

CIRCULAR

SEBI/HO/CDMRD/DNPMP/CIR/P/2019/89

August 07, 2019

To,

The Managing Directors / Chief Executive Officers All Recognized Stock Exchanges having Commodity Derivatives Segment

Sub: Product Advisory Committee

Dear Sir / Madam,

 In order to bring transparency in the design process for commodity derivatives contract so that it caters to the needs of the physical market participants and based on the advice of the Commodity Derivatives Advisory Committee (CDAC), it has been decided that each recognised stock exchange dealing in commodity derivatives segment shall constitute a <u>Product Advisory Committee (PAC)</u> for each group/complex of commodities having common stakeholders/value chain participants, on which derivatives are traded or being proposed to be traded on the exchange.

1.1. Terms of Reference

The PAC shall be consulted for the following:

- Contract design on new commodities and review of design of existing contracts, to ensure that contract specifications represent the industry's needs:
 - alignment of quality/quantity specifications of the product with the physical market
 - o choice of basis and additional delivery centers
 - appropriate premium/discount for additional deliverable quality/ delivery at additional delivery center, etc.
- Discussion on the "State of the Markets for the commodity" at every meeting.
- Review of the delivery centres as well as recommendations with respect to modifications of delivery centres.
- Review of suggestions/feedback/complaints received by the exchange regarding the commodity/contract and action taken thereon.
- Performance review of the existing contracts on various parameters.
- Any other related matter thereof.

Exchange shall have the right to accept, reject or modify any recommendations made to it by the PAC, by recording the reasons thereof.



1.2. Composition

- a) The PAC shall have a balanced representation from amongst the following categories of stakeholders:
 - Representatives from Trade Associations representing various value chain participants
 - Representatives from various Stakeholders and value chain participants such as producers, traders, consumers, Farmers & Farmers Producers Organisations (FPOs)/Cooperative societies in case of agricultural commodities, SMEs/MSMEs etc.
 - Representative(s) from warehousing/ assaying sector
 - Independent Expert(s) in the specific commodity group
 - Representative(s) from financial sector (such as Financial Institutions, brokers, etc.)
 - Representative(s) from Exchange/ clearing corporation responsible for specific commodity.
- b) Each PAC meeting shall be headed by a Chairman (who shall be an independent person with experience in the specific commodity) selected as such for the meeting based on attendees' choice. PAC shall have an exchange executive as Vice Chairman for administrative coordination/decision.

1.3. Proceeding of meetings

- a) The PAC shall meet at least twice a year and more frequently as and when required.
- b) The Exchange shall prepare the agenda for the meeting based on the views and requirements of value chain participants and also taking into account any suggestions/feedback/complaints received by the exchange regarding the commodity/contract.
- c) In the PAC meetings at least 50% members (excluding representative from exchange/Clearing Corporation) shall be present, including its chairman or vice chairman (acting chairman).

1.4. Disclosure

For each PAC, the exchange shall make following disclosures on its website:

- Composition of Committee- Name of the member, Organisation, Sector
- Terms and reference of the Committee
- The Committee shall be at liberty to publicise agenda items with the Exchange's prior concurrence in order to encourage market participants to contribute their point of view.



1.5. Confidentiality and Conflicts of Interest

- a) PAC members must ensure that, unless outside consultation is specifically agreed, all matters discussed and all materials and data made available to them in respect of their Committee-related activities are kept confidential at all times. Exchange shall formulate a code of conduct to be adhered to as a member of the Committee.
- b) If there is a conflict of interest arising for a member out of any matter proposed to be discussed at a Committee meeting or a matter that comes for discussion in the course, in a Committee meeting, such committee member must absent himself from discussion on that matter and the minutes of the meeting must record the same.
- 2. There should be an annual review of the PAC's performance by the Regulatory Oversight Committee of the Stock Exchange.
- 3. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
- 4. The circular would be effective from one month from the date of the circular.
- 5. Exchanges are advised to:
 - i. to make necessary amendments to the relevant bye-laws, rules and regulations.
 - ii. bring the provisions of this circular to the notice of the stock brokers 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 this circular.
- 6. This circular is available on SEBI website at www.sebi.gov.in under the category "Circulars" and "Info for Commodity Derivatives".

Yours faithfully,

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