



CIRCULAR

SEBI/HO/CDMRD/DNP/CIR/P/2022/01

January 03, 2022

To,

The Managing Directors / Chief Executive Officers

All Recognised Stock Exchanges having Commodity Derivatives segment

Dear Sir / Madam,

Sub: Options on Commodity Futures - Product Design and Risk Management Framework – Modification in exercise mechanism.

1. SEBI vide Circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2017/55](#) dated June 13, 2017, permitted Commodity Derivatives Exchanges to introduce trading in Options on Commodity Futures and stipulated guidelines with regard to the product design and risk management framework to be adopted for trading in options on commodity futures.
2. Based on feedback received from Stock Exchanges and the recommendations of Commodity Derivatives Advisory Committee of SEBI, it has been decided to make changes in the Exercise Mechanism of option contracts on commodity futures. Accordingly, the existing para 5 of Annexure 1 to the Circular dated June 13, 2017 stand deleted. The following new para 5 shall be incorporated in place of the deleted para:

“5. Exercise Mechanism:

On expiry, following mechanism shall be adopted by Exchanges for exercise of the options contracts:

5.1. All In the money (ITM) option contracts shall be exercised automatically, unless ‘contrary instruction’ has been given by long position holders of such contracts for not doing so.

5.2. All Out of the money (OTM) option contracts shall expire worthless.



5.3. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.”

3. Other guidelines prescribed in aforesaid SEBI Circular dated June 13, 2017 shall remain unchanged
4. The Circular shall be effective from the date of new series of commodity derivatives launched on or after February 1, 2022 and exercise mechanism for Options on Futures referred to in any other guidelines prescribed by SEBI shall be as per the instant Circular.
5. The Exchanges are advised to:
 - i. take steps to make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the same,
 - ii. bring the provisions of this circular to the notice of the members of the Exchange and also to disseminate the same on their website,
 - iii. communicate to SEBI, the status of the implementation of the provisions of this circular.
6. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
7. This circular is available on SEBI website www.sebi.gov.in under the category “Circulars” and “Info for Commodity Derivatives”

Yours faithfully,

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