भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/CDMRD/DRMP/CIR/P/2018/51 March 20, 2018

To,

The Managing Directors / Chief Executive Officers
National Commodity Derivatives Exchanges

Sir / Madam,

Sub: Spread margin benefit in commodity futures contracts

1. Vide circulars CIR/CDMRD/DRMP/01/2015 dated October 01, 2015, SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated September 01, 2016 and SEBI/HO/CDMRD/DRMP/CIR/P/2016/130 dated December 02, 2016, SEBI has prescribed norms inter-alia for providing margin benefit on spread positions in commodity futures contracts.

2. Based upon proposals from Exchanges and recommendations of the Risk Management Review Committee, following has been decided regarding margin benefit on spread positions:

   2.1. Exchanges may provide spread benefit in initial margin across futures contracts in a commodity complex provided the following conditions are met –
   - Minimum coefficient of correlation (r) between futures prices of the two commodities is 0.90.
   - Back testing for adequacy of spread margin to cover MTM has been carried out for a minimum period of one year (back testing for at least 250 days wherein daily settlement price of futures used for back testing have been determined **from traded futures prices**).
   - Initial margin after spread benefit has been able to cover MTM on at least 99% of the days as per back testing.

   2.2. Maximum benefit in initial margin on spread positions is restricted to 50%. No benefit in ELM shall be provided for spread positions, i.e. ELM shall be charged on both individual legs. Exchanges are free to charge higher margins depending upon their risk perception. Margin benefit on spread positions shall be entirely withdrawn latest by the start of tender period or the start of the expiry day, whichever is earlier.

2.3. To be eligible for initial margin benefit, each individual contract in the spread shall be from amongst the first three expiring contracts in the two commodities only.

2.4. Exchanges shall continuously monitor dynamics of the commodities and their correlation and if there are changes such that spread margin benefit is no longer appropriate to be given, shall take appropriate further course of action.

2.5. In case of calendar spreads or spreads consisting of two contract variants having the same underlying commodity (wherein currently 75% benefit in initial margin is permitted) also, benefit in initial margin shall be permitted only when each individual contract in the spread is from amongst the first three expiring contracts.

3. The provisions of this circular shall be effective from July 01, 2018.

4. The exchanges are advised to bring the provisions of this circular to the notice of their members and also to disseminate the same on their website.

5. This circular is issued in exercise of 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.

6. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

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