints received by the exchange regarding the commodity/contract.
- iii. In the PAC meetings at least 50% members (excluding representative from exchange/Clearing Corporation) shall be present, including its chairman or vice chairman (acting chairman).

2.4.5. **Disclosure:** For each PAC, the exchange shall make following disclosures on its website:

- i. Composition of Committee- Name of the member, Organisation, Sector
- ii. Terms and reference of the Committee
- iii. The Committee shall be at liberty to publicise agenda items with the Exchange's prior concurrence in order to encourage market participants to contribute their point of view.

2.4.6. **Confidentiality and Conflicts of Interest**

- i. PAC members must ensure that, unless outside consultation is specifically agreed, all matters discussed and all materials and data made available to them in respect of their Committee-related activities are kept confidential at all times. Exchange shall formulate a code of conduct to be adhered to as a member of the Committee.



- ii. If there is a conflict of interest arising for a member out of any matter proposed to be discussed at a Committee meeting or a matter that comes for discussion in the course, in a Committee meeting, such committee member must absent himself from discussion on that matter and the minutes of the meeting must record the same.

2.4.7. There should be an annual review of the PAC's performance by the Regulatory Oversight Committee of the Stock Exchange.

2.5. Performance Review of the Commodity Derivatives Contracts²⁷

- 2.5.1. All recognized stock exchanges shall review the performance of all contracts traded on their exchanges, in commodity derivatives segment, (as per the parameters illustrated in Annexure on Parameters for Performance Review of Commodity Derivative Contract).
- 2.5.2. The said performance review shall be consulted with the PAC.
- 2.5.3. The said performance review along with the methodology adopted in evaluation, if any, shall be disclosed by the stock exchanges on their website prominently.
- 2.5.4. The said performance review shall be conducted on an annual basis for each financial year and shall be disclosed by 30th June of the following financial year.

²⁷ SEBI circular no [SEBI/HO/CDMRD/DNPMP/CIR/P/2020/21](#) dated February 04, 2020



CHAPTER 3. DAILY PRICE LIMITS AND POSITION LIMITS

3.1. General guidelines for Daily Price Limit (DPL)

3.1.1. DPL on First Trading Day of the Contract (For Agri/Non-Agri Commodity Derivatives)²⁸ : For fixing DPL slabs, base price shall be taken as previous day's closing price of the contract, however for the first trading day (launch day) of each contract, the stock exchange shall determine base price as under:

- Volume Weighted Average Price (VWAP) of the first half an hour, subject to minimum of ten trades
- If sufficient No. of trades are not executed during the first half an hour, then the VWAP of first one-hour trade subject to minimum of ten trades.
- If sufficient No. of trades are not executed even during the first hour of the day then VWAP of the first ten trades during the day
- The base price arrived as above, as the case may be, shall be calculated by the Exchange and shall be used to determine DPL for the remaining part of the day

3.1.2. For any commodity derivatives, the stock exchanges at their discretion may prescribe DPL narrower than the slabs prescribed by SEBI in case they require so based upon their analysis of price movements and their surveillance findings.

3.2. DPL for Agricultural Commodity Derivatives²⁹

3.2.1. DPL slabs for agricultural commodity derivatives is as under:

<i>Commodity</i>	<i>Initial Slab</i>	<i>Enhanced Slab</i>	<i>Total DPL</i>
Barley, Chilli, Jeera, Turmeric	2%	2%	4%
Other Agricultural Commodities	3%	1%	4%

3.2.2. DPL shall have two slabs - Initial and Enhanced Slab. Once the initial slab limit is reached in any contract, then after a period of 15 minutes this limit

²⁸ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/83](#) dated September 07, 2016

²⁹ SEBI circular no [CIR/CDMRD/DMP/2/2016](#) dated January 15, 2016



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shall be increased further by enhanced slab, only in that contract. The trading shall be permitted during the 15 minutes period within the initial slab limit. After the DPL is enhanced, trades shall be permitted throughout the day within the enhanced total DPL of 4%.

- 3.2.3. The above slab-wise DPL norm shall be applicable uniformly on all trading days.

3.3.DPL for Non- Agricultural Commodity Derivatives ³⁰

- 3.3.1. DPL slabs for non- agricultural commodity derivatives is as under:

<i>Name of Commodity</i>	<i>Initial Slab of DPL</i>	<i>1st Enhanced Slab of DPL</i>	<i>2nd Enhanced Slab of DPL</i>	<i>Aggregate DPL</i>
Steel	4%	2%	Not Applicable	6%
Gold	3%	3%	3%	9%
Other Non-Agri Commodities	4%	2%	3%	9%

- 3.3.2. DPL for Gold and other non-agri commodities (excluding steel):

- DPL shall have three slabs as mentioned in table above. Once the trade hits the prescribed Initial slab, the DPL shall be relaxed further by '1st Enhanced Slab' without any cooling off period in the trading. In case, '1st Enhanced Slab' is also breached, then after a cooling off period of 15 minutes, the DPL shall be further relaxed by '2nd Enhanced Slab'.
- During cooling off periods trading shall continue to be permitted within the previous slab of DPL.
- In case price movement in referenceable international market is more than the aggregate DPL, the same may be further relaxed in steps of 3% by exchanges. The stock exchanges shall immediately inform Integrated Surveillance Department (ISD) of SEBI about any such relaxation of DPLs beyond Aggregate DPL, along with all the relevant details and justification.

³⁰ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/83](#) dated September 07, 2016



- 3.3.3. DPL for Steel shall have two slabs as mentioned in table above. Once the trade hits the prescribed initial slab, the DPL shall be relaxed further by '1st Enhanced Slab' (i.e. 2%) after a cooling off period of 15 minutes. During cooling off periods trading shall continue to be permitted within the previous slab of DPL. There shall not be further relaxation of DPL during that day.

3.4. General guidelines for Position Limits³¹

- 3.4.1. The following norms shall be applicable to the agricultural as well as non-agricultural commodity derivatives at commodity level:
- Numerical value of overall client level open position limits shall be applicable for each commodity as explained subsequently.
 - The stock exchanges, however, in their own judgment, may prescribe limits lower than what is prescribed by SEBI by giving advance notice to the market under intimation to SEBI.
 - For the purpose of position limits, norms applicable on client level positions shall also be applicable to the proprietary positions of trading members and while calculating member's open positions, his proprietary positions shall be treated and computed like a client's positions.
 - For the purpose of calculating overall position of a member, the overall position of its all clients (as determined in Clause 'i' (under 3.5.1) or (under 3.6.1)) shall be added without netting off among themselves as also against proprietary positions of the member. Thus, all long clients and all short clients shall be added up separately and higher of the two shall be reckoned as Member's open position in a commodity derivative.
- 3.4.2. Clubbing of Open Positions³²
- While calculating open positions for the purpose of position limits, Exchanges shall take suitable measures for clubbing of open positions of clients/members who may be acting in concert to circumvent the norms of position limits. The broad guidelines on this are provided in **Annexure on Clubbing of open positions** .
 - All stock exchanges shall jointly formulate uniform guidelines and disclose the same to the market.

³¹ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016

³² SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016



3.4.3. Monitoring of Position Limits³³

- i. Exchanges shall monitor the open position on a real time basis, and shall endeavor that no client or member breaches the open position limits 'at end of the day' as well as 'during intra-day trading'.
- ii. Penalty shall be levied on those breaching the position limits at end of the day as well as during intra-day trading as provided in Annexure on Position Limit Violation.

3.5. Position limits for Agricultural Commodity Derivatives³⁴

3.5.1. Following norms shall be applicable on Agricultural commodity derivatives at commodity level:

- i. For the purpose of calculating positions of a client, all long and short positions of the client across all contracts shall be added up separately and higher of the two shall be considered as his overall open position.
- ii. For determination of numerical value of overall client level open position limits, framework is prescribed below for agricultural commodities (3.5.2).³⁵
- iii. The overall member level position limits across all contracts shall be 10 times the numerical value of client level position limit or 15% of the market-wide open interest, whichever is higher.
- iv. **Near Month Position Limits:** In case of near month contracts:
 - a. Client level position limits shall be equivalent to the one fourth of the overall Client level position limit as prescribed in 3.5.2 below.
 - b. Member level position limits shall also be equivalent to the one fourth of the overall member level position limit.

³³ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016

³⁴ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016

³⁵ Substituted vide SEBI circular [SEBI/HO/CDMRD/DMP/CIR/P/2017/84](#) dated July 25, 2017, Prior to substitution, the provision read as under:

“The overall client level position limits across all contracts shall be equivalent to the numerical level limit as given in table in the annexure of SEBI circular SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016”



- c. For calculating near month open position of a client, higher of long and short positions of the client in near month contracts to be considered. Thus, netting out near month contract with off-setting positions in far months contracts shall not be permitted for the purpose of computation of near month position of any client.³⁶
- d. For calculating near month open position of a member, the position of the clients as determined in iv (c) above will be added without netting off among themselves as also against proprietary position of the member (which will also be treated like a client position). All longs and shorts will be added up separately and higher of the two will be reckoned.³⁷

- v. **Exchange-wide Position Limit for Agricultural Commodities:** The overall Exchange-wide gross position limit on open interests shall be 50% of its 'deliverable supply' determined for the relevant year, which shall also be jointly notified by the stock exchanges along with client level numerical limits.³⁸

3.5.2. Framework for determination of numerical value of overall client level open position limits ³⁹:

- i. **Categorization of commodities:** In any given year, based on the average of production data and import data of past five years on a rolling basis and keeping in view various extraneous factors that affect the trading in derivatives, the agricultural commodities shall be classified into three categories viz., sensitive, broad and narrow as below:-

³⁶ SEBI circular no. [CDMRD/DMP/CIR/32/2016](#) dated January 29, 2016

³⁷ SEBI circular no. [CDMRD/DMP/CIR/32/2016](#) dated January 29, 2016

³⁸ Substituted vide SEBI circular [SEBI/HO/CDMRD/DMP/CIR/P/2017/84](#) dated July 25, 2017. *Prior to the substitution, the provision read as under:*

"The overall Exchange wide gross position limit, in case of the agricultural commodities, shall be capped at 50% of the annual estimated production and imports of the commodity. The annual estimates for production and imports maybe sourced from the available estimates published by Government of India / Ministry of Agriculture / Institutions /Agencies / other Departments of Central and State Government, as may be appropriate."

³⁹ Revised vide SEBI circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2017/84](#) dated July 25, 2017



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- a. **Sensitive commodity**: An agricultural commodity shall be classified as a sensitive commodity if it:
- is prone to frequent Government / External interventions. These interventions may be in the nature of stock limits, import/export restrictions or any other trade related barriers; or
 - has observed frequent instances of price manipulation in past five years of derivatives trading
- b. **Broad Commodity**: An agricultural commodity shall be classified as 'Broad Commodity' if it is not 'Sensitive Commodity' and satisfies following criteria;
- Average deliverable supply for past five year is at least 10 lakh Metric Ton (MT) in quantitative term and is at least INR 5,000 Crore in monetary term.
- c. **Narrow Commodity**: An agricultural commodity which is not falling in either of the above two categories, viz 'Sensitive' or 'Broad' commodity, shall be classified as 'Narrow Commodity'
- ii. **Deliverable Supply**: The deliverable supply for an agricultural commodity would be "Production + Imports"
- iii. **Client Level Numeric Position Limits**: Numerical Value of overall client level open position limits for each commodity shall be calculated from 'deliverable supply' available in a particular year, as per its category as given below:

Category of Commodity	Position limits
Broad	1% of the deliverable supply
Narrow	0.5% of the deliverable supply
Sensitive	0.25% of the deliverable supply
<i>The numbers arrived based upon above formula should be rounded off downward to appropriate number of zeroes.</i>	

- iv. **Yearly Categorization of commodities and computation of position limits**: All exchanges shall jointly classify agricultural



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commodities into the afore-stated three categories on annual basis as per the principles indicated above.

- a. Whenever an agricultural commodity of 'narrow' category is required to be re-categorized to 'broad' in subsequent years, such re-categorization may be possible only if both, average deliverable supply of such commodity for the past five years and monetary value thereof as mentioned above for 'broad commodity' exceeds by more than 5%.
- b. For determination of '**deliverable supply**' of various agricultural commodities for each year, the national commodity derivatives exchanges shall take into account the latest production figures of such commodities as annually declared by relevant government sources or from the latest 'third advance estimates' of agricultural commodities published by the Ministry of agriculture or any other yearly estimates/assessments of production and imports made by any governmental agencies such as Ministry of Agriculture, Ministry of Textiles, Ministry of Commerce, different statutory boards/associations etc., concerned with different agricultural commodities. The national commodity derivatives exchanges shall indicate the sources from which the production and import / export data have been obtained for the purpose of determination of 'deliverable supply' of different agricultural commodities.
- c. Every year, for each agricultural commodity that is being traded in the derivatives market, all national commodity derivatives exchanges shall jointly complete the exercise of determination of 'deliverable supply, categorization/re-categorization of commodities and computation of numerical value of position limits. Numerical values of position limits for any agricultural commodity shall be revised only if the computation results in a revision in the value by at least 5% compared to previous year's limits. Exchanges shall, after prior intimation to SEBI, notify such details to the market through their respective websites sufficiently in advance and latest by **31st of July** (unless extended by SEBI under exceptional circumstances) of every year and revised limits shall become applicable for all running contracts with effect from **1st of September** of every year



- d. **Dissemination of Information on Website:** In order to provide necessary information to the stakeholders the Exchanges shall prominently disseminate on their websites the details of five year average deliverable supply, current year deliverable supply, source of data, categorization of the commodity, position limits etc. for each of the commodity traded on their exchange, as per the format given in Annexure regarding Format for Dissemination of Information on Website.⁴⁰
- e. In the interest of trade and public, SEBI may exercise its due discretion in modifying the aforesaid position limits at any time during the year.

3.6.Position limits for Non-Agricultural Commodity Derivatives⁴¹

- 3.6.1. The following norms shall be applicable to Non- Agricultural commodity derivatives at commodity level:-
- For the purpose of calculating overall position of a client, all long and short positions of the client across all contracts shall be netted out.
 - Client level position limits shall be equivalent to the numerical level limit as given in table in Annexure on Client Level Numerical Position Limits for Non-Agricultural Commodities or 5% of market-wide open interest, whichever is higher.
 - Member level position limits shall be 10 times of the numerical value of client level position limits or 20% of the market-wide open interest, whichever is higher.

3.7.Position Limit for Hedgers⁴²

- 3.7.1. In order to facilitate larger participation by genuine hedgers by providing them with necessary incentives with a view to deepen the commodity derivatives market, the stock exchanges shall stipulate a “Hedge Policy” for granting hedge limits to their members and clients. The stock exchanges shall widely publicize their respective hedge policy by holding awareness

⁴⁰ Inserted via SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2018/96](#) dated June 11, 2018

⁴¹ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016

⁴² SEBI Circular NO. [SEBI/HO/CDMRD/DMP/CIR/P/2016/71](#) dated August 19, 2016



programmes for the target participants and making it publicly available on their website.

3.7.2. The stock exchanges shall adhere to the following broad guidelines while granting hedge limit exemptions to their members and clients:

- i. The hedge limit to be granted by the stock exchanges to the bona fide hedgers shall be in addition to the normal position limit allowed to it. Such hedge limit is non-transferrable and shall be utilized only by the hedger to whom the limit has been granted and not by anyone else.
- ii. This hedge limit granted for a commodity derivative shall not be available for the near month contracts of the said commodity from the date of applicability of near month limit.
- iii. Hedge limits for a commodity shall be determined on a case to case basis, depending on applicant's hedging requirement in the underlying physical market based upon his/its export or import commitments/ stocks held/ past track record of production or purchase or sales/processing capacity and other factors as the stock exchanges may deem appropriate.
- iv. The stock exchanges shall undertake proper due diligence by verifying documentary evidence of the underlying exposure and ensuring that the hedge limit granted is genuine and does not have the potential to disturb the equilibrium of the market of that particular derivative contracts.
- v. The hedge limit may also be made available in respect of the short open position acquired by an entity for the purpose of hedging against the stocks of commodities owned by it and,
 - a. pledged with the Scheduled Commercial Banks/Co-operative Banks;
 - b. lying in any Government Entity's warehouse/ WDRA Approved warehouses; or
 - c. lying in any other premises (warehouse, factory etc.), provided the premises is either owned by the hedger or taken on lease by the hedger in its name and the stock exchange has ascertained that such premises are well equipped with quality control safeguards for storage of the relevant commodity and shall be subject to the production of the relevant Bank Certificate/Warehouse Receipt, as the case may be, and also shall be subject to verification regarding ownership of the



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stocks etc., by the stock exchange in accordance with the procedure laid down by it in this regard.

- vi. At any point of time during the hedge period, hedging positions taken in derivatives contracts by hedger, across multiple stock exchanges/ contracts, shall not exceed his/its actual/anticipated exposure in the physical market, even if there is a usable hedge limit available as per allocation made by the stock exchange to the hedger.
- vii. If under any circumstances a hedger is found availing hedge limit in contrary to the guideline framed by the SEBI/stock exchanges or submits false document or fails to inform stock exchange timely about reduction of underlying exposure based upon which it has been allocated hedge limit by the stock exchange, it shall be liable for expulsion from membership/prohibition from trading as the case may be. Such action shall be without prejudice to other disciplinary actions including penalties prescribed by the stock exchanges.
- viii. A hedger having availed of benefit of hedge limits, shall preserve relevant records for a period of minimum three years for inspection by SEBI/stock exchange.
- ix. The approved hedge limit shall be valid for a period as mentioned in the approval letter and such hedge limit shall stand cancelled automatically upon expiry of such period without any notice.
- x. The stock exchanges shall disclose on their website the hedge position allocated to various hedgers, indicating the period for which approval is valid, in an anonymous manner. The disclosure shall be made in the following format:

<i>Sr.</i>	<i>Name of the Commodity</i>	<i>Hedger</i>	<i>Long Hedge Limits</i>	<i>Short Hedge Limits</i>	<i>Date of making application</i>	<i>Application Approval Date</i>	<i>Approval Start Date</i>	<i>Date till Approval is valid</i>
1.		Hedger 1						
2.		Hedger 2						



CHAPTER 4. PARTICIPANTS IN COMMODITY DERIVATIVES MARKETS

4.1. *Category III Alternative Investment funds (AIFs)* ⁴³

- 4.1.1. Category-III Alternative Investment Funds (AIFs) are allowed to participate in the commodity derivatives market subject to the following conditions:
- i. Category III AIFs may participate in all commodity derivatives products that are being traded on the commodity derivatives exchanges as ‘clients’ and shall be subjected to all the rules, regulations and instructions, position limit norms as may be applicable to clients, issued by SEBI and Exchanges from time to time.
 - ii. Category III AIFs shall invest not more than ten percent of the investable funds in one underlying commodity.
 - iii. Category III AIFs may engage in leverage or borrow subject to consent from the investors in the fund and subject to a maximum limit, as specified by the Board from time to time.
 - iv. Category III AIFs shall make disclosure in private placement memorandum issued to the investors about investment in commodity derivatives. Consent of existing investor(s) shall be taken by AIFs if they intend to invest in commodity derivatives and exit opportunity should be provided to dissenting investor(s).
 - v. If applicable, AIF shall also comply with RBI notification No. FEMA. 355/2015-RB dated November 16, 2015 and all other guidelines issued by the RBI under Foreign Exchange Management Act, 1999 from time to time.
 - vi. Category III AIF shall be subject to the reporting requirements as may be specified by SEBI.
 - vii. The participation of Category III AIF in the commodity derivatives market shall be subject to the compliance of the provisions of SEBI (Alternative Investment Funds) Regulations, 2012 and circulars issued thereunder.

4.2. *Eligible Foreign Entities (EFEs)* ⁴⁴

- 4.2.1. Foreign Entities having actual exposure to Indian Commodity markets are allowed to participate in the commodity derivative segment of recognized

⁴³ SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2017/61](#) dated June 21, 2017

⁴⁴ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2018/134](#) dated October 09, 2019



stock exchanges for hedging their exposure. Such foreign entities shall be known as “Eligible Foreign Entities” (EFEs).

4.2.2. **Eligible Commodities**

All commodity derivatives traded on Indian Exchanges except for those contracts having underlying commodity defined as ‘Sensitive Commodity’ as defined above (in Chapter 3) or by any other stipulation by SEBI which are disclosed on Exchange websites.

4.2.3. **Definitions**

- i. “Eligible Foreign Entities” (EFEs) are the ‘Person resident outside India’ as defined in Foreign Exchange Management Act, 1999, and are having actual exposure to Indian physical commodity markets.
- ii. “Exchanges” under these guidelines would mean recognized stock exchanges having commodity derivatives segment.
- iii. “Clearing Corporations (CC)” under these guidelines would mean recognized Clearing Corporation undertaking the activity of clearing and settlement of trades in commodity derivative segment of a recognized stock exchange.
- iv. “Auditor” under these guidelines would mean statutory auditor or such other authority carrying equivalent function of auditing and assurance in the respective jurisdiction as may be applicable

4.2.4. **Eligibility and Jurisdiction**

- i. Such EFEs shall have actual exposure to Indian physical commodity markets.
- ii. Such EFE is resident in a country/jurisdiction whose securities market regulator and/or commodity derivatives market regulator is a signatory to IOSCO’s MMoU (Appendix A Signatories) or a signatory of a bilateral MoU with SEBI.

Provided that such EFE is not resident in a country identified in the public statement of Financial Action Task Force as:

- a) a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or*
- b) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.*



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- iii. If such EFEs are also registered with SEBI as Foreign Portfolio Investors (FPIs) or Foreign Venture Capital Investors (FVCIs) then they are permitted to participate in commodity derivatives markets as EFE provided that they have actual exposure to Indian physical commodity markets and subject to conditions that there is clear segregation of funds/ securities/ commodities under the respective registrations.
- iv. The minimum net-worth requirement for such EFE shall be US\$ 500,000.

4.2.5. **Registration of EFEs**

- i. The EFEs desirous of taking hedge positions in Indian commodity derivatives market shall approach Authorized Stock Brokers (ASBs), from amongst the Brokers which are registered under SEBI (Stock brokers and sub-brokers) Regulations, 1992 having minimum net-worth of INR 25 Crores and are authorized by the Exchanges for opening of such accounts.
- ii. For ASBs, in addition to the minimum Net-worth criteria prescribed above the Exchanges shall frame further guidelines regarding the other eligibility criteria for the ASBs which shall be approved by their Risk Management Committees. While framing guidelines for ASBs, the Exchanges shall look into various aspects, some of which are illustrated as under:
 - a) Appropriate arrangements with clearing bank and clearing member of the respective exchange and clearing corporation;
 - b) Appropriate arrangements for receipt and remittance of money with a designated Authorized Dealer (AD) Category - I bank.
 - c) Appropriate systems and procedures to comply with the FATF (Financial Action Task Force) Standards, PMLA (Prevention of Money Laundering Act, 2002) and SEBI circulars issued from time to time.
 - d) Appropriate systems and procedures to handle the physical deliveries of the underlying commodities on behalf of EFEs.
- iii. An EFE can open trading account with only one of the ASBs and participate in the commodity derivatives trading through the said ASB. EFE shall place orders for trading only through their ASBs on the Exchange platform.



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- iv. The EFEs shall be responsible for complying with all the relevant laws.
- v. EFEs shall ensure that they submit the required documents as specified by the ASBs / Exchanges / SEBI or any other law enforcing agencies.
- vi. The ASBs shall be responsible for carrying out due-diligence and complete necessary formalities/documentations as specified by the Exchanges in this regard.
- vii. The ASBs shall capture the details of the overseas bank account designated by the EFE. EFE shall open a single non-interest-bearing Rupee account with an AD Category-I bank in India for routing the receipt and payment for transactions.
- viii. The ASBs shall obtain appropriate declarations and undertakings from EFEs including the one that they are in compliance with laws, rules and regulations of the jurisdictions where the EFEs are located.
- ix. The ASB shall, at all times, ensure that the participation of EFE is in compliance with the applicable norms prescribed by SEBI, RBI or any other statutory authority in India. For this purpose, the ASB shall obtain appropriate declarations and undertaking from EFEs, from time to time, as may be prescribed by Exchanges and regulators.

4.2.6. **Know Your Client (KYC) requirements**

- i. The EFE shall be required to meet the extant KYC requirements as per extant Indian Anti-Money Laundering Laws in line with extant KYC approach adopted for the equivalent category of Foreign Portfolio Investors (FPIs).
- ii. Such EFE shall also provide its valid Legal Entity Identifier (LEI) issued by organizations accredited by the Global Legal Entity Identifier Foundation (GLEIF), wherever available.

4.2.7. **Position Limit, documentation and other conditions**

- i. The position limits shall be governed by the hedge policy of the Exchanges and no separate client trading limits shall be allowed for EFEs. Exchanges shall issue a separate hedge code for easy identification of EFEs.



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- ii. Appropriate restrictions shall be placed by Exchanges to maintain market integrity.
- iii. The tenor of the hedge shall not be greater than the tenor of underlying exposure. At any point of time during the hedge period, hedging positions taken in derivatives contracts by EFE, across multiple Exchanges/Contracts, shall not exceed his/its actual exposure in the physical market.
- iv. Hedge limits for an EFE will be determined on a case to case basis, depending on applicant's actual exposure to the commodity, hedging requirement and other factors which the Exchanges deems appropriate in the interest of market. The EFE shall approach the ASB of the relevant Exchanges for hedge limits in the format prescribed by Exchanges encompassing the following information –
 - a) Details of import / export to India during past three years, financial statements / annual report of last three years, certified by auditor.
 - b) Supporting proof of Import and/or Export in the form of invoice or shipping/cargo bills. In case of Export/import commitments, documents like proof of export / import commitments and any other relevant documents, duly certified by auditor.
 - c) A certificate of import/export turnover of the EFE during the past three years duly certified by their auditor. Hedging limit shall be permitted up to the average of previous three financial years' actual purchases / sales or the previous year's actual purchases / sales turnover from/to India, whichever is higher, in respect of the desired commodities. In case an EFE has been in existence for less than 3 years, then the applicable time period for exposure calculation shall be for the actual period as may be certified by their auditor.
 - d) EFE shall submit a Board resolution certifying Board approved policies which define the overall framework within which it proposes to conduct its hedging activities.
 - e) A declaration of details of hedging positions in other Indian exchanges (if applicable), certified by auditor.
 - f) Any other additional information sought by the registering Exchanges.



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- v. Exchanges may prescribe additional documents/materials for short hedging and long hedging separately based on the nature and use of the commodity.
- vi. An EFE shall apply for the hedge limits corresponding to its own physical exposure to the commodity and cannot apply for a hedge limit in respect of any stock it holds on behalf of another entity including stock positions it holds on behalf of a group-entity. The limits sanctioned to EFE shall be utilized only by it and not by anyone else including any subsidiary/associate company.
- vii. The EFE shall not undertake any arbitrage/speculative transactions and the initiation and unwinding of hedge positions shall correspond to the underlying position in the physical markets. The quota for hedging shall be used to only hedge/ unwind the hedge. The contracts, once cancelled, cannot be rebooked. The contracts may, however, be rolled over on or before, maturity subject to maturity of the underlying exposure.
- viii. The approved hedge limit is valid from the date of sanction for a period specified in the sanction letter. Unless renewed, the hedge limit shall stand terminated automatically upon expiry of such period without any notice. The EFE shall apply for any renewal of limits in advance and before the expiry of earlier approval, along with relevant documents as prescribed by the Exchanges from time to time.
- ix. The hedge limit shall not be available for the near month contracts of the said underlying commodity from the date of applicability of near month or spot month, however once the near month starts the limit shall be equivalent to the limit available to regular clients or the hedge limit allocated, whichever is lower.
- x. For the ease of business, the Exchanges shall develop an online system to deal with the EFEs through ASBs in this regard.

4.2.8. Risk Management

- i. Exchanges/CC shall put in place appropriate risk management systems for allowing EFE to take positions in eligible commodities.



- ii. The margins for any commodity prescribed by the Exchanges/CC for the other market participants shall also be applicable to EFE. As the hedge positions are expected to be larger than the normal client level limits, the Exchanges/CC shall, based on their assessment of the risks, levy additional margins including concentration margin wherever necessary, as may be prudent. Accordingly the ASB concerned shall ensure that appropriate margins are collected upfront from the EFE as risk mitigation.
- iii. Where, in the assessment of the ASB, the risk profile of EFE warrants margins in addition to the margin stipulated by the Exchanges/CC, the ASB shall collect such additional margins. The margins collected by the ASB at no time shall be less than those stipulated by the Exchanges/CC.

4.2.9. Monitoring of limits and physical exposure

- i. The Exchanges shall put in place a mechanism to monitor the limits as well as physical exposure of an EFE, which may include seeking periodical reports from EFEs and ASBs covering the following aspects:
 - a) Periodical statement of imports / exports undertaken and outstanding contracts, as certified by auditor.
 - b) Audited summary of import or export details/documents in the form of invoice or shipping/cargo bills, containing information like Date of Dispatch, Tentative date of arrival, Quantity on that invoice/bill etc.
 - c) Details of hedging positions in other Indian exchanges (if applicable), as certified by auditor,
 - d) Where hedge limit is sanctioned based on prior import / export commitments/ contracts, a report showing subsequent performance of such contracts and the corresponding hedging proposed to be undertaken, as certified by an auditor.
 - e) EFE/ ASB shall be required to submit a consolidated statement on an annual basis.
 - f) Any other additional information as may be sought by the SEBI/ Exchanges from time to time.
- ii. The EFEs shall also be required to submit to the respective ASB a half-yearly certificate from their auditors as on March 31 and



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September 30, within sixty days from the said dates, to the effect that during the preceding six months, whether the derivative contracts entered into by the EFE exceeded or not exceeded the actual underlying exposure. In this regard, Exchanges shall develop an online system for such submission.

- iii. The Exchanges/ clearing corporations shall provide EFE wise information on day end open position as well as intra-day highest position to the respective ASBs. If the EFE exceeds the allocated hedge limit on any day, the concerned EFE shall be liable to such penal action as may be laid down by the SEBI/Exchanges. The ASB will be required to monitor this and bring transgressions, if any, to the notice of SEBI/Exchanges.
- iv. The positions shall be separately monitored by the respective Exchanges and such Exchanges shall augment their monitoring and surveillance capacity.
- v. The ASBs shall also put in place necessary system to monitor hedge limits for such EFEs.

4.2.10. **Disclosure by the Exchanges:** The Exchanges on daily basis shall disclose on their website the hedge limit allocated to such EFEs, indicating the period for which approval is valid, in the particular commodity in an anonymous manner. This shall be on the similar lines of disclosures made by the exchanges for the domestic hedgers.

4.3. Portfolio Management Services⁴⁵

- 4.3.1. Portfolio Managers are permitted to participate in Exchange Traded Commodity Derivatives (ETCD) on behalf of their clients' subject to the following:

⁴⁵ SEBI circular no [SEBI/HO/IMD/DF1/CIR/P/2019/066](#) dated May 22, 2019. Prior to this circular the provisions as per SEBI circular no [SEBI/HO/CDMRD/DMP/P/CIR/2016/100](#) dated September 27, 2016 is as under:

"PMS currently would not be permissible in the Commodity Derivative Market."



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- i. Portfolio Managers may participate in Exchange Traded Commodity Derivatives on behalf of their clients and such participation shall be in compliance with all the rules, regulations including SEBI (Portfolio Managers) Regulations, 1993 and circulars/guidelines and position limit norms as may be applicable to 'clients', issued by SEBI and Exchanges from time to time.
- ii. Portfolio Managers may participate in Exchange Traded Commodity Derivatives after entering into an agreement with the clients. Portfolio Managers may execute addendums to the agreement with their existing clients, permitting the Portfolio Managers to participate in the Exchange Traded Commodity Derivatives on their behalf.
- iii. Portfolio Managers shall provide adequate disclosures in the Disclosure Document as well as the agreement with the client pertaining to their participation in the Exchange Traded Commodity Derivatives, including but not limited to the risk factors, margin requirements, position limits, prior experience of the Portfolio Manager in Exchange Traded Commodity Derivatives, valuation of goods etc.
- iv. In case dealing in Commodity derivatives lead to delivery of physical goods, there is a possibility that, the Portfolio Manager remains in possession of the physical commodity. In such cases, the goods need to be disposed of at the earliest, on best effort basis within the timelines as agreed upon between the client and the Portfolio Manager. The responsibility of liquidating the physical goods shall be with the Portfolio Manager.
- v. Since Foreign Portfolio Investors are not allowed to participate in the Exchange Traded Commodity Derivatives market, Portfolio Managers shall not onboard Foreign Portfolio Investors until they are permitted to participate in Exchange Traded Commodity Derivatives market.
- vi. Portfolio Managers shall also provide periodic reports to the clients as per Regulation 21 of SEBI (Portfolio Managers) Regulations, 1993 regarding their exposure in Exchange Traded Commodity Derivatives.



- vii. Portfolio Managers shall report the exposure in Exchange Traded Commodity Derivatives under the heading of 'Commodity Derivatives' in the monthly reports submitted to SEBI.

- 4.3.2. It would be mandatory for Portfolio Managers to appoint SEBI registered Custodian before dealing in Exchange traded Commodity Derivatives.

4.4. Mutual Funds⁴⁶

- 4.4.1. Mutual Funds are permitted to participate in ETCDs subject to the following:

- i. Mutual funds are permitted to participate in ETCDs in India, except in commodity derivatives on 'Sensitive Commodities' as defined under Chapter 3.
- ii. ETCDs having gold as the underlying directly or indirectly, shall also be considered as 'gold related instrument' for Gold Exchange Traded Funds (Gold ETFs).
- iii. No Mutual fund schemes shall invest in physical goods except in 'gold' through Gold ETFs. However, as mutual fund schemes participating in ETCDs may hold the underlying goods in case of physical settlement of contracts, in that case mutual funds shall dispose of such goods from the books of the scheme, at the earliest, not exceeding the timeline prescribed below ⁴⁷: -
 - a) For Gold and Silver: - 180 days from the date of holding of physical goods,
 - b) For other goods (except for Gold and Silver):
 - By the immediate next expiry day of the same contract series of the said commodity.
 - However, if Final Expiry Date (FED) of the goods falls before the immediate next expiry day of the same contract series of the said commodity, then within 30 days from the date of holding of physical goods.

⁴⁶ SEBI circular no [SEBI/HO/IMD/DF2/CIR/P/2019/65](#) dated May 21, 2019.

⁴⁷ Substituted vide SEBI circular no. [SEBI/HO/IMD/DF2/CIR/P/2020/96](#) dated June 05, 2020. Prior to substitution, the provision read as under:

"No Mutual fund schemes shall invest in physical goods except in 'gold' through Gold ETFs. Further, as mutual fund schemes participating in ETCDs may hold the underlying goods in case of physical settlement of contracts, in that case mutual funds shall dispose of such goods from the books of the scheme, at the earliest, not exceeding 30 days from the date of holding of the physical goods."



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- iv. No mutual fund scheme shall have net short positions in ETCDs on any particular goods, considering its positions in physical goods as well as ETCDs, at any point of time.
- v. Mutual funds are permitted to participate in ETCDs through the following schemes:
 - a) Hybrid schemes in terms of paragraph C of the Annexure to SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017 which includes multi asset scheme and
 - b) Gold ETFs.
- vi. In case of existing schemes, as mentioned in paragraph (V) above, prior to commencement of participation in ETCDs, the scheme shall comply with the provisions of Regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996, as this will lead to change in fundamental attributes of the scheme and all unitholders shall be given a time-period of at least 30 days to exercise the option to exit at prevailing NAV without charging of exit load, if any.
- vii. Prior to participation in ETCDs, the AMCs shall adhere to the following:
 - a) Appoint a dedicated fund manager with requisite skill and experience in commodities market (including commodity derivatives market).
 - b) Appoint a custodian registered with the Board for custody of the underlying goods, arising due to physical settlement of contracts.
 - c) Have written down investment policy for participation in ETCDs approved by the Board of the Asset Management Company and Board of Trustees.
 - d) Have written down valuation policies approved by the Board of the AMC and Board of Trustees for valuation of commodity derivatives and the underlying goods, arising due to physical settlement of contracts. The approved valuation policies should be subject to the fair valuation of the assets of mutual fund schemes.
- viii. Before investing in GDS of Banks, GMS and ETCDs having gold as the underlying, mutual funds shall put in place a written policy with regard to such investments with due approval from the Board of the Asset Management Company and Board of Trustees. The policy should have provision to make it necessary for the mutual



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funds to obtain approval of trustees for investment proposal in GDS of any Bank and GMS. The policy shall be reviewed by mutual funds, at least once in a year.

- ix. Mutual fund schemes may participate in the ETCDs as 'clients' and shall be subject to all the rules, regulations and instructions, position limit norms, etc. as may be applicable to clients, issued by SEBI and Exchanges from time to time. The position limits at mutual fund level be as applicable to 'Trading Members'.
- x. Schemes investing in ETCDs shall be benchmarked against an appropriate benchmark.
- xi. AMCs shall not onboard Foreign Portfolio Investors (FPIs) in schemes investing in ETCDs until FPIs are permitted to participate in ETCDs.

4.4.2. **Investment limits:** Participation of mutual funds in ETCDs shall be subject to the following investment limits:

- i. Mutual fund schemes shall participate in ETCDs of a particular goods (single), not exceeding 10% of net asset value of the scheme. However, the limit of 10% is not applicable for investments through Gold ETFs in ETCDs having gold as the underlying directly or indirectly.
- ii. In case of multi assets allocation schemes, the exposure to ETCDs shall not be more than 30% of the net asset value of the scheme.
- iii. In case of other hybrid schemes excluding multi assets allocation scheme, the participation in ETCDs shall not exceed 10% of net asset value of the scheme.
- iv. In case of Gold ETFs, the cumulative exposure to gold related instruments i.e. Gold Deposit Scheme (GDS) of banks, Gold Monetization Scheme (GMS) and ETCD having gold as the underlying, shall not exceed 50% of net asset value of the scheme. However, within the 50% limit, the investment limit for GDS and GMS as part of gold related instrument shall not exceed 20% of net asset value of the scheme. The unutilized portion of the limit for GDS of banks and GMS can be utilized for ETCD having gold as the underlying.
- v. The cumulative gross exposure through equity, debt and derivative positions (including commodity derivatives) shall not exceed 100% of net asset value of the scheme.

4.4.3. **Disclosures:** In case of mutual fund schemes investing in ETCDs, the AMC shall adhere to the following:



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- i. The NAVs of those schemes shall be updated on daily basis by the AMCs on their website and on the website of AMFI by 09:00 a.m. of the following calendar day.
- ii. The format of monthly and half-yearly portfolio may be modified to reflect the investment in ETCDs.
- iii. The total exposure to ETCDs shall be disclosed as a line item in the Monthly Cumulative Report (MCR).



CHAPTER 5. OPTIONS IN GOODS ⁴⁸

5.1.Product Design

- 5.1.1. **Underlying:** Goods as notified vide number S.O. 3068(E), dated the 27th September 2016 under clause (bc) of section 2 of the Securities Contracts (Regulation) Act, 1956.
- 5.1.2. **Eligibility Criteria for Underlying:** Only those goods shall be eligible as underlying for these options, on which exchange either is already trading the futures contracts or is proposing to launch the futures contracts on or before the day of launching option in those goods. These Option contracts shall have same quality specifications, delivery centres, Final Settlement Price methodology etc. as in the case of corresponding futures contracts.
- 5.1.3. **Settlement Method:** On exercise, option contract shall be settled through delivery of goods.
- 5.1.4. **Exercise Style:** All exercise style are permitted.
- 5.1.5. **Minimum Strikes:** Each option expiry shall have minimum three strikes available viz., one each for In the Money (ITM), Out of the Money (OTM) and At the Money (ATM).
- 5.1.6. **Exercise Mechanism:** On expiry, following mechanism shall be adopted by Exchanges for exercise of the options contracts:

- i. Option series having strike price closest to the price of the underlying shall be termed as At the Money (ATM) option series.

This ATM option series and three option series having strike prices immediately above this ATM strike and three option series having strike prices immediately below this ATM strike shall be referred as 'Close to the money' (CTM) option series.

In case the price of the underlying is exactly midway between two strike prices, then immediate three option series having strike prices just above the price of the underlying and immediate three option series having strike prices just below the price of the

⁴⁸ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2020/05](https://www.sebi.gov.in/sebi_data/attachdocs/SEBI/HO/CDMRD/DMP/CIR/P/2020/05) dated January 16, 2020



underlying shall be referred as 'Close to the money' (CTM) option series.

- ii. All option contracts belonging to 'CTM' option series shall be exercised only on 'explicit instruction' for exercise by the long position holders of such contracts.
- iii. All In the money (ITM) option contracts, except those belonging to 'CTM' option series, shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so.
- iv. All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series, shall expire worthless.
- v. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.

5.1.7. **Trading hours:** Trading hours shall be same as those of corresponding futures contract.

5.1.8. **Expiry Day:** Exchanges shall have flexibility to decide upon Expiry day of options contracts.

5.1.9. **Minimum Tenor:** Minimum tenor of such option contracts shall be same as those of corresponding futures contracts.

5.1.10. **Position Limits:**

- i. Position limits for options shall follow the norms as provided in Chapter 3.
- ii. The computation of position limits for 'option in goods' shall be clubbed with position limits of 'options on commodity futures' on the same underlying goods but shall remain separate from position limits of futures contracts on the same underlying. Numerical value for client level/member level limits shall be twice of the corresponding numbers applicable for futures contracts.

5.2.Risk Management



- 5.2.1. Clearing Corporations shall adopt risk management framework compliant with the CPMI-IOSCO Principles for Financial Market Infrastructures, including the following.
- 5.2.2. **Margining model and quantum of initial margins:** CC shall adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to participants/clients in the interval between the last margin collection and the close out of positions following a participant/client default. The model should
- use a conservative estimate of the time horizons for close out of the positions (including in stressed market conditions),
 - have an appropriate method for measuring credit exposure that accounts for relevant risk factors and portfolio effects, and
 - to the extent practicable and prudent, limit the need for destabilizing, pro-cyclical changes.

Initial margin requirement shall be adequate to cover at least 99% VaR (Value at Risk). Margin Period of Risk (MPOR) shall be at least equal to three days or MPOR of corresponding futures contracts, whichever is higher. In case of portfolio based margining, this requirement applies to each portfolio's distribution of future exposure. Accordingly, CCs shall fix prudent price scan range, volatility scan range and/or plausible changes in any other parameters impacting options price.

CCs shall impose appropriate short option minimum margin, calendar spread charge, extreme loss margin, concentration margins, additional margins, pre-expiry margin, delivery period margin etc. for option contracts.

- 5.2.3. **Margining at client level:** CCs shall impose initial margins at the level of portfolio of individual client comprising of his positions in futures and options contracts on each commodity.
- 5.2.4. **Real time computation:** Though the margining models may update various scenarios of parameter changes (underlying price, volatility etc.) at discrete time points each day (at least every two hours), the latest available scenarios shall be applied to client portfolios on a real time basis.



- 5.2.5. **Mark to market:** CCs shall mark to market the options positions by adding the current market value of options (positive for long options and negative for short options) to the margin requirement. Thus, mark to market gains and losses would not be settled in cash for options positions.

5.3. Other aspects

- 5.3.1. Exchanges willing to start trading in options contracts with goods as underlying shall take prior approval of SEBI for launching such contracts.
- 5.3.2. Exchanges shall make necessary disclosures such as open interest of top10 largest participants/group of participants in “option in goods” (both long and short) and the details of their combined open interest in underlying constituents etc., as per section 1.15.
- 5.3.3. The exchanges shall augment their monitoring and surveillance capacity.



CHAPTER 6. OPTIONS ON COMMODITY FUTURES⁴⁹

6.1. Product Design

- 6.1.1. **Underlying:** Commodity futures contract (of a specified month) traded on the corresponding exchange.
- 6.1.2. **Eligibility criteria for selection of underlying Commodity Futures for Options:** Options would be permitted for trading on a stock exchange only on those commodity futures as underlying, which are traded on its platform and satisfy both the criteria specified below on the respective exchange:
- i. The underlying 'Futures contracts' on the corresponding commodity shall be amongst the top five futures contracts in terms of total trading turnover value of previous twelve months;
 - ii. The average daily turnover of underlying futures contracts of the corresponding commodity during the previous twelve months, shall be at least :
 - a) INR 200 crore for agricultural and agri-processed commodities
 - b) INR 1000 crore for other commodities
- 6.1.3. **Settlement Method:** On exercise, option position shall devolve into underlying futures position as follows: -
- i. long call position shall devolve into long position in the underlying futures contract
 - ii. long put position shall devolve into short position in the underlying futures contract
 - iii. short call position shall devolve into short position in the underlying futures contract
 - iv. short put position shall devolve into long position in the underlying futures contract

All such devolved futures positions shall be opened at the strike price of the exercised options.

- 6.1.4. **Exercise Style:** To begin with European Style options are permitted.

⁴⁹ SEBI circular no [SEBI/HO.CDMRD/DMP/CIR/P/2017/55](https://www.sebi.gov.in/sebi_data/attachdocs/SEBI/HO.CDMRD/DMP/CIR/P/2017/55) dated June 13, 2017



6.1.5. **Minimum Strikes:** Each option expiry shall have minimum three strikes available viz., one each for In the Money (ITM), Out of the Money (OTM) and At the Money (ATM).

6.1.6. **Exercise Mechanism:** On expiry, following mechanism shall be adopted by Exchanges for exercise of the options contracts:

- i. Option series having strike price closest to the Daily Settlement Price (DSP) of Futures shall be termed as At the Money (ATM) option series.

This ATM option series and two option series having strike prices immediately above this ATM strike and two option series having strike prices immediately below this ATM strike shall be referred as 'Close to the money' (CTM) option series.

In case the DSP is exactly midway between two strike prices, then immediate two option series having strike prices just above DSP and immediate two option series having strike prices just below DSP shall be referred as 'Close to the money' (CTM) option series.

- ii. All option contracts belonging to 'CTM' option series shall be exercised only on 'explicit instruction' for exercise by the long position holders of such contracts.
- iii. All In the money (ITM) option contracts, except those belonging to 'CTM' option series, shall be exercised automatically, unless 'contrary instruction' has been given by long position holders of such contracts for not doing so.
- iv. All Out of the money (OTM) option contracts, except those belonging to 'CTM' option series, shall expire worthless.
- v. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.

6.1.7. **Trading Hours:** Trading hours shall be same as those of corresponding futures contract.

6.1.8. **Expiry Day:** Expiry day of options contracts shall be decided by Exchange based upon period of high liquidity of underlying futures contract and shall be part of option contract specifications.



6.1.9. **Position Limits:**

- i. Position limits for options shall follow the same norms as provided for futures.
- ii. Position limits of options would be separate from position limits of futures contracts and numerical value for client level/member level limits shall be twice of corresponding numbers applicable for futures contracts.
- iii. Due to separate position limits for options, there is a possibility that post exercise of options i.e. after devolvement of options into corresponding futures positions open positions for clients/members may exceed their permissible position limits for future contracts. For such clients/members Exchanges may permit maximum up to two trading days post option expiry day to reduce their futures positions to bring them within the permissible position limits.

6.2.Risk Management

6.2.1. Exchanges shall adopt risk management framework compliant with the CPMI-IOSCO Principles for Financial Market Infrastructures, including the following.

6.2.2. **Margining model and quantum of initial margins:** Exchanges shall adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to participants/clients in the interval between the last margin collection and the close out of positions following a participant/client default. The model should :

- i. use a conservative estimate of the time horizons for close out of the positions (including in stressed market conditions),
- ii. have an appropriate method for measuring credit exposure that accounts for relevant risk factors and portfolio effects, and
- iii. to the extent practicable and prudent, limit the need for destabilizing, pro-cyclical changes.

Initial margin requirement shall be adequate to cover 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be at least two days. In case



of portfolio-based margining, this requirement applies to each portfolio's distribution of future exposure.

Accordingly, exchanges shall fix prudent price scan range, volatility scan range and/or plausible changes in any other parameters impacting options price. Exchange shall impose appropriate short option minimum margin, calendar spread charge and extreme loss margin for option contracts.

- 6.2.3. **Margining at client level:** Exchanges shall impose initial margins at the level of portfolio of individual client comprising of his positions in futures and options contracts on each commodity.
- 6.2.4. **Real time computation:** Though the margining models may update various scenarios of parameter changes (underlying price, volatility etc.) at discrete time points each day (at least every two hours), the latest available scenarios shall be applied to client portfolios on a real time basis.
- 6.2.5. **Mark to market:** Exchanges shall mark to market the options positions by deducting/adding the current market value of options (positive for long options and negative for short options) times the number of long/short options in the portfolio from/to the margin requirement. Thus, mark to market gains and losses would not be settled in cash for options positions.
- 6.2.6. **Risks pertaining to options that devolve into futures on expiry:**
- i. For handling increase in margins on expiry when options devolve into futures position, specifically for long option positions which are probable to be exercised, exchanges shall start sensitizing the option holders of the impending increase in margins (along with the estimated increase) at least few days in advance, and/or, based on their risk perception, may also consider gradually collecting increased margins during the last few days so as to have adequate margins to cover the risk of futures position that will be created on devolvement of options into futures.
 - ii. Penalty is levied on members for short-collection/non-collection of the initial margins. Penalty for such short-collection/non-collection due to increase in initial margins resulting from devolvement of options into futures may not be levied by Exchanges for the first day.



6.3. Other aspects

- 6.3.1. The stock exchanges willing to start trading in such options contracts shall take prior approval of SEBI for launching such contracts.



CHAPTER 7. DESIGN OF COMMODITY INDICES AND PRODUCT DESIGN
FOR FUTURES ON COMMODITY INDICES ⁵⁰

7.1. Design of Commodity Indices

- 7.1.1. **Types of Indices:** Composite (i.e., comprising of commodities from more than one sector) as well as sectoral indices, meeting the eligibility criteria prescribed herein are permitted. For being eligible to launch derivatives upon, Exchanges shall ensure that indices are compliant with IOSCO Principles for Financial Benchmarks and make necessary disclosures in this regard on their websites. Further, exchanges shall also ensure that an index is not susceptible to manipulation and shall make mandatory disclosure with respect to the Index design parameters on their website.
- 7.1.2. **Name:** The name of index should include the name of the exchange on which the constituents of index are traded.
- 7.1.3. **Eligibility criteria:** Constituents of the commodity index shall meet the criteria given below –
- i. Constituent futures contracts should be in existence on the respective exchange for at least previous twelve months. (All constituents shall meet this criterion)
 - ii. The contracts have traded for at least 90% of the trading days during the previous twelve months. (All constituents shall meet this criterion)
 - iii. The average daily turnover of the constituent futures contracts during the previous twelve months is at least:
 - a) INR 75 Crore for agricultural and agri-processed commodities
 - b) INR 500 Crore for all other commodities.

(Constituents having at least 80% combined weightage in the index shall meet this criterion and no single constituent not meeting this criterion shall have a weightage of more than 15% in the index)

⁵⁰ SEBI circular no [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/71](https://www.sebi.gov.in/sebi_data/attachdocs/SEBI/HO/CDMRD/DNPMP/CIR/P/2019/71) dated June 18, 2019



However, the above turnover requirements shall not be applicable for sectoral indices subject to exchanges ensuring that constituent futures have adequate liquidity.

7.1.4. Re-balancing

- i. The index constituents and their weightages shall be at least annually selected and rebalanced. Exchanges shall decide and announce/disclose the constituents and weightages of the index at least three months before the actual re-balancing of the index. Exchanges shall ensure that constituents meet the eligibility criteria as mentioned above while deciding the constituents and weightages for rebalancing.
- ii. However, in case of an extraordinary event such as ban / suspension of trading of an index constituent, following action shall be taken by exchange-
 - a) Reselection of commodities (excluding banned / suspended commodities)
 - b) Recalculation of weightage

Exchanges shall ensure that constituents meet the eligibility criteria as mentioned above.

- iii. The index changes shall be implemented only after market hours.

7.1.5. Weights of constituents

- i. Index constituents will be assigned weightages based on their production value and liquidity value with appropriate weightages pre-decided by exchange for production value and liquidity value (provided that weightage of either shall not be less than 25%). The liquidity value will be total traded value of the index constituent on the exchange platform in the preceding twelve months prior to the construction / announcement of re-balancing of the index. The production value will be average of the value of deliverable supply of underlying commodity for past five financial years prior to the construction / announcement of re-balancing of the index.



- ii. In order to ensure that no single commodity dominates a composite index, maximum weightage for any index constituent in a composite index shall be capped at 30% and minimum weightage shall be at least 1%. However, these weightage caps shall not be applicable for sectoral indices subject to exchanges ensuring that any single constituent does not get heavily weighted in an index.
- iii. In case of an index having multiple commodity groups, exchanges may put in place maximum and minimum weightages for a commodity group.

7.1.6. Computation and roll over

- i. The index value shall ordinarily be computed using the nearest expiry futures prices of the index constituents so that prices of liquid contracts are used for index construction.
- ii. Exchange shall put in place a transparent methodology (including the dates of roll over, the various constituents which will be rolled over from nearest to next expiry, weights of nearest and next expiry contracts during each of the roll over day for such constituents etc.) for gradual roll over of the index constituents to next expiry taking into account the liquidity in the underlying nearest /next expiry contracts.

7.1.7. Real time dissemination: The index value shall be updated on real time continuous basis and shall be displayed on the Exchange website.

7.1.8. Dissemination of methodology: Exchange shall ensure a transparent methodology of index construction, calculation, dates and details of roll over, dates and other details of periodic rebalancing, report on compliance with IOSCO principles etc., and disseminate the same on its website.

7.2. Product Design for Futures on Commodity Indices

7.2.1. Trading Hours: The trading hours will be in line with the trading hours for constituent futures of underlying index. In case trading hours vary for constituents, trading hours for index derivatives shall be kept such that it is available for trading whenever any of the constituent futures contract is available for trading. However, on the day of its expiry, Index futures contract shall expire at 5:00 pm.



- 7.2.2. **Size of the Contract:** At least INR 5 lakh at the time of introduction in the market.
- 7.2.3. **Tenor of the Contract:** To begin with, maximum tenor of contracts shall be 12 months.
- 7.2.4. **Available Contracts:** Stock Exchanges shall decide the number of contracts, duration of contracts and launch calendar based on market requirements.
- 7.2.5. **Position Limits**
- i. Client level- Higher of:
5% of the total open interest in the market in commodity index futures Or
1000 lots
 - ii. Trading Member level- Higher of:
15% of the total open interest in the market in commodity index futures Or
10000 lots
- 7.2.6. **Daily Price Limit:** Stock Exchanges shall decide appropriate daily price limits for commodity index futures based on historical price movement of the indices.
- 7.2.7. **Settlement Mechanism:** Final Settlement for futures on commodity index shall be done in cash.
- 7.2.8. **Final Settlement Price:** The Final Settlement Price shall be the underlying index price arrived at based on Volume Weightage Average Price of the constituents of the underlying index between 4:00 pm and 5:00 pm on the expiry day of the Index futures contract. {In absence of trading in any constituent during last one hour, exchange shall determine appropriate methodology (in line with the methodology for determining daily closing price) to arrive at appropriate price of the constituent to be used for determining index price}.
- 7.2.9. **Expiry date:** The stock exchanges shall have the flexibility to set the expiry date for contracts. However, the expiry date may not coincide with the roll-over period of the constituents of the underlying index.



- 7.2.10. **Application:** Before launching any futures contract on an index, a Recognised Stock Exchange with commodity derivative segment shall submit its proposal with contract specifications and risk management framework to SEBI, for approval.

7.3.Risk Management

- 7.3.1. Exchanges shall adopt risk management framework compliant with the CPMI-IOSCO Principles for Financial Market Infrastructures, including the following.
- 7.3.2. **Margining model and quantum of initial margins:** Exchanges shall adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to participants/clients in the interval between the last margin collection and the close out of positions following a participant/client default. The model should:
- use a conservative estimate of the time horizons for close out of the positions (including in stressed market conditions),
 - have an appropriate method for measuring credit exposure that accounts for relevant risk factors and portfolio effects, and
 - to the extent practicable and prudent, limit the need for destabilising, pro-cyclical changes.

Initial margin requirement shall be adequate to cover at least 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be at least two days. In case of portfolio-based margining, this requirement applies to each portfolio's distribution of future exposure.

Accordingly, exchanges shall fix prudent price scan range, and/or plausible changes in any other parameters impacting futures price.

- 7.3.3. **Margining at client level:** Exchanges shall impose initial margins at the level of portfolio of individual client.
- 7.3.4. **Real time computation:** Though the margining models may update various scenarios of parameter changes (underlying price, volatility etc.) at discrete time points each day (at least every two hours), the latest available scenarios shall be applied to client portfolios on a real time basis.



7.4. Other aspects

- 7.4.1. The recognised stock exchanges with commodity derivative segment willing to start trading in futures on commodity indices shall take prior approval of SEBI for launching such contracts. Exchanges will have to submit at-least past 3 years data of the index constructed along with data on monthly volatility, roll over yield for the month and monthly return while seeking approval from SEBI. On approval, exchanges shall also publish the above data on their website before launch of the products.
- 7.4.2. Exchanges shall make necessary disclosures such as open interest of top 10 largest participants/group of participants in index futures (both long and short) and the details of their combined open interest in underlying constituents etc., as per section 1.15.
- 7.4.3. The Exchanges shall augment their monitoring and surveillance capacity.



CHAPTER 8. RISK MANAGEMENT

8.1. Risk Management Framework ⁵¹

8.1.1. **Overview:** The core of the risk management system of stock exchanges shall comprise of the following:

- i. **Liquid Assets:** Liquid assets shall be deposited by members with the Exchanges in compliance with the norms specified herewith to cover various margin and deposit requirements.
- ii. **Initial Margins (IM)⁵²:** Value at Risk (VaR) Margins to cover potential future exposure for at least 99% of the days to participants in the interval between the last margin collection and the close out of positions following a participant default subject to minimum percentage floor value as prescribed by SEBI from time to time.
- iii. **Extreme Loss Margins (ELM):** Margins to cover the loss in situations that lie outside the coverage of the VaR based initial margins.
- iv. **Additional Margins:** Margins imposed on both long and short sides over and above the other margins, would be called additional margins.
- v. **Pre-expiry Margin⁵³:** Exchanges shall levy pre-expiry margin which may be increased gradually every day.
- vi. **Delivery Period Margin:** Appropriate delivery period margin shall be levied by Exchanges on the long and short positions marked for

⁵¹ SEBI Circular No. [CIR/CDMRD/DRMP/01/2015](#) dated October 01, 2015

⁵² Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated September 01, 2016. Prior to substitution, the norm read as under:

“Value at risk (VaR) margins to cover potential losses for at least 99% of the days subject to minimum percentage floor value as prescribed by SEBI from time to time.”

⁵³ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/83](#) dated July 26, 2019. Prior to substitution, the norm read as under:

“Tender Period Margin/Pre-expiry Margin: Exchanges shall levy tender period/pre-expiry margin which may be increased gradually every day beginning from the pre-determined number of days before the expiry of the contract as applicable.”



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delivery till the pay-in is completed by the member. Once delivery period margin is levied, all other applicable margins may be released.

- vii. **Minimum Liquid Net-worth Requirement:** Initial margins, ELM, additional margins or any other margins as may be specified by SEBI from time to time shall be deducted from the liquid assets of a clearing member. The clearing member's liquid assets after adjusting for applicable margins shall be referred to as 'Liquid Net-worth' of the clearing member. Clearing Members shall maintain 'Liquid Net-worth' as specified by SEBI from time to time.
- viii. **MTM (Mark to Market) Settlement:** Mark to market settlement of all open positions of clients/members shall be done on daily basis.
- ix. **Base Minimum Capital:** Exposure free deposit required from all members of exchanges.
- x. **Settlement Guarantee Fund (SGF):** Exchanges shall maintain SGF which shall be used by Exchanges only for the purpose of providing settlement guarantee.
- xi. **Concentration margins:** Margins to cover the risk of longer period required for liquidation of concentrated positions in any commodity derivatives contract.

8.1.2. **Liquid Assets:** The types of liquid assets acceptable by Exchanges from their members and the applicable haircuts and concentration limits are listed below:

<i>Item</i>	<i>Minimum Haircut (Note 'a')</i>	<i>Limits</i>
Cash Equivalents		
Cash	0	No limit
Bank fixed deposits	0	No limit (Note i) ⁵⁴
Bank guarantees	0	Limit on exchange's exposure to a single bank. (Note 'b')

⁵⁴ SEBI Circular [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018



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<i>Item</i>	<i>Minimum Haircut (Note 'a')</i>	<i>Limits</i>
Securities of the Central Government	10%	No limit
Units of liquid mutual funds or government securities mutual funds (by whatever name called which invest in government securities)	10%	No limit
Other Liquid Assets		
Liquid (Group-I) Equity Shares (<i>Note 'd'</i>)	Same as the VaR margin for the respective shares (<i>Note 'd'</i>)	Limit on exchange's exposure to a single issuer (<i>Note 'e'</i>)
Mutual fund units other than those listed under cash equivalents	Same as the VaR margin for the units computed using the traded price on stock exchange, if available, or else, using the NAV of the unit treating it as a liquid security (as per methodology given in para (ii) of <u>Annexure on Liquidity Categorization and Computation of VaR.</u>	
Corporate Bonds having rating of AA or above (or with similar rating nomenclature) by recognised credit rating agencies	Fixed percentage based or VaR based Haircut. A higher haircut may be considered to cover the expected time frame for liquidation. To begin with the haircut shall be a minimum of 10%	Not to exceed 10% of the total liquid assets of the clearing member. (<i>Note 'e'</i>)
Bullion	20%	Total commodities collateral for any clearing member shall not exceed 30% of the
Gold ETF	20%	
Agricultural Commodities	40%	



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<i>Item</i>	<i>Minimum Haircut (Note ‘a’)</i>	<i>Limits</i>
Base metals and Alloys ⁵⁶	30%	total liquid assets of the clearing member, out of which non-bullion collateral shall not exceed 15% of the total liquid assets of the clearing member ⁵⁵ (Note ‘f’)
Diamond	40%	
Notes: <i>a. The valuation of the liquid assets shall be done on a daily basis after applying applicable haircuts.</i> <i>b. The exchanges shall lay down exposure limits either in rupee terms or as percentage of the total Liquid Assets that can be exposed to a single bank directly or indirectly. The total exposure towards any bank would include Bank Guarantees issued by the bank as well as debt or equity securities of the bank which have been deposited by members towards total liquid assets. Not more than 1% of the total liquid assets deposited with the exchange, shall be exposed to any single bank which has a net worth of less than INR 500 crores and is not rated P1 (or P1+) or equivalent, by a recognized credit rating agency or by a reputed foreign credit rating agency, and not more than 10% of the total liquid assets deposited with the exchange shall be exposed to all such banks put together.</i> <i>c. Cash equivalents shall be at least 50% of liquid assets. This would imply that Other Liquid Assets in excess of the total Cash Equivalents would not be regarded as part of member’s liquid assets as well as total liquid assets.</i> <i>d. For determination of which equity shares are falling in Group-I and what would be the appropriate VaR margin for these securities, data disseminated by Stock Exchanges having equity platform shall be referred. Stock</i>		

⁵⁶ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2019/100](#) dated September 13, 2019. Prior to substitution, norm read as under:

<i>Item</i>	<i>Minimum Haircut</i>
Steel	60%

⁵⁵ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/112](#) dated 14 October 2016. Prior to substitution, the norm read as under:

“Total commodities collateral for any clearing member shall not exceed 15% of the total liquid assets of the clearing member.”



<i>Item</i>	<i>Minimum Haircut (Note 'a')</i>	<i>Limits</i>
<p><i>Exchanges are already required to compute the same on regular basis in accordance with <u>Annexure regarding Liquidity Categorization and Computation of VaR.</u></i></p> <p><i>e. Exchanges shall adequately diversify their collateral so as to avoid any concentration of exposure towards any single entity and the same shall be within the limits as may be prescribed by SEBI from time to time.</i></p> <p><i>f. All commodities to be accepted as collateral should be of same quality specification which is deliverable under the contract specification of commodity derivatives being traded on the Exchange⁵⁷.</i></p> <p><i>g. Exchanges shall accept liquid assets as collateral only as per the list of liquid assets specified in the table above. However, exchanges may decide not to accept certain types of liquid assets specified in the above list based on their risk perception, capability to hold and arrangements for timely liquidation. Exchanges may stipulate concentration limits at member level / across all members as may be necessary.</i></p> <p><i>h. Exchanges shall make necessary arrangements to enable timely liquidation of collaterals accepted by them.</i></p> <p><i>i. Stock exchanges shall not accept Fixed Deposit Receipts (FDRs) from trading/clearing members as collateral, which are issued by the trading/clearing member themselves or banks who are associate of trading/clearing member.⁵⁸</i></p> <p><i>Explanation –for this purpose, 'associate' shall have the same meaning as defined under SECC Regulations.</i></p>		

8.1.3. Commodity Futures

- I. **Initial Margins (IM)⁵⁹** : Exchanges shall impose initial margins sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Exchanges shall therefore

⁵⁷ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2019/100](#) dated September 13, 2019. Prior to substitution, the norm read as under:

“Agricultural commodities to be accepted as collateral should be of same quality specification which is deliverable under the contract specification of agricultural commodities derivatives being traded on the Exchange.”

⁵⁸SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018

⁵⁹SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated September 01, 2016



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estimate appropriate Margin Period of Risk (MPOR) for each product based on liquidity in the product.

a. Minimum value for Initial Margin and minimum MPOR⁶⁰:

CPSS-IOSCO Principles for Financial Market Infrastructure (PFMI) inter alia prescribes under Key Considerations for Principle 6 on margin that margining model should to the extent practicable and prudent, limit the need for destabilising, pro-cyclical changes. In light of the above and given the wide variation of liquidity and volatility among different commodity derivatives, accordingly, norms regarding Minimum IM and minimum MPOR for commodity derivatives segment stands are as per the framework mentioned below: -

- Clearing Corporations (CCs) shall categorise their commodities into three categories of volatility based upon the realized volatility for last three years as given below: -

<i>Volatility Category of Commodity</i>	<i>Realized Annualized Volatility criteria</i>
Low	0 to 15%
Medium	Above 15 % to 20%
High	Above 20%

- Realized volatility shall be calculated from series of daily log normal return of main near month future contracts of the respective commodity. The series of daily log normal return shall be rolled over to next month contract on start of staggered delivery period if it is applicable. If staggered delivery is not applicable, then rollover shall be done on the day after the expiry of near month contract.
- Exchange having maximum average daily turnover across all derivative contracts on the respective commodity based on last

⁶⁰ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2020/15](#) dated January 27, 2020. Prior to substitution, the norm read as under:

“The MPOR for all commodity derivatives contracts shall be at least 2 days.”

“Minimum value for Initial Margin: Minimum value of initial margin would be subject to commodity specific floor value as may be specified by SEBI from time to time. Currently floor value of IM applicable for Nickel shall be 5% and for all other commodities it shall be 4%.”



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six months' period shall be termed as Lead Exchange. The CC of the Lead Exchange shall do the categorisation of the respective commodities and same shall be intimated to, and adopted by all other CCs

- Based on volatility category, minimum initial margin (IM) and minimum MPOR shall be as under:

<i>Volatility Category of Commodity</i>	<i>Minimum IM</i>		<i>Minimum MPOR</i>	
	<i>Non-Agri</i>	<i>Agri</i>	<i>Non-Agri</i>	<i>Agri</i>
Low	6%	8%	2	3
Medium	8%	10%	2	3
High	10%	12%	3	4

- It is also clarified that floor values prescribed for IM in table above need not be scaled up by MPOR.
- CCs shall review the categories of all commodities once in every six months' period based upon past three years' data. Commodity may be moved from higher volatility category to lower category only if it satisfies criteria of the revised category of volatility for two consecutive reviews. However, movement from a lower to higher volatility category shall be done based upon a single review.
- The categorization shall be done on 1st March and 1st September of each year on rolling basis and changes if any shall be made applicable from 1st April and 1st October respectively of each year.
- In case derivatives are launched on any new underlying commodity for the first time for which no reference futures prices are available, it shall be initially categorized based upon prices available in the spot markets subject to a minimum of Medium Category of volatility. Re-categorization of such commodity from higher to lower category of volatility can only be done after two consecutive reviews.

b. Additional Lean Period Margin in Agri Commodities:



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- i. In case of Agri commodities, it has been observed that during lean period (i.e. the period before the arrival of new crop) there is often uncertainty about the arrivals of new crop. This may lead to higher volatility in prices of commodities during this period. Therefore, CCs shall levy additional lean period margin of 2% on contracts expiring during lean period.
- ii. Lead exchanges shall determine the lean period in consultation with their relevant Product Advisory Committee and disclose the same on their websites.
- c. **Margin Computation at client portfolio level:** Margins shall be computed at the level of portfolio of each individual client comprising his positions in futures contracts across different maturities. For Trading/Clearing Member level margins computation, margins would be grossed across various clients. The proprietary positions of the Trading Member would also be treated as that of a client for margin computation.
- d. **Spread margin benefit: –**
 - i. Spread benefit in initial margin shall be permitted in the following cases:
 - a) Different expiry date contracts of the same underlying
 - b) Two contracts variants having the same underlying commodity
 - c) Futures contracts in a commodity complex provided the conditions in para ii below are met⁶¹.
 - ii. Exchanges may provide spread benefit in initial margin across futures contracts in a commodity complex provided the following conditions are met:
 - a) Minimum coefficient of correlation (r) between futures prices of the two commodities is 0.90.
 - b) Back testing for adequacy of spread margin to cover MTM has been carried out for a minimum period of one year (back testing for at least 250 days wherein daily

⁶¹Inserted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/51](#) dated 20 March 2018



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settlement price of futures used for back testing have been determined from traded futures prices).

- c) Initial margin after spread benefit has been able to cover MTM on at least 99% of the days as per back testing.
- iii. Maximum benefit in initial margin on spread positions indicated in para [i – (a) and (b)] is restricted to 75%. Maximum benefit in initial margin on spread positions indicated in para [i – (c)] is restricted to 50%.
- iv. In case of spread positions, additional margins and special margins ⁶² shall not be levied. No benefit in ELM would be provided for spread positions i.e. ELM shall be charged on both individual legs. Exchanges are free to charge margins higher than the minimum specified depending upon their risk perception.
- v. Margin benefit on spread positions shall be entirely withdrawn latest by the start of tender period or start of expiry day, whichever is earlier. ⁶³
- To be eligible for initial margin benefit, each individual contract in the spread shall be from amongst the first three expiring contracts.
- vi. While providing spread benefit across futures contracts in a commodity complex, exchanges shall continuously monitor dynamics of the commodities and their correlation and if there are changes such that spread margin benefit is no longer appropriate to be given, shall take appropriate further course of action. ⁶⁴

⁶² SEBI Circular No. [CIR/ISD-2/CDD-1/99/2016](#) dated September 27, 2016

⁶³ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/130](#) dated 02 December 2016.
Prior to substitution, the norm read as under:
“Margin benefit on spread positions shall be entirely withdrawn latest by the start of tender period or Expiry-6th day, whichever is earlier.”

⁶⁴ Inserted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/51](#) dated 20 March 2018



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- e. **Real Time Computation:** The margins should be computed on real time basis. The computation of portfolio initial margin would have two components. The first is the computation of initial margin for each individual contract. At the second stage, these contract initial margins would be applied to the actual portfolio positions to compute the portfolio initial margin. The exchanges are permitted to update EWMA volatility estimates for contracts at discrete time points each day (with a gap of not more than 2 hours between any two consecutive updates and at the end of the trading session) and the latest available scaled up WMA volatility estimates would be applied to member/client portfolios on a real time basis.
- II. **Extreme Loss Margin (ELM):** ELM of 1% on gross open positions shall be levied and shall be deducted from the liquid assets of the clearing member on an online, real time basis.
- III. **Additional Margins:** Exchanges may levy Additional Margins based on their evaluation in specific situations as may be necessary.
- IV. **Pre-expiry Margin:** Exchanges shall levy pre-expiry margin which shall be increased gradually every day beginning from the pre-determined number of days before the expiry of the contract and latest by the start of the staggered delivery period. Exchanges shall determine the quantum of pre-expiry margin as appropriate based on the risk characteristics of the particular commodity.
- V. **Delivery Period Margin**⁶⁵: Appropriate delivery period margin shall be levied by Exchanges on the long and short positions marked for delivery till the pay-in is completed by the member. Once delivery period margin is levied, all other applicable margins may be released.

However, delivery period margins shall be higher of:

- A. 3% + 5 day 99% VaR of spot price volatility
Or
B. 20%

⁶⁵ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated 01 September 2016



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Or

C. Applicable delivery period margins as on September 01, 2016

Exchanges may impose higher margins if deemed fit.

VI. **Mark to Market (MTM) Settlement:** All open positions of a futures contract would be settled daily, only in cash, based on the Daily Settlement Price (DSP). DSP shall be reckoned and disseminated by the Exchange at the end of every trading day. The mark to market gains and losses shall be settled in cash before the start of trading on T+1 day. If mark to market obligations are not collected before start of the next day's trading, the exchange shall collect correspondingly higher initial margin (scaling up by a factor of square root of two) to cover the potential losses over the time elapsed in the collection of margins.

VII. It is reiterated that risk management is primarily a responsibility of CCs and the framework prescribed by SEBI is minimum framework. CCs are allowed to be more conservative as per their own perception of risk.⁶⁶

VIII. CCs shall also disclose detailed break up of various applicable margins on contracts cleared by them along with volatility on their websites.

8.1.4. **Options on commodity futures⁶⁷** : Exchanges shall adopt risk management framework compliant with the CPMI-IOSCO Principles for Financial Market Infrastructures, including the following:

I. **Margining model and quantum of initial margins:** Exchanges shall adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to participants/clients in the interval between the last margin collection and the close out of positions following a participant/client default. The model should:

A. use a conservative estimate of the time horizons for close out of the positions (including in stressed market conditions),

⁶⁶ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2020/15](#) dated 27 January, 2020

⁶⁷ SEBI Circular No. [SEBI/HO/CDMRD/DMP/CIR/P/2017/55](#) dated 13 June 2017



- B. have an appropriate method for measuring credit exposure that accounts for relevant risk factors and portfolio effects, and
- C. to the extent practicable and prudent, limit the need for destabilizing, pro-cyclical changes.

Initial margin requirement shall be adequate to cover 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be at least two days. In case of portfolio-based margining, this requirement applies to each portfolio's distribution of future exposure.

Accordingly, exchanges shall fix prudent price scan range, volatility scan range and/or plausible changes in any other parameters impacting options price. Exchange shall impose appropriate short option minimum margin, calendar spread charge and extreme loss margin for option contracts.

- II. **Margining at client level:** Exchanges shall impose initial margins at the level of portfolio of individual client comprising of his positions in futures and options contracts on each commodity.
- III. **Real time computation:** Though the margining models may update various scenarios of parameter changes (underlying price, volatility etc.) at discrete time points each day (at least every two hours), the latest available scenarios shall be applied to client portfolios on a real time basis.
- IV. **Mark to market:** Exchanges shall mark to market the options positions by deducting/adding the current market value of options (positive for long options and negative for short options) times the number of long/short options in the portfolio from/to the margin requirement. Thus, mark to market gains and losses would not be settled in cash for options positions.
- V. **Risks pertaining to options that devolve into futures on expiry:**
 - A. For handling increase in margins on expiry when options devolve into futures position, specifically for long option positions which are probable to be exercised, exchanges shall start sensitizing the option holders of the impending increase in margins (along with the estimated increase) at least few days in advance, and/or, based on their risk perception, may also consider gradually collecting increased margins during the last few days so as to have adequate margins to cover the



risk of futures position that will be created on devolvement of options into futures.

- B. As per the provisions given in section 8.3 below, penalty is levied on members for short-collection/non-collection of the initial margins. Penalty for such short-collection/non-collection due to increase in initial margins resulting from devolvement of options into futures may not be levied by Exchanges for the first day.

8.1.5. **Concentration Margins**⁶⁸ : Exchanges shall impose adequate concentration margins (only on concentrated positions) to cover the risk of longer period required for liquidation of concentrated positions in any commodity. The threshold value for imposing concentration margin may be determined taking into account factors including open interest, concentration and estimated time to liquidation based on prevailing liquidity and possible reduction in liquidity in times of market stress etc. The quantum of concentration margins imposed may vary based on the level of concentration.

8.1.6. **Additional Ad-hoc Margins:** Exchanges have the right to impose additional risk containment measures over and above the risk containment system mandated by SEBI. However, the Exchanges should keep the following three factors in mind while taking such action:

- i. Additional risk management measures (like ad-hoc margins) would normally be required only to deal with circumstances that cannot be anticipated or were not anticipated while designing the risk management system. If ad-hoc margins are imposed with any degree of regularity, exchanges should examine whether the circumstances that give rise to such margins can be reasonably anticipated and can therefore be incorporated into the risk management system mandated by SEBI. Exchanges are encouraged to analyse these situations and bring the matter to the attention of SEBI for further action.
- ii. Any additional margins that the exchanges may impose shall be based on objective criteria and shall not discriminate between members on the basis of subjective criteria.

⁶⁸ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated 01 September 2016



- iii. Transparency is an important regulatory goal and therefore every effort must be made to make the risk management systems fully transparent by disclosing their details to the public.

8.1.7. **Margin Provisions for Intra-day crystallized losses**⁶⁹ : In order to mitigate the risk arising out of accumulation of crystallized obligations incurred on account of intra-day squaring off of positions, the stock exchanges shall adopt the following:

- i. The intra-day crystallized losses shall be monitored and blocked by Clearing Corporations from the free collateral on a real-time basis only for those transactions which are subject to upfront margining. For this purpose, crystallised losses can be offset against crystallised profits at a client level, if any.
- ii. If crystallised losses exceed the free collateral available with the Clearing Corporation, risk reduction mode shall be followed.
- iii. Crystallised losses shall be calculated based on weighted average prices of trades executed.
- iv. Adjustment of intraday crystallised losses shall not be done from exposure free liquid networth of the clearing member.

8.1.8. **Margin Collection and Enforcement:** All applicable margins shall be deducted by Exchanges from the Liquid Assets of the clearing members on an online, real time basis. Margins applicable on client positions have to be compulsorily collected from the clients and reported to the Exchange by the members.

8.1.9. **Minimum Liquid net-worth**⁷⁰ : Members of Clearing Corporations in commodity derivatives segment shall maintain a minimum Liquid Net-worth of at least INR 50 Lakhs at all points of time.

8.1.10. **Base Minimum Capital (BMC)**⁷¹

- i. Exchanges shall have BMC requirements for their members (Trading members) as given below:
 - a. Members without Algo trading – INR 10 Lacs
 - b. Members doing Algo trading – INR 50 Lacs

⁶⁹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018

⁷⁰ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018

⁷¹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/86](#) dated 16 Sep 2016



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- ii. Clearing members who clear and settle only non-algo trades for other trading members shall have BMC requirement of INR 25 lakhs. Clearing members who clear and settle algo trades shall continue to have BMC requirement of INR 50 lakhs.⁷²
- iii. No exposure will be given by the Exchange on this BMC.
- iv. 25% of the above deposit shall be in the form of cash and balance 75% can be in the form of Fixed Deposit/Bank Guarantee.
- v. These funds would be kept in a separate account by the Exchange and would be used only towards the settlement of claims of the client, payment of arbitration fee by the member if any, and dues payable by the member on account of pending arbitration cases/arbitration awards and would not be used by the exchange for meeting any of its other dues.
- vi. BMC would be refunded to the members at the time of surrender of membership provided that there is no unsettled claim against member and no arbitration cases are pending against the member.

8.1.11. **Risk Reduction Mode:** Exchanges shall ensure that the trading members/clearing members are mandatorily put in risk-reduction mode when 90% of the member's Liquid Assets available for adjustment against margins/deposits gets utilized for margins/deposits. Such risk reduction mode shall include the following:

- i. All unexecuted orders shall be cancelled once trading member himself or his clearing member breaches 90% collateral utilization level.
- ii. Only orders with *Immediate or Cancel* attribute shall be permitted in this mode.
- iii. All new orders shall be checked for sufficiency of margins and such potential margins shall be blocked while accepting the orders in the system.
- iv. The trading member shall be moved back to the normal risk management mode as and when the collateral utilization level of the trading member as well as his clearing member is lower than 90%.

⁷² SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated 01 September 2016



8.1.12. **Measures in case of repeated shortfall in margin/pay-in⁷³** : In case of repeated margin/pay-in shortfalls beyond a threshold amount by any member in a month, following risk mitigation measures shall be initiated:

- i. The member be put in square off mode and required to reduce positions.
- ii. The member be charged initial margins at a higher rate for the next one month,
Or
The member be subjected to a penal exposure free deposit equal to the cumulative funds/margin shortage over previous one month which could be kept with the exchange for the next month.
- iii. Exchange shall keep a close watch on such member.

8.2.Regaining matched book

8.2.1. In the event of a member/client failing to honor pay-in/margin obligations, exchanges may employ the below given alternative tools to liquidate the positions and regain a matched book based on the conditions of market liquidity, volatility, size of position to be liquidated etc. Any tool lower in the list prescribed hereunder may be resorted to only in extremely rare occasions when the exchange reasonably expects that it may not be able to restore a matched book by choosing the alternatives above it and also records the reasons for the same in writing:

- i. **Alternative 1**: Liquidation in normal market in orderly manner (with relaxed price limits, if required);
- ii. **Alternative 2**: Auction of the positions within a specified price band
- iii. **Alternative 3**: Voluntary tear-up at last mark-to-market price along with compensation equal to 10% of last mark-to-market price and penalty equal to 1% of last mark-to-market price (to be credited to SGF);
- iv. **Alternative 4**: Partial tear-up (pro-rata against members/clients having opposite positions) at last mark-to-market price along with

⁷³ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated 01 September 2016



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compensation equal to 8% of last mark-to-market price and penalty equal to 1% of last mark-to-market price (to be credited to SGF).⁷⁴

- 8.2.2. To enable timely and error free execution, CCs shall have an automated system to implement all such tools. CCs shall put in place such system, and also conduct testing of the same.

8.3.Mechanism for regular monitoring of and penalty for short- collection/ non-collection of margins from clients⁷⁵

- 8.3.1. The penalty structure and framework for short-collection/non-collection of margins by members from their clients shall be as under:
- i. The ‘margins’ for this purpose shall mean initial margin, extreme loss margin (ELM), mark to market margin, special / additional margin, delivery margin or any other margin as prescribed by the Exchange to be collected by member from their clients.
 - ii. The members are required to collect upfront initial margins and extreme loss margins ⁷⁶ from their clients. The members will have time till ‘T+2’ working days to collect margins (except initial margins and extreme loss margins) from their clients. (The clients must ensure that the initial margins and extreme loss margins are paid in advance of trade and other margins are paid as soon as margin calls are made by Exchanges/Members. The period of T+2 days has been allowed to members to collect margin from clients taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that clients have been allowed 2 days to pay margin due from them.)

⁷⁴ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2020/32](#) dated March 03, 2020. Prior to substitution, the provisions read as under:

“Alternative 3: Voluntary tear-up at last mark-to-market price along with compensation (%age of last mark-to-market price equal to twice the daily price limit) and penalty (5%, to be credited to SGF);

Alternative 4: Partial tear-up (pro-rata against members/clients having opposite positions) at last mark-to-market price along with compensation (%age of last mark-to-market price equal to thrice the daily price limit) and penalty (5%, to be credited to SGF).”

⁷⁵ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/80](#) dated 7 September 2016

⁷⁶ Inserted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated 26 September 2016



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- iii. The members shall report to the Exchange on T + 5 day the actual short-collection/non-collection of all margins from clients.
- iv. Penalty shall be levied as per the details given below on the members for short / non-collection of margins from their clients beyond T + 2 working days:

<i>For each member</i>	
‘a’	Per day penalty as % of ‘a’
(< INR 1 lakh) and (< 10% of applicable margin)	0.5
(>= INR 1 lakh) or (>= 10% of applicable margin)	1.0
<i>Where a = short-collection / non-collection of margins per client per day</i>	

- v. In case of short-collection /non-collection of initial margins and extreme loss margins, the above penalty structure would be applicable from T day.
- vi. The Exchanges should put in place a suitable mechanism to enable the members to report the collection of all margins from their clients at the end of each trading day and to report short collection/non-collection of all margins on the T+5 day.
- vii. The Stock Exchanges and Clearing Corporations, in consultation with one another, shall devise a standard framework for imposition of fine on the Trading Member/ Clearing Member for incorrect/false reporting and non-reporting of margin collected from the client.⁷⁷
- viii. The penalty shall be collected by the Exchanges not later than five days of the last working day of the trading month.

⁷⁷ Substituted vide SEBI Circular No. [CIR/HO/MIRSD/DOP/CIR/P/2019/88](#) dated August 01, 2019. Prior to Substitution the norm read as under:

“All instances of non-reporting shall amount to 100% non-collection of margin and the penalty as prescribed above shall be charged on these instances in respect of non-collection.”



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- ix. With respect to repeated defaulters, who default 3 times or more during a month, the penalty would be 5% of the shortfall in such instances. (Every short/non-collection of margin is to be considered as one instance of default. In case margin shortage is reported for a client 3 times or more during a month, i.e., either in consecutive instances or in 3 different instances, the penalty would be 5% of the shortfall from 4th instance of shortfall. E.g. shortage is reported for a client on 1st and 2nd day of month consecutively; thereafter again on 10th day shortage is reported. So the number of instances are 3 and in case shortage is reported on any day later in the month, the penalty shall be 5% of the shortfall amount for all such instances beyond 3rd instance.)
- x. All the penalties collected as prescribed above shall be credited to Core SGF ⁷⁸.
- xi. Report on the penalties as collected by the Exchanges shall be submitted to SEBI by the 10th day of the following month.
- xii. Considering the principle of 'proportionality', the fine shall be charged to the member based on the materiality of non-compliance done by the member which may include factors such as number of instances, repeated violations, etc. The amount of fine to be charged upon the member may extend to 100% of such false/incorrectly/non reported amount of margin and/or suspension of trading for appropriate number of days.⁷⁹
- xiii. The Exchange shall direct their members to monitor trades of every client. Suitable mechanism may be put in place to intimate the clients as and when the margins are used up to an appropriate level as considered fit.

⁷⁸ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2019/73](#) dated June 20, 2019. Prior to substitution, the norm read as under:

"All the penalties collected as prescribed above shall be credited to the Investor Protection Fund"

⁷⁹ Substituted vide SEBI Circular No. [CIR/HO/MIRSD/DOP/CIR/P/2019/88](#) dated August 01, 2019. Prior to Substitution the norm read as under:

"Exchanges shall examine implementation of these instructions during the inspection of its members. If during inspection or otherwise, incorrect reporting on collection of margin from client by member is found, the member shall be penalized up to 100% of such amount short collected."



- xiv. In exceptional situations wherein members and/or clients were not in position to square off the open positions to avoid levy of penalty for margin shortfall due to lack of adequate liquidity and/or high market volatility, exchanges may take a suitable decision depending upon the merit of the circumstances and keep SEBI informed of the same. Further, the exchanges are directed to take such exceptional matters to their Board of Directors for decision.
- xv. For commodity derivative contracts having trading hours beyond 5:00 PM ⁸⁰:
 - a. For the purpose of determining minimum threshold of margins to be collected by members from their clients, cut off time shall be kept as 5:00 PM.
 - b. Risk Parameter File (RPF) to be generated at cut-off time shall be applied on clients' EOD portfolio for the purpose of determining minimum threshold of margin to be collected from clients by members.
 - c. Similarly, for the purpose of determining minimum threshold of Extreme Loss Margin (ELM) to be collected from clients, EOD client portfolio shall be valued at the half an hour weighted average trade price arrived at cut-off time stipulated above.
- xvi. For commodity derivative contracts having trading till 5:00 PM, margin collection from clients shall be on EOD basis.

8.4.Settlement Guarantee Fund, Default Waterfall and Stress Testing

- 8.4.1. Clearing Corporations and Stock Exchanges in Commodity Derivatives segment shall comply with provisions given in Annexure regarding Core Settlement Guarantee Fund (Core SGF) with respect to Core SGF, Stress Testing and Default Waterfall post transfer of Clearing and Settlement Function from Stock Exchanges to Clearing Corporations. ⁸¹

⁸⁰ Revised vide SEBI circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2019/149](#) dated November 29, 2019

⁸¹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/111](#) dated 11 July 2018. *Prior to substitution, the norm read as under:*

- A. "Components of SGF:
 - i. The initial contribution to SGF by the Exchange equal to 5% of the sum total of the Gross revenues of the Exchange for the preceding financial years starting from financial Year



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2007-08 or from the date when the Exchange was set up, till the Financial Year 2012-13, subject to a minimum of Rs.10 crores.

- ii. Base minimum capital of members
 - iii. Interest accrued on Base Minimum Capital
 - iv. All settlement related penalties charged by the Exchange from members with effect from 1st September, 2013
 - v. Interest amount and any other income accrued on the investment of funds of SGF shall also be credited to SGF. (The income accruing on the funds belonging to SGF shall be credited to SGF by the Exchange, net of income tax paid on such income).
The exchange shall on quarterly basis, make the risk assessment on SGF and shall make fresh contribution to the SGF to meet the shortfall, if any. In cases where exchanges have sufficient funds available in the SGF to meet the contingent risk, then there is no need for exchanges to make any further contribution.
The margin collected by the Exchange from the members shall not be part of SGF.
- B. Risk assessment for adequacy for SGF: The risk assessment for adequacy of SGF should be made in compliance with the IOSCO Guidelines, wherein the stress test to determine adequacy of SGF would include both liability for pay in of money and commodities towards settlement obligation and expected losses @ 10% arising on account of unwinding of the open positions of the Top 2 clearing members.
- C. All the monies earmarked to SGF needs to be maintained in a separate account and should be maintained by the investment committee. Further, any income earned on the SGF contributions needs to be retained in the same account and should not be used for any other purpose than meeting settlement obligations.
- D. The SGF status funds should be shown separately in the head of accounts of the Exchange for all accounts purposes.
- E. The Exchange may send a quarterly report to the Regulator on the management of SGF. The said report may include details like opening balance, accruals, income on previous accruals, application of funds, net closing funds, outflows from the fund (if any). The report for the quarter must be sent by the 10th of the following month.
- F. Format for submitting Quarterly Report of SGF by the Commodity Exchanges is as follows:

S. No.	Items	Status of information
1	Opening balance in the SGF (In Rs.) as on	
2	Income of Previous Accruals (IN Rs.)	
3	Accruals during the quarter (In Rs.)	
	Total (A)	
4	Outflows from the Fund during the quarter, if any (In Rs.) (B)	
5	Net closing Fund (IN Rs.) (A-B)	
6	Details of the Application of Funds during the quarter	
7	Any other information relevant for regulatory purpose	

G. Default Waterfall:

Till clearing and settlement of trades in commodity derivatives are transferred to clearing corporations, the default waterfall of exchanges shall follow the following order:



- 8.4.2. **Risk management- disclosure by Exchange:**⁸² The disablement of terminals of the members along with duration of disablement due to shortage of funds, margin money etc. may be disclosed on the Exchange website for every quarter at the end of i.e. 30th June, 30th September, 31st December and 31st March.

8.5. Interoperability among Clearing Corporations

- 8.5.1. The interoperability framework is not available for commodity derivatives products available for trading on the stock exchange.⁸³

-
- i. Defaulting member's monies (including contribution to SGF)
 - ii. Insurance, if any
 - iii. Exchange resources equal to 5% of SGF
 - iv. SGF resources in the following order:
 - a. Penalties and investment income on SGF
 - b. 25% of Exchange contribution to SGF
 - c. Remaining (non-defaulting members' and exchange) contribution to SGF on pro rata basis.
 - v. Remaining exchange resources (excluding INR 100 Crore*)
 - vi. Capped additional contribution by non-defaulting members (equal to their required contribution to SGF)
 - vii. Any remaining loss to be covered by way of pro-rata haircut to payouts.
*INR 100 Crore to be excluded only when remaining exchange resources are more than INR 100 Crore."

⁸² SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated 26 September 2016

⁸³ SEBI Circular No. [CIR/MRD/DRMNP/CIR/P/2018/145](#) dated November 27, 2018



CHAPTER 9. CONTRACT APPROVAL AND MODIFICATION

9.1. Permission for Trading in Futures Contracts ⁸⁴

- 9.1.1. **Check-list of information/details to be submitted along with proposal for launch of new contract or/and for renewal of existing/earlier contracts :** All proposals of exchange for launch of new contract and/or for renewal of existing/earlier contracts shall be accompanied by complete information covering all the points **appended at Annexure regarding Check-list of information/details for launch of new contract or/and for renewal of existing/earlier contracts.** The parameters / items listed in the check-list for compliance are illustrative and not exhaustive. Any additional relevant parameter/information as deemed necessary may also be furnished while sending proposal for contracts.
- 9.1.2. **Approval for futures contracts on continuous basis:** The Exchange wise list of contracts approved for continuous trading is **placed at Annexure regarding List of contracts approved for continuous trading** . Approval for continuous trading in futures contracts is contingent upon volume and open interest at the Exchange. Continuous approval for futures trading in the said contracts is subject to the following terms and conditions:
- i. Approval for continuous trading in futures contracts is subject to Rules, Byelaws and Regulations of the concerned Exchange.
 - ii. Approval for continuous trading granted is for the contract specifications and launch calendar as already approved. Contract specifications and contract launch calendar shall be notified well in advance to the market participants on the website of the Exchange.
 - iii. Except for the specifications permitted to be modified at exchange level, contracts specifications and contract launch calendar should not be changed without prior approval. For any modification in contract specification or contract launch calendar, the Exchange(s) shall give prior appropriate notice to the market participants. Once the contracts are commenced, no terms of the contract specifications should be changed without prior approval of SEBI.
 - iv. In case of contracts approved for continuous trading:

⁸⁴ SEBI Circular No. [CIR/CDMRD/DRMP/CIR/2016/88](#) dated September 20, 2016



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- a. If Exchange decides not to launch new contract for trading, then Exchange shall inform market participants well in advance and shall also keep the regulator informed with adequate reasons for not launching of such contract.
 - b. If Exchange decides to de-list already running contract(s) having nil open interest, then exchange shall keep the regulator informed with adequate reasons for de-listing the contract(s).
 - c. The re-launch of new contracts in case of 'a' and 'b' above shall be with prior approval of SEBI.
- v. The contracts approved for continuous trading in agri-commodities shall continue to follow the lean month expiry policy as laid down and shall be subject to any other directions as may be issued by SEBI from time to time. Also, apart from the approved quality standards, the Exchange should ensure that the commodity deposited should comply with the regulations laid down by the other authorities like Food Safety Standard Authority of India, Agmark, BIS etc.
- vi. A limit on open position of each member and non-member client and the limit on daily price fluctuation as specified in the contract specification.
- vii. The permission granted for the contracts is subject to daily Mark to Market settlement of outstanding contracts as per the procedure and delivery mechanism/process specified in the Bye-laws, the Rules and the Regulations of the Exchange.
- viii. The Exchange, being the first tier regulator, shall ensure that there is no unhealthy speculative trading in the market, which may result in cornering or artificial rigging up or down of the prices by a particular member or group or class of members.
- ix. The list of contracts available for trading on continuous basis shall be reviewed by SEBI from time to time.

9.2.Modifications in the Contract Specifications of Commodity Derivatives Contracts ⁸⁵

⁸⁵ Substituted vide SEBI Circular no. [SEBI/HO/CDMRD/DOP/CIR/P/2019/135](https://www.sebi.gov.in/sebi_data/attachdocs/SEBI/HO/CDMRD/DOP/CIR/P/2019/135) dated November 14, 2019. Prior to substitution, the norm read as under:



- 9.2.1. The modifications in contract specification parameters are categorized in following three categories:
- A. **Category A:** Non-material modifications which can be made at exchange level in yet to be launched and running contracts.
 - B. **Category B:** Material modifications which can be made at the exchange level in yet to be launched contracts or running contracts which have nil open interest. These modifications shall require approval from Product Advisory Committee and approval of Regulatory Oversight Committee to be obtained post facto.
 - C. **Category C:** Material modifications which can be made only after approval from SEBI. These modifications shall require deliberations and approval from Product Advisory Committee and Regulatory Oversight Committee before seeking permission from SEBI.
- 9.2.2. The list of various contract specification parameters as per the above stated categories along with the timelines for advance intimation of modification to SEBI and market participant is given at Annexure on Categorization of contract specification parameters in commodity derivatives contracts.
- 9.2.3. The permission to modify contract specification parameters of commodity derivatives contracts is subject to the condition that before introduction of any modification in contract specifications the Exchanges shall inform SEBI and market participants along with reasons for the modifications as per the timeline mentioned in Annexure at Categorization of contract specification parameters in commodity derivatives contracts. However, this shall not apply to certain modifications which are required to be effected immediately considering the exigencies of the situation as per surveillance measure.

“To ensure that Exchanges are enabled to respond to the market requirements quickly, National Commodity Derivatives Exchanges are permitted to modify the futures contract specifications related to Ticker symbol, Basis, Maximum order size, Trading unit, Delivery unit, Quotation base value, Tick size, Delivery centers, additional delivery centers, issue related to Premium/Discount, Quality parameters and its relevant aspects such as Quantity variation and Tolerance limit in the futures contract specifications. The permission to modify the above parameters of the futures contract specifications is subject to the condition that Exchanges shall invariably inform the market participants and the regulator well in advance before introduction of any modification in contract specifications with reasons for the modifications.”



CHAPTER 10. DELIVERY AND SETTLEMENT

10.1. *Staggered Delivery* ⁸⁶

- 10.1.1. Staggered delivery period is the period, beginning few working days prior to expiry of any contract and ending with expiry, during which sellers/buyers having open position may submit an intention to give/take delivery.
- 10.1.2. All compulsory delivery commodity futures contracts (agriculture commodities as well as non-agriculture commodities) shall have a staggered delivery period.
- 10.1.3. The minimum duration of staggered delivery period shall be at least **five working days**.
- 10.1.4. Exchanges shall have the flexibility to set higher duration of staggered delivery period for any commodity futures contract, as deemed fit, taking into account various factors such as historical open interest, volume near expiry etc. In this regard, for the benefit of the market participants, all the exchanges shall jointly prepare and publish a detailed framework outlining various circumstances and factors which would generally require longer duration of staggered delivery period in any commodity.

⁸⁶ Substituted vide SEBI Circular No. [SEBI/HO/CDMRD/DNPM/CIR/P/2019/83](#) dated July 26, 2019. Prior to substitution, the framework was as follows:

“In all futures contracts for which staggered delivery is mandated, the framework shall be as given below:

- i. The tender period shall start with onset of the applicable staggered delivery period. In case the day happens to be a Saturday, Sunday or exchange holiday, the tender period shall start from the next working day.*
- ii. Seller/buyer shall have an option of marking an intention of giving/taking delivery on any day from start of the tender period up to expiry of the contract.*
- iii. Exchange shall allocate delivery to buyers having open long position as per random allocation methodology to ensure that all buyers have an equal opportunity of being selected to receive delivery irrespective of the size or value of the position. However, preference may be given to buyers who have marked an intention of taking delivery.*
- iv. If the tender date is T, then pay-in and pay-out shall happen latest by T+2th working day.*
- v. Open position on expiry of the contract would result in compulsory delivery and would be settled at Final Settlement Price (FSP) of the respective contracts and pay-in and pay-out shall happen latest by the 2nd working day after expiry.”*



10.1.5. In the interest of trade and public, SEBI or exchange may exercise its due discretion in modifying the aforesaid staggered delivery period at any time.

10.1.6. Framework

- a. Seller/buyer having open position shall have an option, of submitting an intention of giving/taking delivery, on any day during the staggered delivery period.
- b. On each day (except for the expiry day), Exchange shall allocate intentions received to give delivery during the day, to buyers having open long position as per random allocation methodology to ensure that all buyers have an equal opportunity of being selected to receive delivery irrespective of the size or value of the position. However, preference may be given to buyers who have marked an intention of taking delivery, which may be based on aspects such as location, quality etc...
- c. Pay-in and pay-out for the allocated deliveries shall happen within 2 working days after allocation.
- d. All open positions after expiry of the contract shall result in compulsory delivery and be settled at Final Settlement Price (FSP) of the respective contract and pay-in and pay-out shall happen latest by the 2nd working day after expiry.

10.2. *Early Delivery System* ⁸⁷

10.2.1. In all futures contracts for which early delivery system is mandated, the framework shall be as given below:

- i. An early delivery period may be provided during E-14 to E-1 days (where E stands for expiry day) of the contract during which buyers/sellers can give intention to take/give delivery. If the intentions of the buyers/sellers match, then the respective positions will be closed out by physical deliveries. The process of pay in and pay-out will be completed on T + 2 basis, where 'T' stands for the day on which matching has been done.
- ii. If there is no intention matching for delivery between sellers and buyers, then such delivery intention will get automatically extinguished at the close of E-1 day. The intentions can be

⁸⁷ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016



withdrawn during the course of E-14 to E-1 day if they remained unmatched.

- iii. In respect of delivery defaults after the matching of delivery intentions, penalty provisions as applicable in the case of delivery defaults in compulsory delivery contracts will be applied.
- iv. On the expiry of the contract, all outstanding positions would be settled by delivery and all the penalty provisions for delivery default applicable in the compulsory delivery contracts shall apply.

10.3. Early Pay-in Facility ⁸⁸

- 10.3.1. Exchanges shall provide early pay-in facility to market participants permitting market participants to deposit certified goods to the Exchange accredited warehouse against relevant futures contracts sold. For such short positions against which early pay-in has been made, based on risk perception, exchanges may exempt imposition of all types of margins. However, Exchanges shall continue to collect mark to market margins from such market participants against such positions.
- 10.3.2. In case of compulsory delivery and seller's option contracts, delivery to the extent of open position at the expiry of the contract shall be mandatory after claiming early pay-in facility on the position. The exchanges should provide for extremely strict penalties including disciplinary actions against such members who fail to do so.

10.4. Penalty on Delivery Default ⁸⁹

- 10.4.1. Penalty on seller in case of delivery default (default in delivery against open position at expiry in case of compulsory delivery contracts, default in delivery after giving intention for delivery) shall be as follows:
 - a. Futures contracts on agri-commodities: 3% of Settlement Price + replacement cost (difference between settlement price and average of three highest of the last spot prices of 5 succeeding days after the commodity pay-out date, if the average price so determined is higher than Settlement Price, else this component will be zero.)

⁸⁸ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016

⁸⁹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016



- b. Futures contracts on non-agri commodities: 3% of Settlement Price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and the following day, if the spot price so arrived is higher than Settlement Price, else this component will be zero.)
- 10.4.2. Exchanges shall have the flexibility to increase/decrease penalty for specific commodities depending on situation, in consultation with SEBI
- 10.4.3. Norms for apportionment of penalty –
 - a. At least 1.75% of Settlement Price shall be deposited in the IPF of the exchange
 - b. Up to 0.25% of Settlement Price may be retained by the Exchange towards administration expenses
 - c. 1% of Settlement Price + replacement cost shall go to buyer who was entitled to receive delivery
- 10.4.4. Exchange shall have appropriate deterrent mechanism (including penal/disciplinary action) in place against intentional/wilful delivery default.
- 10.4.5. Buyer default shall not be permitted.

10.5. Fixation of Final Settlement Price (FSP) ⁹⁰

- 10.5.1. For contracts where Final Settlement Price (FSP) is determined by polling, unless specifically approved otherwise, the FSP shall be arrived at by taking the simple average of the last polled spot prices of the last three trading days viz., E0 (expiry day), E-1 and E-2. In the event the spot price for any one or both of E1 and E-2 is not available; the simple average of the last polled spot price of E0, E-1, E-2 and E-3, whichever available, shall be taken as FSP. Thus, the FSP under various scenarios of non-availability of polled spot prices shall be as under

⁹⁰ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](https://www.sebi.gov.in/sebi_data/sectors/circulars_notifications/advisories/pdf/SEBI%20HO%20CDMRD%20DRMP%20CIR%20P%202016%2090.pdf) dated September 21, 2016



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Scenario	Polled spot price availability on				FSP shall be simple average of last polled spot prices on
	E0	E-1	E-2	E-3	
1	Yes	Yes	Yes	Yes/No	E0, E-1, E-2
2	Yes	Yes	No	Yes	E0, E-1, E-3
3	Yes	No	Yes	Yes	E0, E-2, E-3
4	Yes	No	No	Yes	E0, E-3
5	Yes	Yes	No	No	E0, E-1
6	Yes	No	Yes	No	E0, E-2
7	Yes	No	No	No	E0

10.5.2. In case of non-availability of polled spot price on expiry day (E0) due to sudden closure of physical market under any emergency situations noticed at the basis centre, Exchanges shall decide further course of action for determining FSP in consultation with SEBI.

10.6. Change in Expiry Date ⁹¹

10.6.1. Exchange may advance expiry date of running contract in case physical market is closed in the notified basis centre on the expiry day of the contract, due to festivals, strikes, erratic weather conditions, etc.

10.6.2. Decision about advancing expiry of running contract shall be intimated to the trade participants at least 10 days before the revised expiry date. The delivery period may be advanced accordingly for contract having staggered delivery. The FSP of such contract shall be fixed as per the above mentioned procedure.

10.7. Identification and Selection of Location as a Delivery Centre(s) ⁹²

10.7.1. 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

⁹¹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016

⁹² SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2020/89](#) dated May 26, 2020



that each stock exchange has adopted different criteria for different commodities as per their internal policy decision.

10.7.2. 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. 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.

- i. **Demand/supply dynamics:**
 - a. 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;
 - b. The location should have a sizeable production catchment area and arrivals;
 - c. 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.
- ii. **Liquidity of the contract:** The location should have high potential to attract trading and delivery participation in the derivatives contract.
- iii. **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.
- iv. **Infrastructure Support:**
 - a. 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 WDRA wherever applicable, before the launch of the contracts.
 - b. There should be adequate transport links (road or rail connectivity), presence of assaying and testing facilities, processing plants, etc., for effecting smooth deliveries.



- v. **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.

10.7.3. **Review of delivery centre:**

- i. 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.
- ii. 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.
- iii. 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.

10.7.4. SEBI has issued guidelines about the PAC (Chapter 2) 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 abovementioned paras (10.2.2 and 10.2.3) shall form part of the information to be submitted to PAC for their consideration. All the above stated information shall also be submitted by the stock exchanges to SEBI while submitting application for contract approval or renewal.

10.8. *Criteria for Settlement Mode of Commodity Derivative Contracts*⁹³

- 10.8.1. The first preference of settlement type for commodity derivatives contracts shall always be by the way of **physical delivery**.
- 10.8.2. Any exemption from the above i.e. cash settlement of commodity derivatives contract, may be considered only in following scenarios with a proper justification –

⁹³ SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2017/116](#) dated October 16, 2017



- i. Physical delivery is difficult to implement due to any reason, which may inter-alia include the following:
 - a. commodity is intangible; or
 - b. commodity is difficult to store may be due to low shelf life or inadequate storage infrastructure; or
 - c. it is difficult to physically handle and transport the commodity due to inadequate logistics and transport infrastructure.
- ii. There is availability of reliable benchmark price of the commodity which can be used as reference for settlement price. Exchanges shall satisfy themselves that the reference spot price is robust – fair indicator of prevailing prices and not susceptible to any distortion/manipulation.

10.8.3. Subject to the above conditions, both cash settled and physically settled derivative contracts on the same commodity may also be considered for trading, in case basis of price discovery of the proposed contracts is different.

10.9. Timelines for Marking Delivery Intention ⁹⁴

10.9.1. Exchanges may decide the timelines for submission of delivery instruction by members based on their assessment of the time required for marking as well as for modifying any delivery intentions wrongly marked.

10.10. Location Premium / Discount ⁹⁵

10.10.1. Exchanges shall determine and disclose for contracts the location premium / discount prior to launch of the contract in various commodities.

⁹⁴ SEBI Circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated September 26, 2016

⁹⁵ SEBI Circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated September 26, 2016



CHAPTER 11. WAREHOUSING NORMS FOR AGRICULTURE AND AGRI-PROCESSED COMMODITIES ⁹⁶

11.1. General

- 11.1.1. The clearing corporations to have in place comprehensive framework of norms for adherence by the Warehouse Service Providers (WSP), warehouse, assayers and other allied service providers engaged by them so as to exercise a robust mechanism, for ensuring good delivery as mandated under the SECC Regulations.
- 11.1.2. The norms prescribed herein are the minimum requirements/standards for compliance by the exchange accredited WSPs, warehouses and assayers and are to be complied with in addition to those laid down by WDRA, any other government authority from time to time.
- 11.1.3. The Exchanges are at liberty to prescribe additional norms/guidelines for compliance by their accredited WSPs, warehouses and assayers, if they deem so fit, in addition to the norms laid down hereunder, for ensuring good delivery of commodities by them. Provided that such additional norms specified by the exchanges are not in contravention with the instruction issued herein.

11.2. Accreditation of WSP

- 11.2.1. The exchanges shall follow a transparent process for accreditation of WSP by issuing open advertisements in leading newspapers and/or putting the same up on the exchange website and through a transparent selection process thereafter. The selection process being/to be followed for such accreditation shall be displayed on the website of the Exchange in advance. The accreditation of the WSP shall be done with the approval of the relevant committee of the Board of Directors of the Exchange. The exchange shall ensure that the application of the WSP/warehouses are processed within a stipulated time frame.
- 11.2.2. A WSP can be accredited with more than one exchange. In such case, no exchange shall mandate that its WSP cannot provide services to another

⁹⁶ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/103](#) dated September 27, 2016

Since Exchanges have transferred clearing and settlement functions to separate clearing corporations, the norms are applicable to Clearing Corporations.



exchange. However, it shall be ensured that same warehouse may not be shared by more than one Exchange.

- 11.2.3. The accreditation of a WSP shall, unless any expulsion proceedings pending against it, be subject to renewal after a period of 3 years considering WSP's performance during accreditation, quality of services and number of client complaints and effective resolutions thereof etc. The renewal shall be approved by the relevant committee of the Exchange. During the renewal process, the Exchange and the WSP shall continue to be responsible for the commodities stored till their Final Expiry date.

11.3. Eligibility and Experience of WSP/Promoters/Promoter Group of WSP

- 11.3.1. A WSP shall be a corporate body and is in public warehousing business.
- 11.3.2. The Promoters/ Promoter Groups of the WSP should be responsible persons/entities of repute with a good business reputation and credibility, and who are in the business of public warehousing for at least 3 years as on the date of their operation and have knowledge of, and experience in, generally accepted warehousing and handling practices for Commodities.
- 11.3.3. The exchange in its discretion, may relax the above norm of 3 years provided that the WSP or its promoter/promoter group:
- I. Meets all other criteria
 - II. Submit an undertaking that they shall meet any additional norm specified by exchanges within the time frame as specified by it or 3 years whichever is earlier
- 11.3.4. WSP and Promoters/ Promoter Group of WSP shall have no record of serious violation of laws or being expelled by any Exchange in last three years. The Exchange can take an appropriate undertaking from the WSP in this regard.

11.4. Financial Norms for the WSP

- 11.4.1. **Capital and Net worth:** A WSP shall be a corporate body with the minimum net worth requirement as under:



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- a) An accredited WSP shall have at least, subscribed and paid-up share capital of 10 crore.
- b) An accredited WSP providing warehousing services shall meet the following net worth criteria: -

<i>Number of commodities</i>	<i>Minimum Net worth</i>
1	₹10 crores
More than 1	₹25 crores

- c) Further, the exchanges shall ensure that the value of the goods stored in the accredited warehouses of WSP shall not, at any point of time, exceed 33 times of the net worth of the WSP.
- d) The exchanges may calculate the net-worth of WSP in the following manner.

"the aggregate value of paid up equity share capital plus free reserves (excluding statutory funds, benefit funds and reserves created out of revaluation) reduced by the investments in businesses, whether related or unrelated, aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off."

- e) In case of reduction in net worth below the stipulated amount, a time period of six month may be allowed to the WSP to augment its net worth. In the event the WSP is unable to augment the net worth to the requisite level within the allowed time frame, the WSP shall not carry out any new business i.e. can not include any new warehouse for new contracts/commodity/location. The exchange may take suitable measures, which are disclosed on its website for public information, with respect to the existing goods handled by such WSP.
- f) The WSP shall submit an audited net worth certificate to the exchange every six months i.e. at the end of every March and September, within 45 calendar days.



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- g) The Annual Financial Statements of the WSPs should be audited and submitted to the Exchange within six months of the end of Financial Year. Further, each WSP shall also be required to file its unaudited quarterly financial statements for all the quarters of a financial years to the exchange, within 45 calendar days of the date of a quarterly statement.

11.4.2. **Security Deposit:** The WSP seeking accreditation with an exchange is required to furnish a refundable security deposit along with the application form.

- Such security deposit shall be a minimum amount of INR50 lakhs.
- Security deposit shall not be released until six months after cancellation or revocation or surrender of the accreditation of the WSP or until after satisfaction of every claim against the deposit, whichever is later.
- Such security deposit shall be in form of cash or cash equivalent like Bank Fixed Deposits, Bank Guarantees etc.

11.4.3. **Financial Security Deposits (FSD)**

- The WSP shall furnish FSD in addition to the security deposit as under: -

<i>Value of Goods stored</i>	<i>FSD</i>
Up to ₹250 crores	3% of the aggregate value of stored commodities
Above ₹250 crores and upto ₹500 crores	4% of the aggregate value of stored commodities
Above ₹500 crores	5% of the aggregate value of stored commodities

- The FSD shall be in form of liquid assets with applicable haircuts and concentration limits as listed below: -

<i>Item</i>	<i>Minimum haircut</i>	<i>Limits</i>
Cash	0	No Limit but minimum 25%
Bank Fixed Deposit	0	
Bank Guarantees	0	



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<i>Item</i>	<i>Minimum haircut</i>	<i>Limits</i>
Securities of the Central Government	10%	

- c) The exchanges shall lay down exposure limits either in rupee terms or as percentage of the total assets to be received as FSD/SD that can be exposed to a single bank directly or indirectly. The total exposure towards any bank would include Bank Fixed Deposit and Bank Guarantees issued by the bank which have been deposited by WSPs.
- d) Not more than 1% of such assets deposited with the exchange, shall be exposed to any single bank which has a net worth of less than INR 500 crores and is not rated P1 (or P1+) or equivalent, by a recognized credit rating agency or by a reputed foreign credit rating agency, and not more than 10% of such deposit deposited with the exchanges shall be exposed to all such banks put together.
- e) A daily monitoring of the FSD vis-à-vis the value of the commodities stored needs to be done so as to ensure that the minimum stipulated FSD are always maintained with the Exchange. The exchange may ask for additional FSD over that stipulated above, if considered necessary.
- f) The FSD *vis-a-vis* the value of goods stored should be marked to market on replacement value on ongoing basis.
- g) The exchanges may specify the liquidity ratio (i.e. Liquidity Ratio= Current Assets/Current Liabilities) for WSPs, however it is desirable that such ratio is greater than 1. The Exchanges may, however, keep higher ratio.
- h) Framework for utilization of Financial Security Deposit (FSD) available with Clearing Corporations and WDRA⁹⁷ : Recognized Clearing Corporations having commodity derivatives segment shall adhere to the following norms for utilization of security deposit:
- i The Clearing Corporations shall immediately after accreditation, provide the details of WDRA registered

⁹⁷ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/29](#) dated February 11, 2019



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warehouses accredited by them with full details of warehouseman registration, warehouse registration, WSP, address etc. to WDRA. WDRA will in turn, share the details of security deposit received from these accredited warehouses/WSPs to the respective Clearing Corporations as per the format enclosed **in Annexure on Formats for providing details of Security Deposit**. Clearing Corporations shall inform the changes, if any, with respect to these warehouses as and when it happens, to enable WDRA to provide the required information as above. WDRA shall also inform Clearing Corporations of any changes, if any, in the security deposit placed by such warehouses/WSPs with WDRA.

- ii Clearing Corporations shall continue to compute FSD requirement as mentioned in this chapter. The deposits placed by WSPs with WDRA for Exchange/Clearing Corporation specific outstanding eNWRs shall be considered by the Clearing Corporation in the calculation of available FSD for the WSP subject to the same complying with norms regarding FSD.
- iii The accredited WSP shall be liable for any losses resulting from any action or inaction on its part or on the part of its warehouses that prevents the buyer or seller from exercising, in whole or in part, their rights. The Clearing Corporation shall compensate the aggrieved clients for any such losses that have been appropriately established by debiting the FSD of WSP held with the Clearing Corporation, in accordance with its applicable rules. In case the FSD available at Clearing Corporation is not sufficient to compensate for the loss, Clearing Corporation shall make part compensation with the FSD available with it and the security deposit available with WDRA shall be made available to Clearing Corporation within 7 days of the release request from Clearing Corporation to WDRA, for settlement of the remaining claims.
- iv The settlement of security deposit by WDRA originates only after the stocks stored, if any, are disposed off/ withdrawn by the holder.



- v This arrangement is only for stocks stored in WDRA registered / Clearing Corporation accredited Warehouses for the purpose of delivery on exchange platform and for which e-NWR has been issued.
- vi The discrepancy noted / claim received by any agency (Clearing Corporation or WDRA) shall be brought to the notice of other agency irrespective of invoking the security deposit.

11.5. *Fit and Proper Criteria*

- 11.5.1. The exchange shall ensure that the WSP, Promoters of WSP, assayers, Key Management Personnel (KMPs) of WSPs, warehouses and Assayers shall always be 'fit and proper' to carry out business of warehousing, have adequate knowledge of, and experience in generally accepted warehousing and handling practices for Commodities, and are competent and willing to operate such a warehouse for which the WSP has a valid license/expertise under the appropriate state warehousing laws in respect of the warehouses concerned.

11.6. *Corporate Governance norms for WSP*

- 11.6.1. **Management and Employees:** The exchange shall ensure that the accredited WSP has a professional management team to oversee its functioning and operations.
 - i. The exchange shall ensure that the Key Management Personnel (KMPs) of WSP have adequate knowledge of, and experience in generally accepted warehousing and handling practices for Commodities and are competent and willing to operate such a warehouse, and do not have any conflict of interest in discharge of their functions.
 - ii. The exchanges shall ensure that the WSP/Management of WSP (defined as 'key managerial personnel' including whole time directors of WSP and their 'relatives' as per Companies Act, 2013) or entities owned or controlled by promoters/management of WSP/Group concerns/associates directly or indirectly or persons 'acting in concert' are not allowed, either directly or indirectly, to



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trade on the commodity derivatives exchange in the commodity for which it is accredited by Exchange. The exchange shall not provide for any exemption in this regard.

- iii. The Exchange may obtain an annual declaration from the compliance officer of WSP to the effect that the WSP/Management of WSP or entities owned or controlled by management of WSP/Group concerns directly or indirectly or persons 'acting in concert' have not traded on exchange.
- iv. The exchange shall ensure that the WSP has adequate number of competent employees at all times who have the experience, capacity and ability of operating the business without any conflict of interest.
- v. The exchange shall ensure that the staff/employees of the WSP including the assayers, who are managing the day-to-day affairs of the warehouses, deployed both in the office of the WSP and in its warehouses, are duly trained on their expected tasks through the Exchange's delivery business related training programmes or are deputed to attend the certification programme on commodity derivatives and warehousing conducted by National Institute of Securities market (NISM).

11.6.2. **Compliance officer:** The WSP shall appoint a compliance officer who shall be responsible for monitoring the compliance with relevant Act, rules and regulations, notifications, guidelines and instructions issued by relevant authorities from time to time. The Compliance officer of the WSP shall ensure that all norms mentioned are followed by the WSP and should issue a declaration to that effect to the Exchange, at regular intervals as directed by the exchange.

11.6.3. **Standard Operating Procedure (SOP):** The WSP shall have a SOP and the exchange shall obtain a standard operating procedure in respect of all the concerned warehouses from the WSP before granting accreditation to such warehouses. The SOP of a warehouse may cover the following but not restricted to:

- i. Procedures for acceptance of goods to be deposited
- ii. Weigh bridge empanelment



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- iii. Procedures for weighing, sampling of goods to be deposited as per industry standards, Procedure for verification of commodity and communication to depositors,
 - iv. Procedure for depositing and identifying the Exchange related goods,
 - v. Procedure for maintaining the quality of the goods stored as per the exchange contract specification,
 - vi. Procedure for Know your depositor requirements,
 - vii. Security policy for ensuring the safety of the goods from theft, burglary etc.,
 - viii. Procedure and guidelines for scientific storage of goods, including stacking etc.
 - ix. Procedure for losses caused due to theft, fire, burglary, fraud, negligence and force majeure events,
 - x. Procedure for internal verification of stock,
 - xi. Preservations of Stock – maintenance of godown hygiene, maintenance of warehouse structure, aeration, periodical examination of goods, classification of presence of insects, pre-monsoon precautions etc.
 - xii. Selection of Location for offering warehousing services
 - xiii. Grievance redressal procedures
 - xiv. Role and responsibilities of employees (including outsourced employees)
 - xv. Model warehouse agreement format
 - xvi. Maintenance of surroundings, infrastructure etc.
- 11.6.4. The WSP shall have good internal systems and controls which should meet the operating guidelines, if any, issued by the Exchange from time to time. The WSP shall have clear delegation of powers to meet operational requirement.
- 11.6.5. A WSP shall intimate /notify in writing to the Exchange, if there is any material change, prior to making such change.
- 11.6.6. WSP shall report to the Exchange within three business days of initiation of any civil and criminal proceedings by or against it and shall also intimate the exchange if there is probability of any such legal proceedings being initiated involving it ,as soon as the same comes to the knowledge of the WSP.



11.7. *Know Your Depositor*

- 11.7.1. The WSP shall comply with Know Your Depositor (KYD) Policy as prescribed by the Exchange from time to time.
- 11.7.2. The Exchange and WSP shall at any point of time be able to identify the depositor of the goods deposited in registered warehouses, the owner of the deposited goods (in case the depositor is an agent of the actual owner), and also the actual beneficiary (in case the depositor and the beneficiary are different) of the deposited/stored commodities.

11.8. *PAN requirement*

- 11.8.1. The exchanges shall ensure that the WSPs are under obligation to provide to the exchanges the details including PAN numbers of its Promoters, Promoter group entities, its holding / subsidiaries / associates and other related entities, persons 'acting in concert', Key Management Personnel at the time of accreditation and update the same on periodical basis as mandated by the exchanges and whenever any change is noted by WSP, in this regard.

11.9. *Facilities & Infrastructure Requirement for WSP*

- 11.9.1. The Exchanges shall ensure that the WSPs to be eligible for accreditation have reasonable facility and infrastructure for proper handling and storage of commodity such as:
- 11.9.2. All its warehouses are well connected with rail and/or road networks and have sufficient space for parking and movement of large vehicle;
- 11.9.3. The warehouses are physically and operationally suitable for the proper storage of Commodities and
 - i. are of sound construction and in a state of good repair. The walls, the floor and the roof do not permit water seepage or are source of any insect infestation;
 - ii. have adequate equipment, installed and maintained in good working order, as may be prescribed by the Exchange, for the movement of commodities into, out of and within the warehouse. Further, the employees employed at the warehouses shall



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- undergo training in fire safety and use of firefighting equipments;
- iii. have adequate firefighting equipment installed within its premises and have fire escapes and fire hydrant points clearly marked;
 - iv. have required ventilation, installed and maintained in good working order, as may be prescribed by the Exchange, for the proper storage and preservation of quality of goods;
 - v. have adequate lighting arrangement as may be prescribed by the Exchange;
 - vi. are free from materials and substances that may adversely affect the quality of stored commodities;
 - vii. have a safe work environment;
 - viii. have ensured adequate security as prescribed by the Exchange for protection of stored or handled commodities to prevent from tampering or adulteration;
 - ix. have facilities for storing the deliverable commodities of futures contracts which need to be and piled properly in a separate storage area as specified by the Exchange thereby providing clear-cut demarcation between Exchange / non- Exchange commodities.
- 11.9.4. WSP shall take utmost care in storing commodities for futures contract in accordance with the climatic conditions and the nature of commodity stored.
- 11.9.5. WSP shall have adequate security personnel for each of its registered warehouse with required facilities to immediately communicate any unlawful entry, burglary, theft or damage or potential loss to the deposited goods to the WSP.
- 11.9.6. Each warehouse of an accredited WSP shall assign a special place to store the samples used for inspection and testing for purpose of further examination and testing.
- 11.9.7. WSPs shall take utmost care on daily basis for keeping surroundings for their respective warehouses under vegetation control and for disposal of waste which can otherwise create a favourable habitat for rodents and other pests. WSP should regularly inspect and verify whether rodent control structures in the warehouse are sound and whether there are any



pools of water around the facility, which can increase the danger of water seepage into it, and take appropriate remedial steps.

- 11.9.8. The exchanges shall ensure that the warehouses provided by the WSPs are under absolute control of the WSPs. In case a warehouse is a leased property it should be ensured that no third party including the owner/lessor of the warehouse, has any role to play in the operations and managing the concerned warehouses operated by the WSP.
- 11.9.9. The exchanges shall develop the SOP with respect to the maintenance, preservation and retrieval of data/records/books of accounts which shall be uniformly adopted by each of their accredited WSP/warehouse.
- 11.9.10. WSP shall always give priority to commodities meant for futures contracts delivery while receiving, storing and dispatching goods. It should have internal process that enable the Exchange to physically verify by deputing its officials or through any agencies / experts engaged by it, the goods deposited, the facilities available in such warehouse, or to inspect the level of compliance of the warehousing norms stipulated by the exchange/regulator from time to time.
- 11.9.11. The WSP shall undertake to have assaying/testing facilities for the commodities it intends to render warehousing facility, or shall undertake to be associated with an assaying/testing agency which may preferably be certified by one or more national/international agencies like NABL (National Accreditation Board for calibration and testing Laboratories), BIS etc., as specified by the exchange.
- 11.9.12. The WSP shall provide for accurate and efficient weighing, sampling, inspection and grading of the Commodities deposited in its warehouses. The Exchange shall ensure that the WSP has deployed personnel who have knowledge and experience in sampling, weighing, inspecting and/or grading of commodities.
- 11.9.13. The WSP shall have its own or access to fumigation facilities/agencies for pest control activities.
- 11.9.14. Exchanges shall ensure that the WSPs have in place, necessary policies, control and system in place for dealing with the risk that may be arising due to the warehouses being used for purposes other than commodity derivatives market.



- 11.9.15. The exchange and WSP shall be responsible to accept the goods/commodities in warehouses which meets the quantity and quality parameters as per the exchange contract specifications. The WSP shall take necessary steps to maintain the quality and quantity of goods stored in the warehouse, in accordance with the conditions/parameters (for maintaining the quality) as laid down by the exchanges for each of such commodity.
- 11.9.16. The WSP shall display on a daily basis warehouse wise/commodity wise details of the space available, goods deposited and held in transit, details of location of the warehouse, particulars of rejection of the goods etc. on its website and the archives of such reports shall be available on its website.
- 11.9.17. The WSP shall not disseminate any information that is false or misleading or disclose any confidential information obtained during the course of their dealings with the exchanges or their positions on the market or as a result of their position or during the course of performance of their duties.

11.10. Accreditation of Assayers

- 11.10.1. The exchanges shall follow a transparent process for accreditation of assayers by issue of open advertisement in leading newspapers and by putting up the same on the exchange website. The process being followed for such accreditation shall be displayed on the website of the Exchange in advance. The accreditation shall be done with the approval of the Risk Management Committee of the Board of Directors of the Exchange.
- 11.10.2. The Exchange shall conduct independent pre-empanelment due diligence of Assayers by visiting the laboratories and assessing the testing and certification facilities. The exchanges shall give preference to the government assayers or to those Assayers who are having testing and certification facilities at various locations across India. In addition to the empanelment of assayers for deployment by the WSPs at their warehouses, the exchange shall also identify and empanel separate independent assayer(s) at each such delivery location where the market participants can independently get their goods/commodities assayed, at the time of depositing into or withdrawing such commodities/goods from a warehouse. However, if the original empanelled assayers engaged by



WSP at a delivery centre happened to be Government assayer, then the need for empanelling an additional independent assayer may be dispensed with.

- 11.10.3. The exchanges shall ensure that the empanelled assayers work independently, and their operations are governed by prescribed Standard Operating Procedures (SOPs). The assayers shall be preferably certified by one or more national/international agencies like NABL (National Accreditation Board for calibration and testing Laboratories), BIS etc., and shall have the facilities as laid down by the exchanges from time to time.

11.11. Warehouses at delivery centres

- 11.11.1. The exchanges shall ensure that all the warehouses of a WSP accredited by them are registered with the statutory authority viz., WDRA.⁹⁸
- 11.11.2. The exchanges shall have at least one warehouse at each of the delivery centres (as specified in the contract specification) at the time of launch of contract itself and address of such warehouses shall be mentioned in the contract specifications.
- 11.11.3. The exchanges may accredit warehouses of a WSP within 100 kms radius of the delivery centres depending on the feasibility and requirements, in respect of all commodities.

11.12. Insurance

- 11.12.1. The WSP shall at all times ensure to fully cover under insurance, the value of goods stored at exchange approved warehouses against all potential perils relevant to the commodities for which insurance cover is available and necessary.

⁹⁸ The stock exchanges through various letters have been advised to ensure that all the warehouses of a WSP accredited by them are registered with the statutory authority viz., WDRA. Prior to this advice the earlier provisions as per SEBI circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2016/103](#) dated September 27, 2016 read as under :

“The exchanges shall ensure that all the warehouses of a WSP accredited by them are registered with the statutory authority viz., WDRA. The exchanges shall take necessary steps to ensure that warehouses which are not registered with the WDRA are registered by WDRA within 6 months from the date of such accreditation, failing which the accreditation given to the WSP in respect of such warehouses shall expire.”



- 11.12.2. The WSP shall undertake to take insurance cover for risks such as viz. Fire and allied perils including flood, cyclone, earthquake and spontaneous combustion, Burglary and Theft and special perils covering riots, strikes and terrorism.
- 11.12.3. The WSP shall take Fidelity guarantee & crime insurance and Professional indemnity cover to cover all deliverable stocks on the exchange.
- 11.12.4. The value of goods to be insured should be marked to market on replacement value on ongoing basis.

11.13. *Monitoring/Inspection/Audit of warehouses by WSPs and Exchanges*

- 11.13.1. **Periodic inspection/audit by WSPs:** The WSP should ensure that there is periodic inspection/audit of the warehouse as well as the commodities stored in the warehouses.
- i Inspection staff must be independent of the employees / staff deputed at the registered warehouse.
 - ii The inspection/audit report is submitted to the Exchange within a week of the completion of such inspection/audit.
 - iii The Exchange shall ensure that the physical counting of stocks and their reconciliation with the corresponding electronic records is done periodically.
- 11.13.2. The WSP shall allow the members /clients holding electronic credit balances to do physical inspection of their goods. However, the request for such physical inspection would have to be submitted to the Exchange and the Exchange after verification of such request, shall forward the same to the concerned WSP for allowing such inspection within a stipulated time.
- 11.13.3. **Periodic inspection/audit of warehouses by the exchange:** The Exchange shall ensure that independent audit of the stocks and other facilities in the warehouses is carried out by engaging expert agencies, at regular intervals.
- i. Such inspections shall be carried out at least twice in each accredited warehouse in a calendar year with a gap of not more



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than six months between two inspections/audits of same warehouse.

- ii. In addition to the above, the audit may also be conducted on risk profiling, as identified by the Exchange. For this purpose, the Exchange shall form a panel of independent expert agencies and the cost of such audit shall be borne by the respective Exchange.
- iii. The result of such audit/audit report shall be displayed by the Exchange on its website immediately after the completion of the audit and submission of report by the auditor.
- iv. The exchanges shall prepare a panel of such independent expert agencies for carrying out inspection of warehouses, which shall also be reviewed by the Exchange from time to time. In addition, the Exchanges shall also conduct in-house physical audit of accredited warehouses at regular intervals.
- v. Exchange should also carry out surprise inspections of warehouses as and when such exigencies arise in terms of the prescribed norms.
- vi. The exchange shall have a policy of rotation of such independent expert agencies for carrying out inspection after every 3 years with a provision for 'cooling off' period of 1 year.
- vii. The exchange shall have a detailed inspection manual for carrying out the audits and inspections of the WSP/warehouses concerned.

11.13.4. Monitoring of warehouses by exchange: The exchanges shall be responsible for the monitoring of the warehouses of their accredited WSPs. In this regard:

- i Norms relating to the monitoring of warehouses shall be placed in public domain.
- ii A deliberation on the continuous functioning, monitoring and compliance of norms by WSPs, warehouse and assayers shall be a mandatory agenda item in all Board meetings as well as the Risk management committee meeting of the exchange.



- iii The Exchange and WSPs shall ensure that the goods whose final expiry date is over, are removed from the concerned warehouse immediately, but not later than 3 months from the date of the final expiry date.

11.14. Review of WSPs/Warehouses

- 11.14.1. The exchange shall review and appraise operational performance of each WSP every year. Based on the operational review the Exchange may adjust the allocation of commodities and the limit of deliveries at various warehouses of the concerned WSP in accordance with the results of such performance evaluation and appraisal.
- 11.14.2. Additionally, the exchange may carry out biennial and quarterly performance review of all warehouses accredited by it, taking into account various performance areas such as storage facilities, the capacity and appearance of the warehouse, business capabilities, business performance, accounting, the satisfaction level of members/clients, redressal of client grievances, and other factors as the Exchange may deem necessary for its review.
- 11.14.3. The exchange may take necessary action as mentioned in para S against WSP/Warehouse, if the warehouse is unable to meet the requirements of an accredited warehouse and fails to improve the standard within the stipulated time.

11.15. Code of Conduct

- 11.15.1. The exchange shall frame necessary code of conduct for the WSPs, warehouses and assayers.
- 11.15.2. The said code of conduct shall be displayed on the exchange website.

11.16. Grievance Cell

- 11.16.1. The exchange shall ensure that it has a Grievance Cell to handle consumer complaints.
- 11.16.2. The exchange shall take proactive steps to resolve customer related issues and maintain a record of complaints received / resolved.



- 11.16.3. The exchange shall require the WSP to report the details of complaints received / resolved by it/ pending and action taken on the complaints, once in very fortnight.

11.17. MIS System

- 11.17.1. WSP shall have a Standard Operating Procedure (SOP) which is process-dependent and not person-dependent. It is desirable that there should be electronic record of information at the WSP and a MIS system with an arrangement for flow of real time information from the warehouse location to the central MIS and onwards to Exchange electronically. The MIS should have the capability to capture and disseminate information regarding stocks being held warehouse wise/location wise, and the availability of space in the warehouses.
- 11.17.2. The exchange shall display on a daily basis warehouse wise details of the space available, stock of goods held, name of the warehouse service provider, details of location of the warehouse, particulars of acceptance/rejection of goods by the warehouse concerned, details of empanelled assayers and independent assayers, if any, attached to the warehouse etc., on its website. The archives of such reports shall be available on the exchange website.
- 11.17.3. The participants/clients willing to deposit goods in Exchange accredited Warehouses would submit a request to the Exchange. The Exchange shall use a transparent and time-bound process for the participants to identify the warehouse where the participants can deposit the goods. After such identification, the Exchange shall intimate the participants about the time, place and the warehouse where they can deposit the goods. The Exchange shall then issue directions to the concerned warehouse for accepting deposits from the concerned participants/clients after assaying/ quality testing as per the laid down procedure in a transparent manner. The WSP shall accept the goods for deposits only at the instruction of Exchange concerned.

11.18. Surrender/Cancellation of accreditation

- 11.18.1. Any WSP that applies for surrender of its accreditation shall submit its Application for Surrender to the Exchange for evaluation and approval.



- 11.18.2. The exchange may cancel the accreditations a WSP if it fails to comply with the provisions of the rules/regulations specified by it and intimate the same to the market participants through circular. Further, the exchange shall put in place a cancellation policy for WSP in public domain. However, the exchange shall offer the WSP concerned an opportunity of being heard and take a decision on cancellation after considering the explanation of the WSP.
- 11.18.3. A WSP that surrenders its accreditation or its accreditation is cancelled, shall attend to the following matters urgently:
- i. All commodities for futures contract delivery shall be dispatched out of the warehouse or converted to physical commodities;
 - ii. All liabilities and debts vis-a-vis the Exchange, Member and Clients shall be settled;
 - iii. There is no obligation on its part to deliver goods to the clients pertaining to their trades on the exchange platform, and
 - iv. No customer complaints pertaining to any of its registered warehouses are pending for redressal.
- 11.18.4. SD and FSD shall be returned in accordance with the Exchange's rules, keeping aside 10% of such deposits with the exchange, which shall not be released until six months after cancellation or surrender of accreditation of the WSP or until satisfaction of all claims against the deposits made in its warehouses, whichever is later.
- 11.18.5. A WSP which surrenders its accreditation with the exchange shall not be eligible to provide its services to the exchange for a period of 3 years.
- 11.18.6. Once the accreditation of a WSP is cancelled or WSP is expelled by an exchange then it shall not be eligible to provide its services to any commodity derivatives exchanges for 3 years.
- 11.18.7. Adequate notice intimation to general public / clients should be given through widely published newspapers and website etc. before accepting the surrender of WSP or cancellation/expulsion of the WSP.

11.19. Business Continuity Plan



11.19.1. A WSP shall put in place, a business continuity plan and submit such plan to the exchanges.

11.20. Actions against WSPs

11.20.1. The Exchange may frame byelaws/rules/regulations/guidelines for its accredited WSPs to rectify correct their misconduct or misconduct on the part of any of its approved warehouses used for storing goods for delivery on exchange platform. The exchanges may also direct the WSPs to indemnify an entity aggrieved by the delivery process of its warehouse or, in serious cases of misconduct/malfeasance, revoke the accreditation of the concerned warehouse or/and hold the WSP accountable for any legal liabilities, if the concerned erring WSP/ warehouse engages in any of the following offences:

- i refuses to accept delivery without any bonafide reasons or, issues a falsified certificate of delivery;
- ii violates any of the Exchange's rules or limits the movement of a deliverable commodity into or out of the warehouse;
- iii discloses any confidential business information relating to a buyer or seller or a futures contract;
- iv provide inaccurate or incomplete information, conceal the truth of the facts;
- v engages in the futures trading activities; or
- vi engages in any other behaviour in breach of the Exchange's rules; or
- vii any other offence not listed above.

However, the above actions may be initiated only after taking due approval from the relevant committee.

11.20.2. The accredited WSP shall be liable for any losses resulting from any action or inaction on its part or on the part of its warehouses that prevents the buyer or seller from exercising, in whole or in part, their rights. The Exchange shall compensate the aggrieved client for any such losses that have been appropriately established by debiting the FSD of WSP held with the exchange, in accordance with its applicable rules, and WSP shall within 7 days replenish the FSD as required.



11.21. Cold Storages

- 11.21.1. In case of any commodity which generally require storage in the cold storages, the exchanges shall ensure that such commodities are stored in cold storages only.

11.22. Status report

- 11.22.1. The Exchanges shall upload a status report on their websites by 5th of every month giving the details of the number of applications received for accreditation of warehouses, Warehouses registered with WDRA during the month, registration pending with WDRA, warehouses pending with Inspecting Agencies, accreditation/registration of warehouses rejected by Exchange/WDRA with reason for the same, etc.

- 11.22.2. The archives of such reports shall be available on the exchange website.

11.23. Uniformity in the procedure for obtaining samples of goods at the exchange accredited warehouses⁹⁹

- 11.23.1. The Exchanges/Clearing Corporations shall ensure that adequate samples of goods are collected/retained from the goods deposited and are sealed in the presence of the depositor or his authorized representative.
- 11.23.2. In order to resolve potential disputes arising with respect to the quality of goods, if any, at least four samples are taken of which one sample is used for analysis, one is kept with the WSP for comparison purpose, one is given to the depositors while one is kept for record/lab reference purpose.

11.24. Other aspects

- 11.24.1. The exchanges shall put in place necessary arrangements for ensuring compliance with the provisions of the SECC Regulations regarding guarantee for settlement of trades including good delivery.
- 11.24.2. Further, the exchanges have necessary arrangements to ensure that in the event of bankruptcy or insolvency of the WSP or other such contingency, there must be no restrictions placed upon owners/depositors of the

⁹⁹ SEBI Circular No. [SEBI/HO/CDMRD/DMP/CIR/P/2018/136](#) dated October 16, 2018



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commodity wishing to take possession of their individually identified commodity and remove it from the accredited Warehouse(s).



CHAPTER 12. INVESTOR PROTECTION FUND & INVESTOR SERVICE FUND AND ITS RELATED MATTERS

12.1. *Investor Protection Fund (IPF)*¹⁰⁰

12.1.1. Constitution and Management of the IPF

- I. The IPF shall be administered by a Trust created for this purpose.
- II. The IPF Trust of the exchange shall have maximum 5 trustees. The IPF Trust shall consist of three public interest directors, one representative from investor associations recognized by SEBI and the compliance officer of the exchange. The maximum tenure of a trustee (excluding the compliance officer of the exchange, whose trusteeship would be co-terminus with the service) shall be five years or as specified by SEBI¹⁰¹.
- III. [***]¹⁰²
- IV. Exchanges shall provide the secretariat for the IPF Trust/Committee.
- V. Exchanges shall ensure that the funds in the IPF are well segregated from that of the Exchange and that the IPF is immune from any liability of the exchange.
- VI. [***]¹⁰³

¹⁰⁰ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2016/94](#) dated September 26, 2016

¹⁰¹ Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

“The IPF Trust shall comprise of two eminent persons and one independent Director on the Board of the Exchange (these names will be suggested by the Exchanges and approved by SEBI), and the MD/CEO of the Exchange”

¹⁰² Omitted vide circular dated [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to omission, the norm read as under:

“The sitting fee payable to the Trustees should be fixed only with the prior approval of SEBI.”

¹⁰³ Omitted vide circular dated [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to omission, the norm read as under:



12.1.2. Contributions to the IPF: The IPF will be funded as follows:

- I. All the penalties levied and collected by the exchange, except for the settlement related penalties (including penalties from delivery default), shall be credited to the IPF.¹⁰⁴
- II. 1% of the turnover fee charged by the exchange from its members/brokers or ten lakh whichever is higher in a financial year.¹⁰⁵

12.1.3. Manner of filing/inviting claims from the Investors/Clients

- I. In accordance with its byelaws, rules or regulations, the Exchange shall publish a notice inviting the legitimate claimants to file claims against the defaulter member within a specified period of time called as the 'specified period'.
- II. The specified period shall be a minimum period of 90 days.
- III. Exchanges shall publish the notice in all the editions of at least one English national daily with wide circulation and in at least one regional language daily with wide circulation at the place(s) where the concerned Exchange Member(s) is/are situated.
- IV. The notice calling for claims shall be displayed on the website of the Exchange for the entire specified period.

"Exchanges shall disclose in their financial statements, the IPF trust as a related party as well as the details of transactions between the respective exchanges and IPF trust as per Accounting Standard AS-18."

¹⁰⁴Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"All the penalties levied and collected by the Exchange, except for the settlement related penalties (including penalties from delivery default), shall be part of the IPF after deducting the cost of administration (such cost of administration cannot exceed 10 percent)."

¹⁰⁵Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"1% of the turnover fee charged by the National Commodity Derivatives Exchange from the Member/Broker or Rs25 lakh whichever is lower in a financial year shall go to IPF."



- V. The notice shall contain the specified period, the maximum compensation limit for a single claim of an investor/client and all other relevant information.

12.1.4. Eligibility of Claims

- I. The claims received against the defaulter member during the specified period shall be eligible for being considered for compensation from the IPF.
- II. If any eligible claim arises within three years from the date of expiry of the specified period, such claim¹⁰⁶
- A. shall be considered eligible for compensation from IPF/CPF in case where the defaulter member's funds are inadequate. In such cases, IPF/CPF Trust shall satisfy itself that such claim could not have been filed during the specified period for reasons beyond the control of the claimant.
- B. shall not be considered eligible for compensation from IPF/CPF in case where the surplus funds of the defaulter member is returned to the defaulter member. The same shall be borne by the exchanges after scrutinizing and satisfying itself that such claim could not have been filed during the specified period for reasons beyond the control of the claimant.

Provided that any claim received after three years from the date of expiry of the specified period may be dealt with as a civil dispute.

- III. [***]¹⁰⁷

¹⁰⁶ Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

“If any eligible claim arises within three years from the date of expiry of the specified period, such claims will be processed at the discretion of the IPF Trust. Any claim received after three years from the date of expiry of the specified period and not processed by the IPF Trust will be dealt with as civil dispute.”

¹⁰⁷ Omitted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to omission, the norm read as under:

“Any appeal against the non-entertaining of claims by the Trust shall be referred to the Board of the Exchange for decision.”



- IV. The investor claim arising out of a default of a broker/member of the exchange shall be eligible for compensation from IPF.¹⁰⁸

12.1.5. Determination of Legitimate Claims

- I. In case of claims against a defaulter member, the claims of the claimant shall be placed before the defaulters' committee for sanction and ratification. The Defaulters' Committee's advice with respect to legitimate claims shall be sent to IPF Trust for disbursement of the amount¹⁰⁹.
- II. In case the claim amount is more than the maximum limit for compensation under IPF or the amount sanctioned and ratified by the Defaulters Committee is less than the claim amount, then the investor may prefer for arbitration mechanism for claim of the balance amount¹¹⁰.
- III. In the event of default by the member, all transactions executed on the exchange platform shall be eligible for settlement from IPF subject to the appropriate norms laid down by the defaulters' committee. The IPF of the exchange shall be utilized for the clients of SEBI registered members. However, the said amount shall not be more than the maximum limit as prescribed at all time.¹¹¹
- IV. The exchanges shall also use the IPF of the exchange for meeting their liabilities towards the clients of members not registered with SEBI, if the same is allowed under the byelaws of the exchange.¹¹²

¹⁰⁸Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"The claims of the retail clients alone shall be eligible for compensation from the IPF and in no case the claims of a member or authorized person of the member shall be eligible for compensation out of the IPF."

¹⁰⁹Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"The IPF Trust may adopt the arbitration mechanism at the Commodity Derivatives Exchange to determine the legitimacy of the claims received from the claimants."

¹¹⁰Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"The IPF Trust may also seek the advice of the Defaulters Committee of the Exchange to sanction payments to be made to the investors."

¹¹¹ Inserted vide SEBI Circular No. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹¹² Inserted vide SEBI Circular no. [CIR/HO/CDMRD/DCE/CIR/P/2018/49](#) dated March 14, 2018.



12.1.6. Threshold limit for Claims

- I. The Exchanges are free to fix suitable compensation limits, in consultation with IPF trust. However, the amount of compensation available against a single claim of an investor arising out of defaulter by a member broker shall not be less than Rs 1 lakh.¹¹³
- II. The exchanges in consultation with IPF Trust, shall review and progressively in case the amount of compensation available against a single claim from an investor at least every three year.¹¹⁴
- III. [***]¹¹⁵
- IV. Exchanges shall disseminate the compensation limit fixed by them and any change thereof, to the public through a Press Release and through their Website.

12.1.7. Disbursements of claims from the IPF

- I. The IPF Trust shall disburse the amount of compensation from the IPF to the investors and such compensation shall not be more than the maximum amount fixed for a single claim of an investor.
- II. The compensation shall be disbursed to the investor from the IPF in case there is a shortage of defaulter broker's assets after its realization.¹¹⁶

¹¹³Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"Exchanges are free to fix suitable compensation limits in consultation with the IPF Trust. However, the maximum amount of compensation available against a single claim of an investor arising out of default of a member of a Commodity Derivatives Exchange shall be Rs2 lakh."

¹¹⁴Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"The maximum available compensation arising out of default by a member of an Exchange shall be Rs 2 crores in those commodity derivatives exchanges whose size of corpus of IPF is Rs15 crores or above and shall be Rs 25 lakh if the size of corpus is less than Rs 15 crores."

¹¹⁵ Omitted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to omission, the norm read as under:

"SEBI shall review the amount of compensation available against a single claim from an investor from time to time."

¹¹⁶ Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"Claim on the direction of any other authority on the Fund may be routed through SEBI."



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- III. The Exchange shall ensure that the amount realized from the assets of the defaulter member is returned to the defaulter member after satisfying the claims of the exchanges and SEBI in accordance with the bye-laws of the exchange¹¹⁷.

Provided that in case of a member broker having membership on multiple exchanges, amount realized from the assets of the defaulter member shall be returned to the said member only after satisfying eligible claims of the concerned exchange, SEBI, and other exchanges as the case may be.

Provided further that in cases where any litigations are pending against the defaulter member, the residual amount, if any, may be retained by the exchange until such litigations are concluded."

- IV. Investment of funds of IPF will be as per the relevant provision of the Indian Trust Act 1882 and Section 11 (5) of Income Tax Act, 1961. The Exchanges are requested to ensure that the investment of trust money is done with utmost caution and prudence.
- V. Appeal should be referred to the Board of the Exchange on any decision of the Managing Committee of IPF regarding any claim.
- VI. In case the National Commodity Derivatives Exchange is wound up, then the balance in the IPF lying un-utilized with the IPF Trust, shall be transferred to SEBI. In such an event, the funds will be maintained in a separate account and SEBI shall act as trustee of these funds. The funds shall be utilized for purposes of investor/client education, awareness, research or other such programme as may be decided by SEBI.

¹¹⁷ Substituted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017. Prior to substitution, the norm read as under:

"The Board of the Exchanges may utilize only the interest earned on the Fund, subject to approval of the Trust, for investors" awareness and education. The National Exchanges are also permitted to utilize the interest earned on the IPF corpus for maintenance of all price ticker boards installed at the respective Exchange. Exchanges shall submit the details and expenditure of each of such programmes on a quarterly basis to SEBI. The corpus of IPF shall not be utilized for these purposes".



- VII. The IPF Trust shall disburse the compensation to the investors as and when claims have been crystallized against a defaulter member. The IPF Trust need not wait for realization of assets of the defaulter member for disbursement of the claims. Upon receipt of advice of defaulter's committee, for payment, the IPF Trust shall take necessary steps for disbursement of amount at the earliest.¹¹⁸
- VIII. Exchanges shall periodically review the sources of fund and eligible compensation amount so as to recalibrate the fund to make suitable recommendation for enhancement.

12.1.8. Income earned on IPF and its Utilization¹¹⁹:

- I. The exchange may utilize income earned on the corpus of IPF towards promotion of investor education and awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programs etc. to enhance literacy and to promote participation in the commodity derivatives market or any other mandated purpose. Capital expenditure would be permissible only *w.r.t.* setting up of Investor Service Centre. However, no expenditure to be incurred on product promotion in any manner. However, in case of non-utilization of the said income in the same financial year for the mandated purpose, the same shall be ploughed back to IPF. In addition to above, the income earned on the IPF corpus may be utilized in other manner as prescribed/permitted by SEBI in the interest of investors from time to time.
- II. The unutilized IPF interest income accruing during a specific financial year can be carried forward to the next financial year to enable effective utilization of such money by the exchanges during such extended period.
- III. The exchange shall also be permitted to utilize IPF interest income for undertaking research activities related to commodities market, provided every such research activity / project can be undertaken only after obtaining prior written approval of the trustees of the IPF Trust, who would inter alia, record the reasons, relevance and stated objectives of the research project while according approval to such activity/ project. Further, the Board of the exchange may be apprised

¹¹⁸ Inserted vide SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017

¹¹⁹ SEBI Circular no. [CIR/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.



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of the research programs / activities being undertaken at least once in every quarter or half year of a given financial year.

There will be an overall cap on the total amount, not more than 10% of the interest amount of IPF which can be spent on Research activities related to commodities market. IPF shall frame a policy towards identifying / recognising public and private academic institutions, professional bodies, trade (physical market) associations and industry bodies/ chambers through/ with whom such Research activities shall be undertaken/ organised/ sponsored.¹²⁰

- IV. In order to ensure effective utilization of income earned on IPF, supervision of utilization of interest on IPF will rest with the IPF Trust of the exchange.

12.2. Investor Service Fund (ISF)¹²¹

12.2.1. Exchanges are mandated to set up Investor Service Fund (ISF) for providing following basis minimum facilities at various Investor Service Centers (ISC).

- I. The ISC shall provide 4 financial newspapers with at least one in the Regional language.
- II. The ISC shall install computer software (marketed by some vendors) which provide information about various commodities (agri and non-agri) including research reports, general, financial & other important commodity related information. The information will be made available through computers with one master terminal and some dummy terminals through which investors could access this information. Other facilities like copying will be made available to the investors at minimum cost.
- III. The ISC shall provide facilities for receiving/recording investor complaints. Special staff recruited/deployed by the exchange for this purpose will register the complaints and provide counselling service to the investors. Status of complaints will be maintained and updated in the computer system of the Center.

¹²⁰ SEBI Circular no. [CIR/HO/CDMRD/DCE/CIR/P/2018/49](#) dated March 14, 2018

¹²¹ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017



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- IV. The ISC shall provide for other infrastructure facilities such as telephone, photocopier, furniture, sitting space, internet connection having access to various directions / circulars issued by SEBI and Government agencies etc.
- V. The ISC shall provide published commodity related materials of exchanges for the benefit of the investors. It should also provide the pamphlets / brochures detailing the rights and obligation of investors while dealing with brokers in commodity markets, FAQ's etc.
- VI. The ISC shall provide for dummy terminals to display the prices of the commodities listed on the exchange on real-time basis, to enable investors watch the price movements of the commodities etc.
- VII. The ISC shall maintain a library on relevant laws, financial analysis, market trend analysis etc. for the education of the investors.
- VIII. The ISC shall conduct various investor education and investor awareness programs through seminars, lectures, workshops, publications (print and electronic media), training programs etc. enhance literacy and promoting participation in the commodity derivatives market.

12.2.2. Contribution to ISF

- I. At initial stage, the exchange shall contribute a minimum of Rs Ten Lakhs towards setting up of Investor Service Fund (ISF). Subsequently, onwards, the Exchanges shall transfer the 1% percent of the turnover fees charged by the exchange from its members on monthly basis towards ISF within 7 days of the end of the month, subject to minimum of Rs. Ten Lakh in a financial year.
- II. The Exchange shall also plough back the entire income earned on the corpus of ISF to the ISF within one month from the end of September and March of each year.
- III. The exchange shall be permitted to utilize the corpus of ISF for conducting various investor education and awareness programs, capacity building programs and maintenance of all price ticker boards installed by the respective exchanges, cost of training of arbitrators



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etc. In addition to above, the corpus may be utilized in other manner as prescribed / permitted by SEBI in the interest of investors from time to time.

- IV. In order to efficient management of ISF, Investor Service Committee (ISC) of exchange shall oversee the contribution to ISF and its utilization.
- V. Exchange shall maintain separate bank account for maintaining corpus of the IPF as well as ISF and such funds should not be co-mingled with any other fund(s) of the exchange and shall not be used for any other purpose.
- VI. SEBI has prescribed certain expenditures which are to be met utilizing the ISF and not IPF. However, since ISF is of recent origin, its corpus may be inadequate, therefore stock exchanges with commodity derivatives segment have been granted 3 years period starting April 1st, 2018 to permit utilizing interest on IPF for activities of ISF also¹²².

¹²² SEBI Circular no. [CIR/HO/CDMRD/DCE/CIR/P/2018/49](#) dated March 14, 2018.



**CHAPTER 13. INVESTOR GRIEVANCE REDRESSAL SYSTEM AND
ARBITRATION MECHANISM**

13.1. Investor *Grievance* Redressal System ¹²³

13.1.1. The stock exchanges shall constitute Investor Grievance Redressal Committee (IGRC) for redressal of investor grievances.

13.1.2. The composition of the IGRC shall be as follows: -

- i. The IGRC shall comprise of a single person for claims up to Rs. 25 Lakh, whereas, for claims above Rs. 25 Lakh, the IGRC shall comprise of three persons.
- ii. The IGRC shall comprise of independent persons with qualifications in the area of law, finance, accounts, economics, management or administration and experience in financial services, including securities market.
- iii. Further, the three members Committee shall comprise of at least one technical expert for handling complaints related to technology issues (such as internet-based trading, algorithmic trading, etc.).
- iv. The members of IGRC shall not be associated with a trading member in any manner.
- v. Exchanges shall empanel IGRC members, however, no arbitrator/appellate arbitrator shall be empanelled as IGRC member. ¹²⁴
- vi. The disclosures and code of conduct prescribed is given below:
 - A. The name of a person shall be included in the panel after obtaining:
 - i. a declaration that he has not been involved in any act of fraud, dishonesty or moral turpitude, or found guilty of any economic offence,
 - ii. disclosure of the nature of his association with securities market

¹²³ SEBI Circular No. [CIR/CDMRD/DEICE/02/2015](#) dated November 16, 2015.

¹²⁴ SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](#) July 11, 2017.



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- iii. disclosure of the names of his dependents associated with the securities market as member, sub-broker or authorized person, and
- iv. an undertaking that he shall abide by the code of conduct prescribed.

B. Code of Conduct for IGRC Members: An IGRC Member shall –

- i. act in a fair, unbiased, independent and objective manner;
- ii. maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of his duties;
- iii. disclose his interest or conflict in a particular case, i.e., whether any party to the proceeding had any dealings with or is related to the IGRC Member;
- iv. not engage in acts discreditable to his responsibilities;
- v. avoid any interest or activity which is in conflict with the conduct of his duties as a IGRC Member;
- vi. avoid any activity that may impair, or may appear to impair, his independence or objectivity;
- vii. conduct IGRC proceedings in compliance with the principles of natural justice and the relevant provisions of the Arbitration and Conciliation Act, 1996, the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956 and the Rules, Regulations and Bye-laws framed thereunder and the circulars, directions issued by the Government / SEBI;
- viii. endeavor to pass IGRC Order expeditiously and in any case not later than the time prescribed in this circular; and
- ix. pass reasoned and speaking IGRC Orders.

13.1.3. With a view to streamline and make more effective the investor grievance redressal mechanism at Exchange, it has been decided to shorten the time taken for the proceedings as well as to give monetary relief to the investors, during the course of pendency of proceedings. In this regard, Exchanges are advised as under:

- i. The exchanges shall ensure that all complaints are resolved at their end within 15 days. The correspondence with the Member & investor (who is client of a Member) may be done on email if the email id of the investor is available in the UCC database. The Member (Commodity Broker, Trading Member and Clearing Member) shall provide a dedicated email-Id to the exchange for this purpose.



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- ii. In case the matter does not get resolved, conciliation process of the exchange would start immediately after the timelines stated above.
- iii. Investor Grievance Redressal Committee (IGRC) shall be allowed a time of 15 days to amicably resolve the investor complaint.
- iv. IGRC shall adopt a two-fold approach i.e. for proceedings leading to direction to the Member to render required service in case of service-related complaints and proceedings leading to an order concluding admissibility of the complaint or otherwise in case of trade related complaints.
- v. In case the matter is not resolved through the conciliation process, IGRC would ascertain the claim value admissible to the investor.
- vi. Upon conclusion of the proceedings of IGRC, i.e. in case claim is admissible to the investor, Exchanges shall block the admissible claim value from the deposit of the Member.
- vii. The exchange shall give a time of 7 days to the Member from the date of signing of IGRC directions as mentioned under sub-para (d) above to inform the Exchange whether the Member intends to pursue the next level of resolution i.e. Arbitration.
- viii. In case, the Member does not opt for arbitration, the Exchange shall, release the blocked amount to the investor after the aforementioned 7 days.
- ix. In case, the Member opts for arbitration and the claim value admissible to the investor for interim relief paid out of IPF in exchanges is prescribed below¹²⁵ :
 - A. In case, award is in favour of client and the member opts for arbitration wherein the claim value admissible to the client is not more than Rs. 20 lakhs (Rs. Twenty lakhs), the following steps shall be undertaken by the Exchange:
 - i. In case the IGRP award is in favour of the client then 50% of the admissible claim value or Rs. 2.00 lakhs (Rs. Two lakhs),

¹²⁵ SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](#) dated July 11, 2017



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whichever is less, shall be released to the client from IPF of the Exchange.

- ii. In case the arbitration award is in favour of the client and the member opts for appellate arbitration then 50% of the amount mentioned in the arbitration award or Rs. 3.00 lakhs (Rs. Three lakhs), whichever is less, shall be released to the client from IPF of the Exchanges. The amount released shall exclude the amount already released to the client at clause (a) above.
- iii. In case the appellate arbitration award is in favour of the client and the member opts for making an application under Section 34 of the Arbitration and Conciliation Act, 1996 to set aside the appellate arbitration award, then 75% of the amount determined in the appellate arbitration award or Rs.5.00 lakhs (Rs. Five Lakhs), whichever is less, shall be released to the client from IPF of the Exchanges. The amount released shall exclude the amount already released to the client at clause (a) and (b) above.
- iv. Total amount released to the client through the facility of interim relief from IPF in terms of this Circular shall not exceed Rs. 10.00 lakhs (Ten lakhs) in a financial year.
- v. Before release of the said amounts from the IPF to the investor, the Exchange shall obtain appropriate undertaking / indemnity from the investor against the release of the amount from IPF, to ensure return of the amount so released to the investor, in case the proceedings are decided against the investor.
- vi. If it is observed that there is an attempt by investor / client either individually or through collusion with Member (s) or with any other stakeholder, to misuse the provision of this Circular, then without prejudice to the powers of the Board to take action, appropriate action in this regard shall be taken against any such person so involved from henceforth accessing the benefits of this Circular.
- vii. In case the complaint is decided in favour of the investor after conclusion of the proceedings, then amount released to the investor shall be returned to IPF from the blocked amount of the Member by Exchange and the rest shall be paid to the investor.



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- viii. The Exchanges may devise a detailed procedure with regard to release of funds from IPF and recovery thereof and necessary formats of documents.
 - ix. In case the investor loses at any stage of the proceedings and decides not pursue further, then the investor shall refund the amount released from IPF, back to the IPF. In case the investor fails to make good the amount released out if IPF then investor (based on PAN of the investor) shall not be allowed to trade on any of the Exchanges till such time the investor refunds the amount to IPF. Further, the securities lying in the demat account(s) of the investor shall be frozen till such time as the investor refunds the amount to the IPF.
 - x. The exchanges may also resort to displaying the names such investors on their websites if considered necessary.
- B. Exchanges, in consultation with the IPF Trust and SEBI, shall review and progressively increase the amount of interim relief available against a single claim for an investor, at least every three years.
- C. The Exchanges shall disseminate the interim relief limit fixed by them and any change thereof, to the public through a Press Release and also through its website.
- 13.1.4. With a view to rationalize the timelines involved in the arbitration mechanism, Exchanges are advised as under:
- I. The Members are required to file application for appellate arbitration within one month of the date of receipt of arbitral award. Further as per section 34 (3) of the Arbitration and Conciliation Act, 1996 the Members have three months to make an application to set aside an arbitral award. In this regard, the Members shall convey their intention to Exchanges within 7 days of receipt of the award, as regards whether such Members desire to challenge the arbitration award/appellate arbitration award in Court or not.
 - II. If the Members do not express their intent to challenge the arbitration award/appellate arbitration award then it would be presumed that



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Members does not intend to challenge the award and the Exchange shall take further steps accordingly.

13.1.5. With a view to address complaints regarding 'unauthorised trades' Exchanges are advised to direct the Members to put in place the following:

- I. In case the Member has made margin calls to the client and the client has failed to comply with these margin calls, then the contract note issued by Member for transactions owing to non-compliance of such margin calls would bear a remark specifying the same.
- II. The Member shall maintain a verifiable record of having made such margin calls and that clients have not complied with the same.
- III. With a view to assist investors engaged in dispute resolution process, Exchanges shall set up facilitation desks at all investor services centres as specified by SEBI from time to time. These facilitation desks would inter alia also assist investors in obtaining documents/details from Exchanges wherever so required for making application to IGRC and filing arbitration.

13.2. *Arbitration mechanism* ¹²⁶

- 13.2.1. The Bye-laws of the exchanges relating to arbitration proceedings shall be in accordance with the Arbitration and Conciliation Act, 1996.
- 13.2.2. In consultation with the exchanges, it has been decided to streamline the arbitration mechanism available at exchanges for arbitration of disputes (claims, complaints, differences, etc.) arising between a client and a member (Broker, Trading Member and Clearing Member) across various market segments.
- 13.2.3. An exchange shall provide an arbitration mechanism for settlement of disputes between a client and a member through arbitration proceedings in accordance with the provisions of this Circular read with Section 2(4) of the Arbitration and Conciliation, Act, 1996.
- 13.2.4. Maintenance of a Panel of Arbitrators.

¹²⁶ SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](#) dated July 11, 2017



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- I. An exchange shall maintain a panel of arbitrators. The number of arbitrators in the panel shall be commensurate to the number of disputes so that an arbitrator handles a reasonable number of references simultaneously and all arbitration references are disposed of within the prescribed time.
- II. The exchange shall have a set of fair and transparent criteria for inclusion of names in the panel of arbitrators.
- III. While deciding to include a particular person in the panel of arbitrators, the exchange shall take into account the following factors:
 - A. age,
 - B. qualification in the area of law, finance, accounts, economics, management, or administration, and
 - C. experience in financial services, including securities market.
- IV. The name of a person shall be included in the panel after obtaining:
 - A. a declaration that he has not been involved in any act of fraud, dishonesty or moral turpitude, or found guilty of any economic offence,
 - B. disclosure of the nature of his association with securities market,
 - C. disclosure of the names of his dependents associated with the securities market as member, sub-broker or authorized person, and
 - D. an undertaking that he shall abide by the code of conduct prescribed in this circular.

13.2.5. Code of Conduct for Arbitrators: An arbitrator shall –

- I. act in a fair, unbiased, independent and objective manner;
- II. maintain the highest standards of personal integrity, truthfulness, honesty
- III. and fortitude in discharge of his duties;
- IV. disclose his interest or conflict in a particular case, i.e., whether any party to the proceeding had any dealings with or is related to the arbitrator;
- V. not engage in acts discreditable to his responsibilities;
- VI. avoid any interest or activity which is in conflict with the conduct of his duties as an arbitrator;



- VII. avoid any activity that may impair, or may appear to impair, his independence or objectivity;
- VIII. conduct arbitration proceedings in compliance with the principles of natural justice and the relevant provisions of the Arbitration and Conciliation Act, 1996, the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956 and the Rules, Regulations and Bye-laws framed thereunder and the circulars, directions issued by the Government / SEBI;
- IX. endeavour to pass arbitral award expeditiously and in any case not later than the time prescribed in this circular; and pass reasoned and speaking arbitral awards.

13.2.6. Arbitration

- I. The limitation period for filing an arbitration reference shall be governed by the law of limitation, i.e., The Limitation Act, 1963.
- II. An arbitration reference for a claim / counter claim up to Rs.25 lakh shall be dealt with by a sole arbitrator while that above Rs.25 lakh shall be dealt with by a panel of three arbitrators.
- III. The exchange shall ensure that the process of appointment of arbitrator(s) is completed within 30 days from the date of receipt of application from the applicant.
- IV. The arbitration reference shall be concluded by way of issue of an arbitral award within four months from the date of appointment of arbitrator(s).
- V. The Managing Director/ Executive Director of the exchange may for sufficient cause extend the time for issue of arbitral award by not more than two months on a case to case basis after recording the reasons for the same.

13.2.7. Appellate Arbitration

- I. A party aggrieved by an arbitral award may appeal to the appellate panel of arbitrators of the exchange against such award.
- II. An appeal before the appellate panel of arbitrators may be filed within one month from the date of receipt of arbitral award.



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- III. The appellate panel shall consist of three arbitrators who shall be different from the ones who passed the arbitral award appealed against.
- IV. The exchange shall ensure that the process of appointment of appellate panel of arbitrators is completed within 30 days from the date of receipt of application for appellate arbitration.
- V. The appeal shall be disposed of within three months from the date of appointment of appellate panel of such appeal by way of issue of an appellate arbitral award.
- VI. The Managing Director/ Executive Director of the exchange may for sufficient cause extend the time for issue of appellate arbitral award by not more than two months on a case to case basis after recording the reasons for the same.
- VII. A party aggrieved by the appellate arbitral award may file an application to the Court of competent jurisdiction in accordance with Section 34 of the Arbitration and Conciliation Act, 1996.
- 13.2.8. Arbitration Fees¹²⁷ : The fee structure (exclusive of statutory dues - stamp duty, service tax, etc.) for filing arbitration reference shall be as follows:-

<i>Amount of Claim / Counter Claim, whichever is higher (in Rs.)</i>	<i>If claim is filed within six months from the date of dispute</i>	<i>If claim is filed after six months from the date of dispute or after one month from the date of IGRP order, whichever is later</i>	<i>If the claim is filed beyond the timeline prescribed in column 3, (only for member)</i>
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000	Additional fee of Rs. 3,000/-per month over and above fee prescribed in column 3

¹²⁷ SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](#) dated July 11, 2017.



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<i>Amount of Claim / Counter Claim, whichever is higher (in Rs.)</i>	<i>If claim is filed within six months from the date of dispute</i>	<i>If claim is filed after six months from the date of dispute or after one month from the date of IGRP order, whichever is later</i>	<i>If the claim is filed beyond the timeline prescribed in column 3, (only for member)</i>
> 10,00,000 - 25,00,000 ≤	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh	Additional fee of Rs. 6,000/-per month over and above fee prescribed in column 3
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs.90,000	Additional fee of Rs. 12,000/-per month over and above fee prescribed in column 3

- I. The filing fee will be utilized to meet the fee payable to the arbitrators. Excess of filing fee over fee payable to the arbitrator, if any, to be deposited in the IPF of the respective exchange.
- II. A client, who has a claim / counter claim up to Rs. 10 lakh and files arbitration reference will be exempted from filing the deposit. Expenses thus arising with regard to such applications shall be borne by the Exchanges”.
- III. In all cases, on issue of the arbitral award the exchange shall refund the deposit to the party in whose favour the award has been passed. In cases where claim was filed within six months period, the full deposit made by the party against whom the award has been passed, shall be appropriated towards arbitration fees. In cases where claim was filed after six months, one-third of the deposit collected from the party against whom the award has been passed, shall be appropriated towards arbitration fees and balance two-third amount shall be credited to the Investor Protection Fund of the respective stock exchange.

Note : Six months (as referred to in (I), (II), and (III) above) shall be computed from the end of the quarter during which the disputed



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transaction(s) were executed / settled, whichever is relevant for the dispute , and after excluding:-

- A. The time taken by the Investors Grievances Redressal Committee of the Exchange (the time taken from the date of receipt of dispute till the decision by the committee) to resolve the dispute under its Rules, Bye-laws & Regulations, and
 - B. The time taken by the member to attempt the resolution of the dispute (the time from the date of receipt of dispute by the member to the date of receipt of the member's last communication by the client) or one month from the date of receipt of the dispute by the member, whichever is earlier.
- IV. A party filing an appeal before the appellate panel [as mentioned above in Appellate Arbitration] shall pay a fee not exceeding Rs. 30, 000, as may be prescribed by the exchange, in addition to statutory dues (stamp duty, service tax, along with the appeal. In case the party filing the appeal is a client having claim / counterclaim of up to Rs. 10 lakh, then the party shall pay a fee not exceeding Rs. 10, 000/-.

Further expenses thus arising shall be borne by the Exchanges and the Investor Protection Fund of Exchanges equally.

13.2.9. Place of Arbitration / Appellate Arbitration¹²⁸

- I. The exchanges having nationwide terminals, shall provide arbitration facility (i.e. arbitration as well as appellate arbitration) at least at all centres specified by SEBI from time to time. However, the exchanges having nationwide terminals may provide arbitration facility at additional centres, if exchanges so desire. The arbitration and appellate arbitration shall be conducted at the centre nearest to the address provided by Client in the KYC form.
- II. Other exchanges shall provide the arbitration facility, including appellate arbitration, at the place where it is located.
- III. The application under section 34 of the Arbitration and Conciliation Act, 1996, if any, against the decision of the appellate panel shall be filed in

¹²⁸ SEBI Circular No. [CIR/CDMRD/DIECE/02/2015](#) dated November 16, 2015



the competent Court nearest to the address provided by Client in the KYC form.

- IV. In case award amount is more than Rs. 50 lakh (Rs. Fifty lakh), the next level of proceedings (arbitration or appellate arbitration) may take place at the nearest metro city, if desired by any of the party involved. The additional cost for arbitration, if any, to be borne by the appealing party.
- 13.2.10. Speeding up grievance redressal mechanism : In order to have faster implementation of award and to discourage delayed filing of arbitrations by members, the additional fees payable by members who file their claim beyond the prescribed time-lines shall be non-refundable even if the arbitration award goes in favor of the member¹²⁹.
- 13.2.11. Public dissemination of profiles of arbitrators: In order to enhance transparency and also to provide choice to parties, Exchanges shall disseminate information w.r.t. brief profile, qualification, areas of experience/ expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their website.
- 13.2.12. Submission of documents in soft copies : In order to assist the arbitrators in pronouncing comprehensive and speedy awards, Exchanges shall make necessary arrangements in terms of hardware viz., computer, scanner, printer, etc. and required software's at exchange offices/ Investor Service Centers (ISCs) to facilitate the clients to type/ convert their documents into electronic format/ soft copy. Such electronic format/ soft copies shall be provided to the arbitrators along with original submissions in physical copies.
- 13.2.13. Review and training of arbitrators
- Investor Service Committee of the Exchanges shall review the performance of the arbitrators annually and submit the review report to the Board of the Exchange. Training need of the arbitrators will be catered by National Institute of Securities Markets (NISM). Cost of training of arbitrators may be incurred from ISF of the exchange.

¹²⁹ SEBI Circular no. [CIR/CDMRD/DCE/CIR/P/2018/48](#) dated March 14, 2018.



- The stock exchanges shall provide training of at least one day to every arbitrator each year¹³⁰.

13.2.14. Mechanism for implementation of award.

- Exchanges shall create a common database of defaulting clients accessible to members across the Exchanges.
- For this purpose, a client may be identified as defaulter if the client does not pay the award amount to the member as directed in the IGRC/ arbitration/ appellate arbitration order and also does not appeal at the next level of redressal mechanism within the timelines prescribed by SEBI or file an application to court to set aside such order in accordance with Section 34 of the Arbitration and Conciliation Act, 1996 (in case of aggrieved by arbitration/ appellate award).

13.2.15. Empanelment of arbitrators and segregation of arbitration and appellate arbitration panel: There shall be separate panels for arbitration and appellate arbitration. Further, for appellate arbitration, at least one member of the panel shall be a Retired Judge. Exchanges shall obtain prior approval of SEBI before empanelment of arbitrators/ appellate arbitrators.

13.2.16. Revision in professional fee of arbitrators: The arbitrator fee shall be upwardly revised to Rs.18,000/- (Rs. Eighteen thousand) per case. Consequent to this upward revision, the additional expenses attributable to a client over and above the fee structure as specified above in Arbitration Fees, shall be borne by the client (wherever applicable) and Exchange equally. The total expense attributable to the member has to be borne by the concerned member.

13.2.17. Arbitration / Appellate Arbitration award: In order to safeguard the interest of the parties involved in arbitration and to ensure speedy implementation of the arbitration award, the rate of interest on the award passed by arbitrators shall be in compliance with Arbitration and Conciliation (Amendment) Act, 2015.

13.2.18. Committees¹³¹ : The composition and functions of the various committees has been referred to as in **Chapter 14**.

¹³⁰ SEBI Circular No. [CIR/CDMRD/DCE/CIR/P/2018/48](#) dated March 14, 2018

¹³¹ As per Regulation 29 of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (SECC Regulations), the regulatory committees at MIIs has been rationalized into three



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functional committees and four oversight committees within each MII including functions of Disciplinary Action Committee, Defaulter's Committee and Investors Service Committees. SEBI vide circular [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13](#) dated January 10, 2019 had issued guidelines for the principles for composition and quorum of the various committees at MIIs. Prior to this substitution the provisions vide SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](#) dated July 11, 2017 read as under:

“Disciplinary Action Committee, Defaulters’ Committee, Investors Service Committee, Arbitration Committee: The composition and functions of the Disciplinary Action Committee, Defaulter’s Committee and Investors Service Committee will be as follows:

Name of Committee	Functions Handled	Composition
Disciplinary Action Committee	<ul style="list-style-type: none"> i. The Committee shall formulate the policy for regulatory actions including warning, monetary fine, suspension, withdrawal of trading terminal, expulsion, to be taken for various violations by the members of the exchange. ii. Based on the laid down policy, the Committee shall consider the cases of violations observed during inspection, etc. and impose appropriate regulatory action on the members of the exchange. iii. While imposing the regulatory measure, the Committee shall adopt a laid down process, based on the 'Principles of natural justice'. 	<ul style="list-style-type: none"> i. The Committee shall have a minimum of 3 members and a maximum of 5 members; ii. The Public Interest Directors shall form a majority of the Committee; iii. A maximum of two key management personnel of the exchange can be on the committee and one of which shall necessarily be the Managing Director of the exchange; iv. The Committee may also include independent external persons such as retired judge, etc. v. SEBI may nominate members in the Committee, if felt necessary in the interest of commodities market;
Defaulters’ Committee	<ul style="list-style-type: none"> i. To realize all the assets / deposits of the defaulter/ expelled member and appropriate the same amongst various dues and claims against the defaulter/ expelled member in accordance with the Rules, Byelaws and Regulations of the exchange. ii. In the event both the clearing member and his constituent trading member are declared defaulter, then the Defaulter’s Committee of the exchange and the Defaulter's Committee of the clearing corporation shall work together to realise the assets of both the clearing member and the trading member. 	<ul style="list-style-type: none"> i. The Committee shall have a minimum of 3 members and a maximum of 5 members; ii. The Public Interest Directors shall form a majority of the Committee. iii. A maximum of two key management personnel of the exchange can be on the Committee. iv. The Committee may also include independent external persons such as retired judge, etc. v. SEBI may nominate members in the Committee, if felt necessary in the interest of commodities market;



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13.2.19. Automatic Process and Common Pool of arbitrators¹³²: The exchanges shall pool all arbitrators of their exchange in the common pool across all national commodity derivatives exchanges, facilitate automatic selection of arbitrators from the common pool. Details are prescribed below:

- I. List of Arbitrators on the panel of all exchanges having nation-wide trading terminals shall be pooled and will be called a 'Common Pool'. This list shall be made publicly available including by way of display on websites of the exchanges.
- II. 'Common pool' of Arbitrators will consist of Arbitrators listed on the panels of all exchanges having nation-wide trading terminals. The pooling of arbitrators will be done Centre-wise. To illustrate, the list of arbitrators on the panel of all exchanges for the region covered by the Delhi centre will be pooled. This would enable an applicant from the region to choose any arbitrator from the 'Common Pool' for Delhi.

	<p>iii. Admission or rejection of claims of client/ trading members/ clearing members over the assets of the defaulter/ expelled member.</p> <p>iv. Advise in respect of the claims to the Trustees of the IPF on whether the claim is to be paid out of IPF or otherwise.</p>	
Investor Services Committee	<p>i. Supervising the functioning of Investors' Services Cell of the Exchange which includes review of complaint resolution process, review of complaints remaining unresolved over long period of time, estimate the adequacy of resources dedicated to investor services, etc.;</p> <p>ii. Supervision of utilization of ISF;</p> <p>iii. To have annual review of the arbitrators and arbitration/ awards (both quantum and quality of the awards).</p>	<p>i. The Committee shall have a minimum of 3 members and a maximum of 5 members.</p> <p>ii. The Public Interest Directors shall form a majority of the Committee.</p> <p>iii. A maximum of two key management personnel of the exchange can be on the Committee.</p> <p>iv. The Committee may also include independent external persons.</p> <p>v. SEBI may nominate members in the Committee, if felt necessary in the interest of commodities market;</p>

It is stipulated that the arbitration panel shall not comprise of any trading members. ”

¹³² SEBI Circular No. [CIR/CDMRD/DIECE/02/2015](http://www.sebi.gov.in/CIR/CDMRD/DIECE/02/2015) dated November 16, 2015



- III. If the client and member (broker, trading member or clearing member) fail to choose the Arbitrator(s) from the Common Pool, the Arbitrator(s) will be chosen by an 'Automatic Process' wherein neither the parties to arbitration (i.e. client or member) nor the concerned Exchanges will be directly involved.
- IV. The 'Automatic Process' will entail a randomized, computer generated selection of Arbitrator, from the list of Arbitrators in the 'Common Pool'. The selection process shall be in chronological order of the receipt of arbitration reference i.e. only after selecting an arbitrator for the former arbitration reference received, selection for the latter shall be taken up.
- V. The 'Automatic Process' will send a system generated, real time alert (sms, email etc.) to all entities involved in the particular case. Further, the communication for the appointment of the Arbitrator will be sent immediately and in any case not later than the next working day from the day of picking of the Arbitrator. This communication will be sent by the exchange on which the dispute had taken place, to all concerned entities including clients, arbitrators, members, exchanges etc.
- VI. The selection of Arbitrators by exchanges as done currently, shall henceforth be replaced by the 'Automatic Process'. In case of any probable conflict of interest in an arbitration reference being assigned to any Arbitrator the Arbitrator will have to upfront decline the arbitration reference. After the said arbitrator declines, the 'automatic process' will pick the name of another Arbitrator. This will continue till the time there is no conflict of interest, by the selected arbitrator. The exchanges should ensure that the process of appointment of arbitrator(s) is completed within 30 days. However, the timeline can be extended and exchanges shall put on record the reasons of such extension.
- VII. In case of conflict of interest by the arbitrator, the information for the same may reach the exchange on which the dispute has taken place within 15 days of receipt of communication from the SE above. The said information may be sent by any method which ensures proof of delivery.
- VIII. Fees of arbitrator shall be dealt in line with existing provisions, by the exchange on which the dispute had taken place.

13.2.20. Implementation of Arbitral Award in favor of Clients



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- I. In case the arbitral / appellate arbitral award is in favor of the client, the exchange shall, on receipt of the same, debit the amount of the award from the security deposit or any other monies of the member (against whom an award has been passed) and keep it in a separate escrow account.
- II. The exchange shall implement the arbitral award, by making payment to the client, along with interest earned on the amount that has been set aside, as soon as the time for preferring an appeal before the appellate panel of arbitrators has expired and no appeal has been preferred.
- III. The exchange shall implement the appellate arbitral award, by making payment to the client, along with interest earned on the amount that has been set aside, as soon as
 - A. the time for making an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996 has expired, and no application has been made, or
 - B. b. when an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996, having been made, it has been refused by such Court, or
 - C. c. an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996, having been made, but where no stay has been granted by such Court within a period of three months from the date on which the party making that application had received the appellate arbitral award.

13.2.21. Record and Disclosures

- I. The exchange shall preserve the following documents related to Arbitration:
 - A. the arbitral and appellate arbitral award with acknowledgements, confirming receipt of award by the disputing parties, permanently;
 - B. other records pertaining to arbitration for five years from the date of arbitral award, appellate arbitral award or Order of the Court, as the case may be; and
 - C. register of destruction of records relating to B above, permanently.



- II. The exchange shall disclose on its website, details of disposal of arbitration proceedings as per format given in Annexure regarding Format for details of disposal of arbitration proceedings and details of arbitrator-wise disposal of arbitration of arbitration proceedings as per format given in Annexure on Format for Arbitrator-wise Arbitration Proceedings.
- III. The exchanges shall continue to disclose on their website the arbitration awards (issued since April 01, 2007) in format given in Annexure on Format for disclosure of Arbitration Awards.



CHAPTER 14. GOVERNANCE AND ADMINISTRATION OF
EXCHANGES AND CLEARING CORPORATIONS

14.1. *Compliance with various provisions of Securities Laws by Stock Exchanges having Commodity Derivatives Segment*¹³³

14.1.1. Stock exchanges shall comply with the provisions of SCRA, applicable provisions of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, ('SECC Regulations') and SEBI circular SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019 subject to the following¹³⁴ :

- I. Stock exchanges and Clearing Corporations shall continuously comply with all the applicable regulations and relevant clauses of SECC Regulations.
- II. Validity of recognition of stock exchanges shall not be less than one year. Further, the renewal of recognition, if any, will be as per SCRA and SECC Regulations.
- III. Stock exchanges shall pay the regulatory fee in terms of Securities and Exchange Board of India (Regulatory Fee on Stock Exchanges) Regulations, 2006.
- IV. Stock exchanges and clearing corporations shall comply with the shareholdings limits and other applicable provisions specified under SECC Regulations, 2018 on continuous basis.
- V. The format for submitting shareholding pattern to SEBI is provided in **Annexure** on **Report on Shareholding pattern.**

¹³³ SEBI Vide gazette notification dated October 3, 2018 notified the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 [SECC Regulations, 2018] and SEBI (Depositories and Participants) Regulations, 2018 [SEBI (D&P) Regulations, 2018] and repealed SECC Regulations, 2012 and SEBI (D&P) Regulations, 1996.

As most of the norms of SEBI circular no. [CIR/CDMRD/DEA/03/2015](#), dated November 26, 2015 refer to regulations pertaining to SECC, 2012, the circular is not applicable anymore.

Moreover, due to exit of all Regional Commodity Derivatives Exchanges and transfer of clearing and settlement functions to separate clearing corporations, most of the provisions of the mentioned circular are now redundant.

¹³⁴ Subsequent to the changes in SECC Regulations, corresponding modifications/omissions required in various provisions of SEBI Circular No [CIR/CDMRD/DEA/03/2015](#), dated November 26, 2015 have been incorporated in master circular.



14.2. Commencement of operations by a newly recognized stock exchange/ Clearing Corporation¹³⁵

- 14.2.1. After grant of recognition, the stock exchange can commence trading operations with a minimum of 25 trading members and the clearing corporation can commence clearing and settlement operations with a minimum of 10 clearing members.

14.3. Statutory Committees¹³⁶

- 14.3.1. As per Regulation 29 of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (SECC Regulations), the regulatory committees at MIIs has been rationalized into three functional committees and four oversight committees within each MII. The functions of the seven committees, along-with the detailed composition of each committee is provided in **Annexure on Functions and Composition of Statutory Committee.**

¹³⁵ SEBI circular no [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13](#) dated January 10, 2019

¹³⁶ Substituted vide SEBI circular no [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13](#) dated January 10, 2019. Prior to substitution, the norms read as under:

“Oversight Committees:

Commodity derivative exchanges shall comply with the requirements of Regulation 29 read with Regulation 44D(1)(b) of SECC Regulations within three months. National commodity derivatives exchanges shall constitute an oversight committee for 'Product design', chaired by a Public Interest Director, within three months.

Advisory Committee and other Statutory Committees:

National commodity derivatives exchanges shall constitute Advisory committees in line with Regulation 30 of SECC Regulations, 2012 and statutory committees as specified in SECC Circular within one year.

Regional commodity derivatives exchanges shall constitute Advisory committees in line with Regulation 30 of SECC Regulations, 2012 and statutory committees as pre specified scribed in SECC Circular within three years.

Risk Management Committee:

Till the functions of clearing and settlement are transferred to a separate clearing corporation, commodity derivatives exchanges shall comply with provisions of Regulation 31 of SECC Regulations relating to risk management committee. This committee shall be constituted.”



14.3.2. The overarching principles for composition and quorum of the statutory committee at MIIs shall be as under, which shall be applicable to all committees with an exception for Investor Grievance Redressal Committee (IGRC) and Advisory Committee:

- I. On each committees at MIIs, except IGRC and Advisory Committee, the number of Public Interest Directors (PIDs) shall not be less than the total of number of shareholder directors, Key Management Personnel (KMPs), independent external persons, etc. put together, wherever shareholder directors, KMPs, independent external persons, etc., are part of the concerned committee.
- II. PID shall be chairperson of each committee at MII.
- III. To constitute the quorum for the meeting of the MII committee, the number of PIDs on each of the committees at MIIs shall not be less than total number of other members (shareholder directors, KMPs, independent external persons, etc. as applicable) put together.
- IV. The voting on a resolution in the meeting of the committees at MIIs shall be valid only when the number of PIDs that have cast their vote on such resolution is equal to or more than the total number of other members (shareholder directors, KMPs, independent external persons, etc., as applicable) put together who have cast their vote on such resolution
- V. The casting vote in the meetings of the committees shall be with the chairperson of the committee.
- VI. Apart from that specifically provided, whenever required, a committee may invite Managing Director, other relevant KMPs and employees of the MII. However, such invitee shall not have any voting rights

14.3.3. MIIs shall adhere to the following:

- I. Over and above the statutory committees mentioned above, the committees that are mandated by relevant law for listed companies shall apply mutatis mutandis to MIIs.
- II. MIIs shall lay down policy for the frequency of meetings, etc., for the statutory committees.
- III. PIDs in Committees at MIIs:
 - A. SECC Regulations 2018 and SEBI (D&P) Regulations 2018 prescribe that a PID on the board of a MII shall not act simultaneously as a member on more than five committees of that MII.



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- B. It is clarified that the above limitation on maximum number of committees that a PID can be member of, shall be applicable only to statutory committees prescribed by SEBI under SECC Regulations 2018 and SEBI (D&P) Regulations, 2018, and circulars issued thereunder. The said requirement shall not be applicable to committees constituted under Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements), 2015, amongst others.
- C. In case of non-availability of adequate number of PIDs in a MII, the relevant MII shall take steps to induct more PIDs in order to fulfil the requirement of composition of committees within a MII.

IV. Meeting of PIDs:

- A. As per code of conduct for PIDs provided in SECC Regulations 2018 & SEBI (D&P) Regulations 2018, the PIDs shall be required to meet separately every six months. It is added that all the PIDs shall necessarily attend all such meetings of PIDs
- B. The objective of such meetings, shall include inter alia reviewing the status of compliance with SEBI letters/ circulars, reviewing the functioning of regulatory departments including the adequacy of resources dedicated to regulatory functions, etc. PIDs shall also prepare a report on the working of the committees of which they are member and circulate the same to other PIDs. The consolidated report in this regard shall be submitted to the governing board of the MIIs. Further, PIDs shall identify the important issues which may involve conflict of interest for the MII or may have significant impact on the market and report the same to SEBI, from time to time.

V. Independent external persons in committees at MIIs:

- A. The independent external persons forming a part of committees shall be from amongst the persons of integrity, having a sound reputation and not having any conflict of interest. They shall be specialists in the field of work assigned to the committee; however they shall not be associated in any manner with the relevant MII and its members.
- B. MIIs shall frame the guidelines for appointment, tenure, code of conduct, etc., of independent external persons. Extension of the tenure may be granted to independent external persons at the expiry of the tenure, subject to performance review in the manner prescribed by SEBI for PIDs. Further, the maximum tenure limit



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of Independent external persons in a committee of MII shall be at par with that of PIDs, as prescribed under Regulation 24(3) of the SECC regulations 2018.

14.4. Monthly Development Report ¹³⁷

- 14.4.1. The stock exchanges shall submit a Monthly Development Report (MDR) as per the prescribed format to SEBI by 7th of the succeeding month for their commodity derivatives segment.
- 14.4.2. The format for the MDR is provided at Annexure Format for Monthly Development Report.

14.5. Mandatory requirements / exit policy ¹³⁸

- 14.5.1. If there is no trading operation on the platform of any stock exchanges with commodity derivatives segment for more than twelve months then such exchange shall be liable to exit.
- 14.5.2. In addition to the above, henceforth, all stock exchanges shall continuously meet the turnover criteria of Rs. 1000 crores per annum. In case the stock exchange fail to meet the above criteria for 2 consecutive years, they shall be liable to exit. ¹³⁹
- 14.5.3. In the event a stock exchange with commodity derivatives segment, for any reason suspends its trading operations, it shall resume its trading only after ensuring that adequate and effective trading systems, clearing and settlement systems, monitoring and surveillance mechanisms, risk management systems are put in place and only after complying with all other regulatory requirements stipulated by SEBI from time to time. Further, such stock exchanges shall resume trading operations only after obtaining prior approval from SEBI.

¹³⁷ SEBI Circular No. [CIR/CDMRD/DEA/4/2015](#), dated December 9, 2015

¹³⁸ SEBI Circular No. [CIR/CDMRD/DEA/01/2016](#), dated January 11, 2016

¹³⁹ With the exit of the erstwhile regional commodity derivatives exchanges the following para of SEBI Circular No. [CIR/CDMRD/DEA/01/2016](#), dated January 11, 2016 is now redundant

“The Regional Commodity Exchanges shall ensure that they have at least 5% of the nation-wide market share of the commodity, which is principally traded on their platform.”



14.5.4. In case any stock exchange with commodity derivatives segment proposes to surrender its recognition voluntarily or whose recognition is proposed to be withdrawn by SEBI, the concerned Exchange shall be directed to comply with the following:

- I. The concerned stock exchange shall not alienate any assets of the exchange without taking prior approval of SEBI.
- II. Treatment of the assets of de-recognized exchange:
 - A. The concerned stock exchange shall be permitted to distribute its assets subject to certain conditions as laid down in this circular as well as other guidelines that may be issued by SEBI, Government, or any other statutory authority, from time to time.
 - B. For the purpose of valuation of the assets of the stock exchange, a valuation agency shall be appointed by SEBI. All the valuation charges shall be paid by the concerned stock exchange.
 - C. The quantum of assets for distribution will be available after payment of statutory dues including income tax, transfer of funds as specified in para III below, payment of dues as specified in para IV below, refund of deposit (refundable) to the stock brokers / clearing members including their initial contribution / deposit to Settlement Guarantee Fund/ Trade Guarantee Fund (SGF/TGF) and contribution to SEBI as specified in para V (D) below.
- III. The concerned exchange shall transfer the Investor Protection Fund or any such fund to the SEBI Investor Protection and Education Fund.
- IV. The concerned exchange shall pay following dues to SEBI:
 - A. The dues outstanding to SEBI and the annual regulatory fee.
 - B. The outstanding registration fees of brokers/trading members of such de-recognised stock exchanges as specified in the SEBI



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(Stock Brokers and Sub Brokers) Regulations, 1992 till the date of such de-recognition.

- C. Dues of the brokers to SEBI shall be recovered by the exchange out of the brokers' deposits / capital / share of sale proceeds / winding up proceeds dividend payable, etc. available with the exchange.
- D. The exchange will be liable to make good any shortfall in collection of dues of the brokers to SEBI.

V. Other Conditions

- A. In case any stock exchange, after de-recognition, continues as corporate entity under the Companies Act, 2013, it shall not use the expression 'stock exchange', 'commodity derivative exchange' or 'exchange' or any variant in its name or in its subsidiaries name so as to avoid any representation of present or past affiliation with the exchange.
- B. The Sale / distribution / transfer of assets / winding up of such exchanges / companies shall be subject to the applicable laws in force.
- C. The concerned stock exchange shall set aside sufficient funds in order to provide for settlement of any claims, pertaining to pending arbitration cases, arbitration awards, not implemented, if any, liabilities/claims of contingent nature, if any, and unresolved investors complaints/ grievances lying with the exchange.
- D. In case of de-recognition and exit, the stock exchange shall contribute up to 20% of its assets (after tax) towards SEBI Investor Protection and Education Fund (IPEF) for investor protection and in order to cover future liabilities, if any. The contribution may be decided by SEBI taking into account, inter alia, the governance standards of the commodity derivatives exchange and estimation of future liabilities.



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- VI. SEBI may impose additional conditions as deemed fit in the interest of trade or in the public interest including securities market.



CHAPTER 15. TRADING SOFTWARE AND TECHNOLOGY

15.1. *Algorithmic Trading* ¹⁴⁰

- 15.1.1. Any order that is generated using automated execution logic shall be known as algorithmic trading.
- 15.1.2. The stock exchanges shall have arrangements, procedures and system capability to manage the load on their systems in such a manner so as to achieve consistent response time to all members. The capacity of the trading system of the Exchange should be at least four times the peak order load encountered and the Exchange system should be upgraded on a regular basis. The exchange shall continuously study the performance of its systems and, if necessary, undertake system upgrade, including periodic upgrade of its surveillance system, in order to keep pace with the speed of trade and volume of data that may arise through algorithmic trading.
- 15.1.3. While approving the algorithmic trading, the Exchanges shall ensure that:
- I. There is clear classification of algorithmic orders in terms of CTCL terminal code/ATS User ID approved by the Exchange for algorithmic trading.
 - II. The orders of clients are routed through member server only and client orders are not placed directly to the Exchange System.
 - III. The Exchanges shall not approve algorithms that may not be conducive to efficient price discovery or fair play.
 - IV. The Exchange shall subject the systems of the members to initial conformance tests and ensure that the checks mentioned in these guidelines are in place.
 - V. Immediate or Cancel (IOC) orders shall not be allowed to be placed using algorithmic trading.
 - VI. The algorithms which will 'take liquidity' away from the market shall not be approved. While approving algorithmic strategies,

¹⁴⁰ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/97](#) dated September 27, 2016



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Exchanges shall record the reason as to why such strategy is allowed and how it will induct more liquidity in the contract system. Exchanges shall also make half yearly review of effect of the approved strategies on liquidity and would discontinue / disapprove any strategy which fails to induct liquidity.

- 15.1.4. As mini and micro contracts are targeted towards small participants, while allowing algorithmic trading in mini and micro contracts Exchange should exercise caution and permit algorithmic trading only after taking into account liquidity in the contract and ascertaining that it will not put small participants in disadvantage.
- 15.1.5. Algorithmic trading shall not be permitted from Exchange hosted CTCL terminals.
- 15.1.6. In order to ensure orderly trading in the market and fair usage of the trading platform by all the members, Exchanges shall put in place the following economic disincentives for daily algorithmic order-to-trade ratio:

<i>Member-wise Daily Order-to-Trade Ratio (X)</i>	<i>Charges (Per order)</i>
Up to 50	NIL
50 to less than 250 (on incremental basis)	1 paise
250 to less than 500 (on incremental basis)	5 paise
500 or more than 500 (on incremental basis)	5 paise

- I. In case the ratio is 500 or more than 500 during a trading day, the concerned member shall not be permitted to place any order for the first 15 minutes on the next trading day (in the continuous trading session) as a cooling off action . However, the trading member shall be permitted to enter transaction in risk reducing mode during such a cooling off period.
- II. For the purpose of calculation of daily Order-to-trade ratio, all algorithmic orders, i.e. order entry, order modifications and order cancellation shall be considered.
- III. The algorithmic orders entered and /or modified within 1 % of the last traded price (LTP) of the respective contract shall not be



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included in the calculation of the Order-to-Trade ratio for the purpose of arriving at the penalty for higher order-to-trade ratio.

- IV. The penalty structure will be applicable for only those members who have placed 10,000 orders or more in a day.
- V. The exchange shall put in place monitoring systems to identify and initiate measures to impede any possible instances of order flooding by algorithmic trading.

- 15.1.7. The exchanges shall place a limit (X) on the numbers of orders per second from a particular CTCL ID/ATS User-ID not exceeding hundred orders per second. Compliance with the limit “X” so set by a particular CTCL ID/ATS User-ID shall be measured over a rolling period of five seconds (i.e., 5X orders for 0th–5th second, 5X orders for 1st–6th second, 5X orders for 2nd to 7th second and so on) ¹⁴¹.

For number of orders exceeding the limit (X) set by the exchange, the exchange shall prescribe economic disincentives and shall inform the same to SEBI.

- 15.1.8. The exchanges shall ensure that all algorithmic orders are necessarily routed through members servers located in India and through specified CTCL ID/ATS User-ID approved by exchange for algorithmic trading. The exchanges shall also ensure that these have no interlink with any system or ID located/ linked outside India.
- 15.1.9. The exchange shall have appropriate multi-layer risk control mechanism to address the risk emanating from algorithmic orders and trades. The minimum order –level risk controls shall include the following.

- I. Market orders shall not be allowed to be placed using algorithmic trading, only limit orders shall be allowed.

¹⁴¹ Substituted vide SEBI circular no [SEBI/HO/CDMRD/DRMP/CIR/P/2018/60](#) dated April 03, 2018. Prior to substitution, the norm read as under:

“The Exchanges shall place a limit on numbers of orders per second from a particular CTCL ID/ATS User-ID not exceeding twenty orders per second. The limit of twenty orders per second from a particular CTCL ID/ATS User-ID shall be measured over a rolling period of five seconds (i.e. hundred orders for 0th-5th second, hundred orders for 1st-6th second, hundred orders for 2nd to 7th second & so on).

For number of orders exceeding twenty per second, the Exchanges shall prescribe economic disincentives and inform the same to the SEBI.”



- II. Daily Price Limit check: The price quoted by the order shall not violate the daily price limit specified for the contract.
 - III. Maximum order size check: The quantity quoted in the order shall not violate the maximum order size limit defined in the contract specifications.
 - IV. Net open position check: The quantity quoted in the order shall not violate the position limits at member level and client level.
 - V. Market Price Protection: Within the daily price limit, the exchanges may prescribe any other limit which may be a pre – set percentage of LTP.
- 15.1.10. In the interest of orderly trading and market integrity, the exchanges shall put in place a system to identify dysfunctional algorithms (i.e. algorithms leading to loop or runaway situation) and take suitable measures , including advising the member, to shut down such algorithms and remove any outstanding orders in the system that have emanated from such dysfunctional algorithms. Further, in exigencies, the exchange should be in a position to shut down the member's terminal.
- 15.1.11. The exchange may seek details of algorithmic strategies to be used by the members for purposes of inquiry, surveillance, investigation etc.
- 15.1.12. Any event leading to slow down or trading halt or any other abnormal development shall be immediately reported to Integrated Surveillance Department of SEBI with full details.
- 15.1.13. The Exchanges shall ensure that the member shall provide the facility of algorithmic trading only upon the prior written permission of the exchange. While considering such approval, the exchanges shall ensure that the controls specified in these guidelines are fully implemented by the member.
- 15.1.14. The other risk management checks already put in place by the exchange shall continue and the exchange may re-evaluate such checks if deemed necessary in view of algorithmic trading.
- 15.1.15. Exchange shall have an effective surveillance mechanism to ensure that only approved algorithmic strategies are used.



15.1.16. The Exchanges shall further ensure that their members providing the facility of algorithmic trading comply with the provisions of these guidelines. The exchange shall specifically ensure that:

- I. The members maintain sufficient deposits / funds for margin/ settlement obligations, in respect of the trades effected through algorithmic facility, whether on own account or client's account and that algorithmic trading does not result in shortages in margin deposit or settlement obligation.
- II. The member's trades routed through algorithmic trading are not in the nature of abnormal / manipulative trades.
- III. The annual compliance report as submitted by member to the exchange includes a specific system audit report of the algorithmic trading ensuring that the checks are in place. System Audit of algorithmic trading shall be undertaken by a system auditor who possess any of the following certifications¹⁴² :
 - A. CISA (Certified Information System Auditors) from ISACA (Information Systems Audit and Control Association)
 - B. DISA (Post Qualification Certification in Information System Audit) from Institute of Chartered Accountants of India (ICAI);
 - C. CISM (Certified Information Securities Manager) from ISACA:
 - D. CISSP (Certified Information System Security Professional) from International Information Systems Security Certification Consortium , commonly known as (ISC).
- IV. Further, the exchange shall subject the member systems to more frequent system audits, as required.
- V. The members have the capability to set up and apply the necessary risk control checks at the individual order level and client level before each order generated by the algorithmic trading is released to the trading system and implements the following minimum level of checks:

¹⁴² Revised via SEBI circular no [SEBI/HO/CDMRD/DRMP/CIR/P/2018/60](#) dated April 03, 2018. prior to revision, the norm read as under:

"The annual compliance report as submitted by member to the exchange includes a specific system audit report of the algorithmic trading ensuring that the checks are in place. System Audit of algorithmic trading shall be undertaken by a system auditor empanelled by exchanges who possess any of the following certifications:"



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- A. Daily Price Limit: Orders are not released in violation of the daily price limit defined in the contract specification or any other limit which may be prescribed by the Exchange.
 - B. Maximum Order Size: Order are not released in violation of the maximum order size limit defined in the contract specification.
 - C. Position limit: The net position of the client / member are not in violation of the position limits prescribed for the respective commodity.
 - D. An algorithmic trading shall account for all executed, unexecuted and unconfirmed orders, placed by it before releasing further order(s). Further, the algorithmic system shall have pre-defined parameters for an automatic stoppage in the event of algorithmic execution leading to a loop or a runaway situation. The member shall have system to identify dysfunctional algorithms.
 - E. All algorithmic orders are tagged with a unique identifier provided by the exchange in order to establish audit trail.
- VI. The Exchange shall ensure that the member, desirous of placing orders using algorithms, submit to the exchange an undertaking that-
- A. The member has proper procedures, systems and technical capability to carry out trading through the use of algorithms and to safeguard algorithms from misuse or unauthorized access.
 - B. The member has real-time monitoring systems to identify algorithms that may not behave as expected. Member shall keep exchange informed of such incidents immediately.
 - C. The member shall maintain logs of all trading activities to facilitate audit trail.
 - D. The member shall maintain record of control parameters, orders, trades and data points emanating from trades executed through algorithm trading.
 - E. The member shall obtain prior approval of the exchange on any modification or change to the approved algorithms or systems used for algorithms. The Exchange shall ensure conformance of such modified algorithms or systems also to the requirements specified in these guidelines.
- 15.1.17. The Exchange shall report details regarding algorithmic trading to SEBI in its Monthly Development Report inter-alia incorporating turnover details of algorithmic trading , algorithmic trading as percentage of total trading, number of members/ clients using algorithmic trading, action



taken in respect of dysfunctional algos, status of grievances if any, received and processed, etc.

15.2. Co-Location¹⁴³

- 15.2.1. Co-Location, Co-Hosting or any other facility or arrangement which puts some members in disadvantageous position vis-à-vis other members is not allowed in the commodity derivatives segment.

15.3. Annual System Audit¹⁴⁴

- 15.3.1. The stock exchanges shall conduct annual system audit as per the prescribed audit framework which includes, audit process, auditor selection norms, Terms of Reference (TOR) and audit report guidelines.
- 15.3.2. The Systems Audit Report and compliance status should be placed before the governing board of the exchange and communicated to SEBI along with their comments.

15.3.3. System Audit Framework

- I. **Audit Process** : Following steps would be repeated annually to ensure that the process is comprehensive & effective:
- A. The Audit shall be conducted according to the Norms, Terms of References (TOR) and Guidelines issued by SEBI.
- B. Stock Exchange / Depository (Auditee) may negotiate and the board of the Stock Exchange / Depository shall appoint the Auditors based on the prescribed Auditor Selection Norms and TOR. The Auditors can perform a maximum of 3 successive audits. The proposal from Auditor must be submitted to SEBI for records.
- C. Audit schedule shall be submitted to SEBI at-least 2 months in advance, along with scope of current audit & previous audit.

¹⁴³ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/97](#) dated September 27, 2016

¹⁴⁴ SEBI Circular No. [CIR/CDMRD/DEICE/01/2015](#) dated November 16, 2015



- D. The scope of the Audit may be extended by SEBI, considering the changes which have taken place during last year or post previous audit report.
- E. Audit has to be conducted and the Audit report be submitted to the Auditee. The report should have specific compliance / non-compliance issues, observations for minor deviations as well as qualitative comments for scope for improvement. The report should also take previous audit reports in consideration and cover any open items therein.
- F. The Auditee management provides their comment about the Non-Conformities (NCs) and observations. For each NC, specific time-bound (within 3 months) corrective action must be taken and reported to SEBI. The auditor should indicate if a follow-on audit is required to review the status of NCs. The report along with Management Comments shall be submitted to SEBI, within 1 month of completion of the audit.
- G. Follow-on audit, if any, has to be scheduled within 3 months of the Audit to ensure that the corrective actions have been taken.
- H. If follow-on audit is not required, the Auditee management has to submit a report of actions taken and evidence of corrections to the Auditors & SEBI within 3 months. This report should include updated Issue-Log to indicate the corrective actions taken, verified by the auditors.

II. Auditor Selection Norms

- A. Auditor must have minimum 3 years of experience in IT audit of Securities Industry participants e.g. stock exchanges, clearing houses, depositories etc. The audit experience should have covered all the Major Areas mentioned under SEBI's Audit Terms of Reference (TOR).
- B. The Auditor must have experience in / direct access to experienced resources in the areas covered under TOR. It is recommended that resources employed shall have relevant industry recognized certifications e.g. CISA (Certified Information Systems Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, GSNA (GIAC Systems and Network Auditor), CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC)².



- C. The Auditor should have IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.
- D. The Auditor must not have any conflict of interest in conducting fair, objective and independent audit of the Exchange / Depository. It should not have been engaged over the last three years in any consulting engagement with any departments / units of the entity being audited.
- E. The Auditor may not have any cases pending against its previous auditees, which fall under SEBI's jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.

III. **Terms of Reference (ToR)**

A. General Controls for Data Center Facilities – It must include

- i. Application access – Segregation of duties, Database & Application access etc.
- ii. Maintenance access – Vendor engineers.
- iii. Physical access – Permissions, logging, exception reporting & alerts.
- iv. Environmental controls – Fire protection, AC monitoring etc.
- v. Fault resolution mechanism.
- vi. Folder sharing and Back-up controls – Safeguard critical information on local desktops
- vii. Incidences of violations in last year & corrective actions taken

B. Software Change Control – It must include

- i. User awareness
- ii. Processing of new feature request
- iii. Fault reporting / tracking mechanism & process for resolutions
- iv. Testing of New releases / Bug-fixes – Testing process (automation level)
- v. Version Control – History, Change Management process etc.
- vi. Development / Test/ Production environment – Segregation
- vii. New release in Production – Promotion, Release note approvals
- viii. Production issues / disruptions reported during last year & corrective actions taken

C. Data communication / Network controls – It must include



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- i. Network Administration – Redundancy, Monitoring, breakdown resolution etc.
- ii. WAN Management – Connectivity provisions for business continuity.
- iii. Encryption - Router based as well as during transmission
- iv. Connection Permissions – Restriction on need to have basis
- v. Fallback mechanism – Dial-up connections controls etc.
- vi. Hardware based Signing Process
- vii. Incidences of access violations in last year & corrective actions taken

D. Security Controls – General office infrastructure – It must include

- i. Security Policy & quality of implementation of the same
- ii. LAN security control and monitoring
- iii. OS & Database Security controls & monitoring
- iv. Internet connection controls – Firewall protection, Intrusion Detection System, Access rights and privileges.
- v. Virus protection – Controls to mitigate the Virus attacks / Outbreaks.
- vi. Secured (digitally signed) e-mail with other entities like SEBI, other partners
- vii. Email Archival Implementation
- viii. Incidences of security violations in last year & corrective actions taken

E. Access policy and controls

F. Electronic Document controls

G. General Access controls

H. Performance audit – It must include

- i. Comparison of changes in transaction volumes since previous audit
- ii. Review of systems (hardware, software, network) performance over period
- iii. Review of the current volumes against the last Performance Test performed

I. Business Continuity / Disaster Recovery Facilities – It must include



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- i. BCP manual, including Business Impact Analysis, Risk Assessment and DR process
- ii. Implementation of policies
- iii. Back-up procedures and recovery mechanism using back-ups.
- iv. Storage of Back-up (Remote site, DRS etc.)
- v. Redundancy – Equipment, Network, Site etc.
- vi. DRS installation and Drills - Management statement on targeted resumption capability (in terms of time required & extent of loss of data)
- vii. Evidence of achieving the set targets during the DRS drills in event of various disaster scenarios.
- viii. Debrief / review of any actual event when the DR/BCP was invoked during the year

J. IT Support & IT Asset Management – It must include

- i. Utilization monitoring – including report of prior year utilization
- ii. Capacity planning – including projection of business volumes
- iii. IT (S/W, H/W & N/W) Assets, Licenses & maintenance contracts
- iv. Insurance
- v. Disposal – Equipment, Media, etc.

K. Entity Specific Software

L. Any other Item

- i. Electronic Waste Disposal
- ii. Based upon previous Audit report as well as any other specific information given by SEBI

IV. Audit Report Guidelines

- A. The Audit report should have explicit coverage of each Major Area mentioned in the TOR, indicating any Nonconformity (NCs) or Observations (or lack of it).
- B. For each section – auditors should also provide qualitative input about ways to improve the process, based upon the best practices observed.



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C. The report should also include tabulated data to show NCs / Observations for each Major Area in TOR

D. Fully detailed report should be submitted, along with an Executive Summary in tabulated form including following information:

<i>Issue Log Column Heading</i>	<i>Description</i>	<i>Responsibility</i>
Major Area	Major area/relevant clause in Terms of Reference against which compliance is being audited	Auditor
Description of Finding/ Observation	Describe the findings in sufficient detail, referencing any accompanying evidence (e.g. procedure manual, interview notes, reports etc.)	Auditor
Reference	Reference to the section in detailed report – where full background information about the findings are available	Auditor
Process/ Unit	Process or unit where the audit is conducted and the finding pertains to	Auditor
Category of Findings	Major/Minor Nonconformity, Observation, Suggestion etc.	Auditor
Audited By	Which Auditor covered the findings	Auditor
Root Cause Analysis	A detailed analysis on the cause of the nonconformity	Auditee
Remediation	The action (to be) taken to correct the nonconformity	Auditee
Target Completion Date for Remedial Action	The date by which remedial action must be/will be completed	Auditor/Auditee
Status	Status of finding on reporting date (open/close)	Auditor/Auditee
Verified By	Auditing personnel (upon verification that finding can be closed)	Auditor
Closing Date	Date when finding is verified and can be closed	Auditor

E. The Executive Summary should also include an overall comment from the Auditors to indicate if a follow-on audit is required and the time lines of respective corrective action for non-conformities.



- F. Further, along with the audit report, the Stock Exchange / Depository shall also submit a declaration from the MD / CEO certifying the integrity and security of IT Systems

15.4. Business Continuity Plan (BCP) and Disaster Recovery (DR)¹⁴⁵

15.4.1. The stock exchanges with commodity derivatives segment shall have BCP & DR policy in place and implement the broad guidelines regarding the setting up of Disaster Recovery Site (DRS) and Near Site (NS), Configuration of DRS/NS with Primary Data Centre (PDC), DR drills / Testing, BCP DR Policy as mentioned below:

- I. The exchanges should have in place Business Continuity Plan (BCP) and Disaster Recovery Site (DRS) so as to maintain data and transaction integrity.
- II. Apart from DRS, exchanges should also have a Near Site (NS) to ensure zero data loss.
- III. The DRS should be set up sufficiently away, i.e. in a different seismic zone, from Primary Data Centre (PDC) to ensure that both DRS and PDC are not affected by the same disasters.
- IV. The manpower deployed at DRS / NS should have similar expertise as available at PDC in terms of knowledge / awareness of various technological and procedural systems and processes relating to all operations such that DRS / NS can function at short notice, independently.
- V. Configuration of DRS / NS with PDC
 - a) Hardware, system software, application environment, network and security devices and associated application environments of DRS / NS and PDC should have one to one correspondence between them.
 - b) Exchanges Depositories should have Recovery Time Objective (RTO) and Recovery Point Objective (RPO) not more than 4 hours and 30 minutes, respectively.

¹⁴⁵SEBI Circular No. [CIR/CDMRD/DEICE/01/2015](#) dated November 16, 2015



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- c) Solution architecture of PDC and DRS / NS should ensure high availability, fault tolerance, no single point of failure, zero data loss, and data and transaction integrity.
- d) Any updates made at the PDC should be reflected at DRS / NS immediately (before end of day) with head room flexibility without compromising any of the performance metrics.
- e) Replication architecture, bandwidth and load consideration between the DRS / NS and PDC should be within stipulated RTO and ensure high availability, right sizing, and no single point of failure.
- f) Replication between PDC and NS should be synchronous to ensure zero data loss. Whereas the one between PDC and DR and between NS and DR may be asynchronous.
- g) Adequate resources (with appropriate training and experience) should be available at all times to handle operations on a regular basis as well as during disasters.

VI. DR Drills / Testing

- a) DR drills should be conducted on quarterly basis. In case of exchanges, these drills should be closer to real life scenario (trading days) with minimal notice to DR staff involved.
- b) During the drills, the staff based at PDC should not be involved in supporting operations in any manner. To begin with, initial three DR drills from the date of this circular may be conducted with the support of staff based at PDC.
- c) The drill should include running all operations from DRS for at least 1 full trading day.
- d) Before DR drills, the timing diagrams clearly identifying resources at both ends (DRS as well as PDC) should be in place.
- e) The results and observations of these drills should be documented and placed before the Governing Board of Stock Exchange / Depositories. Subsequently, the same along with the comments of the Governing Board should be forwarded to SEBI within a month of the DR drill.
- f) The system auditor while covering the BCP – DR as a part of mandated annual system audit should also comment on documented results and observations of DR drills.

VII. BCP – DR Policy Document



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- a) The BCP – DR policy of stock exchanges should be well documented covering all areas as mentioned above including disaster escalation hierarchy.
- b) The exchanges should specifically address their preparedness in terms of proper system and infrastructure in case disaster strikes during business hours.
- c) Depositories should also demonstrate their preparedness to handle any issue which may arise due to trading halts in stock exchanges.
- d) The policy document and subsequent changes / additions / deletions should be approved by Governing Board of the exchange and thereafter communicated to SEBI.

VIII. Further, the exchanges should also ensure that point VI (f) mentioned above is also included in the scope of its annual system audit.

15.5. Annual System Audit of Stock Brokers / Trading Members ¹⁴⁶

- 15.5.1. The exchanges should ensure that system audit of stock brokers/ trading members are conducted in accordance with the prescribed framework **as placed at Annexure Stock Broker System Audit Framework.**
- 15.5.2. Exchanges are advised to keep track of findings of system audits of all brokers on quarterly basis and ensure that all major audit findings, specifically in critical areas, are rectified / complied in a time bound manner failing which follow up inspection of such brokers may be taken up for necessary corrective steps / actions thereafter, if any.
- 15.5.3. Stock Exchange should report all major non-compliances / observations of system auditors, broker wise, on a quarterly basis to SEBI.
- 15.5.4. Further, it was decided that Type I brokers may be exempted from system audit and the development of NEAT / BOLT / Exchange provided terminals be included in the scope of Annual System Audit of stock exchanges with Commodity Derivatives segment.
- 15.5.5. In view of above, the provisions relating to Type I Brokers, as mentioned in this circular, shall not be applicable to Type I Brokers. However, such provisions shall be included in the TOR of the Annual System Audit for stock exchanges with Commodity Derivatives segment.

¹⁴⁶SEBI Circular No. [SEBI/HO/CDMRD/DEICE/CIR/P/2016/70](#) dated August 11, 2016



15.6. Testing of software used in or related to Trading and Risk Management¹⁴⁷

- 15.6.1. Due to technological developments and innovations, currently the members of exchanges have multiple options for using software i.e. either exchange provided or in-house developed software which is being used for trading and risk management related activities. Since new software or changes to the existing software without proper testing may affect the integrity of the markets, it has been decided to make the applicable the following provisions to commodity derivatives markets.
- 15.6.2. 'Software' shall mean electronic systems or applications used by stock brokers / trading members for connecting to the stock exchanges and for the purposes of trading and real-time risk management, including software used for Internet Based Trading (IBT), Direct Market Access (DMA), Securities Trading using Wireless Technology (STWT), Smart Order Routing (SOR), Algorithmic Trading (AT), etc.
- 15.6.3. Testing of Software : In addition to the testing and approval requirements specified through various circulars issued by SEBI on IBT, DMA, STWT, SOR and AT, stock exchanges shall frame appropriate testing policies for functional as well as technical testing of the software. Such framework shall at the minimum include the following:
- I. Testing in a simulated test environment: Stock exchanges shall provide suitable facilities to market participants / software vendors to test new software or existing software that have undergone change. Subjecting the new software or existing software that have undergone change to such testing facility shall be mandatory for market participants, before putting it in use.
 - II. Mock testing
 - A. Stock exchanges shall organize mock trading sessions on regular basis, at least once in a calendar month, to facilitate testing of new software or existing software that has undergone any change of functionality, in

¹⁴⁷ SEBI Circular No. [CIR/CDMRD/DEICE/03/2015](#) dated December 11, 2015



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a close-to-real trading environment. Stock exchanges shall suitably design and plan such mock trading sessions to ensure maximum participation and sufficient trading volumes for the purpose of testing.

- B. Stock exchanges shall mandate a minimum time period for such testing in the mock trading sessions.
 - C. In order to improve the efficacy of the mock trading sessions, all stock brokers / trading members shall ensure that all user-ids approved for Algo trading, irrespective of the algorithm having undergone change or not, shall participate in the mock trading sessions.
 - D. User Acceptance Test (UAT): The broker / trading member shall undertake UAT of the software to satisfy itself that the newly developed / modified software meets its requirements.
- III. With respect to testing of software related to (a) fixes to bugs in the software, (b) changes undertaken to the stock brokers' software / systems pursuant to a change to any stock exchange's trading system, and (c) software purchased from a software vendor that has already been tested in the mock environment by certain number of stock brokers, stock exchanges may prescribe a faster approval process to make the process of approval expeditious.
- 15.6.4. Brokers / trading members shall also engage system auditor(s) to examine reports of mock tests and UAT in order to certify that the tests were satisfactorily undertaken.
- 15.6.5. Stock exchanges shall monitor compliance of stock brokers / trading members, who use trading algorithm, with regard to the requirement of participation in mock trading session. In cases where stock exchanges find that the stock broker / trading member has failed to participate in such mock trading sessions, stock exchange shall call for reasons and if found unsatisfactory, shall suspend the proprietary trading rights of the stock broker / trading member for a minimum period of one trading day.
- 15.6.6. Stock exchanges with commodity derivatives segment shall also ensure that the system auditors examine the compliance of stock broker / trading member, who use trading algorithms, with regard to the requirement of participation in mock trading session, as mandated with this circular, and provide suitable comments in the periodic system audit report. In cases



where the system audit report indicate that the stock broker / trading member has failed to participate in such mock trading sessions, stock exchange shall call for reasons from the broker/trading member and if found unsatisfactory, shall suspend the proprietary trading rights of the broker / trading member for a minimum period of one trading day.

15.6.7. For pre-approval / periodic system audit of Computer-to-Computer Link (CTCL) or Intermediate Messaging Layer (IML), IBT, DMA, STWT, SOR and AT, brokers / trading members shall engage a system auditor with any of the following certifications :

- CISA: (Certified Information System Auditors) from ISACA;
- DISA: (Post Qualification Certification in Information Systems Audit) from Institute of Chartered Accountants of India (ICAI);
- CISM: (Certified Information Securities Manager) from ISACA
- CISSP: (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC) .

While finalizing the system auditor, stock brokers / trading members shall ensure the system auditor does not have any conflict of interest with the stock broker and the directors/promoters of the system auditor are not directly or indirectly related to the current directors or promoters of stock broker / trading member.

15.6.8. Approval of Software of broker / trading member

- I. Brokers / trading members shall seek approval of the respective exchanges for deployment of the software in the securities market by submitting necessary details required by exchange including details of software, tests undertaken and certificate / report provided by the system auditor. Exchange may seek additional details as deemed necessary for evaluating the application of the stock broker / trading member.
- II. Stock exchanges with commodity derivatives segment shall grant approval or reject the application of the stock broker as the case may be, and communicate the decision to the stock broker / trading member within fifteen working days from the date of receipt of completed application (or within any other such time period specified vide SEBI circulars on DMA, IBT, STWT, SOR, AT, etc.). In case of rejection of



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the application, the stock exchange shall also communicate reasons of rejection to the stock broker / trading member within such time period.

- III. Before granting approval to use software in commodities derivatives market, stock exchanges with commodity derivatives segment shall ensure that the requirements specified by SEBI / exchange with regard to software are met by the broker / trading member.
- IV. Stock exchanges with commodity derivatives segment may suitably schedule the requirements of mock testing, certification of test reports by system auditor(s) and the software approval process, so as to facilitate a speedy approval and a smooth transition of the stock brokers to the new / upgraded software.

15.6.9. In order to ensure that brokers are not using software without requisite approval, exchanges are advised to put in place suitable mechanism to prevent any unauthorized change to the approved software.

15.6.10. Undertaking to be provided by brokers / trading members

- I. Brokers / trading members shall submit an undertaking to the respective stock exchanges stating the following at the minimum:
 - A. M/s (name of the broker / trading member) will take all necessary steps to ensure that every new software and any change thereupon to the trading and/or risk management functionalities of the software will be tested as per the framework prescribed by SEBI / stock exchange before deployment of such new / modified software in securities market.
 - B. M/s (name of the broker / trading member) will ensure that approval of the stock exchange is sought for all new / modified software and will comply with various requirements specified by SEBI or the stock exchange from time to time with regard to usage, testing and audit of the software.
 - C. The absolute liability arising from failure to comply with the above provisions shall lie entirely with M/s (name of the broker / trading member).
- II. Stock exchanges with commodity derivatives segment may include additional clauses as deemed necessary in the undertaking.

15.6.11. Sharing of Application Programming Interface (API) specifications by the exchange with brokers / trading members.



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- I. API is an interface that enables interaction of software with other software and typically includes language and message format that is used by an application program to communicate with the operating system or other application program. Brokers / trading members and software vendors require relevant API specifications to facilitate interaction of the developed software with the systems of the stock exchanges.
 - II. Technical Advisory Committee (TAC) had engaged with stock exchanges, software vendors and stock brokers / trading members to review the framework of sharing of APIs by stock exchanges.
 - III. Based on the recommendations of the committee, it is decided that stock exchanges shall provide relevant API specifications to all brokers / trading members and software vendors who are desirous of developing software for the securities market, after establishing their respective credentials.
 - IV. In case of refusal to share APIs, exchanges shall provide reasons in writing to the desirous stock brokers / trading members or software vendors within a period of fifteen working days from the date of receipt of such request for sharing of API.
 - V. Further, exchanges shall not selectively release updates / modifications, if any, of the existing API specifications to few brokers / trading members or software vendors ahead of others and shall provide such updated / modified API specifications to all stock brokers / trading members and software vendors with whom the earlier API specifications were shared.
- 15.6.12. Penalty on malfunction of software used by broker / trading member: Stock exchanges with commodity derivatives segment shall examine the cases of malfunctioning of software used by brokers / trading members and apply deterrent penalties in form of fines or suspension to the stock broker/trading member whose software malfunctioned. In addition, brokers/trading members shall implement various mechanisms including the following to minimize their losses in the event of software malfunction:
- I. include suitable clauses in their agreement with the software vendors to define liabilities of software vendor and broker / trading member in case of software malfunction, and / or,
 - II. consider taking suitable insurance cover to meet probable losses in case of software malfunction.



15.6.13. With regard to changes / updates to broker's trading software that intend to modify the 'look and feel' and do not affect the risk management system of the broker or the connectivity of the trading software with exchange's trading system, it is clarified that mock testing and consequent system audit may not be insisted upon by the exchanges.

15.6.14. Stock exchanges shall direct their brokers to put in place adequate mechanism to restore their trading systems to 'production state' at the end of testing session so as to ensure integrity of stock brokers' trading system.

15.7. *Cyber Security and Cyber Resilience framework*¹⁴⁸

15.7.1. SEBI as a member of IOSCO has adopted the Principles for Financial Market Infrastructures (PFMIs) laid down by CPMI -IOSCO and has issued guidance for implementation of the principles in the securities market.

15.7.2. Principle 17 of PFMI that relates to management and mitigation of 'Operational risk' requires that systemically important market infrastructures institutions " should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide -scale or major disruption."

15.7.3. Stock exchanges with commodity derivatives segment are referred to as Market Infrastructure Institutions or MIIs are systemically important market infrastructure institutions. As part of the operational risk management, these MIIs need to have robust cyber security framework to provide essential facilities and perform systemically critical functions relating to trading, clearing and settlement in securities market.

15.7.4. Stock exchanges with commodity derivatives segment are required to comply the framework with regard to cyber security and cyber resilience

¹⁴⁸ SEBI Circular No. [SEBI/HO/CDMRD/DEICE/CIR/P/2016/0000000044](#) dated March 29, 2016



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as placed at Annexure on Cyber Security and Cyber Resilience framework.



ANNEXURES

Format for Dissemination of Member's Data on Website

Sr. No.	Details
1	a) Member Name
	b) Type of Member (TM/TCM/CM/ITCM/STCM)
	c) Constitution of Member (Partnership/Corporate/Proprietor)
2	Address
	a) Registered Office
	b) For Correspondence
3	Exchange Code of the Member
4	SEBI Registration Number
5	Details of all Proprietor/Partner/Directors such as Name, Address, Designation, Email ID, etc.
6	The Link of URL of member's website, if any, should be provided
7	The Compliance Officer and his contact details (Name, Email Id, Phone number, Address, etc.)
8	Name of Authorized Person, Email-ID, Phone number, Address, etc.
9	a) Date of admission to Exchange
	b) Date of commencement of trade by the member
	c) Date of activation (enablement of trading of membership)
10	Branch details to be updated on periodic basis which shall include:
	a) Address
	b) Contact Number
	c) Email-ID
11	Number of clients registered (to be updated periodically)



Disclosure of Information Regarding Trading Activity during Life Cycle of Contract

S. No.	Parameters	
1	Commodity	
2	Symbol	
3	Launch Date	
4	Expiry Date	
5	Delivery Logic	
6	Lot Size	
7	Closing price on Launch Date	
8	Total lots traded	
9	Total number of trades	
10	Total trade volume	
11	Total trade value	
12	Daily average volume	
13	Daily average OI	
14	Average volume/ Average OI	
15	Final Settlement Price	
16	Deliveries	
17	Sellers default, if any	
18	Total number of members traded	
19	Total number of client traded	
		Date and Details
20	Maximum lots traded in a day	
21	Maximum volume on a single day	
22	Minimum volume on a single day	
23	Maximum trade value on a single day	
24	Minimum trade value on a single day	
25	Maximum open interest at close of any day	
26	Minimum open interest at close of any day	
27	Open interest on expiry date	
28	Highest price on a day	
29	Lowest price on a day	
30	Maximum daily settlement price on a day	



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31	Minimum daily settlement price on a day	
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Format for Disclosure of Open Interest (OI) and Turnover for Various Categories of Market Participants at Individual Commodity as well as Overall Market Level

A. Disclosure of category wise OI at commodity level

<i>Details of open interest by each category of participants as on T day</i>													
Instrument	Open Interest	FPOs/ Farmers		VCPs/ Hedgers		Proprietary traders		Domestic financial institutional investors		Foreign participants		Others	
		Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Futures													
Options													
<i>Details of Changes in open interest by each category of participants from previous disclosure</i>													
Instrument	Open Interest	FPOs/ Farmers		VCPs/ Hedger		Proprietary traders		Domestic financial institutional investors		Foreign participants		Others	
		Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Futures													
Options													
<i>Percent of open interest represented by each category of participants as on T day</i>													



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Instrument	Open Interest	FPOs/ Farmers		VCPs/ Hedger		Proprietary traders		Domestic financial institutional investors		Foreign participants		Others	
		Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Futures													
Options													
<i>Number of participants in each category as on T day*</i>													
Instrument	Total Participants	FPOs/ Farmers		VCPs/ Hedger		Proprietary traders		Domestic financial institutional investors		Foreign participants		Others	
		Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Futures													
Options													
* In case number of participant is less than 10, the same can be disclosed as “less than 10” in the said category													



B. Disclosure of category wise turnover at commodity level

<i>Details of Turnover by each category of participants as on T day</i>							
Instrument	Turnover	FPOs/ Farmers	VCPs/ Hedger	Proprietary traders	Domestic financial institutional investors	Foreign participants	Others
Futures							
Options							
<i>Details of Changes in turnover by each category of participants from previous day</i>							
Instrument	Turnover	FPOs/ Farmers	VCPs/ Hedger	Proprietary traders	Domestic financial institutional investors	Foreign participants	Others
Futures							
Options							



C. Disclosure of turnover for various categories of participants at Market level

<i>Details of Turnover by each category of participants as on T day</i>							
Instrument	Turnover	FPOs/ Farmers	VCPs/ Hedger	Proprietary traders	Domestic financial institutional investors	Foreign participants	Others
Futures							
Options							
<i>Details of Changes in turnover by each category of participants from previous day</i>							
Instrument	Turnover	FPOs/ Farmers	VCPs/ Hedger	Proprietary traders	Domestic financial institutional investors	Foreign participants	Others
Futures							
Options							



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Commodity-wise Format of Disclosure for Top Participants, Members and Market Wide Position Limits

A. Disclosure of top participants/members at commodity level

<i>Percentage of open interest held by the indicated number of the largest participants as on T day *</i>						
Instrument	Top 3		Top 5		Top 10	
	Long	Short	Long	Short	Long	Short
Futures						
Options						
<i>Percentage of open interest held by the indicated number of the largest group of participants as on T day</i>						
Instrument	Top 3		Top 5		Top 10	
	Long	Short	Long	Short	Long	Short
Futures						
Options						
<i>Percentage of open interest held by the indicated number of the largest members as on T day</i>						
Instrument	Top 3		Top 5		Top 10	
	Long	Short	Long	Short	Long	Short
Futures						
Options						
<i>* Based on PAN of the participant</i>						

B. Disclosure of market wide OI

Commodity	Instrument	Exchange wide position limits	OI at the EOD	OI as % of Exchange wide position limits
A	Futures			
	Options			
B	Futures			
	Options			



Disclosures regarding commodity risks by listed entities

- 1) Risk management policy of the listed entity with respect to commodities including through hedging (Such policy shall take into account total exposure of the entity towards commodities, commodity risks faced by the entity, hedged exposures, etc. as specified below)
- 2) Exposure of the listed entity to commodity and commodity risks faced by the entity throughout the year:
 - a. Total exposure of the listed entity to commodities in INR
 - b. Exposure of the listed entity to various commodities

<i>Commodity Name</i>	<i>Exposure in INR towards the particular commodity</i>	<i>Exposure in Quantity terms towards the particular commodity</i>	<i>% of such exposure hedged through commodity derivatives</i>				
			<i>Domestic market</i>		<i>International market</i>		<i>Total</i>
			<i>OTC</i>	<i>Exchange</i>	<i>OTC</i>	<i>Exchange</i>	

- c. Commodity risks faced by the listed entity during the year and how they have been managed.

Note:

- i. The disclosure pertaining to exposure & commodity risks may apply only for those commodities where the exposure of the listed entity in the particular commodity is material. (*Materiality in such cases shall be according to the materiality policy approved by the board of Directors of the listed entity in this context*)
- ii. If the listed entity has exposure in non-rupee terms, the Indian rupee equivalent after conversion shall be used for the aforesaid disclosures.
- iii. The term 'exposure' shall mean gross exposure of the listed entity including exposure both on the asset and liability side.
- iv. Where exact figures are not determinable, ballpark (estimated) figures may be provided.



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Goods notified u/s 2(bc) of SCRA

<i>S. No.</i>	<i>Goods</i>
(I)	CEREALS AND PULSES
1	Bajra
2	Barley
3	Gram (including Dal)
4	Jowar
5	Kulthi
6	Lakh (Khesari)
7	Maize/Corn
8	Masoor (including dals)
9	Moong and Products (including Chuni, Dal)
10	Moth
11	Peas (including Yellow Peas)
12	Ragi
13	Rice or Paddy (Including Basmati)
14	Small Millets (KodanKulti, Kodra, Korra, Vargu, Sawan, Rala, Kakun, Samai, Vari and B anti)
15	Tur/Arhar (Including Chuni, Dal)
16	Urad/Mash (Including Dal)
17	Wheat
(II)	OILSEEDS, OILCAKES AND OILS
18	Castor Complex (including seed, oil, oilcake)
19	Coconut / Copra complex (including seed / fruit, oil, oilcake)
20	Cottonseed complex (including seed, oil, oilcake)
21	Palm oil complex (including seed, oil, oilcake)
22	Groundnut complex (including nut, oil, oilcake)
23	Linseed complex (including seed, oil, oilcake)
24	Rapeseed Mustardseed complex (including seed, oil, oilcake, meal)
25	Rice bran complex (including bran, oil, oilcake)
26	Safflower complex (including seed, oil, oilcake)
27	Sesamum complex (including seed, oil, oilcake)
28	Soy complex (including bean, oil, oilcake, meal)
29	Sunflower complex (including seed, oil, oilcake)
(III)	SPICES
30	Aniseed
31	Cardamom
32	Celeryseed



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S. No.	Goods
33	Chillies
34	Cinnamon
35	Cloves
36	Coriander seed
37	Ginger
38	Jeera (Cumin seed)
39	Methi
40	Nutmegs
41	Pepper
42	Turmeric
(IV)	METALS
43	Aluminium
44	Brass
45	Copper
46	Iron Ore
47	Lead
48	Nickel
49	Pig Iron
50	Sponge Iron
51	Steel
52	Tin
53	Zinc
(V)	PRECIOUS METALS
54	Gold (including variants such as coins, bars etc.)
55	Platinum (including variants such as bars etc.)
56	Silver (including variants such as coins, bars etc.)
(VI)	GEMS and STONES
57	Diamond
(VII)	FIBRES
58	Art Silk Yarn
59	Cotton complex (including Kapas, fibre, loose, half-pressed, full-pressed, yarn, pods, cloth)
60	Jute and Jute goods (including raw jute, mesta, hessian, sackings, cloth, bags, twines, yarns and any other products made of jute)
61	Staple Fibre Yarn
(VIII)	ENERGY
62	Carbon Credit
63	Coal (including variants such as coking, thermal, lignite etc.)



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<i>S. No.</i>	<i>Goods</i>
64	Crude Oil
65	Electricity
66	Bio-fuel (Including Ethanol, Bio-diesel)
67	Furnace Oil
68	Gasoline/Petrol
69	Diesel
70	Methanol
71	Natural Gas
(IX)	SWEETENERS
72	Gur
73	Sugar (including S, M and other grades and khandsari)
(X)	PLANTATION
74	Cocoa
75	Coffee
76	Rubber
77	Tea
(XI)	DRY FRUITS
78	Almond
(XII)	OTHERS
79	Betelnuts
80	Camphor
81	Chara or Berseem (including chara seed or berseem seed)
82	Eggs
83	Gram Husk (Gram Chilka)
84	Guar Seed and products (including Guar Gum split, Guar Gum powder, Korma, Churi)
85	Isabgol
86	Mentha Oil and Products (including Crystals, Flakes etc.)
87	Onion
88	Polymer
89	Potato
90	Seedlac
91	Shellac



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Template on Criteria for Eligibility of Commodity Derivative Products

Section I

Particulars	Weight	Sub-score	Details
Parameter I - Commodity Fundamentals			
Size of commodity			This parameter relates to production, imports, carryover stocks etc...
Volume in cash market			The daily volumes in the underlying cash/spot/physical market may be a good indicator of the depth
Durability and Storability			Relates to the durability and duration for which the commodity can be stored
Homogeneous/ Standardization			Scope for standardization
Parameter I Score			
Parameter II - Ease of doing Business			
Particulars	Weight	Sub-score	Details
Prevalence of price controls			These parameters relates to the ease of doing business in commodity markets. Issues such as price controls, storage controls, Taxation etc., have a bearing on the trade. These parameters are also an indicator of what reforms should be brought in the commodity space in a regulated environment to be best in class globally.
Minimum Support Price (MSP) for the commodity			
Storage controls/ Stock Limits			
Government. Policy			
Applicability of other Laws			
Parameter II Score =			

Section II

Particulars	Weight	Sub-score	Details
Parameter III - Trade/ Business			
Global Trade - Imports or Exports			Importance in global trade and to our economy. Ability to add value to the base commodity. Commercial
Domestic market / Geographical coverage			



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Presence of Value Chain participants (VCPs)			application, nature of buyers, Supply/demand gap etc.
Supply/ Demand			
Parameter III Score			
Parameter IV - Risk Management			
Particulars	Weight	Sub-score	Details
Correlation			The risk parameters viz., volatility, correlation with either domestic traded prices or globally traded prices, seasonality, liquidity, benefits to hedgers / farmer through direct / indirect participation and scope to hedge the price risk forms part of the Risk Management
Seasonality			
Basis Risk			
Volatility			
Hedging Incentive			
Liquidity			
Parameter IV Score			
Parameter V - Benchmark Potential			
Particulars	Weight	Sub-score	Details
Existence of Forward Trading in OTC markets			
Suitability for Futures/ Options Trading			
Potential to create a Domestic Benchmark			
Potential to create a Global Benchmark			
Parameter V Score			

Section I Score = Parameter I Score + Parameter II Score

Section II Score = Parameter III Score + Parameter IV Score + Parameter V Score

Overall Score = Section I Score + Section II Score



Note:

- *Weight-ages in % and total of all weight-ages should be 100*
- *Scores/Sub-scores are to be given in a range of 1 to 5*
- *The following scale is to be used for scoring the parameters:*
 - 1 : Poor*
 - 2 : Reasonable*
 - 3 : Good*
 - 4 : Very Good*
 - 5 : Excellent*



Parameters for Performance Review of Commodity Derivative Contract

1) Background

- a. Brief about the commodity such as sample picture, lifecycle and various varieties/grade of the commodity found in India
- b. Commodity fundamentals and balance sheet as per the following format (to be prepared based on publicly available information on best effort basis):

Table - Fundamentals & Balance sheet (quantity)

<i>Global Scenario</i>	<i>Previous FY</i>	<i>Current FY</i>
Opening Stocks		
Production		
Others (if any)		
Consumption		
Closing Stocks		

<i>Indian Scenario</i>	<i>Previous FY</i>	<i>Current FY</i>
Opening Stocks		
Production		
Imports		
Total Supply		
Exports		
Domestic Consumption		
Closing Stocks		

<i>Top 10 Major producing countries</i>	<i>Previous FY</i>	<i>Current FY</i>

<i>Top 10 Major consuming countries</i>	<i>Previous FY</i>	<i>Current FY</i>

<i>Top 10 Major exporting countries</i>	<i>Previous FY</i>	<i>Current FY</i>



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<i>Top 10 Major importing countries</i>	<i>Previous FY</i>	<i>Current FY</i>

<i>Top 10 Major producing states in India</i>	<i>Previous FY</i>	<i>Current FY</i>

- a. Major changes in the policies governing trade in the spot markets of the commodity
- b. Geopolitical issues in the commodity and its impact on Indian scenario.

2) Trading related parameter

- a. Monthly and Annual traded volume (quantity in appropriate units)
- b. Annual traded volume as proportion of total deliverable supply (quantity in appropriate units)
- c. Annual traded volume as proportion of total annual production (quantity in appropriate units)
- d. Annual average Open interest as proportion of total production
- e. Annual average Open interest as proportion of total deliverable supply
- f. Monthly and Annual value of trade (in Rs. Crores)
- g. Monthly and Annual quantity of delivery (in appropriate units)
- h. Monthly and Annual value of delivery (in Rs. Crores)
- i. Monthly and Annual Average Open Interest (OI) (in appropriate units)
- j. Annual average volume to open interest ratio
- k. Total number of unique members and clients who have traded during the financial year
- l. Ratio of open interest by FPOs/farmers/Hedge/VCP positions to total open interest (Annual average as well as maximum daily value)
- m. Number of unique FPOs / farmers and VCPs/hedgers who traded in the financial year
- n. Algorithmic trading as percentage of total trading
- o. Delivery defaults
 - Number of instances
 - Quantity involved
 - Value involved

3) Price movements

- a. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international futures price (wherever relevant comparable are available).



- b. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international spot price (wherever relevant comparable are available) and domestic spot price (exchange polled price).
- c. Correlation between exchange futures & domestic spot prices along with ratio of standard deviation.
- d. Correlation between international futures & international spot prices along with ratio of standard deviation (wherever relevant comparable are available).
- e. Comparison of Exchange polled price and mandi price (in case of agricultural commodities) / other relevant price (in case non-agricultural commodities) at basis centre.
- f. Maximum & Minimum value of daily futures price volatility and spot price volatility along with disclosure of methodology adopted for computing the volatility.
- g. Number of times the futures contract was in backwardation/contango by more than 4% for the near month contract in the period under review

4) Other parameters

- a. Qualitative and quantitative measure for Hedge effectiveness ratio and basis Risk (Volatility of Basis) along with disclosure of methodology adopted for such calculations.
- b. Details about major physical markets of the commodity vis-à-vis market reach in terms of availability of delivery centers (information to be provided state-wise and UT-wise).
- c. Details about major physical markets of the commodity and average Open Interest for each month generated from those regions.
- d. Details, such as number and target audience, of stakeholders' awareness programs carried out by the exchange.
- e. Steps taken / to be undertaken to improve hedging effectiveness of the contracts as well as to improve the performance of illiquid contracts.

5) Any other information to be disclosed as deemed important by the exchange or as suggested by the PAC.



Clubbing of Open Positions

A. Guidelines for Clubbing of Open Positions:

- 1) When a person is a partner in one or more partnership firms and /or is a director in one or more companies and/or is a manager(karta) of a Hindu Undivided Family (HUF), the total open position of
 - a. the person as an individual operator,
 - b. the firm or firms in which he is a partner;
 - c. the Company or companies in which he is a director; and
 - d. the HUF of which he is a manager(karta)taken together shall not exceed the prescribed limit.
- 2) Where two or more persons are partners in a partnership firm or firms and where two or more persons are director in a company or companies and where two or more persons are Kartas of HUFs, the total open position held by
 - a. all the partners of partnership firm or firms;
 - b. the concerned partnership firm or firms;
 - c. all the directors of the company or companies;
 - d. the concerned company or companies;
 - e. all the Kartas of the HUFs; and
 - f. the concerned HUFstaken together shall not exceed the limit as mentioned above.
- 3) Where a person or persons operating as individuals and /or being partners in one or more partnership firms and/or being directors in one or more companies and/or being kartas of HUFs are also trustees in one or more trusts, the total open position of
 - a. the person as individual operator,
 - b. the firm or firms in which they are partners;
 - c. the company or companies in which they are directors;
 - d. the HUFs in which they are Kartas; and
 - e. the trust or trusts in which they are trustees,taken together shall not exceed the limit as mentioned above.

Provided that, if at any time more deliveries than one are running in the same commodity, the above limit shall apply to the combined open position of the member or the non-member, as the case may be, in all such deliveries running concurrently.



- 4) Open position of a member shall be the total of the open position acquired by him by trading through or with other member and by appropriating the business of his clients (collectively for all clients).
- 5) The open position of a non-member shall be the total of the open position acquired by him trading through or with one or more members.

B. Exemptions from Clubbing

- 1) In the agriculture marketing set up of the rural India, co-operative societies play a crucial role. Primary Agriculture Marketing Societies registered under the state cooperative Acts, thus, are active in different agricultural commodities. These societies are also member of Federations at the State and National level. Due to this Federal structure there may be some instances when these societies have common Directors. Also, the persons from State Governments/RCS may be nominated as Directors in these societies. In view of this, the position of different societies if they are members of a Federation will not be clubbed with the open interest position of the Federation for the purpose of determining the open interest position of the Federal or vice versa. Similarly, if Govt/RCS nominated directors sits on the Boards of different societies, this will not amount to common interest for the purpose of clubbing of positions.
- 2) As a practice of good corporate governance, the companies now have independent directors on their Board with no financial interest in the company. Similarly, companies also have Govt/Financial Institutions nominated Directors without any financial interest in the company. In such cases, when the Directors don't have any financial interest in the company. The Commission has taken a view that the position of such companies/corporates may not be clubbed just because they have common directors.

- C.** The above stated guidelines are indicative only. The Exchanges are directed to take suitable measures for clubbing of open positions on the basis of the criteria laid down above and also include other criteria such as PAN, patterns such as 'acting in concert' through common ownership and control structures and any other relevant criteria to club open positions that may be observed during the course of regular monitoring and surveillance that may appear to compromise market integrity.



Position Limit Violation

The following penal provisions are made to discourage/ prevent open interest violations at Commodity level / near month contract level-

- 1) Monetary penalty on the concerned member for violations in the open interest (either on own account or on account of clients) are linked to the quantum/ value of violation committed and to be charged from the concerned member for each such violation as under:
 - a. Where the violation is more than 2% of the prescribed limit(s) –
 $\text{Limit exceeded} \times \text{Closing price} \times \text{number of days such violation continued} \times 2\% (0.02)$ or Rs. 10,000/- whichever is higher.
 - b. Where the violation is up to 2% of the prescribed limit(s) –
 $\text{Limit exceeded} \times \text{Closing price} \times \text{number of days such violation continued} \times 2\% (0.02)$ or Rs. 10,000/- whichever is lower.
 - c. The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of violation. In case such violation continues, the Exchange would square-off the excess position without any further notice to the member by putting the orders on behalf of the member in that client code and will not be responsible for the consequences of such action
- 2) In case, the instance at 1 (a) above is observed for more than 3 times in a month across the market, the Exchange would suspend the concerned member for a period of one week. For instances at 1 (b) above, the Exchange may devise its norms to deal with habitual defaulters.
- 3) Further, in case repeated violations of such nature are observed by SEBI, SEBI may consider action against the concerned Exchange.

The monetary penalty as stated above, will be credited to the Investor Protection Fund of the Exchange.



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Format for Dissemination of Information on Website

Commodity	Units	Source of Data	Average Deliverable Supply during past five Financial Year				Classification (Board/ Narrow/ Sensitive)	Deliverable Supply during Financial Year			Member Limit*		Client Limit		Overall Exchange wide limit
			Production	Import	Total	Total		Production	Import	Total	Overall	Near Month	Overall	Near Month	
			In Units			(in Cr)									

** A member's open interest limit at overall (all contracts) level will be either the absolute number indicated above or 15% of the total market wide open position in the commodity, whichever is higher. (As per Clause 5.3 of the SEBI Circular SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016)*



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Client Level Numerical Position Limits for Non-Agricultural Commodities

<i>Sr.</i>	<i>Commodity</i>	<i>Unit</i>	<i>Client Level Numerical Position Limit for Overall Commodity</i>
1.	Aluminum	MT	25,000
2.	Brent Crude Oil	BBL	400,000
3.	Copper	MT	7,000
4.	Crude Oil	BBL	480,000
5.	Gold	Kgs	5,000
6.	Lead	MT	3,500
7.	Natural Gas	mmBtu	6,000,000
8.	Nickel	MT	1000
9.	Silver	MT	100
10.	Steel	MT	120,000
11.	Zinc	MT	7,000



Liquidity Categorization and Computation of VaR

(i) Liquidity Categorization of Securities

The securities shall be classified into three groups based on their liquidity:

Group	Trading Frequency (over the previous six months – see Note A)	Impact Cost (over the previous six months – see Note A)
Liquid Securities (Group I)	At least 80% of the days	Less than or equal to 1%
Less Liquid Securities (Group II)	At least 80% of the days	More than 1%
Illiquid Securities (Group III)	Less than 80% of the days	N/A

Notes:

- A. For securities that have been listed for less than six months, the trading frequency and the impact cost shall be computed using the entire trading history of the scrip.

(ii) Computation of VaR Margin

The VaR Margin is a margin intended to cover the largest loss that can be encountered on 99% of the days (99% Value at Risk). For liquid stocks, the margin covers one-day losses while for illiquid stocks, it covers three-day losses so as to allow the clearing corporation to liquidate the position over three days. This leads to a scaling factor of square root of three for illiquid stocks.

For liquid stocks, the VaR margins are based only on the volatility of the stock while for other stocks, the volatility of the market index is also used in the computation. Computation of the VaR margin requires the following definitions:

- **Scrip sigma** means the volatility of the security computed as at the end of the previous trading day. The computation uses the exponentially weighted moving average method applied to daily returns in the same manner as in the derivatives market.
- **Scrip VaR** means the higher of 7.5% or 3.5 scrip sigmas.
- **Index sigma** means the daily volatility of the market index (S&P CNX Nifty or BSE Sensex) computed as at the end of the previous trading day. The computation uses the exponentially weighted moving average method applied to daily returns in the same manner as in the derivatives market.



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- **Index VaR** means the higher of 5% or 3 index sigmas. The higher of the Sensex VaR or Nifty VaR would be used for this purpose.

The VaR Margins are specified as follows for different groups of stocks:

<i>Liquidity Categorization</i>	<i>One-Day VaR</i>	<i>Scaling factor for illiquidity</i>	<i>VaR Margin</i>
Liquid Securities (Group I)	Scrip VaR	1.00	Scrip VaR
Less Liquid Securities (Group II)	Higher of Scrip VaR and three times Index VaR	1.73 (square root of 3.00)	Higher of 1.73 times Scrip VaR and 5.20 times Index VaR
Illiquid Securities (Group III)	Five times Index VaR	1.73 (square root of 3.00)	8.66 times Index VaR



Core Settlement Guarantee Fund (Core SGF)

Objective of Core SGF

- 1) Clearing Corporation (CC) shall have a fund called Core SGF for each segment of each Recognised Stock Exchange (SE) to guarantee the settlement of trades executed in respective segment of the SE. In the event of a clearing member (member) failing to honour settlement commitments, the Core SGF shall be used to fulfill the obligations of that member and complete the settlement without affecting the normal settlement process.

Corpus of Core SGF

- 2) The corpus of the fund should be adequate to meet out all the contingencies arising on account of failure of any member(s). The risk or liability to the fund depends on various factors such as trade volume, delivery percentage, maximum settlement liability of the members, the history of defaults, capital adequacy of the members, the degree of safety measures employed by the CC/SE etc. A fixed formula, therefore, cannot be prescribed to estimate the risk or liability of the fund. However, in order to assess the fair quantum of the corpus of Core SGF, CC should consider the following factors:
 - Risk management system in force
 - Current and projected volume/turnover to be cleared and settled by the CC on guaranteed basis
 - Track record of defaults of members (number of defaults, amount in default)
- 3) However, Minimum Required Corpus of Core SGF (MRC) for each segment of each stock exchange shall be subject to the following:
 - i) The MRC shall be fixed for a month.
 - ii) By 15th of every month, CC shall review and determine the MRC for next month based on the results of daily stress tests of the preceding month. (For example, by 15th February, CC shall determine MRC for March based on results of various stress tests conducted in January). CC shall also review and determine by 15th of every month, the adequacy of contributions made by various contributors and any further contributions to the Core SGF required to be made by various contributors (as per clause 4) for the next month.
 - iii) For every day of the preceding month (i.e., January as per example in (ii) above), uncovered loss numbers shall be estimated by the various stress tests for credit risk conducted by the CC for the segment (as per clause 14) and highest of such numbers shall be taken as worst case loss number for the day.
 - iv) Average of all the daily worst case loss numbers determined in (iii) above shall be calculated.



- v) The MRC for next month (i.e., March as per example in (ii) above) shall be higher of the average arrived in at step iv above and the segment MRC as per previous review (i.e., review done on 15th January for the month of February).
- vi) Minimum threshold value of MRC for commodity derivatives segment of any stock exchange shall be INR 10 Crores.

Contribution to Core SGF

4) At any point of time, the contributions of various contributors to Core SGF of any segment shall be as follows:

- a) Clearing Corporation contribution: CC contribution to Core SGF shall be at least 50% of the MRC. CC shall make this contribution from its own funds. CC contribution to core SGFs shall be considered as part of its net worth.
- b) Stock Exchange contribution: Stock Exchange contribution to Core SGF shall be at least 25% of the MRC (can be adjusted against transfer of profit by Stock Exchange as per Regulation 33 of SECC Regulations, which may be reviewed in view of these guidelines).
- c) Clearing Member primary contribution: If the CC wishes, it can seek risk based contribution from Clearing Members (CMs) of the segment (including custodial clearing members) to the Core SGF subject to the following conditions:
 - that total contribution from CMs shall not be more than 25% of the MRC,
 - that no exposure shall be available on Core SGF contribution of any CM (exposure-free collateral of CM available with CC can be considered towards Core SGF contribution of CM), and
 - that required contributions of individual CMs shall be pro-rata based on the risk they bring to the system.

CC shall have the flexibility to collect CM primary contribution either upfront or staggered over a period of time. In case of staggered contribution, the remaining balance shall be met by CC to ensure adequacy of total Core SGF corpus at all times. Such CC contribution shall be available to CC for withdrawal as and when further contributions from CMs are received.

The above prescribed limits of contribution by CC, SE and CMs may be reviewed by SEBI from time to time considering the prevailing market conditions.

- 5) Any penalties levied by CC (as per Regulation 34 of SECC Regulations) shall be credited to Core SGF corpus.



- 6) Interest on cash contribution to Core SGF shall also accrue to the Core SGF and pro-rata attributed to the contributors in proportion to their cash contribution.
- 7) CC shall ordinarily accept cash collateral for Core SGF contribution. However, CC may accept CM contribution in the form of bank FDs too. CC shall adhere to specific guidance which may be issued by SEBI from time to time in this regard.

Management of Core SGF

- 8) The Defaulter's Committee/SGF utilization Committee of the Clearing Corporation shall manage the Core SGF.

The CCs shall follow prudential norms of Investment policy for Core SGF corpus and establish and implement policies and procedures to ensure that Core SGF corpus is invested in highly liquid financial instruments with minimal market and credit risk and is capable of being liquidated rapidly with minimal adverse price effect.

The instruments in which investments may broadly be made are Fixed Deposit with Banks (only those banks which have a net worth of more than INR 500 Crores and are rated A1 (or A1+) or equivalent, , Treasury Bills, Government Securities and money market/liquid mutual funds subject to suitable transaction/investment limits and monitoring of the same. The CCs shall further ensure that the financial instruments in which the Core SGF corpus is invested remain sufficiently diversified at all times.

SEBI may prescribe the investment norms in this regard from time to time.

Access to Core SGF

- 9) CC may utilise the Core SGF in the event of a failure of member(s) to honour settlement commitment.
- 10)

Further contribution to / Recoupment of Core SGF

- 11) Requisite contributions to Core SGF by various contributors (as per clauses 3 and 4) for any month shall be made by the contributors before start of the month.

In the event of usage of Core SGF during a calendar month, contributors shall, as per usage of their individual contribution, immediately replenish the Core SGF to MRC.

In case there is failure on part of some contributor(s) to replenish its (their) contribution, same shall be immediately met, on a temporary basis during the month, in the following order:

- i. By CC
- ii. By SE

Review of Core SGF

- 12) The monthly review results shall be communicated to the Risk Management Committee and the Governing Board of the Clearing Corporation. The exception reporting shall be



made to SEBI detailing the outcome of the review by the CC Governing Board, including steps taken to enhance the Core SGF.

Default waterfall

13) The default waterfall of CC for any segment shall generally follow the following order

- i. Monies of defaulting member (including defaulting member's primary contribution to Core SGF(s) and excess monies of defaulter in other segments).
- ii. Insurance, if any.
- iii. CC resources (equal to 5% of the segment MRC).
- iv. Core SGF of the segment in the following order:
 - a. Penalties
 - b. CC contribution to the extent of at least 25% of the segment MRC
 - c. Remaining Core SGF: CC contribution, Stock Exchange contribution and non-defaulting members' primary contribution to Core SGF on pro-rata basis.
- v. Proportion of remaining CC resources (excluding CC contribution to core SGFs of other segments and INR 100 Crore) equal to ratio of segment MRC to sum of MRCs of all segments.*
- vi. CC/SE contribution to Core SGFs of other segments (after meeting obligations of those segments) and remaining CC resources to that extent as approved by SEBI.
- vii. Capped additional contribution by non-defaulting members of the segment.**
- viii. Any remaining loss to be covered by way of pro-rata haircut to payouts.***

* INR 100 Crore to be excluded only when remaining CC resources (excluding CC contribution to core SGFs of other segments) are more than INR 100 Crore.

**CC shall limit the liability of non-defaulting members towards additional contribution to a multiple of their required primary contribution to Core SGF and the framework regarding the same should be disclosed. In case of shortfall in recovery of assessed amounts from non-defaulting members, further loss can be allocated to layer 'VI' with approval of SEBI.

***In case loss allocation is effected through haircut to payouts, any subsequent usage of funds shall be with prior SEBI approval. Further, any exit by CC post using this layer shall be as per the terms decided by SEBI in public interest.

Stress testing and back testing

14) CC shall effectively measure, monitor, and manage its credit exposures to its participants and those arising from its payment, clearing, and settlement processes.



- 15) **Stress test for credit risk:** CC shall carry out daily stress testing for credit risk using at least the standardized stress testing methodology prescribed in para 22 below. Apart from the prescribed stress scenarios, CCs shall also develop own scenarios for a variety of 'extreme but plausible market conditions' (in terms of both defaulters' positions and possible price changes in liquidation periods, including the risk that liquidating such positions could have an impact on the market) and carry out stress testing using self-developed scenarios. Such scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons and a spectrum of forward looking stress scenarios in a variety of extreme but plausible market conditions.
- 16) **Liquidity stress test and adequacy of liquidity arrangements:** CC shall ensure that it maintains sufficient liquid resources to manage liquidity risks from members, settlement banks and those generated by its investment policy. CC shall daily test the adequacy of its liquidity arrangements in order to ensure that its liquid resources are adequate to meet simultaneous default of at least two clearing members and their associates that would generate the largest aggregate liquidity obligation for the CC in extreme but plausible market conditions and compare such obligation with the resources mentioned hereunder:
- a. Cash
 - b. Committed lines of credit available to CC
- 17) **Reverse stress test:** CC shall periodically carry out reverse stress tests designed to identify under which market conditions and under what scenarios the combination of its margins, Core SGF and other financial resources prove insufficient to meet its obligations (e.g. simultaneous default of top N members or N% movement in price of top 2 scrips by turnover or 20% movement in price of top N scrips by turnover etc.)
- 18) **Back testing for adequacy of margins:** CC shall daily conduct back testing of the margins collected vis-à-vis the actual price changes for the contracts being cleared and settled in every segment to assess appropriateness of its margining models.
- 19) **Adequacy of financial resources:** CC shall ensure that it maintains sufficient financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their associates that would potentially cause the largest aggregate credit exposure to the CC in extreme but plausible market conditions. Thus, CC shall continuously monitor the adequacy of financial resources (as available in its default waterfall) against the uncovered loss



estimated by the various stress tests conducted by the CC and take steps to beef up the same in case of shortfall.

- 20) On at least a monthly basis, CC shall perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. CC shall perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CC's participants increases significantly. A full validation of CC's risk-management model shall be performed at least annually.
- 21) The results of tests carried out as per clauses 14, 15, 16, 17 and 18 above and review conducted as per clause 19 shall be monitored by the Risk Management Committee of the CC and the same should be communicated for discussion and review by the Board of the CC.
- 22) Clearing corporations and Stock Exchanges are directed to make the following details available on its website:
- i. Policy on composition and contributions to be made to the Core SGF;
 - ii. Investment policy for Core SGF;
 - iii. Default waterfall for each segment along with the quantum of resources available in each layer of default waterfall;

Standardized Stress Testing for Commodity Derivatives

Part A. Scenarios

Historical Scenarios

1 Peak Historical Return

Price movement in respect of each underlying over the MPOR period during the last 15 years to be considered:

Scenario 1A: Maximum percentage rise over MPOR period



Scenario 1B: Maximum percentage fall over MPOR period

2 Peak historical price volatility

Historical price volatility (EWMA volatility) in respect of each commodity during the previous 15 years is to be considered. Percentage price movement equal to 3.5 times the peak historical volatility adjusted for applicable MPOR period of the commodity shall be considered (subject to a maximum of 110% of the price movement considered for the commodity under the peak historical return scenario):

Scenario 2A: Percentage price rise

Scenario 2B: Percentage price fall

2 Augmented historical

Exchange shall identify top 10 days during the previous 15 years based on average of absolute percentage price change across all commodities witnessed over the MPOR period. For each of the day, exchange shall identify percentage price change in each commodity (in case of unavailability of prices in any of the commodity on any of the identified days, price change equal to applicable initial margin in the commodity to be considered). All the price movements to be scaled up by 10%.

Thus, one scenario corresponding to each of the 10 identified days shall be generated.

Hypothetical scenarios

4 Stressed MPOR

It shall be assumed that liquidation of open positions would require 5 days and percentage price movement equal to 3.5 times current volatility adjusted for 5 day period (i.e., scaling up by square root of 5) shall be considered.

Scenario 4A: Percentage rise over 5 day period

Scenario 4B: Percentage fall over 5 day period

5 Stressed PSR and VSR

Price movement in respect of each underlying to the extent of 1.5 times the normal price scan range (PSR) over the MPOR period and change in implied volatility equal to 1.5 times the normal volatility scan range shall be considered.

Scenario 5A: Underlying price increasing by 1.5 PSR adjusted for MPOR period, volatility increasing by 1.5 VSR.

Scenario 5B: Underlying price decreasing by 1.5 PSR adjusted for MPOR period, volatility increasing by 1.5 VSR.



Exchanges shall carry out stress tests using each of the scenarios given in Part A as follows –

- a. By stressing positions in all commodities simultaneously**
- b. By first identifying top 10 commodities based on OI and stressing 1 commodity at a time (ignoring positions in other commodities and the corresponding margins)**

Part B. Methodology

The percentage price movements identified in each of the above scenarios shall be applied to the commodity price on the day for which the stress test is being done. All open positions shall be assumed to be squared up at the theoretical price corresponding to the revised prices/volatility of the underlying in each of the scenarios. For each clearing member, the credit exposure to Clearing Corporation shall be calculated as follows:

- a) The time of stress test shall be end of day
- b) It shall be assumed that clearing member will default in paying the settlement obligations and all outstanding positions will be squared off at the theoretical price corresponding to the revised price/volatility of the underlying in the scenario.
- c) Loss shall be calculated at client portfolio level.
- d) For each client, residual loss shall be equal to → (loss due to close-out of client positions– margin supporting that specific client's positions)
- e) All residual losses (residual profits to be ignored) for all clients shall be grossed to compute total residual losses due to client positions.
- f) Loss due to close-out of proprietary positions shall be considered.
- g) Loss at (e) and loss at (f) and the net pay-in/pay-out requirement of the clearing member shall be assessed against required margins (excluding margin supporting client positions and excess collateral, if any) and other mandatory deposits of defaulting member to calculate credit exposure of Clearing Corporation to the member. Equity scrips as collateral, if any, shall be valued with minimum 20% haircut.

Part C. Coverage

To begin with, for each of the scenarios in Part A, Clearing Corporations shall calculate –

A. Credit exposure due to simultaneous default of at least 2 clearing members (and their associates) causing highest credit exposure.

B. 25% of the credit exposure due to simultaneous default of all clearing members.

However, within a year from the deadline of implementation of the circular, for each of the scenarios in Part A, Clearing Corporations shall calculate –



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- A. Credit exposure due to simultaneous default of at least 2 clearing members (and their associates) causing highest credit exposure.
- B. 50% of the credit exposure due to simultaneous default of all clearing members.



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Checklist of information/details for launch of new contract or/and for renewal of existing/earlier contracts

<i>Serial Number</i>	<i>Items/ Issues to be examined and Reported</i>	<i>Compliance/Comments</i>
1	GENERAL:- Justification for introducing of futures/forward trading in the commodity including its relevance /importance to the economy (in brief) with information for <u>preceding 3 financial years</u> on :-	
a.	Its annual production	
b.	Import-export data	
c.	Details of domestic consumption	
d.	Main area of cultivation	
e.	Patterns of consumption/utilization	
f.	Commercialization rate (annual exports/annual supply)	
g.	Crop cycle	
h.	Warehouse facilities in the cultivation area	
i.	Preferred trade quantity in physical market	
j.	Shelf-life of the commodity	
k.	Global level production / consumption figures, major exporting & importing countries with figures	
l.	Monthly price movement in futures market –both domestic and international for last 3 years	
m.	Prevailing spot prices in the domestic physical market in the last three years and immediate 3 preceding months prior to the application	
n.	Which are the other exchanges where the proposed contract is already being traded and its/ their respective market share in terms of volumes & percentage of trades (estimated)?	
o.	Value Chain of the commodity	
p.	Degree of standardisation	
q.	Political sensitivity/price controls	



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<i>Serial Number</i>	<i>Items/ Issues to be examined and Reported</i>	<i>Compliance/Comments</i>
r.	Whether commodity is under purview of Essential commodities act / APMC Act / The Food Control Regulation Act etc.	
s.	Geographical coverage	
t.	Correlation with International Market	
u.	Seasonality	
v.	Price Volatility	
2	CONTRACT DESIGN- Please Specify with Reasons	
a.	Lot size	
b.	Tick size	
c.	Period of the contract (one month, two months, etc.)	
d.	Quality standards (should meet FSSAI standards and any other statutory prescribed standards)	
e.	Lean period	
f.	Basis Centers	
g.	Mechanism for allocation of delivery on the Exchange platform in a transparent manner	
h.	Rationale behind adopting “intention matching contract” as against “compulsory delivery” contract, if the case is so, in the proposed contract.	
i.	Mechanism of spot price polling –whether AGMARK prices used to track spot prices-other measures/precautions taken to ensure transparency and credibility	
j.	Settlement system with settlement price formula	
3.	EXPECTED PARTICIPATION IN THE CONTRACT	
a.	Hedgers participation	
b.	Warehouse participation	
c.	What efforts Exchange had made to educate hedgers / market participants about the contract	
4.	COST OF TRADING IN CONTRACT :-	



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<i>Serial Number</i>	<i>Items/ Issues to be examined and Reported</i>	<i>Compliance/Comments</i>
a.	Details of Delivery Centers, their respective storage capacity, and price neutralization formula for non-preferred delivery centers etc.	
b.	Detailed break-up of charges proposed to be levied by the Exchanges for trading / warehouse for storage / delivery charges and cost in respect of failed deliveries, etc.	
5.	MARKET SURVEILLANCE AND RISK MANAGEMENT :-	
a.	Permitted price variation in a day	
b.	Open position limits in respect of client, member and market as a whole	
c.	Checks and balances for high frequency/ Algo trades	
d.	Initial margin, M -o-M margin, and conditions under which special / additional margins could be levied by Exchanges	
e.	Settlement / trade guarantee	
f.	Cost of failed payments / deliveries	
g.	Staggered delivery system	
Additional Information required in case of proposal for renewal of existing/earlier contracts		
6.	THE TRACK RECORD OF TRADING IN THE CONTRACT LIKE :-	
a.	Trading volume	
b.	Open interest	
c.	Deliveries	
d.	Market participation	
e.	Price movement	
f.	Trade versus delivery	
g.	Order versus actual trade	
h.	Average trade size at Exchange	



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<i>Serial Number</i>	<i>Items/ Issues to be examined and Reported</i>	<i>Compliance/Comments</i>
i.	Actual production versus actual delivery through exchange trading platform	
j.	Preferred lot size in physical market	
k.	Justification for introduction	
l.	Whether the contract is traded on other exchanges?	
m.	Justification for span of the contract	
n.	Any abnormal trade activity / price movements in previous year	
o.	The educational initiatives taken by the Exchanges for the market participants and` feedback received from them	
p.	Efforts taken to create/encourage formation of Aggregators for participation in the contract on behalf of Farmers/planters	
7.	Status of quarterly progress reports submitted to the regulator.	
8.	Status of awareness programmes for Hedgers/Potential Hedgers/Industry Associations / processors etc. organised during last 1 year.	
9.	Any other information considered relevant	
10.	ANY OTHER COMMENTS/ EXPLANATIONS TO OFFER, IF ANY (IN BRIEF)	



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List of contracts approved for continuous trading

<i>Exchange Name</i>	<i>Contracts approved for continuous trading</i>
Multi Commodity Exchange of India Ltd.	Aluminium, Aluminium Mini, Brent Crude Oil, Cardamom, Copper, Copper Mini, Cotton, Crude Palm Oil, Crude Oil, Dhaniya, Gold, Gold Guinea, Gold Mini, Gold Petal, Gold Petal Delhi, Lead, Lead Mini, Mentha Oil, Natural Gas, Nickel, Nickel Mini, Silver, Silver1000, Silver Mini, Silver Micro, Zinc, Zinc Mini
National Commodity & Derivatives Exchange Ltd.	Barley, Chilli, Copper Cathode, Cottonseed Oil Cake, Crude Oil, Crude Palm Oil, Dhaniya, Gold Hedge, Guar Gum, Guar Seed (2 MT), Guar Seed (10 MT), Jeera, V-797 Kapas, Maize (Kharif), Maize (Rabi), Rape/Mustard Seed, Refined Soy Oil, Shankar Kapas, Soyabean, Steel Long, Sugar M, Turmeric, Wheat
Indian Commodity Exchange *	Cardamom, Castor Seed, Coffee Rep Bulk, Isabgulseed, Copra, Pepper, Rape/Mustard Seed, Raw Jute, Rubber, Sacking, Soy Oil, Guar Seed
* National Multi Commodity Exchange of India Ltd. Merged with ICEX	



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Categorization of contract specification parameters in commodity derivatives contracts

<i>Category</i>	<i>Type of Modification</i>	<i>Parameter</i>	<i>Number of days of advance intimation to be given to SEBI and market participants</i>
Category A	Non-material modifications which can be made at the exchange level in yet to be launched and running contracts	<ul style="list-style-type: none"> • Symbol • Description • Contract Commencement Day(Y/L) • Quotation/Base value (Y/L) • Maximum Order Size • Tick Size (Minimum Price Movement) • Strike Interval (Y/L) • Number of Strikes • Initial Margin • Extreme Loss Margin • Delivery Period Margin • Pre-expiry Margin • Other Margins • Underlying Quotation (Y/L) 	10 days
Category B	Material modifications which can be made at the exchange level in yet to be launched contracts or running contracts which have nil open interest. These modifications shall require approval from Product Advisory Committee	<ul style="list-style-type: none"> • Last Trading Day /Due Date/Expiry Date# • Trading Unit • Price Quote (Basis) • Delivery Centre • Delivery Unit • Additional Delivery Centre(s) • Quality Specifications • Quantity Variation • Tolerance Limit 	30 days



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<i>Category</i>	<i>Type of Modification</i>	<i>Parameter</i>	<i>Number of days of advance intimation to be given to SEBI and market participants</i>
	and approval of Regulatory Oversight Committee to be obtained post facto.	<ul style="list-style-type: none"> • Trading Session • Premium/Discount • Underlying Price Quote (basis) • Maximum Allowable Open Position 	
Category C	Material modifications which can be made only after approval from SEBI. These modifications shall require deliberations and approval from Product Advisory Committee and Regulatory Oversight Committee before seeking permission from SEBI.	<ul style="list-style-type: none"> • Contract Launch Calendar • Trading Period • Daily Price Limit • Delivery Logic • Settlement of Contract/Settlement Logic/Final settlement Method • Exercise of Options • Mechanism of Exercise • Due Date Rate (Final Settlement Price) • Tender Period • Start Date of Near Month Staggered Delivery Period/Tender Period • Option Type 	30 days

(Y/L)-Modification can only be carried out in yet to be launched contracts

- Changes in due date/expiry date may be required to be done in the running contracts in the event of sudden closure of markets on expiry date. Point 6.1.6 (I) of this circular prescribes that Exchange may advance expiry date of running contract in case physical market is closed in the notified basis centre on the expiry day of the contract, due to festivals, strikes, erratic weather conditions, etc. Decision about advancing expiry of running contract shall be intimated to the trade participants at least 10 days before the revised expiry date.



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Formats for providing details of Security Deposit

A. Details of Bank Guarantee

<i>Sr. No.</i>	<i>Name of WSP</i>	<i>BG Number</i>	<i>Bank Name</i>	<i>Branch Name</i>	<i>Date of Issuance (DD/MM/ YYYY)</i>	<i>Maturity Date (DD/MM/ YYYY)</i>	<i>Claim Date (DD/MM/ YYYY)</i>	<i>Amount</i>

B. Details of Fixed Deposit Receipt

<i>Sr. No.</i>	<i>Name of WSP</i>	<i>FDR Number</i>	<i>Bank Name</i>	<i>Branch Name</i>	<i>Date of Issuance (DD/MM/YYYY)</i>	<i>Maturity Date (DD/MM/YYYY)</i>	<i>Amount</i>



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Format for details of disposal of arbitration proceedings

Disposal of Arbitration Proceedings (where client is a party) initiated since April 1, 2010 (Updated on mm dd yyyy) (To be updated quarterly, within a week of end of the quarter)

<i>Arbitration Reference No.</i>	<i>Date of Reference</i>	<i>Region</i>	<i>Name of Client</i>	<i>Name of Member</i>	<i>Name of Arbitrator(s)</i>	<i>Date of Arbitral award</i>	<i>Award in favour of (client/ Member)</i>	<i>Copy of Award (link given below)</i>	<i>Date of Implementation of Award</i>	<i>Main reason for non-implementation</i>
Initiated during 2010-11										
Initiated during 2011-12										



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Format for Arbitrator-wise Arbitration Proceedings

Arbitrator-wise Arbitration Proceedings (where client is a party) disposed of since April 1, 2010 Updated on mm dd yyyy (In excel sheet) (To be updated quarterly, within a week of the end of the quarter)

<i>S. No.</i>	<i>Name of Arbitrator</i>	<i>No. of awards passed</i>		<i>No. of Awards in favor of Clients of the cases filed by</i>		<i>No. of Appellate Awards in favor of Clients of the cases filed by</i>		<i>Clients of the cases filed by Arbitration cases pending for months</i>			<i>Arbitration appeal cases pending for</i>		
		<i>Arbitration</i>	<i>Appellate</i>	<i>Member</i>	<i>Client</i>	<i>Member</i>	<i>Client</i>	<i><4</i>	<i>≥4 - ≤ 6</i>	<i>>6</i>	<i><3</i>	<i>≥3- ≤ 6</i>	<i>>6</i>
N													
Total													

(In case of panel of arbitrators, the cases / awards would appear against every member of the panel) (Arrange the arbitrators in descending number of awards passed by them during the period)



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Format for disclosure of Arbitration Awards

Disclosure of Arbitration and Appellate Arbitration Awards Passed since April 1, 2007 Updated on mm dd yyyy (In excel sheet) (To be updated as soon as a new award is issued)

<i>Sl. No.</i>	<i>Date of Issue</i>	<i>Name of Client</i>	<i>Name of Member</i>	<i>Initial Arbitration / Appellate Arbitration</i>	<i>Link to Award given below</i>
Passed during 2007-08					
Passed during 2008-09					
Passed during 2009-10					
Passed during 2010-11					
Passed during 2011-12					



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Report on Shareholding Pattern

Report on Shareholding Pattern of the Exchange in terms of Securities contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018

[Quarter ended _____]

A. Top ten shareholders during the quarter

<i>Sl. No.</i>	<i>Name of the shareholder</i>	<i>Number of shares held at the end of the quarter</i>	<i>Percentage of shareholding</i>
1			
2			

B. Shareholders falling under Regulation 17 who have acquired shares during the quarter

<i>Sl. No.</i>	<i>Name of the shareholder who acquired shares</i>	<i>Name of the shareholder from whom shares acquired</i>	<i>Number of shares acquired during the quarter</i>	<i>Percentage of Shareholding after the acquisition</i>
1				
2				

A. Category wise shareholding pattern in the recognised commodity derivate exchange (along with the names of the shareholder)-

I. TRADING MEMBER

<i>Sl. No</i>	<i>Category of shareholder</i>	<i>No. of Shareholder</i>	<i>Total number of Shares</i>	<i>Percentage of Shares</i>
	Individuals			
1				
2				
	Corporates(Listed)			
1				
	Corporates(unlisted)			
1				



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	Banks (wherever permitted)			
1				
	Any other (specific)			
	Total (A)			

II. ASSOCIATES OF TRADING MEMBERS

<i>Sr. No</i>	<i>Category of Shareholder</i>	<i>No. of Shareholders</i>	<i>Total number of shares</i>	<i>Percentage of shares</i>
	Individuals			
1				
2				
	Corporates(listed)			
1				
	Corporates(unlisted)			
1				
	HUF			
1				
	Trust			
1				
	Financial Institutions / Banks			
1				
	Foreign Holding (FDI)			
1				
	Foreign Holding (FII)			
1				
	Any other (specify)			
	Total (B)			
	Total(A+B)			

III. PUBLIC SHAREHOLDING

<i>Sr. No.</i>	<i>Category of shareholder</i>	<i>No. of Shareholders</i>	<i>Total number of shares</i>	<i>Percentage of shares</i>
	Individuals			



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<i>Sr. No.</i>	<i>Category of shareholder</i>	<i>No. of Shareholders</i>	<i>Total number of shares</i>	<i>Percentage of shares</i>
1				
2				
	Corporates (Listed)			
1				
	Corporates (Unlisted)			
1				
	HUF			
1				
	Trust			
1				
	Financial Institutions / Banks			
1				
	Foreign Holding (FDI)			
1				
	Foreign Holding (FII)			
1				
Any Other (specify)				
	Insurance Companies			
1				
	Mutual Funds			
1				
	Venture Capital Fund			
1				
	Any other (specify)			
	Total (C)			
	Grand total (A)+(B)+(C)			



B. SHAREHOLDERS ACTING IN CONCERT

The Exchange shall indicate the shareholding pattern in the format given below in respect of each set of shareholders, in case they hold shares along with persons acting in concert-

<i>Sr. No.</i>	<i>Name of the shareholder</i>	<i>Category of shareholder</i>	<i>Details of holding</i>	
			<i>Number of shares</i>	<i>Percentage</i>
1				
2				
3				

UNDERTAKING UNDER REGULATION 21

- C. The Managing Director/ Executive Director of the recognized commodity derivative exchange shall submit an undertaking confirming the compliance of the provisions Regulation 21 of Securities Contracts (regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 to SEBI on a quarterly basis within fifteen days from the end of each quarter and to monitor and ensure compliance with the provisions under Chapter – IV of the said SECC Regulations at all times.



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Functions and Composition of Statutory Committees

A. Mandatory Committees for Stock Exchanges

<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
I. Functional Committees:			
1.	Member Selection Committee	<ul style="list-style-type: none">• To scrutinize, evaluate, accept or reject applications for admission of members and transfer of membership and approve voluntary withdrawal of membership.• Formulate the policy for regulatory actions including warning, monetary fine, suspension, withdrawal of trading, declaring a member as defaulter, expulsion, to be taken for various violations by the members of the exchange.• Based on the laid down policy, consider the cases of violations observed during inspection, etc. and impose appropriate regulatory measures on the members of the exchange.• While imposing the regulatory measure, the Committee shall adopt a laid down process,	<ul style="list-style-type: none">• A maximum of two Key Management Personnel (KMPs) of the exchange can be on the committee one of which shall necessarily be the Managing Director of the stock exchange.• The committee may also include independent external persons.• SEBI may nominate members in the Committee, if felt necessary in the interest of securities market.• The number of PIDs shall not be less than the total of number of shareholder directors, KMPs and independent external persons put together.



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		<p>based on the 'Principles of natural justice'.</p> <ul style="list-style-type: none">• Realize all the assets / deposits of the defaulter/expelled member and appropriate the same amongst various dues and claims against the defaulter/ expelled member in accordance with the Rules, Byelaws and Regulations of the Exchange. <p>In the event both the clearing member and the constituent trading member are declared defaulter, then the membership selection committee of the stock exchange and that of the clearing corporation shall work together to realize the assets of both the clearing member and the trading member.</p> <ul style="list-style-type: none">• Admission or rejection of claims of client/trading members/clearing members over the assets of the defaulter/expelled member.• Recommendation in respect of the claims to the Trustees of the IPF on whether the claim is to be paid out of IPF or otherwise.• To oversee contribution towards Core	



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		Settlement • Guarantee Fund(SGF) of the Clearing Corporation.	
2.	Investor Grievance Redressal Committee (IGRC)	Dealing with the complaints referred to it by the stock exchange, hear the parties and resolve their complaints.	<ul style="list-style-type: none">• The IGRC shall comprise of a single person for claims up to Rs. 25 Lakh, whereas, for claims above Rs. 25 Lakh, the IGRC shall comprise of three persons.• The IGRC shall comprise of independent external persons with qualifications in the area of law, finance, accounts, economics, management or administration and experience in financial services, including securities market.• Further, the three member Committee shall comprise of at least one technical expert for handling complaints related to technology issues (such as internet based trading, algorithmic trading, etc.).• The members of IGRC shall not be associated with a trading member in any manner.• The disclosures and code of conduct prescribed under para 3.4 and 4 of SEBI circular Ref. No. CIR/MRD/DSA/24/2010 dated August 11, 2010,



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
			shall be applicable, as far as may be, to members of IGRC also.
3.	Nomination & Remuneration Committee	<ul style="list-style-type: none">Identifying a Key management personnel, other than personnel as specifically provided in its definition under SECC Regulations, 2018.Laying down the policy for compensation of key management personnel in terms of the compensation norms prescribed by SEBI.Determining the compensation of KMPs in terms of the compensation policy.Determining the tenure of a key management personnel, other than a director, to be posted in a regulatory department.Selecting the Managing Director.Framing & reviewing the performance review policy to carry out evaluation of every director's performance, including that of Public Interest Director (PID).Recommending whether to extend the term of appointment of the PID.Besides the above, it will also discharge the	<ul style="list-style-type: none">The Committee shall include only public interest directors. However, independent external persons may be part of the committee for the limited purpose of recommendation relating to selection of Managing Director; wherein the number of PIDs shall not be less than the independent external persons.



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		function as Nomination & Remuneration Committee under the Companies Act, 2013 and SEBI (LODR) regulations, 2015 as amended from time to time.	
II. Oversight Committee			
4.	Standing Committee on Technology	<ul style="list-style-type: none">• Monitor whether the technology used remains up to date and meets the growing demands of the markets.• Monitor the adequacy of systems capacity and efficiency.• To look into the changes being suggested by the exchange to the existing software/hardware.• Investigate into problems of computerized trading system, such as hanging/ slowdown/ breakdown.• Ensure that transparency is maintained in disseminating information regarding slowdown/ breakdown in Online Trading System.• Submit a report to the Governing Board, who shall deliberate on the report and take	<ul style="list-style-type: none">• The Committee shall include at least two independent external persons proficient in technology.• The number of PIDs shall not be less than the total of number of shareholder directors and independent external persons put together.



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		<p>suitable action/ remedial measure.</p> <ul style="list-style-type: none">• Explain any stoppage beyond five minutes and report to the Board. The Exchange shall also issue a press release specifying the reasons for the breakdown.• Review the implementation of board approved cyber security and resilience policy and its framework.• Such other matters as may be referred by the Governing Board of exchange and/or SEBI.	
5.	Advisory Committee	<ul style="list-style-type: none">• Advise the governing board on non-regulatory and operational matters including product design, technology, charges and levies.	<ul style="list-style-type: none">• The number of PIDs shall not be less than the total of number of shareholder directors and trading members put together.• The Committee shall include trading members of the stock exchange.• The chairperson of the governing board shall be the head of the advisory committee.• The managing director shall be a permanent invitee to every meeting of the advisory committee.



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
6.	Regulatory Oversight Committee	<ul style="list-style-type: none">• Oversee matters related to member regulation such as admission of members, inspection, disciplinary action, etc.• Oversee SEBI inspection observations on membership related issues.• Estimate the adequacy of resources dedicated to member regulation.• Oversee matters related to listing of securities such as admission of securities for trading, suspension/revocation, etc.• Oversee SEBI inspection observations on listing related issues.• Estimate the adequacy of resources dedicated to listing related function.• Oversee trading and surveillance related functions such as monitoring of market through order and trade level alerts, security level alerts, processing of alerts, price band changes, rumour verifications, shifting of securities to trade for trade segment, action against listed companies as a part of Surveillance Action, detailed investigations	<ul style="list-style-type: none">• The committee shall comprise of public interest director and independent external persons.• The number of PIDs shall not be less than the total of number of independent external persons put together. Also shareholder director and key management personnel may be invitee to the committee.



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		<p>undertaken, disciplinary actions, etc., as may be applicable to the relevant segments of the exchange.</p> <ul style="list-style-type: none">• Oversee SEBI inspection observations on surveillance related issues and also decisions taken in the periodic surveillance meeting at SEBI.• Estimate the adequacy of resources dedicated to trading and surveillance function.• Oversee matters related to product design and review the design of the already approved and running contracts.• Oversee SEBI inspection observation on Product Design related issues.• Estimate the adequacy of resources dedicated to Product design related function.• Review the actions taken to implement the suggestions of SEBI's Inspection Reports, place the same before the Governing Board of the stock exchange.	



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		<ul style="list-style-type: none">• To follow up, ensure compliance/implementation of the inspection observations.• Supervising the functioning of Investors Services Cell of the exchange, which includes review of complaint resolution process, review of complaints remaining unresolved over long period of time, estimate the adequacy of resources dedicated to investor services, etc.• Supervise Investor Service Fund, including its utilization.• Annual review of arbitrators and arbitration awards (both quantum and quality of the awards).• Lay down procedures for the implementation of the Ethics Code.• Prescribe reporting formats for the disclosures required under the Ethics Code.• Oversee the implementation of the code of ethics.• Periodically monitor the dealings in	



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		<p>securities of the Key Management Personnel.</p> <ul style="list-style-type: none">Periodically monitor the trading conducted by firms/corporate entities in which the directors hold twenty percent or more beneficial interest or hold a controlling interest.Monitor implementation of SECC Regulations and other applicable rules and regulations along-with SEBI Circulars and other directions issued thereunder.Review the fees and charges levied by the exchange.The head(s) of department(s) handling above matters shall report directly to the committee and also to the managing director. Any action against the head(s) of dept. shall be subject to an appeal to the committee, within such period as may be determined by the governing board.	
7.	Risk Management Committee	<ul style="list-style-type: none">To formulate a detailed risk management policy which shall be approved by the	<ul style="list-style-type: none">The risk management committee shall comprise only of the public interest directors and



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<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		<p>governing board.</p> <ul style="list-style-type: none">• To review the Risk Management Framework & risk mitigation measures from time to time.• To monitor and review enterprise-wide risk management plan and lay down procedures to inform Board members about the risk assessment and minimization procedures.• The head of the risk management department shall report to the risk management committee and to the managing director of the exchange.• The risk management committee shall monitor implementation of the risk management policy and keep the Board and the governing board informed about its implementation and deviation, if any.	<p>independent external persons, and shall report to the Governing Board.</p> <ul style="list-style-type: none">• The number of PIDs shall not be less than the total of number of independent external persons.



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B. Mandatory Committees for Clearing Corporations

Sr no.	Name of Committee	Brief terms of reference	Composition
I. Functional Committees:			
1.	Member Selection Committee	<ul style="list-style-type: none">• To scrutinize, evaluate, accept or reject applications for admission of members and transfer of membership and approve voluntary withdrawal of membership.• Also in case of clearing corporations with commodity segment, the committee shall also look into:<ul style="list-style-type: none">○ Approving enplanement & cancellation of Warehouse Service Providers/Vault Service Providers /Assayers, accreditation of warehouse, etc.○ Reviewing the continuous functioning, monitoring, and compliance of norms by Warehouse Service Providers, Vault Service Providers and assayers.• Formulate policy for regulatory actions, including warning, monetary fine, suspension, deactivation of terminal, declaring a member as defaulter , expulsion,	<ul style="list-style-type: none">• A maximum of two key management personnel of the clearing corporation shall be on the committee one of which shall necessarily be the Managing Director of the clearing corporation.• The committee may also include independent external persons.• SEBI may nominate members in the Committee, if felt necessary in the interest of securities market.• The number of PIDs shall not be less than the total of number of shareholder directors, KMPs and independent external persons put together.



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Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>to be taken for various violations by the members of the clearing corporation.</p> <ul style="list-style-type: none">• Based on the laid down policy, the Committee shall consider the cases of violations observed during inspection, etc. and impose appropriate regulatory measure on the members of the clearing corporation.• While imposing the regulatory measure, the Committee shall adopt a laid down process, based on the 'Principles of natural justice'.• Realize the assets / deposits of defaulter/expelled member and appropriate amongst various dues and claims against the defaulter/ expelled member in accordance with the Rules, Byelaws and Regulations of the Clearing corporation.• Admission /rejection of claims against such members over the assets of the defaulter/expelled member.• To manage the Core Settlement Guarantee Fund (Core SGF) of the clearing corporation, including its investments as per norms laid	



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Sr no.	Name of Committee	Brief terms of reference	Composition
		down and ensure proper utilization of Core SGF.	
2.	Investor Grievance Redressal Committee (IGRC)	To deal with the complaints referred to it by the Clearing Corporation, hear the parties and resolve their complaints / disputes.	<ul style="list-style-type: none">• The IGRC shall comprise of a single person for claims up to Rs. 25 Lakh, whereas, for claims above Rs. 25 Lakh, the IGRC shall comprise of three persons.• The IGRC shall comprise of independent external persons with qualifications in the area of law, finance, accounts, economics, management or administration and experience in financial services, including securities market.• The members of IGRC shall not be associated with a clearing member in any manner.• The disclosures and code of conduct prescribed under para 3.4 and 4 of SEBI circular Ref. No. CIR/MRD/DSA/24/2010 dated August 11, 2010, shall be applicable, as far as may be, to members of IGRC also.
3.	Nomination & Remuneration Committee	<ul style="list-style-type: none">• Identifying a Key management personnel, other than personnel as specifically provided in its definition under SECC Regulations, 2018.	<ul style="list-style-type: none">• The Committee shall include only public interest directors.• However, independent external persons may be part of the committee for the limited purpose of



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Sr no.	Name of Committee	Brief terms of reference	Composition
		<ul style="list-style-type: none">• Lay down the policy for compensation of key management personnel in terms of the compensation norms prescribed by SEBI.• Determining the compensation of KMPs in terms of the compensation policy.• Determining the tenure of a key management personnel, other than a director, to be posted in a regulatory department.• Selecting the Managing Director.• Framing & reviewing the performance review policy to carry out evaluation of every director's performance, including that of Public Interest Director (PID).• Recommending whether to extend the term of appointment of the PID.• Besides the above, it will also discharge the function as Nomination & Remuneration	recommendation relating to selection of Managing Director; wherein the number of PIDs shall not be less than the independent external persons.
II. Oversight Committee			
4.	Standing Committee on Technology	<ul style="list-style-type: none">• Monitor whether the technology used by the clearing corporation remains up to date and meets the growing demands.• Monitor the adequacy of system capacity and	<ul style="list-style-type: none">• The Committee shall include at least two independent external persons proficient in technology.• The number of PIDs shall not be less than the



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Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>efficiency.</p> <ul style="list-style-type: none">• Look into the changes being suggested to the existing software/hardware.• Investigate into the problems computerised risk management / clearing & settlement system, such as hanging/ slowdown/ breakdown.• Ensure that transparency is maintained in disseminating information regarding slowdown/break down risk management / clearing & settlement system.• The Committee shall submit a report to the Governing Board of the clearing corporation. The Board will deliberate on the report and suitable action/ remedial measure will be taken.• Any stoppage beyond five minutes will be explained and reported to the Board. The Clearing Corporation shall issue a press release specifying the reasons for the breakdown.• Review the implementation of board	<p>total of number of shareholder directors and independent external persons put together.</p>



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Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>approved cyber security and resilience policy and its framework.</p> <ul style="list-style-type: none">Such other matters in the scope as may be referred by the Governing Board of the Clearing Corporation and/or SEBI.	
5.	Advisory Committee	<ul style="list-style-type: none">Advise the governing board on non-regulatory and operational matters including product design, technology, charges and levies.	<ul style="list-style-type: none">The Committee shall comprise of clearing members of the clearing corporation.The chairperson of the governing board shall be the head of the advisory committee.The managing director shall be a permanent invitee to every meeting of the advisory committee.The number of PIDs shall not be less than the total of number of shareholder directors, and clearing members put together.
6.	Regulatory Oversight Committee	<ul style="list-style-type: none">Oversee matters related to member regulation such as admission of members, inspection, disciplinary action, etc.Oversee SEBI inspection observations on membership related issues.Estimate adequacy of resources dedicated to member regulation.Monitor the disclosures made under Reg.33	<ul style="list-style-type: none">The committee shall comprise of public interest director and independent external persons.The number of PIDs shall not be less than the number independent external persons.Also shareholder director and key management personnel may be invitee to the committee.



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Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>of SECC Regulations, 2018.</p> <ul style="list-style-type: none">• Review the actions taken to implement the suggestions of SEBI's Inspection Reports and place it before the Board of Clearing Corporation.• To follow up and ensure compliance/implementation of the inspection observations.• Supervising the functioning of Investors' Services Cell of the Clearing Corporation which includes review of complaint resolution process, review of complaints unresolved over long period of time, estimate the adequacy of resources dedicated to investor services, etc.• Lay down procedures for the implementation of the Code.• Prescribe reporting formats for the disclosures required under the Code.• Oversee the implementation of the code of ethics.• To periodically monitor the dealings in	



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Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>securities of the Key Management Personnel</p> <ul style="list-style-type: none">• To periodically monitor the trading conducted by firms/corporate entities in which the directors hold twenty percent or more beneficial interest or hold a controlling interest.• Reviewing the fees and charges levied by a Clearing Corporation.• Monitoring implementation of SECC Regulations and other applicable rules and regulations along-with SEBI Circulars and other directions issued thereunder.• The head(s) of department(s) handling the above matters shall report directly to the committee and also to the managing director.• Any action of a recognized clearing corporation against the aforesaid head(s) shall be subject to an appeal to the committee, within such period as may be determined by the governing board.	
7.	Risk Management Committee	<ul style="list-style-type: none">• To formulate a detailed risk management policy which shall be approved by the	<ul style="list-style-type: none">• The risk management committee shall comprise of the public interest directors and independent



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Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>governing board.</p> <ul style="list-style-type: none">• To review the Risk Management Framework & risk mitigation measures from time to time.• To monitor and review enterprise-wide risk management plan and lay down procedures to inform Board members about the risk assessment and minimisation procedures.• The head of the risk management department shall report to the risk management committee and to the managing director of the Clearing Corporation.• The risk management committee shall monitor implementation of the risk management policy and keep the Board and the governing board informed about its implementation and deviation, if any.	<p>external persons, and shall report to the Governing Board.</p> <ul style="list-style-type: none">• The number of PIDs shall not be less than the number independent external persons.



Format for Monthly Development Report

MARKET DEVELOPMENT REPORT OF _____ EXCHANGE FOR THE PERIOD _____

SECTION I

1) STATISTICAL DETAILS - CURRENT FINANCIAL YEAR

IMPORTANT: The cumulative figures are for the current Financial Year.

<i>Items</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>			<i>Feb</i>	<i>Mar</i>	<i>Cumulative total for the year</i>
No. of Trading days								
A. Total value of trade (in INR Crores)								
Total Volume of trade (in MT)								
Total number of contracts traded								
B. Agri Commodities								
Total value of trade (in INR Crores)								
Total Volume of trade (in MT)								
Total number of contracts traded								
C. Non-Agri commodities								
Total value of trade in (in INR Crores)								
Total Volume of trade (in MT)								



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Total number of contracts traded								
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2) NO. OF CONTRACTS AVAILABLE FOR TRADING

<i>Commodities on which futures contracts are available*</i>	<i>Number of running contracts on each commodity</i>	<i>No. of liquid contracts*</i>	<i>No. of illiquid contracts</i>
<i>Note: *please provide criteria for liquid contracts</i>			

3) COMMODITY WISE DETAILS

<i>Items (Name of Commodity)</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>			<i>Feb</i>	<i>Mar</i>	<i>Cumulative total for the year</i>
Total value of trade in INR Crores								
Total Volume of trade in MT								
Total number of contracts traded								

4) MOVEMENT OF THE INDICES COMPILED BY THE EXCHANGE (CLOSING VALUES ONLY)

<i>Index</i>	<i>Open (First Day)</i>	<i>High (With Date)</i>	<i>Low (With Date)</i>	<i>Close (Last Trading Date)</i>

5) TRADING TERMINALS RELATED INFORMATION

- a) The number of cities covered across the country
- b) Total number of trading terminals set up across the country



- c) The number of trading terminals set up abroad, if any

6) DETAILS OF SPECIFIC PURPOSE FUNDS

- a) Investor Protection Fund

Composition of the Fund	IPF/CPF
Corpus as per previous Development Report	
Add : Accruals to the Fund during the period	
Less : Fund utilised during the period	
Corpus as of end of the period	
Composition of Fund	

7) CLEARING, SETTLEMENT & RELATED FUNCTIONS

A. Clearing and Settlement for Commodity Derivatives –

<i>Sr. No</i>	<i>Average Daily Settlement Value (INR Crores)*</i>	<i>Highest Settlement Value for the Month (INR Crores)</i>

Average Daily Settlement Value = Total Settlement Value for the Month/ Total number of trading days

B. Top 10 Settlement Shortages



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<i>Sr. No</i>	<i>Name of Member</i>	<i>Shortage in Commodity/ Contract</i>	<i>Date of Settlement (for which there was a shortage)</i>	<i>Number of times the Member had settlement shortages in the previous 6 months</i>	<i>Shortage Type (Funds/ Commodities)</i>	<i>Amount (INR Crores)</i>

C. Top 10 Clearing Members based on highest 'Daily Average Pay-In' obligation

<i>Sr. No</i>	<i>Name of Clearing Member</i>	<i>Category (CM/SCM/PCM)</i>	<i>Amount (INR crores) *</i>

8) DISCIPLINARY ACTION TAKEN AGAINST MEMBERS

<i>Sr. No.</i>	<i>Name of member</i>	<i>Nature of irregularity /violation</i>	<i>Details of action taken</i>

Note: The details pertaining to cases of deactivation of terminals for three consecutive days or more should be furnished.

9) DEFAULT OF MEMBERS



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<i>Name of member declared defaulter during the period</i>	<i>Date of default</i>	<i>Cumulative no. of default cases during the current financial year</i>

10) DETAILS PERTAINING TO DISRUPTIONS IN TRADING, IF ANY



SECTION II

1) COMPLAINTS RECEIVED FROM INVESTORS

a. Complaints against brokers

<i>Pending at the beginning</i>	<i>Received</i>	<i>Resolved</i>	<i>Pending at the end</i>	<i>No. of complaints pending for more than one month and brief reasons thereof</i>

b. Complaints referred by SEBI against the brokers

<i>Pending at the beginning</i>	<i>Received</i>	<i>Resolved</i>	<i>Pending at the end</i>	<i>No. of complaints pending for more than one month and brief reasons thereof</i>

2) COMPLAINTS AGAINST EXCHANGE

a. By investors

<i>Pending at the beginning</i>	<i>Received</i>	<i>Resolved</i>	<i>Pending at the end</i>	<i>No. of complaints pending for more than one month and brief reasons thereof</i>

b. By members

<i>Pending at the beginning</i>	<i>Received</i>	<i>Resolved</i>	<i>Pending at the end</i>	<i>No. of complaints pending for more than one month and brief reasons thereof</i>



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3) ARBITRATION (MEMBER VS NON-MEMBER)

a. Details of arbitration cases

<i>Pending at the beginning</i>	<i>Received</i>	<i>Awards passed</i>		<i>For "X" the amount set aside by the Exchange</i>		<i>Pending at the end</i>	<i>Details of arbitration cases which are pending for more than three months along with reasons</i>
		<i>In favour of non-member "X"</i>	<i>In favour of member</i>	<i>No of cases</i>	<i>Amount in INR</i>		

4) DETAILS OF IMPLEMENTATION OF ARBITRATION AWARDS

a. Member-wise statement of unimplemented awards (where the money has not been set aside)

<i>S. No</i>	<i>Name of the member</i>	<i>Number of awards un-implemented</i>	<i>Amount involved</i>	<i>Action taken by the Exchange</i>



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b. Complaints received by the Exchange against the Arbitration mechanism of the Exchange

<i>Opening balance</i>	<i>Complaints received during the month</i>	<i>Resolved during the month</i>	<i>Nature of the complaint</i>	<i>Closing balance</i>	<i>Comment of the exchange</i>

SECTION III

1) GOVERNING BOARD AND STATUTORY COMMITTEES (To be reported in case of change)

a. Composition of Governing Board/Council of Management:

<i>Names</i>	<i>Category</i>	<i>Date of Appointment</i>	<i>Date of Last Renewal of the term</i>	<i>No. of terms completed</i>	<i>Date of Expiry of current term</i>

2) ATTENDANCE DETAILS OF NON-MEMBER DIRECTORS ON GOVERNING BODY OF THE EXCHANGE

<i>Date of Meetings held</i>	<i>Name of Non-member Directors attended the meeting along with their category</i>



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	<i>Date of issue of Notice convening the meetings</i>	<i>Name of Non-member Directors</i>	<i>Name of Non-member Directors</i>

3) IMPORTANT DECISIONS TAKEN BY GOVERNING BOARD/COUNCIL OF MANAGEMENT IN THE MEETING(S).



SECTION IV

1) INSPECTION OF MEMBERS

<i>Total no. of members</i>	<i>No. of active members</i>	<i>No. of members inspected during the period</i>	<i>Cumulative number of members inspected during the current FY</i>	<i>% of active members inspected during the year</i>

2) STATUS OF IMPLEMENTATION OF CIRCULARS ISSUED BY SEBI DURING THE PAST THREE MONTHS

<i>Circular No. & date</i>	<i>Provisions in the circular(Subject)</i>	<i>Implemented (Y/N)</i>	<i>Date of implementation of the provisions</i>	<i>In case, not implemented reasons for non-implementation</i>

3) ANY OTHER IMPORTANT DEVELOPMENTS

4) REPORT ON ALGORITHMIC TRADING FOR THE MONTH

<i>S. No.</i>	<i>Particulars</i>	<i>Data</i>
1	Turnover of Algorithmic Trading (` in crores)	
2	Algorithmic Trading as a percentage of Total trading (%)	
3	Number of stock Brokers / clients using algorithmic trading	



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<i>S. No.</i>	<i>Particulars</i>	<i>Data</i>
4	Action taken in respect of dysfunctional algos	
5	Status of grievance, if any, received and processed	

SECTION V

DETAILS OF WAREHOUSING, WAREHOUSING SERVICE PROVIDERS (WSPS), DELIVERIES, HEDGING OPERATIONS & OPEN INTEREST (OI)

1) DELIVERY DETAILS

<i>Name of the Commodity</i>	<i>Physical quantity of delivery</i>	<i>Value of Deliveries</i>	<i>Contract details</i>

2) TOP 5 HEDGERS DETAILS (COMMODITY-WISE)

<i>Name of the Commodity</i>	<i>Highest OI</i>	<i>Total Value of Trades</i>	<i>Value of Deliveries</i>	<i>Stocks held in exchange accredited warehouses</i>

3) TOP 5 OI DETAILS (COMMODITY-WISE)

<i>Name of the Commodity</i>	<i>Quantity of Highest OI held during the month</i>	<i>Total Value of Trades</i>	<i>Value of Deliveries</i>	<i>Stocks held in exchange accredited warehouses</i>



4) WAREHOUSE (WH) DETAILS

<i>Name of the Exchange</i>	<i>Number of the Exchange accredited WH</i>	<i>WDRA registered warehouse</i>	<i>Inspection done</i>	<i>Inspection pending</i>

5) WSP DETAILS

<i>Name of the Exchange</i>	<i>Name of WSPs</i>	<i>Number of warehouses of each WSPs</i>	<i>Name of commodities stored in warehouses</i>	<i>Quantity stored (in MT)</i>	<i>Capacity (in MT)</i>	<i>No. of WDRA registered WH</i>



Stock Broker System Audit Framework

Audit Process

- 1) System Audit of stock brokers should be conducted with the following periodicity
 - a. Annual system audit is prescribed for stock brokers who satisfy any of the following criteria.
 - i. Stock Brokers who use [**Computer-to-Computer Link (CTCL)** or **Intermediate Messaging Layer (IML)**] / **Internet Based Trading (IBT)**/ **Direct Market Access (DMA)**/ **Securities Trading using Wireless Technology (STWT)** / **Smart Order Routing (SOR)** and have presence in more than 10 locations or number of terminals are more than 50.
 - ii. Stock Brokers who are depository participants or are involved in offering any other financial services.
 - b. Half yearly system audit has been prescribed for stock brokers who use Algorithmic Trading or provide their clients with the facility of Algorithmic Trading as per SEBI Circular CIR/MRD/16/2013 dated May 21, 2013.
 - c. For all other stock brokers, system audit shall be conducted once in two years.
- 2) Such audit shall be conducted in accordance with the Norms, Terms of Reference (ToR) and Guidelines issued by SEBI and / or by stock exchanges. Separate ToRs are specified for the following categories of brokers:
 - a. **Type I Broker:** Brokers who trade through exchange provided terminals such as NSE's NEAT, BSE's BOLT, MCX-SX's TWS, etc. (ToR attached as **Annexure 1**);
 - b. **Type II Broker:** Brokers who trade through API based trading terminals like [CTCL or IML] or IBT/DMA/STWT or SOR facility and who may also be TYPE I Brokers. (ToR attached as **Annexure 2**)
 - c. **Type III Broker:** Brokers who use Algorithmic Trading facility to trade and who may also be TYPE II Brokers. (ToR attached as **Annexure 3**)
- 3) Stock brokers shall select auditors as per the selection norms provided in the guidelines and directions issued by stock exchanges and SEBI from time to time. The Auditor may perform a maximum of 3 successive audits of the stock broker.
- 4) The stock exchanges shall periodically review ToR of such system audit and, if required, shall suitably revise the ToR after taking into consideration developments that have taken place in the securities market since the last review of ToR, observations reported in the audit reports of the stock brokers and directions issued by SEBI from time to time in this regard.
- 5) The auditor in its report shall specify compliance / non-compliance status with regard to areas mentioned in ToR. Observations on minor / major deviations as well as



qualitative comments for scope for improvement shall also be specified in the report. The auditor shall also take into consideration the observations / issues mentioned in the previous audit reports and cover open items in the report. The audit report submitted by the auditor should be forwarded to the stock exchange by the Stock Broker along with management comments, within 1 month of submission of report by the auditor.

- 6) Stock exchange shall ensure that the management of the stock broker provides their comment about the non-compliance / non-conformities (NCs) and observations mentioned in the report. For each NC, specific time-bound (within 3 months of submission of report by the exchange) corrective action must be taken and reported to the stock exchange. The auditor should indicate if a follow-on audit is required to review the status of NCs.
- 7) In order to ensure that the corrective actions are taken by the stock broker, follow-on audit, if any, shall be scheduled by the stock broker within 6 months of submission of the audit report by the system auditor.
- 8) The system auditors should follow the reporting standard as specified in **Annexure-4** of this Framework for the executive summary of the System Audit report to highlight the major findings of the System Audit.
- 9)

Auditor Selection Norms

- 1) The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. stock exchanges, clearing corporations, depositories, stock brokers, depository participants etc. The audit experience should cover all the major areas mentioned under Terms of Reference (ToR) of the system audit specified by SEBI / stock exchange.
- 2) It is recommended that resources employed shall have relevant industry recognized certifications e.g. D.I.S.A. (ICAI) Qualification , CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
- 3) The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.
- 4) The Auditor shall not have any conflict of interest in conducting fair, objective and independent audit of the Stock Broker. Further, the directors / partners of Auditor firm shall not be related to any stock broker including its directors or promoters either directly or indirectly.

The Auditor shall not have any cases pending against its previous audited companies/firms, which fall under SEBI's jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.



Annexure 1

Terms of Reference (ToR) for Type I Broker

The system auditor shall at the minimum cover the following areas:

1) System controls and capabilities

- a. **Order Tracking** – The system auditor should verify system process and controls at exchange provided terminals with regard to order entry, capturing of IP address of order entry terminals, modification / deletion of orders, status of the current order/outstanding orders and trade confirmation.
- b. **Order Status/ Capture** – Whether the system has capability to generate / capture order id, time stamping, order type, scrip details, action, quantity, price and validity etc.
- c. **Rejection of orders** – Whether system has capability to reject orders which do not go through order level validation at the end of the stock broker and at the servers of respective stock exchanges.
- d. **Communication of Trade Confirmation / Order Status** – Whether the system has capability to timely communicate to Client regarding the Acceptance/ Rejection of an Order / Trade via various media including e-mail; facility of viewing trade log.
- e. **Client ID Verification** – Whether the system has capability to recognize only authorized Client Orders and mapping of Specific user Ids to specific predefined location for proprietary orders.

2) Risk Management System (RMS)

- a. **Online risk management capability** – The system auditor should check whether the system of online risk management (including upfront real-time risk management) is in place for all orders placed through exchange provided terminals.
- b. **Trading Limits** – Whether a system of pre-defined limits / checks such as Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit, etc.) are in place and only such orders which are within the parameters specified by the RMS are allowed to be pushed into exchange trading engines. The system auditor should check that no user or branch in the system is having unlimited limits on the above parameters.
- c. **Order Alerts and Reports** – Whether the system has capability to generate alerts when orders that are placed are above the limits and has capability to generate reports relating to Margin Requirements, payments and delivery obligations.
- d. **Order Review** – Whether the system has capability to facilitate review of such orders were not validated by the system.



- e. **Back testing for effectiveness of RMS** – Whether the system has capability to identify trades which have exceeded the pre-defined limits (Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit) and also exceed corresponding margin availability of clients. Whether deviations from such pre-defined limits are captured by the system, documented and corrective steps taken.
- f. **Log Management** – Whether the system maintains logs of alerts / changes / deletion / activation / deactivation of client codes and logs of changes to the risk management parameters mentioned above. Whether the system allows only authorized users to set the risk parameter in the RMS.

3) Password Security

- a. **Organization Access Policy** – Whether the organization has a well-documented policy that provides for a password policy as well as access control policy for the exchange provided terminals.
- b. **Authentication Capability** – Whether the system authenticates user credentials by means of a password before allowing the user to login, and whether there is a system for authentication of orders originating from Internet Protocol by means of two-factor authentication, including Public Key Infrastructure (PKI) based implementation of digital signatures.
- c. **Password Best Practices** – Whether there is a system provision for masking of password, system prompt to change default password on first login, disablement of user id on entering multiple wrong passwords (as defined in the password policy document), periodic password change mandate and appropriate prompt to user, strong parameters for password, deactivation of dormant user id, etc.

4) Session Management

- a. **Session Authentication** – Whether the system has provision for Confidentiality, Integrity and Availability (CIA) of the session and the data transmitted during the session by means of appropriate user and session authentication mechanisms like SSL etc.
- b. **Session Security** – Whether there is availability of an end-to-end encryption for all data exchanged between client and broker systems. or other means of ensuring session security
- c. **Inactive Session** – Whether the system allows for automatic trading session logout after a system defined period of inactivity.
- d. **Log Management** – Whether the system generates and maintain logs of Number of users, activity logs, system logs, Number of active clients.

5) Network Integrity

- a. **Seamless connectivity** – Whether stock broker has ensured that a backup network link is available in case of primary link failure with the exchange.
- b. **Network Architecture** – Whether the web server is separate from the Application and Database Server.



- c. **Firewall Configuration** – Whether appropriate firewall is present between stock broker's trading setup and various communication links to the exchange. Whether the firewall is appropriately configured to ensure maximum security.
- 6) **Access Controls**
- a. **Access to server rooms** – Whether adequate controls are in place for access to server rooms and proper audit trails are maintained for the same.
 - b. **Additional Access controls** – Whether the system provides for any authentication mechanism to access to various components of the exchange provided terminals. Whether additional password requirements are set for critical features of the system. Whether the access control is adequate.
- 7) **Backup and Recovery**
- a. **Backup and Recovery Policy** – Whether the organization has a well-documented policy on periodic backup of data generated from the broking operations.
 - b. **Log generation and data consistency** - Whether backup logs are maintained and backup data is tested for consistency.
 - c. **System Redundancy** – Whether there are appropriate backups in case of failures of any critical system components.
- 8) **BCP/DR** (Only applicable for Stock Brokers having BCP / DR site)
- a. **BCP / DR Policy** – Whether the stock broker has a well-documented BCP/ DR policy and plan. The system auditor should comment on the documented incident response procedures.
 - b. **Alternate channel of communication** – Whether the stock broker has provided its clients with alternate means of communication including channel for communication in case of a disaster. Whether the alternate channel is capable of authenticating the user after asking for additional details or OTP (One-Time-Password).
 - c. **High Availability** – Whether BCP / DR systems and network connectivity provide high availability and have no single point of failure for any critical operations as identified by the BCP/DR policy.
 - d. **Connectivity with other FMIs** – The system auditor should check whether there is an alternative medium to communicate with Stock Exchanges and other FMIs.
- 9) **Segregation of Data and Processing facilities** – The system auditor should check and comment on the segregation of data and processing facilities at the Stock Broker in case the stock broker is also running other business.
- 10) **Back office data**
- a. **Data consistency** – The system auditor should verify whether aggregate client code data available at the back office of broker matches with the data submitted



/ available with the stock exchanges through online data view / download provided by exchanges to members.

- b. **Trail Logs** – The system auditor should specifically comment on the logs of Client Code data to ascertain whether editing or deletion of records have been properly documented and recorded and does not result in any irregularities.

11) IT Infrastructure Management (including use of various Cloud computing models such as Infrastructure as a service (IaaS), Platform as a service (PaaS), Software as a service (SaaS), Network as a service (NaaS))

- a. **IT Governance and Policy** – The system auditor should verify whether the relevant IT Infrastructure-related policies and standards exist and are regularly reviewed and updated. Compliance with these policies is periodically assessed.
- b. **IT Infrastructure Planning** – The system auditor should verify whether the plans/policy for the appropriate management and replacement of aging IT infrastructure components have been documented, approved, and implemented. The activities, schedules and resources needed to achieve objectives related to IT infrastructure have been integrated into business plans and budgets.
- c. **IT Infrastructure Availability (SLA Parameters)** – The system auditor should verify whether the broking firm has a process in place to define its required availability of the IT infrastructure, and its tolerance to outages. In cases where there is huge reliance on vendors for the provision of IT services to the brokerage firm the system auditor should also verify that the mean time to recovery (MTTR) mentioned in the Service Level Agreement (SLA) by the service provider satisfies the requirements of the broking firm.
- d. **IT Performance Monitoring (SLA Monitoring)** – The system auditor should verify that the results of SLA performance monitoring are documented and are reported to the management of the broker.

12) Exchange specific exceptional reports – The additional checks recommended by a particular exchange need to be looked into and commented upon by the system auditor over and above the ToR of the system audit.

Annexure 2
ToR for Type II Broker

The system auditor shall at the minimum cover the following areas:

1) System controls and capabilities (CTCL / IML terminals and servers)

- a. **Order Tracking** – The system auditor should verify system process and controls at CTCL / IML terminals and CTCL/ IML servers covering order entry, capturing of IP address of order entry terminals, modification / deletion of orders, status of current order/outstanding orders and trade confirmation.



- b. **Order Status/ Capture** – Whether the system has capability to generate / capture order id, time stamping, order type, scrip details, action, quantity, price and validity, etc.
 - c. **Rejection of orders** – Whether system has capability to reject orders which do not go through order level validation at CTCL servers and at the servers of respective stock exchanges.
 - d. **Communication of Trade Confirmation / Order Status** – Whether the system has capability to timely communicate to Client regarding the Acceptance/ Rejection of an Order / Trade via various media including e-mail; facility of viewing trade log.
 - e. **Client ID Verification** – Whether the system has capability to recognize only authorized Client Orders and mapping of Specific user Ids to specific predefined location for proprietary orders.
 - f. **Order type distinguishing capability** – Whether system has capability to distinguish the orders originating from (CTCL or IML) / IBT/ DMA / STWT.
- 2) **Software Change Management** - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:
- a. Processing / approval methodology of new feature request or patches
 - b. Fault reporting / tracking mechanism and process for resolution
 - c. Testing of new releases / patches / modified software / bug fixes
 - d. Version control- History, Change Management process, approval etc.
 - e. Development / Test / Production environment segregation.
 - f. New release in production – promotion, release note approvals
 - g. Production issues / disruptions reported during last year, reasons for such disruptions and corrective actions taken.
 - h. User Awareness

The system auditor should check whether critical changes made to the (CTCL or IML) / IBT / DMA / STWT/ SOR are well documented and communicated to the Stock Exchange.

3) **Risk Management System (RMS)**

- a. **Online risk management capability** – The system auditor should check whether system of online risk management including upfront real-time risk management, is in place for all orders placed through (CTCL or IML) / IBT / DMA / STWT.
- b. **Trading Limits** – Whether a system of pre-defined limits /checks such as Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit, etc., are in place and only such orders which are within the parameters specified by the RMS are allowed to be pushed



into exchange trading engines. The system auditor should check that no user or branch in the system is having unlimited limits on the above parameters.

- c. **Order Alerts and Reports** – Whether the system has capability to generate alerts when orders that are placed are above the limits and has capability to generate reports relating to margin requirements, payments and delivery obligations.
 - d. **Order Review** – Whether the system has capability to facilitate review of such orders that were not validated by the system.
 - e. **Back testing for effectiveness of RMS** – Whether system has capability to identify trades which have exceeded the pre-defined limits (Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit) and also exceed corresponding margin availability of clients. Whether deviations from such pre-defined limits are captured by the system, documented and corrective steps taken.
 - f. **Log Management** – Whether the system maintains logs of alerts / changes / deletion / activation / deactivation of client codes and logs of changes to the risk management parameters mentioned above. Whether the system allows only authorized users to set the risk parameter in the RMS.
- 4) **Smart order routing (SOR)** - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:
- a. **Best Execution Policy** – System adheres to the Best Execution Policy while routing the orders to the exchange.
 - b. **Destination Neutral** – The system routes orders to the recognized stock exchanges in a neutral manner.
 - c. **Class Neutral** – The system provides for SOR for all classes of investors.
 - d. **Confidentiality** - The system does not release orders to venues other than the recognized stock Exchange.
 - e. **Opt-out** – The system provides functionality to the client who has availed of the SOR facility, to specify for individual orders for which the clients do not want to route order using SOR.
 - f. **Time stamped market information** – The system is capable of receiving time stamped market prices from recognized stock Exchanges from which the member is authorized to avail SOR facility.
 - g. **Audit Trail** - Audit trail for SOR should capture order details, trades and data points used as a basis for routing decision.
 - h. **Server Location** – The system auditor should check whether the order routing server is located in India.
 - i. **Alternate Mode** - The system auditor should check whether an alternative mode of trading is available in case of failure of SOR Facility

5) **Password Security**



- a. **Organization Access Policy** – Whether organization has a well-documented policy that provides for a password policy as well as access control policy for exchange provided terminals and for API based terminals.
- b. **Authentication Capability** – Whether the system authenticates user credentials by means of a password before allowing the user to login, and whether there is a system for authentication of orders originating from Internet Protocol by means of two-factor authentication, including Public Key Infrastructure (PKI) based implementation of digital signatures.
- c. **Password Best Practices** – Whether there is a system provision for masking of password, system prompt to change default password on first login, disablement of user id on entering multiple wrong passwords (as defined in the password policy document), periodic password change mandate and appropriate prompt to user, strong parameters for password, deactivation of dormant user id, etc.

6) Session Management

- a. **Session Authentication** – Whether system has provision for Confidentiality, Integrity and Availability (CIA) of the session and the data transmitted during the session by means of appropriate user and session authentication mechanisms like SSL etc.
- b. **Session Security** – Whether there is availability of an end-to-end encryption for all data exchanged between client and broker systems or other means of ensuring session security. Whether session login details are stored on the devices used for IBT and STWT.
- c. **Inactive Session** – Whether the system allows for automatic trading session logout after a system defined period of inactivity.
- d. **Log Management** – Whether the system generates and maintains logs of Number of users, activity logs, system logs, Number of active clients.

7) Database Security

- a. **Access** – Whether the system allows CTCL or IML database access only to authorized users / applications.
- b. **Controls** – Whether the CTCL or IML database server is hosted on a secure platform, with Username and password stored in an encrypted form using strong encryption algorithms.

8) Network Integrity

- a. **Seamless connectivity** – Whether the stock broker has ensured that a backup network link is available in case of primary link failure with the exchange.
- b. **Network Architecture** – Whether the web server is separate from the Application and Database Server.
- c. **Firewall Configuration** – Whether appropriate firewall is present between stock broker's trading setup and various communication links to the exchange. Whether the firewall is appropriately configured to ensure maximum security.



9) Access Controls

- a. **Access to server rooms** – Whether adequate controls are in place for access to server rooms and proper audit trails are maintained for the same.
- b. **Additional Access controls** – Whether the system provides for two factor authentication mechanism to access to various CTCL or IML components. Whether additional password requirements are set for critical features of the system. Whether the access control is adequate.

10) Backup and Recovery

- a. **Backup and Recovery Policy** – Whether the organization has a well-documented policy on periodic backup of data generated from the broking operations.
- b. **Log generation and data consistency** - Whether backup logs are maintained and backup data is tested for consistency
- c. **System Redundancy** – Whether there are appropriate backups in case of failures of any critical system components

11) BCP/DR (Only applicable for Stock Brokers having BCP / DR site)

- a. **BCP / DR Policy** – Whether the stock broker has a well-documented BCP/ DR policy and plan. The system auditor should comment on the documented incident response procedures.
- b. **Alternate channel of communication** – Whether the stock broker has provided its clients with alternate means of communication including channel for communication in case of a disaster. Whether the alternate channel is capable of authenticating the user after asking for additional details or OTP (One-Time-Password).
- c. **High Availability** – Whether BCP / DR systems and network connectivity provide high availability and have no single point of failure for any critical operations as identified by the BCP/ DR policy.
- d. **Connectivity with other FMIs** – The system auditor should check whether there is an alternative medium to communicate with Stock Exchanges and other FMIs.

12) Segregation of Data and Processing facilities – The system auditor should check and comment on the segregation of data and processing facilities at the Stock Broker in case the stock broker is also running other business.

13) Back office data

- a. **Data consistency** – The system auditor should verify whether aggregate client code data available at the back office of broker matches with the data submitted / available with the stock exchanges through online data view / download provided by exchanges to members.
- b. **Trail Logs** – The system auditor should specifically comment on the logs of Client Code data to ascertain whether editing or deletion of records have been properly documented and recorded and does not result in any irregularities.



14) User Management

- a. **User Management Policy** – The system auditor should check whether the stock broker has a well-documented policy that provides for user management and the user management policy explicitly defines user, database and application Access Matrix.
- b. **Access to Authorized users** – The system auditor should check whether the system allows access only to the authorized users of the CTCL or IML System. Whether there is a proper documentation of the authorized users in the form of User Application approval, copies of User Qualification and other necessary documents.
- c. **User Creation / Deletion** – The system auditor should check whether new users' ids were created / deleted as per CTCL or IML guidelines of the exchanges and whether the user ids are unique in nature.
- d. **User Disablement** – The system auditor should check whether non-complaint users are disabled and appropriate logs (such as event log and trade logs of the user) are maintained.

15) IT Infrastructure Management (including use of various Cloud computing models such as Infrastructure as a service (IaaS), Platform as a service (PaaS), Software as a service (SaaS), Network as a service (NaaS))

- a. **IT Governance and Policy** – The system auditor should verify whether the relevant IT Infrastructure-related policies and standards exist and are regularly reviewed and updated. Compliance with these policies is periodically assessed.
- b. **IT Infrastructure Planning** – The system auditor should verify whether the plans/policy for the appropriate management and replacement of aging IT infrastructure components have been documented, approved, and implemented. The activities, schedules and resources needed to achieve objectives related to IT infrastructure have been integrated into business plans and budgets.
- c. **IT Infrastructure Availability (SLA Parameters)** – The system auditor should verify whether the broking firm has a process in place to define its required availability of the IT infrastructure, and its tolerance to outages. In cases where there is huge reliance on vendors for the provision of IT services to the brokerage firm the system auditor should also verify that the mean time to recovery (MTTR) mentioned in the Service Level Agreement (SLA) by the service provider satisfies the requirements of the broking firm.
- d. **IT Performance Monitoring (SLA Monitoring)** – The system auditor should verify that the results of SLA performance monitoring are documented and are reported to the management of the broker.

16) Exchange specific exceptional reports – The additional checks recommended by a particular exchange need to be looked into and commented upon by the System Auditor over and above the ToR of the System audit.



17) Software Testing Procedures - The system auditor should check whether the stock broker has complied with the guidelines and instructions of SEBI / stock exchanges with regard to testing of software and new patches, including the following:

- a. **Test Procedure Review** – The system auditor should evaluate whether the procedures for system and software testing were proper and adequate.
- b. **Documentation** – The system auditor should verify whether the documentation related to testing procedures, test data, and resulting output were adequate and follow the organization's standards.
- c. **Test Cases** – The system auditor should review the internal test cases and comment upon the adequacy of the same with respect to the requirements of the Stock Exchange and SEBI.



Annexure 3
ToR for Type III Broker

The system auditor shall at the minimum cover the following areas:

1) System controls and capabilities (CTCL/IML Terminals and servers)

- a. **Order Tracking** – The system auditor should verify system process and controls at CTCL / IML terminals and CTCL/ IML servers covering order entry, capturing IP address of order entry, modification / deletion of orders, status of current order/outstanding orders and trade confirmation.
- b. **Order Status/ Capture** – Whether the system has capability to generate / capture order id, time stamping, order type, scrip details, action, quantity, price and validity etc.
- c. **Rejection of orders** – Whether the system has capability to reject orders which do not go through order level validation at CTCL servers and at the servers of respective exchanges.
- d. **Communication of Trade Confirmation / Order Status** – Whether the system has capability to timely communicate to client regarding the Acceptance/ Rejection of an Order / Trade via various media including e-mail; facility of viewing trade log.
- e. **Client ID Verification** – Whether the system has capability to recognize only authorized Client Orders and mapping of Specific user Ids to specific predefined location for proprietary orders.
- f. **Order type distinguishing capability** – Whether the system has capability to distinguish the orders originating from (CTCL or IML) / IBT / DMA / STWT / SOR / Algorithmic Trading.

2) Software Change Management - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:

- a. Processing/approval methodology of new feature request or patches
- b. Fault reporting / tracking mechanism and process for resolution
- c. Testing of new releases / patches / bug fixes
- d. Version control- History, Change Management process, approval etc.
- e. Development / Test/ Production environment segregation.
- f. New release in production – promotion, release note approvals
- g. Production issues/ disruptions reported during last year, reasons for such disruptions and corrective actions taken.
- h. User Awareness

The System Auditor should check whether critical changes made to the (CTCL or IML) / IBT / DMA / STWT / SOR are well documented and communicated to the Stock Exchange.



3) Risk Management System (RMS)

- a. **Online risk management capability** – The system auditor should check whether the online risk management including upfront real-time risk management, is in place for all orders placed through (CTCL or IML) / IBT/ DMA / SOR / STWT / Algorithmic Trading.
- b. **Trading Limits** – Whether a system of pre-defined limits / checks such as Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit, etc., are in place and only such orders which are within the parameters specified by the RMS are allowed to be pushed into exchange trading engines. The system auditor should check that no user or branch in the system is having unlimited limits on the above parameters.
- c. **Order Alerts and Reports** – Whether the system has capability to generate alerts when orders that are placed are above the limits and has capability to generate reports relating to margin requirements, payments and delivery obligations.
- d. **Order Review** – Whether the system has capability to facilitate review of such orders that were not validated by the system.
- e. **Back testing for effectiveness of RMS** – Whether the system has capability to identify trades which have exceeded the pre-defined limits (Order Quantity and Value Limits, Symbol wise User Order / Quantity limit, User / Branch Order Limit, Order Price limit) and also exceed corresponding margin availability of clients. Whether deviations from such pre-defined limits should be captured by the system, documented and corrective steps taken.
- f. **Log Management** – Whether the system maintains logs of alerts / changes / deletion / activation / deactivation of client codes and logs of changes to the risk management parameters mentioned above. Whether the system allows only authorized users to set the risk parameter in the RMS.

4) Smart order routing (SOR) - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:

- a. **Best Execution Policy** – System adheres to the Best Execution Policy while routing the orders to the exchange.
- b. **Destination Neutral** – The system routes orders to the recognized stock exchanges in a neutral manner.
- c. **Class Neutral** – The system provides for SOR for all classes of investors.
- d. **Confidentiality** - The system does not release orders to venues other than the recognized stock Exchange.
- e. **Opt-out** – The system provides functionality to the client who has availed of the SOR facility, to specify for individual orders for which the clients do not want to route order using SOR.



- f. **Time stamped market information** – The system is capable of receiving time stamped market prices from recognized stock Exchanges from which the member is authorized to avail SOR facility.
 - g. **Audit Trail** - Audit trail for SOR should capture order details, trades and data points used as a basis for routing decision.
 - h. **Server Location** – The system auditor should check whether the order routing server is located in India.
 - i. **Alternate Mode** - The system auditor should check whether an alternative mode of trading is available in case of failure of SOR Facility
- 5) **Algorithmic Trading** - The system auditor should check whether proper procedures have been followed and proper documentation has been maintained for the following:
- a. **Change Management** –Whether any changes (modification/addition) to the approved algos were informed to and approved by stock exchange. The inclusion / removal of different versions of algos should be well documented.
 - b. **Online Risk Management capability**- The CTCL or IML server should have capacity to monitor orders / trades routed through algo trading and have online risk management for all orders through Algorithmic trading and ensure that Price Check, Quantity Check, Order Value Check, Cumulative Open Order Value Check are in place.
 - c. **Risk Parameters Controls** – The system should allow only authorized users to set the risk parameter. The System should also maintain a log of all the risk parameter changes made.
 - d. **Information / Data Feed** – The auditor should comment on the various sources of information / data for the algo and on the likely impact (run away /loop situation) of the failure one or more sources to provide timely feed to the algorithm. The system auditor should verify that the algo automatically stops further processing in the absence of data feed.
 - e. **Check for preventing loop or runaway situations** – The system auditor should check whether the brokers have real time monitoring systems to identify and shutdown/stop the algorithms which have not behaved as expected.
 - f. **Algo / Co-location facility Sub-letting** – The system auditor should verify if the algo / co-location facility has not been sub-let to any other firms to access the exchange platform.
 - g. **Audit Trail** – The system auditor should check the following areas in audit trail:
 - i. Whether the audit trails can be established using unique identification for all algorithmic orders and comment on the same.
 - ii. Whether the broker maintains logs of all trading activities.
 - iii. Whether the records of control parameters, orders, traders and data emanating from trades executed through algorithmic trading are preserved/ maintained by the Stock Broker.



- iv. Whether changes to the control parameters have been made by authorized users as per the Access Matrix. The system auditor should specifically comment on the reasons and frequency for changing of such control parameters. Further, the system auditor should also comment on the possibility of such tweaking leading to run away/loop situation.
- v. Whether the system captures the IP address from where the algo orders are originating.
- h. **Systems and Procedures** – The system auditor should check and comment on the procedures, systems and technical capabilities of stock broker for carrying out trading through use of Algorithms. The system auditor should also identify any misuse or unauthorized access to algorithms or the system which runs these algorithms.
- i. **Reporting to Stock Exchanges** – The system auditor should check whether the stock broker is informing the stock exchange regarding any incidents where the algos have not behaved as expected. The system auditor should also comment upon the time taken by the stock broker to inform the stock exchanges regarding such incidents.

6) Password Security

- a. **Organization Access Policy** – The system auditor should check whether the stock broker has a well-documented policy that provides for a password policy as well as access control policy for exchange provided terminals and for API based terminals.
- b. **Authentication Capability** – Whether the system authenticates user credentials by means of a password before allowing the user to login. Whether there is a system for authentication of orders originating from Internet Protocol by means of two-factor authentication, including Public Key Infrastructure (PKI) based implementation of digital signatures.
- c. **Password Best Practices** – Whether there is a system should for masking of password, system prompt to change default password on first login, disablement of user id on entering multiple wrong passwords (as defined in the password policy document), periodic password change mandate and appropriate prompt to user, strong parameters for password, deactivation of dormant user id, etc.

7) Session Management

- a. **Session Authentication** – Whether the system has provision for Confidentiality, Integrity and Availability (CIA) of the session and the data transmitted during the session by means of appropriate user and session authentication mechanisms like SSL etc.
- b. **Session Security** – Whether there is availability of an end-to-end encryption for all data exchanged between client and broker system or other means of ensuring session security. Whether session login details are stored on the devices used for IBT and STWT.



- c. **Inactive Session** – Whether the system allows for automatic trading session logout after a system defined period of inactivity.
- d. **Log Management** – Whether the system generates and maintains logs of number of users, activity logs, system logs, number of active clients.

8) Database Security

- a. **Access** – Whether the system allows CTCL or IML database access only to authorized users / applications.
- b. **Controls** – Whether the CTCL or IML database server is hosted on a secure platform, with username and password stored in an encrypted form using strong encryption algorithms.

9) Network Integrity

- a. **Seamless connectivity** – Whether the stock broker has ensured that a backup network link is available in case of primary link failure with the exchange.
- b. **Network Architecture** – Whether the web server is separate from the Application and Database Server.
- c. **Firewall Configuration** – Whether appropriate firewall are present between the stock broker's trading setup and various communication links to the exchange. Whether the firewalls should be appropriately configured to ensure maximum security.

10) Access Controls

- a. **Access to server rooms** – Whether adequate controls are in place for access to server rooms, proper audit trails should be maintained for the same.
- b. **Additional Access controls** - Whether the system should provide for two factor authentication mechanism to access to various CTCL or IML components. Whether additional password requirements are set for critical features of the system. Whether the access control is adequate.

11) Backup and Recovery

- a. **Backup and Recovery Policy** – Whether the organization has a well-documented policy on periodic backup of data generated from the broking operations.
- b. **Log generation and data consistency** – Whether backup logs are maintained and backup data should be tested for consistency.
- c. **System Redundancy** – Whether there are appropriate backups in case of failures of any critical system components.

12) BCP/DR (Only applicable for Stock Brokers having BCP / DR site)

- a. **BCP / DR Policy** – Whether the stock broker has a well-documented BCP / DR policy and plan. The system auditor should comment on the documented incident response procedures.
- b. **Alternate channel of communication** – Whether the stock broker has provided its clients with alternative means of communication including channel for



communication in case of a disaster. Whether the alternate channel is capable of authenticating the user after asking for additional details or OTP (One-Time-Password).

- c. **High Availability** – Whether BCP / DR systems and network connectivity provide high availability and have no single point of failure for any critical operations as identified by the BCP / DR policy.
- d. **Connectivity with other FMIs** – The system auditor should check whether there is an alternative medium to communicate with Stock Exchanges and other FMIs.

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14) Back office data

- a. **Data consistency** – The system auditor should verify whether aggregate client code data available at the back office of broker matches with the data submitted / available with the stock exchanges through online data view / download provided by exchanges to members.
- b. **Trail Logs** – The system auditor should specifically comment on the logs of Client Code data to ascertain whether editing or deletion of records have been properly documented and recorded and does not result in any irregularities.

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- a. **User Management Policy** – The system auditor should verify whether the stock broker has a well-documented policy that provides for user management and the user management policy explicitly defines user, database and application access matrix.
- b. **Access to Authorized users** – The system auditor should verify whether the system allows access only to the authorized users of the CTCL or IML system. Whether there is a proper documentation of the authorized users in the form of user application approval, copies of user qualification and other necessary documents.
- c. **User Creation / Deletion** – The system auditor should verify whether new user's ids should be created / deleted as per CTCL or IML guidelines of the exchanges and whether the user ids are unique in nature.
- d. **User Disablement** – The system auditor should verify whether non-complaint users are disabled and appropriate logs such as event log and trade logs of the user should be maintained

16) IT Infrastructure Management (including use of various Cloud computing models such as Infrastructure as a service (IaaS), Platform as a service (PaaS), Software as a service (SaaS), Network as a service (NaaS))



- a. **IT Governance and Policy** – The system auditor should verify whether the relevant IT Infrastructure-related policies and standards exist and are regularly reviewed and updated. Compliance with these policies is periodically assessed.
 - b. **IT Infrastructure Planning** – The system auditor should verify whether the plans/policy for the appropriate management and replacement of aging IT infrastructure components have been documented, approved, and implemented. The activities, schedules and resources needed to achieve objectives related to IT infrastructure have been integrated into business plans and budgets.
 - c. **IT Infrastructure Availability (SLA Parameters)** – The system auditor should verify whether the broking firm has a process in place to define its required availability of the IT infrastructure, and its tolerance to outages. In cases where there is huge reliance on vendors for the provision of IT services to the brokerage firm the system auditor should also verify that the mean time to recovery (MTTR) mentioned in the Service Level Agreement (SLA) by the service provider satisfies the requirements of the broking firm.
 - d. **IT Performance Monitoring (SLA Monitoring)** – The system auditor should verify that the results of SLA performance monitoring are documented and are reported to the management of the broker.
- 17) Exchange specific exceptional reports** – The additional checks recommended by a particular exchange need to be looked into and commented upon by the system auditor over and above the ToR of the system audit.
- 18) Software Testing Procedures** - The system auditor shall audit whether the stock broker has complied with the guidelines and instructions of SEBI / stock exchanges with regard to testing of software and new patches including the following:
- a. **Test Procedure Review** – The system auditor should review and evaluate the procedures for system and program testing. The system auditor should also review the adequacy of tests.
 - b. **Documentation** – The system auditor should review documented testing procedures, test data, and resulting output to determine if they are comprehensive and if they follow the organization's standards.
 - c. **Test Cases** – The system auditor should review the test cases and comment upon the adequacy of the same with respect to the requirements of the Stock Exchange and various SEBI Circulars.



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Annexure -4

Executive Summary Reporting Format

I. For Preliminary Audit

<i>Audit Date</i>	<i>Observation No</i>	<i>Description of Finding</i>	<i>Department</i>	<i>Status / Nature of Findings</i>	<i>Risk Rating of Findings</i>	<i>Audit TOR Clause</i>	<i>Audited By</i>	<i>Root Cause Analysis</i>	<i>Impact Analysis</i>	<i>Suggested Corrective Action</i>	<i>Deadline for the Corrective Action</i>	<i>Verified By</i>	<i>Closing Date</i>

Description of relevant Table heads

- 1. Audit Date** – This indicates the date of conducting the audit.
- 2. Description of Findings/ Observations** – Description of the findings in sufficient detail, referencing any accompanying evidence (e.g. copies of procedures, interview notes, screen shots *etc.*)
- 3. Status/ Nature of Findings** - the category can be specified for example:
 - a. Non-Compliant
 - b. Work In progress
 - c. Observation
 - d. Suggestion
- 4. Risk Rating of Findings** – A rating has to be given for each of the observations based on their impact and severity to reflect the risk exposure, as well as the suggested priority for action.



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<i>Rating</i>	<i>Description</i>
HIGH	Weakness in control those represent exposure to the organization or risks that could lead to instances of noncompliance with the requirements of TORs. These risks need to be addressed with utmost priority.
MEDIUM	Potential weakness in controls, which could develop into an exposure or issues that represent areas of concern and may impact internal controls. These should be addressed reasonably promptly.
LOW	Potential weaknesses in controls, which in combination with other weakness can develop into an exposure. Suggested improvements for situations not immediately/directly affecting controls.

5. **Audit TOR Clause – The TOR clause corresponding to this observation**
6. **Root cause Analysis –A detailed analysis on the cause of the nonconformity**
7. **Impact Analysis – An analysis of the likely impact on the operations/ activity of the organization**
8. **Suggested Corrective Action –The action to be taken by the broker to correct the nonconformity**

II. For Follow on / Follow up System Audit

<i>Preliminary Audit Date</i>	<i>Sr. No</i>	<i>Preliminary Observation Number</i>	<i>Preliminary Status</i>	<i>Preliminary Corrective Action</i>	<i>Current Finding</i>	<i>Current Status</i>	<i>Revised Corrective Action</i>	<i>Deadline for the Revised Corrective Action</i>	<i>Verified By</i>	<i>Closing Date</i>

Description of relevant Table heads

1. **Preliminary Status – The original finding as per the preliminary System Audit Report**



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2. **Preliminary Corrective Action** – The original corrective action as prescribed in the preliminary System Audit report
3. **Current Finding** – The current finding w.r.t. the issue
4. **Current Status** – Current status of the issue viz Compliant, Non-Compliant, Work In Progress (WIP)
5. **Revised Corrective Action** – The revised corrective action prescribed w.r.t. the Non-Compliant / WIP issues.



Cyber Security and Cyber Resilience framework

- 1) Cyber-attacks and threats attempt to compromise the Confidentiality, Integrity and Availability (CIA) of the computer systems, networks and databases.* Cyber security framework include measures, tools and processes that are intended to prevent cyber-attacks and improve cyber resilience. Cyber Resilience is an organization's ability to prepare and respond to a cyber-attack and to continue operation during, and recover from, a cyber-attack.

*Confidentiality refers to limiting access of systems and information to authorized users, Integrity is the assurance that the information is reliable and accurate, and Availability refers to guarantee of reliable access to the systems and information by authorized users

Governance

- 2) As part of the operational risk management framework to manage risk to systems, networks and databases from cyber-attacks and threats, MII should formulate a comprehensive cyber security and cyber resilience policy document encompassing the framework mentioned hereunder. The policy document should be approved by the Board, and in case of deviations from the suggested framework, reasons for such deviations should also be provided in the policy document. The policy document should be reviewed by the MII's Board at least annually with the view to strengthen and improve its cyber security and cyber resilience framework.
- 3) The cyber security and cyber resilience policy should include the following process to identify, assess, and manage cyber security risk associated with processes, information, networks and systems.
 - a. 'Identify' critical IT assets and risks associated with such assets,
 - b. 'Protect' assets by deploying suitable controls, tools and measures,
 - c. 'Detect' incidents, anomalies and attacks through appropriate monitoring tools / processes,
 - d. 'Respond' by taking immediate steps after identification of the incident, anomaly or attack,
 - e. 'Recover' from incident through incident management, disaster recovery and business continuity framework.
- 4) The Cyber security policy should encompass the principles prescribed by National Critical Information Infrastructure Protection Centre (NCIIPC) of National Technical Research Organization (NTRO), Government of India in the report titled 'Guidelines



for Protection of National Critical Information Infrastructure’ and subsequent revisions, if any, from time to time.

- 5) MII should also incorporate best practices from standards such as ISO 27001, ISO 27002, COBIT 5, etc., or their subsequent revisions, if any, from time to time.
- 6) MII should designate a senior official as Chief Information Security Officer (CISO) whose function would be to assess, identify and reduce cyber security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the cyber security and resilience policy approved by the Board of the MII.
- 7) The Oversight Standing Committee on Technology of the stock exchanges and of the clearing corporations should on a quarterly basis review the implementation of the cyber security and resilience policy approved by their Boards, and such review should include review of their current IT and cyber security and resilience capabilities, set goals for a target level of cyber resilience, and establish a plan to improve and strengthen cyber security and cyber resilience
- 8) MII should establish a reporting procedure to facilitate communication of unusual activities and events to CISO or to the senior management in a timely manner.
- 9) The aforementioned committee and the senior management of the MII, including the CISO, should periodically review instances of cyber-attacks, if any, domestically and globally, and take steps to strengthen cyber security and cyber resilience framework.
- 10) MII should define responsibilities of its employees, outsourced staff, and employees of vendors, members or participants and other entities, who may have access or use systems/ networks of MII, towards ensuring the goal of cyber security.

Identity

- 11) MII should identify critical assets based on their sensitivity and criticality for business operations, services and data management. To this end, MII should maintain up-to-date inventory of its hardware and systems, software and information assets (internal and external), details of its network resources, connections to its network and data flows.
- 12) MII should accordingly identify cyber risks (threats and vulnerabilities) that it may face, along with the likelihood of such threats and impact on the business and thereby, deploy controls commensurate to the criticality.



- 13) MII should identify critical assets based on their sensitivity and criticality for business operations, services and data management. To this end, MII should maintain up-to-date inventory of its hardware and systems, software and information Security.

Protection

Access Controls

- 14) No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities.
- 15) Any access to MII's systems, applications, networks, databases, etc., should be for a defined purpose and for a defined period. MII should grant access to IT systems, applications, databases and networks on a need-to-use basis and based on the principle of least privilege. Such access should be for the period when the access is required and should be authorized using strong authentication mechanisms.
- 16) MII should implement strong password controls for users' access to systems, applications, networks and databases. Password controls should include a change of password upon first log -on, minimum password length and history, password complexity as well as maximum validity period. The user credential data should be stored using strong and latest hashing algorithms.
- 17) MII should ensure that records of user access are uniquely identified and logged for audit and review purposes. Such logs should be maintained and stored in encrypted form for a time period not less than two (2) years.
- 18) MII should deploy additional controls and security measures to supervise staff with elevated system access entitlements (such as admin or privileged users). Such controls and measures should inter-alia include restricting the number of privileged users, periodic review of privileged users' activities, disallow privileged users from accessing systems logs in which their activities are being captured, strong controls over remote access by privileged users, etc.
- 19) Account access lock policies after failure attempts should be implemented for all accounts.
- 20) Employees and outsourced staff such as employees of vendors or service providers, who may be given authorized access to the MII's critical systems, networks and other computer resources, should be subject to stringent supervision, monitoring and access restrictions.



- 21) Two-factor authentication at *log-in* should be implemented for all users that connect using online / internet facility.
- 22) MII should formulate an Internet access policy to monitor and regulate the use of internet and internet based services such as social media sites, cloud-based internet storage sites, etc.
- 23) Proper 'end of life' mechanism should be adopted to deactivate access privileges of users who are leaving the organization or who access privileges have been withdrawn.

Physical security

- 24) Physical access to the critical systems should be restricted to minimum. Physical access of outsourced staff / visitors should be properly supervised by ensuring at the minimum that outsourced staff / visitors are accompanied at all times by authorized employees.
- 25) Physical access to the critical systems should be revoked immediately if the same is no longer required.
- 26) MII should ensure that the perimeter of the critical equipments room are physically secured and monitored by employing physical, human and procedural controls such as the use of security guards, CCTVs, card access systems, mantraps, bollards, etc. where appropriate.

Network Security Management

- 27) MII should establish baseline standards to facilitate consistent application of security configurations to operating systems, databases, network devices and enterprise mobile devices within the IT environment. The MII should conduct regular enforcement checks to ensure that the baseline standards are applied uniformly.
- 28) MII should install network security devices, such as firewalls as well as intrusion detection and prevention systems, to protect its IT infrastructure from security exposures originating from internal and external sources.
- 29) Anti-virus software should be installed on servers and other computer systems. Updation of Anti-virus definition files and automatic anti-virus scanning should be done on a regular basis.

Security of Data



- 30)** Data-in motion and Data-at-rest should be in encrypted form by using strong encryption methods such as Advanced Encryption Standard (AES), RSA, SHA-2, etc.
- 31)** MII should implement measures to prevent unauthorized access or copying or transmission of data / information held in contractual or fiduciary capacity. It should be ensured that confidentiality of information is not compromised during the process of exchanging and transferring information with external parties.
- 32)** The information security policy should also cover use of devices such as mobile phone, faxes, photocopiers, scanners, etc. that can be used for capturing and transmission of data.
- 33)** MII should allow only authorized data storage devices through appropriate validation processes.

Hardening of Hardware and Software

- 34)** Only a hardened and vetted hardware / software should be deployed by the MII. During the hardening process, MII should inter-alia ensure that default passwords are replaced with strong passwords and all unnecessary services are removed or disabled in equipments / software.
- 35)** All open ports which are not in use or can potentially be used for exploitation of data should be blocked. Other open ports should be monitored and appropriate measures should be taken to secure the ports.

Application Security and Testing

- 36)** MII should ensure that regression testing is undertaken before new or modified system is implemented. The scope of tests should cover business logic, security controls and system performance under various stress-load scenarios and recovery conditions.

Patch Management

- 37)** MII should establish and ensure that the patch management procedures include the identification, categorization and prioritization of security patches. An implementation timeframe for each category of security patches should be established to implement security patches in a timely manner.



- 38) MII should perform rigorous testing of security patches before deployment into the production environment so as to ensure that the application of patches do not impact other systems.

Disposal of systems and storage devices

- 39) MII should frame suitable policy for disposals of the storage media and systems. The data / information on such devices and systems should be removed by using methods viz. wiping / cleaning / overwrite, degauss and physical destruction, as applicable.

Vulnerability Assessment and Penetration Testing (VAPT)

- 40) MII should regularly conduct vulnerability assessment to detect security vulnerabilities in the IT environment. MII should also carry out periodic penetration tests, at least once in a year, in order to conduct an in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks.
- 41) Remedial actions should be immediately taken to address gaps that are identified during vulnerability assessment and penetration testing.
- 42) In addition, MII should perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system which offers internet accessibility and open network interfaces.

Monitoring and Detection

- 43) MII should establish appropriate security monitoring systems and processes to facilitate continuous monitoring of security events and timely detection of unauthorized or malicious activities, unauthorized changes, unauthorized access and unauthorized copying or transmission of data / information held in contractual or fiduciary capacity, by internal and external parties. The security logs of systems, applications and network devices should also be monitored for anomalies.
- 44) Further, to ensure high resilience, high availability and timely detection of attacks on systems and networks, MII should implement suitable mechanism to monitor capacity utilization of its critical systems and networks.
- 45) Suitable alerts should be generated in the event of detection of unauthorized or abnormal system activities, transmission errors or unusual online transactions.



Response and Recovery

- 46) Alerts generated from monitoring and detection systems should be suitably investigated, including impact and forensic analysis of such alerts, in order to determine activities that are to be performed to prevent expansion of such incident of cyber-attack or breach, mitigate its effect and eradicate the incident.
- 47) The response and recovery plan of the MII should aim at timely restoration of systems affected by incidents of cyber-attacks or breaches. The recovery plan should be in line with the Recovery Time Objective (RTO) and Recovery Point Objective (RPO) specified by SEBI.
- 48) The response plan should define responsibilities and actions to be performed by its employees and support / outsourced staff in the event of cyber-attacks or breach of cyber security mechanism.
- 49) Any incident of loss or destruction of data or systems should be thoroughly analyzed and lessons learned from such incidents should be incorporated to strengthen the security mechanism and improve recovery planning and processes.
- 50) MII should also conduct suitable periodic drills to test the adequacy and effectiveness of response and recovery plan.

Sharing of information

- 51) Quarterly reports containing information on cyber-attacks and threats experienced by MII and measures taken to mitigate vulnerabilities, threats and attacks including information on bugs / vulnerabilities / threats that may be useful for other MIIs, should be submitted to SEBI.
- 52) Such details as are felt useful for sharing with other MIIs in masked and anonymous manner shall be shared using mechanism to be specified by SEBI from time to time.

Training

- 53) MII should conduct periodic training programs to enhance awareness level among the employees and outsourced staff, vendors, etc. on IT / Cyber security policy and standards. Special focus should be given to build awareness levels and skills of staff from non-technical disciplines.



- 54) The training program should be reviewed and updated to ensure that the contents of the program remain current and relevant.

Periodic Audit

- 55) The Terms of Reference for the System Audit of national commodities derivatives exchange shall be accordingly modified to include audit of implementation of the aforementioned areas.



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LIST OF CIRCULARS

<i>S. No.</i>	<i>Date</i>	<i>Title</i>
1.	Oct 01, 2015	Comprehensive Risk Management Framework for National Commodity Derivatives Exchanges
2.	Oct 21, 2015	Risk Management for Regional Commodity Derivatives Exchanges
3.	Nov 16, 2015	Investor grievance redressal system and arbitration mechanism
4.	Nov 16, 2015	Annual System Audit and BCP DR
5.	Nov 26, 2015	Timelines for Compliance with various provisions of Securities Laws by Commodity Derivatives Exchanges
6.	Dec 09, 2015	Monthly Development Report for Commodity Derivative Exchanges
7.	Dec 11, 2015	Testing of software used in or related to Trading and Risk Management
8.	Jan 11, 2016	Mandatory requirements/Exit Policy for Commodity Derivatives Exchanges
9.	Jan 15, 2016	Reduction in Daily Price Limits& Near month Position Limits for Agricultural Commodity Derivatives and Suspension of Forward Segment
10.	Jan 29, 2016	Revision in Position Limits for Agricultural Commodities
11.	Mar 29, 2016	Modification of Client Codes post Execution of Trades on National and Regional Commodity Derivatives Exchanges
12.	Mar 29, 2016	Cyber Security and Cyber Resilience framework of National Commodity Derivatives Exchanges
13.	Apr 25, 2016	Disclosure of Proprietary Trading by Commodity Derivatives Broker to Client and Pro - account Trading terminal
14.	Aug 11, 2016	Annual System Audit for Trading members of National Commodity Derivatives Exchanges
15.	Aug 19, 2016	Programmes sponsored by the Exchanges through media channels
16.	Aug 19, 2016	Position Limits for Hedgers
17.	Aug 19, 2016	Modification of Client Codes post Execution of Trades on National and Regional Commodity Derivatives Exchanges– Clarification
18.	Aug 30, 2016	Trading Hours/ Trading Holidays on Commodity Derivatives Exchanges



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<i>S. No.</i>	<i>Date</i>	<i>Title</i>
19.	Aug 30, 2016	Price Dissemination through SMS/Electronic Communication Facility
20.	Aug 30, 2016	Maintenance and Preservation of Records
21.	Sep 01, 2016	Additional risk management norms for national commodity derivatives exchanges
22.	Sep 02, 2016	Spot Price Polling Mechanism
23.	Sep 07, 2016	Transaction Charges by Commodity Derivatives Exchanges
24.	Sep 07, 2016	Mechanism for regular monitoring of and penalty for short-collection/non-collection of margins from clients
25.	Sep 07, 2016	Daily Price Limits (DPL) for Non-Agricultural Commodity Derivatives/First day DPL for All Commodity Derivatives
26.	Sep 07, 2016	Guidelines for Due Date Rate (DDR) fixation for Regional Commodity Derivatives Exchanges
27.	Sep 16, 2016	Unique Client Code (UCC) and Mandatory requirement of Permanent Account Number (PAN)
28.	Sep 16, 2016	Settlement Guarantee Fund, Stress Testing and Base Minimum Capital
29.	Sep 20, 2016	Permission for trading in futures contracts and modification in contract specifications at exchange level
30.	Sep 21, 2016	Staggered delivery, early delivery system, early pay-in facility, penalty on delivery default, fixation of FSP and changes in expiry dates
31.	Sep 26, 2016	Commodity derivatives – Miscellaneous norms
32.	Sep 26, 2016	Circular on Investor Protection Fund (IPF) and its related matters
33.	Sep 27, 2016	Revised Warehousing Norms in the Commodity Derivatives Market for Agricultural and Agri-processed Commodities Traded on the National Commodity Derivatives Exchanges
34.	Sep 27, 2016	Position Limits for Commodity Derivatives, clubbing of open positions, penalties for violation of position limits
35.	Sep 27, 2016	Portfolio Management Services (PMS) in Commodity Derivatives Market
36.	Sep 27, 2016	Sharing of Information in case of Declaration of Member as Defaulter in case of Multiple Membership
37.	Sep 27, 2016	Disclosure by Commodity Derivative Exchanges on their Websites



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<i>S. No.</i>	<i>Date</i>	<i>Title</i>
38.	Sep 27, 2016	Broad Guidelines on Algorithmic Trading for National Commodity Derivatives Exchanges
39.	Sep 27, 2016	Spread Margin Benefit
40.	Sep 28, 2016	List of Commodities Notified under SCRA
41.	Sep 28, 2016	Introduction of Options in Commodity Derivatives Market
42.	Oct 14, 2016	Bullion as collateral
43.	Dec 02, 2016	Spread margin benefit
44.	Dec 16, 2016	Applicability of Principles of Financial Market Infrastructures (PFMIs) on Commodity Derivatives Exchanges
45.	Jan 20, 2017	Criteria for Eligibility, Retention and re-introduction of derivative contracts on Commodities
46.	Jun 13, 2017	Options on Commodity Futures- Product Design and Risk Management Framework
47.	Jun 13, 2017	Comprehensive guidelines for Investor protection Fund, Investor Service Fund and its related matters
48.	Jun 21, 2017	Participation of Category III Alternative Investment Funds (AIFs) in the commodity derivatives market
49.	Jul 11, 2017	Amendment to Investor Grievance Redressal System and Arbitration Mechanism
50.	Jul 25, 2017	Position Limits for Agricultural Commodity Derivatives
51.	Oct 16, 2017	Criteria for Settlement Mode of Commodity Derivative Contracts
52.	Jan 03, 2018	Transaction Charges by Commodity Derivatives Exchanges
53.	Mar 14, 2018	Clarification to Circular pertaining to Investor Protection Fund (IPF) and Investor Service Fund (ISF)
54.	Mar 14, 2018	Clarification to Circular pertaining to Investor Grievance Redressal System and Arbitration Mechanism
55.	Mar 20, 2018	Spread margin benefit in commodity futures contracts
56.	Mar 21, 2018	Risk Management norms for commodity derivatives
57.	Mar 26, 2018	Guidelines for Liquidity Enhancement Schemes (LES) in Commodity Derivatives Contracts
58.	Apr 03, 2018	Orders per second limit and requirement of empanelment of system auditors for algorithmic trading in commodity derivatives
59.	Jun 11, 2018	Disclosure by Exchanges related to Deliverable Supply and Position Limits Calculation for Agricultural Commodity Derivatives



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<i>S. No.</i>	<i>Date</i>	<i>Title</i>
60.	Jul 11, 2018	Core SGF and standardized stress testing for credit risk for commodity derivatives
61.	Oct 09, 2018	Participation of Eligible Foreign Entities (EFEs) in the commodity derivatives market
62.	Oct 16, 2018	Uniformity in the procedure for obtaining samples of goods at the Exchange accredited warehouses
63.	Nov 15, 2018	Disclosures regarding commodity risks by listed entities
64.	Nov 27, 2018	Interoperability among Clearing Corporations
65.	Nov 30, 2018	Trading hours for commodity derivatives segment
66.	Jan 04, 2019	Disclosures by Stock Exchanges for commodity derivatives
67.	Jan 10, 2019	Committees at Market Infrastructure Institutions (MIIs)
68.	Jan 23, 2019	Alignment of Trading Lot and Delivery Lot size
69.	Feb 11, 2019	Framework for utilization of Financial Security Deposit (FSD)
70.	Mar 20, 2019	Framework for Utilization of Regulatory Fee Foregone by SEBI
71.	May 21, 2019	Participation of Mutual Funds in Commodity Derivatives Market in India
72.	May 22, 2019	Participation of Portfolio Managers in Commodity Derivatives Market in India
73.	Jun 18, 2019	Design of Commodity Indices and Product Design for Futures on Commodity Indices
74.	Jun 20, 2019	Credit of Penalty for short-collection/non-collection of Margins on Commodity Derivatives Segments to Core SGF
75.	Jul 26, 2019	Guidelines for Liquidity Enhancement Scheme (LES) in Commodity Derivatives Contracts
76.	Jul 26, 2019	Staggered Delivery Period in Commodity futures contracts
77.	Aug 01, 2019	Rationalization of imposition of fines for false/incorrect reporting of margins or non-reporting of margins by Trading Member/Clearing Member in all segments
78.	Aug 07, 2019	Product Advisory Committee
79.	Sep 13, 2019	Additional commodities as Eligible Liquid Assets for Commodity Derivatives Segment
80.	Nov 14, 2019	Modifications in the contract specifications of commodity derivatives contracts
81.	Nov 29, 2019	Cut-off Time for Determining Minimum Threshold of Margins to be Collected from Clients



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<i>S. No.</i>	<i>Date</i>	<i>Title</i>
82.	Jan 16, 2020	Options in Goods - Product Design and Risk Management Framework
83.	Jan 27, 2020	Review of Margin Framework for Commodity Derivatives Segment
84.	Feb 04, 2020	Performance review of the commodity derivatives contracts
85.	Mar 03, 2020	Review of Norms regarding Regaining Matched Book for Commodity Derivatives Segment
86.	May 26, 2020	Guidelines for identification and selection of location as a delivery centre(s) for commodity derivatives contract
87.	June 05, 2020	Participation of Mutual Funds in Commodity Derivatives Market in India