

# Master Circular - Surveillance (Commodity Derivatives Segment)

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## 1. Daily price limit

SEBI vide its circular no. CIR/CDMRD/DMP/2/2016 dated January 15, 2016 and SEBI/HO/CDMRD /DMP/CIR/P/2016/83 dated September 07, 2016 and SEBI/HO/CDMRD/DNPMP/CIR/P/2021/9 dated January 11, 2021 has prescribed Daily Price Limits for Agri and Non-Agri Commodities which are given as under:

### A. Commodity Futures Contracts

#### 1.1 Non-Agricultural Commodities

DPL of all non-agricultural commodity derivatives contracts is as under:

- a) Once the trade hits the prescribed Initial slab, the DPL shall be relaxed by percentage as mentioned in the 'Enhanced Slab' column after the cooling off\* period on 15 minutes in the trading.
- b) During cooling off periods trading shall continue to be permitted within the existing slab of DPL.
- c) In case price movement in international markets is more than the aggregate DPL, (currently 9%), the same may be further relaxed in stages of 3% beyond the maximum permitted limit with cooling off period of 15 minutes.

#### DPL Slab

Sr. No.	Commodity	Initial DPL	Enhanced Slab Relaxation By		Aggregate DPL	Further Relaxation
			Cooling Off	Limit		
1	Gold	6%	15 Minutes	3%	9%	In case price movement in international markets is more than the maximum daily price limit (currently 9%), the same may be further relaxed in stages of 3% beyond the maximum permitted limit and inform the Integrated Surveillance Department (ISD) of SEBI immediately.
2	Silver	6%	15 Minutes	3%	9%	
3	Copper	6%	15 Minutes	3%	9%	
4	Steel Billets	6%	15 Minutes	3%	9%	

## 1.2 Agricultural Commodities

DPL for agricultural commodity derivatives contracts is as under:

- a) DPL has two slabs as mentioned in table below.
- b) Once the trade hits the prescribed Initial slab, the DPL shall be relaxed further by percentage as mentioned in the 'Enhanced Slab' column with cooling off period of 15 minutes in the trading.
- c) The trading shall be permitted during the 15 minutes period (cooling off period) \* within the initial slab limit. After the DPL is enhanced, trades shall be permitted throughout the day within the enhanced slab. There will not be any further relaxation thereafter.

### DPL Slab

Sr. No.	Commodity	Initial DPL	1st Enhanced		Aggregate DPL	Further Relaxation
			Relaxation By			
			Cooling Off	Limit		
1	Almond	4%	15 Minutes	2%	6%	No further relaxation
2	CottonJ34	4%	15 Minutes	2%	6%	
3	Turmeric	4%	15 Minutes	2%	6%	

\* Cooling off – Cooling off period is the time when there will not be any relaxation. During cooling off period, the Exchange shall not accept the user's request for further relaxation in the same direction of the price and shall show pop-up message "Relaxation not allowed during cooling off period"

## B. Commodity Options Contracts

DPL of all non-agricultural commodity derivatives Options contracts is as under:

A contract specific dynamic price band based on its delta value is computed and updated on a daily basis.

## 2 Position Limit

### 2.1 Position limits for Commodity Derivatives, clubbing of open positions, penalties for violation of position limits

SEBI vide its circular no. SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016 and circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017 has prescribed Position Limits for Commodity Derivatives, clubbing of open positions & penalties for violation of position limits.

## 2.2 Clubbing of Open Positions:

While calculating open positions for the purpose of position limits, suitable measures for clubbing of open positions of clients/members who may be acting in concert to circumvent the norms of position limits. The broad guidelines for clubbing of open positions are provided as under:

Guidelines for Clubbing of Open Positions:

1. When a person is a partner in one or more partnership firms and /or is a director in one or more companies and/or is a manager (karta) of a Hindu Undivided Family (HUF), the total open position of the person as an individual operator,
  - b. the firm or firms in which he is a partner;
  - c. the Company or companies in which he is a director; and
  - d. the HUF of which he is a manager(karta) taken together shall not exceed the prescribed limit.
  
2. Where two or more persons are partners in a partnership firm or firms and where two or more persons are director in a company or companies and where two or more persons are Kartas of HUFs, the total open position held by
  - a. all the partners of partnership firm or firms;
  - b. the concerned partnership firm or firms;
  - c. all the directors of the company or companies;
  - d. the concerned company or companies;
  - e. all the Kartas of the HUFs; and
  - f. the concerned HUFs taken together shall not exceed the limit as mentioned above.
  
3. Where a person or persons operating as individuals and /or being partners in one or more partnership firms and/or being directors in one or more companies and/or being kartas of HUFs are also trustees in one or more trusts, the total open position of
  - a. the person as individual operator,
  - b. the firm or firms in which they are partners;
  - c. the company or companies in which they are directors;
  - d. the HUFs in which they are Kartas; and
  - e. the trust or trusts in which they are trustees, taken together shall not exceed the limit as mentioned above.

Provided that, if at any time more deliveries than one are running in the same commodity, the above limit shall apply to the combined open position of the member or the non-member, as the case may be, in all such deliveries running concurrently.

4. Open position of a member shall be the total of the open position acquired by him by trading through or with other member and by appropriating the business of his clients (collectively for all clients).

5. The open position of a non-member shall be the total of the open position acquired by him trading through or with one or more members.

### **2.3 Exemptions from Clubbing:**

1. In the agriculture marketing set up of the rural India, co-operative societies play a crucial role. Primary Agriculture Marketing Societies registered under the state cooperative Acts, thus, are active in different agricultural commodities. These societies are also member of Federations at the State and National level. Due to this Federal structure, there may be some instances when these societies have common Directors. Also, the persons from State Governments/RCS may be nominated as Directors in these societies. In view of this, the position of different societies if they are members of a Federation will not be clubbed with the open interest position of the Federation for the purpose of determining the open interest position of the Federal or vice versa. Similarly, if Govt/RCS nominated directors sits on the Boards of different societies, this will not amount to common interest for the purpose of clubbing of positions.

2. As a practice of good corporate governance, the companies now have independent directors on their Board with no financial interest in the company. Similarly, companies also have Govt/Financial Institutions nominated Directors without any financial interest in the company. In such cases, when the Directors don't have any financial interest in the company. The Commission has taken a view that the position of such companies/corporates may not be clubbed just because they have common directors.

The above stated guidelines are indicative only. The Exchanges are directed to take suitable measures for clubbing of open positions on the basis of the criteria laid down above and also include other criteria such as PAN, patterns such as 'acting in concert' through common ownership and control structures and any other relevant criteria to club open positions that may be observed during the course of regular monitoring and surveillance that may appear to compromise market integrity.

### **2.4 Monitoring of position limits:**

Exchange shall monitor the open position on a real time basis and shall endeavour that no client or member breaches the open position limits 'at end of the day' as well as 'during intra-day trading'. Penalty shall be levied on those breaching the position limits at end of the day as well as during intraday trading as given below:

### **2.5 Position Limit Violation:**

The following penal provisions are made to discourage/ prevent open interest violations at Commodity level / near month contract level

1. Monetary penalty on the concerned member for violations in the open interest (either on own account or on account of clients) which are linked to the quantum/ value of violation committed and to be charged from the concerned member for each such violation as under:

- a. Where the violation is more than 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is higher.
  - b. Where the violation is up to 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is lower.
  - c. The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of violation. In case such a violation continues, the Exchange would square-off the excess position without any further notice to the member by putting the orders on behalf of the member in that client code and shall not be responsible for the consequences of such action
2. In case, the instance at 1 (a) above is observed for more than 3 times in a month across the market, the Exchange shall suspend the concerned member for a period of one week. For instances at 1 (b) above, the Exchange may devise its norms to deal with habitual defaulters.

## 2.6 Additional Guidelines

In terms of the aforesaid SEBI circular, while calculating open positions for the purpose of position limits, the Exchange is authorized to take suitable measures for clubbing of open positions on the basis of the criteria laid down in the said circular and other criteria such as PAN, patterns such as 'acting in concert' through common ownership and control structures and any other relevant criteria to club open positions that may be observed during the course of regular monitoring and surveillance that may appear to compromise market integrity. Accordingly, a detailed framework on clubbing of open positions of clients/ members who may be acting in concert to circumvent the norms of position limits is provided below. All the provisions as contained in the SEBI circular dated September 27, 2016 shall continue to be ipso facto applicable and this circular only intends to clarify the criteria for clubbing of position limits.

### **1. Clubbing of open positions based on PAN, patterns such as 'acting in concert' through common ownership and control structures:**

The term 'Acting in concert' is inclusive rather than exclusive and it would depend on the relevant facts and circumstances of the situation to establish where the persons are acting in concert to circumvent the norms of position limits and therefore it cannot be conclusively defined.

However, for the purpose of clubbing of open positions under these criteria, the 'persons acting in concert' shall comprise of but not limited to:

- a) persons who are acting together pursuant to an agreement or understanding, formal or informal, directly or indirectly co-operate and take positions in a commodity derivatives contract with a common objective or purpose of collectively circumventing the norms of position limits as applicable to a client and member or otherwise, unless the contrary is established.

b) without prejudice to the generality of the above clause and in addition to the laid down criteria given in Criteria I above, the persons falling within the following categories shall be deemed to be persons acting in concert with other persons in the same category or other categories unless the contrary is established: -

- i. a company, its Holding / Subsidiary company,
- ii. a company, its Associates or Joint Venture Companies in which it holds at least 20% shareholding,
- iii. a company, its significant shareholder i.e. shareholder holding more than 26% of issued shares of the company,
- iv. a company, its Key Managerial Personnel (KMP) and Authorised Signatories.

*For this purpose, Key Managerial Personnel shall be as defined in the Companies Act, 2013 and Authorised Signatory means the signatory who has been named as such or is identified by the company in the annual returns as authorized signatory.*

**2. Any other relevant criteria to club open positions which may be observed during the course of regular monitoring and surveillance and which may appear to compromise market integrity.**

The Exchange shall consider the following additional relationships/ criteria to ascertain whether persons are acting in concert under any other relevant criteria:

- i. Relatives as per AS 18 and Immediate Relatives for individual as defined in Companies Act
- ii. Promoters of the company as provided in Annual return filed under the Companies Act
- iii. Co-parceners of HUF
- iv. Clients having same/ similar postal address, e-mail address, bank accounts, website domain name or mobile numbers

It may be noted that the aforesaid relationship/criteria are only indicative and does not in any way restrict the Exchange to consider other criteria not mentioned herein for the purposes of clubbing of open positions. The Exchange may look into the following parameters to test 'acting in concert' in the event of any of the above relationship criteria or any other criteria not mentioned herein triggers further analysis/ investigation or any objection by the concerned members:

- Existence of relationship between various clients on the basis of objective or subjective criteria,
- Linked clients being on the same side i.e. Long or Short and cumulatively controlling substantial proportion of the market open interest in a particular commodity/ contract,
- Orders being placed at or around the same time at relatively near prices by group of clients,



- Existence of commonality of funds flow between the various parties

It may further be noted that if the parameters as set out above (point nos. 1 & 2) are met based on the information as and when available and reviewed by the Exchange, the Exchange shall proceed to club such positions. However, the Exchange may also call for explanation from the concerned members prior to clubbing of open position and after finding that the explanation/ replies are not found to be satisfactory in its opinion; the Exchange shall proceed to club the positions of the identified entities. Further Position limit computation as per sentiments is in progress, which will be applicable in coming year.

### **3 Checks and Risk Control**

#### **3.1 Debarred Client**

SEBI / SAT issues various Orders from time to time for debarment of entities from trading on the Exchange's trading platform. The trading members of the Exchange are advised to carry out necessary due diligence with respect to compliance of directions issued in such Orders at all times. Further, in order to facilitate effective compliance of the various SEBI orders for debarred entities by the trading members of the Exchange, the Exchange has implemented initiatives wherein the orders entered for those debarred entities (wherever PAN available) as updated on the Exchange Website ( refer to link : <https://www.bseindia.com/investors/debent.aspx?expandable=5>) shall be rejected as an invalid order in the Trading System itself and in response, a message "Error Code : 210, Error Text : Client is debarred for member" is displayed to the trading member.

#### **3.2 Self-Trade Prevention Check (STPC) Functionality**

The Self-trade prevention check (STPC) functionality has been introduced with the purpose of preventing matching between a buy and a sell order entered in the same order book by a member for the same client code originating from same or different trading terminals of the member. The Exchange has introduced self-trade prevention check based on Permanent Account Number (PAN) of clients. Using the PAN details available in the Exchange records, the aforesaid check helps prevent matching between a buy and a sell order of a client placed by different members in the same order book. If an incoming order is likely to match with a passive order belonging to the same member and client code combination in the same order book, the system shall cancel such incoming order thus preventing a self-trade. For FAQ, please refer to Exchange notice no. 20150127-30

#### **3.3 Price Reasonability Check (PRC) Functionality**

Price reasonability check has been developed with a primary objective to reduce potential instances of market abuse and fat-finger errors and facilitate true price discovery and investor protection. In PRC functionality, each new (incoming) limit order price is validated with the Exchange defined Price Reasonability Range (PRR). PRR is dynamically computed and applied by the trading system using a real time reference price. This ensures that the price of an incoming limit order is not too far off from the prevailing market prices.

Salient Features of Price Reasonability Check (PRC) functionality:

- It is applicable to incoming limit orders.
- Price of incoming limit orders is checked with respect to PRR prevailing at that point of time.
- PRR is dynamically computed using a real-time reference price. The Reference price is based on Best Bid/Offer prices on each contract/security.
- Incoming orders outside of the PRR at that particular time are rejected.
- If best bid/offer price is not available or if the spread between best bid & best offer price is too wide, then the system computes PRR using theoretical price as the reference price, as applicable.
- Trading system automatically switches, in real-time, between using the best bid/offer price and LTP (or previous close price) as the reference price to compute PRR, depending upon the order book situation.

The existing risk management feature of price bands continues and PRR works within the applicable price bands defined for each contract.

The PRC functionality is applicable for all Futures and options contracts of Commodity Derivatives.

In case of Commodity Futures, the Price Reasonability Range (PRR) range has been set by the Exchange as 50% of the applicable Daily Price Band (DPR).

For FAQ, please refer to Exchange notice no. 2016113-1

In case of Commodity Options, the Price Reasonability Range (PRR) ranges has been set by the Exchange is as under:

<b>Order Price Range from (Start Range Rs.)</b>	<b>Order Price Range To in Rs.</b>	<b>Proposed PRR Range in Rs.</b>
0.05	25	10
25.05	50	20
50.05	100	40
100.05	200	80
200.05	350	140
350.05	500	200
500.05	750	300
750.05	1250	400
1250.05	1500	40% of price
1500.05 and above		30% of price

### **3.4 Reversal Trade Prevention Check (RTPC) functionality**

Prevention of Reversal Trades check is introduced with an intention to prevent potential cases of trade reversal taking place on the Exchange trading platform. In this measure, the second leg (latest leg) of a reversal trade is automatically cancelled by the Exchange at the time of order matching in an on-line real time manner in the trading system on the same trading day. RTPC is applicable on both the Client code level and also as the PAN level. RTPC is applicable across all expiries of futures & options contracts for all market participants with applicable exceptions.

For FAQ, please refer to Exchange notice no. 20160310-40

### **3.5 Abnormal / Non-genuine trades**

Exchange has issued notice no. 20181116-23 dated November 16, 2018, notice no. 20181213-31 dated December 13, 2018 and notice no. 20190207-46 dated February 7, 2019 to trading members advising them to refrain from entering abnormal / non – genuine transactions executed by the market participants primarily with an objective of transferring profit / loss between the concerned entities or creation of artificial volume in securities / contracts across segments. Further, trading members were informed that any such activity observed may also attract levy of penalty of 100% of the traded value / profit made / loss incurred as a result of such trades.

### **3.6 Surveillance Margin**

Securities Exchange Board of India (SEBI), and Exchanges in order to enhance market integrity and safeguard interest of investors, have decided in joint surveillance meetings to impose Additional Surveillance Measure (ASM) on commodities with surveillance concerns based on the Open Interest Value.

#### **3.6.1 Additional Surveillance Margin (ASM)**

Exchange has issued notice no. 20191015-43 dated October 15, 2019 to trading members informing about an additional surveillance margin (ASM), maximum of 5%, which will be applied along with the existing margins i.e. initial margin (IM) and extreme loss margin (ELM). The ASM is made applicable in a dynamic manner so that in case the IM+ELM goes beyond 15%, the additional margin tapers down by the same proportion for every increase of margin. Thus, if IM+ELM becomes 20% or more, then under such circumstances additional surveillance margins shall be zero.

#### **3.6.2 Event Based Additional Surveillance Margin (E-ASM)**

Exchange has issued notice no. 20191015-43 dated October 15, 2019 and notice no. 20200919-4 dated September 19, 2020 and Notice No. 20211230-63 dated December 30, 2021 to trading members informing about an additional 2.5% event-based additional surveillance margin (E-ASM) which is

applicable at the commodity level, and kicks-in whenever any of the following events occur, in the top 2 contracts based on OI:

1. A High/ Low variation of 10%, within 5 consecutive trading days
2. A High/ Low variation of 15%, within 10 consecutive trading days

E-ASM would be applicable for a period of 15 trading days, from the date of event. Further, if any of the above events, or any other event as may be decided by the Exchange, happens/recurs during the period for which E-ASM is applicable, the period of applicability of 15 trading days shall get reset and will begin from the date of the latest event.

### 3.6.3 Client level Concentration Margin

In case the concentration of the top 25 clients on the Long or Short side is greater than 30% of the commodity level Open Interest, then a Concentration Margin of 5 % shall be levied on the top 25 clients on both long and short side at Commodity level Margin..

Based on the positions of related clients and entities acting in concert, if required, the same may further be increased to cover up to 50 % of the commodity level Open Interest on both Long and Short side in order to ensure market safety and integrity.

The concentration margin shall be applicable only for those clients having commodity level position of value above INR 5 crore. Concentration Margins shall be applicable at the Clearing Member level.

## 4 Member Transactional alerts related to Commodity Derivatives Segment.

- I. In order to facilitate effective surveillance mechanisms at the Member level, the Exchange has derived following transactional alerts that are downloaded to trading members. This facilitates trading members to effectively monitor trading activity of their clients.
- II. The trading members are hereby informed that the below alerts are indicative in nature and trading members can derive their own alerts in addition to the said transactional alerts as per their internal surveillance policy in respect of surveillance and risk management.

Sr. No.	Transactional Alerts	Periodicity
1	Significant increase in client activity	Monthly
2	Sudden trading activity in dormant account	Monthly
3	Concentrated position in the Open Interest	Daily
4	High Turnover concentration	Weekly
5	Large Trade Quantity	Daily
6	Order Spoofing	Daily

- III. Trading Members are requested to take note of the above and ensure compliance.
- IV. Trading Members are requested to refer to Exchange notice no. 20181128-12 dated November 28, 2018 and 20201026-40 dated October 26, 2020 and carry out analysis of indicative transactions alerts downloaded through e-BOSS as per the said notice.
- V. Members are also required to provide the status of the alerts forwarded to them on a quarterly basis, in the following format to the Exchange.

Name of Alert	No. of alerts under process at the beginning of quarter	No. of new alerts received in the quarter	No. of alerts closed in the quarter	No. of alerts pending/under process at the end of quarter

The above details shall be mailed to [alert.eboss@bseindia.com](mailto:alert.eboss@bseindia.com) for the previous quarter within 15 days from last trading day of the quarter starting from the quarter end, i.e., starting from quarter ended December 2020.

## 5 Regulatory Disclosures

SEBI vide its circular no. SEBI/HO/CDMRD/DMP/2016/101 dated September 27, 2016 and SEBI/HO/CDMRD/DNPMP/CIR/P/2019/08 dated January 04, 2019 has prescribed certain norms regarding disclosures by Stock Exchanges on their website for commodity derivatives segment.

The exchange from time to time disseminates the data pertaining to the trading in the derivative segments for the information of the market.

### 5.1 Top 10 Trading clients in order of maximum Open Interest

The data relating to Top 10 Trading clients in order of maximum Open Interest updated on daily basis at End-of-day.

The link for the same is as follows;

<https://www.bseindia.com/markets/Commodity/TopTradingclients.aspx>

### 5.2 Proprietary Trade Positions

The data shows the percentage of the total open position of the Proprietary trades vis-à-vis the member's total open position and the Initial Margin of such proprietary trades for Commodity Derivatives Segment. The data is disclosed for the last three months on the website as the average figure for open Interest and VaR details, computed daily.

The link for the same is as follows;

[Proprietary Trade Positions-Commodity Derivatives Segment](#)

### **5.3 Disclosure of Category-wise OI at Commodity Level**

The data contains the details of open interest by each category of participants as on T day on a weekly basis for every Wednesday by next Wednesday (and for next trading day in case of holiday on any Wednesday)

The link for the same is as follows;

[Disclosure of Category-wise OI at Commodity Level](#)

### **5.4 Daily Client wise OI Limits**

The data shows daily client wise applicable OI limits for Agri and Non-Agri commodities.

The link for the same is as follows;

[Daily Client wise OI Limits](#)

### **5.5 Daily Trading Member wise OI Limits**

The data shows daily Member wise applicable OI limits for Agri and Non-Agri commodities.

The link for the same is as follows;

[Daily Trading Member wise OI Limits](#)

### **5.6 Commodity wise Open Interest**

The data contains percent of Open Interest held by the indicated number of the largest participants.

The link for the same is as follows;

[Commodity wise Open Interest](#)

### **5.7 Top Participants/Members at Commodity Level**

The data contains percent of Open Interest of top participants/group of participants/member wise for Agri and Non-Agri commodities.

The link for the same is as follows;

[Top participants/members at commodity level](#)

## 5.8 Market Wide Position Limits

The data shows daily Exchange wide position applicable OI limits for Agri and Non-Agri commodities.

The link for the same is as follows;

[Market Wide Position Limits](#)

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