भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

HO/47/16/13(17)2026-MRD-POD1/I/26650/2026 **November 27, 2026**

To,

The Managing Directors / Chief Executive Officers,

All Recognized Stock Exchanges/Clearing Corporations having Commodity Derivatives Segment

Sir / Madam,

Sub: FPI Participation in Exchange Traded Commodity Derivatives (ETCDs)

1. In terms of Para 4.2 of Chapter 4 of SEBI Master Circular for Commodity Derivatives Segment dated Aug 04, 2023, Foreign Portfolio Investors (FPIs) are currently permitted to participate in the commodity derivatives segment of recognised stock exchanges only through cash-settled non-agricultural commodity derivative contracts and indices comprising such commodities.
2. Based on representations received from stakeholders, deliberations of the Commodity Derivatives Advisory Committee (CDAC), and public comments received on the consultation paper on this subject, and with the objective of deepening institutional participation and liquidity in the commodity derivatives segment, it has been decided to permit FPIs to participate in non-cash (physically) settled non-agricultural commodity derivative contracts, subject to the safeguards specified in this circular. Accordingly, following provisions contained in Paragraph 4.2 of the aforesaid circular stand revised as under:

    2.1 Para 4.2.2.(i) shall be revised as under:

    4.2.2.(i) FPIs are allowed to participate in non-agricultural commodity derivative contracts (except in option in goods) and indices comprising non-

agricultural commodity derivatives. Further, FPI participation in non-cash settled non-agricultural commodity derivatives shall be subject to following conditions:

(a) FPIs are allowed to participate up to the commencement of the tender/ staggered delivery period. Further, FPIs shall unwind/roll over their open positions, if any, prior to the commencement of the tender/ staggered delivery period.

(b) Three trading days prior to the commencement of the tender/staggered delivery period, no fresh positions that result in an increase in the FPI's existing positions in the expiring futures contract shall be allowed; however, positions arising from the devolvement of options on futures on expiry shall not be treated as fresh positions for this purpose.

(c) Any open (residual) positions of the FPI at the end of the day preceding the start of the tender period shall devolve upon the designated TM/TCM as prescribed under 'Operational Framework for FPI Participation in Non-Cash Settled Contracts' in this Circular.

(d) Notwithstanding anything contained elsewhere in the Master Circular for Commodity Derivatives Segment and Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors; the devolvement of position from the FPI to TM/TCM on account of FPI's failure to voluntarily square off or roll over non-cash settled non-agriculture commodity futures contract prior to the tender period under the special arrangement shall not be treated as OTC derivatives, nor shall the extant regulations with respect to transfer of positions between client codes applicable to non-institutional transfer of positions, error accounts or off market transfer related provisions be applicable to the said arrangement.

Such devolvement shall be considered as a trade with applicable statutory levies.

2.2 Para 4.2.2.(iii)(c) shall be inserted as under:

4.2.2.(iii)(c) Due to post close devolvement of futures positions from FPI to the designated TM/TCM, there is a possibility that positions recorded in the TM's/TCM's proprietary account solely due to operation of the safeguard mechanism may exceed their permissible position limits for futures contracts. For such members, the exchanges may permit maximum up to two trading days to reduce their futures positions to bring them within the permissible position limits. The mere recording of such positions in the proprietary account shall not by itself result in such positions being regarded as voluntarily assumed proprietary positions.

2.3 Para 4.2.3 titled 'Operational Framework for FPI Participation in Non-Cash Settled Contracts' shall be inserted as under:

4.2.3 Operational Framework for FPI Participation in Non-Cash Settled Contracts

(i) Onboarding of FPI:

(a) An FPI shall enter into a tripartite agreement with the Clearing Member (CM) and Trading Member(TM), or a bipartite agreement with the Trading Cum Clearing Member(TCM) (or any other nomenclature used by the exchanges in this regard) as per their membership structure. The TM/TCM entering into such agreement, only for the purpose of devolvement of open positions, shall henceforth be called as designated TM/TCM.

(b) The Clearing Member of FPI shall inform the Exchange and Clearing Corporation(CC) of the agreement referred above, prior to facilitating the FPI to trade in the relevant deliverable commodity derivative contracts. The Exchange shall allow trading for the FPI client only upon confirmation of such agreement by the CM to the CC.

(c) Thereafter, the FPI may trade in non-cash settled commodity derivatives through multiple trading members; however, there shall be only one designated TM/TCM, as specified below:

I. *One designated TM/ TCM across all exchanges and commodities; or*
II. *One designated TM/ TCM per exchange; or*
III. *Within each exchange, one designated TM/ TCM per commodity or group of commodities*

(ii) Voluntary Square-off / Rollover – Primary Obligation:

(a) The FPI shall be free to square off or roll over its open position(s) at any time up to the close of market hours on the day preceding the start of the tender period. This voluntary square-off or rollover is, and shall remain, the primary mode of exit for FPIs from such expiring contracts.

***(iii) Safeguard Mechanism:** Compulsory Square-off / Devolvement of FPI Positions Before Tender Period in futures contracts*

(a) Where an FPI has not voluntarily squared off or rolled over its open position by the close of market hours on T-1, where T denotes start of the Tender Period, the FPI positions shall be devolved upon the proprietary account of the designated TM/TCM automatically post closure of market hours of the T-1 day (the day prior to the start of Tender Period), before start of EOD activities of the clearing corporation.

(b) To enable the designated TM to arrange adequate margins ahead of the devolvement, the Clearing Member of FPI shall, by end-of-day on T-2, inform the designated TM of the FPI's open position that is liable to devolve under the Safeguard Mechanism.

(c) Under this arrangement, the devolvement of the open position of the FPI shall be executed at the Closing Price/Daily Settlement Price, as declared by the Exchange on the day of devolvement of the position. Such

devolvement shall be treated as Normal Market trades for all purposes, including for applicability of statutory levies.

(d) Upon execution of the devolvement, the FPI's open position in the contract shall be treated as closed, and the FPI shall cease to have any further right, title, obligation, or exposure in respect of such position, including in relation to the tender/delivery process. All rights and obligations in respect of the devolved position shall thereafter vest solely in the designated TM/TCM.

(e) From T-3 day, the clearing member shall not accept or clear any trade that results in an increase of an FPI's open position in the near-month deliverable futures contract. The clearing member shall ensure adequate risk management measures such that FPI positions are either squared off or devolved upon the designated TM/TCM by closure of T-1 day.

(f) The manner in which the positions of the FPI shall be handled, including the squaring off of the FPI positions or devolvement of such positions at the end of T-1 market hours, shall be governed as per the agreement between the FPI and the TM/TCM.

(iv) Designated TM/TCM as Risk-Management Intermediary:

(a) The designated TM/TCM shall act as a risk-management intermediary under the current framework and, where applicable, accept responsibility for management of devolved positions pursuant to the regulatory arrangement. The TM/TCM may charge an agreed fee for providing risk-management, execution, monitoring, compliance and operational services under the safeguard framework. For the avoidance of doubt, the acceptance of a devolved position shall not be construed as a business activity involving assumption of commodity exposure, or proprietary trades of the TM/TCM.

(v) Post-Devolvement Position-Limit Reduction:

(a) Where the said devolvement of FPI positions to TM/TCM results in the designated TM's/TCM's proprietary account exceeding position limits otherwise applicable to it, the TM/TCM shall be permitted a period up to two trading days from the date of devolvement to reduce such position to within the prescribed limits, in a manner analogous to the treatment of devolved option positions as prescribed under Para 6.1.9.iii of the SEBI Master Circular for Commodity Derivatives Segment. During this period, the position so devolved shall not be treated as a violation attracting penal action under extant position limit violation norms.

(vi) Risk Absorption Charge:

(a) The onboarding agreement may incorporate a pre-agreed 'Risk Absorption Charge', payable by the FPI to the designated TM/TCM where the FPI's open position is devolved under the safeguard mechanism on account of the FPI's failure to voluntarily square off or roll over such position by T-1. The Risk Absorption Charge is intended to compensate the designated TM/TCM for the risk, margin, and position-limit burden it absorbs on account of the functions undertaken under the safeguard mechanism, and shall be over and above any service fee agreed between the parties.

The quantum and manner of computation of the said charge shall be disclosed to, and agreed by, the FPI at the time of onboarding and shall be without prejudice to any penalty leviable by the Exchange/Clearing Corporation under the extant framework.

(vii) Standardisation and Post-Closure Window:

(a) The Exchanges/Clearing Corporations having commodity derivatives segment shall, in consultation with each other, standardise the format and material terms of the onboarding agreement, so as to ensure consistency

in the safeguards and disclosures applicable to FPIs across exchanges/clearing corporations.

(b) The Exchanges/Clearing Corporations shall notify detailed scheme / guidelines of the post-closure window between the designated TM and FPI for open positions held by the FPI (one day prior to the start of the tender period) after normal market hours at Closing Price/Daily Settlement Price in Commodity Derivatives Market Segment.

(c) The Exchanges/Clearing Corporations shall ensure that the designated TM/TCM has adequate visibility of the FPI's positions liable to devolve, and of the consequent margin obligation, so that it can arrange the required margins in time.

2.4 Para 6.2.7.(iii) shall be inserted as under:

6.2.7.(iii) Penalty for short-collection/non-collection of margins due to increase in initial margins resulting from trade involving devolved positions of FPI upon its designated trading member for mandatory closure of positions of FPI may not be levied by clearing corporations for the first day.

3. The circular shall come into effect from June 01, 2027.
4. The MIIs are advised to:
   4.1 take necessary steps and put in place necessary systems for implementation of the above.
   4.2 make necessary amendments to the relevant bye-laws, rules and regulations, wherever required, for the implementation of the above; and,
   4.3 bring the provisions of this circular to the notice of the market participants (including investors) and disseminate the same on their website.
5. 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.

6. The Circular is issued with the approval of the competent authority.
7. This Circular is available on SEBI website www.sebi.gov.in under the category "Circulars" and "Info for Commodity Derivatives".

Yours faithfully,

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