



CIRCULAR

SEBI/HO/CDMRD/DRMP/CIR /2016/88

September 20, 2016

To,

The Managing Directors/Chief Executive Officers,
National Commodity Derivatives Exchanges

Sir/Madam,

Sub: Permission for trading in futures contracts and modification in contract specifications at exchange level

1. As per Section 131 (4) of the Finance Act, 2015 all rules, directions, guidelines, instructions, circulars, or any like instruments, made by the erstwhile Forward Markets Commission (FMC) or the Central Government applicable to recognised associations under the Forward Contracts Regulation Act, 1952 (FCRA) would continue to remain in force for a period of one year from the date on which FCRA was repealed (September 29, 2015), or till such time as notified by SEBI, whichever is earlier.
2. Erstwhile FMC, from time to time, had issued various norms for National Commodity Derivatives Exchanges related to permission for trading in futures contracts and modification in contract specifications at exchange level. This circular is being issued to consolidate and update such norms prescribed for National Commodity Derivatives Exchanges by the erstwhile FMC.
3. Accordingly, the following are prescribed:

a. 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 delineated in the check-list appended at Annexure 1.

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.

b. Approval for futures contracts on continuous basis

The Exchange wise list of contracts approved for continuous trading is placed at Annexure 2. Approval for continuous trading in futures contracts is contingent



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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, Bye-laws 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 (para 3c below), 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:
 - 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.

c. Permission to allow modification in futures contract specifications at the exchange level

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.

4. The provisions of this circular shall come into effect immediately.
5. Exchanges are advised to bring the provisions of this circular to the notice of their members and also to disseminate the same on their website.
6. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interest of investors in securities and to promote the development of, and regulate the securities market.
7. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

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Annexure 1

CHECK LIST

[To be submitted by Exchange at the time of submission of proposal for new contract or/and renewal of existing/earlier contracts]

Serial Number	Items/ Issues to be examined and Reported	Compliance/Comments
1	GENERAL:- Justification for introducing of futures/forward trading in the commodity including its relevance /importance to the economy (in brief) with information for preceding 3 financial years 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	



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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	
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 Centres	
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.	



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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 :-	
a.	Details of Delivery Centres, their respective storage capacity, and price neutralization formula for non-preferred delivery centres 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	



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c.	Deliveries	
d.	Market participation	
e.	Price movement	
f.	Trade versus delivery	
g.	Order versus actual trade	
h.	Average trade size at Exchange	
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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Annexure 2

Exchange wise list of contracts approved for continuous trading

Exchange Name	Contracts approved for continuous trading
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
National Multi Commodity Exchange of India Ltd.	Cardamom, Castor Seed, Coffee Rep Bulk, Isabgulseed, Copra, Pepper, Rape/Mustard Seed, Raw Jute, Rubber, Sacking, Soy Oil, Guar Seed