

Forward Markets Commission
Department of Economic Affairs
Ministry of Finance
Government of India

Date: 26th August, 2014

Public Comments sought on Draft of Norms regarding
Strengthening of Warehousing Facilities in the Commodity futures market

The issue of having efficient warehousing system in all National Multi Commodity Exchanges (NMCEs) has been under the consideration of Forward Markets Commission. Accordingly, a need has been felt to have uniform norms regarding Ownership, Networth, Corporate Governance etc, for Warehouse Service Providers(WSPs) for accreditation with the National Multi Commodity Exchanges. To enable this, it has been decided to lay down norms for this purpose.

As a transparency enhancing mechanism and therefore, to obtain public comments, a draft of the said Norms is hosted on the website of the Forward Markets Commission at www.fmc.gov.in.

Feedback/comments on the draft Norms may be sent to Shri V. C. Chaturvedi, Director, Forward Markets Commission at dir2.fmc@nic.in by 15th September, 2014.

**Norms Regarding Ownership, Net worth, Corporate Governance etc. for
Warehouse Service Providers (WSPs) for accreditation with the National Multi-
Commodity Exchanges (NMCEs)**

No. Div. III/FMC/WH/(3)

Date: August, 2014

To,

The Managing Director & CEO, National Commodity & Derivatives Exchange Ltd,
(NCDEX), Akruiti Corporate Park, LBS Road, Kanjur Marg (W), **Mumbai- 400 078.**

The Managing Director and CEO, National Multi Commodity Exchange of
India Ltd, (NMCE), 4th Floor, H. K. House, B/h, Jivabhai Chambers,
Ashram Road, **Ahmedabad- 380 009.**

The Chief Executive Officer, ACE Derivatives and Commodity Exchange
Limited, 401 B, 4th Floor, Building No.4, Infiniti IT Park,
Gen. AK Vaidya Marg, Dindoshi, Malad (E), **Mumbai - 400 097.**

The Executive Vice-President, Multi Commodity Exchange of India Ltd.,
(MCX), Exchange Square, CTS No. 255, Suren Road, Andheri (East), **Mumbai -400093.**

**Sub: Strengthening of warehousing facilities in the Commodity futures market –
Norms Regarding Ownership, Net worth, Corporate Governance etc. for
Warehouse Service Providers (WSPs) for accreditation with the National
Multi-Commodity Exchanges (NMCEs)**

Sir,

The issue of having efficient warehousing system in all the commodity exchanges has been under consideration of the Commission. In this regard, it has been emphasized in the Commission's directions forwarded vide No. F. No. Div. III/WH/FMC/ dtd. 30th August 2013 that the settlement of the outstanding forward contracts by way of delivery is the primary responsibility of the respective exchanges on whose platform the participants have traded in forward/futures contracts. It is reiterated that all the warehouses service providers which are independent business entities shall, for the purposes of commodities forward markets, function as agents of the exchanges to whom they are providing their warehousing services. Thus, there shall

always subsist a principal-agent relationship between the exchange and the warehouse service providers and the exchanges shall bear the primary responsibility of effecting good deliveries to the participants whenever the trades result into delivery.

It has come to the notice of the Commission that there is no uniformity in the norms being followed by the NMCEs for the accreditation of the WSPs. The Commission has been discussing this issue with Exchanges and other stake holders with an endeavour to ensure that all the warehouses conform to certain minimum uniform standards. It is also necessary that the warehouse service providers should be adequately capitalized to carry on the activity in compliance with all the conditions as may be prescribed from time to time. In order to ensure uniformity at all NMCEs, the Commission has decided that the norms regarding Ownership, Net worth, Corporate Governance etc. for Warehouse Service Providers (WSPs) for accreditation with the National Multi-Commodity Exchanges (NMCEs) shall be as follows:-

1) **Eligibility Norms for Promoters of WSP:**

- i) The Promoters/Promoter Group of the WSP should be of repute and have a credible market standing.
- ii) The Promoters / Promoter Group of the WSP should have been in the Warehousing/Storage business for at-least 3 years.
- iii) The Promoters/ Promoter Groups should be responsible persons/entities, with a good business reputation, who are in the business of public warehousing and have knowledge of, and experience in, generally accepted warehousing and handling practices for Commodities, and generally are competent and willing to conduct such a warehouse in accordance with the relevant regulations of the Exchange and others, as applicable.

2) **Financial Norms for the WSP:**

- i) Net Worth: The minimum net worth for the WSP shall be ₹ 5 crores for providing warehousing services for a single commodity and ₹ 10 crores for multiple commodities.
- ii) Minimum current ratio: The current ratio for WSP should be sufficient to meet its current obligations and should not be less than 1:1:25.

- iii) Financial Security Deposits to be furnished by WSP and the acceptable forms for such Security Deposits:

The WSP shall furnish security deposit as under:-

- a. 2% for the value less than or equal to INR 250 crores
- b. 3% for the value between INR 250 crores to INR 500 crores and
- c. 5% for above the value of INR 500 crores of the goods stored in the warehouses

A daily monitoring of the security deposits vis-à-vis the value of the commodity stored needs to be done so as to ensure that the minimum stipulated security deposits is always maintained with the Exchange. The Exchange may ask for additional security deposit over that stipulated in (iii) above, if considered necessary.

The security deposits may be in any of the following forms:

- a) Bank Guarantee from approved Bank or
- b) Fixed Deposit Receipt from approved Bank or
- c) Cash or
- d) Other forms of liquid security deposit as may be deemed acceptable by Exchange.

3) Corporate Governance norms for WSP:

- i. The WSP should preferably be a Corporate Body.
- ii. The WSP Company should have a professional management team and the WSP should ensure that the Ownership and management is separate and an arm's length relationship is maintained with Promoter / Promoter Group entities/relatives of the promoters, and the major suppliers and major customers of these entities.
- iii. The WSP should have good internal systems and controls.
- iv. The WSP shall set up such number of Committee(s) to oversee its operations as may be prescribed by the Exchange subject to the condition that there shall always be an Audit Committee of the WSP. These Committees shall comprise of independent professionals.
- v. The decision making process at the WSP should be clearly defined at all levels. Any financial decision above a certain amount, as may be decided by the exchange, should be approved by a Committee set up for the purpose.

- vi. The Financial statements of the WSPs should be audited by Professional and reputed auditors.
- vii. The WSP should have a Customer Grievances Cell to handle customer complaints and shall take proactive steps to resolve customer related issues.
- viii. The Exchanges should have a Know Your Depositor Policy which needs to be complied with by the WSP.
- ix. WSP shall ensure that there is no direct conflict of interest with the interests of the Exchange and the depositors / lawful owners of goods.
- x. WSPs/owners/relatives shall not be allowed to trade on any Exchange. For this purpose, the definition of 'relative' shall be as provided under the Companies Act, 2013.

4. Facilities & Infrastructure Requirement for WSP

The Exchanges shall ensure that the WSP's to be eligible for accreditation:

- a. are physically and operationally suitable for the proper storage of Commodities and that specifically:
 - are of sound construction and in good repair
 - have adequate equipment, installed and maintained in good working order, for the movement of commodities into, out of and within the warehouse;
 - have adequate ventilation, installed and maintained in good working order, for the proper storage and preservation of grain quality;
 - have adequate lighting;
 - are free from materials and substances that may adversely affect the quality of stored commodities;
 - have a safe work environment; and
 - ensure adequate security and protection of stored or handled commodities from tampering or adulteration
- b. allow for the accurate and efficient weighing, sampling, inspection and grading of the Commodities in store, and

- The Exchange shall ensure that the WSP should have personnel who have knowledge and experience in sampling, weighing, inspecting and/or grading of Commodities ;
- c. The WSP to have own or access to fumigation facilities/agencies for pest control activities.
- d. WSP should have a Standard Operating Procedure (SOP) which is process dependent and not person dependent. It is desirable that there should electronic record of information at the WSP and an MIS system with an arrangement for flow of real time information from the warehouse location to the central MIS. The MIS should have the capability to disseminating stock being held warehouse wise/location wise and the availability of space in the warehouses.
- e. The WSP should undertake to have assaying/testing facilities for the commodities it intends to render the warehousing facility, or should 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 and is acceptable to Exchange. The Exchange shall conduct independent pre-empnelment due diligence of Assayers.

5. Insurance

The WSP shall at all times ensure to fully cover the value of goods stored at exchange approved warehouses under the insurance for all perils relevant to the commodities for which insurance cover is available and necessary. The WSP shall undertake to take insurance covers for risks such as viz. Fire and allied perils including flood, cyclone, earthquake and spontaneous combustion, Burglary and Theft. The WSP shall take Fidelity guarantee and Professional indemnity cover to cover all deliverable stocks on the exchange. The value of goods to be insured should be marked to market on replacement value on ongoing basis..

6. Inspection/Audit

- i) The WSP should ensure that there is periodic inspection/audit of the stocks stored in the warehouses and the inspection/audit report is submitted to the Exchange within a week of the completion of such inspection/audit.
- ii) The exchange shall ensure that the physical counting of stocks and their

reconciliation with the corresponding electronic records is done periodically.

- iii) The exchange shall ensure independent audit of the stock in the warehouses by expert agencies at regular intervals but not less than once in a quarter. The result of such inspection, shall be displayed by the exchange on its website immediately after the completion of the inspection and submission of report by the inspection agency. In addition, the exchange shall also conduct in-house audit of WSPs at regular intervals.
- iv) The WSP would allow the members /clients holding demat position to do physical inspection of their goods. For this purpose, the members/clients proposing to inspect the said goods shall give a notice to the WSP in advance.
- v) The exchange shall display on a daily basis warehouse wise details of the space available, goods held, name of the warehouse service provider, details of location of the warehouse etc, on its website.

7. Compliance

The Exchanges shall ensure that the WSP adhere to the provisions of the Exchange's rules, regulations and bye-laws, besides various central/state laws including Tax laws, Stamp duty law, Mandi laws, Food Safety and Standards Act, The Essential Commodities Act, Warehousing laws etc. as may be applicable and other Rules, Regulations, notification/orders applicable to the said goods and as in force from time to time.

The Exchanges are directed to ensure compliance of the above norms while accrediting the WSP's.

Sd/-

(Arun Kumar)
Deputy Director