



CIRCULAR

SEBI/HO/CDMRD/DNPMP/CIR/P/2020/21

February 04, 2020

To,

**The Managing Directors / Chief Executive Officers
All Recognized Stock Exchanges having commodity derivatives segment
except those in International Financial Services Centre**

Sub: Performance review of the commodity derivatives contracts

Dear Sir / Madam,

1. The primary objective of the commodity derivatives market is to provide credible future price signals to market participants and an effective platform for hedging the price risks. In order to ensure that the derivatives contracts are closely aligned to the physical markets, it is imperative to have a framework to evaluate the performance of these contracts based not merely on statistics regarding delivery and trade volumes but also on the strength of a comprehensive empirical assessment after considering all relevant information, pertaining to the performance of a derivative contract during the relevant period of time.
2. Keeping the above in view and in consultation with the Commodity Derivatives Advisory Committee (CDAC), the following has been decided:
 - 2.1. All recognized stock exchanges shall review the performance of all contracts traded on their exchanges, in commodity derivatives segment, as per the parameters laid down in the Circular.
 - 2.2. The said performance review shall be consulted with the Product Advisory Committee (PAC) constituted in terms of [SEBI Circular no. SEBI/HO/CDMRD/DNPMP/CIR/P/2019/89](#) dated August 07, 2019 on the subject of "Product Advisory Committee".
 - 2.3. The said performance review along with the methodology adopted in evaluation, if any, shall be disclosed by the stock exchanges on their website prominently.



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Securities and Exchange Board of India

- 2.4. The said performance review shall be conducted on an annual basis for each financial year and shall be disclosed by 30th June of the following financial year.
3. The performance review of the commodity derivatives contracts shall be based on various parameters for each commodity as illustrated in **Annexure-I**.
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 Circular would be effective from April 01, 2020. The stock exchanges shall be required to undertake and disclose performance review of all contracts traded on their exchange from FY 2019-20.
6. Exchanges are advised to:
- to make necessary amendments to the relevant bye-laws, rules and regulations.
 - 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.
 - communicate to SEBI, the status of the implementation of the provisions of this circular.
7. This Circular is available on SEBI website at www.sebi.gov.in under the category "Circulars" and "Info for Commodity Derivatives".

Yours faithfully,

Vikas Sukhwal
General Manager
Division of New Products and Market Policy
Commodity Derivatives Market Regulation Department
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Annexure I
Parameters for Performance Review of Commodity

1. Background

- Brief about the commodity such as sample picture, lifecycle and various varieties/grade of the commodity found in India
- Commodity fundamentals and balance sheet as per the following format (to be prepared based on publicly available information on best effort basis):

Table - Fundamentals & Balance sheet (quantity)

Global Scenario	Previous FY	Current FY
Opening Stocks		
Production		
Others (if any)		
Consumption		
Closing Stocks		

Indian Scenario	Previous FY	Current FY
Opening Stocks		
Production		
Imports		
Total Supply		
Exports		
Domestic Consumption		
Closing Stocks		

Top 10 Major producing countries	Previous FY	Current FY

Top 10 Major consuming countries	Previous FY	Current FY

Top 10 Major exporting countries	Previous FY	Current FY



Top 10 Major importing countries	Previous FY	Current FY

Top 10 Major producing states in India	Previous FY	Current FY

- c. Major changes in the policies governing trade in the spot markets of the commodity
- d. Geo political issues in the commodity and its impact on Indian scenario.

2. Trading related parameter

- a. Monthly and Annual traded volume (quantity in appropriate units)
- b. Annual traded volume as proportion of total deliverable supply (quantity in appropriate units)
- c. Annual traded volume as proportion of total annual production (quantity in appropriate units)
- d. Annual average Open interest as proportion of total production
- e. Annual average Open interest as proportion of total deliverable supply
- f. Monthly and Annual value of trade (in Rs. Crores)
- g. Monthly and Annual quantity of delivery (in appropriate units)
- h. Monthly and Annual value of delivery (in Rs. Crores)
- i. Monthly and Annual Average Open Interest (OI) (in appropriate units)
- j. Annual average volume to open interest ratio
- k. Total number of unique members and clients who have traded during the financial year
- l. Ratio of open interest by FPOs/farmers/Hedge/VCP positions to total open interest (Annual average as well as maximum daily value)
- m. Number of unique FPOs / farmers and VCPs/hedgers who traded in the financial year
- n. Algorithmic trading as percentage of total trading
- o. Delivery defaults
 - Number of instances
 - Quantity involved
 - Value involved



3. Price movements

- a. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international futures price (wherever relevant comparable are available).
- b. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international spot price (wherever relevant comparable are available) and domestic spot price (exchange polled price).
- c. Correlation between exchange futures & domestic spot prices along with ratio of standard deviation.
- d. Correlation between international futures & international spot prices along with ratio of standard deviation (wherever relevant comparable are available).
- e. Comparison of Exchange polled price and mandi price (in case of agricultural commodities) / other relevant price (in case non-agricultural commodities) at basis centre.
- f. Maximum & Minimum value of daily futures price volatility and spot price volatility along with disclosure of methodology adopted for computing the volatility.
- g. Number of times the futures contract was in backwardation/contango by more than 4% for the near month contract in the period under review

4. Others parameters

- a. Qualitative and quantitative measure for Hedge effectiveness ratio and basis Risk (Volatility of Basis) along with disclosure of methodology adopted for such calculations.
- b. Details about major physical markets of the commodity vis-à-vis market reach in terms of availability of delivery centers (information to be provided state-wise and UT-wise).
- c. Details about major physical markets of the commodity and average Open Interest for each month generated from those regions.
- d. Details, such as number and target audience, of stakeholders' awareness programs carried out by the exchange.
- e. Steps taken / to be undertaken to improve hedging effectiveness of the contracts as well as to improve the performance of illiquid contracts.

5. Any other information to be disclosed as deemed important by the exchange or as suggested by the PAC.