



CIRCULAR

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September 27, 2016

To,  
The Managing Directors / Chief Executive Officers  
All National Commodity Derivatives Exchanges

Dear Sir / Madam,

**Sub: Revised Warehousing Norms in the Commodity Derivatives Market for Agricultural and Agri-processed Commodities Traded on the National Commodity Derivatives Exchanges**

1. Warehousing infrastructure and its ancillary services play a critical role in the delivery mechanism of the Commodity Derivatives Market. A robust & credible warehousing infrastructure is sine qua non for an effective Commodity Derivatives Market that can inspire confidence amongst the market participants and other stake holders. At the time of the merger of Forward Market Commission (FMC) with SEBI, with a view to ensuring good delivery of commodities on expiry of the futures contract, SEBI decided to fasten the responsibility of settlement of the futures contract, including good delivery on the commodity derivatives exchanges. With this objective necessary amendments were carried out by inserting Regulation 44D(2) in Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 ("*SECC Regulations*"), by providing that every commodity derivatives exchange (*in short, exchange*) shall ensure guarantee for settlement of trades including good delivery.
2. It is therefore, incumbent upon the commodity derivatives exchanges to have in place comprehensive framework of norms for adherence by the Warehouse Service Providers (WSP), warehouse, 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. In order to facilitate good delivery by the commodity derivatives exchanges by providing therein with a set of minimum standards and norms for compliance by the accredited warehouses, the existing norms for exchange accredited WSPs, warehouses and assayers have been reviewed.
3. On the basis of various observations inputs/feedback received during visits to different warehouses, meetings held with the WSPs, national commodity



derivatives exchanges and other stakeholders, it has been decided that in supersession of the earlier norms, the national commodity derivatives exchanges shall frame guidelines in accordance with the following revised norms for their accredited WSPs, warehouses, assayers etc .

4. At the outset, it is clarified that the norms prescribed in this circular are the minimum requirements/standards for compliance by the exchange accredited WSPs, warehouses and assayers and are to be complied with in addition to those laid down by Warehousing Development and Regulatory Authority (WDRA), any other government authority from time to time. The Exchanges are at liberty to prescribe additional norms/guidelines for compliance by their accredited WSPs, warehouses and assayers, if they deem so fit, in addition to the norms laid down hereunder, for ensuring good delivery of commodities by them. Provided that such additional norms specified by the exchanges are not in contravention with the instruction issued in this circular.

**A. Accreditation of WSP:**

- a) The exchanges shall follow a transparent process for accreditation of WSP by issuing open advertisements in leading newspapers and/or putting the same up on the exchange website and through a transparent selection process thereafter. The selection process being/to be followed for such accreditation shall be displayed on the website of the Exchange in advance. The accreditation of the WSP shall be done with the approval of the Risk Management Committee of the Board of Directors of the Exchange. The exchange shall ensure that the application of the WSP/warehouses are processed within a stipulated time frame.
- b) A WSP can be accredited with more than one exchange. In such case, no exchange shall mandate that its WSP cannot provide services to another exchange. However, it shall be ensured that same warehouse may not be shared by more than one Exchange.
- c) The accreditation of a WSP shall, unless any expulsion proceedings pending against it, be subject to renewal after a period of **3 years** considering WSP's performance during accreditation, quality of services and number of client complaints and effective resolutions thereof etc.. The renewal shall be approved by the Risk Management Committee of the Exchange. During the renewal process, the Exchange and the WSP shall continue to be responsible for the commodities stored till their Final Expiry date. The existing accreditation as on the date of the circular

would be valid for 3 years from the date of this circular, thereafter would be subject to renewal.

**B. Eligibility and Experience of WSP/Promoters/Promoter Group of WSP:**

- a) A WSP shall be a corporate body and is in public warehousing business.
- b) The Promoters/ Promoter Groups of the WSP should be responsible persons/entities of repute with a good business reputation and credibility, and who are in the business of public warehousing for at least 3 years as on the date of their operation and have knowledge of, and experience in, generally accepted warehousing and handling practices for Commodities.

The exchange in its discretion, may relax the above norm of 3 years provided that the WSP or its promoter/promoter group:

- i. Meets all other criteria
  - ii. Submit an undertaking that they shall meet any additional norm specified by exchanges within the time frame as specified by it or 3 years whichever is earlier.
- c) WSP and Promoters/ Promoter Group of WSP shall have no record of serious violation of laws or being expelled by any Exchange in last three years. The Exchange can take an appropriate undertaking from the WSP in this regard.

**C. Financial Norms for the WSP:**

- a) **Capital and Net worth:** A WSP shall be a corporate body with the minimum net worth requirement as under:
  - i. An accredited WSP shall have at least, subscribed and paid-up share capital of ₹10 crore.
  - ii. An accredited WSP providing warehousing services shall meet the following network criteria:-

Number of commodities	Minimum network
1	₹10 crores
More than 1	₹25 crores



With respect to the existing accredited WSPs who are not in conformity with the above norms prescribed for share capital and networth, the exchanges are directed to ensure that such WSPs comply with the above norms latest by March 31, 2018.

- iii. Further, the exchanges shall ensure that the value of the goods stored in the accredited warehouses of WSP shall not, at any point of time, exceed 33 times of the net worth of the WSP.
- iv. The exchanges may calculate the networth of WSP 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. In case of reduction in net worth below the stipulated amount, a time period of six month may be allowed to the WSP to augment its net worth. In the event the WSP is unable to augment the net worth to the requisite level within the allowed time frame, the WSP shall not carry out any new business i.e. can not include any new warehouse for new contracts/commodity/location. The exchange may take suitable measures, which are disclosed on its website for public information, with respect to the existing goods handled by such WSP.
- vi. The WSP shall submit an audited net worth certificate to the exchange every six months i.e. at the end of every March and September, within 45 calendar days.
- vii. The Annual Financial Statements of the WSPs should be audited and submitted to the Exchange within six months of the end of Financial Year. Further, each WSP shall also be required to file its unaudited quarterly financial statements for all the quarters of a financial years to the exchange, within 45 calendar days of the date of a quarterly statement,

b) **Security Deposit:** The WSP seeking accreditation with an exchange is required to furnish a refundable security deposit along with the application form.

- i. Such security deposit shall be a minimum amount of ₹50 lakhs.
- ii. Security deposit shall not be released until six months after cancellation or revocation or surrender of the accreditation of the WSP or until after satisfaction of every claim against the deposit, whichever is later.
- iii. Such security deposit shall be in form of cash or cash equivalent like Bank Fixed Deposits, Bank Guarantees etc.

**c) Financial Security Deposits (FSD):**

- i. The WSP shall furnish FSD in addition to the security deposit as under:-

Value of Goods stored	FSD
Upto ₹250 crores	3% of the aggregate value of stored commodities
Above ₹250 crores and upto - ₹500 crores	4% of the aggregate value of stored commodities
Above ₹500 crores	5% of the aggregate value of stored commodities

- ii. The FSD shall be in form of liquid assets with applicable haircuts and concentration limits as listed below:-

Item	Minimum haircut	Limits
Cash	0	No Limit but minimum 25%
Bank Fixed Deposit	0	
Bank Guarantees	0	
Securities of the Central Government	10%	

- iii. The exchanges shall lay down exposure limits either in rupee terms or as percentage of the total assets to be received as FSD/SD that can be exposed to a single bank directly or indirectly. The total exposure towards any bank would include Bank Fixed Deposit and

Bank Guarantees issued by the bank which have been deposited by WSPs.

- iv. Not more than 1% of such assets deposited with the 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 such deposit deposited with the exchanges shall be exposed to all such banks put together.
- v. A daily monitoring of the FSD vis-à-vis the value of the commodities stored needs to be done so as to ensure that the minimum stipulated FSD are always maintained with the Exchange. The exchange may ask for additional FSD over that stipulated above, if considered necessary.
- vi. The FSD vis-a-vis the value of goods stored should be marked to market on replacement value on ongoing basis.
- vii. The exchanges may specify the liquidity ratio (i.e. Liquidity Ratio= Current Assets/Current Liabilities) for WSPs, however it is desirable that such ratio is greater than 1. The Exchanges may, however, keep higher ratio.

**D. Fit and Proper Criteria:**

- a) The exchange shall ensure that the WSP, Promoters of WSP, assayers, Key Management Personnel (KMPs) of WSPs, warehouses and Assayers shall always be 'fit and proper' to carry out business of warehousing, have adequate knowledge of, and experience in generally accepted warehousing and handling practices for Commodities, 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.

**E. Corporate Governance norms for WSP:**

- a) **Management and Employees:** The exchange shall ensure that the accredited WSP has a professional management team to oversee its functioning and operations.

- i. The exchange shall ensure that the Key Management Personnel (KMPs) of WSP have adequate knowledge of, and experience in generally accepted warehousing and handling practices for Commodities, and are competent and willing to operate such a warehouse, and do not have any conflict of interest in discharge of their functions.
  - ii. The exchanges shall ensure that the WSP/Management of WSP (defined as 'key managerial personnel' including whole time directors of WSP and their 'relatives' as per Companies Act, 2013) or entities owned or controlled by promoters/management of WSP/Group concerns/associates directly or indirectly or persons 'acting in concert' are not allowed, either directly or indirectly, to trade on the commodity derivatives exchange in the commodity for which it is accredited by Exchange. The exchange shall not provide for any exemption in this regard.
  - iii. The Exchange may obtain 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.
  - iv. The exchange shall ensure that the WSP has adequate number of competent employees at all times who have the experience, capacity and ability of operating the business without any conflict of interest.
  - v. The exchange shall ensure that the staff/employees of the WSP including the assayers, 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 Exchange's delivery business related training programmes or are deputed to attend the certification programme on commodity derivatives and warehousing conducted by National Institute of Securities market (NISM).
- b) **Compliance officer:** The WSP shall appoint a compliance officer who shall be responsible for monitoring the compliance with relevant Act, rules and regulations, notifications, guidelines and instructions issued by relevant authorities from time to time. The Compliance officer of the WSP shall ensure that all norms mentioned are followed by the WSP and



should issue a declaration to that effect to the Exchange, at regular intervals as directed by the exchange.

- c) **Standard Operating Procedure(SOP):**The WSP shall have a SOP and the exchange shall obtain a standard operating procedure in respect of all the concerned warehouses from the WSP before granting accreditation to such warehouses. The SOP of a warehouse may cover the following but not restricted to:
- i. Procedures for acceptance of goods to be deposited
  - ii. Weigh bridge empanelment
  - iii. Procedures for weighing, sampling of goods to be deposited as per industry standards, Procedure for verification of commodity and communication to depositors,
  - iv. Procedure for depositing and identifying the Exchange related goods,
  - v. Procedure for maintaining the quality of the goods stored as per the exchange contract specification,
  - vi. Procedure for Know your depositor requirements,
  - vii. Security policy for ensuring the safety of the goods from theft, burglary etc.,
  - viii. Procedure and guidelines for scientific storage of goods, including stacking etc.,
  - ix. Procedure for losses caused due to theft, fire, burglary, fraud, negligence and force majeure events,
  - x. Procedure for internal verification of stock,
  - xi. 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.
  - xii. Selection of Location for offering warehousing services
  - xiii. Grievance redressal procedures
  - xiv. Role and responsibilities of employees (including outsourced employees)
  - xv. Model warehouse agreement format
  - xvi. Maintenance of surroundings, infrastructure etc.
- d) The WSP shall have good internal systems and controls which should meet the operating guidelines, if any, issued by the Exchange from time to time. The WSP shall have clear delegation of powers to meet operational requirement.

- e) A WSP shall intimate / notify in writing to the Exchange, if there is any material change, prior to making such change.
- f) WSP shall report to the Exchange within three business days of initiation of any civil and criminal proceedings by or against it and shall also intimate the exchange 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.

**F. Know Your Depositor:**

- a) The WSP shall comply with Know Your Depositor (KYD) Policy as prescribed by the Exchange from time to time.
- b) The Exchange and WSP shall at any point of time be able to identify the depositor of the goods deposited in registered warehouses, the owner of the deposited goods (in case the depositor is an agent of the actual owner), and also the actual beneficiary (in case the depositor and the beneficiary are different) of the deposited/stored commodities.

**G. PAN requirement:**

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

**H. Facilities & Infrastructure Requirement for WSP:**

The Exchanges shall ensure that the WSPs to be eligible for accreditation have reasonable facility and infrastructure for proper handling and storage of commodity such as:-

- a) All its warehouses are well connected with rail and/or road networks and have sufficient space for parking and movement of large vehicle;
- b) The warehouses are physically and operationally suitable for the proper storage of Commodities and :



- i. are of sound construction and in a state of good repair. The walls, the floor and the roof do not permit water seepage or are source of any insect infestation;
  - ii. have adequate equipment, installed and maintained in good working order, as may be prescribed by the Exchange, for the movement of commodities into, out of and within the warehouse. Further, the employees employed at the warehouses shall undergo training in fire safety and use of fire fighting equipments;
  - iii. have adequate fire fighting equipment installed within its premises and have fire escapes and fire hydrant points clearly marked;
  - iv. have required ventilation, installed and maintained in good working order, as may be prescribed by the Exchange, for the proper storage and preservation of quality of goods;
  - v. have adequate lighting arrangement as may be prescribed by the Exchange;
  - vi. are free from materials and substances that may adversely affect the quality of stored commodities;
  - vii. have a safe work environment;
  - viii. have ensured adequate security as prescribed by the Exchange for protection of stored or handled commodities to prevent from tampering or adulteration;
  - ix. have facilities for storing the deliverable commodities of futures contracts which need to be and piled properly in a separate storage area as specified by the Exchange thereby providing clear-cut demarcation between Exchange / non- Exchange commodities.
- c) WSP shall take utmost care in storing commodities for futures contract in accordance with the climatic conditions and the nature of commodity stored.
- d) WSP shall have adequate security personnel for each of its registered warehouse with required facilities to immediately communicate any unlawful entry, burglary, theft or damage or potential loss to the deposited goods to the WSP.
- e) Each warehouse of an accredited WSP shall assign a special place to store the samples used for inspection and testing for purpose of further examination and testing.



- f) 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 favourable 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.
- g) The exchanges shall ensure that the warehouses provided by the WSPs are under absolute control of the WSPs. In case a warehouse is a leased property it should be ensured that no third party including the owner/ lessor of the warehouse, has any role to play in the operations and managing the concerned warehouses operated by the WSP.
- h) The exchanges shall develop the SOP with respect to the maintenance, preservation and retrieval of data/records/books of accounts which shall be uniformly adopted by each of their accredited WSP/warehouse.
- i) WSP shall always give priority to commodities meant for futures contracts delivery while receiving, storing and dispatching goods. It should have internal process that enable the Exchange 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 g of the warehousing norms stipulated by the exchange/regulator from time to time.
- j) The WSP shall undertake to have assaying/testing facilities for the commodities it intends to render 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 like NABL (National Accreditation Board for calibration and testing Laboratories), BIS etc., as specified by the exchange.
- k) The WSP shall provide for accurate and efficient weighing, sampling, inspection and grading of the Commodities deposited in its warehouses. The Exchange shall ensure that the WSP has deployed



personnel who have knowledge and experience in sampling, weighing, inspecting and/or grading of commodities.

- l) The WSP shall have its own or access to fumigation facilities/agencies for pest control activities.
- m) Exchanges shall ensure that the 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.
- n) The exchange and 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.
- o) The WSP shall display on a daily basis warehouse wise/commodity wise details of the space available, goods deposited and held in transit, details of location of the warehouse, particulars of rejection of the goods etc, on its website and the archives of such reports shall be available on its website.
- p) The WSP shall not disseminate any information that is false or misleading or disclose any confidential information obtained during the course of their dealings with the exchanges or their positions on the market or as a result of their position or during the course of performance of their duties.

**I. Accreditation of assayers:**

- a) The exchanges shall follow a transparent process for accreditation of assayers by issue of open advertisement in leading newspapers and by putting up the same on the exchange website. The process being followed for such accreditation shall be displayed on the website of the Exchange in advance. The accreditation shall be done with the approval of the Risk Management Committee of the Board of Directors of the Exchange.

- b) The Exchange shall conduct independent pre-empanelment due diligence of Assayers by visiting the laboratories and assessing the testing and certification facilities. The exchanges 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 exchange shall also identify and empanel separate independent assayer(s) at each such delivery location where the market participants can independently get their goods/commodities assayed, 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 happened to be Government assayer, then the need for empanelling an additional independent assayer may be dispensed with.
- c) The exchanges shall ensure that the empanelled assayers work independently and their operations are governed by prescribed Standard Operating Procedures (SOPs). The assayers shall be preferably certified by one or more national/international agencies like NABL (National Accreditation Board for calibration and testing Laboratories), BIS etc., and shall have the facilities as laid down by the exchanges from time to time.

**J. Warehouses at delivery centres:**

- a) The exchanges shall ensure that all the warehouses of a WSP accredited by them are registered with the statutory authority viz., WDRA. The exchanges shall take necessary steps to ensure that warehouses which are not registered with the WDRA are registered by WDRA within 6 months from the date of such accreditation, failing which the accreditation given to the WSP in respect of such warehouses shall expire.
- b) The exchanges shall have at least one warehouse at each of the delivery centres (as specified in the contract specification) at the time of launch of contract itself and address of such warehouses shall be mentioned in the contract specifications.
- c) The exchanges may accredit warehouses of a WSP within 100 kms radius of the delivery centres depending on the feasibility and requirements, in respect of all commodities.



**K. Insurance:**

- a) The WSP shall at all times ensure to fully cover under insurance, the value of goods stored at exchange approved warehouses against all potential perils relevant to the commodities for which insurance cover is available and necessary.
- b) The WSP shall undertake to take insurance cover for risks such as viz. Fire and allied perils including flood, cyclone, earthquake and spontaneous combustion, Burglary and Theft and special perils covering riots, strikes and terrorism.
- c) The WSP shall take Fidelity guarantee & crime insurance and Professional indemnity cover to cover all deliverable stocks on the exchange.
- d) The value of goods to be insured should be marked to market on replacement value on ongoing basis.

**L. Monitoring/Inspection/Audit of warehouses by WSPs and Exchanges:**

- a) **Periodic inspection/audit by WSPs:** The WSP should ensure that there is periodic inspection/audit of the warehouse as well as the commodities stored in the warehouses.
  - i. Inspection staff must be independent of the employees / staff deputed at the registered warehouse.
  - ii. The inspection/audit report is submitted to the Exchange within a week of the completion of such inspection/audit.
  - iii. The Exchange shall ensure that the physical counting of stocks and their reconciliation with the corresponding electronic records is done periodically.
- b) The WSP shall allow the members /clients holding electronic credit balances to do physical inspection of their goods. However, the request for such physical inspection would have to be submitted to the Exchange and the Exchange after verification of such request, shall forward the same to the concerned WSP for allowing such inspection within a stipulated time.



- c) **Periodic inspection/audit of warehouses by the exchange:** The Exchange shall ensure that independent audit of the stocks and other facilities in the warehouses is carried out by engaging expert agencies, at regular intervals.
- i. Such inspections shall be carried out at least twice in each accredited warehouse in a calendar year with a gap of not more than six months between two inspections/audits of same warehouse.
  - ii. In addition to the above, the audit may also be conducted on risk profiling, as identified by the Exchange. For this purpose, the Exchange shall form a panel of independent expert agencies and the cost of such audit shall be borne by the respective Exchange.
  - iii. The result of such audit/audit report shall be displayed by the Exchange on its website immediately after the completion of the audit and submission of report by the auditor.
  - iv. The exchanges shall prepare a panel of such independent expert agencies for carrying out inspection of warehouses, which shall also be reviewed by the Exchange from time to time. In addition, the Exchanges shall also conduct in-house physical audit of accredited warehouses at regular intervals.
  - v. **Exchange should also carry out surprise inspections of warehouses as and when such exigencies arise in terms of the prescribed norms.**
  - vi. The exchange 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.
  - vii. The exchange shall have a detailed inspection manual for carrying out the audits and inspections of the WSP/warehouses concerned.
- d) **Monitoring of warehouses by exchange:** The exchanges shall be responsible for the monitoring the warehouses of their accredited WSPs. In this regard :
- i. Norms relating to the monitoring of warehouses shall be placed in public domain.
  - ii. A deliberation on the continuous functioning, monitoring and compliance of norms by WSPs, warehouse and assayers shall be a mandatory agenda item in all Board meetings as well as the Risk management committee meeting of the exchange.
  - iii. The Exchange and WSPs shall ensure that the goods whose final expiry date is over, are removed from the concerned warehouse

immediately, but not later than 3 months from the date of the final expiry date.

**M. Review of WSPs/warehouses:**

- a) The Exchange shall review and appraise operational performance of each WSP every year. Based on the operational review the Exchange may adjust the allocation of commodities and the limit of deliveries at various warehouses of the concerned WSP in accordance with the results of such performance evaluation and appraisal.
- b) Additionally, the Exchange may carry out biennial and quarterly performance review of all warehouses accredited by it, taking into account various performance areas 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 Exchange may deem necessary for its review.
- c) The exchange may take necessary action against as mentioned in **para S** against a WSP/warehouse, if the warehouse is unable to meet the requirements of an accredited warehouse and fails to improve the standard within the stipulated time.

**N. Code of conduct:**

- a) The exchange shall frame necessary code of conduct for the WSPs, warehouses and assayers.
- b) The said code of conduct shall be displayed on the exchange website.

**O. Grievance Cell:**

- a) The exchange shall ensure that it has a Grievance Cell to handle consumer complaints.
- b) The exchange shall take proactive steps to resolve customer related issues and maintain a record of complaints received / resolved.
- c) The exchange 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.



**P. MIS System:**

- a) WSP shall have a Standard Operating Procedure (SOP) which is process-dependent and not person-dependent. 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 warehouse location to the central MIS and onwards to Exchange **electronically**. The MIS should have the capability to capture and disseminate information regarding stocks being held warehouse wise/location wise, and the availability of space in the warehouses.
- b) The exchange shall display on a daily basis warehouse wise details of the space available, stock of goods held, name of the warehouse service provider, details of location of the warehouse, particulars of acceptance/rejection of goods by the warehouse concerned, details of empanelled assayers and independent assayers, if any, attached to the warehouse etc, on its website. The archives of such reports shall be available on the exchange website.
- c) The participants/clients willing to deposit goods in Exchange accredited Warehouses would submit a request to the Exchange. The Exchange shall use a transparent and time-bound process for the participants to identify the warehouse where the participants can deposit the goods. After such identification, the Exchange shall intimate the participants about the time, place and the warehouse where they can deposit the goods. The Exchange shall then issue directions to the concerned warehouse for accepting deposits from the concerned participants/clients after assaying/ quality testing as per the laid down procedure in a transparent manner. The WSP shall accept the goods for deposits only at the instruction of Exchange concerned.

**Q. Surrender/Cancellation of accreditation:**

- a) Any WSP that applies for surrender of its accreditation shall submit its Application for Surrender to the Exchange for evaluation and approval.
- b) The exchange may cancel the accreditations 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 exchange shall put in place a cancellation policy for WSP in public



domain. However, the exchange shall offer the WSP concerned an opportunity of being heard and take a decision on cancellation after considering the explanation of the WSP.

- c) A WSP that surrenders its accreditation or its accreditation is cancelled, shall attend to the following matters urgently:
  - i. All commodities for futures contract delivery shall be dispatched out of the warehouse or converted to physical commodities;
  - ii. All liabilities and debts vis-a-vis the Exchange, 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 customer complaints pertaining to any of its registered warehouses are pending for redressal.
- d) SD and FSD shall be returned in accordance with the Exchange's rules, keeping aside 10% of such deposits with the exchange, 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.
- e) A WSP which surrenders its accreditation with the exchange shall not be eligible to provide its services to the exchange for a period of 3 years.
- f) Once the accreditation of a WSP is cancelled or WSP is expelled by an exchange then it shall not be eligible to provide its services to any commodity derivatives exchanges for 3 years.
- g) Adequate notice intimation to general public / clients should be given through widely published newspapers and website etc. before accepting the surrender of WSP or cancellation/expulsion of the WSP.

**R. Business Continuity Plan:**

A WSP shall put in place, a business continuity plan and submit such plan to the exchanges.

**S. Actions against WSPs:**

- a) The Exchange may frame byelaws/rules/regulations/guidelines for its accredited WSPs to rectify correct their misconduct or misconduct on the



part of any of its approved warehouses used for storing goods for delivery on exchange platform. The exchanges 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:

- refuses to accept delivery without any bonafide reasons or, issues a falsified certificate of delivery;
- violates any of the Exchange's rules or limits the movement of a deliverable commodity into or out of the warehouse;
- discloses any confidential business information relating to a buyer or seller or a futures contract;
- provide inaccurate or incomplete information, conceal the truth of the facts;
- engages in the futures trading activities; or
- engages in any other behaviour in breach of the Exchange's rules; or
- any other offence not listed above.

However, the above actions may be initiated only after taking due approval from the Risk management Committee.

- b) 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 Exchange shall compensate the aggrieved client for any such losses that have been appropriately established by debiting the FSD of WSP held with the exchange, in accordance with its applicable rules, and WSP shall within 7 days replenish the FSD as required.

**T. Cold Storages:**

In case of any commodity which generally require storage in the cold storages, the exchanges shall ensure that such commodities are stored in cold storages only.

**U. Status report:**

- a) The Exchanges shall upload a status report on their websites by 5<sup>th</sup> of every month giving the 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 Exchange/WDRA with reason for the same, etc.

- b) The archives of such reports shall be available on the exchange website.
5. The exchanges shall put in place necessary arrangements for ensuring compliance with the provisions of the Regulation 44D(2) of SECC Regulations regarding guarantee for settlement of trades including good delivery. Further, the exchanges 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 wishing to take possession of their individually identified commodity and remove it from the accredited Warehouse(s).
6. The norms laid down as above shall come into effect from September 29, 2016. Wherever, incremental requirements have been prescribed over the exiting norms, the Exchanges shall ensure that the existing accredited WSPs/warehouses, as on the date of the circular, shall comply with the incremental requirements, if any, latest by March 31, 2017 (other than share capital and networth requirements for which separate date has been prescribed).
7. The Exchanges are advised to:
- bring the provisions of this circular to the notice of the members of the Exchange and also to disseminate the same on their website.
  - communicate to SEBI, the status of the implementation of the provisions of this circular in the Monthly Development Reports to SEBI.
  - to make necessary amendments to the relevant bye-laws, rules and regulations.
8. 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.
9. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in).

Yours faithfully,



भारतीय प्रतिभूति और विनिमय बोर्ड  
Securities and Exchange Board of India

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