FAQs ON COMMODITY DERIVATIVES

Disclaimer:

These FAQs are general in nature and are meant for general reading and educational purpose only. Information and statistics contained in these FAQs, wherever necessary have been obtained from reliable sources. These FAQs are updated as on December 2023. Readers are requested to seek professional advice for queries concerning the meaning or application of a particular act or rule or regulation or circular referred herein.

Basics of Commodity Derivatives Market:

1. What is a commodity?

A commodity is generally considered to be any kind of tangible good, a product or material that can be bought and sold. According to the Securities Contracts (Regulation) Act, 1956 (SCRA) "goods" mean every kind of movable property other than actionable claims, money and securities. Commodities are mostly used as inputs in the production of other goods or services. Grains, Gold, Crude Oil, Copper, Natural Gas are some examples of commodities.

2. What is a commodity market or spot market?

A commodity market is a marketplace for buying, selling, and trading raw materials or primary products. The spot market is where financial instruments, such as commodities, currencies, and securities, are traded for delivery either immediately or within few days. Delivery is the exchange of cash for the financial instrument.

3. Who regulates the commodity/spot market in India?

The spot market is regulated by the respective state governments. The Union Government empowers State Governments and Union Territories, by way of notifying orders under the Essential Commodities Act (EC Act), to specify various measures in this regard.

4. What is a Derivative?

A Derivative is a financial instrument whose value is based upon the value of an underlying asset like equities, currency or commodities or other financial assets. Most common types of derivative instruments are forwards, futures, options, and swaps.

As per clause (ac) of section 2 of Securities Contracts (Regulation) Act, 1956 (SCRA), “derivative”— includes

(A) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;
(B) a contract which derives its value from the prices, or index of prices, of underlying securities;]
(C) commodity derivatives; and
(D) such other instruments as may be declared by the Central Government to be derivatives.

5. What is a commodity derivative contract?

A derivative contract, which has a commodity as its underlying, is known as a 'commodity derivative' contract. According to clause (bc) of Section 2 of the SCRA, commodity derivative means a contract:

(i) for the delivery of such goods, as may be notified by the Central Government in the Official Gazette, and which is not a ready delivery contract; or

(ii) for differences, which derives its value from prices or indices of prices of such underlying goods or activities, services, rights, interests and events, as may be notified by the Central Government, in consultation with the Board, but does not include securities as referred to in sub-clauses (A) and (B) in the definition of Derivatives.

6. What is a commodity derivatives market or segment?

A commodity derivatives market or a commodity derivative segment of a recognised stock exchange is the electronic platform of a recognised stock exchange wherein commodity derivatives are transacted.

7. Who are the recognised stock exchanges that offer trading in commodity derivatives segment in India?

The following recognised stock exchanges in India offer trading facility in commodity derivatives segment:

Sr. No.	Name of Stock Exchange	Address and Website
1	Multi Commodity Exchange of India Ltd. (MCX)	Exchange Square, Suren Road, Chakala, Andheri (E), Mumbai - 400093. Website: https://www.mcxindia.com
2	National Commodity & Derivatives Exchange Ltd. (NCDEX)	Ackruti Corporate Park, 1st Floor, Near G.E.Garden L.B.S. Marg, Kanjurmarg (West), Mumbai - 400 078. Website: http://www.ncdex.com
3	National Stock Exchange of India Ltd. (NSE)	Exchange Plaza, C-1, Block G,

		Bandra - Kurla Complex, Bandra (East), Mumbai - 400051. Website: http://www.nseindia.com
4	BSE Ltd.	PJ Tower, Dalal Street, Mumbai - 400001. Website: http://www.bseindia.com

8. What is Integration of trading in commodity derivatives market with other segments of securities market? How and when did this Integration happen?

Commodity derivatives were initially traded on separate exchanges, that specialise in trading in Commodity Derivatives exclusively, such as MCX and NCDEX. After October 01,2018, a single exchange has been permitted to operate various segments such as equity, equity derivatives, commodity derivatives, currency derivatives, interest rate futures & debt etc. For example, post integration, NSE and BSE launched a specialised segment for commodity derivatives trading.

To permit trading of commodity derivatives and other segments of securities market on single exchange, suitable amendments to Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporation) Regulations, 2012 (“SECC Regulations”) were made and the amendments to the SECC Regulations were effective from October 1, 2018.

9. What are the types of commodity derivatives traded in the Indian commodity derivatives market?

Generally, the commodity derivatives traded in the Indian commodity derivatives market are classified into two broad categories viz. Agricultural commodity derivatives and Non-Agricultural commodity derivatives. These are detailed below:

9.1. Agricultural commodity derivatives

Agricultural commodity derivatives, have the underlying asset as an agricultural commodity, such as cereals (wheat, rice), pulses (chana, tur), spices (jeera, pepper) and oilseeds (soybean, castor).

9.2. Non-Agricultural commodity derivatives

Non - Agricultural commodity derivatives, have the underlying asset as a non- agricultural commodity, such crude oil, gold, silver, Aluminium, Iron, etc. The non- agricultural commodities are generally natural resources that are mined, extracted or processed. Various types of Non-Agricultural Commodities are as follows:

9.2.1. Bullion and Gems: This segment predominantly consists of precious metals like gold, silver and precious gems like diamond.

9.2.2. Energy commodities: This segment includes commodities that serve as major energy sources. These commodities are traded in both the unprocessed form in which they are extracted or in various refined forms or by-products of refining / processing. Crude oil, natural gas etc. are examples of energy commodities.

9.2.3. Metal commodities: This segment includes various non-precious metals that are mined or processed from the mined metals such as Aluminium, Copper, Iron, Lead, Nickel, Zinc, etc.

10. What is a notified commodity?

The Central Government in exercise of powers conferred by clause (bc) of Section 2 of the SCRA, vide Notification No. S.O. 3068(E) dated September 27, 2016 has notified the list of commodities, wherein trading in commodity derivatives segment of stock exchanges is permitted. The list of 91 notified commodities can be viewed at the link below:

https://www.sebi.gov.in/legal/gazette-notification/sep-2016/list-of-goods-under-section-2-bc-of-scra-1956_45545.html

11. What are the recognized Clearing Corporations offering clearing and settlement in commodity derivatives segment in India?

The following recognized Clearing Corporations in India offer clearing and settlement in commodity derivatives segment:

Sr. No.	Name of Clearing Corporation	Address and website
1	Multi Commodity Exchange Clearing Corporation Limited (MCXCCL)	Exchange Square, Suren Road, Andheri (East), Mumbai – 400093. Website : https://www.mcxccl.com
2	National Commodity Clearing Limited (NCCL)	Ackruti Corporate Park, 1st Floor, Near G.E.Garden L.B.S. Marg, Kanjurmarg (West), Mumbai - 400 078. Website: http://www.ncdex.com
3	NSE Clearing Limited (NCL)	Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai, Maharashtra 400051. Website : http://www.nscclindia.com
4	Indian Clearing Corporation Limited (ICCL)	PJ Towers, Dalal Street, Fort, Mumbai – 400 001. Website: https://www.icclindia.com

12. **Who are the stakeholders/participants in the commodity derivatives market?**

The stakeholders/participants in the commodity derivatives market are farmers, processors, stockists/wholesalers/retailers, brokers, importers, exporters, traders/merchants, arbitrageurs, retail customers, Government agencies (i.e. NAFED, FCI) and financial investors such as Mutual Funds, Category III Alternative Investment Funds (AIFs), Foreign Portfolio Investors (FPIs) & Portfolio Managers.

13. **What are the categories of players in the commodity derivatives market?**

The players in the commodity derivatives market can be classified into two major categories - risk givers and risk takers. Risk givers or hedgers refer to those who have a risk due to physical exposure to the commodity, and are looking to pass on their risk by taking a sell or buy position on Stock Exchange. Risk takers or investors refer to those who do not have physical exposure to the commodity, but who are willing to take a buy or sell position or risk with the aim of making gains from the fluctuations/ the volatility in the market. Financial investors and arbitrageurs are the investors in this market.

Players	**Represented by**	**Objectives**	**Implications**
Hedgers	Manufacturers, traders, farmers / Farmer Producer Companies (FPCs) / Farmer Producer Organisations (FPOs), processors, exporters, other value chain participants of a Commodity.	To reduce risk due to price fluctuations in the spot market.	Hedging implies taking position in the futures markets that is equal and opposite to the physical market position, such that the overall net market risk is reduced, or eliminated.
Financial Investors	Traders including day traders, position traders, and market makers who are generally not having an offsetting position in the physical market.	To anticipate the future price movement and take suitable position in the futures market with an intent to make a profit.	Willingly accept price risk in order to profit from price changes.
Arbitrageurs	Arbitrageurs	To earn riskless profit by buying and selling in different markets at the same time to profit from price Discrepancies.	Aim to earn risk-free profit.

14. Why do we need financial investors in commodity derivatives market?

The financial investor is primarily a price risk taker and plays an important role by contributing to the efficacy of the process of price discovery in futures markets. For effective price discovery, the financial investor should have adequate knowledge of the intrinsic factors governing supply and demand of the commodity in the market, capacity to make intelligent appraisal of market conditions, interpret factual data and forecast the futures course of price with some degree of accuracy. Financial investors also add to liquidity and depth of the market.

Regulatory framework for Commodity Derivatives Market

15. Who regulates the commodity derivatives market in India?

Securities and Exchange Board of India (SEBI) regulates the commodity derivatives market in India since September 28, 2015. Before September 28, 2015, the Commodity derivatives market was regulated by erstwhile Forward Markets Commission (FMC).

16. What are the benefits of a regulated commodity derivatives market?

The commodity derivatives market is regulated to ensure fairness and transparency in trading, clearing, settlement and management of the market institutions including stock exchanges, clearing corporations, and broking houses, and also to maintain the integrity of the marketplace, so as to protect and promote the interest of various stakeholders and investors.

<u>Details related to Commodity Derivatives trading</u>

17. How commodity derivatives trading takes place?

Commodity derivatives trading involves trading of standardised commodity derivative (futures and options) contracts of agricultural and non-agricultural commodities on the electronic platform of recognised stock exchanges, subject to approval of SEBI and extant regulations and laws governing the commodity derivatives market.

18. What are the commodities suitable for commodity derivative trading?

There are 91 commodities, which have been notified by the Central Government for commodity derivative trading. These commodities fulfil following requirements:

- The commodity should have relatively large demand and supply
- Prices should be adequately volatile
- The commodity should be free from substantial control from Govt. regulations in terms of supply, distribution and prices
- The commodity should be capable of standardisation and gradation

- The commodity should preferably have a long shelf-life

Futures trading can be conducted in any of the notified commodities, meeting the above requirements, subject to the approval of SEBI.

19. What are the requirements for trading in commodity derivatives market?

Trading in commodity derivatives can be undertaken only through a SEBI registered stock broker. For this purpose, following steps may be undertaken to start trading:

- ➢ Choosing a SEBI registered stock Broker who offers commodity derivative trading facility
- ➢ Opening Trading Account with a SEBI registered stock broker and completing the process of Know Your Client (KYC)
- ➢ Understanding the contents of Risk Disclosure Document (RDD)
- ➢ Seeking allotment of Unique Client Code (UCC) from the Stock Broker
- ➢ Depositing of required Margin money with the stock Broker only through a bank and to obtain acknowledgement for the same.
- ➢ Opening a Bank account or allotting an existing bank account for funds transfer/receipt.
- ➢ Opening an account with Repository to facilitate delivery

20. What are the trade timings for Commodity Derivatives segment?

Commodity derivatives trading involves trading of agricultural and non-agricultural commodities. Broadly, the trade timings are given as under: -

Sr. No.	Commodity Category	Trade Start Time	Trade End time	
			After Start of US Day light Savings in Spring Season (March)	After End of US Day light Savings in Fall Season (November)
1	Non-Agricultural Commodities	09:00 AM	11:30 PM	11:55 PM
2	Agricultural and Agri- processed Commodities (with international reference linkages)	09:00 AM	09:00 PM	
3	Agricultural and Agri- processed Commodities	09:00 AM	05:00 PM	

	(without international reference linkages)		

The Commodity derivatives market time is divided into two sessions - morning and evening. The morning session starts at 9:00 am and lasts till 5:00 pm. The evening session is from 5:00 pm to 11:30 / 11:55 pm.

21. What are the various types of costs associated with trading in commodity derivatives market?

The various types of costs associated with trading in the commodity derivatives market include the following:
- Brokerage Charges
- Commodity Transaction Tax
- Stock Exchange Transaction Charges
- GST (as applicable)
- SEBI Turnover fee
- Stamp Duty
- Other Statutory Levies, if any

Apart from the above, there may be charges associated with storage, handling and delivery of commodities if one takes/ makes delivery in stock exchange-accredited warehouses.

The contract note issued by stock brokers/ members to their clients provides details of the costs applicable on trading in commodity derivatives.

22. What is Contract Specification in Commodity Derivatives trading?

A contract specification in Commodity Derivatives contains the information related to the particular contract i.e. type of contract, name of the commodity, unit of trading lot/delivery lot, quality, delivery centre, delivery logic, Daily Price Limit, Final Settlement Price, position limits etc. to ensure good delivery.

23. What is Position Limit in Commodity Derivatives trading?

The maximum number of contracts on a single commodity derivatives contract which can be held by an investor or group of investors acting jointly is called position limit. Position limit is imposed to preclude any entity from exerting undue control over a particular market.

24. What is deliverable supply in Agricultural Commodity Derivatives trading?

Deliverable supply is the total supply of a commodity that meets the delivery specifications of a futures contract. The deliverable supply for an agricultural commodity would be “Production + Imports” of that particular commodity.

25. What is a commodity index? How is it different from SENSEX or NIFTY50?

A commodity index is an index of prices of constituent commodity futures contracts. Thus, while the constituents of a stock index such as Nifty or Sensex are prices of underlying stocks, in case of a commodity index, the underlying constituents are commodity futures. As the constituent futures contracts have expiry dates, there is a need for regular change of underlying constituent contracts of a commodity index from expiring contracts to new contracts, which is called 'roll-over'. The presently available commodity indices on agricultural and non-agricultural commodities is provided in the table below:

Sr. No.	Stock Exchange	Name of Commodity Index
1	MCX	**(i) MCX iCOMDEX Bullion Index:** This index is based on the liquid gold and silver futures contracts traded on MCX. This Index is an efficient tool for investors looking to manage their investments in bullion. Long-term investors can use this Index to gain from exposure to the bullion sector as a whole. **(ii) MCX iCOMDEX Base Metal Index:** This index which includes the liquid Base Metal futures contracts traded on MCX, viz. futures of Aluminium, Copper, Lead, Nickel and Zinc. It is an efficient tool for investors looking to manage their investments in Base Metals. **(iii) MCX iCOMDEX Energy Index:** This index is based on the liquid Crude oil and natural gas futures contracts traded on MCX. The Index is an efficient tool for investors looking to manage their investments in energy sector.
2	NCDEX	**(i) NCDEX Agridex:** It is a return based agricultural futures index which tracks the performance of ten liquid commodities traded on NCDEX platform. It serves as a benchmark and is used for understanding the performance of the underlying commodities. **(ii) NCDEX Guarex:** It provides real-time commodity futures price index, designed to provide exposure of Guar Complex Commodity to market participants. The index is based on the liquid Guargum and Guarseed futures contracts traded on NCDEX. It acts as an important tool in benchmarking and trading for this market. **(iii) NCDEX Soydex:** It provides real-time commodity futures price index, designed to provide exposure of Soy Complex Commodity to market participants. The index is based on the liquid Soybean and Refined Soy Oil futures contracts traded on NCDEX. It acts as an important tool in benchmarking and trading for the market.

Types of Commodity Derivatives contracts

26. What are the various types of contracts in Commodity Derivatives market?

There are two types of Commodity derivative contracts traded in India:

- Futures
- Options

26.1. Futures Contract

A futures contract is an agreement between the buyer and the seller, entered on a Stock Exchange, to buy or sell a specified amount of an underlying asset, at a certain time in the future, for a price that is agreed today. The buyer enters into an obligation to buy and the seller is obliged to sell, on a specific date. Futures are standardized in terms of size, quantity, grade and time, so that each contract traded on the stock exchange has the same specification.

26.1.1. Futures on Commodity Indices

A commodity index is an index of prices of constituent commodity futures contracts. Thus, while the constituents of a stock index such as Nifty or Sensex are prices of underlying stocks, in case of a commodity index, the underlying constituents are commodity futures. As the constituent futures contracts have expiry dates, there is a need for regular change of underlying constituent contracts of a commodity index from expiring contracts to new contracts, which is called ‘roll-over’.

26.2. Options

An option is a derivative contract which gives the buyer (the owner or holder of the option) the right, but not the obligation, to buy or sell an underlying. For owning this right, the option holder pays a price (called ‘option premium’) to the seller of this right. The seller (writer) of option, on the other hand, bears the obligation to honour the contract should the buyer choose to exercise the option. There are two types of options:

26.2.1. Call Option

A Call option gives the holder the right to buy (but not obligation) at a certain price (known as a strike price) by a certain date (known as an expiration date).

26.2.2. Put Option

A put option gives the holder the right to sell (but not obligation) at a certain price by certain date (known as expiration date).

26.3. Options on Commodity Futures

An option on a futures contract gives the holder the right, but not the obligation, to buy or sell a specific futures contract at a strike price on or before the option's expiration date. SEBI has permitted options for trading on a stock exchange only on those commodity futures as underlying, which are traded on the stock exchange platform. On exercise, option position shall devolve into underlying futures position and all such devolved futures positions shall be opened at the strike price of the exercised options.

26.4. Options in Goods

Stock exchanges are permitted to introduce option contracts with underlying as goods. Only those goods are eligible as underlying for these options, on which futures contracts are already trading on the stock exchange or exchange is proposing to launch the futures contracts on or before the day of launching option in those goods. This is in addition to the options on commodity futures.

These option contracts shall have same quality specification, delivery centres, final settlement price methodology etc. as in the case of corresponding futures contract. Options in Goods provide a settlement mechanism were contracts settle on spot price and all open positions convert into physical delivery at expiry. This options contract allows FPO or farmer to sell his/her crops on a particular date in the future and at a particular price, by paying a small premium amount. If the price goes higher than the determined price in future, the farmer can still sell at market price by coming out of the option, only at the loss of a small premium. The options in goods would benefit the farmer for realizing better prices for their crops with minimal risk.

26.5. Options in Commodity Indices

Stock exchanges are permitted to introduce option contracts with underlying as commodity indices. Option contracts may be introduced on those indices on which futures contracts are available. On exercise, options contract shall be settled in cash. Options would be exercised as European style options. Each option expiry shall have minimum three strikes available viz., one each for In the Money (“ITM”), Out of the Money (“OTM”) and At the Money (“ATM”). The size of the contract shall be at least INR 5 lakh at the time of introduction in the market.

27. What is a long position in futures market?

A long position is the buying of a commodity futures contract with the expectation that its value will rise in future or to hedge against a possible rise in price of the underlying. An investor with a long position has a bullish view about the underlying market. For example, an investor who bought 10 MT (Metric Ton) of Guar Seed in commodity futures market is said to be having long position/bullish in Guar Seed.

28. What is a short position in futures market?

A short position is the selling of a commodity futures contract with the expectation that its value will fall in future or to hedge against a possible fall in price of the underlying. An investor with a short position has a bearish view about the underlying market. For example, an investor who sold 10 MT of Guar Seed in commodity futures market is said to be having short position/bearish in Guar Seed.

29. What is meaning of 'basis' in commodity derivatives trading?

Basis is the difference between the spot price and the futures price (Basis = Spot price – Futures price). There are two types of basis: Positive basis that indicates a futures discount (Backwardation) and Negative basis that indicates future premium (Contango).

Role of Market Infrastructure Intermediaries (MIIs) in Trading, Clearing and settlement

30. What is the role of a Stock Exchange in commodity derivatives trading?

The Stock Exchange operating under the regulatory framework of SEBI facilitates derivatives trading in commodities. It offers a SEBI approved standardised derivatives contract on its trading platform. The contract specifications are designed by the Stock Exchange in consultation with various stakeholders. The trading platform of the Stock Exchange converges the bids and offers emanating from various geographically dispersed locations and enables the matching of the same.

31. What is daily settlement price?

Daily Settlement Price(DSP) for commodities futures contracts is its Close Price on the trading day. The daily profits/losses of the members are settled through using the daily settlement price.

The logic for calculation of Closing Price is as follows:

i. Close Price is calculated as the weighted average price of all trades done during the last 30 minutes of a trading day.
ii. If the number of trades during last 30 minutes are less than 10, then it is based on the weighted average price of the last 10 trades executed during the day.

iii. If the number of trades done during the day are less than 10, then it is taken as the weighted average of all the trades executed during the day.
iv. If no trades have been executed in a contract on a day, then the official closing price of the last day is taken as the official Closing Price.

Provided that in such cases, the Stock Exchange shall have the right to modify the Closing Price for the purpose of marking to market and making the open positions closer to the market.

The Daily Settlement Price (DSP) is disseminated by the Clearing Corporation at the end of every trading day. The DSP are reckoned for marking to market (MTM) all open positions.

32. What is Daily price limit?

The Daily Price Limit (DPL) in commodity futures market serves an important function of defining the maximum range within which the price of a commodity futures contract can move in one trading session. The defined daily price limits protect investors from sudden and extreme price movements and provides cooling-off period to re-assess the information and the fundamentals impacting the price of the commodity futures contract. DPL is prescribed in a contract specification and it varies from commodity to commodity.

Agricultural commodity derivative contracts are segregated into “broad”, “narrow” and “sensitive” categories.

An agricultural commodity shall be classified as a sensitive commodity if it 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 has observed frequent instances of price manipulation in past five years of derivatives trading.

An agricultural commodity shall be classified as ‘Broad Commodity’ if it is not ‘Sensitive Commodity’ and satisfies criterias such as, 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.

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’.

The DPL shall be linked to the said classification of agricultural and agri-processed goods. For any commodity futures contracts, the stock exchange at its discretion may prescribe DPL narrower than the slabs prescribed based upon reasons including analysis of price movements, findings pertaining to surveillance etc.

The DPL slabs prescribed for commodity futures contracts based on agricultural and agri-processed goods is as under:

Category	Initial Slab	Enhanced Slab	Aggregate DPL
Broad	4%	2%	6%
Narrow	4%	2%	6%
Sensitive	3%	1%	4%

Once the initial slab limit is breached in any contract, then, after a cooling-off period of 15 minutes, this limit shall be increased further by enhanced slab, only in that contract. During the cooling-off period of 15 minutes, the trading shall be permitted, within the initial slab limit. After the DPL is enhanced, trading shall be permitted throughout the day within the enhanced Aggregate DPL.

The DPL slabs prescribed for Commodity futures contracts type wise on non-agricultural goods are as under:

Category	Initial Slab	Enhanced Slab	Aggregate DPL	Trading beyond Aggregate
Energy	6%	3%	9%	Yes
Metals and Alloys	6%	3%	9%	Yes
Precious metals	6%	3%	9%	Yes
Gems and Stone	3%	3%	6%	No
Other Non-agricultural Commodities	6%	3%	9%	No

33. What is delivery period as specified by the Stock Exchange?

A Futures Contract enters its delivery period from such date of its expiry month, as specified by the Stock Exchange in the relevant contract launch circular. The futures contract can be performed by delivery of the underlying commodity within this period on designated tender days fixed by the Stock Exchange.

Expiry month is the month during which a derivative contract expires i.e. month in which the expiry date of the contract falls. The expiry date of each commodity futures contract is mentioned in the contract specification of the particular futures contract.

34. What is staggered delivery period?

The staggered delivery period is the period beginning a few working days prior to expiry of any contract and ending with expiry, during which sellers/ buyers having open position may submit an intention to give/ take delivery. All compulsory delivery commodity futures contracts (both agricultural and non-agricultural commodities) have a staggered delivery period, the minimum duration of which is at least five working days. Stock Exchanges have the flexibility to fix a higher duration of staggered delivery period for any commodity futures contract as deemed fit.

35. What are the changes introduced by SEBI with respect to Staggered delivery period in Commodity Futures Contracts?

It was observed that there was no uniformity in the length of staggered delivery period for commodity futures contracts across stock exchanges even for the same commodities. Thus, it was decided that all compulsory delivery commodity futures contracts (agriculture commodities as well as non-agriculture commodities) shall have a similar staggered delivery period.

Accordingly, SEBI vide circular dated July 26, 2019 mandated that the minimum duration of staggered delivery period shall be at least five working days.

36. What steps are undertaken by SEBI to ensure good delivery in Commodity derivatives segment?

SEBI vide circular dated April 16, 2021, prescribed the guidelines for warehousing norms for agricultural/agri-processed goods and non-agricultural goods (only base/industrial metals) underlying a commodity derivatives contract, having the feature of physical delivery.

The norms prescribed in this Circular are the minimum requirements/standards which the Clearing Corporation will set out for compliance by its accredited WSPs and assayers and are to be complied with in conjunction with the applicable norms laid down by Warehousing Development and Regulatory Authority(WDRA) or any other government authority overseeing the warehousing or storage infrastructure and its ancillary services for the respective goods.

In this regard, Regulation 43A of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 ("SECC Regulations") provides, inter-alia, that every recognized Clearing Corporation providing clearing and settlement services for commodity derivatives shall ensure guarantee for settlement of trades including good delivery.

Explanation: For the purpose of this regulation, “good delivery” shall mean the delivery of goods that is in proper form to transfer title and is of the quality and quantity as per contract specifications of the concerned exchange.

The Clearing Corporations shall put in place necessary arrangements for ensuring compliance with the provisions of Regulation 43A of SECC Regulations. The task of accreditation of WSP is entrusted with the Clearing Corporation(CC). While accrediting of WSPs, Clearing Corporation has to ensure that their accredited storage facilities have exercised due diligence for safety and quality of the goods deposited with them for the purpose of good delivery on exchange platform.

37. What is a Delivery Order?

A seller of commodity futures has the option to tender deliveries during the delivery period. All deliveries tendered on designated tender days shall be in the form of `Delivery Orders'. The Delivery Orders shall be submitted in the format prescribed by the Stock Exchange by the specified time and on the specified tender days.

38. What was the reason to align trading lot and delivery lot?

In the commodity derivatives market, differential "trading lot size" and "delivery lot size" of some commodity derivatives contract was putting participants in disadvantageous position. Hence, SEBI vide its circular dated January 23, 2019 mandated that the stock exchanges shall follow policy of having uniform trading and delivery lot size for the commodity derivatives contracts and provided for exemption from the same, only on the stock exchange submitting a detailed rational explanation/report, for keeping different lot size for trading and delivery with respect to any contract.

39. What is international reference pricing?

In the commodity derivatives market, a benchmark is defined as an external reference price (i.e. outside the control of the contracting parties) that is acceptable to both the buyer and the seller to be used directly or as a base for establishing the agreed price in a contract. Crucially, for a benchmark to be recognised and adopted, it needs to reflect the actual prices being agreed /traded across the market place. For e.g. the prices of Indian crude oil futures contract are benchmarked to the West Texas Intermediary Crude Oil futures traded on the CME Group (NYMEX division) or to the Brent Crude Oil futures traded on the Intercontinental Stock Exchange.

40. What are major factors affecting movement of prices of commodities in the commodity derivatives trading?

The major factors affecting movement of prices of commodities include demand and supply for the commodity, seasonality, weather, relevant news, geo-political developments, macro-economic conditions, currency movements, etc. In case of most commodities, the trading prices are also influenced by global factors and may be linked to prices in international stock exchanges.

41. How do spot prices and futures prices of commodities converge?

The threat of delivery induces the convergence of spot and futures prices through arbitrage process. It is assumed that during existence of contract, spot and futures prices would move in tandem (generally approaching each other and with futures price moving generally above the spot price due to cost of carry) and finally converge into each other at the time of maturity.

For example, suppose the futures price of a commodity is trading significantly higher than the spot price and cost of carry. In such cases, traders will have the arbitrage opportunity of shorting futures contracts, buying the underlying asset and then making delivery. In this situation, the trader locks in profit because the amount of money received by shorting the contracts already exceeds the amount spent buying the underlying asset to cover the position. In terms of supply and demand, the effect of arbitrageurs shorting futures contracts causes a drop in futures prices because it creates an increase in the supply of contracts available for trade. Subsequently, buying the underlying asset causes an increase in the overall demand for the asset and the spot price of the underlying asset will increase as a result. Hence with arbitraging and cost of carry tending towards zero as the contract nears expiry date, futures prices and spot prices moves towards convergence. Finally, on contract expiry date, with no cost of carry, spot price and futures prices converge.

42. What is the role of Clearing Corporation?

Clearing Corporation is an entity that undertakes the post-trade activity of clearing and settlement of trades undertaken on a recognized stock exchange, while ensuring risk management. The clearing corporation, inter alia:

- collects different types of margins
- computes obligations of members
- arranges for pay-in and pay-out of funds
- assumes the counter-party risk of each member and guarantees settlement
- arranges for physical delivery of goods, wherever applicable

43. How does a Clearing Corporation guarantee the settlement of the contract?

The performance of the contracts traded on the stock exchange platform are guaranteed through Clearing Corporation. The Clearing Corporation interposes itself between each buyer and seller thereby becoming a seller to every buyer and a buyer to every seller. The Clearing Corporation safeguards its interest by imposing margins such as initial margin, maintaining daily mark to market settlement etc. for all transactions undertaken on the stock exchange platform, besides imposing other risk management norms such as minimum net- worth requirement by Clearing Members etc. The Clearing Corporation also maintains its own SGF (Settlement Guarantee Fund) which can be used in case of a default.

44. What are the various legs of settlement process?

Under Commodity Derivatives market, there are various legs of settlement on expiry based on the type of the product.

Futures Contract:

(i) First leg - Fund settlement system for Cash settled Future contract

(ii) Second leg -Delivery settlement of underlying commodity (seller to deliver, buyer to receive) and
(iii) Funds settlement for delivery (buyers to pay, seller to receive) for Delivery based Future contract.

Option on Futures:

(i) First leg - Premium settlement (Buyer to pay premium and seller to receive)
(ii) Second leg - Exercise assignment settlement (exercised/assigned positions devolve into underlying futures contract).

45. Why does a Clearing Corporation collect margins?

The Clearing Corporation is the entity which is responsible for ensuring risk management and settlement of all the trades executed on the Stock Exchange. Clearing Corporation interposes itself between each buyer and seller thereby becoming a seller to every buyer and a buyer to every seller so as to avoid counter party defaults and guarantees the performance of the contract. This function of Clearing Corporation is known as ‘Novation’.
Margins function like performance bonds or guarantees and are designed to ensure that parties meet their financial obligations. The Clearing Corporations levy various types of margins keeping in view the need to balance between risk management and cost of entering into contract. These margins have been prescribed by SEBI.

46. What are the different types of margins payable on commodity futures?

Various types of margins applicable on commodity futures contracts are Initial Margin, Extreme Loss Margin, Special Margin, Additional Margin, Concentration Margin and Tender Period / Delivery Period margin, pre-expiry margin, Lean Period margin (in agri commodities) and calendar spread margin.

47. What is Initial Margin?

Initial margin is the minimum margin required to initiate a trade in the commodity derivatives market. It is a percentage of the value of the commodity contract lot and is notified in advance in the contract specifications of a futures contract. It includes margin computed through Value at Risk (VaR) methodology to cover potential losses for at least 99% of the days subject to minimum percentage floor value as prescribed by the Clearing Corporation and/ or SEBI from time to time.

48. What do you mean by Mark-to-Market?

Mark-to-market(MTM) is determined on the basis of closing prices at the end of each trading day and is paid by the buyer if the price declines and by the seller if the price rises.

49. Why is Mark to Market collected daily in commodity derivatives market?

Collecting mark-to-market on a daily basis reduces the possibility of accumulation of loss, particularly when futures price moves only in one direction. Hence the risk of default is reduced. Also, the participants are required to pay less upfront margin - which is normally collected to cover the maximum, say 99.9% of the potential risk during the period of mark- to-market (MTM), for a given limit on open position.

50. What is cash settlement?

It is a process for settling a futures contract by payment of cash for the price difference, rather than by delivering the physical commodity at the time of maturity of contract.

51. What is offset?

It refers to the liquidation of a futures contract by entering into the opposite position (purchase or sale, as the case may be) of the same contract.

52. Is it possible to sell a commodity, when the commodity is not owned?

One doesn't need to have the physical commodity to enter into a sell contract in futures market. A seller can enter in futures contract without having goods in his possession. However, most commodity derivatives contracts are based on compulsory delivery settlement logic, which means if a seller has open position at the expiry of such a contract, he has to deliver the goods against his sell position. If he does not possess the commodity, he shall have to purchase it from the open market to fulfil the selling obligation at the time of maturity, if he does not square off his sell position by entering into a buy transaction.

53. What is spot polling mechanism?

The commodity derivatives segments of stock exchanges have been using a ‘Spot Price Polling Mechanism’ to arrive at the prevailing spot prices of underlying commodities. Under this mechanism, the stock exchanges poll the spot prices from various polling participants in the physical market and arrive at the daily spot price. Transparent reporting and information of spot prices is a critical factor in smooth running of futures market as the same are used for arriving at the final settlement price for derivative contracts traded on the stock exchange platform.

54. What is Final Settlement Price?

The Final Settlement Price (FSP) is the price at which all open positions at expiry of a futures contract are settled.

For contracts where Final Settlement Price (FSP) is determined by polling, unless specifically approved otherwise, the FSP shall be arrived at by taking the simple average of the last polled spot prices of the last three trading days viz. E0 (E= expiry day), E-1 and E-2 as per the mechanism prescribed in the contract specification.

In the event the spot price for any one or both of E- 1 and E-2 is not available; the simple average of the last polled spot price of E0, E-1, E-2 and E-3, whichever available, shall be taken as FSP.

The Final Settlement price (FSP) is determined by the Clearing Corporation on maturity of the contract. All open positions on the expiry day of the contract would result in compulsory delivery.

55. What is difference between cash settled contract and compulsory delivery contract?

In case of cash settled contract, no physical delivery is effected. For such contracts, all outstanding positions at the time of contract expiry are closed out and settled at Final Settlement Price (FSP) or Due Date Rate (DDR) as announced by the Clearing Corporation. On the other hand, in a compulsory delivery contract, all outstanding positions at the time of contract expiry are settled through physical delivery at FSP / DDR as announced by the Clearing Corporation.

56. What is a Warehouse Receipt?

It is a document issued by a warehouse, which is an acknowledgement of the receipt of goods for storage and specifies details such as ownership of a stored commodity, quality, quantity and other relevant matters.

57. Where are the addresses of warehouses accredited by the Clearing Corporation available?

The addresses of accredited warehouses, are available on the websites of respective Clearing Corporations.

58. With whom can quality testing of agricultural commodities be done?

With regard to quality testing, as per SEBI guidelines, the Clearing Corporation shall ensure that it has assaying/testing facilities for the commodities it intends to render warehousing facility for, 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 Clearing Corporation.

59. What is eNWR and how is it beneficial to the farmers and FPOs?

The term eNWR means Electronic Negotiable Warehouse Receipt. These receipts are issued by the repository system subject to the guidelines prescribed by the Warehousing Development and Regulatory Authority (WDRA). National E-Repository Ltd. (NeRL, a subsidiary of NCDEX) and CDSL Commodity Repository Limited (CCRL, a subsidiary of CDSL) provide platforms for issuing negotiable warehouse receipts for commodities in electronic form, which facilitates easy pledge financing on stored goods for famers thereby avoiding distress sale. Besides, the other benefits of eNWR, to the overall agrarian ecosystem including farmers and FPOs there is better access to standardised storage facilities and market place, transparency in transactions, fair price for commodities, efficient transfer, centralised monitoring, ease in trade and enhanced trading opportunity.

60. What is the role of Repository in the commodity derivatives segment?

From commodity derivatives segment perspective, a Repository maintains the records of goods stored in warehouses which can be used for clearing and settlement of trades executed on stock exchange platform through Clearing Corporations. The WDRA has recognized NeRL and CCRL as approved repositories. The role of these repositories includes:

- Creation and storage of all eNWRs
- Transfer of e-NWRs between users of the repository
- Ensuring security and authenticity of eNWR information
- Providing secure access to manage and view the eNWRs
- Providing controlled infrastructure to avoid duplication of eNWRs
- Allowing pledging and sales of eNWR
- Providing real time notification to the holder of eNWR and any pledge holders and the warehouse service providers
- Displaying any regulatory information that WDRA may require for dissemination to users of the repository.

Difference in commodity derivatives markets and other related markets

61. What are the differences between commodity/ spot market and the commodity derivatives market?

The differences between Commodity spot market and the commodity derivatives market are tabulated below:

Sr. No.	Particulars	Commodity/Spot market	Commodity Derivatives Market
1	Regulator	Respective state governments	Securities and Exchange Board of India (SEBI) since September 28, 2015. Before September 28, 2015, the commodity derivatives market was

			regulated by erstwhile Forward Markets Commission (FMC).
2	Nature of trades	Party to party contract (buyer and seller may be known to each other)	Trade takes place anonymously between two parties on the Stock Exchange platform.
3	Nature of contracts	Customised	Standardised
4	Prerequisites	No collateral	Initial margin before trading
5	Type of settlement	Physical. Instantaneously or within 11 days of the deal.	At the end of the day, i.e. mark to market settlement in cash, Final settlement – Cash / Physical, at the expiry of the contract.
6	Guarantee of the trades	On trust /mutual understanding	Clearing corporation ensures performance guarantee of the contract

62. How is a commodity derivative contract different from equity derivatives contract?

While the basic concepts of a derivative contract remain the same, the difference between a commodity derivative contract and an equity derivative contract is in the underlying asset. The underlying asset for a commodity derivative contract are commodities and for an equity derivatives contract it is equities. There are some features which makes a commodity derivative contract uniquely different from an equity derivative contract. The main differences are given as under:

Parameters	**Commodity Derivatives Contract**	**Equity Derivatives Contract**
Underlying	Physical asset	Financial asset
Underlying market	Spread across the country, with major trading concentrated in major production / consumption Centres.	Organised, electronic national level Stock Exchanges with continuous, transparent price availability.
Underlying supply	Uncertain, estimated	Certain, available in public domain
Participants	Farmers, Traders, Manufacturers, brokers, FPO etc.	Retail and institutional
Settlement	Physically handled goods Warehouses / vaults / other storage infrastructure	Demat settlement

	required. Electronic warehouse / vault receipts are issued for goods held in accredited storage locations.	
Weather	Direct effect on commodities	Indirect effect
Types of Underlying	Agricultural Commodities i.e. Chana, cotton, guar seed, maize, soybean, sugar. Bullion and Gems, Energy commodities.	Equity shares
Period of life of Underlying	Standardised as per Stock Exchange contract specification. Limited period of life. Has expiry date.	Perpetual, Standardised

63. What are the various benefits of commodity derivatives markets?

Commodity derivatives market provides various direct and indirect benefits to commodity value chain participants. The key benefits of Commodity derivatives market are as follows:

i. Provides a nationwide platform for discovery of prices and enables physical market participants to hedge their price risk.
ii. In the absence of futures trading, various value chain participants like small producers and end users lose an invaluable tool for hedging their price risk, getting advance price signals of the commodity and for making informed decision on cropping, timing of sales etc.
iii. A successful futures contract in any commodity catalyses the development of marketing infrastructure like warehousing, assaying facilities which in turn facilitates pledge financing through warehousing and banks network.

64. What kinds of risks do participants face in commodity derivatives market?

Different kinds of risks faced by participants in commodity derivatives market are mentioned below:

a) Credit risk
b) Market risk
c) Liquidity risk
d) Legal risk
e) Operational risk

65. What is credit risk?

Credit risk or Counterparty risk is risk of loss to any participant on account of default by his counter party. This risk is mitigated to some extent in exchange traded commodity derivative markets vis-à-vis spot/non-exchange markets, as the clearing corporation takes on the responsibility for the performance of contracts to the extent feasible.

66. What is market risk?

Market risk is the risk of monetary loss on account of adverse movement of prices.

67. What is liquidity risk?

Liquidity risk is a risk of difficulty arising in unwinding transactions due to market becoming illiquid.

68. What is Legal risk?

Legal risk is a risk arising on account of uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations or due to uncertainty and complexities relating to successful delivery of goods of the specified quality. The legal risk is especially high in commodities trading which are a subject matter of laws like Essential Commodities Act, FSSAI standards, in addition to various taxes like GST, customs duties, excise, CTT, etc.

69. What is operational risk?

Operational risk is the risk arising out of some operational difficulties, like, failure of electricity, internet connectivity, transporters strike etc. due to which it becomes difficult to operate in the market. Operational risk can also arise due to inadequate or failure in internal processes, people and systems.

70. What are the various Do's and Don'ts for safe trading in commodity derivatives market?

The table below provides a list of Do's and Don'ts for safe trading in commodity derivatives market. However, this list is not exhaustive, rather indicative only.

Do's	Don'ts
➢ Trade only through SEBI registered Stock Broker. View the Stock Exchange website/SEBI website for details on registered Stock Brokers. ➢ Insist on getting 'Risk Disclosure Document' & 'Rights & Obligations of Investor' document from Stock Broker and read them carefully. ➢ Always be compliant with know your client (KYC) norms (i.e. Proof of	➢ Do not deal with any unregistered Stock Broker. ➢ Do not trade in any commodity without knowing the risk and rewards associated with it ➢ Do not undertake off-market transactions, as such transactions are illegal and fall outside the jurisdiction of the Exchange.

identity, Proof of address etc. to be updated regularly). ➢ Insist on getting a Unique Client Code (UCC) and ensure all trades are done under the said UCC. ➢ Obtain a copy of your KYC and/ or other documents from the Stock Broker. ➢ Insist the broker to provide the contract note for every settlement with complete details like member registration no., order details, trade no., trade date, quantity and arbitration clause. ➢ Cross check trade genuineness through trade verification facility available on Stock Exchange website. ➢ Pay required margin and mark to market obligation in stipulated time. ➢ Update your mobile no. and e-mail id with stock broker to receive trade confirmation /alerts, details of the transaction through SMS or email. ➢ Issue Account payee cheque/demand draft in the name of the broker, as it appears on the contract /SEBI registration certificate. ➢ Insist on periodical statement of accounts from broker. Check the accounts and notify the broker if there are any discrepancies. ➢ Comply with taxation and other government rules relating to sale/ delivery and duties like stamp duty.	➢ Do not get carried away by alluring advertisements, rumours, hot tips or any promise of assured returns. ➢ Do not start trading before understanding risk disclosure clause and the‘Rights & Obligation of Investor’ norms. ➢ Do not accept unsigned/duplicate contract notes. ➢ Do not let risks against positions accumulate beyond your capacity to bear. ➢ Do not miss on keeping track of your financial and contractual obligation against your positions. ➢ Do not make payments in cash/ take any cash towards margins and settlement to/ from the Member. ➢ Do not share your internet trading account’s password with anyone. ➢ Do not fall prey to unauthorized trading.

Investor Protection and Grievance Handling Mechanism

71. What is the purpose of setting up an Investor Protection Fund (IPF)?

The Stock Exchanges have established Investor Protection Fund (IPF), under the guidance of SEBI for:

i. Compensating legitimate/ eligible claims of Investors against any defaulter member, through whom they trade and / or had undertaken to settle their trade.

ii. Creating awareness and educating general public and other stake holders about the benefit of trading on Stock Exchanges.

iii. In case a stock broker/member defaults, the investors need to file the claim as per the procedure laid down by the Stock Exchanges for getting claims from the IPF.

72. What is the complaint resolution system to redress the investor grievances?

Investors can seek redressal of their grievance using SEBI's Complaints Redress System (SCORES). SCORES is a web-based complaints redress system where a complaint can be filed and their status can be viewed online. For filing a complaint on SCORES, one has to visit https://www.scores.gov.in

First, the complainant needs to approach the Stock Exchange/Intermediary for the resolution of the complaint. If the complainant is not satisfied with the resolution provided by the Stock Exchange / Intermediary, then the complainant can file a complaint on SCORES.

The procedure for submitting a complaint on SCORES is as follows:

- Every new user has to click "Register here" and register.
- After registration, the complainant has to click "Login here" with his credentials.
- He has to enter his complaint details and click 'submit'.
- The status of the complaint can be traced online.

73. What are the other dispute resolution mechanism in place for the commodity derivatives market?

In the interests of investors, on introducing the SEBI (Alternative Dispute Resolution Mechanism) (Amendment) Regulations, 2023, in July 2023, the existing dispute resolution mechanism in the Indian securities market is being streamlined under the aegis of Stock Exchanges and Depositories (collectively referred to as Market Infrastructure Institutions (MIIs)), by expanding their scope and by establishing a common Online Dispute Resolution Portal ("ODR Portal") which harnesses online conciliation and online arbitration for resolution of disputes arising in the Indian Securities Market.

SEBI issued circular no. SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/131 dated July 31, 2023 providing the guidelines for online resolution of disputes in the Indian securities market. Amendments cum Corrigendum to the same was issued vide circular no. SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/135 dated August 04, 2023. These regulatory norms were consolidated vide Master Circular No. SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/145 dated August 11, 2023. Further an amendment to Circular dated July 31, 2023 on Online Resolution of Disputes in the Indian Securities Market was issued vide Circular SEBI/HO/OIAE/OIAE_IAD-3/P/CIR/2023/191dated December 20, 2023.

The above circulars may be referred to understand the complete dispute resolution process. The dispute resolution process as provided in the above Circulars for investors, is briefly given below:

- An investor/client shall first take up the grievance with the Market Participant by lodging a complaint directly with the concerned Market Participant.

- If the grievance is not redressed satisfactorily, the investor/client may, escalate the grievance through the SCORES Portal in accordance with the process laid out therein. The Online Dispute Resolution (ODR) Portal has connectivity with the SEBI SCORES portal / SEBI Intermediary portal.

- if the investor/client is still not satisfied with the outcome, the grievance can be taken up through the ODR Portal by initiating dispute resolution.

- A complaint/dispute initiated through the ODR Portal will be referred to an ODR Institution empaneled by a MII. References to ODR Institutions shall be made after a review of such complaint/dispute by the relevant MII with the aim of amicable resolution and which review shall be concluded within 21 calendar days.

- The ODR Institution that receives the reference of the complaint/dispute shall appoint a sole independent and neutral conciliator from its panel of conciliators, to reach an amicable and consensual resolution within 21 calendar days.

- If the process of conciliation is successful, the same shall be concluded by a duly executed settlement agreement between the disputing parties. In case the matter is not resolved through the conciliation process within the 21 calendar days an investor/client may pursue online arbitration.

- Upon the conclusion of the arbitration proceedings and issuance of the arbitral award, payment shall be made by the Market Participant within a period of 15 calendar days from the date of the arbitral award (unless such award requires payment sooner), and/or performance within such period as specified by the arbitral award.

- Upon the issuance/pronouncement of the arbitral award, the party against whom order has been passed, will be required to submit its intention to challenge the award under Section 34 of the Arbitration Act within 7 calendar days. Further, in the course of such a challenge, if a stay is not granted within 3 months from the date of the receipt of award, complete adherence to the terms of the arbitral award must be done. The MII shall also monitor the due compliance by the Market Participant with the terms of the arbitral award/judgement of the appellate forum.

74. Whether the reference/complaint pertaining to physical commodity market, particularly hoarding, is dealt by SEBI?

The spot market is regulated by the respective state governments. The Union Government empowers State Governments and Union Territories, by way of notifying orders under the Essential Commodities Act (EC Act), to specify various measures in this regard. Under the EC Act and Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities (PBMMSEC) Act, the District Magistrate, the Commissioner of Police, Secretary of the concerned department in the State/UT or any other authority notified by the State, District Police Superintendent may be sent/submitted such complaints. Director General of Police, Chief Secretary of the State, may also be sent/submitted such complaints. Further, a complaint could be lodged through the website of the Ministry of Consumer affairs, food and public distribution, using the link https://consumerhelpline.gov.in.

Others:

75. What steps were undertaken by SEBI to encourage farmers/FPOs to participate in Commodity Derivatives market?

SEBI reduced the regulatory fee on Stock Exchanges with respect to turnover in agricultural commodity derivatives with a view to encourage the participation by Farmers/Farmer Producer Organizations (FPOs) in agricultural commodity derivatives market. The objective was to reduce the cost burden on farmers/FPOs from the amount saved by the Exchanges due to reduction of regulatory fee by SEBI.

In order to pass on the desired benefits from reduction of regulatory fees on agricultural commodity derivatives, it has been decided that the stock exchanges dealing with agricultural commodity derivatives shall create a separate fund earmarked for the benefit of farmers/FPOs in which, the regulatory fee forgone by SEBI shall be deposited and utilized exclusively for the benefit of and easy participation by Farmers and FPOs in the agri- commodity derivatives market. The exchanges may consider one or more of the following activities for utilization of the fund for benefit of farmers/FPOs:

i. Funding of Warehousing and/or Assaying charges
ii. Cost of Mark to market (MTM) funding
iii. Delivery fee/charge
iv. Repository related fee
v. Reimbursement of cost of bags and transportation for the Farmers / FPOs for delivery on exchange platform
vi. Broker fee
vii. Reimbursement of assaying, cleaning, drying and sorting charges

viii. Reimbursement of Mandi tax
ix. Reimbursement of fees levied by the clearing corporation
x. Reimbursement of certain percentage or fixed amount of premium paid by farmers/FPOs for purchasing options in goods on the exchange platform
xi. Any other activity as may be permitted by SEBI.

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