

MASTER CIRCULAR FOR COMMODITY DERIVATIVES SEGMENT

SEBI/HO/MRD/MRD-PoD-1/P/CIR/2023/136

August 04,2023

The Managing Directors/Chief Executive Officers

All Stock Exchanges and Clearing Corporations with Commodity Derivatives Segment

Dear Sir / Madam,

Sub: Master Circular for Commodity Derivatives Segment

1. In order to ensure availability of comprehensive information mentioned in various circulars pertaining to commodity derivatives market or segment at one place, the Securities and Exchange Board of India (“SEBI”) has been issuing Master Circulars. This Master Circular has covered various circulars issued till March 31, 2023. The references in this circular to the Statutes/Regulations which now stand repealed have been suitably updated.
2. The terms “National Commodity Derivatives Exchanges” or “Regional Commodity Derivatives Exchanges” or “Commodity Derivatives Exchanges” may be read as stock exchanges and stock exchange(s) shall mean recognized stock exchange(s) having commodity derivatives segment.
3. This Master Circular shall come into force from the date of its issuance. The Circulars mentioned in Annexure –ZG of this Master Circular shall stand rescinded with the issuance of this Master Circular, including Master Circular SEBI/HO/CDMRD/DMP/P/CIR/2022/64 dated May 17, 2022. With respect to the directions or other guidance issued by SEBI, as specifically applicable to National Commodity Derivative Exchanges, the same shall continue to remain in force in addition to the provisions of any other law for the time being in force.
4. Notwithstanding such rescission,
 - 4.1. anything done or any action taken or purported to have been done or taken under the rescinded circulars, including registrations or approvals granted fees collected, registration suspended or cancelled, any inspection or investigation or enquiry or adjudication commenced or show-cause notice issued prior to such rescission, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular,



- 4.2. any application made to SEBI under the rescinded circulars, prior to such rescission, and pending before it shall be deemed to have been made under the corresponding provisions of this Master Circular
- 4.3. the previous operation of the rescinded circulars or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded circulars, any penalty, incurred in respect of any violation committed against the rescinded circulars, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded circulars have never been rescinded.
5. This Master Circular is issued in exercise of the powers conferred by 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 to regulate, the securities market and shall come into force from the date of its issue. All Stock Exchanges and Clearing Corporations with Commodity Derivatives Segment shall ensure compliance with this Master Circular including any subsequent amendment thereto or supersession through any circular/ master circular.
6. This Master Circular is issued with the approval of the Competent Authority.
7. This Master Circular is available on SEBI Website at www.sebi.gov.in under the category “Legal – Master Circulars” and “Info for Commodity Derivatives.”

Yours faithfully,

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Abbreviations

AD -1	AUTHORIZED DEALER CATEGORY-I BANK
AIFs	ALTERNATIVE INVESTMENT FUNDS
AMCs	ASSET MANAGEMENT COMPANIES
AMFI	ASSOCIATION OF MUTUAL FUNDS IN INDIA
API	APPLICATION PROGRAMMING INTERFACE
APMC	AGRICULTURAL PRODUCE MARKETING COMMITTEE
ASBs	AUTHORIZED STOCK BROKERS
AT	ALGORITHMIC TRADING
ATM	AT THE MONEY
BCP	BUSINESS CONTINUITY PLAN
BG	BANK GUARANTEE
BIS	BUREAU OF INDIAN STANDARDS
BMC	BASE MINIMUM CAPITAL
CBI	CENTRAL BUREAU OF INVESTIGATION
CCs	RECOGNISED CLEARING CORPORATIONS
CISA	CERTIFIED INFORMATION SYSTEM AUDITORS
CISM	CERTIFIED INFORMATION SECURITIES MANAGER
CISSP	CERTIFIED INFORMATION SYSTEMS SECURITY PROFESSIONAL
CPF	CONSUMER PROTECTION FUND
CSR Fund	CORPORATE SOCIAL RESPONSIBILITY FUND
CTCL	COMPUTER TO COMPUTER LINK SOFTWARE
CTM	CLOSE TO THE MONEY
DMA	DIRECT MARKET ACCESS
DPL	DAILY PRICE LIMITS
DR	DISASTER RECOVERY
DRS	DISASTER RECOVERY SITE
DSP	DAILY SETTLEMENT PRICE
E	EXPIRY DAY
EFE	ELIGIBLE FOREIGN ENTITIES
ELM	EXTREME LOSS MARGINS
eNWRs	ELECTRONIC NEGOTIABLE WAREHOUSE RECEIPTS



<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>



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



<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	

- iii. Any extension of the trade timing within the specified limit shall be 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,

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

² SEBI circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2018/146](#) dated November 30, 2018



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, the stock exchanges may permit trading of internationally reference able commodities in evening session i.e. post 5:00 PM, in case the corresponding international market(s) are open.
- iii. While finalizing the list of trading holidays, the stock exchanges shall suitably consider the views of market participants. Frequent changes in the list of trading holidays 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 while levying transaction charges-
 - i. The stock exchanges may levy different transaction charges for different commodities' contracts, even in the case of contracts of the same commodity.
 - ii. The stock exchanges shall 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 shall be charged-on post-facto basis, i.e., after the trades are executed.

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

⁴ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2018/1](#) dated January 03, 2018



1.2.2. While revising the transaction charges, the stock exchanges shall ensure that its systems are capable of handling the additional load and that the revising of transaction charges:

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

1.3. **Spot Price Polling**⁵

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 stock 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.

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:

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

S. No.	Particulars	Details
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:

Participants	Location	Profession	Price quoted	Time, Date
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 stock exchanges shall address such complaints in a time-bound manner. Further the stock 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 of the stock exchanges to use Unique Client Code (“**UCC**”) for all clients. The stock exchanges shall not allow execution of trades without uploading of the UCC details by the members of the stock 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 (IT) Department, for all their clients. However, in case of e-PAN, members shall verify the authenticity of e-PAN with the details on the website of IT Department and maintain the soft copy of PAN in their records.⁷
- 1.4.2. PAN shall be the sole identification number and mandatory for all entities/persons who are desirous of transacting on the stock exchanges.

However, the investors residing in the State of Sikkim are exempted from the mandatory requirement of PAN. The stock 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 member of the stock exchange 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.

- 1.4.3. ⁸The stock exchanges shall ensure that their members shall:
- i. collect copies of PAN cards issued to their existing as well as new clients after verifying with the original.
 - ii. cross-check the aforesaid details collected from their clients with the details on the website of the Income Tax (IT) Department. However,

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

⁷ SEBI circular no. [SEBI/HO/CDMRD/DNP/CIR/P/2021/30](#) dated March 08, 2021.

⁸ SEBI circular no. [SEBI/HO/CDMRD/DNP/CIR/P/2021/30](#) dated March 08, 2021



in case of e-PAN, verify the authenticity of e-PAN with the details on the website of IT Department and maintain the soft copy of PAN in their records.”

- iii. upload details of PAN or e-PAN so collected to the stock exchanges as part of the UCC.
 - iv. verify the documents with respect to the unique client 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 stock exchanges and the same shall be updated on a monthly basis. Such information for a specific month should reach the stock exchanges 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”) of that stock exchange. Further, the member shall be liable to be suspended if the client details are not uploaded within a month of the trade.
- 1.4.6. The stock exchanges shall be required to maintain a database of client details submitted by its 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 ⁹

- 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.¹⁰
- 1.5.2. For this purpose, the following shall be classified as genuine errors:

⁹ SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/73](#) dated August 19, 2016

¹⁰ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/43](#) dated March 29, 2016



- 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 stock 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, stock broker shall disclose the codes of accounts which are classified as 'Error accounts' to the stock exchanges. Each stock broker shall have a well-documented error policy approved by the management of the stock broker. The stock exchanges shall periodically review the trades flowing to the 'Error accounts' of the stock brokers.

1.5.4. If stock exchange wishes to allow its 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 its 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 its members.
- iv. not allow proprietary trades to be modified as client trades and vice versa.
- v. shall levy a penalty and collect from its members and credit the same to its IPF as under:



'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2
<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 its members 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 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 the member is able to produce evidence to the satisfaction of the stock 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 member 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 ¹¹

- 1.6.1. With a view to increase the transparency in the dealings between the stock broker and the client, every stock broker shall disclose to his client whether he does client based business or proprietary trading as well.
- 1.6.2. The stock broker shall disclose this information upfront to his new clients at the time of entering into the KYC agreement.
- 1.6.3. In case of a stock 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 ¹²

- 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 stock exchange stating the reason for using the “pro-account” at multiple locations and the stock 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. Stock exchanges shall take necessary disciplinary action wherever such facility is being misused by any of its member.

¹¹ SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/49](#) dated April 25, 2016

¹² 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 ¹³

- 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 clause (e) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

¹³ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/102](#) dated September 27, 2016

1.9. Liquidity Enhancement Scheme (LES) ¹⁴

- 1.9.1. The stock exchanges may introduce Liquidity Enhancement Scheme (“LES”) in commodity derivatives segment subject to the following:
- i. The scheme shall have the prior approval of the board of directors of the stock exchange and its implementation and outcome shall be monitored by them at quarterly intervals.
 - ii. The scheme shall be objective, transparent, non-discretionary and non-discriminatory.
 - 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, a stock exchange may introduce LES in commodity derivative product where LES has been introduced in another stock exchange. Such schemes cannot be continued beyond the period of LES of the initiating stock exchange.

¹⁴ SEBI circular no [SEBI/HO/CDMRD/DRMP/CIR/P/2018/55](https://www.sebi.gov.in/sebi_data/sectors/circulars_notifications/orders_instructions/SEBI/HO/CDMRD/DRMP/CIR/P/2018/55) dated March 26, 2018



- 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 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 stock 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 stock exchange shall ensure that this is in compliance with the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 ("SECC Regulations") at all times.
- 1.9.4. Any stock 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 stock 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)¹⁵ subject to adherence to the following conditions:

¹⁵ SEBI Circular No [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/84](#) dated July 26, 2019



- i. The yearly incentives that such a stock exchange can earmark for LES shall not exceed 25% of the audited net-worth of the said stock exchange as on the last day of the previous financial year.
- ii. Such stock 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 the net worth of that stock exchange.
- iii. Such stock exchange shall continuously comply with the minimum net-worth requirements as per SECC Regulations.

1.9.5. Market integrity - The stock exchange shall ensure the following:

- i. The stock 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 mis-selling of the product in the market.
- ii. The stock exchange shall have systems and defined procedures in place to monitor collusion between stock brokers indulging in trades solely for seeking incentives and prevent payment of incentives in such cases.
- iii. Incentives shall not be provided for the trades where the counterparty is self, i.e., same UCC is on both sides of the transaction.
- iv. Any violations of clauses in this para shall be viewed most seriously.

1.9.6. Market maker / liquidity enhancer - The stock exchange shall prescribe and monitor the obligations of liquidity enhancers (liquidity provider, market-maker, maker-taker or by whatever name called)

- i. All market maker / liquidity enhancer orders / trades should be identifiable by the stock exchange.
- ii. A conflict of interest framework shall be put in place by the stock 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 stock 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 ¹⁶

- 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 stock exchanges due to reduction of regulatory fee.
- 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, the stock 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 endeavor of the exchange to utilize the earmarked fund primarily for reducing cost of transaction and for facilitating ease of trading by farmers/FPOs.
 - iii. The stock-exchange shall draw an action plan for full utilization of regulatory fee foregone by SEBI in any financial year to be utilized 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 utilized) keeping in view the amount of fund available for the purpose.

¹⁶ SEBI circular no [SEBI/HO/CDMRD/DMP/IR/P/2019/40](#) dated March 20, 2019



- iv. The stock exchange shall disseminate the details of the action plan including the financial assistance proposed to be rendered to farmers/FPOs, activities to be subsidized/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 participating farmers/FPOs are treated in a fair and equitable manner while utilizing 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 stock 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 the platform of the stock exchange by the farmers/FPOs.
 - ii. **Cost of bags and transportation for the Farmers / FPOs for delivery on exchange platform-** The cost of bags may be reimbursed or bags may be provided to farmers / FPOs for deposits on the stock exchange platform. To incentivize delivery-based participation by farmers/FPOs, certain percentage of transportation expenses may 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 the stock exchange/clearing corporation on the sell positions of the farmers/FPOs who make early pay-in of the commodities in approved warehouses.
 - iv. **Broker fee –** Stock Broker fee for farmers/FPOs may 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, the stock exchanges may reduce/subsidize this cost head.

- vi. **Repository related fee** – Stock exchanges may subsidize repository related charges for farmers/FPOs - account opening, maintenance and transfer charges or any other similar charges.
 - vii. **¹⁷Reimbursement of Mandi tax:** Reimbursement of Mandi tax including any other mandi cess or whatever name it may be called, levied against the goods deposited in warehouses accredited with Clearing Corporations for the purpose of delivering on the stock exchange platform for which exchange specific Electronic Negotiable Warehouse Receipt (“eNWR”) is generated.
 - viii. **¹⁸Reimbursement of assaying, cleaning, drying, sorting, storage and transportation charges:** Farmers/FPOs may be reimbursed the charges incurred towards assaying, cleaning, drying, sorting, storage and transportation in respect of goods deposited in warehouses accredited with Clearing Corporations with an intention to deliver them on stock exchange Platform for which exchange specific eNWR is generated.
 - ix. **¹⁹Incentivizing Option Premium:** The farmers / FPOs may be incentivized to participate in “options in goods”. For this purpose, the farmers / FPOs may be reimbursed a certain percentage or fixed amount of the premium paid by them, for purchasing “options in goods” on the stock exchange platform.
 - x. **²⁰Reimbursement of fees levied by Clearing Corporation:** Fees/cost levied by Clearing Corporation, if any, on farmers/FPOs in the process of their participation in commodity derivatives trading may be reimbursed.
 - xi. Any other activity as may be permitted by SEBI.
- 1.10.5. The stock 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.
- 1.10.6. ²¹Further, in order to enhance transparency, the stock exchanges are advised to make disclosure regarding the corpus of the fund and its utilization, on their website, on a monthly basis.

¹⁷ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2020/206](#) dated October 19, 2020

¹⁸ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2020/206](#) dated October 19, 2020

¹⁹ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2020/206](#) dated October 19, 2020

²⁰ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2020/206](#) dated October 19, 2020

²¹ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2020/206](#) dated October 19, 2020



- 1.10.7. The stock exchanges are further advised to include the details of the corpus of the fund and its utilization in the Monthly Development Report (“MDR”).

1.11. Price Dissemination through SMS / Electronic Communication Facility²²

- 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 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 IPF.

1.12. Programmes Sponsored by the Exchanges through Media Channels²³

- 1.12.1. The stock 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. The stock exchanges shall also ensure that their staff members are not associated with such activities as mentioned above. The stock exchanges shall lay down a suitable code of conduct for their executives and other staff members in this regard.

²² SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/76](#) dated August 30, 2016

²³ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/72](#) dated August 19, 2016

1.13. *Maintenance and Preservation of Records*²⁴

- 1.13.1. In terms of Rules 14 and 15 of Securities Contract (Regulation) Rules, 1957 (“**SCRR**”), 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 the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 (“**Stock 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 the Information Technology Act, 2000 in this regard shall be complied with.
- 1.13.2. Further, it has been noticed that enforcement agencies like the Central Bureau of Investigation (“**CBI**”), Police, Crime Branch etc. have been collecting copies of the various records/documents during the course of their investigation. The originals of 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 Segment*²⁵

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

1.15. *Disclosure Requirements for stock exchanges on their websites*²⁶

- 1.15.1. In order to promote transparency in the markets, the stock exchanges shall make following disclosures on their website:

²⁴ SEBI Circular No. [SEBI/HO/CDMRD/DMP/CIR/P/2016/74](#) dated August 30, 2016

²⁵ SEBI Circular no. [CIR/CDMRD/DMP/2/2016](#) dated January 15, 2016

²⁶ SEBI circular no [SEBI/HO/CDMRD/DMP/2016/101](#) dated September 27, 2016



- i. 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.
 - ii. The delivery intent of the hedgers on a daily basis in an anonymous manner.
 - iii. 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.
 - iv. 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).
 - v. 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.
 - vi. Members' data (as mentioned in **Annexure A** on format for dissemination of member's data on website).
 - 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 B** on disclosure of information regarding trading activity during life cycle of contract).
- 1.15.2. **Disclosure of suspended /expelled /defaulter members:** The stock 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** ²⁷: The disablement of terminals of the members along with duration of disablement due to shortage of funds, margin money etc., shall be disclosed by the stock 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 stock exchanges shall also make additional disclosures on their websites (as per the format at **Annexure C** 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 D** on commodity wise format of disclosure for top participants, members and market wide position limits) ²⁸. 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 OI and turnover for various categories of participants at Commodity as well as market level. While the **Annexure D** 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:
- i. categorize the participants in the following six categories:
 - a) **Farmers/FPOs**: It includes participants such as farmers, farmers’ cooperatives, 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, Produces, 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

²⁷ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated 26 September 2016

²⁸ SEBI Circular no [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/08](#) dated January 04, 2019



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”), Non Resident Indians (“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, the stock exchanges can re-classify any participant where it deems necessary to do so based on the information available with it. Stock exchanges shall be required to conduct periodical exercise to capture the above data. Thus, the stock 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. Stock 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 entities²⁹

- 1.16.1. Regulation 34(3) read with clause 9(n) of Part C of Schedule V of the Securities and Exchange Board of India (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

²⁹ SEBI Circular no [SEBI/HO/CFD/CMD1/CIR/P/2018/141](#) dated November 15, 2018



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 E** 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 of the SEBI LODR Regulations.

CHAPTER 2. PRODUCTS RELATED GUIDELINES

2.1. *Goods notified under SCRA*³⁰

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 F** on Goods notified u/s 2(bc) of SCRA.

2.2. *Criteria for Eligibility, Retention and Re-introduction of Derivative Contracts on Commodities*³¹

2.2.1. The commodities which are to be recommended by SEBI for notification by the Government or on which the stock 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 the stock exchanges.

2.2.3. **Eligibility criteria for allowing derivative contracts on commodities:** Stock Exchanges shall examine following basic parameters and the commodity may be permitted to be included under derivatives if such commodity satisfies these parameters.

³⁰ SEBI circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2016/105](#) dated September 28, 2016

³¹ 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 Essential Commodities Act, 1955, the laws relating to the Agricultural Produce Marketing Committee (“**APMC**”), 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 stock exchanges, the indicative template (as enclosed at **Annexure G** on Template on Criteria for Eligibility of Commodity Derivative Products) shall be adopted by them. In this regard the stock exchanges shall decide upon the specific numerical weight ages as approved by their oversight committee for 'Product Design'.

- vi. The stock 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 stock 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 stock exchange, it should have annual turnover of more than five hundred crore rupees 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 stock 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 stock exchange from derivatives trading on its platform, shall not be re-considered by the concerned stock 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* ³²

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 Regulatory Oversight Committee and also to the Managing Director. Any action against the head(s) of department shall be subject to an appeal to the Regulatory Oversight Committee, within such period as may be determined by the Governing Board.

2.4. *Product Advisory Committee* ³³

2.4.1. Each stock exchange shall constitute a Product Advisory Committee (“PAC”) for each group/complex of commodities having common stakeholders/value chain participants, on which derivatives are traded or being proposed to be traded on the stock 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.

³² SEBI circular no. [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13](#) dated January 10, 2019.

³³ SEBI circular no. [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/89](#) dated August 07, 2019

- 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 stock 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. Stock 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 and FPOs / Cooperative societies in case of agricultural commodities, Small & Medium Enterprises (“**SMEs**”) / Micro, Small & Medium Enterprises (“**MSMEs**”) etc.
 - c. Representative(s) from warehousing/ assaying sector.
 - d. Independent Expert(s) in the specific commodity group.
 - e. Representative(s) from financial sector (such as Financial Institutions, brokers, etc.).
 - f. Representative(s) from stock 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 stock 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 stock exchange regarding the commodity/contract.
 - iii. In the PAC meetings at least 50% members (excluding representative from stock exchange/ clearing corporation) shall be present, including its chairman or vice chairman (acting chairman).
- 2.4.5. **Disclosure:** For each PAC, the stock exchange shall make following disclosures on its website:
- i. Composition of the PAC- Name of the member, Organisation, Sector
 - ii. Terms and reference of the PAC
 - iii. The PAC shall be at liberty to publicise agenda items with the prior concurrence of the stock exchange 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. Stock 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 meeting of the PAC or a matter that comes for discussion in the course, in a meeting of the PAC, such member of the PAC 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 Contracts³⁴

- 2.5.1. All stock exchanges shall review the performance of all contracts traded on their platform (as per the parameters illustrated in **Annexure H** 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.

³⁴ 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*³⁵

- 3.1.1. **Base price for DPL:** The base price for fixing the Daily Price Limit (“DPL”) slabs shall be the previous day’s closing price of the underlying contract on the respective stock exchange.
- 3.1.2. **Order Acceptance:** The stock exchanges shall ensure that their system should only accept those orders which are within the relevant prescribed slab at any point of time.
- 3.1.3. **Breach of slab:** A breach of slab shall be considered when trading in a contract is executed at the upper or lower band of the prescribed slab.
- 3.1.4. **DPL on First Trading Day of the Contract**
 - i. In order to prescribe DPL slabs for the first trading day (launch day) of each contract, stock exchange shall determine base price as under:
 - a) Volume Weighted Average Price (“VWAP”) of the first half an hour, subject to minimum of ten trades
 - b) If sufficient number of trades are not executed during the first half an hour, then the VWAP of first hour trade subject to minimum of ten trades shall be considered.
 - c) If sufficient number of trades are not executed even during the first hour of the day, then VWAP of the first ten trades during the day shall be considered.
 - ii. The base price arrived as per para (a) or (b) or (c) 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.
 - iii. However, in case there is no trade during the day or there are less than ten trades during the day, the stock exchange shall adopt an appropriate methodology for determining the base price and disclose the same on their website for dissemination to the stakeholders. DPL on the next trading day will be applicable on such base price.

³⁵ SEBI Circular no. [SEBI/HO/CDMRD/DNPMP/CIR/P/2021/9](#) dated January 11, 2021.

3.1.5. Calculation of closing price or Daily Settlement Price

- i. The stock Exchange/ Clearing Corporation shall determine the closing price or Daily Settlement Price (“DSP”) in the following order:
 - a) VWAP of all trades done during last half an hour of the trading day;
 - b) If the number of trades during last half an hour is less than 10, then DSP shall be based on the VWAP of the last 10 trades executed during the day;
 - c) If the number of trades done during the day is less than 10 or no trade has been executed in a contract on a day, the stock exchange/ clearing corporation shall adopt an appropriate methodology for determining daily closing price/ settlement price and disclose the same on their website for dissemination to the stakeholders.
- ii. The Stock Exchange/ Clearing Corporation may increase the number of minimum trades based on the liquidity criteria set by the Stock Exchange/ Clearing Corporation. Approval shall be taken from their Risk Management Committee on liquidity criteria and disclosed by them on their website

3.1.6. For any commodity futures contracts, the stock exchange at its discretion may prescribe DPL narrower than the slabs prescribed based upon reasons including analysis of price movements, finding pertaining to surveillance etc.

3.2. DPL for Commodity futures contracts which are based on agricultural and agri-processed goods³⁶

3.2.1. The DPL for commodity futures contracts based on agricultural and agri-processed goods is as under:

Category	Initial Slab	Enhanced Slab	Aggregate DPL
Broad	4%	2%	6%
Narrow	4%	2%	6%

³⁶ SEBI Circular no. [SEBI/HO/CDMRD/DNPMP/CIR/P/2021/9](https://www.sebi.gov.in/sebi_data/attachdocs/SEBI/HO/CDMRD/DNPMP/CIR/P/2021/9) dated January 11, 2021.



Category	Initial Slab	Enhanced Slab	Aggregate DPL
Sensitive	3%	1%	4%

3.2.2. Once the initial slab limit is breached in any contract, then, after a cooling-off period of 15 minutes, this limit shall be increased further by enhanced slab, only in that contract.

3.2.3. During the cooling-off period of 15 minutes, the trading shall be permitted, within the initial slab limit.

3.2.4. After the DPL is enhanced, trading shall be permitted throughout the day within the enhanced Aggregate DPL.

3.3. DPL for Commodity futures contracts which are based on non-agricultural goods³⁷

3.3.1. Following slabs shall be applied for DPL on futures contracts based on non-agricultural goods:

Category	Initial Slab	Enhanced Slab	Aggregate DPL	Trading beyond Aggregate DPL
Energy	6%	3%	9%	Yes
Metals and Alloys	6%	3%	9%	Yes
Precious metals	6%	3%	9%	Yes
Gems and Stone	3%	3%	6%	No
Other Non-agricultural Commodities	6%	3%	9%	No

3.3.2. Once the initial slab limit is breached in any contract, the DPL for that contract shall be relaxed further by the 'Enhanced Slab' after the cooling off period of 15 minutes in the trading.

3.3.3. During the cooling off period trading shall continue to be permitted within the previous slab of DPL.

³⁷ SEBI Circular no. [SEBI/HO/CDMRD/DNPMP/CIR/P/2021/9](https://www.sebi.gov.in/sebi_data/attach_data/20210111134424.pdf) dated January 11, 2021.

- 3.3.4. In case the price movement in the international markets is more than the aggregate DPL or if international price is beyond aggregate DPL range (after appropriate currency conversion) when compared with closing price on previous day on domestic exchange, the same maybe further relaxed in stages of 3% by the Exchange with cooling off period of 15 minutes. For such instances, the Stock Exchanges shall give appropriate notice to the market along with all the relevant details and justification for the same.”³⁸
- 3.3.5. Only in the event of exceptional circumstances, where there is extreme price movement, beyond the initial slab of the DPL, in the international markets, during trading hours or after the closure of trading on domestic exchanges, the stock exchanges can relax the DPL directly by the required level, by giving appropriate notice to the market, as per para 3.3.4 above.”³⁹
- 3.3.6. The stock exchanges shall inform SEBI of all such instances of relaxation of DPL pursuant to Para 3.3.4 and Para 3.3.5 above, under Para 10 of Section I in the Monthly Development Report being submitted to SEBI.
- 3.3.7. It is clarified that breach of slab is not essential for implementation of the Clause 3.3.4 and 3.3.5 above of this Master Circular.

3.4. General guidelines for Position Limits⁴⁰

- 3.4.1. The following norms shall be applicable to the agricultural as well as non- agricultural commodity derivatives at commodity level:
- i. Numerical value of overall client level open position limits shall be applicable for each commodity as explained subsequently.
 - ii. 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.
 - iii. For the purpose of position limits, norms applicable on client level positions shall also be applicable to the proprietary positions of members and while calculating member’s open positions, his

³⁸ [SEBI Circular SEBI/HO/MRD/MRD-PoD-1/P/CIR/2022/128 dated September 27, 2022.](#)

³⁹ [SEBI Circular SEBI/HO/MRD/MRD-PoD-1/P/CIR/2022/128 dated September 27, 2022.](#)

⁴⁰ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016

proprietary positions shall be treated and computed like a client's positions.

- iv. 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 Positions ⁴¹

- i. While calculating open positions for the purpose of position limits, stock 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 I** on Clubbing of Open Positions.
- ii. All stock exchanges shall jointly formulate uniform guidelines and disclose the same to the market.

3.4.3. Monitoring of Position Limits ⁴²

- i. Stock 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 J** on Position Limit Violation.

3.5. **Position limits for Agricultural Commodity Derivatives**⁴³

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

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/2016/96](#) dated September 27, 2016

⁴³ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016



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).⁴⁴
- 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.
 - 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.⁴⁵
 - 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.⁴⁶
- v. **Exchange-wide Position Limit for Agricultural Commodities:** The overall Stock 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.⁴⁷

⁴⁴ SEBI circular [SEBI/HO/CDMRD/DMP/CIR/P/2017/84](#) dated July 25, 2017.

⁴⁵ SEBI circular no. [CDMRD/DMP/CIR/32/2016](#) dated January 29, 2016

⁴⁶ SEBI circular no. [CDMRD/DMP/CIR/32/2016](#) dated January 29, 2016

⁴⁷ SEBI circular [SEBI/HO/CDMRD/DMP/CIR/P/2017/84](#) dated July 25, 2017.



3.5.2. Framework for determination of numerical value of overall client level open position limits ⁴⁸:

- 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: -
 - 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:

⁴⁸ SEBI circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2017/84](https://www.sebi.gov.in/sebi_data/attachdocs/20170725143047636.pdf) dated July 25, 2017

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 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. Stock 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 Stock 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 stock exchange, as per the format given in **Annexure K** Format for Dissemination of Information on Website.⁴⁹
- 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 Derivatives⁵⁰

- 3.6.1. The following norms shall be applicable to Non- Agricultural commodity derivatives at commodity level: -
- i. 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.
 - ii. Client level position limits shall be equivalent to the numerical level limit as given in table in **Annexure M** or 5% of market-wide open interest, whichever is higher.

⁴⁹ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2018/96](#) dated June 11, 2018

⁵⁰ SEBI Circular No [SEBI/HO/CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016

- iii. 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 Hedgers ⁵¹

- 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 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,

⁵¹ SEBI Circular NO. [SEBI/HO/CDMRD/DMP/CIR/P/2016/71](#) dated August 19, 2016



- a. pledged with the Scheduled Commercial Banks/Co-operative Banks;
 - b. lying in any Government Entity's warehouse or warehouse approved by the Warehousing Development and Regulatory Authority ("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 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:



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

CHAPTER 4. PARTICIPANTS IN COMMODITY DERIVATIVES MARKETS

4.1. *Category III Alternative Investment Funds* ⁵²

- 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 stock 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 SEBI 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 the notification of the Reserve Bank of India (“RBI”) having 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 the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 and circulars issued thereunder.

4.2 *Foreign Portfolio Investor*⁵³

⁵² SEBI Circular no [SEBI/HO/CDMRD/DMP/CIR/P/2017/61](#) dated June 21, 2017

⁵³ [SEBI Circular no SEBI/HO/MRD/MRD-RAC-1/P/CIR/2022/131](#) dated September 29, 2022

4.2.1 Foreign investors are allowed to participate in Indian Exchange Traded Commodity Derivatives (“**ETCDs**”) through the Foreign Portfolio Investor (“**FPI**”) route, subject to conditions prescribed by SEBI.

4.2.2 The participation of FPIs in Indian ETCDs would be subject to the following:

- i. To begin with, FPIs will be allowed to participate in cash settled non-agricultural commodity derivative contracts and indices comprising such non-agricultural commodities.
- ii. FPIs desirous of participating in ETCDs shall be subject to risk management measures applicable, from time to time.
- iii. Position Limits:
 - a) FPIs other than individuals, family offices and corporates may participate in eligible commodity derivatives products as ‘Clients’ and shall be subject to all rules, regulations and instructions, position limit norms as may be applicable to clients, issued by SEBI and stock exchanges, from time to time.
 - b) FPIs belonging to categories viz. individuals, family offices and corporates will be allowed position limit of 20 per cent of the client level position limit in a particular commodity derivative contract.
- iv. The participation of FPIs including individuals, family offices and corporates shall be subject to compliance with the provisions of the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019, the Securities and Exchange Board of India (Custodian) Regulations, 1996 and other applicable SEBI circulars on ETCDs.
- v. Stock Exchanges/Clearing Corporations may specify additional safeguards/conditions, as deemed fit, to manage risk and ensure orderly trading in ETCDs.

4.3 Portfolio Management Services⁵⁴

4.3.1 Portfolio Managers are permitted to participate in ETCDs on behalf of their clients' subject to the following:

- i. Portfolio Managers may participate in ETCDs on behalf of their clients and such participation shall be in compliance with all the rules, regulations including the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020 (“**Portfolio Managers Regulations**”) and circulars/guidelines and position limit norms as may be applicable to ‘clients’, issued by SEBI and stock exchanges from time to time.
- ii. Portfolio Managers may participate in ETCDs 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 ETCDs 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 ETCDs, including but not limited to the risk factors, margin requirements, position limits, prior experience of the Portfolio Manager in ETCDs, 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 FPIs are allowed to participate in the ETCDs market subject to certain conditions, Portfolio Managers shall ensure that any transaction relating to any FPI on-boarded by them are conducted after strictly following those conditions.

⁵⁴ SEBI circular no [SEBI/HO/IMD/DF1/CIR/P/2019/066](#) dated May 22, 2019.

vi. Portfolio Managers shall also provide periodic reports to the clients as per the Portfolio Managers Regulations regarding their exposure in ETCDs.

vii. Portfolio Managers shall report the exposure in ETCDs 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 Custodians before dealing in ETCDs.

4.4 Mutual Funds⁵⁵

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 ⁵⁶: -
 - 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.

⁵⁵ SEBI circular no. [SEBI/HO/IMD/DF2/CIR/P/2019/65](#) dated May 21, 2019.

⁵⁶ SEBI circular no. [SEBI/HO/IMD/DF2/CIR/P/2020/96](#) dated June 05, 2020.



- 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 Master Circular for Mutual Funds (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 applicable provisions of the Securities and Exchange Board of India (Mutual Funds) Regulations 1996, as this will lead to change in fundamental attributes of the scheme and all unit holders shall be given a time-period of at least 30 days to exercise the option to exit at prevailing Net Asset Value (“NAV”) without charging of exit load, if any.
- vii. Prior to participation in ETCDs, the Asset Management Companies (“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 SEBI 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 AMC and Trustees.
 - d) Have written down valuation policies approved by the Trustees and the board of the AMC 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 Gold Deposit Scheme (“GDS”) of Banks, Gold Monetisation Scheme (“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 Trustees and



board of directors of the AMC. The policy should have provision to make it necessary for the mutual 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 Stock 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.
- xii. ⁵⁷Mutual funds shall not write options or purchase instruments with embedded written options in goods or on commodity futures.

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. GDS of banks, 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 may be utilized for ETCD having gold as the underlying.

⁵⁷ SEBI circular no [SEBI/HO/IMD/DF2/CIR/P/2021/10](#) dated January 15, 2021



- v. ⁵⁸The cumulative gross exposure through equity, debt derivative positions (including commodity and fixed income derivatives), repo transactions and credit default swaps in corporate debt securities, Real Estate Investment Trusts (“**REITs**”), Infrastructure Investment Trusts (“**InvITs**”), other permitted securities/assets and such other securities/assets as may be permitted by SEBI from time to time should not exceed 100% of the net assets of the scheme
- vi. ⁵⁹The following exposures shall not be considered in the cumulative gross exposure as specified in para v above:
 - a) Short position in ETCDs not exceeding the holding of the underlying goods received in physical settlement of ETCD contracts.
 - b) Short position in ETCDs not exceeding the long position in ETCDs on the same goods.

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

- i. The NAVs of those schemes shall be updated on daily basis by the AMCs on their website and on the website of the Association of Mutual Funds in India (“**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**”).

⁵⁸ SEBI Circular no. [SEBI/HO/IMD/DF2/CIR/P/2021/24](#) dated March 04, 2021

⁵⁹ SEBI circular no [SEBI/HO/IMD/DF2/CIR/P/2021/10](#) dated January 15, 2021



CHAPTER 5. OPTIONS IN GOODS ⁶⁰

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 the stock 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 stock 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

⁶⁰ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2020/05](https://www.sebi.gov.in/sebi_data/attachdocs/20200516143048393223.pdf) dated January 16, 2020

series having strike prices just below the price of the 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:** Stock Exchanges shall have flexibility to decide upon expiry day of option 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 (“CCs”) shall adopt risk management framework compliant with the Principles for Financial Market Infrastructures issued by the Committee on Payments and Market Infrastructures (“CPMI”) and the International Organization of Securities Commissions (“IOSCO”), including the following.

5.2.2. **Margining model and quantum of initial margins:** CCs 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 at least 99% Value at Risk (“VaR”). 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. **Volatility Scan Range⁶¹:** The Volatility Scan Range (“VSR”) in respect of various categories of commodities shall be subject to following minimum values:

⁶¹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2021/08](#) dated January 11, 2021

Volatility Category	Minimum VSR % Non Agri commodities	Minimum VSR % Agri Commodities
Low	4	5
Medium	5	6
High	6	7

CCs (providing clearing and settlement for options) shall review the value of VSR by back testing on a monthly basis using last 3 years' data by 15th of every month and any change in VSR shall be implemented from 1st trading day of the following month.

The back testing shall be done by using appropriate models to extract volatility (such as the Exponentially Weighted Moving Average (“**EWMA**”) volatility of the underlying futures contract, implied volatility of options, etc.) over the relevant MPOR period.

- 5.2.4. **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.
- 5.2.5. **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.
- 5.2.6. **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. Stock 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. Stock Exchanges shall make necessary disclosures such as open interest of top 10 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 Clause 1.15.4 of this Master Circular.
- 5.3.3. The stock exchanges shall augment their monitoring and surveillance capacity.

CHAPTER 6. OPTIONS ON COMMODITY FUTURES⁶²

6.1. *Product Design*

- 6.1.1. **Underlying:** Commodity futures contract (of a specified month) traded on the corresponding stock 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 the criteria specified below on the respective exchange:
- i. 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.
- 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).

⁶² SEBI circular no [SEBI/HO.CDMRD/DMP/CIR/P/2017/55](https://www.sebi.gov.in/sebi_data/sectors/circulars_notifications/advisories/20170613140414.pdf) dated June 13, 2017

- 6.1.6. **Exercise Mechanism:** On expiry, following mechanism shall be adopted by Stock Exchanges for exercise of the options contracts:⁶³
- i. 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.
 - ii. All Out of the money (OTM) option contracts shall expire worthless.
 - iii. 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 the Stock 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 stock 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.

⁶³ SEBI Circular No. [SEBI/HO/CDMRD/DNP/CIR/P/2022/01](#) dated January 03, 2022.

CCs (providing clearing and settlement for options) shall review the value of VSR by back testing on a monthly basis using last 3 years' data by 15th of every month and any change in VSR shall be implemented from 1st trading day of the following month.

The back testing shall be done by using appropriate models to extract volatility (such as EWMA volatility of the underlying futures contract, implied volatility of options, etc.) over the relevant MPOR period.

- 6.2.4. **Margining at client level:** Stock 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.
- 6.2.5. **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.
- 6.2.6. **Mark to market:** Stock 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.
- 6.2.7. **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, stock 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 stock 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 ⁶⁵

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 specified herein are permitted. For being eligible to launch derivatives upon, stock exchanges shall ensure that indices are compliant with IOSCO Principles for Financial Benchmarks and make necessary disclosures in this regard on their websites. Further, stock 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 stock 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 stock 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)

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

⁶⁵ SEBI circular no [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/71](https://www.sebi.gov.in/sebi_data/sectors/circulars_notifications/orders_notices.asp?DocID=151234567890) dated June 18, 2019

7.1.4. Re-balancing

- i. The index constituents and their weightages shall be at least annually selected and rebalanced. Stock 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. Stock 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 stock exchanges-
 - a) Reselection of commodities (excluding banned / suspended commodities)
 - b) Recalculation of weightage

Stock 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 shall be assigned weightages based on their production value and liquidity value with appropriate weightages pre-decided by stock exchange for production value and liquidity value (provided that weightage of either shall not be less than 25%). The liquidity value shall be total traded value of the index constituent on the stock exchange platform in the preceding twelve months prior to the construction / announcement of re-balancing of the index. The production value shall 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, stock 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. Stock 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:** Stock 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 shall 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, stock 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 stock exchange shall submit its proposal with contract specifications and risk management framework to SEBI, for approval.

7.3. Risk Management

- 7.3.1. Stock 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:** Stock 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 destabilising, pro-cyclical changes.

Initial margin requirement shall be adequate to cover at least 99% VaR and 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, stock 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:** Stock 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. Cross Margin in Commodity Index Futures and its underlying constituent futures or its variants⁶⁶

7.4.1. SEBI has prescribed norms, inter-alia, for providing margin benefit on spread positions in commodity futures contracts. In order to improve the efficiency of the use of the margin capital by market participants, cross margin benefit between Commodity Index futures and futures of its underlying constituents or its variants was introduced as it would reduce the cost of trading and may lead to enhanced liquidity in both the Commodity index futures and its underlying constituent futures or its variants.

7.4.2. Therefore, based on the consultation with the stakeholders, the following provisions shall be applicable in this regard;

i. Computation of cross margin benefit:

- a) Cross margin benefit of 75 % on Initial Margin may be allowed for eligible offsetting positions of index futures and futures of its underlying constituents or its variants. The Extreme Loss Margin and Mark to Market Margin shall continue to be levied.
- b) Cross margin benefit shall be computed at the client level on an online real time basis and provided to the trading member / clearing member, as the case may be. This benefit in turn shall be passed on to the client.

ii. Separate Accounts

- a) Clients may be allowed to maintain two accounts with trading member/clearing member, viz arbitrage account (which holds fully replicated portfolio) and a non-arbitrage account. This is for the purpose of allowing clients to convert a partially replicated portfolio into a fully replicated portfolio by taking opposite positions in two accounts. A fully replicated portfolio is one which has exact offsetting positions of index futures contract and all its constituent futures contracts or its variants.

⁶⁶ SEBI Circular no. [SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2021/586](#) dated June 29, 2021



- b) However, for the purpose of compliance and reporting requirements, the positions across both the accounts shall be taken together and the client shall continue to have a unique client code.

iii. Eligibility

- a) To be eligible for cross margin benefit, contracts belonging to Index futures and underlying constituents or its variants shall belong to same expiry month or to the nearest expiry month and should be from amongst the first three expiring contracts only.
- b) Cross Margin benefit on the eligible positions shall be entirely withdrawn latest by the start of the tender period for the constituent futures of the index or its variants or start of the expiry day, whichever is earlier.
- c) Clearing Corporations / Stock Exchanges may introduce cross margin benefit, after back testing for adequacy of cross margin to cover Mark to Market losses (“**MTM**”) for a minimum period of six months. Initial margin after cross margin benefit should be able to cover MTM on at least 99% of the days as per back testing.

iv. Default

- a) In the event of a default by a trading member / clearing member, as the case may be, whose clients have availed cross margin benefit, the Clearing Corporation shall have the option to:
 - 1) Hold the positions in the cross margin account till expiry, in its own name.
 - 2) Liquidate the positions / collateral and use the proceeds to meet the default obligation.

- v. **Agreement:** The Stock Exchange / Clearing Corporation shall enter into an agreement with the trading member / clearing member, as the case may be, clearly laying down the distribution of liability / responsibility in the event of a default.

- vi. CCs shall apply to SEBI for approval for provision of cross margin benefit on the indices. The application shall be accompanied with the back testing data as mentioned at para 7.4.2 (iii)(c).

7.5. Other aspects

- 7.5.1. The stock exchanges willing to start trading in futures on commodity indices shall take prior approval of SEBI for launching such contracts. Stock Exchanges shall 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, stock exchanges shall also publish the above data on their website before launch of the products.
- 7.5.2. Stock 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.
- 7.5.3. The Stock Exchanges shall augment their monitoring and surveillance capacity.

CHAPTER 8. OPTIONS ON COMMODITY INDICES - PRODUCT DESIGN AND RISK MANAGEMENT FRAMEWORK⁶⁷

8.1. Product Design

- 8.1.1. **Underlying:** The underlying shall be commodity indices, which shall conform to the guidelines as prescribed in Chapter 7 of this Master Circular.
- 8.1.2. **Eligibility Criteria for Underlying:** Option contracts may be introduced on those indices on which futures contracts are available.
- 8.1.3. **Settlement Mechanism:** On exercise, options contract shall be settled in cash.
- 8.1.4. **Exercise Style:** European style options.
- 8.1.5. **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”).
- 8.1.6. **Size of the Contract:** At least INR 5 lakh at the time of introduction in the market.
- 8.1.7. **Exercise Mechanism:** On expiry, following mechanism shall be adopted by stock exchanges for exercise of the options contracts:
- i. All ITM option contracts shall be exercised automatically, unless ‘contrary instruction’ has been given by long position holders of such contracts for not doing so.
 - ii. All OTM option contracts shall expire worthless.
 - iii. All exercised contracts within an option series shall be assigned to short positions in that series in a fair and non-preferential manner.

⁶⁷ SEBI Circular No. [SEBI/HO/CDMRD/DNP/CIR/P/2022/34](#) dated March 24, 2022

- 8.1.8. **Trading Hours:** The trading hours shall 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 options contract shall expire at 5:00 pm.
- 8.1.9. **Expiry Date:** The stock exchanges shall have the flexibility to set the expiry date for contracts. However, the expiry date shall not coincide with the roll-over period of the constituents of the underlying index.
- 8.1.10. **Tenor of the Contract:** To begin with, maximum tenor of contracts shall be 12 months.
- 8.1.11. **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 options contract. {In absence of trading in any constituent during last one hour, stock 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}.
- 8.1.12. **Position Limits:**
- i. Client level -Higher of:
10% of the total open interest in the market in commodity index options
Or
2000 lots
 - ii. Trading Member level -Higher of:
30% of the total open interest in the market in commodity index options
Or
20000 lots

The computation of position limits for 'options' shall remain separate from position limits of futures contracts on the same underlying.

8.2. Risk Management

CCs shall adopt risk management framework compliant with the CPMI-IOSCO Principles for Financial Market Infrastructures, including the following:

- 8.2.1. Margining model and quantum of initial margins: CCs 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 and MPOR shall be at least two days. In case of portfolio based margining, this requirement applies to each distribution of portfolio's 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, etc. for option contracts.

- 8.2.2. **Margining at client level:** CCs shall impose initial margins at the level of portfolio of individual client.
- 8.2.3. **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.
- 8.2.4. **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.

8.3. Other aspects

- 8.3.1. Stock Exchanges willing to introduce trading in options on commodity indices shall take prior approval of SEBI for the same.
- 8.3.2. Stock Exchanges shall submit at-least past three-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, the Stock Exchange(s) shall also publish the above data on their website before launch of the contract.
- 8.3.3. Stock Exchanges shall make necessary disclosures, such as, open interest of top 10 largest participants/group of participants in “option in indices” (both long and short) and the details of their combined open interest in underlying constituents, etc., in line with Clause 1.15.4 of this Master Circular.
- 8.3.4. Stock exchanges shall put in place adequate monitoring and surveillance capacity for the options on indices contracts.



CHAPTER 9. RISK MANAGEMENT

9.1. Risk Management Framework⁶⁸

9.1.1. **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 Stock Exchanges in compliance with the norms specified herewith to cover various margin and deposit requirements.
- ii. **Initial Margins (“IM”)⁶⁹:** 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 specified 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 Margin⁷⁰:** Stock 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 Stock 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.
- 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

⁶⁸ SEBI Circular No. [CIR/CDMRD/DRMP/01/2015](#) dated October 01, 2015

⁶⁹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated September 01, 2016.

⁷⁰ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/83](#) dated July 26, 2019.

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"):** Stock Exchanges shall maintain SGF which shall be used by Stock 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.

9.1.2. **Liquid Assets:** The types of liquid assets acceptable by Stock 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) ⁷¹
Bank guarantees	0	Limit on exchange's exposure to a single bank. (Note 'b')
Securities of the Central Government	10%	No limit
Units of liquid mutual funds or government securities mutual funds (by whatever name	10%	No limit

⁷¹ SEBI Circular [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018



<i>Item</i>	<i>Minimum Haircut (Note 'a')</i>	<i>Limits</i>
called which invest in government securities)		
Other Liquid Assets		
Liquid (Group-I) Equity Shares (Note 'd')	Same as the VaR margin for the respective shares (Note 'd')	Limit on stock exchange's exposure to a single issuer (Note 'e')
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 Annexure N on Liquidity Categorization and Computation of VaR	
Corporate Bonds having rating of AA or above (or with similar rating nomenclature) by recognized 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. (Note 'e')
Bullion	20%	⁷² Total commodities collateral for any clearing member shall not exceed 30% of the total liquid assets of the
Gold ETF	20%	
Agricultural Commodities	40%	
Base metals and Alloys ⁷³	30%	

⁷² SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/112](#) dated 14 October 2016.

⁷³ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2019/100](#) dated September 13, 2019.

<i>Item</i>	<i>Minimum Haircut (Note 'a')</i>	<i>Limits</i>
Diamond	40%	clearing member, out of which non-bullion collateral shall not exceed 15% of the total liquid assets of the clearing member (Note 'f')

Notes:

- a. *The valuation of the liquid assets shall be done on a daily basis after applying applicable haircuts.*
- b. *The stock 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 stock 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.*
- 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.*
- 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 Exchanges are already required to compute the same on regular basis in accordance with **Annexure N** regarding Liquidity Categorization and Computation of VaR.*
- e. *Stock 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>Item</i>	<i>Minimum Haircut (Note 'a')</i>	<i>Limits</i>
<p>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 Stock Exchange⁷⁴.</p> <p>g. Stock Exchanges shall accept liquid assets as collateral only as per the list of liquid assets specified in the table above. However, stock 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. Stock Exchanges may stipulate concentration limits at member level / across all members as may be necessary.</p> <p>h. Stock Exchanges shall make necessary arrangements to enable timely liquidation of collaterals accepted by them.</p> <p>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. ⁷⁵</p> <p><i>Explanation –for this purpose, 'associate' shall have the same meaning as defined under SECC Regulations.</i></p>		

9.1.3. Commodity Futures

- I. **Initial Margins (IM)⁷⁶** : Stock 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. Stock Exchanges shall therefore estimate appropriate MPOR for each product based on liquidity in the product.

- a. **Minimum value for Initial Margin and minimum MPOR⁷⁷:**

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-

⁷⁴ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2019/100](#) dated September 13, 2019.

⁷⁵SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018

⁷⁶SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated September 01, 2016

⁷⁷ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2020/15](#) dated January 27, 2020.

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: -

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

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

- (ii) 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.
- (iii) Stock Exchange having maximum average daily turnover across all derivative contracts on the respective commodity based on last six months' period shall be termed as the Lead Stock Exchange. The CC of the Lead Stock Exchange shall do the categorisation of the respective commodities and same shall be intimated to, and adopted by all other CCs
- (iv) Based on volatility category, minimum initial margin (IM) and minimum MPOR shall be as under:

Volatility Category of Commodity	Minimum IM		Minimum MPOR	
	Non-Agri	Agri	Non-Agri	Agri
Low	6%	8%	2	3



Volatility Category of Commodity	Minimum IM		Minimum MPOR	
	Non-Agri	Agri	Non-Agri	Agri
Medium	8%	10%	2	3
High	10%	12%	3	4

- (v) It is also clarified that floor values prescribed for IM in table above need not be scaled up by MPOR.
- (vi) 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.
- (vii) 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.
- (viii) 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:

- (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 stock 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 shall be grossed across various clients. The proprietary positions of the Trading Member shall 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 met⁷⁸.
 - (ii) Stock 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 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.

⁷⁸ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/51](#) dated 20 March 2018



- (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 ⁷⁹ shall not be levied. No benefit in ELM would be provided for spread positions i.e. ELM shall be charged on both individual legs. Stock 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. ⁸⁰

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, stock 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.⁸¹
- (vii) In case of calendar spreads or spreads consisting of two contract variants having the same underlying commodity (wherein currently 75% benefit in initial margin is permitted), benefit in initial margin shall be permitted when each individual contract in the spread is from amongst the first six expiring contracts. ⁸²

e. **Real Time Computation:** The margins shall be computed on real time basis. The computation of portfolio initial margin shall have two components. The first is the computation of initial

⁷⁹ SEBI Circular No. [CIR/ISD-2/CDD-1/99/2016](#) dated September 27, 2016

⁸⁰ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/130](#) dated December 02, 2016.

⁸¹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/51](#) dated March 20, 2018

⁸² SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2021/](#) dated 9 August, 2021.



margin for each individual contract. At the second stage, these contract initial margins shall be applied to the actual portfolio positions to compute the portfolio initial margin. The stock 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 Weighted Moving Average (“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**: Stock Exchanges may levy Additional Margins based on their evaluation in specific situations as may be necessary.
- IV. **Pre-expiry Margin**: Stock 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. Stock Exchanges shall determine the quantum of pre-expiry margin as appropriate based on the risk characteristics of the particular commodity.
- V. **Delivery Period Margin**⁸³: Appropriate delivery period margin shall be levied by Stock 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%

Or

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

⁸³ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](http://www.sebi.gov.in/sebi_data/sectors/circulars_notifications/orders_notices.asp?DocRef=SEBI/HO/CDMRD/DRMP/CIR/P/2016/77) dated 01 September 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 stock 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 stock 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.⁸⁴
- VIII. CCs shall also disclose detailed break up of various applicable margins on contracts cleared by them along with volatility on their websites.
- 9.1.4. **Concentration Margins**⁸⁵ : Stock 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.
- 9.1.5. **Additional Ad-hoc Margins:** Stock Exchanges have the right to impose additional risk containment measures over and above the risk containment system mandated by SEBI. However, the Stock Exchanges should keep the following three factors in mind while taking such action:

⁸⁴ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2020/15](#) dated 27 January, 2020

⁸⁵ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated 01 September 2016



- 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, stock 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. Stock 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 stock exchanges may impose shall be based on objective criteria and shall not discriminate between members on the basis of subjective criteria.
- 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.

9.1.6. **Margin Provisions for Intra-day crystallized losses** ⁸⁶ : 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 net-worth of the clearing member.

9.1.7. **Margin Collection and Enforcement:** All applicable margins shall be deducted by Stock 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 Stock Exchange by the members.

⁸⁶ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018



- 9.1.8. **Minimum Liquid net-worth⁸⁷** : 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.
- 9.1.9. **Base Minimum Capital (“BMC”)⁸⁸**
- i. Stock 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
 - ii. ⁸⁹Members of Clearing Corporations in commodity derivatives segment shall not have any Base Minimum Capital requirement.
 - iii. No exposure will be given by the Stock 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 shall be kept in a separate account by the Stock Exchange and shall 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 shall not be used by the stock exchange for meeting any of its other dues.
 - vi. BMC shall 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.
- 9.1.10. **Risk Reduction Mode:** Stock 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

⁸⁷ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018

⁸⁸ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/86](#) dated September 16, 2016

⁸⁹ SEBI Circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/52](#) dated March 21, 2018

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%.

9.1.11. **Measures in case of repeated shortfall in margin/pay-in⁹⁰** : 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 stock exchange for the next month.

- iii. Stock Exchange shall keep a close watch on such member.

⁹⁰ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/77](#) dated 01 September 2016

9.2. Alternative Risk Management Framework Applicable in case of Near Zero and Negative Prices⁹¹

9.2.1. In order to enable risk management framework to handle the scenario of 'near zero' and negative prices, the following provisions shall be complied: -

- i. Alternate Risk Management Framework (“**ARMF**”) shall be applicable in such cases of near zero and negative prices for any underlying commodities/futures. Details of the ARMF are given in 9.2.2 below.
- ii. To begin with, the commodities having the following characteristics may be in principle treated as susceptible to the possibility of near zero and negative prices: -
 - a. Commodities that need specialized storage space in physical markets, which, if not followed, may cause environmental hazards or have other external implications AND
 - b. Commodities that can't be disposed of/destroyed with ease i.e. disposal/ destruction of such commodities may cause an environmental hazard or may incur significant cost.
- iii. However, any Clearing Corporation (“**CC**”) that does not presently provide for the clearing and settlement services of any such susceptible commodity, are not required to update their systems for the prescribed ARMF. This is subject to certification by their Risk Management Committee that none of the products being presently cleared by the CC are susceptible to near zero and negative prices as per Clause (ii) above. However, before the launch of any such susceptible commodities in future, they shall ensure that their systems are updated for the ARMF.
- iv. ⁹²The pre-expiry margins shall be imposed on cash settled contracts where in the underlying commodity is deemed susceptible to possibility of near zero and/or negative prices as identified by stock exchange/CC. In case of these contracts, pre-expiry margins shall be levied during the last five trading days prior to expiry date, wherein they shall increase by 5% every day.

⁹¹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2020/176](#) dated September 21, 2020

⁹² SEBI Circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2021/20](#) dated February 23, 2021

9.2.2. **The Alternate Risk Management Framework (“ARMF”) in the event of Near Zero and Negative Prices is as follows:**

I. Activation of ARMF

- i. In case the CC foresees the possibility of negative/near zero prices in any commodity, then for such commodity derivatives, it shall activate an ARMF. This framework should be capable of estimating the risk in the event of negative/near zero prices of the underlying/futures.
- ii. The shift to the ARMF shall be conditional, based on triggers indicating the likelihood of near zero/ negative prices. Some of the conditions/circumstances which are indicative in nature and may warrant the activation of the ARMF are illustrated below: -
 - a. There is a fall in the commodity prices by more than 50% within 20 trading days, while comparing the intra-day highest and lowest prices.
 - b. In case of internationally referenced contracts, the international stock exchange/ clearing corporation having the benchmark contract decides to introduce such measures for negative prices.
 - c. Options contracts having strike price values of near zero/negative are introduced by the stock exchange for trading.
 - d. Price of the underlying commodity/futures contract comes down to the level equal to or lower than the maximum price movement observed over the Margin Period of Risk (“MPOR”) in past 12 months.
 - e. Any other conditions as per the discretion of the CC, which might indicate the likelihood of negative prices.
- iii. In case one or more of the above mentioned conditions or any other additional conditions that may be identified by the CC becomes applicable, the CC in consultation with their respective stock exchange will conduct a review and take a formal decision on whether there is a need to activate the ARMF. The CC shall subsequently also communicate its decision to the market and other stock Exchanges/CCs. If the Lead CC, as defined in 9.1.3 above, has activated the ARMF, then the other CCs shall also follow the same.

- iv. The CC shall strive to intimate to the market, well in advance, the threshold price level, below which the ARMF shall be activated.
- II. **Characteristics of ARMF:** The ARMF shall have the following characteristics:

- i. Normal Distribution: In the regular risk management framework, prices are assumed to be log normally distributed and volatility is calculated based on the difference in log prices. This assumption is valid only for positive prices, as logarithm of zero or negative prices is not defined.

In a scenario wherein the ARMF gets triggered, the prices shall be assumed to follow normal distribution. Therefore, in such scenario, volatility shall be based on the absolute differences in prices. This volatility shall be determined based on Exponentially Weighted Moving Average (“EWMA”) as per the parameters of the regular framework.

- ii. Minimum Margin in Absolute terms: In the regular framework, a floor value for initial margin is prescribed in percentage terms. In case the prices turn negative, floor value in percentage terms shall be applied on the absolute value of price levels. Further, floor value shall also be prescribed in absolute INR terms. The higher of the two values shall be the applicable floor for the initial margin. The CC shall determine and notify such floor value based on past price movements and past margin amounts observed in respect of such commodities.
- iii. Spread margin benefit: The correlation between different contracts on the same underlying may not hold in the event of near zero/negative prices. Therefore, margin benefit on spread positions shall be completely withdrawn upon the activation of the ARMF.
- iv. Option Pricing Model: The theoretical price determination of options shall be done using appropriate models like the Bachelier model, or any other model which can be applied on negative underlying prices.
- v. Pre-expiry margins: The appropriate pre-expiry margins shall also be levied by CCs on cash settled contracts, in respect of those commodities in which the ARMF is triggered.

- vi. Extreme Loss Margin (“ELM”): In case the price of any futures contract goes below a threshold, ELM shall be levied on such threshold price or absolute price of the contract, whichever is higher. The CC shall decide threshold price in respect of each commodity on which ELM under the ARMF shall be made applicable.
- vii. Other margins: CCs may levy other margins such as additional margins, special margins, concentration margins etc. as per their own discretion.

III. Deactivation of ARMF

- i. The following principles shall be taken into account by CCs for deactivation of the ARMF i.e. switching from alternate to regular risk management framework:
 - a. The de-activation of the ARMF shall be done when the conditions that triggered the activation of the ARMF no longer prevail. The exit from the ARMF shall be done after a reasonable time lag so as to avoid frequent switching between alternate and regular frameworks.
 - b. In case the entry and exit of the ARMF is defined in terms of specific price points, the exit point shall be kept sufficiently above the entry point to avoid frequent switching between alternate and regular frameworks.
 - c. The de-activation of the ARMF and re-activation of regular framework will be done when the margin requirement under the two frameworks sufficiently converges.
- ii. The observation of a zero or negative prices shall have to be excluded from model under regular margin framework since log return involving zero or negative price is not defined.

9.3. *Regaining matched book*

- 9.3.1. In the event of a member/client failing to honour pay-in/margin obligations, stock 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 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).⁹³

9.3.2. 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.

9.4. Framework to Enable Verification of Upfront Collection of Margins

9.4.1. The provisions related to framework to enable verification of upfront collection of margins shall be same as specified for equity cash segment in SEBI circular no. [SEBI/HO/MRD2/DCAP/CIR/P/2020/127](#) dated July 20, 2020, [SEBI/HO/MRD2/DCAP/P/CIR/2022/60](#) dated May 10, 2022 and [SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/016](#) dated February 01, 2023 and subsequent amendment thereto or supersession through any circular or master circular issued from time to time.

9.4.2. Para 2 of clause (i) of **Annexure** of SEBI circular no. [SEBI/HO/MRD2/DCAP/CIR/P/2020/127](#) dated July 20, 2020 was modified as under:⁹⁴

“Further, for commodity derivatives segment, clearing corporations shall send an additional minimum two snapshots for commodity derivative contracts which are traded till 9:00 PM and additional minimum three snapshots for the commodity derivatives contracts

⁹³ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2020/32](#) dated March 03, 2020.

⁹⁴ SEBI Circular No. [SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2021/689](#) dated December 16, 2021

which are traded till 11:30/11:55 PM. Margins/EOD margins shall be determined as per the relevant Risk Parameter Files.”

9.5. Mechanism for regular monitoring of and penalty for short- collection/ non-collection of margins from clients⁹⁵

9.5.1. 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 (“**IM**”), extreme loss margin (“**ELM**”), mark to market margin (“**MTM**”), special / additional margin, delivery margin or any other margin as prescribed by the stock exchange to be collected by member from their clients.
- ii. The members are required to collect upfront initial margins and extreme loss margins ⁹⁶ 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 stock 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.)
- 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:

For each member	
‘a’	Per day penalty as % of ‘a’

⁹⁵ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/80](#) dated September 7, 2016

⁹⁶ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated September 26, 2016

For each member	
(< 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 Stock Exchanges shall 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.⁹⁷
- viii. The penalty shall be collected by the Stock Exchanges not later than five days of the last working day of the trading month.
- 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.)

⁹⁷ SEBI Circular No. [CIR/HO/MIRSD/DOP/CIR/P/2019/88](#) dated August 01, 2019.

- x. All the penalties collected as prescribed above shall be credited to Core SGF ⁹⁸.
- xi. Report on the penalties as collected by the Stock 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.⁹⁹
- xiii. The Stock 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.
- 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 ¹⁰⁰:
 - 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' End of Day ("**EOD**") portfolio for the purpose of determining minimum threshold of margin to be collected from clients by members.

⁹⁸ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2019/73](#) dated June 20, 2019

⁹⁹ SEBI Circular No. [CIR/HO/MIRSD/DOP/CIR/P/2019/88](#) dated August 01, 2019.

¹⁰⁰ SEBI circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2019/149](#) dated November 29, 2019



- c. Similarly, for the purpose of determining minimum threshold of 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.

9.6. Settlement Guarantee Fund, Default Waterfall and Stress Testing

- 9.6.1. Clearing Corporations and Stock Exchanges in Commodity Derivatives segment shall comply with provisions given in **Annexure O** 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. ¹⁰¹
- 9.6.2. **Risk management- disclosure by Stock Exchange:**¹⁰² 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 Stock Exchange website for every quarter at the end of i.e.30th June, 30th September, 31st December and 31st March.

9.7. Interoperability among Clearing Corporations

- 9.7.1. The interoperability framework is not available for commodity derivatives products available for trading on the stock exchange.¹⁰³

¹⁰¹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2018/111](#) dated July 11, 2018.

¹⁰² SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated September 26, 2016

¹⁰³ SEBI Circular No. [CIR/MRD/DRMNP/CIR/P/2018/145](#) dated November 27, 2018



CHAPTER 10. CONTRACT APPROVAL AND MODIFICATION

10.1. *Permission for Trading in Futures Contracts* ¹⁰⁴

- 10.1.1. **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 stock 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 P** regarding Checklist 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.
- 10.1.2. **Approval for futures contracts on continuous basis:** The Stock Exchange wise list of contracts approved for continuous trading is placed at **Annexure Q** regarding List of contracts approved for continuous trading. Approval for continuous trading in futures contracts is contingent upon volume and open interest at the Stock 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 Stock 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 Stock Exchange.
 - iii. Except for the specifications permitted to be modified at stock 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 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.

¹⁰⁴ SEBI Circular No. [CIR/CDMRD/DRMP/CIR/2016/88](#) dated September 20, 2016

- iv. In case of contracts approved for continuous trading:
 - a. If stock exchange decides not to launch new contract for trading, then stock 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 stock exchange decides to de-list already running contract(s) having nil open interest, then stock 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 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.
- 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 MTM 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.
- viii. 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.
- ix. The list of contracts available for trading on continuous basis shall be reviewed by SEBI from time to time.

10.1.3 Multiple contracts in same commodity¹⁰⁵

- i. Stock exchanges may be allowed to launch multiple contracts in same commodity

10.2. Modifications in the Contract Specifications of Commodity Derivatives Contracts ¹⁰⁶

10.2.1. The modifications in contract specification parameters are categorized in following three categories:

- A. **Category A:** Non-material modifications which can be made at stock exchange level in yet to be launched and running contracts.
- B. **Category B:** Material modifications which can be made at the stock 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.

10.2.2. 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 R** on Categorization of contract specification parameters in commodity derivatives contracts.

10.2.3. 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 stock 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.

¹⁰⁵ [SEBI Circular No SEBI/HO/MRD/MRD-POD-1/P/CIR/2023/12 dated January 11, 2023](#)

¹⁰⁶ SEBI Circular no. [SEBI/HO/CDMRD/DOP/CIR/P/2019/135](#) dated November 14, 2019.

CHAPTER 11. DELIVERY AND SETTLEMENT

11.1. *Staggered Delivery* ¹⁰⁷

- 11.1.1. 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.
- 11.1.2. All compulsory delivery commodity futures contracts (agriculture commodities as well as non-agriculture commodities) shall have a staggered delivery period.
- 11.1.3. The minimum duration of staggered delivery period shall be at least **five working days**.
- 11.1.4. Stock 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.
- 11.1.5. In the interest of trade and public, SEBI or stock exchange may exercise its due discretion in modifying the aforesaid staggered delivery period at any time.
- 11.1.6. Framework
- i. 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.
 - ii. On each day (except for the expiry day), Stock 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

¹⁰⁷ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2019/83](#) dated July 26, 2019.



intention of taking delivery, which may be based on aspects such as location, quality etc.

- iii. Pay-in and pay-out for the allocated deliveries shall happen within 2 working days after allocation.
- iv. 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.

11.2. *Early Delivery System* ¹⁰⁸

11.2.1. 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 shall get automatically extinguished at the close of E-1 day. The intentions can be 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 shall be applied.
- iv. On the expiry of the contract, all outstanding positions shall be settled by delivery and all the penalty provisions for delivery default applicable in the compulsory delivery contracts shall apply.

¹⁰⁸ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016

11.3. *Early Pay-in Facility* ¹⁰⁹

- 11.3.1. Stock Exchanges shall provide early pay-in facility to market participants permitting market participants to deposit certified goods to the Stock Exchange accredited warehouse against relevant futures contracts sold. For such short positions against which early pay-in has been made, based on risk perception, stock exchanges may exempt imposition of all types of margins. However, Stock Exchanges shall continue to collect mark to market margins from such market participants against such positions.
- 11.3.2. 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 stock exchanges should provide for extremely strict penalties including disciplinary actions against such members who fail to do so.

11.4. *Penalty on Delivery Default* ¹¹⁰

- 11.4.1. 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:
- i. Futures contracts on agri-commodities: ¹¹¹[4%] 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.)
 - ii. 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.)

¹⁰⁹ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016

¹¹⁰ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016

¹¹¹ SEBI circular [SEBI/HO/CDMRD/DRMP/CIR/P/2021/35](#) dated March 23, 2021



- 11.4.2. ¹¹²[Clearing Corporation/ Stock Exchanges] shall have the flexibility to increase/ decrease penalty for specific commodities depending on situation, in consultation with SEBI.
- 11.4.3. Norms for apportionment of penalty –
- At least 1.75% of Settlement Price shall be deposited in the Settlement Guarantee Fund (SGF) of the Clearing Corporation
 - Up to 0.25% of Settlement Price may be retained by the Clearing Corporation towards administration expenses
 - ¹¹³(1% of Settlement Price in case of non-agri goods or 2% of Settlement price in case of agri goods) plus replacement cost shall go to buyer who was entitled to receive delivery
- 11.4.4. ¹¹⁴[Clearing Corporation] may have appropriate deterrent mechanism (including penal/disciplinary action) in place against intentional/wilful delivery default.
- 11.4.5. ¹¹⁵In the case of a default by a buyer in both agricultural and non-agricultural commodities, following standard procedure shall be followed by the CCs:
- The CCs shall review the loss incurred by the non-defaulting Party, i.e. Seller, at its sole discretion, and accordingly, levy penalty on the defaulting buyer. However, such penalty shall be within the overall cap of delivery margins collected by the CCs, from such defaulting buyer.

11.5. Penalty for Repeated Delivery Default¹¹⁶

- 11.5.1. A need was felt to put in place a suitable deterrent mechanism to address instances of repeated delivery defaults to further strengthen the delivery mechanism and ensure market integrity.

¹¹² SEBI circular [SEBI/HO/CDMRD/DRMP/CIR/P/2021/35](#) dated March 23, 2021

¹¹³ SEBI circular [SEBI/HO/CDMRD/DRMP/CIR/P/2021/35](#) dated March 23, 2021

¹¹⁴ SEBI circular [SEBI/HO/CDMRD/DRMP/CIR/P/2021/35](#) dated March 23, 2021

¹¹⁵ SEBI circular [SEBI/HO/CDMRD/DRMP/CIR/P/2021/35](#) dated March 23, 2021.

¹¹⁶ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2021/619](#) dated August 17, 2021



11.5.2. In view of the above, in consultation with CCs, the following has been decided:

- i. In the case of repeated default by a seller or a buyer, for each instance of repeated default, an additional penalty shall be imposed, which shall be 3 % of the value of the delivery default.
- ii. Repeated Default shall be defined as an event, wherein a default on delivery obligations takes place 3 times or more during a six months' period on a rolling basis.
- iii. The penalty levied shall be transferred to the SGF of the Clearing Corporation.

11.6. Fixation of Final Settlement Price (FSP) ¹¹⁷

11.6.1. 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

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

¹¹⁷ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016

- 11.6.2. 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, the stock exchanges shall decide further course of action for determining FSP in consultation with SEBI.

11.7. Change in Expiry Date ¹¹⁸

- 11.7.1. Stock 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.
- 11.7.2. 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.

11.8. Identification and Selection of Location as a Delivery Centre(s) ¹¹⁹

- 11.8.1. 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.

¹¹⁸ SEBI Circular No. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/90](#) dated September 21, 2016

¹¹⁹ SEBI Circular No. [SEBI/HO/CDMRD/DNPMP/CIR/P/2020/89](#) dated May 26, 2020

- 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 the Warehousing Development and Regulatory Authority (“**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.

11.8.2. **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.

- 11.8.3. 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.

11.9. Criteria for Settlement Mode of Commodity Derivative Contracts¹²⁰

- 11.9.1. The first preference of settlement type for commodity derivatives contracts shall always be by the way of **physical delivery**.
- 11.9.2. Any exemption from the above i.e. cash settlement of commodity derivatives contract, may be considered only in following scenarios with a proper justification –
- 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. Stock Exchanges shall satisfy themselves that the reference spot price is robust – fair indicator of prevailing prices and not susceptible to any distortion/manipulation.
- 11.9.3. 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.

11.10. Timelines for Marking Delivery Intention¹²¹

¹²⁰ SEBI Circular no. [SEBI/HO/CDMRD/DMP/CIR/P/2017/116](#) dated October 16, 2017

¹²¹ SEBI Circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated September 26, 2016



11.10.1. Stock 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.

11.11. Location Premium / Discount ¹²²

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

¹²² SEBI Circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2016/93](#) dated September 26, 2016



**CHAPTER 12. WAREHOUSING NORMS FOR AGRICULTURE AND
AGRI-PROCESSED COMMODITIES AND NON-AGRICULTURAL
GOODS¹²³**

12.1. General

- 12.1.1. The Clearing Corporations to have in place comprehensive framework of norms for adherence by the Warehouse Service Providers (“WSP”), 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.
- 12.1.2. The norms prescribed herein are the minimum requirements/standards which the Clearing Corporation will set out for compliance by its accredited WSPs and assayers and are to be complied with in conjunction with the applicable norms laid down by WDRA or any other government authority overseeing the warehousing or storage infrastructure and its ancillary services for the respective goods.
- 12.1.3. The Clearing Corporations are at liberty to prescribe additional norms/guidelines for compliance by their accredited WSPs, warehouses and assayers, if they deem so fit, for ensuring good delivery of commodities by them. However, it must be ensured by the Clearing Corporations that such additional norms specified are not in contravention with the provisions issued herein.
- 12.1.4. The Clearing Corporations shall put in place necessary arrangements for ensuring compliance with the provisions of Regulation 43A of SECC Regulations. Further, the Clearing Corporations shall 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 commodity desiring to take possession of their individually identified commodity and remove it from the accredited Warehouse(s).

¹²³ SEBI Circular no. [SEBI/HO/CDMRD/DMP/P/CIR/2021/551](https://www.sebi.gov.in/sebi_data/attachdocs/SEBI/HO/CDMRD/DMP/P/CIR/2021/551) dated April 16, 2021.



12.2. Accreditation of Warehouse Service Provider (WSP)

12.2.1. For accreditation of WSPs, the Clearing Corporation shall publish open advertisements in leading newspapers and/or put up the same on their website and follow transparent selection process thereafter. The selection process to be followed for such accreditation shall be displayed on the website of the Clearing Corporation before the process begins. The Clearing Corporation shall ensure that the applications of the WSPs are processed within a stipulated time frame.

Note: For the purpose of this Circular, a WSP is an entity which provides a storage facility for storing underlying goods related to a commodity derivatives contract.

12.2.2. The Clearing Corporation shall ensure that the WSP had obtained the required registrations of the proposed storage facility from the WDRRA for commodities notified by the WDRRA and for other commodities under applicable law/s and the same shall be intimated by it to the Clearing Corporation prior to providing the storage services to the Clearing Corporation.

For the purpose of this chapter, Storage Facility, depending on the nature of the commodity, may include warehouses, silos, cold storages, sheds, tanks, pipelines, marine vessels, open storage areas, or other forms of storage as appropriate to a physically deliverable good for settlement of commodity derivatives contracts traded on stock exchanges.

12.2.3. The accreditation of the WSPs shall be done with the approval of the relevant committee of the board of directors of the Clearing Corporation in terms of the SECC Regulations.

12.2.4. A WSP can be accredited with more than one Clearing Corporation. In such case, the Clearing Corporation shall not mandate that its WSP cannot provide services to other Clearing Corporations.

12.2.5. A storage facility of a WSP may be utilized by more than one Clearing Corporation with proper segregation, demarcation and putting in place appropriate risk management procedures. However, the same storage facility shall not be utilized by more than one Clearing Corporation for the same commodity.

12.2.6. The accreditation of a WSP shall remain valid until:

- i. it is surrendered by the WSP and accepted by the Clearing Corporation; or
- ii. cancelled by the Clearing Corporation.

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

12.3.1. A WSP shall be a corporate body which is in public warehousing business.

12.3.2. The Promoters/ Promoter Groups of the WSP should be responsible persons/entities of repute with a good business reputation and credibility.

12.3.3. The Promoters/Promoter Groups of the WSP should be in the business of public warehousing for at least 3 years as on the date of their application and have knowledge of, and experience in, generally accepted warehousing and handling practices for commodities for which they propose to provide their services.

12.3.4. However, the Clearing Corporation in its discretion, may relax the norm of 3 years stated in para 12.3.3 above, provided that the WSP or its promoter/promoter group:

- I. Meets all other criteria
- II. Submit an undertaking that they shall comply with any additional norm that may be specified by the Clearing Corporation within the time frame as may be specified by the Clearing Corporation or meet 3 years' criterion whichever is earlier.

12.3.5. WSP / Promoters/ Promoter Group of WSP shall have no record of serious violation of law of land including that of laws governing warehousing / securities markets; or being expelled by any Clearing Corporation/stock exchange in last three years. The Clearing Corporation can take an appropriate undertaking from the WSP in this regard.

12.4. Financial Soundness of the WSP

12.4.1. **Share Capital:** The Clearing Corporation shall ensure that an accredited WSP shall have subscribed and paid-up share capital of at least ₹10 crores.

12.4.2. Net worth

i. An accredited WSP shall meet the following net worth criteria:-

	Type of Goods	Number of Goods	Minimum net worth
A	Agricultural / Agri-processed	1	₹10 crores
		More than 1	₹25 crores
B	Base / Industrial Metals	1	₹10 crores
		More than 1	₹25 crores
C	Composite*	NA	₹50 crores
<i>*Composite means combination of A and B</i>			

- ii. In case of reduction in net worth of WSPs below the stipulated requirement, a time period of six months may be allowed to the WSPs to augment the net worth. In the event the WSP is unable to augment the net worth to the requisite level within the allowed time frame, the Clearing Corporations shall ensure that WSP does not carry out any new business related to commodity derivatives market. The Clearing Corporation shall take suitable measures, which are disclosed on its website for public information, with respect to the existing goods handled by such WSP.
- iii. The value of the goods stored in the accredited storage facilities of WSP shall not, at any point of time, exceed 33 times the net worth of the WSP, irrespective of the number of Clearing Corporations being served by the WSP. The Clearing Corporations shall obtain suitable information from the WSPs in this regard.

- iv. The net-worth of the WSP shall be calculated 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."

- v. The Clearing Corporation shall ensure that the WSPs submit the following documents to them:
- a) the unaudited quarterly financial statements for all the quarters of a financial year, within 45 calendar days.
 - b) unaudited net worth certificate duly certified by the statutory auditor of the WSP, on half yearly basis i.e. at the end of every March and September, within 45 calendar days.
 - c) the audited Annual Financial Statements along with audited net worth certificate to the Clearing Corporation within six months of the end of Financial Year.

12.4.3. Security Deposit ("SD")

- i. The Clearing Corporation shall ensure that the accredited WSP has furnished a refundable security deposit wherein:
 - a) Such security deposit shall be a minimum amount of INR50 lakhs.
 - b) Such security deposit shall be in the form of Cash / Bank Fixed Deposits / Bank Guarantee.
- ii. Security deposit shall not be released until six months after cancellation or surrender of the accreditation of the WSP or until after satisfaction of every claim against the deposit, whichever is later.

12.4.4. Financial Security Deposits ("FSD")

- i. The WSP shall furnish refundable FSD for all goods on incremental basis in addition to the security deposit as under: -

Type of Goods	Value of Goods stored	Minimum FSD
Agricultural/Agri-processed	Up to ₹250 crores	2% of the aggregate value of stored commodities
	Between ₹250 crores and ₹500 crores	₹5 crores + 3% of aggregate value of stored commodities exceeding ₹250 crores
	Above ₹500 crores	₹12.5 crores + 4% of the aggregate value of stored commodities exceeding ₹500 crores
Base / Industrial Metals	NA	0.5% of the aggregate value of stored commodities

- ii. The Clearing Corporation, based on its risk assessment, can decide on restricting the amount of FSD to ₹100 Crores from each WSP.
- iii. The FSD shall be in the form of liquid assets with applicable haircuts and concentration limits as listed below: -

Type	Minimum haircut	Limits
Cash	0	No limit but minimum 10%
Bank Fixed Deposit	0	
Bank Guarantees	0	Remaining 90% FSD can be in any combination of the four types of options provided for furnishing the FSD
Securities of the Central Government	10%	

- iv. A daily monitoring of the FSD vis-à-vis the value of the goods stored shall be done marked to market on replacement value on ongoing basis to ensure that the minimum stipulated FSD are always maintained with the Clearing Corporation. Based on the risk assessment, the Clearing Corporation may seek additional FSD over and above the requirement stipulated in Para 12.4.4, if necessary.



- v. In circumstances where there is shortfall in the minimum required FSD due to sudden deposit of commodities in large quantity towards the end of the day, the Clearing Corporations can allow the WSPs to replenish the FSD within three trading days.

12.4.5. Exposure norms for FSD/SD

- i. The Clearing Corporations shall lay down exposure limits (for Bank Fixed Deposit and Bank Guarantees) either in rupee terms or as percentage of the total assets to be received (with respect to SD/FSD) that can be exposed to a single bank directly or indirectly.
- ii. Further, CCs shall ensure that no SD/FSD shall be accepted from a Bank which has a net worth of less than INR 1000 crores and/or is not rated P1 (or P1+) or equivalent, by a recognized credit rating agency or by a reputed foreign credit rating agency.

12.4.6. Coordination between Clearing Corporation and WDRA in respect of SD / FSD maintained by the WSPs¹²⁴

- i. The Clearing Corporations shall immediately after accreditation of WSPs, provide the details of WDRA registered warehouses 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 S** on Formats for providing details of Security Deposit. Clearing Corporations shall inform the changes, if any, with respect to accreditation status of these warehouses, to enable WDRA to provide the required information as above. WDRA will 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 Stock Exchange/Clearing Corporation specific outstanding eNWRs shall be considered by the Clearing Corporation in the calculation of available FSD for the WSP.

¹²⁴ SEBI Circular no. [SEBI/HO/CDMRD/DMP/P/CIR/2021/551](#) dated April 16, 2021.



- iii. The Clearing Corporation shall compensate the aggrieved clients, in accordance with its rules, regulations etc., by debiting the FSD of WSP held with it, in the following situations:
 - a) for any such losses that have been appropriately established against the WSP.
 - b) in case of loss arising from any action or inaction of its WSP or on the part of its warehouses that prevents the buyer or seller from exercising, in whole or in part, their rights.
- iv. In case the FSD available with Clearing Corporation is not sufficient to compensate for the loss the FSD and the SD maintained by such WSP 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.
- v. The settlement of security deposit by WDRA originates only after the goods stored, if any, are disposed of/ withdrawn by the holder.
- 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.

12.5. Fit and Proper Criteria

12.5.1. The Clearing Corporation shall ensure that:

- i. the WSP, assayers, Promoters of WSP / assayers, Key Management Personnel (“**KMP**”) of WSPs / assayers responsible for business operation relating to the Stock Exchanges / Clearing Corporations shall always be 'fit and proper' to carry out business of warehousing.
- ii. such persons have adequate knowledge of, and experience in generally accepted warehousing and handling practices for the goods concerned, 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.

12.6. Corporate Governance norms for WSP

12.6.1. Management and Employees:

- i. The Clearing Corporation shall ensure that the accredited WSP has a professional management team to oversee its functioning and operations.
- ii. The Clearing Corporation shall ensure that the KMPs of WSP taking care of business operations and warehousing in general have adequate knowledge of, and experience in generally accepted warehousing and handling practices for goods for which they are accredited. The Clearing Corporation shall also ensure that the KMPs of WSP are competent and willing to operate such a storage facility and do not have any conflict of interest in discharge of their functions.
- iii. The stock exchanges shall ensure that the following entities, are not allowed to trade, either directly or indirectly, in the commodity for which it is accredited by the Clearing Corporation:
 - a) WSP
 - b) Management of WSP (defined as 'key managerial personnel' including whole time directors of WSP and their 'relatives' as per Companies Act, 2013)
 - c) entities owned or controlled by promoters/management of WSP/Group concerns/associates directly or indirectly or persons 'acting in concert'
- iv. However, based on risk assessment, the stock exchanges may provide exemptions to requirement stated in Para (iii) above in the following manner:
 - a) entities stated in Para (iii) above shall not trade in that specific commodity/commodities at that particular stock exchange where concerned WSP is accredited, in their proprietary account.
 - b) entities which are associated with an accredited WSP, either directly or indirectly, and are providing broking services will be permitted to trade in that commodity on that stock exchange only for their clients (i.e. non-proprietary) subject to stock exchange ensuring that the particular entity does not extend direct/indirect funding to its clients for trading in those commodities.

- v. If the stock exchange is providing exemptions as mentioned in Para (iv) above, then it should put in place appropriate controls so that the WSPs do not exercise preferential treatment to such entities which may act as disadvantage to other market participants.
- vi. The Clearing Corporation may obtain, and share with Stock Exchanges, 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. Such declaration may be obtained within a month of end of the financial year.
- vii. The Clearing Corporation shall ensure that the WSP always has adequate number of competent employees who have the experience, capacity and ability of operating the business without any conflict of interest.
- viii. The Clearing Corporation shall ensure that the WSP and its KMPs, shall not disseminate any information that is false or misleading or disclose any confidential information obtained during the course of their dealings with the Clearing Corporation or their positions on the market or any information received during the course of performance of their duties.
- ix. The Clearing Corporation shall ensure that the staff/employees of the WSP 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 relevant training programmes or are deputed to attend the certification programme conducted by the National Institute of Securities Markets ("**NISM**").

12.6.2. **Compliance officer**

- i. The Clearing Corporation shall ensure that its WSP appoints a compliance officer who would be responsible for monitoring the compliance with all relevant Acts, byelaws, rules and regulations, notifications, guidelines and instructions issued by relevant authorities from time to time.

- ii. The compliance officer shall be responsible for ensuring that all applicable norms are followed by the WSP and shall be issuing a declaration to that effect to the Clearing Corporations, at regular intervals as directed by the Clearing Corporation.

12.7. Know Your Depositor

- 12.7.1. The Clearing Corporation shall ensure that the WSP complies with Know Your Depositor (“KYD”) Policy as prescribed by the Clearing Corporation from time to time.
- 12.7.2. The Clearing Corporation shall ensure that they and the WSP shall, at any point of time be able to identify the depositor of the goods deposited in registered warehouses, and the actual beneficiary (in case the depositor and the beneficiary are different) of the deposited/stored commodities.

12.8. PAN requirement

- 12.8.1. The Clearing Corporation shall ensure that the WSPs are under obligation to provide to it 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 Clearing Corporation and whenever any change is noted by WSP, in this regard.

12.9. Facilities & Infrastructure Requirement for WSP

- 12.9.1. **General requirements applicable to all goods**
 - i. The Clearing Corporation shall ensure that the storage facilities provided by the WSP are under absolute control of the WSP. In case a storage facility is a leased property it should be ensured by Clearing Corporation that no third party including the owner / lessor of the storage facility, has any role to play in the operations and managing the concerned storage facilities operated by the WSP.



- ii. The Clearing Corporation shall ensure that the accredited WSPs have reasonable facility and infrastructure for proper handling and storage of commodity as specified under:
 - a) All its storage facilities are well connected with rail and/or road networks and have sufficient space for parking and movement of loading/unloading vehicles.
 - b) All its storage facilities have adequate equipment, installed and maintained in good working order, as may be prescribed by the Clearing Corporation, for the movement of commodities into, out of and within the storage facility.
 - c) All its storage facilities are physically and operationally suitable for the proper storage of commodities and are of sound construction and in a state of good repair.
 - d) All its storage facilities provide for a safe work environment;
 - e) All storage facilities shall have adequate security personnel with required facilities to immediately communicate to Clearing Corporation regarding any unlawful entry, burglary, theft or damage or potential loss to the goods deposited with it.
 - f) All its storage facilities have adequate lighting arrangement as may be prescribed by the Clearing Corporation.
 - g) All its storage facilities have adequate firefighting equipment installed within its premises, have fire escapes and fire hydrant points (in case of goods which are inflammable) clearly marked. Further, the employees of the WSP shall undergo training in fire safety and use of firefighting equipment.
 - h) All its storage facilities have required ventilation, installed and maintained in good working order, as may be prescribed by the Clearing Corporation, for the proper storage and preservation of quality of goods;
 - i) Each storage facility has adequate infrastructure for storing the deliverable commodities of commodity derivative contracts which needs to be piled properly in a separate storage area as specified by the Clearing Corporation thereby providing clear-cut demarcation between Exchange / non- Exchange commodities;
 - j) All its storage facilities are free from materials and substances that may adversely affect the quality of stored commodities;
 - k) All its storage facilities to have adequate security as prescribed by the Clearing Corporation for protection of stored or handled commodities to prevent from tampering or adulteration;



- l) All its storage facilities to assign a separate place to store the samples used for inspection / testing for further examination / testing.
 - m) Shall uniformly follow the Standard Operating Procedure (“SOP”) developed by the Clearing Corporations with respect to the maintenance, preservation and retrieval of data/records/books of accounts.
- iii. Clearing Corporations shall ensure that the WSP have adequate infrastructure and shall take utmost care in storing commodities in accordance with the climatic conditions and the nature of commodity stored.
- iv. Clearing Corporations shall ensure that the WSP has put in place necessary infrastructure for accurate and efficient weighing, sampling, inspection and grading of the commodities deposited in its storage facility and WSP has deployed personnel who have knowledge and experience in sampling, weighing, inspecting and/or grading of commodities.
- v. Clearing Corporations shall ensure that the WSPs always gives priority to commodities meant for derivatives contracts delivery while receiving, storing and dispatching goods, in case its warehouse is also permitted to store goods not meant for delivery on exchange platform. The Clearing Corporation shall ensure that WSP should have internal process that enables it 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 Clearing Corporation/regulator from time to time.
- vi. The Clearing Corporation shall ensure that 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.



- vii. Further, the Clearing Corporation shall ensure that it has put in place appropriate procedure and controls in place so that there is minimal queuing of deposits/withdrawal at a storage facility.
- viii. Clearing Corporations shall ensure that its 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.

12.9.2. Requirements applicable for Agricultural & agri-processed commodities

- i. The Clearing Corporation shall ensure that each storage facility of accredited WSP meant for storing the Agricultural and agri-processed commodities shall meet the following conditions in addition to requirements stated in Para 12.9.1 above:
 - a) the walls, the floor and the roof do not permit water seepage and there is no source of any insect infestation.
 - b) has a fully fenced perimeter/boundary.
 - c) are free from materials and substances that may adversely affect the quality of stored commodities;
 - d) has its own or has access to fumigation facilities/agencies for pest control activities.
 - e) has assaying/testing facilities for the commodities it intends to render warehousing facility for, or shall undertake to be associated with an assaying/testing agency which may preferably be certified by one or more national/international agencies like National Accreditation Board for Calibration and Testing Laboratories (“NABL”), Bureau of Indian Standards (“BIS”) etc., as specified by the Clearing Corporation.
- ii. 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 favorable 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.



12.9.3. Requirements applicable for Base Metals/Industrial Metals

- i. The Clearing Corporation shall ensure that each storage facility of accredited WSP meant for storing Base Metals/Industrial Metals shall meet the following conditions in addition to requirements stated in Para 12.9.1 above:
 - a) The storage facilities must have a fully fenced perimeter/boundary. Loading and unloading shall always take place within the perimeter/boundary of the warehouse and not in a public area.
 - b) All its storage facilities are of sound construction and in a state of good repair and floor properly levelled and can bear the load of the weight of the stored metals. The walls, the floor and the roof do not permit water seepage.
- ii. The Clearing Corporation shall ensure that the ferrous metals are stored by WSP in a manner so as to prevent distortion, corrosion, scaling and rusting. They shall be stacked/piled adequately above the ground level.
- iii. The Clearing Corporation shall ensure that the WSP undertakes to have assaying/testing facilities for the commodities it intends to offer 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 as specified by the Clearing Corporation.

12.10. Standard Operating Procedure (SOP) and Standards

12.10.1. ISO or other Relevant Standards

- i. In case the Clearing Corporations prescribes relevant International Organization for Standardization (“ISO”) standards and/or its equivalent, then the Clearing Corporation shall ensure that the WSPs comply with relevant ISO standards and/or its equivalent within the timelines prescribed by it.



12.10.2. SOPs

- i. The Clearing Corporation shall ensure that the WSP has a Standard Operating Procedure (“SOP”) which is process-dependent and not person-dependent. The Clearing Corporation shall examine the SOPs in respect of all the concerned storage facilities before granting accreditation to such storage facilities.
- ii. The SOP of a storage facility may cover the following but not restricted to:
 - a) Procedures for acceptance of goods to be deposited
 - b) Weigh bridge empanelment
 - c) Procedures for weighing, sampling of goods to be deposited as per industry standards, Procedure for verification of commodity and communication to depositors,
 - d) Procedure for depositing and identifying the Exchange related goods,
 - e) Procedure for maintaining the quality of the goods stored as per the exchange contract specification,
 - f) Procedure for Know your depositor requirements,
 - g) Security policy for ensuring the safety of the goods from theft, burglary etc.,
 - h) Procedure and guidelines for scientific storage of goods, including stacking etc.,
 - i) Procedure for losses caused due to theft, fire, burglary, fraud, negligence and force majeure events,
 - j) Procedure for internal verification of stock,
 - k) 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.
 - l) Selection of Location for offering warehousing services
 - m) Grievance redressal procedures
 - n) Role and responsibilities of employees (including outsourced employees)
 - o) Model warehouse agreement format
 - p) Maintenance of surroundings, infrastructure etc.
- iii. The Clearing Corporation shall ensure that the WSP has good internal systems and controls which should meet the operating guidelines, if any, issued by the Clearing Corporation from time to



time. The WSP shall have clear delegation of powers to meet operational requirement.

- iv. The Clearing Corporation shall ensure that WSP intimates / notifies in writing to the Clearing Corporation, if there is any material change in its SOP, prior to making such change.
- v. The Clearing Corporation shall ensure that WSP reports to the Clearing Corporation within three days of initiation of any civil and criminal proceedings by or against it and shall also intimate the Clearing Corporation 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.

12.11. Sampling Procedure

12.11.1. The Clearing Corporations shall ensure that, wherever assaying is carried out by WSPs, adequate samples of goods are collected/retained from the goods deposited and are sealed in the presence of the depositor or his authorized representative.

12.11.2. In order to resolve potential disputes arising with respect to the quality of goods, if any, at least four samples shall be taken of which one sample shall be used for analysis, one shall be kept with the WSP for comparison purpose, one shall be given to the depositors while one shall be kept for record/lab reference purpose.

12.12. Accreditation of Assayers

12.12.1. The Clearing Corporation shall follow a transparent process for accreditation of assayers by issue of open advertisement in leading newspapers and/or by putting up the same on the website of the Clearing Corporation. The process to be followed for such accreditation shall be displayed on the website of the Clearing Corporation before the beginning of the selection process. The accreditation shall be done with the approval of the relevant Committee of the board of directors of the Clearing Corporation in terms of the SECC Regulations.

12.12.2. The Clearing Corporation shall conduct independent pre-empowerment due diligence of Assayers by visiting the laboratories



and assessing the testing and certification facilities. The Clearing Corporation 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 Clearing Corporation shall also identify and empanel separate independent assayer(s) where the market participants can get their goods/commodities assayed independently, 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 happen to be Government assayer, then the need for empanelling an additional independent assayer may be dispensed with.

- 12.12.3. The Clearing Corporation shall ensure that the empanelled assayers work independently, and their operations are governed by the SOPs prepared by the Clearing Corporation. The assayers shall be preferably certified by one or more national/international agencies like NABL, BIS etc., and shall have the facilities as laid down by the Clearing Corporation from time to time.

12.13. Warehouses at delivery centres

- 12.13.1. The Clearing Corporation shall have at least one storage facility at each of the delivery centres (as specified in the contract specification) at the time of launch of contract itself and address of such storage facility shall be disclosed along with the contract specifications by the Clearing Corporation on their website / by issuance of relevant Circular to all market participants.
- 12.13.2. The Clearing Corporation may accredit warehouses of a WSP within a radius of 100 km of the delivery centres depending on the feasibility and market requirements in respect of all commodities.

12.14. Insurance

- 12.14.1. The Clearing Corporation shall ensure that its WSPs, whether presently registered with the WDRA or not, comply with the insurance guidelines/ norms issued by the WDRA.

12.15. Embracing new technology

12.15.1. The Clearing Corporations shall strive to adopt the latest technology for routine and surprise inspections/audits, monitoring and surveillance of the warehouses etc.

12.15.2. The Clearing Corporation shall ensure that to the extent possible the WSP to be accredited by them has adopted or shall adopt the latest technology with respect to the operations of the warehousing business. The Clearing Corporation may identify the areas where use of latest technology can be mandated by it and provide a timeframe to its WSPs for adoption of the same.

12.16. Monitoring/Inspection/Audit

12.16.1. Periodic inspection/audit by WSPs

- i. The Clearing Corporation shall ensure that there is periodic inspection/audit by the WSP of the storage facilities and the goods stored therein.
- ii. The Clearing Corporation shall ensure that the staff of the WSP conducting inspection is independent of the employees / staff deputed at the registered storage facility.
- iii. The Clearing Corporation shall ensure that the inspection/audit report is submitted to the Clearing Corporation within 15 days of the completion of such inspection/audit.

12.16.2. Periodic inspection/audit of warehouses by the Clearing Corporation

- i. The Clearing Corporation shall ensure that independent audit of the goods and other facilities in the storage facilities is carried out by engaging expert agencies, at regular intervals.
- ii. Such inspections shall be carried out in each accredited storage facility, at least twice in a calendar year, with a gap of not more than six months between two inspections/audits of same storage facility. However, in case there are NIL stocks in an accredited storage facility during preceding six months, the Clearing



Corporations would be exempted from requirement of inspection by independent agency.

- iii. Additionally, the audit may also be conducted on risk profiling, as identified by the Clearing Corporation. For this purpose, the Clearing Corporation shall form a panel of independent expert agencies and the cost of such audit shall be borne by the respective Clearing Corporation.
- iv. The panel of such independent expert agencies for carrying out inspection of warehouses, shall also be reviewed by the Clearing Corporation from time to time.
- v. The Clearing Corporation 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.
- vi. In addition, the Clearing Corporation shall also conduct in-house physical audit of accredited storage facilities at regular intervals.
- vii. The audit report conducted by independent expert agencies shall be displayed on the website of the Clearing Corporation within 15 days after the submission of report by the auditor.
- viii. The Clearing Corporations shall carry out surprise inspections of storage facilities as and when such exigencies arise.
- ix. The Clearing Corporations shall have a detailed manual for carrying out the audits and inspections of the WSP/ storage facilities concerned.

12.16.3. Monitoring of goods stored at accredited storage facilities by the Clearing Corporations

- i. The Clearing Corporations shall be responsible for monitoring the storage facilities of their accredited WSPs.
- ii. Norms relating to the monitoring of storage facilities shall be placed in public domain by the Clearing Corporation.

- iii. A deliberation on the continuous functioning, monitoring and compliance of norms by WSPs, storage facilities and assayers may be one of the agenda items in all meetings of the board of directors of the Clearing Corporation in terms of the SECC Regulations.
- iv. The Clearing Corporations and WSPs shall ensure that the goods whose Final Expiry Date (“**FED**”) is over, are removed from the concerned warehouse immediately, but not later than 3 months from the date of the final expiry date. However, it is clarified that WSP shall ensure proper demarcation of goods which have crossed FED and where follow ups have been done may be considered compliance of guidelines by WSPs. If there is space constraint, the Clearing Corporations shall identify new warehouse nearby for deposit of goods.

Note: For the purpose of this Circular, FED is the date after which the goods cannot be delivered for settlement of derivatives contracts on the stock exchange platform.

- v. To further strengthen the process of monitoring, the Clearing Corporations shall mandate their WSPs to submit the report of the inspections carried out by the statutory authorities like WDRA to the Clearing Corporations within 2 weeks from the receipt of report by WSPs of such inspection along with their comments.

12.16.4. Physical inspections of goods by beneficiary owner of goods

- i. The Clearing Corporations shall ensure that the beneficiary owner of the goods is allowed by the concerned WSPs to physically inspect their goods as and when requested by the holders of eNWRs.
- ii. The request for such physical inspection shall be submitted to the Clearing Corporations and the Clearing Corporations after verification and satisfaction of need for such request, shall forward the same to the concerned WSP for allowing such inspection to be completed within a stipulated timeframe.
- iii. Upon receipt of such advice from the Clearing Corporations, the WSP shall allow the holder/its authorized representatives holding

eNWRs or any other electronic receipts/credit balances to do physical inspection of their goods.

12.16.5. Physical reconciliation of goods

- i. The Clearing Corporation shall put in place adequate procedures to ensure that the physical counting of goods and their reconciliation with the corresponding electronic records is done on fortnightly basis by its WSPs.
- ii. The Clearing Corporation shall submit report to SEBI of details of discrepancy observed during the physical reconciliation of goods along with reasons and action taken thereof, on a quarterly basis. Only in extreme cases, in the judgement of the Clearing Corporation, SEBI may be informed of the discrepancy observed on immediate basis.

12.16.6. Review of WSPs/Warehouses

- i. The Clearing Corporations shall review and appraise operational performance of each WSP every year. Based on the operational review the Clearing Corporations may adjust the allocation of commodities and the limit of deliveries at various storage facilities of the concerned WSP in accordance with the results of such performance evaluation and appraisal.
- ii. Additionally, the Clearing Corporations may carry out quarterly and quarterly performance review of all warehouses accredited by it, taking into account various performance parameters 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 Clearing Corporation may deem necessary for its review.
- iii. The Clearing Corporations may take necessary action against WSPs as mentioned in para 21 of the circular, if the storage facility is unable to meet the requirements of an accredited storage facility and fails to improve the standard within the stipulated timeframe.

12.17. Code of Conduct

- 12.17.1. The Clearing Corporation shall frame code of conduct for the WSPs, storage facility and assayers which shall be disclosed on the website of the Clearing Corporation.

12.18. Grievance Cell

- 12.18.1. The Clearing Corporation shall ensure that it has a Grievance Cell to handle the investor complaints.
- 12.18.2. The Clearing Corporation shall take proactive steps to resolve client/customer related issues and maintain a record of complaints received and resolved.
- 12.18.3. The Clearing Corporation 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.

12.19. Monthly Information System (MIS)

- 12.19.1. 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 storage facility location to the central MIS and onwards to the Clearing Corporations electronically. The MIS should have the capability to capture and disseminate information regarding goods being held either storage facility -wise or location-wise, or the availability of space in the storage facilities.
- 12.19.2. The Clearing Corporation shall display on its website, the list of accredited warehouses for the deposit of goods for delivery on the exchange platform along with the policy for deposit of such goods. The market participants willing to deposit goods in accredited warehouses shall submit a request to the WSP in accordance with the policy put in place by the Clearing Corporation for deposit of goods. The WSP shall intimate the depositing participant about the logistic details such as the time, place and storage facility where the goods can be deposited by them. The WSP shall accept the goods for deposits for all such confirmed deposit requests in accordance with the policy put in place by the Clearing Corporation for deposit of goods.

12.20. Surrender/Cancellation of accreditation

12.20.1. The WSP may apply for surrender of its accreditation by submitting the Application for Surrender to the concerned Clearing Corporation for evaluation and approval.

12.20.2. The Clearing Corporation may cancel the accreditations of 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 Clearing Corporation shall put in place a cancellation policy for WSP in public domain. However, the Clearing Corporation shall offer the WSP concerned an opportunity of being heard and take a decision on cancellation after considering the explanation of the WSP.

12.20.3. A WSP that surrenders its accreditation, or its accreditation is cancelled, shall attend to the following matters urgently:

- i. All commodities for delivery towards settlement of derivatives contract shall be dispatched out of the warehouse;
- ii. All liabilities and debts vis-a-vis the Stock Exchange/Clearing Corporation, 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 client/customer complaints pertaining to any of its registered warehouses are pending for redressal.

12.20.4. Financial Security Deposit (“**FSD**”) shall be returned in accordance with the rules framed by the Clearing Corporations, keeping aside 10% of such deposits with the Clearing Corporations, 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.

12.20.5. A WSP which surrenders its accreditation with the Clearing Corporations shall not be eligible to provide its services to the same Clearing Corporations for a period of 3 years.

12.20.6. Once the accreditation of a WSP is cancelled by a Clearing Corporation then it shall not be eligible to provide its services to any other Clearing Corporation for 3 years.

12.20.7. Adequate notice intimation to general public / clients should be given by the Clearing Corporation through widely published newspapers and website etc. before accepting the surrender of WSP or cancellation of the WSP.

12.21. Business Continuity Plan

12.21.1. A Clearing Corporations shall ensure that the WSP shall put in place, a business continuity plan and submits such plan to the Clearing Corporations.

12.22. Actions against WSPs

12.22.1. The Clearing Corporation may frame norms for its accredited WSPs to rectify or correct their misconduct or misconduct on the part of any of its approved warehouses used for storing goods for delivery on exchange platform. The Clearing Corporation 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 Clearing Corporation'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 of a commodity derivative contract;
- iv provide inaccurate or incomplete information to the Clearing Corporation, conceal the truth of the facts;
- v engages in the commodity derivatives trading activities; or
- vi any other offence not listed above.

However, the above actions may be initiated only after taking due approval from the relevant committee of the board of directors of the Clearing Corporation in terms of the SECC Regulations.



12.22.2. 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 Clearing Corporation shall compensate the aggrieved client for any such losses that have been appropriately established by debiting the FSD of WSP held with the CC, in accordance with its applicable rules, and WSP shall within 7 days replenish the FSD as required.

12.23. Policy for depositors for rejection of goods

12.23.1. The Clearing Corporations shall frame a policy for rejection of goods deposited by the depositors.

12.24. Disclosures by Clearing Corporations

12.24.1. Daily disclosure on the following:

- i. Details about the storage facility including available and utilized capacity, type of commodity allowed to be stored, location of storage facility etc.
- ii. Details about storage facility-wise and / or commodity wise details of opening stock, goods deposited and held in transit (inbound and outbound), rejected stock, closing stock, encumbered/pledged stock and stock eligible for delivery on Clearing Corporation, name of the warehouse service provider, particulars of acceptance/rejection of goods by the storage facility concerned, details of empanelled assayers and independent assayers, if any, attached to the storage facility etc., on their websites.
- iii. FED wise stock position in approved warehouses.
- iv. Quantum of goods physically withdrawn by the holders.
- v. Commodity wise %age of deposits held by top 3, 5 & 10 beneficiary owners for commodity as under:



	Commodity A	Commodity B	Commodity C	Commodity D and so on
Top 3				
Top 5				
Top 10				
Others				

12.24.2. Monthly disclosure on the following:

- i. A summary of number of complaints with status as per the following format:

WSP wise status of complaints for Month ended			
WSP Name	No. of complaints received during month	No. of complaints resolved during month	No. of complaints pending for month with reasons for pendency

- ii. A summary of nature of complaints received as per the following format:

Month ending					
Nature of Complaint	Name of WSP 1	Name of WSP 2	Name of WSP n	Total
Total					

- iii. 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 CC/WDRA with reason for the same, etc.
- iv. Details of storage fee and assaying charges.



- v. Details of commodity wise goods deposited in WSP's Clearing Corporation accredited warehouse - by WSP, Management of WSP (defined as 'key managerial personnel' including whole time directors of WSP and their 'relatives' as per Companies Act, 2013), entities owned or controlled by promoters/management of WSP/Group concerns/associates directly or indirectly or persons 'acting in concert'.

The above discourse should be made available on the website of the Clearing Corporation latest by 7th of the Month.

12.24.3. Other periodical disclosures:

- i. Disclosure of the audit report of the WSP within 15 days after the submission of report by the auditor.
- ii. Quarterly Disclosure on average value of various quality parameters of commodities stored
- iii. Commodity wise and WSP wise quarterly disclosure on request of resampling and its results
- iv. Warehouse wise Half yearly disclosure on indicative Load-in and Load-out Rate (Quantity in Metric Ton- MT)

12.24.4. The archives of above reports shall be available on the website of Clearing Corporation/ Stock Exchange.

CHAPTER 13. INVESTOR PROTECTION FUND & INVESTOR SERVICE FUND AND ITS RELATED MATTERS

13.1. Investor Protection Fund (IPF)¹²⁵

13.1.1. Constitution and Management of the Investor Protection Fund (“IPF”)

- I. The IPF shall be administered by a Trust created for this purpose.
- II. The IPF Trust of the stock 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 stock 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 SEBI¹²⁶.
- III. [***]¹²⁷
- IV. Stock Exchanges shall provide the secretariat for the IPF Trust/Committee.
- V. Stock Exchanges shall ensure that the funds in the IPF are well segregated from that of the Stock Exchange and that the IPF is immune from any liability of the exchange.
- VI. [***]¹²⁸

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

- I. All the penalties levied and collected by the stock exchange, except for the settlement related penalties (including penalties from delivery default), shall be credited to the IPF.¹²⁹

¹²⁵ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2016/94](#) dated September 26, 2016.

¹²⁶ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹²⁷ SEBI circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹²⁸ SEBI circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹²⁹ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.



- II. 1% of the turnover fee charged by the stock exchange from its members/brokers or ten lakh whichever is higher in a financial year.¹³⁰

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

- I. In accordance with its byelaws, rules or regulations, the stock 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. Stock Exchange(s) 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 Member(s) of the Stock Exchange(s) is/are situated.
- IV. The notice calling for claims shall be displayed on the website of the stock exchange for the entire specified period.
- 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.

13.1.4. 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 claim¹³¹
 - 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.

¹³⁰ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹³¹ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.



- 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 stock 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. [***]¹³²

- IV. The investor claim arising out of a default of a broker/member of the stock exchange shall be eligible for compensation from IPF.¹³³

13.1.5. Determination of Legitimate Claims

- 13.1.5.1. The Stock Exchanges shall ensure that once a member has been declared defaulter, the claim(s) shall be placed before the Member Core Settlement Guarantee Fund Committee (“**MCSGFC**”), the erstwhile Defaulters’ Committee, for sanction and ratification. MCSGFC’s advice w.r.t. legitimate claims shall be sent to the IPF Trust for disbursement of the amount immediately.
- 13.1.5.2. In case the claim amount is more than the coverage limit under IPF or the amount sanctioned and ratified by the MCSGFC is less than the claim amount then the investor shall be at liberty to prefer for arbitration outside the stock exchange mechanism / any other legal forum outside the stock exchange mechanism for claim of the balance amount.¹³⁴
- 13.1.5.3. In the event of default by the member, all transactions executed on the stock exchange platform shall be eligible for settlement from IPF subject to the appropriate norms laid down by the defaulters’ committee. The IPF of the stock exchange

¹³² SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹³³ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹³⁴ SEBI Circular no. [SEBI/HO/CDMRD/DoC/P/CIR/2021/651](#) dated October 22, 2021.

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.¹³⁵

- 13.1.5.4. The stock exchanges shall also use their IPF for meeting their liabilities towards the clients of members not registered with SEBI, if the same is allowed under the byelaws of the stock exchange.¹³⁶

13.1.6. Threshold limit for Claims

- I. The Stock 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 INR 1 lakh.¹³⁷
- II. The stock exchanges in consultation with their 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.¹³⁸
- III. [***]¹³⁹
- IV. Stock Exchanges shall disseminate the compensation limit fixed by them and any change thereof, to the public through a Press Release and through their Website.

13.1.7. 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.¹⁴⁰

¹³⁵ SEBI Circular No. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹³⁶ SEBI Circular no. [CIR/HO/CDMRD/DCE/CIR/P/2018/49](#) dated March 14, 2018.

¹³⁷ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹³⁸ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹³⁹ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹⁴⁰ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.



- III. Stock 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 stock exchange¹⁴¹.

Provided that in case of a member having membership on multiple stock 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 stock exchange, SEBI, and other stock exchanges as the case may be.

Provided further that in cases where litigation are pending against the defaulter member, the residual amount, if any, may be retained by the stock 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. Stock 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 directors of the stock exchange on any decision of the Managing Committee of IPF regarding any claim.
- VI. In case the stock 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 shall 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.
- 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

¹⁴¹ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.



Trust shall take necessary steps for disbursement of amount at the earliest.¹⁴²

- VIII. Stock Exchanges shall periodically review the sources of fund and eligible compensation amount so as to recalibrate the fund to make suitable recommendation for enhancement.

13.1.8. Income earned on IPF and its Utilization¹⁴³:

- I. Stock Exchanges 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 Centres. However, no expenditure shall be incurred on product promotion in any manner. Further, the income earned on the IPF corpus may be utilized in such 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 may be carried forward to the next financial year to enable effective utilization of such money by the stock exchanges during such extended period.
- III. The stock exchange shall also be permitted to utilize IPF interest income for undertaking research activities related to commodities market, provided every such research activity / project may 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 directors of the stock exchange may be apprised of the research programs / activities being undertaken at least once in every quarter or half year of a given financial year.

There shall be an overall cap on the total amount, not more than 10% of the interest amount of IPF which can be spent on

¹⁴² SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

¹⁴³ SEBI Circular no. [CIR/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.



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.¹⁴⁴

- 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 stock exchange.

13.2. Investor Service Fund (ISF)¹⁴⁵

13.2.1. Stock Exchanges are mandated to set up Investor Service Fund (“ISF”) for providing following basis minimum facilities at various Investor Service Centers (“ISCs”).

- I. The ISCs shall provide 4 financial newspapers with at least one in the Regional language of the concerned ISC.
- II. The ISCs 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 shall be made available to the investors at minimum cost.
- III. The ISCs shall provide facilities for receiving/recording investor complaints. Special staff recruited/deployed by the stock exchanges for this purpose shall register the complaints and provide counselling service to the investors. Status of complaints shall be maintained and updated in the computer system of the ISCs.

¹⁴⁴ SEBI Circular no. [CIR/HO/CDMRD/DCE/CIR/P/2018/49](#) dated March 14, 2018.

¹⁴⁵ SEBI Circular no. [CIR/HO/CDMRD/DEICE/CIR/P/2017/53](#) dated June 13, 2017.

- IV. The ISCs 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 ISCs shall provide published commodity related materials of stock exchanges for the benefit of the investors. It shall also provide the pamphlets / brochures detailing the rights and obligation of investors while dealing with brokers in commodity markets, FAQ's etc.
- VI. The ISCs shall provide for dummy terminals to display the prices of the commodities listed on the stock exchanges on real-time basis, to enable investors watch the price movements of the commodities etc.
- VII. The ISCs shall maintain a library on relevant laws, financial analysis, market trend analysis etc. for the education of the investors.
- VIII. The ISCs 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.

13.2.2. Contribution to ISF

- I. At initial stage, the stock exchange shall contribute a minimum of INR Ten Lakhs towards setting up of ISF. Subsequently, onwards, the stock exchange 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 INR Ten Lakh in a financial year.
- II. The stock 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 stock 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 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, the Investor Service Committee of the stock exchange shall oversee the contribution to ISF and its utilization.
- V. Stock Exchange shall maintain separate bank account for maintaining corpus of the IPF as well as ISF and such funds shall not be co-mingled with any other fund(s) of the stock exchange and shall not be used for any other purpose.



CHAPTER 14. INVESTOR GRIEVANCE REDRESSAL SYSTEM AND ARBITRATION MECHANISM

14.1. Investor Grievance Redressal System ¹⁴⁶

14.1.1. The stock exchanges shall constitute Investor Grievance Redressal Committee (“**IGRC**”) for redressal of investor grievances.

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

- i. The IGRC shall comprise of a single person for claims up to INR 25 Lakh, whereas, for claims above INR 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 IGRC 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 any trading member in any manner.
- v. Stock Exchanges shall empanel IGRC members, however, no arbitrator/ appellate arbitrator shall be empanelled as IGRC member. ¹⁴⁷
- vi. Stock Exchanges shall organize regular training program for IGRC members in consultation with National Institute of Securities Markets (“**NISM**”). The cost of such program shall be borne by Investor Service Fund (“**ISF**”) of the Stock Exchange. ¹⁴⁸

¹⁴⁶ SEBI Circular No. [CIR/CDMRD/DEICE/02/2015](#) dated November 16, 2015.

¹⁴⁷ SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](#) July 11, 2017.

¹⁴⁸ SEBI Circular No. [SEBI/HO/MIRSD/DOC/CIR/P/2020/226](#) dated November 6, 2020.

- vii. 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 the securities market
 - iii. disclosure of the names of his dependents associated with the securities market as member 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 consonance with the principles of natural justice and in compliance with the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India Act, 1992, the Arbitration and Conciliation Act, 1996 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.



14.1.3. With a view to streamline and make more effective the investor grievance redressal mechanism at stock 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, Stock Exchanges are advised as under:

- i. The exchanges shall ensure that all complaints are resolved at their end within 15 days. If complaint is not resolved within stipulated time frame, then the reason for non redressal in given time frame shall also be recorded.¹⁴⁹ 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.
- ii. In case the matter does not get resolved, conciliation process of the stock exchange shall start immediately after the timelines stated above.
- iii. IGRC shall have a time of 15 working days to amicably resolve the investor complaint through conciliation process. If IGRC needs additional information, then IGRC may request the Stock Exchange to provide the same before the initiation of the conciliation process. In such case, where additional information is sought, the timeline for resolution of the complaint by IGRC shall not exceed 30 working days.¹⁵⁰
- 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.

¹⁴⁹ SEBI Circular No. [SEBI/HO/MIRSD/DOC/CIR/P/2020/226](#) dated November 6, 2020.

¹⁵⁰ SEBI Circular No. [SEBI/HO/MIRSD/DOC/CIR/P/2020/226](#) dated November 6, 2020.



- vi. Expenses of IGRC shall be borne by the respective Stock Exchange and no fees shall be charged to the complainant/member.
- vii. Upon conclusion of the proceedings of IGRC, i.e. in case claim is admissible to the investor, the stock exchange shall block the admissible claim value from the deposit of the Member.
- viii. The stock exchange shall give a time of 7 days to the Member from the date of signing of IGRC directions to inform the stock exchange whether the Member intends to pursue the next level of resolution i.e. Arbitration.
- ix. In case, the Member does not opt for arbitration, the stock exchange shall, release the blocked amount to the investor after the aforementioned 7 days.
- x. 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 below¹⁵¹ :
 - A. In case, the order is in favour of client and the member opts for arbitration wherein the claim value admissible to the client is not more than INR 20 lakhs, the following steps shall be undertaken by the Stock Exchange:¹⁵²
 - i. In case the IGRC order is in favour of the client, then 50% of the admissible claim value or INR 2 lakhs, whichever is less, shall be released to the client from IPF of the Stock Exchange.
 - ii. In case the arbitration award is in favour of the client and the member opts for appellate arbitration, then a positive difference of, 50% of the amount mentioned in the arbitration award or INR 3 lakhs, whichever is less, and the amount already released to the client at clause (i) above, shall be released to the client from IPF of the Stock Exchange.
 - iii. In case the appellate arbitration award is in favour of the client and the member opts for making an application under

¹⁵¹ SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](#) dated July 11, 2017

¹⁵² SEBI Circular No. [SEBI/HO/CDMRD/DoC/P/CIR/2021/649](#) dated October 22, 2021.



Section 34 of the Arbitration and Conciliation Act, 1996 to set aside the appellate arbitration award, then a positive difference of, 75% of the amount mentioned in the appellate arbitration award or INR 5 lakhs, whichever is less, and the amount already released to the client at clause (i) and (ii) above, shall be released to the client from IPF of the Stock Exchange.

- iv. Total amount released to the client through the facility of interim relief from IPF in terms of this Circular shall not exceed INR10 lakhs in a financial year.
- v. Before release of the said amounts from the IPF to the investor, the Stock 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 the stock exchange and the rest shall be paid to the investor.
- viii. Stock 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 stock exchange 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 stock exchanges may resort to displaying the names of such investors on their websites and also initiate appropriate legal steps in consultation with the IPF Trust, if deemed necessary, for bringing the money back in the IPF.
 - B. Stock 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. Stock 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.
- 14.1.4. With a view to rationalize the timelines involved in the arbitration mechanism, stock 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 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 the stock 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 Member does not express their intent to challenge the arbitration award/appellate arbitration award, then the stock exchange shall presume that the Member does not intend to challenge the award and the stock exchange shall take further steps accordingly.
- 14.1.5. With a view to address complaints regarding 'unauthorised trades', the stock exchanges shall 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 having not complied with the same.
- iii. With a view to assist investors engaged in dispute resolution process, stock exchanges shall set up facilitation desks at all ISCs. These facilitation desks shall also assist investors in obtaining documents/details from stock exchanges wherever so required for making application to IGRC and filing arbitration.

14.2. *Online Web Based Complaints Redressal System*¹⁵³

14.2.1 SEBI has implemented an online platform known as SEBI Complaints Redressal System (“**SCORES**”) designed to help investors to lodge their complaints, pertaining to securities market, against listed companies and SEBI registered intermediaries.

14.2.2 In line with the same, to enable investors to lodge and follow up their complaints and track the status of redressed of such complaints from anywhere, all Stock Exchanges shall implement an online web based complaints redressal system of their own, which shall facilitate investors to file complaints and escalate complaints for redressal through IGRC, arbitration, appellate arbitration etc. in accordance with their respective byelaws, rules and regulations. The system shall be web enabled and provide online access 24 x 7 with the following salient features;

- a) Complaints/GRC/Arbitration/Appellate Arbitration and reminders thereon are lodged online at anytime from anywhere;
- b) An email is generated instantaneously acknowledging the receipt of the complaint and allotting a unique registration number for future reference and tracking;
- c) The matter/case moves online to the entity (intermediary or listed company) concerned for its redressal;
- d) The entity concerned can indicate the mode i.e. online or offline for IGRC and arbitration.
- e) The access of the online system should be given to the Trading Members and Depository Participants.

¹⁵³ SEBI Circular No. [SEBI/HO/MRD1/ICCI/CIR/P/2022/94](#) dated July 04, 2022.

- f) The entity concerned uploads an Action Taken Report (ATR) on the Complaints/IGRC/Arbitration/Appellate Arbitration;
- g) All Recognized Stock Exchanges including Commodity Derivatives Exchanges peruse the ATR and dispose of the Complaints/IGRC/Arbitration/Appellate Arbitration if it is satisfied that the complaint has been redressed adequately;
- h) The concerned investor can view the status of the complaint online;
- i) The entity concerned and the concerned investor can seek and provide clarification(s) online to each other;
- j) The life cycle of a Complaints/GRC/Arbitration/Appellate Arbitration has an audit trail; and
- k) All the Complaints/IGRC/Arbitration/Appellate Arbitration are saved in a central database which would generate relevant MIS reports to enable all Stock Exchanges to take appropriate policy decisions and or remedial actions.
- l) There should be a provision to link the online system with SCORES.

14.3. Increasing Awareness regarding Online Mechanisms for Investor Grievance Redressal¹⁵⁴

14.3.1 In order to increase the awareness regarding SCORES, all Stock Exchanges /Clearing Corporations shall display the following on the home page of their websites and mobile apps:

- i. link / option to lodge complaint with them directly
- ii. link to SCORES website/ link to download SCORES mobile app.

14.4. Hybrid Mode of Conducting GRC and Arbitration / Appellate Arbitration¹⁵⁵

14.4.1 During the COVID pandemic, Stock Exchanges were advised to conduct IGRC and arbitration/ appellate arbitration meetings/hearings online for faster redressal of complaints. The online process of IGRC and arbitration/ appellate arbitration saves time and cost of the parties involved which is in the interest of investors.

¹⁵⁴ SEBI Circular No. [SEBI/HO/MRD1/MRD1_ICC1/P/CIR/2022/05](#) January 05, 2022.

¹⁵⁵ SEBI Circular No. [SEBI/HO/MRD1/ICC1/CIR/P2022/94](#) dated July 04, 2022



14.4.2 Therefore, Stock Exchanges shall continue with the hybrid mode (i.e., online and offline) of conducting IGRC and arbitration/ appellate arbitration process.

14.5. Disclosure of Complaints against the Stock Exchange(s) and the Clearing Corporation(s)¹⁵⁶

14.5.1. In order to bring about transparency in the Investor Grievance Redressal Mechanism, all the Stock Exchanges and the Clearing Corporations shall disclose on their websites, the data on complaints received against them and redressal thereof, latest by 7th of succeeding month, as per the format given in the **Annexure**.

14.6. Arbitration mechanism¹⁵⁷

14.6.1. For any dispute between the member and the client relating to or arising out of the transactions in Stock Exchange, which is of civil nature, the complainant/ member shall first refer the complaint to the IGRC and/ or to arbitration mechanism provided by the Stock Exchange before resorting to other remedies available under any other law. ¹⁵⁸The Bye-laws of the stock exchanges relating to arbitration proceedings shall be in accordance with the Arbitration and Conciliation Act, 1996 and this Master Circular.

14.6.2. In consultation with the stock 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.

14.6.3. A stock 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 Master Circular read with Section 2(4) of the Arbitration and Conciliation, Act, 1996.

¹⁵⁶ SEBI Circular No. [SEBI/HO/CDMRD/DoC/P/CIR/2021/636](#) dated October 04, 2021

¹⁵⁷ SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](#) dated July 11, 2017

¹⁵⁸ SEBI Circular No. SEBI/HO/MIRSD/DOS3/P/CIR/2022/78 dated June 3, 2022



14.6.4. Maintenance of a Panel of Arbitrators.

- i. A stock 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 stock 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.

14.6.5. 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 in consonance with the principles of natural justice and in compliance with the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India Act, 1992, the Arbitration and Conciliation Act, 1996 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 Master Circular; and pass reasoned and speaking arbitral awards.

14.6.6. Arbitration

- i. A complainant/member, who is not satisfied with the recommendation of the IGRC shall avail the arbitration mechanism of the Stock Exchange for settlement of complaints within three months from the date of IGRC recommendation.¹⁵⁹
- ii. The time period of three months mentioned in the previous sub-clause for filing arbitration shall be applicable only for the cases where the IGRC recommendation is being challenged. For any arbitration application received without going through IGRC mechanism, the above time period of three months shall not apply, and for such cases the limitation period for filing an arbitration reference shall be governed by the law of limitation, i.e., The Limitation Act, 1963.¹⁶⁰
- iii. For the removal of doubts, it is clarified that the sole arbitrator or the panel of arbitrators, as the case may be, appointed under the Stock Exchange arbitration mechanism shall always be deemed to have the competence to rule on its jurisdiction.¹⁶¹

¹⁵⁹ SEBI Circular No. SEBI/HO/MIRSD/DOS3/P/CIR/2022/78 dated June 3, 2022

¹⁶⁰ SEBI Circular No. SEBI/HO/MIRSD/DOS3/P/CIR/2022/78 dated June 3, 2022

¹⁶¹ SEBI Circular No. SEBI/HO/MIRSD/DOS3/P/CIR/2022/78 dated June 3, 2022



- iv. An arbitration reference for a claim / counter claim up to INR 25 lakh shall be dealt with by a sole arbitrator while that above INR 25 lakh shall be dealt with by a panel of three arbitrators.
- v. The stock 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.
- vi. 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).
- vii. The Managing Director/ Executive Director of the stock 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.

14.6.7. Appellate Arbitration

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

14.6.8. Arbitration Fees¹⁶² : The fee structure (exclusive of statutory dues -stamp duty, service tax, etc.) for filing arbitration reference shall be as follows:-

Amount of Claim / Counter Claim, whichever is higher (in rupees)	If claim is filed within six months from the date of dispute	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	If the claim is filed beyond the timeline prescribed in column 3, (only for member)
≤ 10,00,000	1.3% subject to a minimum of INR 10,000	3.9% subject to a minimum of INR 30,000	Additional fee of INR 3,000/-per month over and above fee prescribed in column 3
> 10,00,000 - 25,00,000 ≤	INR 13,000 plus 0.3% amount above INR 10 lakh	INR 39,000 plus 0.9% amount above INR 10 lakh	Additional fee of INR 6,000/-per month over and above fee prescribed in column 3
> 25,00,000	INR 17,500 plus 0.2 % amount above INR 25 lakh subject to maximum of INR 30,000	INR 52,500 plus 0.6 % amount above INR 25 lakh subject to maximum of INR 90,000	Additional fee of INR 12,000/-per month over and above fee prescribed in column 3

¹⁶² SEBI Circular No. [CIR/CDMRD/DEICE/CIR/P/2017/77](http://www.sebi.gov.in/circulars/CDMRD/DEICE/CIR/P/2017/77) dated July 11, 2017.



- i. The filing fee shall be utilized to meet the fee payable to the arbitrator(s). Excess of filing fee over fee payable to the arbitrator(s), if any, shall be deposited in the IPF of the respective stock exchange.
- ii. A client, who has a claim / counter claim up to INR 20 lakh and files arbitration reference shall be exempted from filing the deposit. Expenses thus arising with regard to such applications shall be borne by the Stock Exchanges¹⁶³.
- iii. In all cases, on issue of the arbitral award the stock exchange shall refund the deposit to the party in whose favour the award has been passed. In cases where claim was filed within the period of six months, 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 IPF 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 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 Stock 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.

¹⁶³ [Substituted by SEBI Circular No. SEBI/HO/MRD1/ICC1/CIR/P/2022/94 date July 04, 2022](#)



- iv. A party filing an appeal before the appellate panel [as mentioned above in Appellate Arbitration] shall pay a fee not exceeding INR 30,000, as may be prescribed by the stock exchange, in addition to statutory dues (stamp duty, service tax, etc.) along with the appeal. In case the party filing the appeal is a client having claim / counterclaim of up to Rs. 10 lakhs, then the party shall pay a fee not exceeding INR 10,000/-.

Further expenses thus arising shall be borne by the Stock Exchanges and the IPF of respective Stock Exchanges equally.

14.6.9. Place of Arbitration / Appellate Arbitration

14.6.10. In case, the award amount is more than INR 50 lakhs, the next level of proceedings (arbitration or appellate arbitration) may take place at the nearest metro city, if so desired by any of the parties involved. The additional statutory cost for arbitration, if any, shall be borne by the party desirous of shifting the place of arbitration.¹⁶⁴

14.6.11. 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 favour of the member¹⁶⁵. The additional fees charged from the members, if the claim is filed beyond the prescribed timeline, if any, shall be deposited in the IPF of the respective Stock Exchange.¹⁶⁶

14.6.12. Public dissemination of profiles of arbitrators: In order to enhance transparency and also to provide choice to parties, Stock 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.

¹⁶⁴ SEBI Circular No. [SEBI/HO/CDMRD/DoC/P/CIR/2021/649](#) dated October 22, 2021

¹⁶⁵ SEBI Circular no. [CIR/CDMRD/DCE/CIR/P/2018/48](#) dated March 14, 2018

¹⁶⁶ SEBI Circular no. [SEBI/HO/CDMRD/DoC/P/CIR/2021/649](#) dated October 22, 2021

14.6.13. Submission of documents in soft copies: In order to assist the arbitrators in pronouncing comprehensive and speedy awards, Stock Exchanges shall make necessary arrangements in terms of hardware viz., computer, scanner, printer, etc. and required software's at exchange offices/ 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.

14.6.14. Review and training of arbitrators

- Investor Service Committee of the Stock Exchanges shall review the performance of the arbitrators annually and submit the review report to the board of directors of the Stock 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.
- The stock exchanges shall provide training of at least one day to every arbitrator each year¹⁶⁷.

14.6.15. Mechanism for implementation of award.

- Stock Exchanges shall create a common database of defaulting clients accessible to members across all Stock 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 prescribed timelines or file an application to court to set aside such arbitration order in accordance with Section 34 of the Arbitration and Conciliation Act, 1996 (in case of aggrieved by arbitration/ appellate award).

14.6.16. Empanelment of arbitrators and segregation of arbitration and appellate arbitration panel:

Forming of exclusive panel for appellate arbitration is not required and members can serve on both the panels. However, it is imperative for the stock exchanges to ensure that in the same matter, the members of arbitration panel are not considered for

¹⁶⁷ SEBI Circular No. [CIR/CDMRD/DCE/CIR/P/2018/48](#) dated March 14, 2018



constituting the appellate arbitration panel if the matter goes to appeal.

- 14.6.17. Revision in professional fee of arbitrators: The arbitrator fee shall be upwardly revised to INR 18,000/- 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 the Stock Exchange equally. The total expense attributable to the member has to be borne by the concerned member only.
- 14.6.18. 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.
- 14.6.19. Committees ¹⁶⁸ : The composition and functions of the various committees has been referred to as in Chapter 15.
- 14.6.20. Automatic Process and Common Pool of arbitrators¹⁶⁹: The stock exchanges shall pool all arbitrators of theirs in the common pool and facilitate automatic selection of arbitrators from the common pool. Details are specified below:
- i. List of Arbitrators on the panel of all stock 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 stock exchanges.
 - ii. 'Common pool' of Arbitrators will consist of Arbitrators listed on the panels of all stock 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 stock exchanges for the region covered by the Delhi centre will be

¹⁶⁸ As per Regulation 29 of SECC Regulations, the regulatory committees at MIIs has been rationalized into three functional committees and four oversight committees within each MIIs 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.

¹⁶⁹ SEBI Circular No. [CIR/CDMRD/DIECE/02/2015](#) dated November 16, 2015



pooled. This would enable an applicant from the region to choose any arbitrator from the 'Common Pool' for Delhi.

- 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) shall be chosen by an 'Automatic Process' wherein neither the parties to arbitration (i.e. client or member) nor the concerned Stock Exchange will be directly involved.
- iv. The 'Automatic Process' shall 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' shall 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(s) shall be sent immediately and in any case not later than the next working day from the day of picking of the Arbitrator(s). This communication shall be sent by the stock exchange on which the dispute had taken place, to all concerned entities including clients, arbitrators, members, stock exchanges etc.
- vi. The selection of Arbitrators shall henceforth be by the 'Automatic Process'. In case of any probable conflict of interest in an arbitration reference being assigned to any Arbitrator, the Arbitrator shall have to upfront decline the arbitration reference. After the said arbitrator declines, the 'automatic process' shall pick the name of another Arbitrator. This shall continue till the time there is no conflict of interest, by the selected arbitrator. The stock exchanges should ensure that the process of appointment of arbitrator(s) is completed within 30 days. However, the timeline may be extended and stock 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 stock exchange on which the dispute has taken place within 15 days of receipt of communication from



the stock exchange 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 stock exchange on which the dispute had taken place.

14.6.21. Implementation of Arbitral Award in favour of Clients

- i. In case the arbitral / appellate arbitral award is in favour of the client, the stock 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 stock 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 stock 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. 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. 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.



14.6.22. Record and Disclosures

- I. The stock 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 stock exchanges shall disclose on its website, details of disposal of arbitration proceedings as per format given in **Annexure T** regarding Format for details of disposal of arbitration proceedings and details of arbitrator-wise disposal of arbitration proceedings as per format given in **Annexure** on Format for Arbitrator-wise Arbitration Proceedings.

- III. The stock exchanges shall continue to disclose on their website the arbitration awards (issued since April 01, 2007) in format given in **Annexure U** on Format for disclosure of Arbitration Awards.

**CHAPTER 15. GOVERNANCE AND ADMINISTRATION OF EXCHANGES
AND CLEARING CORPORATIONS**

15.1. Compliance with various provisions of Securities Laws by Stock Exchanges having Commodity Derivatives Segment ¹⁷⁰

15.1.1. Stock exchanges shall comply with the applicable provisions of the Securities Contracts (Regulation) Act, 1956 (“SCRA”), the Securities Contracts (Regulation) Rules, 1957 (“SCRR”), the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, (“SECC Regulations”) and this Master Circular ¹⁷¹ :

- I. Stock Exchanges and Clearing Corporations shall continuously comply with all the applicable regulations of the SECC Regulations, as amended from time to time.
- II. Validity of recognition of stock exchanges shall not be less than one year. Further, the renewal of recognition, if any, shall be as per the SCRA and the SECC Regulations.
- III. Stock Exchanges shall pay the regulatory fee in terms of the SECC Regulations, as amended from time to time [*SEBI (Regulatory Fee on Stock Exchanges) Regulations, 2006 has been repealed*].
- IV. Stock Exchanges and Clearing Corporations shall comply with the shareholdings limits and other applicable provisions in the SECC Regulations on continuous basis.
- V. The format for submitting shareholding pattern to SEBI is provided in **Annexure V on Report on Shareholding pattern**.

¹⁷⁰ 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.

¹⁷¹ 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.

15.2. Commencement of operations by a newly recognized stock exchange/ Clearing Corporation ¹⁷²

15.2.1. 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.

15.3. Statutory Committees ¹⁷³

15.3.1. As per Regulation 29 of the SECC Regulations, , the regulatory committees at Stock Exchanges and Clearing Corporations have been rationalized into three functional committees and four oversight committees within each Stock Exchanges and Clearing Corporations. The functions of the seven committees, along-with the detailed composition of each committee is provided in **Annexure W on Functions and Composition of Statutory Committee.**

15.3.2. The overarching principles for composition and quorum of the statutory committee at Stock Exchanges and Clearing Corporations 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 committee, 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.
- III. To constitute the quorum for the meeting of the committee, the number of PIDs on each of the committees 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 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

¹⁷² SEBI circular no [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13](#) dated January 10, 2019

¹⁷³ SEBI circular no [SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13](#) dated January 10, 2019



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 Stock Exchanges or Clearing Corporations. However, such invitee shall not have any voting rights.

15.3.3. Stock Exchanges and Clearing Corporations 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 Stock Exchanges and Clearing Corporations.
- II. Stock Exchanges and Clearing Corporations shall lay down policy for the frequency of meetings, etc., for the statutory committees.
- III. PIDs in Committees at Stock Exchanges and Clearing Corporations:
 - A. SECC Regulations provides that a PID on the board of directors of a Stock Exchanges or Clearing Corporations shall not act simultaneously as a member on more than five committees of that Stock Exchange or Clearing Corporation.
 - 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 the SECC Regulations and circulars issued thereunder. The said requirement shall not be applicable to committees constituted under Companies Act, 2013, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), 2015, amongst others.
 - C. In case of non-availability of adequate number of PIDs, the relevant Stock Exchange / Clearing Corporation shall take necessary steps immediately to induct more PIDs in order to fulfil the requirement of composition of committees.



IV. Meeting of PIDs:

- A. As per code of conduct for PIDs provided in the SECC Regulations, the PIDs shall be required to meet separately every six months.
- B. All the PIDs shall necessarily attend all such meetings of PIDs and 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 Stock Exchange / Clearing Corporation. Further, PIDs shall identify the important issues which may involve conflict of interest for the Stock Exchange / Clearing Corporation 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 Stock Exchanges and Clearing Corporations:

- 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 Stock Exchange / Clearing Corporation and its members.
- B. Stock Exchanges and Clearing Corporations 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 of Independent external persons in a committee shall be at par with that of PIDs, as provided under Regulation 24(3) of the SECC Regulations.



15.4. Monthly Development Report ¹⁷⁴

- 15.4.1. 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.
- 15.4.2. The format for the MDR is provided at **Annexure X** Format for Monthly Development Report.

15.5. Mandatory requirements / exit policy ¹⁷⁵

- 15.5.1. If there is no trading operation on the platform of any stock exchanges for more than twelve months, then such exchange shall be liable to exit.
- 15.5.2. In addition to the above, henceforth, all stock exchanges shall continuously meet the turnover criteria of INR 1000 crores per annum. In case the stock exchange fails to meet the above criteria for 2 consecutive years, they shall be liable to exit. ¹⁷⁶
- 15.5.3. In the event a stock exchange, 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.
- 15.5.4. In case any stock exchange proposes to surrender its recognition voluntarily or whose recognition is proposed to be withdrawn by SEBI, the concerned stock exchange shall be directed to comply with the following:
- I. The concerned stock exchange shall not alienate any of its assets without taking prior approval of SEBI.

¹⁷⁴ SEBI Circular No [CIR/CDMRD/DEA/4/2015](#), dated December 9, 2015

¹⁷⁵ SEBI Circular No. [CIR/CDMRD/DEA/01/2016](#), dated January 11, 2016



- II. Treatment of the assets of de-recognized stock 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 stock exchange shall transfer the Investor Protection Fund or any such fund to the Investor Protection and Education Fund established by SEBI (“**SEBI-IPEF**”).
- IV. The concerned stock 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 provided in the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 till the date of such de-recognition.
 - C. Dues of the brokers to SEBI shall be recovered by the stock exchange out of the brokers’ deposits / capital / share of sale proceeds / winding up proceeds dividend payable, etc. available with the exchange.



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



CHAPTER 16. TRADING SOFTWARE AND TECHNOLOGY

16.1. Algorithmic Trading¹⁷⁷

- 16.1.1. Any order that is generated using automated execution logic shall be known as algorithmic trading.
- 16.1.2. 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 stock exchange should be at least four times the peak order load encountered and the Exchange system should be upgraded on a regular basis. The stock 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.
- 16.1.3. While approving the algorithmic trading, the stock exchanges shall ensure that:
- I. There is clear classification of algorithmic orders in terms of CTCL terminal code/ATS User ID approved by the stock exchange for algorithmic trading.
 - II. The orders of clients are routed through member server only and client orders are not placed directly to the stock exchange System.
 - III. The stock exchanges shall not approve algorithms that may not be conducive to efficient price discovery or fair play.
 - IV. The stock exchanges 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.

¹⁷⁷ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/97](#) dated September 27, 2016

VI. The algorithms which will ‘take liquidity’ away from the market shall not be approved. While approving algorithmic strategies, stock exchanges shall record the reason as to why such strategy is allowed and how it will induct more liquidity in the contract system. Stock 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.

16.1.4. As mini and micro contracts are targeted towards small participants, while allowing algorithmic trading in mini and micro contracts, stock 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.

16.1.5. Algorithmic trading shall not be permitted from stock exchange hosted CTCL terminals.

16.1.6. In order to ensure orderly trading in the market and fair usage of the trading platform by all the members, stock exchanges shall put in place the following economic disincentives for daily algorithmic order-to-trade ratio:

Member-wise Daily Order-to-Trade Ratio (X)	Charges (Per order)
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 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 stock exchange shall put in place monitoring systems to identify and initiate measures to impede any possible instances of order flooding by algorithmic trading.

16.1.7. The Stock Exchange shall place a limit (X) on the numbers of orders per second from a particular CTCL ID/ATS User-ID not exceeding one hundred and twenty 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).

For number of orders exceeding the limit (X) set by the Stock Exchange, the Stock Exchange shall prescribe economic disincentives and shall inform the same to SEBI. Further, Stock Exchange shall ensure that the limits provided is subject to its ability to handle the load.¹⁷⁸

16.1.8. The limit on OPS may be further relaxed by the Stock Exchanges based on the increased peak order load observed and corresponding upgrade of infrastructure capacity to ensure that the capacity of trading system of the Stock Exchange remains at least four times the peak order load. The relaxation in limit shall be subject to approval of SEBI.

16.1.9. The stock 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 the stock exchange for algorithmic trading. The stock exchanges shall also

¹⁷⁸ SEBI Circular No. [SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2022/30](#) dated March 17, 2022.

ensure that these have no interlink with any system or ID located/linked outside India.

16.1.10. The stock 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.
- 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.

16.1.11. In the interest of orderly trading and market integrity, the stock 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 stock exchange should be in a position to shut down the member’s terminal.

16.1.12. The stock exchange may seek details of algorithmic strategies to be used by the members for purposes of inquiry, surveillance, investigation etc.

16.1.13. 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.

16.1.14. The stock exchanges shall ensure that the member shall provide the facility of algorithmic trading only upon the prior written permission of the stock exchange. While considering such

approval, the stock exchanges shall ensure that the controls specified in these guidelines are fully implemented by the member.

16.1.15. The other risk management checks already put in place by the stock exchange shall continue and the stock exchange may re-evaluate such checks if deemed necessary in view of algorithmic trading.

16.1.16. Stock Exchanges shall have an effective surveillance mechanism to ensure that only approved algorithmic strategies are used.

16.1.17. Stock Exchanges shall further ensure that their members providing the facility of algorithmic trading comply with the provisions of these guidelines. The stock 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 certifications¹⁷⁹ :
 - 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).

¹⁷⁹ SEBI circular no [SEBI/HO/CDMRD/DRMP/CIR/P/2018/60](#) dated April 03, 2018.



- IV. Further, the stock 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:
 - 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 stock 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 stock exchange in order to establish audit trail.
- VI. The stock 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 the stock 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 stock exchange on any modification or change to the approved algorithms or systems used for algorithms. The stock exchange shall ensure conformance of such modified algorithms or systems also to the requirements specified in these guidelines.

16.1.18. The stock 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.

16.2. *Co-Location*¹⁸⁰

16.2.1. 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.

16.3. *System and Network Audit*¹⁸¹

1. Stock Exchanges and Clearing Corporations are required to conduct System and Network Audit as per the framework enclosed as **Annexure Y** and Terms of Reference (TOR) enclosed as **Annexure Z**. Stock Exchanges and Clearing Corporations are also required to maintain a list of all the relevant SEBI circulars/ directions/ advices, etc. pertaining to technology and compliance thereof, as per format enclosed as **Annexure ZA** and the same shall be included under the scope of System and Network Audit.
2. Stock Exchanges and Clearing Corporations are also required to submit information with regard to exceptional major Non-Compliances (NCs)/ minor NCs observed in the System and Network audit as per format enclosed as

¹⁸⁰ SEBI circular no [SEBI/HO/CDMRD/DMP/CIR/P/2016/97](#) dated September 27, 2016

¹⁸¹ SEBI Circular No. [SEBI/HO/MRD1/MRD1_DTCS/P/CIR/2022/58](#) dated May 02, 2022

Annexure ZB and are required to categorically highlight those observations/NCs/suggestions pointed out in the System and Network audit (current and previous) which remain open.

3. The Systems and Network Audit Report including compliance with SEBI circulars/ guidelines and exceptional observation format along with compliance status of previous year observations shall be placed before the Governing Board of the Stock Exchange/ Clearing Corporation and then the report along with the comments of the Management of the Stock Exchange/ Clearing Corporation shall be communicated to SEBI within a month of completion of audit.
4. Further, along with the audit report, Stock Exchanges and Clearing Corporations are required to submit a Joint declaration from the Managing Director(MD)/Chief Executive Officer(CEO) and Chief Technology Officer (CTO) certifying
 - a) the security and integrity of their IT Systems.
 - b) correctness and completeness of data provided to the Auditor
 - c) entire network architecture, connectivity (including co-lo facility) and its linkage to the trading infrastructure are in conformity with SEBI's regulatory framework to provide fair equitable, transparent and non-discriminatory treatment to all the market participants
 - d) internal review of Critical Systems as defined in SEBI circular dated March 22, 2021 was carried out during the Audit period, including the Failure Modes and Effects Analysis (FMEA).

16.4. Business Continuity Plan (BCP) and Disaster Recovery (DR)¹⁸²

16.4.1 With advancement in technology and improved automation of processes, the extant framework for Business Continuity Plan (BCP) and Disaster Recovery Site (DRS) for Stock Exchanges, Depositories and Clearing Corporations was re-examined with a view to reducing the time period specified for moving from Primary Data Centre(PDC) to DRS.

16.4.2 Upon examination and based on consultation with MII and Technical Advisory Committee (TAC) of SEBI, the modified framework for BCP and DR shall be as under:

¹⁸²SEBI Circular No. [SEBI/HO/MRD1/DTCS/CIR/P/2021/33](#) dated March 22, 2021



- a) Stock Exchanges, clearing Corporations and Depositories (collectively referred as Market Infrastructure Institutions –MIIs) shall have in place BCP and DRS so as to maintain data and transaction integrity.
- b) Apart from DRS, all MIIs shall also have a Near Site (NS) to ensure zero data loss.
- c) The DRS should preferably be set up in different seismic zones and in case due to certain reasons such as operational constraints, change of seismic zones, etc., minimum distance of 500 kilometre shall be ensured between PDC and DRS so that both DRS and PDC are not affected by the same disaster.
- d) The manpower deployed at DRS/NS shall have the same 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. MIIs shall have sufficient number of trained staff at their DRS so as to have the capability of running live operations from DRS without involving staff of the PDC.
- e) All MIIs shall constitute an Incident and Response team (IRT)/ Crisis Management Team (CMT), which shall be chaired by the Managing Director (MD) of the MII or by the Chief Technology Officer (CTO), in case of non-availability of MD. IRT/ CMT shall be responsible for the actual declaration of disaster, invoking the BCP and shifting of operations from PDC to DRS whenever required. Details of roles, responsibilities and actions to be performed by employees, IRT/ CMT and support/outsourced staff in the event of any Disaster shall be defined and documented by the MII as part of BCP-DR Policy Document.
- f) The Technology Committee of the MIIs shall review the implementation of BCP-DR policy approved by the Governing board of the MII on a quarterly basis.
- g) MIIs shall conduct periodic training programs to enhance the preparedness and awareness level among its employees and outsourced staff, vendors, etc. to perform as per BCP policy.

16.4.3 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 shall have one to one correspondence between them.
- b. MIs should develop systems that do not require configuration changes at the end of trading members/ clearing members/ depository participants for switchover from the PDC to DRS. Further, MIs should test such switchover functionality by conducting unannounced live trading from its DRS for at least 1 day in every six months. Unannounced live trading from DRS of MIs shall be done at a short notice of 45 minutes after 90 days from the date of this circular
- c. In the event of disruption of any one or more of the 'Critical Systems' (as defined below), the MI shall, within 30 minutes of the incident, declare that incident as 'Disaster' and take measures to restore operations including fronds within 45 minutes of the declaration of 'Disaster'. Accordingly, the Recovery Time Objective(RTO)-the maximum time taken to restore operations of 'Critical Systems' from DRS after declaration of Disaster-shall be 45 minutes, to be implemented within 90 days from the date of the circular. 'Critical Systems' for an Exchange/ Clearing Corporation shall include Trading, Risk Management, Collateral Management, Clearing and Settlement and Index computation. 'Critical Systems' for a Depository shall include systems supporting settlement process and inter-depository transfer system.
- d. MIs to also ensure that the Recovery Point Objective (RPO) -the maximum tolerable period for which data might be lost due to a major incident-shall be 15 minutes.
- e. Solution architecture of PDC and DRS/ Should ensure high availability, fault tolerance, no single point of failure, zero data loss, and data and transaction integrity.
- f. 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.



- g. 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.
- h. Replication between PDC and NS should be synchronous to ensure zero data loss whereas, the one between PDC and DRS and between NS and DRS may be asynchronous.
- i. Adequate resources (with appropriate training and experience) should be available at all times to handle operations at PDC, NS or DRS, as the case may be, on a regular basis as well as during disasters

16.4.5 DR drills/Testing

- a. DR drills should be conducted on a quarterly basis. In case of Exchanges and Clearing Corporations, these drills should be closer to real life scenario (trading days) with minimal notice to DRS staff involved.
- b. During the drills, the staff based at PDC should not be involved in supporting operations in any manner.
- 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 Exchanges /Clearing Corporations/ 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 check the preparedness of the MII to shift its operations from PDC to DRS unannounced and also comment on documented results and observations of DR drills.
- g. ‘Live’ trading sessions from DR site shall be scheduled for at least two consecutive days in every six months. Such live trading sessions from the DRS shall be organized on normal working days (i.e. not on weekends /



trading holidays). The Stock Exchange/ Clearing Corporation/ Depository shall ensure that staff members working at DRS have the abilities and skills to run live trading session independent of the PDC staff.

- h. Stock Exchanges, Clearing Corporations and Depositories shall include a scenario of intraday shifting from PDC to DRS during the mock trading sessions in order to demonstrate its preparedness to meet RTO/RPO as stipulated above.
- i. MII should undertake and document Root Cause Analysis (RCA) of their technical/ system related problems in order to identify the causes and to prevent reoccurrence of similar problems.

16.4.6 BCP –DR Policy Document

- a. MIIs shall put in place a comprehensive BCP-DR policy document outlining the following:
 - i. Broad scenarios that would be defined as a Disaster for an MII (in addition to definition provided in para 16.4.3 (c) of the circular).
 - ii. Standard Operating Procedure to be followed in the event of Disaster.
 - iii. Escalation hierarchy within the MII to handle the Disaster.
 - iv. Clear and comprehensive Communication Protocols and procedures for both internal and external communications from the time of incident till resumption of operations of the MII.
 - v. Documentation policy on record keeping pertaining to DR drills.
 - vi. Scenarios demonstrating the preparedness of MIIs to handle issues in Critical Systems that may arise as a result of Disaster.
 - vii. Preparedness of Depositories to handle any issue which may arise due to trading halts in Stock Exchanges.
 - viii. Framework to constantly monitor health and performance of Critical Systems in normal course of business.



- b. The BCP-DR policy document of MII should be approved by Governing Board of the MIIs after being vetted by Technology Committee and thereafter communicated to SEBI. The BCP-DR policy document should be periodically reviewed at least once in six months and after every occurrence of disaster.
- c. In case a MII desires to lease its premise at the DRS to other entities including to its subsidiaries or entities in which it has stake, the MII should ensure that such arrangements do not compromise confidentiality, integrity, availability, targeted performance and service levels of the MII's systems at the DRS. The right of first use of all the resources at DRS including network resources should be with the MII. Further, MII should deploy necessary access controls to restrict access (including physical access) of such entities to its critical systems and networks.

16.5. Annual System Audit of Stock Brokers / Trading Members ¹⁸³

- 16.5.1. The stock exchanges should ensure that system audit of stock brokers/ trading members are conducted in accordance with the prescribed framework as placed at **Annexure ZC** Stock Broker System Audit Framework.
- 16.5.2. Stock 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.
- 16.5.3. Stock Exchanges should report all major non-compliances / observations of system auditors, broker wise, on a quarterly basis to SEBI.
- 16.5.4. Further, it was decided that Type I brokers may be exempted from system audit and the development of NEAT / BOLT / Stock Exchange provided terminals be included in the scope of Annual System Audit of stock exchanges with Commodity Derivatives segment.

¹⁸³SEBI Circular No. [SEBI/HO/CDMRD/DEICE/CIR/P/2016/70](#) dated August 11, 2016



16.5.5. In view of above, the provisions relating to Type I Brokers, as mentioned in this Master 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.

16.6. Testing of software used in or related to Trading and Risk Management¹⁸⁴

16.6.1. Due to technological developments and innovations, currently the members of stock exchanges have multiple options for using software i.e. either stock 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.

16.6.2. '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.

16.6.3. 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

¹⁸⁴ SEBI Circular No. [CIR/CDMRD/DEICE/03/2015](#) dated December 11, 2015



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 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. Mandatory mock trading sessions to facilitate testing of new software or existing software that has undergone any change of functionality shall be optional if a Stock Exchange provides suitable simulated test environment to test new software or existing software that has undergone any change of functionality and ensures the following:¹⁸⁵

- i) The test environment shall be made available to all the members.
- ii) The test environment shall be made available for at least two hours after market hours and at least on two trading days in a week.

¹⁸⁵ Inserted vide SEBI Circular No. [SEBI/HO/MRD1/DSAP/CIR/P/2020/234](#) dated November 24, 2020.



iii) For the purpose of testing, Stock Exchange shall make available data from at least one trading day in all segments and the same shall not be older than one month from the day of the testing environment.

iv) All trading members (excluding those who use only Stock Exchange provided front end and/or ASP services) having approved Algorithms available with the member, irrespective of the algorithm having undergone change or not, shall participate in the Simulated Environment at least on one trading day during each calendar month at all the stock exchanges where they are members. This shall be audited and reported in the System Auditors report.

v) Stock Exchanges shall provide a daily log, including Algos used, of members participation in Simulated Environment to all participating members and shall also provide summary report of such activity to SEBI in the monthly development report (MDR).

IV. 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.

16.6.4. 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.

16.6.5. 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.

16.6.6. Stock exchanges 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.

16.6.7. 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.

16.6.8. Approval of Software of broker / trading member

- I. Brokers / trading members shall seek approval of the respective stock exchange 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. Stock Exchange may seek additional details as deemed necessary for evaluating the application of the stock broker / trading member.

- II. Stock exchanges 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 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 shall ensure that the requirements specified by SEBI / exchange with regard to software are met by the broker / trading member.
- IV. Stock exchanges 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.

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

16.6.10. 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 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.
- 16.6.11. Sharing of Application Programming Interface (API) specifications by the exchange with brokers / trading members.
- 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.



16.6.12. 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.

16.6.13. 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.

16.6.14. 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.

16.7. Cyber Security and Cyber Resilience framework¹⁸⁶

16.7.1. 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.

16.7.2. 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

¹⁸⁶ SEBI Circular No. [SEBI/HO/CDMRD/DEICE/CIR/P/2016/0000000044](#) dated March 29, 2016



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.”

- 16.7.3. 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.
- 16.7.4. Stock exchanges with commodity derivatives segment are required to comply the framework with regard to cyber security and cyber resilience as placed at **Annexure ZD** on Cyber Security and Cyber Resilience framework.
- 16.7.5. The Stock Exchanges and Clearing Corporations are mandated to conduct comprehensive cyber audit at least 2 times in a financial year. Along with the Cyber audit reports, henceforth, all Stock Exchanges and Clearing Corporations are directed to submit a declaration from the MD/ CEO certifying compliance by the Stock Exchange/ Clearing Corporation with all SEBI Circulars and advisories related to Cyber security issued from time to time.¹⁸⁷

¹⁸⁷ Inserted vide SEBI Circular No. [SEBI/HO/MRD1/MRD1_DTCS/P/CIR/2022/68](#) dated May 20, 2022

16.8 Handling of Technical glitches by Market Infrastructure Institutions (MIIs) and payment of “Financial Disincentive”¹⁸⁸

16.8.1. Considering the criticality of smooth functioning of systems of MIIs (as any disruption adversely impacts all classes of investors / market participants as well as the credibility of the securities market), specifying a pre-defined threshold for downtime of systems of MIIs becomes desirable. For any downtime or unavailability of services, beyond such pre-defined time, there is a need to ensure that “Financial Disincentive” is paid by the MIIs as well as Managing Director (being the executive head in-charge of all the day to day operations) and Chief Technology Officer (being the executive head in-charge of technology) of the MII. This will encourage MIIs to constantly monitor the performance and efficiency of their systems and upgrade/ enhance their systems etc. to avoid any possibility of technical glitches/disruption/disaster and restart their operations expeditiously in the event of glitch/disruption/disaster.

16.8.2. Accordingly, MIIs shall:

- a. Follow the Standard Operating Procedure (SOP) for handling technical glitches as detailed at **Annexure – ZE** and,
- b. Comply with the “Financial Disincentive” structure as detailed at **Annexure - ZF**.

16.8.3 The aforesaid “Financial Disincentives”, when triggered automatically under predefined conditions, as detailed in **Annexure-ZF** of this Circular, shall be credited to the Investor Protection Fund / Core Settlement Guarantee Fund maintained by the MII.

¹⁸⁸ SEBI Circular No. [SEBI/HO/MRD1/DTCS/CIR/P/2021](#) dated July 05, 2021



ANNEXURES

Format for Dissemination of Member's Data on Website – Annexure A

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 – Annexure B

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	
31	Minimum daily settlement price on a day	

Format for Disclosure of Open Interest (OI) and Turnover for Various Categories of Market Participants at Individual Commodity as well as Overall Market Level – Annexure C

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>													



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 Participa nts	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							



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

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						

** Based on PAN of the participant*

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 – Annexure E

- 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

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

- 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.



Goods notified u/s 2(bc) of SCRA – Annexure F

S. No.	Goods
(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



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.)



S. No.	Goods
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



Template on Criteria for Eligibility of Commodity Derivative Products –
Annexure G

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 relate 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 application, nature of buyers, Supply/demand gap etc.
Domestic market / Geographical coverage			
Presence of Value Chain participants (VCPs)			
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 –
Annexure H**

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>



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

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

Top 10 Major producing states in India	<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 – Annexure I

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 – Annexure J

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) –
Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is higher.
 - b. Where the violation is up to 2% of the prescribed limit(s) –
Limit exceeded x Closing price x number of days such violation continued x 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.

Format for Dissemination of Information on Website – Annexure K

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
			Product	Import	Total	Total		Product	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)



Format for disclosing data of complaints by all the Recognized Stock Exchanges and Clearing Corporations on their website – Annexure L

Data for the month ending

Sr. No.	Received from	Carried forward from previous month	Received during the month	Total Complaints	Resolved during the month*	Pending at the end of the month**		Average Resolution time^
						Pending for less than 3 months	Pending for more than 3 months	
1	2	3	4	5	6	7		8
1	Directly from Investors							
2	SEBI (SCORES)							
3	Members							
4	Other Sources (if any)							
	Grand Total							

*Should include complaints of previous months resolved in the current month, if any.

**Should include total complaints pending as on the last day of the month, if any.

^ Average resolution time is the sum total of time taken to resolve each complaint in the current month divided by total number of complaints resolved in the current month.

Month-wise data for the current financial year

Sr. No.	Month	Carried forward from previous month	Received	Resolved	Pending
1	2	3	4	5	6



1	April				
2	May				
3	June				
4	July				
	Grand Total				

Year-wise data (for 5 years on rolling basis)

Sr. No.	Year	Carried forward from previous year	Received	Resolved	Pending
1	2	3	4	5	6
1	2020-21				
2	2021-22				
3	2022-23				
4	2023-24				
5	2024-25				
	Grand Total				



**Client Level Numerical Position Limits for Non-Agricultural Commodities –
Annexure M**

Sr.	Commodity	Unit	Client Level Numerical Position Limit for Overall Commodity
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 – Annexure N

(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.

- **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:

Liquidity Categorization	One-Day VaR	Scaling factor for illiquidity	VaR Margin
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) – Annexure O

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.

Further contribution to / Recoupment of Core SGF

- 10) 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

11) 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

12) 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

13) CC shall effectively measure, monitor, and manage its credit exposures to its participants and those arising from its payment, clearing, and settlement processes.

14) **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.

15) **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

16) **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.)

- 17) **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.
- 18) **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.
- 19) 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 participant's increases significantly. A full validation of CC's risk-management model shall be performed at least annually.
- 20) 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.
- 21) 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;

22) 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

Price movements corresponding to a Z-score of 10 will replace extreme price movements beyond that threshold in peak historical returns of all the commodities. Mean and sigma of returns over the applicable MPOR period across 15 years would be used for calculation of the Z-score.¹⁸⁹

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

3 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.

¹⁸⁹ Inserted vide circular no. [SEBI/HO/CDMRD/DRMP/CIR/P/2020/244](https://www.sebi.gov.in/sebi_data/attachdocs/SEBI/HO/CDMRD/DRMP/CIR/P/2020/244) dated December 21, 2020

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.
- h) While calculating the residual losses as per 'd' and 'f' above, for positions on which early pay-in are given by the clients/brokers, and margin exemption are granted on such positions, CCs are permitted to consider the 'margin exemption granted' or 'value of early paid-in goods', whichever is lower, as 'margins supporting those positions'.¹⁹⁰

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 –

- 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.

¹⁹⁰ Inserted via SEBI Circular No [SEBI/HO/CDMRD/DRMP/CIR/P/2020/128](#) dated July 21, 2020



Checklist of information/details for launch of new contract or/and for renewal of existing/earlier contracts – Annexure P

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 <u>preceding 3 financial years on :-</u>	
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)?	



Serial Number	Items/ Issues to be examined and Reported	Compliance/Comments
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 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	



Serial Number	Items/ Issues to be examined and Reported	Compliance/Comments
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.	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	



Serial Number	Items/ Issues to be examined and Reported	Compliance/Comments
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	
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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Securities and Exchange Board of India



List of contracts approved for continuous trading – Annexure Q

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
Indian Commodity Exchange *	Cardamom, Castor Seed, Coffee Rep Bulk, Isabgulseed, Copra, Pepper, Rape/Mustard Seed, Raw Jute, Rubber, Sacking, Soy Oil, Guar Seed
<i>* National Multi Commodity Exchange of India Ltd. Merged with ICEX</i>	



Categorization of contract specification parameters in commodity derivatives contracts – Annexure R

Category	Type of Modification	Parameter	Number of days of advance intimation to be given to SEBI and market participants
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.	<ul style="list-style-type: none">• Last Trading Day /Due Date/Expiry Date#• Trading Unit• Price Quote (Basis)• Delivery Centre• Delivery Unit	10 days ¹⁹¹

¹⁹¹ Amended vide SEBI Circular no. [SEBI/HO/CDMRD_DOP/P/CIR/2021/592](#) dated July 08, 2021
Prior to the amendment, the requirement was of 30 days.



Category	Type of Modification	Parameter	Number of days of advance intimation to be given to SEBI and market participants
	These modifications shall require approval from Product Advisory Committee and approval of Regulatory Oversight Committee to be obtained post facto.	<ul style="list-style-type: none"> • Additional Delivery Centre(s) • Quality Specifications • Quantity Variation • Tolerance Limit • 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 	10 days ¹⁹²

¹⁹² Amended vide SEBI Circular no. [SEBI/HO/CDMRD_DOP/P/CIR/2021/592](#) dated July 08, 2021
Prior to the amendment, the requirement was of 30 days.



Category	Type of Modification	Parameter	Number of days of advance intimation to be given to SEBI and market participants
		<ul style="list-style-type: none">• Option Type	

(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.



Formats for providing details of Security Deposit – Annexure S

A. Details of Bank Guarantee

Sr. No.	Name of WSP	BG Number	Bank Name	Branch Name	Date of Issuance (DD/MM/YYYY)	Maturity Date (DD/MM/YYYY)	Claim Date (DD/MM/YYYY)	Amount

B. Details of Fixed Deposit Receipt

Sr. No.	Name of WSP	FDR Number	Bank Name	Branch Name	Date of Issuance (DD/MM/YYYY)	Maturity Date (DD/MM/YYYY)	Amount

Format for details of disposal of arbitration proceedings – Annexure T

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)

Arbitration Reference No.	Date of Reference	Region	Name of Client	Name of Member	Name of Arbitrator(s)	Date of Arbitral award	Award in favour of (client/ Member)	Copy of Award (link given below)	Date of Implementation of Award	Main reason for non-implementation
Initiated during 2010-11										
Initiated during 2011-12										

Format for disclosure of Arbitration Awards – Annexure U

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					



Report on Shareholding Pattern – Annexure V

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				
	Banks (wherever permitted)			
1				
	Any other (specific)			
	Total (A)			

II. ASSOCIATES OF TRADING MEMBERS

Sr. No	Category of Shareholder	No. of Shareholders	Total number of shares	Percentage of shares
	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

Sr. No.	Category of shareholder	No. of Shareholders	Total number of shares	Percentage of shares
	Individuals			
1				



Sr. No.	Category of shareholder	No. of Shareholders	Total number of shares	Percentage of shares
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-

Sr. No.	Name of the shareholder	Category of shareholder	Details of holding	
			Number of shares	Percentage
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.

Functions and Composition of Statutory Committees – Annexure W

A. Mandatory Committees for Stock Exchanges

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. 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, 	<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.

Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>the Committee shall adopt a laid down process, 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> • Admission or rejection of claims of client/trading members/clearing members over the assets of the defaulter/expelled member. • Recommendation in respect of the 	

Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>claims to the Trustees of the IPF on whether the claim is to be paid out of IPF or otherwise.</p> <ul style="list-style-type: none"> • To oversee contribution towards Core 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

Sr no.	Name of Committee	Brief terms of reference	Composition
			<p>associated with a trading member in any manner.</p> <ul style="list-style-type: none"> 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. 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. 	<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.

Sr no.	Name of Committee	Brief terms of reference	Composition
		<ul style="list-style-type: none"> • 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 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 	<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.

Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>computerized trading system, such as hanging/ slowdown/ breakdown.</p> <ul style="list-style-type: none"> • 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 suitable action/ remedial measure. • 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, 	<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.

Sr no.	Name of Committee	Brief terms of reference	Composition
		charges and levies.	<ul style="list-style-type: none"> • 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.
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. 	<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.

Sr no.	Name of Committee	Brief terms of reference	Composition
		<ul style="list-style-type: none"> • 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 undertaken, disciplinary actions, etc., as may be applicable to the relevant segments of the exchange. • 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. 	

Sr no.	Name of Committee	Brief terms of reference	Composition
		<ul style="list-style-type: none"> • 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. • 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 	



Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>quality of the awards).</p> <ul style="list-style-type: none">• 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 securities of the Key Management Personnel.• 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.	



Sr no.	Name of Committee	Brief terms of reference	Composition
		<ul style="list-style-type: none">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 governing board.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	<ul style="list-style-type: none">The risk management committee shall comprise only of the public interest directors and independent external persons, and shall report to the Governing Board.The number of PIDs shall not be less than the total of number of independent external persons.

<i>Sr no.</i>	<i>Name of Committee</i>	<i>Brief terms of reference</i>	<i>Composition</i>
		monitor implementation of the risk management policy and keep the Board and the governing board informed about its implementation and deviation, if any.	

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, 	<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.

Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>declaring a member as defaulter , expulsion, 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 	

Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>defaulter/expelled member.</p> <ul style="list-style-type: none"> To manage the Core Settlement Guarantee Fund (Core SGF) of the clearing corporation, including its investments as per norms laid 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,

Sr no.	Name of Committee	Brief terms of reference	Composition
			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. • 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. 	<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.

Sr no.	Name of Committee	Brief terms of reference	Composition
		<ul style="list-style-type: none"> Besides the above, it will also discharge the function as Nomination & Remuneration 	
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 efficiency. 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 	<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.

Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>corporation. The Board will deliberate on the report and suitable action/ remedial measure will be taken.</p> <ul style="list-style-type: none"> 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 approved cyber security and resilience policy and its framework. 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

Sr no.	Name of Committee	Brief terms of reference	Composition
			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 of SECC Regulations, 2018. • 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 	<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.



Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>unresolved over long period of time, estimate the adequacy of resources dedicated to investor services, etc.</p> <ul style="list-style-type: none">• 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 securities of the Key Management Personnel• 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	

Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>thereunder.</p> <ul style="list-style-type: none"> • 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 governing board. • 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 	<ul style="list-style-type: none"> • The risk management committee shall comprise of the public interest directors and independent external persons, and shall report to the Governing Board. • The number of PIDs shall not be less than the number independent external persons.



Sr no.	Name of Committee	Brief terms of reference	Composition
		<p>management committee and to the managing director of the Clearing Corporation.</p> <ul style="list-style-type: none">• 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.	

Format for Monthly Development Report – Annexure X

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)								
Total number of contracts traded								

2) NO. OF CONTRACTS AVAILABLE FOR TRADING

Commodities on which futures contracts are available*	Number of running contracts on each commodity	No. of liquid contracts*	No. of illiquid contracts
<i>Note: *please provide criteria for liquid contracts</i>			

3) COMMODITY WISE DETAILS

Items (Name of Commodity)	Apr	May	Jun			Feb	Mar	Cumulative total for the year
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)

Index	Open (First Day)	High (With Date)	Low (With Date)	Close (Last Trading Date)

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 –

Sr. No	Average Daily Settlement Value (INR Crores)*	Highest Settlement Value for the Month (INR Crores)

Average Daily Settlement Value = Total Settlement Value for the Month/ Total number of trading days

- B. Top 10 Settlement Shortages

Sr. No	Name of Member	Shortage in Commodity /Contract	Date of Settlement (for	Number of times the Member had settlement	Shortage Type (Funds/ Commodities)	Amount (INR Crores)

			<i>which there was a shortage)</i>	<i>shortages in the previous 6 months</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

<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>

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 unimplemented</i>	<i>Amount involved</i>	<i>Action taken by the Exchange</i>

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>Date of issue of Notice convening the meetings</i>	<i>Name of Non-member Directors attended the meeting along with their category</i>	
		<i>Name of Non-member Directors</i>	<i>Category 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 (%)	

S. No.	Particulars	Data
3	Number of stock Brokers / clients using algorithmic trading	
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

Name of the Commodity	Physical quantity of delivery	Value of Deliveries	Contract details

2) TOP 5 HEDGERS DETAILS (COMMODITY-WISE)

Name of the Commodity	Highest OI	Total Value of Trades	Value of Deliveries	Stocks held in exchange accredited warehouses



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>



System and Network Audit Framework - Annexure Y

Audit Process

1. For the System and Network Audit, the following broad areas shall be considered in order to ensure that the audit is comprehensive and effective:
 - a. The Audit shall be conducted according to the Norms, Terms of Reference (TOR) and Guidelines issued by SEBI.
 - b. The Governing Board of the Market Infrastructure Institution (MII) shall appoint the Auditors based on the prescribed Auditor Selection Norms and TOR.
 - c. An Auditor can perform a maximum of 3 successive audits. However, such auditor shall be eligible for re-appointment after a cooling-off period of two years.
 - d. Further, during the cooling-off period, the incoming auditor may not include:
 - i) Any firm that has common partner(s) with the outgoing audit firm; and
 - ii) Any associate / affiliate firm(s) of the outgoing audit firm which are under the same network of audit firms wherein the term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.
 - e. The number of years an auditor has performed an audit prior to this circular shall also be considered in order to determine its eligibility in terms of sub-clause c above.
 - f. The scope of the Audit may be broadened by the Auditor to inter-alia incorporate any new developments that may arise due to issuance of circulars/ directions/ advice by SEBI from time to time.
 - g. The audit shall be conducted once in a financial year and period of audit shall be 12 months. However, for the MIIs, whose systems have been identified as "protected system" by National Critical Information Infrastructure Protection Centre (NCIIPC), the audit shall be conducted on a half yearly basis and audit period shall be of 6 months. Further, the audit shall be completed within 2 months from the end of the audit period.
 - h. In the Audit report, the Auditor shall include its comments on whether the areas covered in the Audit are in compliance with the norms/ directions/ advices issued by SEBI, internal policy of the MII, etc. Further, the audit report shall also include specific non-compliances (NCs), observations for minor deviations and suggestions for improvement. The audit report shall take previous audit reports into consideration and cover any open items



- therein. The auditor should indicate if a follow-on audit is required to review the status of NCs.
- i. For each of the NCs/ observations and suggestions made by the Auditor, specific corrective action as deemed fit may be taken by the MII. The management of the MII shall provide its comments on the NCs, observations and suggestions made by the Auditor, corrective actions taken or proposed to be taken along with time-line for such corrective actions.
 - j. The Audit report along with the comments of management shall be placed before the Governing Board of the MII. The Audit report along with comments of the Governing Board shall be submitted to SEBI, within 1 month of completion of audit.
 - k. The follow-on audit should be completed within one month of the corrective actions taken by the MII. After the follow-on audit, the MII shall submit a report to SEBI within 1 month from the date of completion of the follow-on audit. The report shall include updated Issue-Log to indicate the corrective actions taken and specific comments of the Auditor on the NCs and the corrective actions.
 - l. In cases wherein follow-on audit is not required, the MII shall submit an Action Taken Report (ATR) to the Auditor. After verification of the ATR by the Auditor, the MII shall submit a report to SEBI within 1 month from the date of completion of verification by the Auditor. The report shall include updated Issue-Log to indicate the corrective actions taken and specific comments of the auditor on the ATR.
 - m. The overall timeline from the last date of the audit period till completion of final compliance by MII, including follow-on audit, if any, should not exceed one year/6 months (as applicable). In exceptional cases, if MII is of the view that compliance with certain observations may extend beyond said period, then the concerned MII shall seek specific approval from the Governing Board.

Auditor Selection Norms

2. MII shall ensure compliance with the following norms while appointing Auditor:
 - a. The Auditor must have minimum 3 years of demonstrable experience in IT audit of securities market participants e.g. stock exchanges, clearing corporations, depositories, intermediaries, etc. and/ or financial services sector i.e. banking, insurance, Fin-tech etc.

- b. The team performing system and network audit must have experience in / direct access to experienced resources in the areas covered under TOR. It is recommended that resources deployed by the Auditor for the purpose of system and network audit 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).
- c. The Auditor shall have experience in working on Network audit/IT audit/governance/IT service management frameworks and processes conforming to industry leading practices like Cobi/ ISO 27001 and beyond.
- d. The Auditor should have the capability to undertake forensic audit and undertake such audit as part of system and network audit, if required.
- e. The Auditor must not have any conflict of interest in conducting fair, objective and independent audit of the exchange / depository/ clearing corporation. It should not have been engaged over the last three years in any consulting engagement with any departments / units of the entity being audited.
- f. The Auditor should not have any cases pending against it, which point to its incompetence and/or unsuitability to perform the audit task.
- g. The proposed audit agency must be empanelled with CERT-In.
- h. Any criteria, in addition to the aforesaid criteria, that the MII may deem fit for the purpose of selection of Auditor.

Audit Report Guidelines

- 3. The Audit report should cover each of the major areas mentioned in the TOR and compliance with SEBI circulars/directions/advices, etc. related to technology. The Auditor in the Audit Report shall give its views indicating the NCs to the standards or observations or suggestions. For each section, auditors should also provide qualitative inputs/suggestions about ways to improve the processes, based upon the best industry practices.



4. The auditor shall certify that entire network architecture, connectivity (including co-lo facility) and its linkage to the trading infrastructure are in conformity with SEBI's regulatory framework to provide fair equitable, transparent and non-discriminatory treatment to all the market participants.
5. The report should also include tabulated data to show NCs / observations for each of the major areas in the TOR.
6. The audit report to include point-wise compliance of areas prescribed in Terms of Reference (TOR) and areas emanating from relevant SEBI circulars/directions/advice along with any accompanying evidence.
7. Evidences should be specified in the audit report while reporting/ closing an issue.
8. A detailed report with regard to the system and network audit shall be submitted to SEBI. The report shall include an Executive Summary as per the following format:

Issue Log Column Heading	Description	Responsibility
Major areas	Comprehensive identification of major areas in compliance with various SEBI circulars / norms and internal policies of MII	Auditor/Auditee
Point wise Compliance	Point-wise list of areas/relevant clauses in TOR against which compliance is being audited (in tabular format).	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 Non-compliance, Observation, Suggestion etc.	Auditor
Audited By	Which Auditor covered the findings	Auditor
Root cause Analysis	detailed analysis on the cause of the Non-compliance	Auditee
Remediation	The action (to be) taken to correct the Non-compliance	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

**System and Network Audit Program – Terms of Reference (TOR) -
Annexure Z**

1. The scope of audit shall encompass all the IT resources including hardware, software, network, policies, procedures etc. of MII's (Primary Data Centre (PDC), Disaster Recovery Site (DRS) and Near Site (NS))
2. IT environment
 - 2.1. Organization details
 - a. Name
 - b. Address
 - c. IT team size (in house- employees)
 - d. IT team size (vendors)
 - 2.2. IT and network set up and usage
 - a. PDC, DRS, NS and Regional/ Branch offices (location, owned/ outsourced)
 - b. Connectivity amongst PDC, NS and DRS
 - c. IT infrastructure / applications pertaining to the activities done as a MII.
 - d. System Architecture
 - e. Network architecture
 - f. Telecommunication network
3. IT Governance
 - 3.1. Whether IT Governance framework exists to include the following:
 - a. IT organization structure including roles and responsibilities of key IT personnel;
 - b. IT governance processes including policy making, implementation and monitoring to ensure that the governance principles are followed;
 - 3.2. IT policies and procedures
 - a. Whether the organization has a defined and documented IT policy? If yes, is it approved by the Governing Board (GB)?
 - b. Is the current System Architecture, including infrastructure, network and application components describing system linkages and dependencies, documented?
 - c. Whether defined and documented Standard Operating Procedures (SOPs) for the following processes are in place?
 - i. IT Assets Acquisition
 - ii. Access Management



- iii. Change Management
- iv. Backup and Recovery
- v. Incident Management
- vi. Problem Management
- vii. Patch Management
- viii. Data Centre Operations
- ix. Operating Systems and Database Management
- x. Network Management
- xi. DRS Operations
- xii. Data Retention and Disposal
- xiii. Asset Inventory
- xiv. IT asset refresh/replacement policy
- xv. Database security
- xvi. Interface Security
- xvii. Application Security
- xviii. Password Security
- xix. Archived and backed up data security

3.3. Whether the above mentioned SOPs is reviewed at periodic intervals or upon the occurrence of any major event? In this regard, whether any organization policy has been formulated by the MII?

4. Business Controls

4.1. General Controls for Data Centre Facilities

- a. Application Access – segregation of duties, database and application access etc. (Approved Policy clearly defining roles and responsibilities of the personnel handling business operations)
- b. Maintenance Access – vendor engineers
- c. Physical Access controls – permissions, logging, exception reporting & alerts
- d. Environmental Controls – fire protection, AC monitoring, etc.
- e. Fault Resolution Mechanism
- f. Folder Sharing and Back Up Controls – safeguard of critical information on local desktops
- g. Incidences of violations in the previous audit report and corrective action(s), if any, taken
- h. Any other controls, as deemed fit, by the MII

4.2. Software change control

- a. Whether pre-implementation review of application controls (including controls over change management) was undertaken?

- b. Adherence to secure Software Development Life Cycle (SDLC) / Software Testing Life Cycle (STLC) standards/ methodologies
 - c. Whether post implementation review of application controls was undertaken?
 - d. Is the review of processes to ensure data integrity post implementation of new application or system followed by implementation team?
 - e. User awareness
 - f. Processing of new feature request
 - g. Fault reporting / tracking mechanism & process for resolutions
 - h. Testing of New releases / Bug-fixes – Testing process (automation level)
 - i. Version Control – History, Change Management process etc.
 - j. Development / Test/ Production environment – Segregation
 - k. New Release in Production – Promotion, Release note approvals
 - l. Production Issues / disruptions reported in the previous audit report, root cause analysis & corrective actions taken, if any
 - m. Software Development Stage
 - n. Software Design to ensure adequate system capacity to enable functioning in a degraded manner in the event of a crash.
 - o. Any other controls, as deemed fit, by the MII
- 4.3. Data Communication/ Network Controls
- a. Network Administration – Redundancy, Monitoring, breakdown resolution etc.
 - b. WAN Management – Connectivity provisions for business continuity.
 - c. Encryption - Router based as well as during transmission
 - d. Connection Permissions – Restriction on need to have basis
 - e. Fullback Mechanism – Dial-up connections controls etc.
 - f. Hardware based Signing Process
 - g. Incidences of access violations observed in the previous report & corrective actions taken, if any
 - h. Any other controls, as deemed fit, by the MII
- 4.4. Security Controls
- a. Secured e-mail with other entities such as SEBI, other partners
 - b. Email Archival Implementation
- 4.5. Access Policy and Controls
- a. Defined and documented policies and procedures for managing access to applications and infrastructure –PDC, DRS, NS, branches (including network, operating systems and database) and approved by relevant authority



- b. Review of access logs
 - c. Access rights and roles review procedures for all systems
 - d. Segregation of Duties (SOD) matrix describing key roles
 - e. Risk acceptance for violation of SOPs and alternate mechanism put in place
 - f. Privileged access to system and record of logs,
 - g. Periodic monitoring of access rights for privileged users
 - h. Authentication mechanisms used for access to systems including use of passwords, One Time Passwords (OTP), Single Sign on, etc.
 - i. Any other controls, as deemed fit, by the MII
- 4.6. Electronic Document Controls
- 4.7. General Access Controls
- 4.8. Performance Audit
- a. Comparison of changes in transaction volumes since previous audit
 - b. Review of systems (hardware, software, network) performance over the period
 - c. Review of the current volumes against the last performance test and against the current system utilization
- 4.9. Business Continuity / Disaster Recovery Facilities
- a. Business Continuity Planning (BCP) manual, including Business Impact Analysis (BIA), Risk Assessment and Disaster Recovery (DR) process, Roles and responsibilities of Incident Response Team (IRT) /Crisis Management Team (CMT), employees, support/outsourced staff.
 - b. Implementation of policies
 - c. Back-up procedures and recovery mechanism using back-ups.
 - d. Storage of Back-up (Remote site, DRS etc.)
 - e. Redundancy – Equipment, Network, Site etc.
 - f. DRS installation and Drills - Management statement on targeted resumption capability (in terms of time required & extent of loss of data)
 - g. Evidence of achieving the set targets during the DR drills in event of various disaster scenarios.
 - h. Debrief / review of any actual event when the DR/BCP was invoked during the year
 - i. User awareness and training
 - j. Is Recovery Time Objective (RTO) /Recovery Process Objective (RPO) during BIA documented?



- k. Is annual review of BCP-DR or in case of major change in business/ infrastructure undertaken?
 - l. Is quarterly review regarding implementation of BCP policy done by Standing Committee of Technology (SCOT) of the MII?
 - m. Testing of BCP-DR plan through appropriate strategies including simulations, DR drills, system recovery, etc.
 - n. Is the recordkeeping of quarterly DR drills, live trading sessions from DRS being maintained?
 - o. Is BCP-DR policy document prepared and implemented in line with SEBI circular on BCP and DR of MII?
- 4.10. IT/Network Support & IT Asset Management
- a. Utilization Monitoring – including report of prior year utilization
 - b. Capacity Planning – including projection of business volumes
 - c. Capacity and performance management process for the network/systems
 - d. IT (S/W, H/W & N/W) Assets, Licenses & maintenance contracts
 - e. Comprehensive review of Assets life cycle management (Acquisition, commissioning, deployment, monitoring, maintenance and de commissioning) and relevant records related to it.
 - f. Insurance
 - g. Disposal – Equipment, media, etc.
5. Entity Specific Software used for or in support of trading/clearing systems / peripheral systems and critical processes
6. Human Resources Management
- 6.1. Screening of Employee, Third party vendors / contractors
 - 6.2. On boarding
 - 6.3. Off boarding
 - 6.4. Consequence Management (Incident / Breach of policies)
 - 6.5. Awareness and Trainings
 - 6.6. Non-Disclosure Agreements (NDAs) and confidentiality agreement
7. Network audit
- 7.1 The audit shall cover entire network infrastructure which shall inter-alia includes physical verification and tracing of the connectivity paths, server configuration, physical checking wire to wire connectivity and configurations of computer networking devices etc.

- 7.2 The audit shall require tracing of the connectivity and network diagram based on the physical audit.
 - 7.3 The audit shall cover the link, the path, device-level redundancy, no single-point failures, high availability, and fault tolerance aspects in the network.
 - 7.4 The audit shall cover entire network that is used to connect members to the MIs (POP, MPLS, VSAT, COLO, etc.)
 - 7.5 The audit shall cover applications, internal networks, servers, etc. of the MIs/offered by the MIs to its members that are used for trading, risk management, clearing and settlement etc.
 - 7.6 Network performance and design
 - 7.7 Network Security implementation
 - 7.8 Network health monitoring and alert system
 - 7.9 Log management process
 - 7.10 Service level definition for vendor's/Service level management
 - 7.11 Governance process for network service delivery by vendors
8. The results of all testing that was conducted before deployment of any IT system/application in production environment, shall be checked by auditor during system audit.
9. IT Vendor Selection and Management
- 9.1. Identification of eligible vendors
 - 9.2. Dissemination process of Request for Proposal (RFP)
 - 9.3. Definition of criteria of evaluation
 - 9.4. Process of competitive analysis
 - 9.5. Approach for selection
 - 9.6. Escrow arrangement for keeping source code
10. E-Mail system
- 10.1. Existence of policy for the acceptable use of electronic mail



- 10.2. Regulations governing file transfer and exchange of messages with external parties
- 10.3. Rules based on which e-mail addresses are assigned
- 10.4. Storage, backup and retrieval

11. Redressed of Technological Complaints

- 11.1. Ageing analysis of technology complaints
- 11.2. Whether all complaints received are brought to their logical conclusion?

12. Any other Item(s)

- 12.1. Electronic Waste Disposal
- 12.2. Observation(s) based on previous Audit Report (s)
- 12.3. Any other specific area(s) that may be informed by SEBI

Format for monitoring compliance with requirements emanating from SEBI circulars/guidelines/advisories related to technology - Annexure ZA

Sl. No.	Date of SEBI circular/ directions/ advice, etc.	Subject	Technological requirements specified by SEBI in brief	Mechanism put in place by the MIs	Non compliances with SEBI circulars/ directions, etc.	Compliance status (Open/ closed)	Comments of the Management	Time-line for taking corrective action in case of open observations

Exception Observation Reporting Format - Annexure ZB

Note: MIIs are expected to submit following information with regard to exceptional major non-compliances (NCs) / minor NCs observed in the System and Network Audit. MIIs should also categorically highlight those observations/NCs/suggestions pointed out in the System and Network Audit (current and previous) which are not yet complied with.

Name of the MII: _____

Name of the Auditor: _____

Systems and Network Audit Report Date: _____

Table 1: For preliminary audit

Audit period	Observation No.	Description of finding	Department of MII	Status/Nature of finding	Risk Rating of finding as per Auditor	Audit TOR clause	Root Cause Analysis	Impact Analysis	Corrective Actions proposed by auditor	Deadline for the corrective action	Management response in case of acceptance of associated risks	Whether similar issue was observed in any of the previous 3 Audits

Description of relevant Table heads

1. Audit Period – This indicates the period of audit
2. Description of findings/observations – Description of the findings in sufficient details, referencing any accompanying evidence
3. Status/ Nature of Findings – The category can be specified, for example:
 - a. Non-compliant (Major/Minor)
 - b. Work in progress
 - c. Observation
 - d. Suggestion
4. Risk Rating of finding - A rating has to be given for each of the observations based on its impact and severity to reflect the risk exposure as well as the suggested priority for action

Rating	Description
HIGH	Represents weakness in control with respect to threat(s) that is /are sufficiently capable and impacts asset (s) leading to regulatory non-compliance, significant financial, operational and reputational loss. These observations need to be addressed with utmost priority.
MEDIUM	Represents weakness in control with respect to threat(s) that is /are sufficiently capable and impacts asset (s) leading to exposure in terms of financial, operational and reputational loss. These observations need to be addressed reasonable timeframe.
LOW	Represents weaknesses in control, 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 non-conformity.

7. Impact Analysis – An analysis of the likely impact on the operations/ activity of the organization
8. Corrective Action – The action taken to correct the non-conformity

Table 2: For follow on/ follow up system and Network audit

Preliminary Audit Date	Preliminary Audit Period	Preliminary Observation Number	Preliminary Status	Preliminary Corrective Action as proposed by Auditor	Current Finding	Current Status	Revised Corrective Action, if any	Deadline for the Revised Corrective Action	Reason for delay in implementation/ compliance

Description of relevant Table heads

1. Preliminary Status – The original finding as per the preliminary System and Network Audit Report
2. Preliminary Corrective Action – The original corrective action as prescribed in the preliminary System and Network 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

Stock Broker System Audit Framework – Annexure ZC

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 stated below);
 - 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 stated below).
 - c. **Type III Broker:** Brokers who use Algorithmic Trading facility to trade and who may also be TYPE II Brokers (ToR stated below).
- 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 [below in this](#) Framework for the executive summary of the System Audit report to highlight the major findings of the System Audit.

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.

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.

Terms of Reference (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.

Terms of Reference (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.

13) 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.

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.

15) User Management

- 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.



Executive Summary Reporting Format

I. For Preliminary Audit

Audit Date	Observation No	Description of Finding	Department	Status / Nature of Findings	Risk Rating of Findings	Audit TOR Clause	Audited By	Root Cause Analysis	Imp Anal

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 been 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.

Rating	Description
HIGH	Weakness in control those represent exposure to the organization or noncompliance with the requirements of TORs. These risks need to be addressed immediately
MEDIUM	Potential weakness in controls, which could develop into an exposure or is and may impact internal controls. These should be addressed reasonably promptly
LOW	Potential weaknesses in controls, which in combination with other weaknesses Suggested improvements for situations not immediately/directly affecting core

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



Preliminary Audit Date	Sr. No	Preliminary Observation Number	Preliminary Status	Preliminary Corrective Action	Current Finding	Current Status	Revised Corrective Action	D t C A

Description of relevant Table heads

- 1. Preliminary Status** – The original finding as per the preliminary System Audit Report
- 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 – Annexure ZD

- 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 and classify/designate critical assets based on their sensitivity and criticality for business operations, services and data management. The critical assets should include business critical systems, internet facing applications /systems, systems that contain sensitive data, sensitive personal data, sensitive financial data, Personally Identifiable Information (PII) data etc. All the ancillary systems used for accessing/communicating with critical systems either for operations or maintenance should also be classified as critical system. The Board of the MII shall approve the list of critical systems.
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) MIIs should carry out periodic vulnerability assessment and penetration testing (VAPT) which inter-alia includes all critical assets and infrastructure components like Servers, Networking systems, Security devices, load balancers, other IT systems pertaining to the activities done as a role of MII etc., in order to detect security vulnerabilities in the IT environment and in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks.

MIIs should conduct VAPT at least once in a financial year. However, for the MIIs, whose systems have been identified as “protected system” by National Critical Information Infrastructure Protection Centre (NCIIPC), VAPT shall be conducted at least twice in a financial year. Further, all MIIs are required to engage only CERT-In empaneled organizations for conducting VAPT. The final report on said VAPT should be submitted to SEBI after approval from Standing Committee on Technology (SCOT) of respective MIIs, within 1 month of completion of VAPT activity.

- 41) Any gaps/vulnerabilities detected have to be remedied on immediate basis and compliance of closure of findings identified during VAPT shall be submitted to SEBI within 3 months post the submission of final VAPT report to SEBI.
- 42) In addition, MIIs should also perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system which is a critical system or part of an existing critical system.

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.

Standard Operating Procedure (SOP) for handling of technical glitches - ANNEXURE- ZE

Definition of “Technical Glitch”

1. Technical glitch shall mean any malfunction in the systems of an MII. Malfunction in the systems of the MII shall include malfunction in its (a) hardware, or; (b) software, or; (c) any products/ services provided by the MII, whether on account of inadequate infrastructure/ systems or otherwise, which may lead to either stoppage or variance in the normal functions/ operations of systems of the MII.

Reporting Requirements

2. The following reporting structure for technical glitches shall be adopted by the MIIs:

Sl. No.	Disruption	Reporting
1.	No business disruption	<ul style="list-style-type: none"> • Standing Committee on Technology (SCOT) of MII • Governing Board of MII
2.	Business disruption	<ul style="list-style-type: none"> • SCOT of MII • Governing Board of MII • SEBI

Business disruption shall mean either stoppage or variance in the normal functions/operations of systems of the MII thereby impacting normal/regular service delivery of the MII.

- 2.1. With regard to incidents resulting in business disruption, the following shall be submitted by the MIIs to SEBI:

- (i) Information of technical glitch on immediate basis but not later than 2 hours from the time of occurrence of the glitch; provided that glitches of the nature of a disaster- as defined in SEBI Circular dated March 22, 2021 having reference number SEBI/HO/MRD1/DTCS/CIR/P/2021/33 and subsequent amendment thereto or supersession through any circular or master circular issued from time to time. - shall be reported immediately upon declaration of disaster.
- (ii) Preliminary report within 24 hours of the occurrence of the glitch.



- (iii) Comprehensive Root Cause Analysis (RCA) report and corrective action taken to address the technical glitch within 21 days of the incident. Such report shall be submitted to SEBI, after placing the same before the Standing Committee on Technology and the Governing Board of the MII and confirming compliance with their observations.
- (iv) RCA submitted by the MIIs should inter-alia include exact cause of the technical glitch (including root cause from vendor(s), if applicable), exact duration of the technical glitch, chronology of events, list of business processes/systems and time for which they were impacted, recommendations of SCOT / Governing Board of MII, details of corrective/ preventive measures taken (or to be taken) by MII along with timelines and any other aspect relevant to the technical glitch. As part of the RCA, MIIs are required to demonstrate compliance with various requirements of this SOP. The RCA shall include details regarding time of incident, time when operations were restored and in the event of a disaster, time when disaster was declared.

2.2. All communication and information with regard to technical glitch shall be shared by the MII with SEBI through a dedicated e-mail id viz. techglitch@sebi.gov.in

Placing before Technical Advisory Committee (TAC)

- 2.3. With regard to the incidents wherein business is disrupted, the RCA and corrective action taken, as submitted by the MII, shall be placed before TAC of SEBI. TAC/ SEBI, if it so desires, may seek additional information/ clarification from the MII regarding the technical glitch.
- 2.4. In case TAC finds the actions taken by the MII as inadequate, then, based on the recommendations of TAC, the MII shall be required to address the technical glitch by taking appropriate corrective actions, within the timeline specified by TAC/SEBI. While deciding such timeline, criticality of the malfunction and/or the services/ applications affected by the same shall also be taken into consideration

“Financial Disincentive” structure - ANNEXURE- ZF

“Financial Disincentive” structure with regard to handling of technical glitches

Failure to timely submit RCA

1. In case of delay in submission or submission of incomplete/ inadequate RCA by an MII, a “financial disincentive” of INR 1,00,000 per working day shall be paid by the MII for each working day of delay from the timeline specified at Para 2.1(iii) of Annexure ZE of this Circular or any revised timeline specified by TAC/SEBI for submission of exact RCA.

Failure to timely address technical glitch

2. In order to ensure that MIIs address technical glitch within the timeline specified by TAC/SEBI, the following progressive slab-wise “financial disincentive” shall be paid from the expiry of the timeline specified by TAC/ SEBI:

S No.	No. of working days during which failure continues (i.e. after expiry of the timeline specified by TAC/ SEBI)	Financial disincentive to be paid by the MII (in rupees)
i.	First 15 working days	INR 2 lakh per working day
ii.	Subsequent 15 working days	INR 3 lakh per working day in addition to S No. (i) above
iii.	Beyond 30 working days	INR 25 lakh in addition to S No (i) and (ii) above

Failure to declare disaster within stipulated timelines

3. Vide SEBI Circular dated March 22, 2021 having reference number SEBI/HO/MRD1/DTCS/CIR/P/2021/33, it has been mandated that, in the event of disruption of any one or more of the ‘Critical Systems’, the MII shall, within 30 minutes of the incident, declare that incident as ‘Disaster’. In case of delay in declaration of disaster beyond the timeline specified by SEBI, the following “financial disincentive” shall be paid:

S No.	Delay in declaration of disaster beyond abovementioned timeline specified by SEBI	Financial disincentive Equivalent (in rupees)

i.	Financial disincentive on MII	10% of average of standalone net profit for previous two financial years or INR 2 Crores, whichever is higher.
ii.	Financial disincentive on Managing Director (MD) and Chief Technology Officer (CTO) of MII separately	10% each of their annual pay (both fixed and variable components) for the financial year when the disaster occurred

Failure to restore operations within Recovery Time Objective (RTO)

4. In the event of a disaster, if an MII fails to restore its operations within the RTO prescribed by SEBI, i.e. to restore operations of 'Critical Systems' including from Disaster Recovery Site within 45 minutes of declaration of Disaster, the following "financial disincentive" shall be paid:

S No.	Failure to restore operations within the RTO prescribed by SEBI	Financial disincentive Equivalent (in rupees)
i.	Financial disincentive on MII	10% of average of standalone net profit for previous two financial years or INR 2 Crores, whichever is higher.
ii.	Financial disincentive on MD and CTO of MII separately	10% each of their annual pay (both fixed and variable components) for the financial year when the disaster occurred

"Financial disincentive" under Clause 3 and Clause 4 above, in relation to the same disaster, shall be paid only once either under Clause 3 or Clause 4.

5. Further, if an MII fails to restore operations of Critical Systems including from Disaster Recovery Site within three hours from the occurrence of the disaster, the following additional "financial disincentive" (over and above S No 3 or 4 above) shall be paid:

S No.	Failure to Restore operations of Critical systems beyond abovementioned timeline	Financial disincentive Equivalent (in rupees)
i.	Financial disincentive on MII	10% of average of standalone net profit for previous two financial years or INR 2 Crores, whichever is higher.



ii.	Financial disincentive on MD and CTO of MII separately	10% each of their annual pay (both fixed and variable components) for the financial year when the disaster occurred
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Failure to restore normalcy in cases of business disruption, not being in the nature of a Disaster

6. In the event of any business disruption, which is not required to be declared as “Disaster” as per SEBI circular dated March 22, 2021 having reference number SEBI/HO/MRD1/DTCS/CIR/P/2021/33, if an MII fails to restore normalcy of operations within 75 minutes of the incident, the following slab wise “financial disincentive” shall be paid by the MII:

S No.	Failure to Restore normalcy within	Financial disincentive (in rupees)
i.	75 minutes to 3 hours of the incident	INR 50 lacs
ii.	Beyond 3 hours of the incident	INR 1 crore

The amount of “financial disincentive” paid as per the above structure shall be credited by MII to the following funds maintained by it

S No.	Financial Disincentive on MIIs, MD and CTO	Credited to Funds
i.	Stock Exchange	Investor Protection Fund (IPF)
ii.	Clearing Corporation	Core Settlement Guarantee Fund (Core SGF)

7. Further, the MII shall submit a compliance report within 90 days of occurrence of disaster/ business disruption to SEBI providing details of payment of “financial disincentives” including computation of “financial disincentives” as per the SOP and the date when the amount was credited to the aforementioned funds. With regard to “financial disincentive” on the MD/CTO of the MII arising out of the variable pay component, the compliance report shall be submitted within 30 days of determination of variable pay of the concerned officials for the financial year when the disaster occurred.



8. With regard to the requirement of payment of “financial disincentive” on the aforesaid officials of the MII (i.e. MD and CTO), the MII shall insert a suitable clause in the terms of appointment of these officials and/ or in the Internal Code of Conduct of the MII to comply with the “financial disincentive” requirements.

The financial disincentives automatically triggered under predefined circumstances as stated in clauses 1,2,3,4,5,6 above shall be paid by the MIIs. However, these financial disincentives shall be without prejudice to any action as may be initiated by SEBI.

ANNEXURE ZG: LIST OF CIRCULARS RESCINDED

S. No.	Date	Title
1.	October 01, 2015	Comprehensive Risk Management Framework for National Commodity Derivatives Exchanges
2.	October 21, 2015	Risk Management for Regional Commodity Derivatives Exchanges
3.	November 16, 2015	Investor grievance redressal system and arbitration mechanism
4.	November 16, 2015	Annual System Audit and BCP DR
5.	November 26, 2015	Timelines for Compliance with various provisions of Securities Laws by Commodity Derivatives Exchanges
6.	December 09, 2015	Monthly Development Report for Commodity Derivative Exchanges
7.	December 11, 2015	Testing of software used in or related to Trading and Risk Management
8.	January 11, 2016	Mandatory requirements/Exit Policy for Commodity Derivatives Exchanges
9.	January 15, 2016	Reduction in Daily Price Limits & Near month Position Limits for Agricultural Commodity Derivatives and Suspension of Forward Segment
10.	January 29, 2016	Revision in Position Limits for Agricultural Commodities
11.	March 29, 2016	Modification of Client Codes post Execution of Trades on National and Regional Commodity Derivatives Exchanges



S. No.	Date	Title
12.	March 29, 2016	Cyber Security and Cyber Resilience framework of National Commodity Derivatives Exchanges
13.	April 25, 2016	Disclosure of Proprietary Trading by Commodity Derivatives Broker to Client and Pro - account Trading terminal
14.	August 11, 2016	Annual System Audit for Trading members of National Commodity Derivatives Exchanges
15.	August 19, 2016	Programmes sponsored by the Exchanges through media channels
16.	August 19, 2016	Position Limits for Hedgers
17.	August 19, 2016	Modification of Client Codes post Execution of Trades on National and Regional Commodity Derivatives Exchanges– Clarification
18.	August 30, 2016	Trading Hours/ Trading Holidays on Commodity Derivatives Exchanges
19.	August 30, 2016	Price Dissemination through SMS/Electronic Communication Facility
20.	August 30, 2016	Maintenance and Preservation of Records
21.	September 01, 2016	Additional risk management norms for national commodity derivatives exchanges
22.	September 02, 2016	Spot Price Polling Mechanism
23.	September 07, 2016	Transaction Charges by Commodity Derivatives Exchanges
24.	September 07, 2016	Mechanism for regular monitoring of and penalty for short-collection/non-collection of margins from clients
25.	September 07, 2016	Daily Price Limits (DPL) for Non-Agricultural Commodity Derivatives/First day DPL for All Commodity Derivatives
26.	September 07, 2016	Guidelines for Due Date Rate (DDR) fixation for Regional Commodity Derivatives Exchanges
27.	September 16, 2016	Unique Client Code (UCC) and Mandatory requirement of Permanent Account Number (PAN)
28.	September 16, 2016	Settlement Guarantee Fund, Stress Testing and Base Minimum Capital
29.	September 20, 2016	Permission for trading in futures contracts and modification in contract specifications at exchange level
30.	September 21, 2016	Staggered delivery, early delivery system, early pay-in facility, penalty on delivery default, fixation of FSP and changes in expiry dates



S. No.	Date	Title
31.	September 26, 2016	Commodity derivatives – Miscellaneous norms
32.	September 26, 2016	Circular on Investor Protection Fund (IPF) and its related matters
33.	September 27, 2016	Revised Warehousing Norms in the Commodity Derivatives Market for Agricultural and Agri-processed Commodities Traded on the National Commodity Derivatives Exchanges
34.	September 27, 2016	Position Limits for Commodity Derivatives, clubbing of open positions, penalties for violation of position limits
35.	September 27, 2016	Portfolio Management Services (PMS) in Commodity Derivatives Market
36.	September 27, 2016	Sharing of Information in case of Declaration of Member as Defaulter in case of Multiple Membership
37.	September 27, 2016	Disclosure by Commodity Derivative Exchanges on their Websites
38.	September 27, 2016	Broad Guidelines on Algorithmic Trading for National Commodity Derivatives Exchanges
39.	September 27, 2016	Spread Margin Benefit
40.	September 28, 2016	List of Commodities Notified under SCRA
41.	September 28, 2016	Introduction of Options in Commodity Derivatives Market
42.	October 14, 2016	Bullion as collateral
43.	December 02, 2016	Spread margin benefit
44.	December 16, 2016	Applicability of Principles of Financial Market Infrastructures (PFMIs) on Commodity Derivatives Exchanges
45.	January 20, 2017	Criteria for Eligibility, Retention and re-introduction of derivative contracts on Commodities
46.	June 13, 2017	Options on Commodity Futures- Product Design and Risk Management Framework
47.	June 13, 2017	Comprehensive guidelines for Investor protection Fund, Investor Service Fund and its related matters
48.	June 21, 2017	Participation of Category III Alternative Investment Funds (AIFs) in the commodity derivatives market
49.	July 11, 2017	Amendment to Investor Grievance Redressal System and Arbitration Mechanism
50.	July 25, 2017	Position Limits for Agricultural Commodity Derivatives



S. No.	Date	Title
51.	October 16, 2017	Criteria for Settlement Mode of Commodity Derivative Contracts
52.	January 03, 2018	Transaction Charges by Commodity Derivatives Exchanges
53.	January 22, 2018	Role of the Independent Oversight Committee for Product Design
54.	March 14, 2018	Clarification to Circular pertaining to Investor Protection Fund (IPF) and Investor Service Fund (ISF)
55.	March 14, 2018	Clarification to Circular pertaining to Investor Grievance Redressal System and Arbitration Mechanism
56.	March 20, 2018	Spread margin benefit in commodity futures contracts
57.	March 21, 2018	Risk Management norms for commodity derivatives
58.	March 26, 2018	Guidelines for Liquidity Enhancement Schemes (LES) in Commodity Derivatives Contracts
59.	April 03, 2018	Orders per second limit and requirement of empanelment of system auditors for algorithmic trading in commodity derivatives
60.	June 11, 2018	Disclosure by Exchanges related to Deliverable Supply and Position Limits Calculation for Agricultural Commodity Derivatives
61.	July 11, 2018	Core SGF and standardized stress testing for credit risk for commodity derivatives
62.	October 09, 2018	Participation of Eligible Foreign Entities (EFEs) in the commodity derivatives market
63.	October 16, 2018	Uniformity in the procedure for obtaining samples of goods at the Exchange accredited warehouses
64.	November 15, 2018	Disclosures regarding commodity risks by listed entities
65.	November 27, 2018	Interoperability among Clearing Corporations
66.	November 30, 2018	Trading hours for commodity derivatives segment
67.	January 04, 2019	Disclosures by Stock Exchanges for commodity derivatives
68.	January 23, 2019	Alignment of Trading Lot and Delivery Lot size
69.	February 11, 2019	Framework for utilization of Financial Security Deposit (FSD)
70.	March 20, 2019	Framework for Utilization of Regulatory Fee Foregone by SEBI



S. No.	Date	Title
71.	June 18, 2019	Design of Commodity Indices and Product Design for Futures on Commodity Indices
72.	June 20, 2019	Credit of Penalty for short-collection/non-collection of Margins on Commodity Derivatives Segments to Core SGF
73.	July 26, 2019	Guidelines for Liquidity Enhancement Scheme (LES) in Commodity Derivatives Contracts
74.	July 26, 2019	Staggered Delivery Period in Commodity futures contracts
75.	August 07, 2019	Product Advisory Committee
76.	September 13, 2019	Additional commodities as Eligible Liquid Assets for Commodity Derivatives Segment
77.	November 14, 2019	Modifications in the contract specifications of commodity derivatives contracts
78.	November 29, 2019	Cut-off Time for Determining Minimum Threshold of Margins to be Collected from Clients
79.	January 16, 2020	Options in Goods - Product Design and Risk Management Framework
80.	January 27, 2020	Review of Margin Framework for Commodity Derivatives Segment
81.	February 04, 2020	Performance review of the commodity derivatives contracts
82.	March 03, 2020	Review of Norms regarding Regaining Matched Book for Commodity Derivatives Segment
83.	May 26, 2020	Guidelines for identification and selection of location as a delivery centre(s) for commodity derivatives contract
84.	July 20, 2020	Eligibility Criteria for Selection of Underlying Commodity Futures for Options on Commodity Futures
85.	July 21, 2020	Review of Stress Testing Methodology for Positions with Early Pay-in
86.	September 21, 2020	Alternate Risk Management Framework Applicable in case of Near Zero and Negative Prices
87.	October 19, 2020	Utilization of Fund Created out of the Regulatory Fee Forgone by SEBI – Additional Guidelines
88.	December 21, 2020	Review of inclusion of Historical Scenarios in Standardized Stress Testing in Commodity Derivatives Segment
89.	January 11, 2021	Review of Volatility Scan Range (VSR) for Option contracts in Commodity Derivatives Segment



S. No.	Date	Title
90.	January 11, 2021	Revision in Daily Price Limits (DPL) for Commodity Futures Contracts
91.	February 23, 2021	Pre-Expiry Margin on commodities under Alternate Risk Management Framework
92.	March 08, 2021	Amendments to provisions in SEBI Circular dated September 16, 2016 on Unique Client Code (UCC) and mandatory requirement of Permanent Account Number (PAN)
93.	March 23, 2021	Review of Delivery Default Norms
94.	April 16, 2021	Circular on Guidelines for warehousing norms for Agricultural and Agri-processed goods and non-agricultural goods (only base and industrial metals)
95.	June 29, 2021	Cross Margin in Commodity Index Futures and its underlying constituent futures or its variants
96.	July 08, 2021	Review of Advance Intimation timelines for modifications in the contract specifications of commodity derivative contracts
97.	Aug 09, 2021	Calendar Spread margin benefit in commodity futures contracts
98.	Aug 17, 2021	Penalty for Repeated Delivery Default
99.	Oct 04, 2021	Disclosure of Complaints against the Stock Exchanges and the Clearing Corporations
100.	Oct 22, 2021	Amendment to SEBI Circular pertaining to Investor Protection Fund (IPF)/Investor Service Fund (ISF) and its related matters
101.	Oct 22, 2021	Amendment to SEBI Circulars pertaining to Investor Grievance Redressal System and Arbitration Mechanism
102.	Dec 16, 2021	Cut-off Time for generation of last Risk Parameter File (RPF) for client's margin collection purpose and modification in framework to enable verification of upfront collection of margins from clients in commodity derivatives segment
103.	Jan 03, 2022	Options on Commodity Futures – Modification in Exercise Mechanism
104.	Mar 17, 2022	Revision in Orders Per Second limit for algorithmic trading in Commodity Derivatives Segment of the Stock Exchange
105.	Mar 24, 2022	Introduction of Options on Commodity Indices - Product Design and Risk Management Framework



S. No.	Date	Title
106.	May 17, 2022	Master Circular for Commodity Derivatives Market
107.	September 27, 2022	Modification in Daily Price Limits (DPL) for Commodity Futures Contracts
108.	September 29, 2022	Participation of SEBI registered Foreign Portfolio Investors (FPIs) in Exchange Traded Commodity Derivatives in India
109.	January 11, 2023	Allowing stock exchanges to launch multiple contracts on the same commodity in commodity derivatives segment
