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Framework for Determination of Final Settlement Price (FSP) in case of Unavailability of Polled Spot Price on Expiry Day

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In terms of the provisions of the Rules, Bye-Laws and Regulations of the Multi Commodity Exchange Clearing Corporation Limited (MCXCCL), Members are requested to note that:

SEBI vide its Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/90 dated September 21, 2016 on "Staggered delivery, early delivery system, early pay-in facility, penalty on delivery default, fixation of FSP and changes in expiry dates", had inter-alia prescribed the methodology for fixation of FSP (for commodity futures contracts where FSP is determined by polling) under various scenarios.

Based on deliberations in the Commodity Derivatives Advisory Committee (CDAC) meetings, back-testing of various alternatives of determining FSP carried out by Exchanges and consultations held with Exchanges, SEBI has permitted Exchanges/Clearing Corporations to design and implement their own framework for determining FSP in case of unavailability of polled spot price on expiry day, ensuring that the framework is objective and adequate to determine FSP in all eventualities.

The methodology to implement the framework for determination of Final Settlement Price in case of unavailability of polled spot price on expiry day to be used, as approved by MCX, is based on the (A) liquidity and (B) illiquidity of the commodity, as under:

i.   **Mechanism to determine Final settlement Price (FSP) for liquid commodities:** A contract would be considered liquid if at least 100 trades are executed cumulatively for all three days i.e. E0, E-1, and E-2. The method to be followed and accuracy of the price determination by the proposed method is presented hereunder:

    a. All the trades in the contract on the date of its Expiry shall be considered.
    b. The distinct prices at which the trades have been executed during the day shall be noted down.
    c. Arithmetic Mean (Simple Average) of these prices shall be calculated.
    d. The Standard Deviation of each Trade Price from the Arithmetic Mean shall be computed.

e. All the Trade Prices having Sigma more than 2 Sigma (two-tailed Normal Distribution) shall be discarded.

f. The remaining Trade Prices (with less than or equal to 2 Sigma from the Mean) shall be arranged in the ascending order, along with the corresponding total quantities.

g. The Weighted Average of the above Price – Quantity to be taken as the Average Price for the Expiry Day.

h. The above process shall be repeated for the Expiry minus 1 and Expiry minus 2 days.

i. A simple average of the 3 days of such prices arrived at shall be considered as the average price of the Contract for the purpose of computing Due Date Rate.

ii. **Mechanism to determine Final settlement Price (FSP) for illiquid commodities.**

a. Commodities available for trading which are illiquid on MCX platform, but liquid on other Exchanges and the contract specification are exactly similar (e.g. Castor seed). Criteria for liquidity shall be more than 100 trades on other Exchanges for all available contracts of the same commodity during the FSP days. FSP of the similar contract to be taken for arriving FSP at MCX.

b. If the commodity is not available at other Exchange or if the contract specifications are different, then spot price polled at MCX (at basis centre) shall be extrapolated from the trend for available spot price for past 7 days from the date when spot price was last available.

The above framework shall come into effect immediately.

Members are requested to take note of the same.

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Kindly contact Customer Support on 022 – 6649 4040 or send an email at customersupport@mcxindia.com for any clarification.