भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/CDMRD/DMP/CIR/P/2017/61 **June 21, 2017**

To,

All Commodity Derivatives Exchanges,
All Custodians of Securities,
All Alternative Investment Fund (AIFs)

Dear Sir / Madam,

Sub: Participation of Category III Alternative Investment Funds (AIFs) in the commodity derivatives market

1. At present, institutional participants are not allowed to participate in the commodity derivatives market in India. Consequently the commodity derivatives markets in India lack the desired liquidity and depth for efficient price discovery and price risk management. In the past, various committees including those constituted by the Government of India have recommended participation of institutional investors in the commodity derivatives markets, for improving the quality of price discovery, thereby leading to better price risk management.

2. Taking cognizance of the fact that participation by Institutional investors would be conducive for the overall development of the commodity derivatives market, SEBI has held consultations with various stakeholders of this market. Further, based on the recommendations of the Commodity Derivatives Advisory Committee (CDAC) and feedback received from the market participants during the consultative process, it is now decided to allow the Category-III Alternative Investment Funds(AIFs) to participate in the commodity derivatives market, subject to the following conditions:

   2.1. 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 Exchanges from time to time.

2.2. Category III AIFs shall invest not more than ten percent of the investable funds in one underlying commodity.

2.3. 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 the Board from time to time.

2.4. 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).

2.5. If applicable, AIF shall also comply with RBI notification 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.

2.6. Category III AIF shall be subject to the reporting requirements as may be specified by SEBI.

2.7. The participation of Category III AIF in the commodity derivatives market shall be subject to the compliance of the provisions of SEBI (Alternative Investment Funds) Regulations, 2012 and circulars issued thereunder.

3. The provisions of this circular shall come into effect from the date of the circular.

4. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

5. The Exchanges are advised to:

   i. make necessary amendments to the relevant bye-laws, rules and regulations.
   ii. bring the provisions of this circular to the notice of the stock brokers 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.

6. This circular is available on SEBI website at www.sebi.gov.in under the category “Circulars”, “Info for Commodity Derivatives” and "Info for Alternative Investment Funds (AIFs)".

Yours faithfully,

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