



CIRCULAR

CIR/CDMRD/DRMP/2/2015

October 21, 2015

To,

The Managing Directors / Chief Executive Officers
Regional Commodity Derivatives Exchanges

Sir / Madam,

Sub.: Risk management for Regional Commodity Derivatives Exchanges

1. Pursuant to Section 131 of the Finance Act, 2015 and Central Government notification F.No. 1/9/SM/2015 dated August 28, 2015, all recognized associations under the Forward Contracts (Regulation) Act, 1952 are deemed to be recognized stock exchanges under the Securities Contracts (Regulation) Act, 1956 with effect from September 28, 2015. This circular applies to Regional Commodity Derivatives Exchanges as defined in the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2015.
2. Exchanges shall comply with the following norms latest by April 01, 2016:
 - a. Member Deposits: Exchanges shall continue with their practice of keeping exposure free member deposits at the current level.
 - b. Ordinary margins: Exchanges shall levy minimum ordinary margins of 4% on the open outstanding positions.
 - c. Other margins (delivery period margins, additional margins etc.): Exchanges may levy appropriate delivery period margins, additional margins etc. based on their evaluation.
 - d. Additional Ad-hoc Margins: Exchanges have the right to impose additional risk containment measures over and above the risk containment system mandated by SEBI. However, the Exchanges should keep the following three factors in mind while taking such action:
 - i. Additional risk management measures (like ad-hoc margins) would normally be required only to deal with circumstances that cannot be anticipated or were not anticipated while designing the risk management system. If ad-hoc margins are imposed with any



degree of regularity, exchanges should examine whether the circumstances that give rise to such margins can be reasonably anticipated and can therefore be incorporated into the risk management system mandated by SEBI. Exchanges are encouraged to analyse these situations and bring the matter to the attention of SEBI for further action.

- ii. Any additional margins that the exchanges may impose shall be based on objective criteria and shall not discriminate between members on the basis of subjective criteria.
 - 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.
 - e. Margin computation at client level: Exchanges shall levy ordinary margins at the level of each individual client comprising his positions in futures contracts across different maturities. For member level margin computation, margins shall be grossed across various clients. The proprietary positions of the member should also be treated as that of a client for margin computation.
 - f. Margin Collection and Enforcement: All applicable margins shall be collected by Exchanges before start of trading on the next trading day. If the member's collateral is insufficient to cover the required margin and deposit requirements, member shall not be allowed by Exchanges to further increase his open positions.
 - g. Collateral type to cover margin/deposit requirements: Exchanges shall collect collateral from their members only in the following form:
 - Cash
 - Pledging of Bank Fixed Deposits
 - Bank Guarantee
 - h. Mark to market settlement: Daily mark to market settlement of open positions (both gains and losses), based on the Daily Settlement Price (DSP), in cash, before start of trading on the next trading day. DSP shall be reckoned and disseminated by the Exchange at the end of every trading day.
3. The risk management norms stipulated/approved by FMC to the extent not covered in this circular shall continue to remain in force.
 4. The Exchanges are advised to:



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Securities and Exchange Board of India

- i. take steps to make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the same.
 - ii. bring the provisions of this circular to the notice of the members of the Exchange and also to disseminate the same on their website.
 - iii. communicate to SEBI, the status of the implementation of the provisions of this circular.
5. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
6. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

Shashi Kumar
General Manager
Division of Risk Management and Products
Commodity Derivatives Market Regulation Department
shashikumarv@sebi.gov.in