

# Frequently Asked Questions – Clearing & Settlement

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# **Settlement**

## **1. Is ICEX going to have its Clearing Corporation?**

Yes. However, at present it will have its own Clearing House which will manage and settle all trades.

## **2. Who maintains the Settlement Guarantee Fund?**

Settlement guarantee fund would be maintained and managed by the Clearing House of the Exchange.

## **3. How would contracts settle?**

All open contracts not intended for delivery and non-deliverable positions at client level would be settled at DDR/Settlement price.

## **4. What would be the settlement period?**

MTM and all the open position not settled by delivery on expiry is settled on the following day i.e. T+1 after the trading day. All contracts materializing into deliveries would settle in a period of 2-7 days after the expiry. The exact settlement day would be specified for each commodity.

## **5. Would you be providing for deliveries?**

Yes.

## **6. Are deliveries compulsory?**

It depends on commodity to commodity. ICEX has three types of delivery options i.e., compulsory delivery, seller's option and both option. Members and their clients are advised to refer the specific contract for the same.

## **7. Would additional margins be levied for deliverable positions?**

Yes. This is not exactly the additional margin in true sense but it is Tender and delivery period margin which is imposed during tender and delivery period. It also depends upon commodity to commodity.

## **8. How would a buyer take physical delivery?**

Any buyer intending to take physical delivery would request the Exchange to withdraw the stock bought by him. On receipt of such request, Exchange will issue delivery order (DO) to the concerned warehouse manager to release the stock to the buyer. The Buyer then takes the delivery from the warehouse on surrendering the original warehouse receipt. In case the buyer holds the warehouse receipt in electronic form then

he will have to put a request to its Depository Participant, who would pass on the same to the registrar and the warehouse. On a specified day, the buyer would go to the warehouse and pick up the physicals by submitting the RRN generated by DP.

**9. How would a seller get the electronic balance for the physical holdings?**

The seller intending to make delivery would have to take the commodities to the designated warehouse. These commodities would have to be assayed by the Exchange specified assayer. The commodities would have to meet the contract specifications with allowed variances. If the commodities meet the specifications, the warehouse would accept them. Warehouses would then ensure updating the receipt in the depository system giving a credit in the depositor's electronic account.

**10. How many warehouses would be there?**

To start with, there will be one warehouse in a particular delivery center. If need be, then other warehouses will be added on.

**11. How would you accredit warehouses?**

ICEX would prescribe the accreditation norms, including financial and technical parameters, which would have to be met by the warehouses.

**12. What happens to the sales tax?**

Prices quoted for the futures contracts would be basis warehouse and exclusive of sales tax or inclusive of sales tax applicable at the delivery center. For contracts materializing into deliveries and is exclusive of sales tax then sales tax would be added to the settlement amount. The sales tax would be settled on the specified day after the payout.

**13. How will you ensure standardization in delivered grades / varieties?**

The exchange will specify, in its contract description, the particular grade / variety of a commodity that is being offered for trade. A tolerance quality parameter range will be mentioned for all the quality parameters and only those grades, which fall within the range, will be accepted for delivery.

**14. Who will be assayers?**

The following Assayers would be the approved Assayers,

- a) SGS India Pvt. Limited,
- b) Geo-Chem Laboratories,
- c) Dr. Amin Superintendents & Surveyors Pvt Ltd.,
- d) JB Borda

**15. Can commodities be re-deposited in the warehouse after the validity period of the assayer's certificate?**

No.

**16. How would disputes be resolved?**

Any disputes in regard to the quality / quantity will be referred to the Arbitration committee set up for the purpose.

**17. Who would be the depository participants?**

DP's will be approved by the Exchange and a separate notification will be made in this regard.

## **Collaterals**

### **1. What are the different types of collaterals acceptable by ICEX?**

Fixed Deposits, Bank Guarantees and enlisted securities are acceptable as collaterals. Commodities are not acceptable now. However the list of commodities acceptable for collaterals will be notified soon.

### **2. What is meant by cash equivalent collaterals?**

Fixed Deposits and Bank Guarantee will be considered as Cash equivalent collaterals

### **3. How the valuation of different collaterals is done?**

Cash equivalent up to 3 times the value of cash will be considered for valuation. Non-cash collateral up to 2 times the value of cash and cash equivalent will be considered towards ABC. However, in case a member maintains cash deposit of more than Rs.15 lakhs, any amount of cash equivalent will be considered

### **4. Which are the approved banks that can issue fixed Deposits and Bank Guarantee?**

Approved Scheduled banks and all the Clearing Banks of the Exchange. Please refer circular No.16/2009 dated 9/12/2009 for list of such banks

### **5. FDR should be issued in which name?**

The FDR should be in the name of 'Indian Commodity Exchange Limited - A/c MEMBER NAME'

### **6. What is the Period and validity of Bank Guarantee and FDR?**

The minimum period of BG should be 3 months. The validity period would be 30days before the end of expiry date in case there is no claim period in the issued BG otherwise till expiry date.

The minimum period of FDR would be 3 months and the validity period would be up to 7 days before the end of maturity date.

### **7. What should be the value of stamp paper on which BG is executed?**

The Bank Guarantee should be typed on a non-judicial stamp paper of Rs.300 or the value prevailing in the State where it is executed, whichever is higher.

**8. What are the required documents for submitting FDR/BG as collateral?**

Fixed deposit receipt/advice endorsed by the member with Re 1 revenue stamp affixed at the back of the FDR should be accompanied with FDR submission request letter and original Lien letter issued by the bank in the format prescribed by the exchange. In case of BG, original BG with Request letter will be required. Please refer Exchange Downloads → C&S formats.

**9. Are the bank guarantee formats different for Base Capital / Security deposit and Additional Base Capital?**

Yes, the formats are different. The formats are placed in the section Exchange Download → C&S Formats.

**10. Can we submit Warehouse receipt or securities collateral towards initial Security Deposit/ base minimum capital?**

No, only cash and cash equivalent i.e., BG and FDR are accepted towards initial Security Deposit/ base minimum capital. The WR or securities will be accepted for additional margin.

**11. Can we submit warehouse receipts/vault receipts of the goods kept in other Exchange warehouses/Vault?**

No, only the Warehouse/Vault receipts pertaining to ICEX accredited Warehouses/Vault will be acceptable towards additional base capital.

**12. When are members disabled for requirements in Collateral deposits?**

Members are disabled once the base capital falls below required deposit as applicable to different members or margin utilization is more than the collateral deposited.

**13. What are the reports given for information on collaterals?**

A Clearing Member can view his/their collaterals on daily basis through FTP server or alternatively by logging at the provided ICEX CNS URL.

**14. Who is the approved Custodian for ICEX?**

HDFC bank has been appointed as the custodian for securities.

**15. Can I submit securities in physical mode?**

No. Exchange will accept securities in electronic form only.

## **16. Can I use my existing Demat A/C for this?**

No. Members are required to open a separate Demat account. Members, who are individuals, may open an account in their name if securities offered are held in their names. Members who are a partnership firm may open an account in their partner's names if shares are held in the names of the partners as the case may be, and Members who are corporate body may open an account in the corporate name or in the name of their designated directors as the case may be depending upon the beneficiary of shares.

## **17. What is the process for submitting the securities towards collateral?**

- a. Members are required to open a separate Demat account.
- b. Members can submit securities in electronic form only.
- c. Exchange approved securities will only be accepted. Exchange will specify the hair cut applicable for each security. These approved securities, margin and hair cut are subject to change from time to time.
- d. Members can deposit equity shares in the designated depository accounts maintained by the Custodians approved/appointed by the Exchange. Pledge is to be executed in favor of Indian Commodity Exchange Limited.
- e. As a prudential measure, an upper cap is fixed by the Exchange for a security at company level and for all securities together. Presently, the upper limit for single share (One company) is Rs.6.00crore and upper limit for all the shares collectively is Rs. 30.00 crores.
- f. In case of removal of a security from approved list by exchange, members have to replace such securities within specified time given by Exchange.

Ownership of the securities

Securities shall be in the name of:

The Member in case of individual membership,  
Any of the partners of the Member in case of partnership,  
Any of the directors of the Member in case of corporate,  
Note: No depositor of securities shall be a minor as on the date of deposit thereof.

## **18. What are the Unacceptable Securities?**

The following securities shall not be accepted for the purpose of security deposit:

- i) Securities not as per the approved list;
- ii) Partly paid up securities;



iii) Securities subject to any lock in period, buy back scheme, any charge or lien, encumbrance of any kind or whose title is questioned before a Court or any regulatory body or such other limitations.

#### **19. What is the Evaluation process of securities at ICEX?**

The value of the securities deposited will be calculated at the last closing price / rate every day as being provided by National Stock Exchange (NSE). However, in case any security is not traded during the six months preceding the date of such valuation, the same will not be considered for the purpose of valuation.

#### **20. Process for Release of securities deposited?**

Members have to submit a letter for withdrawal of the pledged securities. Letter should be in prescribed format of exchange. Exchange will consider the request of member under the consideration of risk associated with withdrawal of pledge and members have not any kind of outstanding obligations / positions / dues towards the Exchange. If Exchange will consider releasing securities deposit it will inform custodian to do so.