Info Capsule

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THE INSTITUTE OF
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1. REVIEW OF MARGIN FRAMEWORK FOR COMMODITY DERIVATIVES SEGMENT – Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2020/15 (Dated 27th January, 2020)

1. SEBI vide Circular CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 and SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated September 01, 2016 prescribed Risk Management Framework for the Commodity Derivatives Segment (CDS). These circulars, inter alia, stipulated minimum value for Initial Margin (IM) and Margin Period of Risk (MPOR).

2. CPSS-IOSCO Principles for Financial Market Infrastructure (PFMI) inter alia prescribes under Key Considerations for Principle 6 on margin that margining model should *to the extent practicable and prudent, limit the need for destabilising, pro-cyclical changes.*

3. It is further explained under Clause 3.6.10 of PFMI that:
    a. **Limiting procyclicality**: A CCP should appropriately address pro-cyclicality in its margin arrangements. In this context, pro-cyclicality typically refers to changes in risk management practices that are positively correlated with market, business, or credit cycle fluctuations and that may cause or exacerbate financial instability.

    b. For example, in a period of rising price volatility or credit risk of participants, a CCP may require additional initial margin for a given portfolio beyond the amount required by the current margin model. This could exacerbate market stress and volatility further, resulting in additional margin requirements. To support this objective, a CCP could consider increasing the size of its prefunded default arrangements to limit the need and likelihood of large or unexpected margin calls in times of market stress. These procedures may create additional costs for CCPs and their participants in periods of low market volatility due to higher margin or prefunded default arrangement contributions, but they may also result in additional protection and potentially less costly and less disruptive adjustments in periods of high market volatility.

4. In light of the above and given the wide variation of liquidity and volatility among different commodity derivatives, it has been decided, in consultation with stakeholders, to categorize commodities as per their realized volatility and to prescribe floor values of IM and IMPOR depending upon their categories.

5. Accordingly, norms regarding Minimum IM and minimum MPOR for commodity derivatives segment stands revised as per the framework mentioned in the circular. The norms on risk management prescribed vide circulars referred to at Para '1' above, which are not modified shall continue to prevail.

    Initial categorisation of commodities as prescribed under Para '5' of the circular shall be done and notified by CCs within 15 days of the circular. The revised norms with regard to IM, MPOR and lean period margin may be implemented by CCs in a phased manner and shall be fully implemented within a period of three months from the date of the circular. The corresponding update in stress testing scenarios, if applicable, shall also be done by CCs immediately after the circular is fully implemented.

The circular is available at: https://www.sebi.gov.in/legal/circulars/jan-2020/review-of-margin-framework-for-commodity-derivatives-segment_45803.html

3. MERCHANTING TRADE TRANSACTIONS (MTT) – REVISED GUIDELINES - RBI/2019-20/152 A.P. (DIR Series) Circular No.20 (Dated 23rd January, 2020)

RBI has issued a circular containing directions issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) without prejudice to permissions / approvals, if any, required under any other law wherein attention of Authorised Dealer Category-I banks (AD banks) is invited to A.P. (DIR Series) Circular No.115 dated March 28, 2014 containing directions relating to merchanting trade transactions.

With a view to further facilitate merchanting trade transactions, the existing guidelines have been reviewed and the revised guidelines are being issued in supersession of the A.P. (DIR Series) Circular *ibid.*

The circular is available at: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11799&Mode=0