CIRCULAR

SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/69 **May 30, 2024**

The Managing Directors/Chief Executive Officers
All Recognised Stock Exchanges having Commodity Derivatives Segment

Dear Sir/Madam,

Sub: Revision of eligibility criteria for launching commodity futures contracts.

1. Paragraph 2.2 of Chapter 2 and Paragraph 10.1 of Chapter 10 of SEBI Master Circular dated August 4, 2023 for Commodity Derivatives segment prescribe Criteria for Eligibility, Retention and Re-introduction of Derivative Contracts on Commodities and Permission for Trading in Futures Contracts, respectively.

2. Some of these norms as mentioned at paragraph 1 above were prescribed by erstwhile Forward Market Commission (FMC) and were continued after the merger of FMC with SEBI. The commodity derivatives markets have evolved since then, with the introduction of new products, participants, entry of new stock exchanges and thus, a need is felt to review the norms in the aforesaid provisions.

3. Based on representations received from market participants and deliberations by Commodity Derivatives Advisory Committee (CDAC) of SEBI, it has been decided to modify the norms under Paragraph 2.2 and Paragraph 10.1 of the Master Circular dated August 4, 2023 as under:

   A. Paragraph 2.2. heading may be read as under.

      Criteria for eligibility of derivative contracts on commodities

   B. Paragraph 2.2.2.: *"The following criteria for eligibility, retention and re-introduction of derivative contracts on commodities shall be followed by all the stock exchanges."* stands deleted.

C. Paragraph 2.2.3 (vi) is modified as under.

“The stock exchanges shall also analyze all the proposed commodities on the afore-said parameters comprised in the template and submit the same to SEBI along with necessary supporting documentary evidence for referring the commodity for notification under section 2(bc) of Securities Contracts (Regulation) Act, 1956.”

D. Paragraph 2.2.4*. “Applicability of the template on the commodities presently being traded”* stands deleted.

E. Paragraph 2.2.5*: “Criteria for retention and reintroduction of derivative contracts on commodities”* stands deleted.

F. Paragraph 10.1.1. is modified as under.

10.1.1. **Check-list of information/details to be submitted along with proposal for launch of new contract:**

10.1.1.1 All derivative contracts approved by SEBI from time to time, are allowed to be traded in respective Stock exchange(s) on a continuous basis without requiring further approval unless SEBI advises/directs otherwise.

10.1.1.2 All proposals of stock exchange for launch of new contract shall be accompanied by complete information covering all the points appended at **Annexure P** of the Master Circular dated August 4, 2023 regarding Checklist of information/details for launch of new contract. 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.

G. Paragraph 10.1.2. is modified as under.

10.1.2. “**Approval for futures contracts:** Approval for futures trading in the commodities approved by SEBI is subject to the following terms and conditions:

i. Approval for trading in futures contracts is subject to Rules, Byelaws and Regulations of the concerned Stock Exchange.
ii. Stock exchange shall launch future contracts with contract specifications including launch calendar as approved by SEBI. Contract specifications and contract launch calendar shall be notified well in advance to the market participants on the website of the Stock Exchange.
iii. Except for the specifications permitted to be modified at stock exchange level, contracts specifications should not be changed without prior approval. For any modification in contract specification, the Stock 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. The Stock Exchanges shall launch a contract within six months of approval by SEBI, failing which the stock exchange shall apply for fresh approval from SEBI for launching the contract.
v. In case the stock exchange decides not to launch new contract for trading or to de-list the already running contracts (s) having nil open interest, then stock exchange shall keep SEBI informed with adequate reasons for such decision.
vi. 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 stock 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.
vii. The stock exchange shall ensure that the prescribed position limits on open position of each member and non-member client and the limits on daily price fluctuation as specified in the contract specification are adhered to.
viii. 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 stock exchange.

ix. The stock exchange 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.

4. This Circular shall come into force with effect from June 1, 2024.

5. The Stock Exchanges are advised to bring the provisions of this circular to the notice of their members and also to disseminate the same on their websites

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 to protect the interest of investors in securities and to promote the development of, and regulate the securities market.

7. The circular is issued with approval of the competent authority.

8. This circular is available on SEBI website at www.sebi.gov.in under the category "Circulars" and "Info for – Commodity Derivatives."

Yours faithfully,

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Checklist of information/details for launch of new contracts – Annexure P

Serial Number	Information required	Comments
1	**GENERAL-** Justification for introducing of futures 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	
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 Specifications 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	
k.	Trading units and Delivery units	
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 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.	Staggered delivery system	
6.	Status of awareness programmes for Hedgers/Potential Hedgers/Industry Associations / processors etc. organised during last 1 year.	
7.	**ANY OTHER COMMENTS/ EXPLANATIONS TO OFFER, IF ANY (IN BRIEF)**	