

Consultation paper on review of position limits for clients and penalty provision for violation / breach of position limits for Commodity Derivatives Segment

1. **Objective:** This consultation paper seeks stakeholder views on the following proposals:

(1) Review of Position Limits for Clients Applicable for Agri Commodity Derivatives

(2) Review of Penalty Provision for Violation / Breach of Position Limits for Commodity Derivatives

2. **Issue - 1: Review of Position Limits for Clients Applicable for Agri Commodity Derivatives**

2.1. Position limits are regulatory caps on the number of contracts that a trader (client, member, or institution) can hold in a specific commodity at any given time. These limits aim to curb excessive speculation, prevent excessive concentration of positions in the hands of a few participants, and mitigate systemic risk arising from such concentrated exposures in commodity derivatives.

2.2. Para 3.5.2 of Chapter 3 of the SEBI Master Circular SEBI/HO/MRD/MRD-PoD-1/P/CIR/2023/136 for Commodity Derivatives Segment dated Aug 04, 2023, inter alia, prescribes framework for determination of numerical value of overall client level open position limits for agri commodity derivatives. In any given year, based on the average of production data and import data of past five years on a rolling basis and keeping in view various extraneous factors that affect the trading in derivatives, the agricultural commodities are classified into three categories viz., Broad, Narrow & Sensitive. The norm of categorization of commodities into three categories has following rationale:

a) **Sensitive Commodity:** An agricultural commodity shall be classified as a sensitive commodity if it:

i) is prone to frequent Government/External interventions. These interventions may be in the nature of stock limits, import/export restrictions or any other trade related barriers; or

ii) has observed frequent instances of price manipulation in past five years of derivatives trading.

b) **Broad Commodity:** An agricultural commodity shall be classified as 'Broad Commodity' if it is not 'Sensitive Commodity' and satisfies following criteria:

i) *Average deliverable supply for past five year is at least 10 lakh Metric Ton (MT) in quantitative term and is at least INR 5,000 Crore in monetary term.*

c) **Narrow Commodity:** An agricultural commodity which is not falling in either of the above two categories, viz. 'Sensitive' or 'Broad' commodity, shall be classified as 'Narrow Commodity'.

2.3. The numerical value of overall client level open position limits for each commodity is calculated from 'deliverable supply' available in a particular year. This varies across the categories as per sub-para (iii) of Para 3.5.2 of the Master Circular for commodity derivatives segment and is given below:

Category of Commodity	Position limits
Broad	1% of the deliverable supply
Narrow	0.5% of the deliverable supply
Sensitive	0.25% of the deliverable supply

The numbers arrived based upon above formula should be rounded off downward to appropriate number of zeroes.

2.4. SEBI has received representations to review the aforementioned provisions related to agri commodity derivatives. The current position limits were introduced in 2017, aligned with market conditions prevailing at that time. Since then, the market has evolved significantly

in terms of participants and product offerings. Increased limit may enhance liquidity and market depth & improve price discovery.

Recommendations of the Working Group and the CDAC

2.5. The Working Group (WG) on 'Review of current regulatory norms applicable to Agricultural Commodity Derivatives Segment' and the Commodity Derivatives Advisory Committee (CDAC) made the following recommendations:

2.5.1. The position limits for clients applicable for agri commodity derivatives may be revised as under:

Category of Commodity	Position limits
Broad	2% of the deliverable supply
Narrow	1% of the deliverable supply
Sensitive	0.5% of the deliverable supply
The numbers arrived based upon above formula should be rounded off downward to appropriate number of zeroes.	

2.5.1.1. It may be noted that the recommended position limits are double of the existing overall client level position limits.

2.5.2. Further, it was recommended that the definition of the 'Broad' category for agri commodity derivatives may be modified as under:

An agricultural commodity will be classified as 'Broad Commodity' if it is not 'Sensitive Commodity' and satisfies following criteria:

Average deliverable supply for past five year is at least 10 Lakh Metric Ton (MT) in quantitative term or is at least INR 5,000 Crore in monetary term.

2.5.2.1. It was submitted by the exchanges that very few commodities were able to meet both the criteria as mentioned in the current definition of 'broad category'. Thus,

the WG and CDAC recommended that the present definition of the 'broad category' may be revised by substituting the conjunction 'and' with the conjunction 'or' while keeping the same criteria.

2.5.3. Further, the WG and CDAC recommended that the commodities which shift from narrow category to broad category post change in definition of broad category, shall initially retain position limit of 1% for one year. Thereafter, pursuant to a review by the exchange and upon satisfaction, the exchange may increase the position limit of such commodities to 2% as per the applicable position limits for the broad category.

2.5.3.1. Such phased approach of increasing position limits for commodities shifting from narrow to broad is necessary as the existing client level position limits for all categories of agri commodities are also being doubled as per Para 2.5.1.

3. Issue - 2: Review of Penalty Provision for Violation / Breach of Position Limits for Commodity Derivatives

3.1. SEBI vide 'Master Circular for Commodity Derivatives Segment' dated August 04, 2023 ('Master Circular') has issued various requirements for stock exchanges and clearing corporations for compliance in commodity derivatives segment. Chapter 3 of the Master Circular inter alia mandates that Stock Exchanges shall monitor the open position on a real time basis and shall endeavour that no client or member breaches the open position limits 'at end of the day' as well as 'during intra-day trading'.

3.2. Annexure J under sub-para (ii) of Para 3.4.3 of Chapter 3 of the aforementioned Master Circular provides for the calculation for monetary penalty for position limit violation, as under:

(1) Monetary penalty on the concerned member for violations in the open interest (either on own account or on account of clients) are linked to the quantum/ value of violation

committed and to be charged from the concerned member for each such violation as under:

- a) Where the violation is more than 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is higher.*
- b) Where the violation is up to 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is lower.*
- c) The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of violation. In case such violation continues, the Exchange would square-off the excess position without any further notice to the member by putting the orders on behalf of the member in that client code and will not be responsible for the consequences of such action.*

(2) In case, the instance at 1 (a) above is observed for more than 3 times in a month across the market, the Exchange would suspend the concerned member for a period of one week. For instances at 1 (b) above, the Exchange may devise its norms to deal with habitual defaulters.

(3) Further, in case repeated violations of such nature are observed by SEBI, SEBI may consider action against the concerned Exchange.

The monetary penalty as stated above, will be credited to the Investor Protection Fund of the Exchange.

3.3. Currently, there is no ceiling / cap on the penalty for violation exceeding 2% of the specified position limit. Further, the position limits are specified not only at PAN level but also at Group (based on clubbing of entities). SEBI has received representations to review the aforesaid penalty provisions for breach of position limits applicable to agri and non-agri commodity derivatives. It may be noted that the capping of penalties in commodity derivatives segment may help in creating a context-sensitive, inclusive and risk aligned

ecosystem. Also, penalizing excessively may be counterproductive and may discourage stakeholders from using formal risk management channels.

Recommendations of the Working Group and the CDAC

3.4. The WG on 'Review of current regulatory norms applicable to Agricultural Commodity Derivatives Segment' and CDAC recommended changes in Annexure J of the aforementioned Master Circular. The revised Annexure J is given as under:

(1) Monetary penalty on the concerned member for violations at Client level in the open interest (either on own account or on account of clients/clubbed client level) are linked to the quantum/ value of violation committed and to be charged from the concerned member for every day of violation, as under:

a) Where the violation is more than 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 2,00,000/- whichever is lower.

b) Where the violation is up to 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is lower.

(Option penalty computed based on near calendar month underlying future close price)

c) The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of violation. In case such violation continues, the Exchange would square-off the excess position without any further notice to the member by putting the orders on behalf of the member in that client code and will not be responsible for the consequences of such action.

(2) In case, the instance at 1 (a) above is observed for more than 3 times for a trading member in a calendar month, the Exchange would put the concerned member on square off mode for a period of one day.

- (3) *In case, the instances above including 1(a) and 1(b), is observed for more than 3 times for a trading member in a calendar month, a penalty equivalent to the penalty charged for the said open interest violation would also be additionally imposed on trading member.*
- (4) *Further, in case repeated violations of such nature are observed by SEBI, SEBI may consider action against the concerned Exchange.*

The penalty as stated above, will be credited to the Investor Protection Fund of the Exchange.

4. Accordingly, a draft circular has been prepared modifying the provisions contained in Annexure J under sub-para (ii) of Para 3.4.3, sub-para (i) of Para 3.5.2 and sub-para (iii) of Para 3.5.2 of Chapter 3 of SEBI Master Circular dated August 04, 2023, placed at Annexure-A.

Public Comments:

Comments are invited on Paras 2.5.1, 2.5.2, 2.5.3 and 3.4. The comments/ suggestions should be submitted latest by **June 02, 2026**, through the online web-based form which can be accessed using the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

In case of any technical issue in submitting your comment through the web based public comments form, you may contact the following through email with the subject: **“Review of Position Limits for Clients and Penalty Provision for Violation / Breach of Position Limits for Commodity Derivatives Segment”**.

- 1) mrd_consultation@sebi.gov.in
- 2) Ms Neetika Rajpal, DGM (neetika@sebi.gov.in)
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CIRCULAR

SEBI/HO/MRD/MRD-PoD-1/P/CIR/2026/____

June XX, 2026

To,

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

Sir / Madam,

**Sub: Review of Position Limits for Clients and Penalty Provision for Violation / Breach of
Position Limits for Commodity Derivatives Segment**

1. The norms relating to position limits in the commodity derivatives segment are prescribed under Chapter 3 of SEBI Master Circular for Commodity Derivatives segment dated Aug 04, 2023. The current position limits were introduced in 2017, aligned with market conditions prevailing at that time. SEBI has been receiving representations to review the position limit norms applicable for agri commodity derivatives, as prescribed under Para 3.5.2 of the aforesaid circular. Further, representations have been received for capping of penalty for position limit violation as prescribed under Para 3.4.3.
2. Accordingly, based on representations received from stakeholders, recommendations by the Working Group (WG) on 'Review of current regulatory norms applicable to Agri Commodity Derivatives Segment' and CDAC and public comments received, and with the objective of facilitating Ease of Doing Business, it has been decided to modify the following provisions contained in Paragraph 3.4.3 and Paragraph 3.5.2 of the aforesaid circular:

2.1 Position Limit violation:

Annexure J under sub-para (ii) of Para 3.4.3 regarding “Monitoring of Position Limits” of Chapter 3 of the SEBI Master Circular dated Aug 04, 2023, stands revised as under:

Penal provisions for position limit violation – Annexure J

The following penal provisions are made to discourage/ prevent open interest violations at Commodity level / near month contract level-

(1) Monetary penalty on the concerned member for violations at Client level in the open interest (either on own account or on account of clients/clubbed client level) are linked to the quantum/ value of violation committed and to be charged from the concerned member for every day of violation, as under:

a) Where the violation is more than 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 2,00,000/- whichever is lower.

b) Where the violation is up to 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is lower.

(Option penalty computed based on near calendar month underlying future close price)

c) The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of violation. In case such violation continues, the Exchange would square-off the excess position without any further notice to the member by putting the orders on behalf of the member in that client code and will not be responsible for the consequences of such action.

(2) In case, the instance at 1 (a) above is observed for more than 3 times for a trading member in a calendar month, the Exchange would put the concerned member on square off mode for a period of one day, if the violation is on account of the same client.

(3) In case, the instances above including 1(a) and 1(b), is observed for more than 3 times for a trading member in a calendar month, a penalty equivalent to the penalty charged for the said open interest violation would also be additionally imposed on trading member.

(4) Further, in case repeated violations of such nature are observed by SEBI, SEBI may consider action against the concerned Exchange.

The penalty as stated above, will be credited to the Investor Protection Fund of the Exchange.

2.2 Definition of 'Broad Commodity':

The definition of 'Broad Commodity' under Paragraph 3.5.2 (i)(b) of Chapter 3 of the SEBI Master Circular dated Aug 04, 2023, stands modified as under:

An agricultural commodity will be classified as 'Broad Commodity' if it is not 'Sensitive Commodity' and satisfies following criteria:

Average deliverable supply for past five year is at least 10 Lakh Metric Ton (MT) in quantitative term or is at least INR 5,000 Crore in monetary term.

2.3 Client Level Numeric Position Limits:

Paragraph 3.5.2 (iii) of Chapter 3 of the SEBI Master Circular dated Aug 04, 2023, stands revised as under:

Numerical Value of overall client level open position limits for each commodity shall be calculated from 'deliverable supply' available in a particular year, as per its category as given below:

Category of Commodity	Position limits
<i>Broad</i>	<i>2% of the deliverable supply</i>
<i>Narrow</i>	<i>1% of the deliverable supply</i>
<i>Sensitive</i>	<i>0.5% of the deliverable supply</i>
<i>The numbers arrived based upon above formula should be rounded off downward to appropriate number of zeroes.</i>	

The commodities which may shift from narrow category to broad category post change in definition of broad category, shall initially retain position limit of 1% for one year. Thereafter, pursuant to a review by the exchange and upon satisfaction, the exchange may increase the position limit of such commodities to 2% as per the applicable position limits for the broad category.

3. The circular shall come into force with immediate effect.
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, read with Regulation 51 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
5. The Circular is issued with the approval of the competent authority.
6. This Circular is available on SEBI website www.sebi.gov.in under the category "Circulars" and "Info for Commodity Derivatives".