



**CIRCULAR**

**SEBI/HO/IMD/DF2/CIR/P/2019/65**

**May 21, 2019**

**All Recognized Stock Exchanges,  
All Custodian of Securities,  
All Mutual Funds,  
All Asset Management Companies (AMCs) of Mutual Funds,  
All Trustee Companies/ Boards of Trustees of Mutual Funds**

Sir/Madam,

**Sub: Participation of Mutual Funds in Commodity Derivatives Market in India**

1. A copy of the [Gazette Notification No. SEBI/LAD-NRO/GN/2019/011](#) dated April 26, 2019 on Amendments to SEBI (Mutual Funds) Regulations, 1996 is enclosed for implementation.
2. In order to promote institutional participation in Exchange Traded Commodity Derivatives (ETCDs), SEBI has permitted Category III Alternative Investment Funds to participate in exchange traded commodity derivatives vide circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/61 dated June 21, 2017 and also vide circular no. SEBI/HO/CDMRD/DMP/CIR/P/2018/134 dated October 09, 2018 permitted Eligible Foreign Entities (EFE) having actual exposure to Indian commodity markets, to participate in the commodity derivative segment of recognized stock exchanges for hedging their exposure. In furtherance to this objective, it has been decided to permit mutual funds to participate in ETCDs.
3. The participation of mutual funds in ETCDs would be subject to the following:
  - i. Mutual funds are permitted to participate in ETCDs in India, except in commodity derivatives on 'Sensitive Commodities' as defined vide SEBI circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017.
  - ii. In partial modification to paragraph 3 of SEBI Circular No.CIR/IMD/DF/11/2015 dated December 31, 2015, it has been decided that ETCDs having gold as the underlying, shall also be considered as 'gold related instrument' for Gold Exchange Traded Funds (Gold ETFs).



- iii. No Mutual fund schemes shall invest in physical goods except in 'gold' through Gold ETFs. Further, as mutual fund schemes participating in ETCs may hold the underlying goods in case of physical settlement of contracts, in that case mutual funds shall dispose of such goods from the books of the scheme, at the earliest, not exceeding 30 days from the date of holding of the physical goods.
- iv. No mutual fund scheme shall have net short positions in ETCs on any particular good, considering its positions in physical goods as well as ETCs, at any point of time.
- v. Mutual funds are permitted to participate in ETCs through the following schemes:
  - a) Hybrid schemes in terms of paragraph C of the Annexure to SEBI Circular No.SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017, which includes multi asset scheme and
  - b) Gold ETFs.
- vi. In case of existing schemes, as mentioned in paragraph 3(v) above, prior to commencement of participation in ETCs, the scheme shall comply with the provisions of Regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996, as this will lead to change in fundamental attributes of the scheme and all unitholders shall be given a time-period of at least 30 days to exercise the option to exit at prevailing NAV without charging of exit load, if any.
- vii. Prior to participation in ETCs, the AMCs shall adhere to the following:
  - a) Appoint a dedicated fund manager with requisite skill and experience in commodities market (including commodity derivatives market).
  - b) Appoint a custodian registered with the Board for custody of the underlying goods, arising due to physical settlement of contracts.
  - c) Have written down investment policy for participation in ETCs approved by the Board of the Asset Management Company and the Board of Trustees.
  - d) Have written down valuation policies approved by the Board of the AMC and the Board of Trustees for valuation of commodity derivatives and the underlying goods, arising due to physical settlement of contracts. The



approved valuation policies should be subject to the principles of fair valuation of the assets of mutual funds schemes.

- viii. In partial modification to paragraph 2(b) of SEBI Circular No. CIR/IMD/DF/04/2013 dated February 15, 2013 read with paragraph 3(b) of SEBI Circular No. CIR/IMD/DF/11/2015 dated December 31, 2015, it has been decided that before investing in GDS of Banks, GMS and ETCDs having gold as the underlying, mutual funds shall put in place written policy with regard to such investments with due approval from the Board of the Asset Management Company and Board of Trustees. The policy should have provisions to make it necessary for the mutual fund to obtain approval of trustees for investment proposal in GDS of any Bank and GMS. The policy shall be reviewed by mutual funds, at least once in a year.
- ix. Mutual fund schemes may participate in the ETCDs as 'clients' and shall be subject to all the rules, regulations and instructions, position limit norms, etc. as may be applicable to clients, issued by SEBI and Exchanges from time to time. The position limits at mutual fund level be as applicable to 'Trading Members'.
- x. Schemes investing in ETCDs shall be benchmarked against an appropriate benchmark.
- xi. AMCs shall not onboard Foreign Portfolio Investors (FPIs) in schemes investing in ETCDs until FPIs are permitted to participate in ETCDs.

**Investment Limits:**

4. Participation of mutual funds in ETCDs shall be subject to the following investment limits:
  - i. Mutual fund schemes shall participate in ETCDs of a particular goods (single), not exceeding 10% of net asset value of the scheme. However, the limit of 10% is not applicable for investments through Gold ETFs in ETCDs having gold as underlying.
  - ii. In case of multi assets allocation schemes, the exposure to ETCDs shall not be more than 30% of the net asset value of the scheme.
  - iii. In case of other hybrid schemes excluding multi assets allocation scheme, the participation in ETCDs shall not exceed 10% of net asset value of the scheme.



- iv. In partial modification to paragraph 3 of SEBI Circular No.CIR/IMD/DF/11/2015 dated December 31, 2015, it is proposed that in case of Gold ETFs, the cumulative exposure to gold related instruments i.e. Gold Deposit Scheme (GDS) of banks, Gold Monetization Scheme (GMS) and ETCD having gold as the underlying shall not exceed 50% of net asset value of the scheme. However, within the 50% limit, the investment limit for GDS and GMS as part of gold related instrument shall not exceed 20% of net asset value of the scheme. The unutilized portion of the limit for GDS of banks and GMS can be utilized for ETCD having gold as the underlying.
- v. The cumulative gross exposure through equity, debt and derivative positions (including commodity derivatives) shall not exceed 100% of net asset value of the scheme.

**Disclosures:**

5. In case of mutual fund schemes investing in ETCDs, the AMC shall adhere to the following:
  - i. The NAVs of those schemes shall be updated on daily basis by the AMCs on their website and on the website of AMFI by 09:00 a.m. of the following calendar day.
  - ii. The format of monthly and half yearly portfolio may be modified to reflect the investment in ETCDs
  - iii. The total exposure to ETCDs shall be disclosed as a line item in the Monthly Cumulative Report (MCR) submitted by mutual funds.
6. The Recognized Stock Exchanges are advised to:
  - i. make necessary amendments to the relevant bye-laws, rules and regulations.
  - ii. bring the provisions of this circular to the notice of the members of the Exchange and also to disseminate the same on their website.
  - iii. communicate to SEBI, the status of the implementation of the provisions of the circular.



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Securities and Exchange Board of India

7. All the provisions of the circular will be applicable from the date of the circular.
8. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

**Jyoti Sharma**  
**General Manager**  
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