



CIRCULAR

SEBI/HO/CDMRD/DMP/CIR/P/2017/116

October 16, 2017

To,

All Commodity Derivatives Exchanges,

Dear Sir / Madam,

Sub: Criteria for Settlement Mode of Commodity Derivative Contracts

1. In order to effectively discharge their hedging function, commodity derivative contracts must be anchored to their respective underlying physical markets. An appropriate settlement mode and/or presence of other supporting conditions play a crucial role in ensuring convergence of prices between the derivatives market and the spot market.
2. In view of the above, in consultation with the Commodity Derivatives Advisory Committee (CDAC) the following broad guidelines are being specified for deciding appropriate settlement mode for commodity derivatives contracts:
 - 2.1. The first preference of settlement type shall always be by the way of **physical delivery**.
 - 2.2. Any exemption from the above i.e. cash settlement of commodity derivatives contract, may be considered only in following scenarios with a proper justification –
 - 2.2.1. Physical delivery is difficult to implement due to any reason, which may inter-alia include the following:
 - 2.2.1.1. commodity is intangible; or
 - 2.2.1.2. commodity is difficult to store may be due to low shelf life or inadequate storage infrastructure; or
 - 2.2.1.3. it is difficult to physically handle and transport the commodity due to inadequate logistics and transport infrastructure.
 - 2.2.2. There is availability of reliable benchmark price of the commodity which can be used as reference for settlement price. Exchanges shall satisfy



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themselves that the reference spot price is robust – fair indicator of prevailing prices and not susceptible to any distortion/manipulation.

2.3. Subject to the above conditions, both cash settled and physically settled derivative contracts on the same commodity may also be considered for trading, in case basis of price discovery of the proposed contracts is different.

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, if any.
 - 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.
6. 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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