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SEBI tightens margin norms on commodity derivatives

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Categorises commodities based on their realised volatility

SEBI has further tightened norms for commodity futures trading by categorising commodities based on its volatility and imposing identical margins across exchanges.

Due to wide variation in liquidity and volatility among different commodity derivatives, SEBI has categorised commodities as per their realised volatility and has prescribed floor values of initial margin and IMPOR (initial margin period of risk) depending upon their categories.

Clearing Corporation of the particular exchange will be entirely responsible for addressing risk and fixing the margins.

Sanjit Prasad, Managing Director, ICEX, said the risk management tools of securities markets cannot be superimposed on commodity derivatives market in totality. The latest SEBI addresses the challenges of risk emerging from the underlying commodities market, he added.

Commodity with realised annualised volatility above 20 per cent will be categorised as high risk while those with 15-20 per cent and 0-15 per cent will be termed as medium and low risk commodities. SEBI has prescribed a formula for calculating the realised annualised volatility of each commodity.

The exchange with maximum average daily turnover across all derivative contracts on the respective commodity based on last six months' period will be termed as Lead Exchange. The clearing corporation of the lead exchange will do the categorisation of the respective commodities and same shall be adopted by all other clearing corporations.

The high risk non-agricultural commodities will have an minimum initial margin of 10 per cent while it will be 12 per cent for agriculture commodities. Medium and low risk non-agricultural commodities will carry an initial margin of 8 per cent and 6 per cent while it will be 10 per cent and 8 per cent for agriculture commodities.

The minimum MPOR on high, medium and low risk non-agricultural commodities would be 3 per cent and 2 per cent each while for agriculture commodities it will be 4 per cent and 3 per cent each.

Role of clearing corporations

Clearing corporations should categorise all commodities once in every six months' based on past three years' data. Commodity may be moved from higher volatility category to lower category only if it satisfies criteria of the revised category of volatility for two consecutive reviews. However,it can be moved from a lower to higher volatility category on a single review.

The categorisation of commodities has to done on March 1 and September 1 of each year on rolling basis and changes if any shall be made applicable from April 1 and October 1.

In case, derivatives are launched on any new underlying commodity for the first time for which no reference futures prices are available, clearing corporations will initially categorise them based on spot prices. Re-categorisation of such commodity from higher to lower category of volatility can only be done after two consecutive reviews, said SEBI.

Clearing corporations can levy an additional lean period margin on agriculture commodities to curb volatility in months just before the arrival season begins. The lean period will be decided by the lead exchanges and disclose on their websites. The initial categorisation of commodities has to be completed and notified by CCs within 15 days and new margins to be implemented in a phased manner in three months, SEBI said.

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SEBI commodities market

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COMMENTS