



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/CDMRD/DMP/CIR/P/2016/71

August 19, 2016

To,

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

Dear Sir / Madam,

Sub: Position Limits for Hedgers

1. As per Section 131(4) of Finance Act, 2015 all rules, directions, guidelines, instructions, circulars, or any like instruments, made by the erstwhile FMC or the Central Government applicable to recognized associations under the FCRA would continue to remain in force for a period of one year from the date on which FCRA was repealed (September 29, 2015), or till such time as notified by SEBI, whichever is earlier.
2. Erstwhile FMC, from time to time, had prescribed various norms related to Position Limit for hedgers. This circular is being issued to consolidate and update such norms prescribed by erstwhile FMC.
3. 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 exchanges shall hence forth stipulate a Hedge Policy for granting hedge limits to their members and clients. The Exchanges shall widely publicize their respective hedge policy by holding awareness programmes for the target participants and making it publicly available on their website.
4. In this regard, the Exchanges shall adhere to the following broad guidelines while granting hedge limit Exemptions to their members and clients:
 - a) The hedge limit to be granted by the 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



- b) 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.
- c) 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 Exchanges may deem appropriate.
- d) The 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.
- e) 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,
 - i. pledged with the Scheduled Commercial Banks/Co-operative Banks or
 - ii. lying in any Government Entity's warehouse/ WDRA Approved warehouses or
 - iii. 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 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 Exchange in accordance with the procedure laid down by the Exchange in this regard.

- f) At any point of time during the hedge period, hedging positions taken in derivatives contracts by hedger, across multiple Exchanges/ Contracts, shall not exceed his/its actual/anticipated exposure in the physical



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market, even if there is a usable hedge limit available as per allocation made by the Exchanges to the hedger.

- g) If under any circumstances a hedger is found availing hedge limit in contrary to the guideline framed by the SEBI/Exchanges or submits false document or fails to inform Exchange timely about reduction of underlying exposure based upon which it has been allocated hedge limit by 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 Exchanges.
- h) A Hedger having availed of benefit of hedge limits, shall preserve relevant records for a period of minimum three years for inspection by SEBI/Exchange.
- i) The hedge limit approved by an exchange 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.
- j) The 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						

- 5. The provisions of this circular shall come into effect from September 29, 2016 in supersession of all earlier directives issued by erstwhile FMC with regard to matters related to 'Position Limits for Hedgers'.
- 6. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with



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Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

7. All the Derivatives Exchanges are also advised to bring the provisions of this circular to the notice of the member brokers/clearing members of the Exchange and also to disseminate the same on the website.
8. This circular is available on SEBI website at www.sebi.gov.in under the category "Circulars" and "Info for Commodity Derivatives".

Yours faithfully,

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