भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

Consultation paper on Early Pay Out (EPO) of funds for Farmer Producer Organisations (FPOs)

Objective

1. The objective of this consultation paper is to seek public comments on the proposal to review the existing settlement framework for exchange transactions with a view to permitting early payout of funds for Farmer Producer Organisations (FPOs), subject to appropriate safeguards, while ensuring that settlement discipline, market integrity, and systemic stability are not compromised.

Background

2. Farmer Producer Organisations (FPOs) play an important role in aggregating agricultural produce of small and marginal farmers and facilitating their access to organised markets, including exchange-based trading platforms. Exchange traded commodity derivatives markets provide avenue for hedging and price risk management while ensuring transparent price discovery and assured settlement. At the same time, the standard settlement cycle results in a time lag between execution of trades and receipt of funds by selling FPOs.

3. When FPOs deposit stocks in accredited warehouses for sale on the exchange, they have to wait till the contract expiry for realisation of funds from that sale transaction. Due to this, FPOs face a liquidity crunch till their funds are realised and hence have to operate with limited liquidity. While aggregating produce, FPOs pay farmers almost immediately but have to wait for the stocks to be sold to realize payments, to enable fresh aggregations. Most FPOs operate with limited working capital and are required to make prompt payments to member farmers. Delays in realisation of funds may adversely affect their liquidity position, farmer confidence, and participation in exchange-based markets.

4. In this regard, various FPOs had also raised concerns that the waiting period from deposit to receiving money is substantial and they are without any funds in the interim period. Accordingly, the FPOs have also requested SEBI to consider reducing the timelines of release of payments to the FPOs post deposit of goods. Subsequently, SEBI has also received representations from

Clearing Corporations to facilitate Early Pay-Out of funds for FPOs when Early Pay-In of goods has been marked by them.

Recommendations of the Working Group and Commodity Derivatives Advisory Committee (CDAC)

5. The proposal was deliberated in the meeting of the Working Group (WG) on 'Review of current regulatory framework of delivery and settlement applicable to Agricultural Commodity Derivatives Segment', wherein, based on deliberations/ discussions, the WG recommended that Early Pay-Out of funds prior to contract expiry by members may be permitted subject to incorporation of appropriate/required guardrails, for example, FPO-wise or commodity-wise or member-wise concentration limits, for the purpose of implementation of this proposal in order to mitigate any additional risk to the system.

6. Further, the recommendation of the WG was also placed before the Commodity Derivatives Advisory Committee (CDAC) meeting held on Feb 26, 2026, wherein the CDAC was broadly in agreement with the same.

7. Subsequently, the matter was discussed with Clearing corporations for the safeguards to be put in place.

8. In view of the above, a draft circular has been prepared for introducing the Early Pay-Out framework for Farmer Producer Organisations (FPOs) in the Commodity Derivatives Segment. The said circular is placed at **Annexure - A**.

Request for Public Comments:

9. With reference to the aforementioned draft circular at para 8 above, public comments, along with rationale, are invited on:
   9.1. The proposed framework (detailed in the said circular placed at Annexure – A) for facilitating Early Pay-Out (EPO) for FPOs.
   9.2. Any other safeguards/ guardrails that should be included in the EPO facility.

Public Comments on this Consultation Paper:

10. Public comments are invited on the draft circular on **"Early Pay Out (EPO) of funds for Farmer Producer Organisations (FPOs)**". The comments/ suggestions should be submitted latest by **December 16, 2026**, through the online web-based form which can be accessed using the following link: **https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComme nts=yes**

11. In case of any technical issue in submitting your comment through the web based public comments form, you may contact the following through email to neetikar@sebi.gov.in, rashmis@sebi.gov.in and mrd_consultation@sebi.gov.in with the subject: **"Public comments on - Early Pay-Out (EPO) of funds for Farmer Producer Organisations (FPOs)**".

Issued on: November 25, 2026

Annexure - A

CIRCULAR

SEBI/HO/MRD/MRD-PoD-1/P/CIR/2026/___ **December xx, 2026**

To,

The Managing Directors / Chief Executive Officers,
All Recognised Clearing Corporations having Commodity Derivatives Segment

Sir / Madam,

Sub: Early Pay-Out (EPO) of funds for Farmer Producer Organisations (FPOs)

1. Farmer Producer Organisations (FPOs) play an important role in the Indian Agri Commodity Derivatives Segment. FPOs aggregate agricultural produce of small and marginal farmers and facilitate their access to organised markets, including exchange based trading platforms. In case of spot/ physical markets, FPOs can get the funds for their goods immediately on execution of trade. On the other hand, exchange traded commodity derivatives provide avenue for hedging and price risk management while ensuring transparent price discovery and assured settlement. At the same time, the standard settlement cycle results in a time lag between execution of trades and receipt of funds by selling FPOs.

2. In this regard, SEBI has received representations from Market Infrastructure Institutions (MIIs) and market participants stating that in order to facilitate participation and ease of doing business for FPOs in the Commodity Derivatives Segment, a mechanism for early release of funds to FPOs may be explored, subject to certain guardrails.

3. Based on the representations received from stakeholders, recommendation of the Working Group on Review of Current Regulatory Framework of Delivery and Settlement applicable to agricultural commodity derivatives segment and Commodity Derivatives Advisory Committee (CDAC), and with the objective of facilitating Ease of Doing Business for FPOs, it has been decided to introduce the framework of "Early Pay-Out (EPO) of funds for Farmer Producer Organisations (FPOs)".

4. The key elements of the Framework are as under:
   4.1 **Early Pay-Out (EPO):** Early pay-out refers to pay-out/ release of funds to an FPO client by the trading member before the expiry of the derivatives contract, thereby reducing the time

between the deposit of goods towards the sale of derivatives contract on the exchange platform and realisation of sale proceeds by the FPO client.

4.2 Subject to the conditions specified in this circular, the members may provide the facility of early pay-out of funds to their FPO clients.

4.3 **Conditions for Early Pay-Out of Funds:**

4.3.1 This facility shall be available only to FPO clients who are dealing in agri commodities derivatives segment on the exchange platform.

4.3.2 An FPO client would be eligible to avail the facility of Early Pay-Out of Funds only if it has made Early Pay-In (EPI) of goods in respect of sale transactions of derivatives contracts executed by it on the exchange platform.

4.3.3 EPO of funds may be made by the member only up to 30 days prior to the expiry of the derivatives contract in respect of which EPI has been made by the FPO client.

4.4 **Eligibility requirements for trading members to provide EPO facility to FPO clients:**

4.4.1 Only corporate trading members (**TM)** with a net worth of at least Rupees Three crore shall be eligible to offer facility of EPO of funds to their FPO clients.

4.4.2 The “net worth” for the purpose of this facility shall be calculated as per the net worth formula prescribed under SEBI (Stock Brokers) Regulations, 2026.

4.5 **Process Flow for EPO:** The process flow for EPO facility is as follows:

4.5.1 **Timeline:** Once EPI has been marked, the FPO client may place the request for early pay-out of funds up to 30 days prior to expiry of the commodity derivatives contract i.e. E-30 days (where E: expiry day of the contract).

4.5.2 **Request placement and verification:**

4.5.2.1 The request for early pay-out of funds may be made by the FPO client through its TM.

4.5.2.2 **Trade Verification:** The TM shall verify the request placed by the FPO client vis-à-vis the trade executed on the exchange platform.

4.5.2.3 **EPI Verification:**

4.5.2.3.1 The TM shall verify from the Clearing Corporation system that EPI has been marked.

4.5.2.3.2 The TMs shall then inform the Clearing Members about the request. Subsequently, the Clearing Members shall inform the Clearing Corporation about such request.

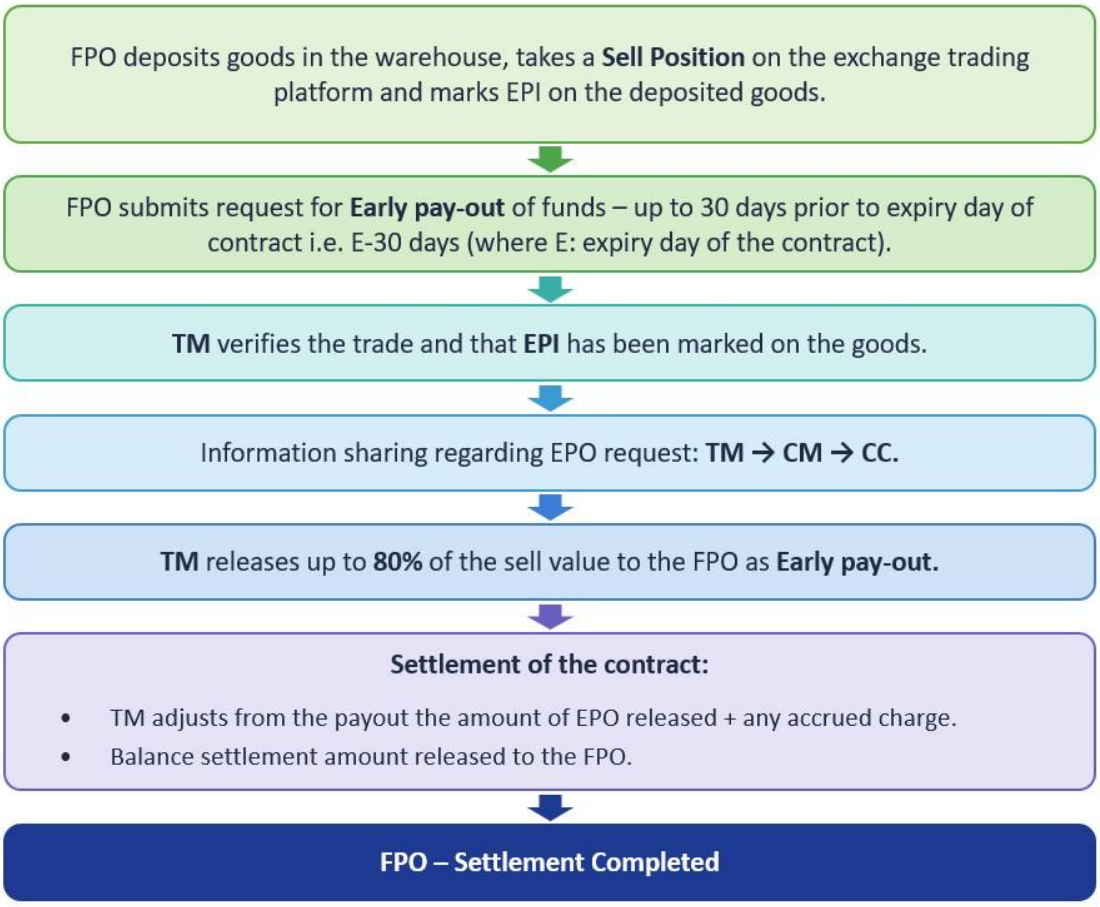
4.5.3 **Release of Funds:** The TMs may then release early pay-out to FPO clients against the goods marked for EPI and for which the sale transactions of derivatives contracts has been executed by the FPO client on the exchange platform.

4.5.3.1 A maximum of 80% of the value of the sale transaction of the derivatives contract executed on the exchange, may be released as early pay-out to the FPO clients.

4.5.3.2 TMs may levy some charges for extending the early pay-out facility to the FPO client for the period until the pay-out is settled upon expiry of the derivatives contract. Such charges and other terms and conditions relating to the EPO facility should be clearly informed to the FPO client in advance and consent from the FPO client should be obtained before release of early pay-out.

4.5.4 **Settlement:** At the time of settlement of the derivatives contracts, the TM shall adjust from the payout, the funds released as EPO to the FPO client and any accrued charge, and then release the balance settlement amount to the FPO client.

4.5.5 The detailed mechanism of the EPO is provided below:



4.6 **Source of Funds:**

4.6.1 For the purpose of providing EPO facility to FPO clients, the TM may use own funds or borrow funds from scheduled commercial banks and/ or NBFCs regulated by the Reserve Bank of India, borrow funds by way of Commercial Papers (CPs), by way of unsecured long term loans from their promoters and directors and/ or through issuance of listed Non-Convertible Debentures (NCDs) or any other debt instruments.

4.6.2 The borrowing by way of issuance of CPs/ debt securities shall be subject to compliance with appropriate RBI Guidelines. The borrowing by way of unsecured long term loans from the promoters and directors shall be subject to the compliance with appropriate provisions of the Companies Act, 2013.

4.6.3 Under no circumstances should funds belonging to other clients be used for the purpose of providing EPO facility by the TM.

4.7 **Maximum allowable exposure of the TM:**

4.7.1 The maximum allowable exposure of the TM towards this facility shall not exceed three times of its “net worth”, calculated as per the prescribed guidelines specified in this circular.

4.8 **Margin related provisions:**

4.8.1 The margin exemptions for initial margins, etc., and all other terms and conditions which have been prescribed for FPO clients availing EPI, shall be applicable as per the extant prescribed guidelines.

4.8.2 **Mark-to-Market Margin Handling:** With respect to Mark to Market Margin, CCs shall continue to compute obligations at clearing member level as per the extant prescribed guidelines. Upon final settlement of the contract, the net amount funded by CC towards MTM shall be adjusted from the balance pay-out due to the FPO client.

4.9 **Restriction on Squaring Off and responsibility of TMs and Stock Exchanges/ Clearing Corporations:**

4.9.1 The FPO clients after receiving early pay out shall not be permitted to square off such positions.

4.9.2 The TMs shall ensure that positions where early pay-out has been made are not squared off by the FPO clients.

4.9.3 The Stock Exchange/ Clearing Corporation shall put in place suitable mechanism to ensure that the positions where early pay-out is released under this facility are not squared off.

4.10 **Maintenance of Records:**

4.10.1 The TM shall maintain separate client wise accounts of the FPOs who have availed the facility of early pay-out.

4.10.2 The trading members to maintain records of the funds utilised for the purpose of providing EPO to the FPOs. The said records should contain details w.r.t the amount released to each client, the source of the funds used for early pay-out, etc.

4.10.3 The books of accounts and such records w.r.t the details of FPOs availing early payout shall be subject to audit. SEBI and stock exchange/s shall have the right to inspect the books of accounts and/ or any other documents maintained by the TM w.r.t the early pay-out.

4.11 **Due diligence and disclosure:**

4.11.1 A TM should take adequate care and exercise due diligence before providing early payout facility to any FPO client.

4.11.2 The TM shall disclose to the stock exchange/s, the details on gross exposure including name of the client, Unique Client Code, name and details of the contract/ commodity on which early pay-out of funds request has been made, on or before 12 noon on the following day of such request.

4.11.3 The stock exchanges shall also put in place a suitable mechanism to capture and maintain all relevant details including member-wise, client-wise, commodity-wise information and source of funds of the TMs, pertaining to early pay-out of funds on their exchange, both on daily as well as on cumulative basis.

5. The circular shall come into force within three months from the date of issuance of this circular.

6. The stock exchanges/ clearing corporations are advised to:

6.1 Make necessary amendments to the bye-laws, rules and regulations for the implementation of the above decision immediately.

6.2 Prepare a detailed SOP setting out the operational guidelines including disclosure formats for the EPO facility

6.3 Bring the provisions of this circular to the notice of the trading members/clearing members of the Exchange and also to disseminate the same on the website for easy access to the investors/ clients.

7. 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 Regulation 51 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

8. The Circular is issued with the approval of the competent authority.

9. This Circular is available on SEBI website www.sebi.gov.in under the category "Circulars" and "Info for Commodity Derivatives".

Yours faithfully,

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