



CIRCULAR

SEBI/HO/CDMRD/DMP/CIR/P/2017/84

July 25, 2017

To,

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

Sir / Madam,

Sub.: Position Limits for Agricultural Commodity Derivatives

1. SEBI vide its circular No. [CDMRD/DMP/CIR/P/2016/96](#) dated September 27, 2016 had updated and consolidated norms with regard to position limits of commodity derivatives including commodity-wise numerical value of overall client level open position limits.
2. SEBI has received feedback from the stakeholders that current numerical limits applicable for agricultural commodity derivatives are inadequate and not in consonance with the deliverable supply of the commodity. This circular is hereby issued in continuation of the abovementioned SEBI circular with an objective to outline a principle based methodology for revising the commodity-wise numerical value of overall client level open position limits for agricultural commodities with reference to the 'deliverable supply' of the such commodity available in the country during any specific year.
3. After due consultation with various stakeholders and on the basis of recommendations of CDAC (Commodity Derivatives Advisory Committee), following framework is hereby being prescribed for determination of numerical value of overall client level open position limits for agricultural commodities:
 - 3.1. **Categorization of commodities:** In any given year, based on the average of production data and import data of past five years on a rolling basis and keeping in view various extraneous factors that affect the trading in derivatives, the agricultural commodities shall be classified into three categories viz., sensitive, broad and narrow as below:-
 - 3.1.1. **Sensitive Commodity:** An agricultural commodity shall be classified as a sensitive commodity if it:



- 3.1.1.1. is prone to frequent Government/External interventions. These interventions may be in the nature of stock limits, import/export restrictions or any other trade related barriers; or
- 3.1.1.2. has observed frequent instances of price manipulation in past five years of derivatives trading.

3.1.2. **Broad Commodity:** An agricultural commodity shall be classified as 'Broad Commodity' if it is not 'Sensitive Commodity' and satisfies following criteria;

- 3.1.2.1. Average deliverable supply for past five year is at least 10 lakh Metric Ton (MT) in quantitative term and is at least INR 5,000 Crore in monetary term.

3.1.3. **Narrow Commodity:** An agricultural commodity which is not falling in either of the above two categories, viz 'Sensitive' or 'Broad' commodity, shall be classified as 'Narrow Commodity'.

3.2. **Deliverable Supply:**

The deliverable supply for an agricultural commodity would be "Production + Imports"

3.3. **Client Level Numeric Position Limits:** Numerical value of overall client level open position limits for each commodity shall be calculated from 'deliverable supply' available in a particular year, as per its category as given below:

Category of Commodity	Position limits
Broad	1% of the deliverable supply
Narrow	0.5% of the deliverable supply
Sensitive	0.25% of the deliverable supply

- 3.3.1. The numbers arrived based upon above formula should be rounded off downward to appropriate number of zeroes.

3.4. **Yearly Categorization of commodities and computation of position limits :**

- 3.4.1. All the national commodity derivatives exchanges shall jointly classify agricultural commodities into the afore-stated three



categories on annual basis as per the principles indicated at para No. 3.1 above.

- 3.4.2. Whenever an agricultural commodity of 'narrow' category is required to be re-categorized to 'broad' in subsequent years, such re-categorization may be possible only if both, average deliverable supply of such commodity for the past five years and monetary value thereof as mentioned at Para '3.1.2.1' exceeds by more than 5%.
- 3.4.3. For determination of '**deliverable supply**' of various agricultural commodities for each year, the national commodity derivatives exchanges shall take into account the latest production figures of such commodities as annually declared by relevant government sources or from the latest 'third advance estimates' of agricultural commodities published by the Ministry of agriculture or any other yearly estimates/assessments of production and imports made by any governmental agencies such as Ministry of Agriculture, Ministry of Textiles, Ministry of Commerce, different statutory boards/associations etc., concerned with different agricultural commodities. The national commodity derivatives exchanges shall indicate the sources from which the production and import / export data have been obtained for the purpose of determination of 'deliverable supply' of different agricultural commodities.
- 3.4.4. Every year, for each agricultural commodity that is being traded in the derivatives market, all national commodity derivatives exchanges shall jointly complete the exercise of determination of 'deliverable supply, categorization/re-categorization of commodities and computation of numerical value of position limits. Numerical values of position limits for any agricultural commodity shall be revised only if the computation results in a revision in the value by at least 5% compared to previous year's limits. Exchanges shall, after prior intimation to SEBI, notify such details to the market through their respective websites sufficiently in advance and latest by **31st of July** (unless extended by SEBI under exceptional circumstances) of every year and revised limits shall become applicable for all running contracts with effect from **1st of September** of every year.



3.4.5. However for the current year, given the paucity of time, all the national commodity derivatives exchanges are directed to complete this exercise at earliest and notify the same to the market within 20 days of the circular under prior intimation to SEBI and the revised limits shall become applicable for all running contracts with effect from October 1, 2017

3.4.6. In the interest of trade and public, SEBI may exercise its due discretion in modifying the aforesaid position limits at any time during the year.

4. **Member Level Position Limits for Agricultural Commodities:** As already prescribed in Para '5.3' of SEBI Circular dated September 27, 2016, the overall member level position limits for an agricultural commodity across all the contracts shall be 10 times the numerical value of client level position limit or 15% of the market-wide open interest, whichever is higher.

5. **Exchange-wide Position Limit for Agricultural Commodities:** SEBI vide paragraph '5.5' of circular dated September 27, 2016 has prescribed that Exchange-wide gross position limit shall be capped at 50% of the annual estimated production and imports of the commodity. This paragraph '5.5' of the said earlier circular shall be substituted by the following paragraph:-

“For any agricultural commodity, the overall Exchange-wide gross position limit on open interests shall be 50% of its 'deliverable supply' determined for the relevant year, which shall also be jointly notified by Exchanges along with client level numerical limits.”

6. **Clubbing of position limits:** Broad guidelines for clubbing of open positions have been prescribed vide Para '6' of SEBI Circular dated September 27, 2016. In this regard all national commodity derivatives exchanges are directed to jointly formulate a uniform guidelines and disclose the same to the market within 30 days from the date of this circular.

7. There is no change in norms with regard to near month position limits, computation of open positions, monitoring of position limits or any other norm earlier prescribed by SEBI for position limits.

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



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Securities and Exchange Board of India

9. The Exchanges are advised to:
- take steps to make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the same.
 - 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.
10. 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.
11. This circular is available on SEBI website at www.sebi.gov.in under the category "Circulars", "Info for Commodity Derivatives"

Yours faithfully,

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