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Info Capsule

October 10, 2018

PARTICIPATION OF ELIGIBLE FOREIGN ENTITIES (EFES) IN THE COMMODITY DERIVATIVES MARKET[1]

1. Currently, foreign entities are not permitted to directly participate in the Indian commodity derivatives market, even if they import/export various commodities from/to India. Such entities by virtue of their actual exposure to the various commodities in Indian market, are valuable stakeholders in the value chain of such commodities, and are also exposed to price uncertainty of Indian commodity markets. Therefore these foreign entities should be enabled to hedge their price risk in the Indian commodity derivatives market.

2. Taking cognizance of the fact that participation by such foreign participants would be conducive for the overall development of the commodity derivatives market in India, SEBI issued consultation paper on May 18, 2018 to discuss the suitable framework for allowing foreign participants to hedge their commodity exposure. Pursuant to feedback received from the market participants during the consultative process, it has been decided to permit foreign entities having actual exposure to Indian commodity markets, to participate in the commodity derivative segment of recognized stock exchanges for hedging their exposure. Such foreign entities shall be known as "Eligible Foreign Entities" (EFEs).

3. The detailed regulatory framework for participation by the EFEs have been outlined at Annexure to the circular, which is available at **https://www.sebi.gov.in/legal/circulars/oct-2018/participation-of-eligible-foreign-entities-efes-in-the-commodity-derivatives-market_40649.html**

   The provisions of this circular (SEBI/HO/CDMRD/DMP/CIR/P/2018/134) shall come into effect from the date of the circular, which is October 09,2018

4. 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.

5. The 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"

PRESS RELEASE – RESERVE BANK OF INDIA[2]

Based on its assessment of the financial markets, the Reserve Bank of India has taken several proactive steps in the last few days.

The Reserve Bank has conducted/will be conducting Open Market Operation (OMO) in successive weeks on September 19 and September 27, 2018.

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[1] Available at: https://www.sebi.gov.in/legal/circulars/oct-2018/participation-of-eligible-foreign-entities-efes-in-the-commodity-derivatives-market_40649.html

[2] Available at: https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45074

As abundant caution, the Reserve Bank has also provided a liberal infusion of liquidity through term repos in addition to the usual provision via the Liquidity Adjustment Facility (LAF).

As of September 26, banks had availed of ₹ 1.88 trillion through term repos from the Reserve Bank.

As a result of these steps, the system liquidity is in ample surplus.

Further, the increase in Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR), announced today for effect from October 1, 2018, from the existing 11 per cent to 13 per cent will take the carve out from SLR available to banks to 15 per cent of their NDTL. This should supplement the ability of individual banks to avail of liquidity, if required, from the repo markets against high-quality collateral. This, in turn, will help improve the distribution of liquidity in the financial system as a whole.

Going forward, the Reserve Bank stands ready to meet the durable liquidity requirements of the system through various available instruments depending on its dynamic assessment of the evolving liquidity and market conditions.

Team ICSI