

FAQs – Castor Seed Close out Price

1. What is the meaning of 'Close Out' with reference to suspended Castor seed contracts?

Under the provisions of Exchange Bye-laws, a deal admitted for clearing and settlement may be closed out on failure of a clearing member to comply with any of the provisions relating to delivery, payment and settlement of deals.

The provisions of the Exchange Bye-laws provide that when the situation so warrants, the closing out shall be deemed to have taken place in such manner as may be determined by the Relevant Authority. The Exchange suspended the Castor seed contract in order to protect market integrity and maintain market equilibrium. The close out is intended to address the grievances of the market participants due to the suspension of castor seed contracts.

2. What is the purpose of declaration of 'close out price'?

The purpose of declaration of the close out price is essentially for addressing the grievances of market participants affected by the suspension of castor seed contracts.

The provisions of Part B of the Exchange Bye-law dealing (also referred to as Clearing Bye-Laws) provides that any loss, damage or shortfall sustained or suffered as result of such closing out shall be payable by the clearing members who failed to give due delivery or to pay amount due. Further, the provisions of Regulations of the Exchange provide that when closing-out is effected on the advice of the Exchange against a Member failing to give or take delivery of all or any of the commodities or funds according to his obligation, the resulting difference (between the money value of commodities at the valuation price and the closing out price) due by such Member shall be paid by him forthwith.

3. What is the reason for delay in declaration of Close out price when the contracts were suspended on January 27, 2016?

The Regulations of the Exchange provide for deferment in declaration of close out price in certain circumstances in the interest of the market participants.

The Exchange is committed to protecting the interest of all the market participants. The Competent Authority examined the suspension of Castor seed contracts from the perspective of market confidence, market integrity and investor protection; and considered it prudent to defer the close out with a view to ascertain various relevant factors to arrive at a fair close out price in a transparent manner.

4. How has the Exchange determined the Close out price?

In order to ensure objectivity, fairness and transparency, the Exchange has considered average Agmarknet prices for 4 centers (Deesa, Kadi, Palanpur and Patan) which represent actual traded prices in the physical markets during the period from January 28, 2016 to February 19, 2016. Agmarknet is a Govt. of India portal on agricultural marketing backed by a wide area information network connecting agricultural markets, State Marketing Boards/ Directorates.

The close out price announced by the Exchange is Rs 2,931 per quintal. The computation and the detailed working is provided in the Exchange Circular no. NCDEX/TRADING-048/2016/103 dated May 6, 2016.

5. In this case, who can make a claim to the Exchange?

In this case, the market participants registered on the Exchange platform (other than the defaulting members) and / or constituents who, as on January 27, 2016, had net short positions in the Castor seed contracts backed by valid deliverable stocks in Exchange approved warehouses are entitled to submit their claims.

6. What is Net Short Position?

In this case Net Short position means the Short Position after netting off Long and Short Positions of the client across four suspended contracts i.e. the Castor Seed contracts expiring on February 19, 2016, March 18, 2016, April 20, 2016 and May 20, 2016

7. What if someone had Long position in one month and Short position in another month of Castor Seed contract?

As explained above, the Long and Short Positions of the client across four suspended contracts shall be netted off and resultant Net Short Position, if any, shall only be considered for close out.

8. What will be the admissible quantity for claims?

The admissible quantity i.e., the quantity of stocks which would be considered admissible for determination of claims shall be the lower of Net Short Position and actual physical stocks in Exchange approved warehouses and reflected in their respective beneficiary COMTRACK® account as on January 27, 2016.

9. Why it is that only such registered members/constituents who were having a Net Short Position are entitled to submit the claims?

The role of the Exchange is to provide a robust platform for transparent and efficient price discovery and thereby encourage hedging to mitigate price risks. Most of the contracts admitted for trading on the Exchange are therefore compulsory delivery contracts. Market participants can deposit goods in the warehouses approved by the Exchange necessarily with the intent of giving delivery on the Exchange platform.

Any distortion in the process may affect those parties who intend to give delivery on the Exchange platform. The Exchange has therefore considered that all registered entities who had an outstanding obligation to deliver (Open Interest) and who were holding stocks in the warehouses approved by the Exchange, are the affected parties and are therefore eligible to submit claims in this regard.

10. What is the rationale for considering only Net Short Position holders backed by physical stocks for Close out?

The claims admissible under the close out would have to be directly attributable to the suspension of the Contract. The close out price is based on the difference in prices in the physical market in the days following the suspension of the Contract and certain other admissible expenses.

The prices in the physical market were lower than the Settlement Price (the price at which the Open Positions as on January 27, 2016 were settled), subsequent to the termination of the contract. In this scenario, it follows that the only class of parties who have been adversely impacted by the action of suspension of the contract are the parties who had net short positions on the Exchange platform backed by valid deliverable physical stocks in Exchange approved warehouses.

11. Can the Members / Constituents who have already sold physical stock of Castor Seed kept in Exchange approved warehouse also submit claims?

Yes. All registered members or constituents of such members registered on the Exchange platform, who were holding valid deliverable stocks in the warehouses approved by the Exchange and also had outstanding short position as on the date of suspension of contract shall be eligible to submit claims.

12. How shall the claims be determined by the Exchange?

In our continued endeavour to restore market confidence and for investor protection, the close out price has been arrived at in a very fair and transparent manner. In the context of the same and in complete fairness to all market participants, all admissible claims shall be determined based on Close out price announced by the Exchange, regardless of the actual price at which the stocks may have been sold.

13. What if someone was having physical stocks but no net short position in the suspended castor seed contracts?

In the absence of any Open Position on the Exchange platform on the Close-Out date (January 27, 2016), such parties cannot be impacted by the action of suspension of the contract by the Exchange.

Hence, such claims shall not be considered to be admissible.

14. What precautions should be taken by member while submitting details and claims for losses either for Own or Client a/c?

The Members of the Exchange are required to exercise complete due diligence while accepting and submitting the claim. Members are required to bring to the notice of the Exchange any material irregularity or discrepancy which could render the claims inadmissible.

Members should also note that they are responsible for submission of wrong information and statement and any information subsequently discovered to be incorrect shall render the Member responsible under the provisions of the Rules, Bye-laws and Regulations of the Exchange. As a responsible member of the Exchange and acting on behalf of clients, the member should therefore carry out proper due diligence and verification of every detail before forwarding the claim to the Exchange, duly certified as such.

15. What is the process for submission of admissible claims?

The detailed operational guidelines relating to the process for acceptance of applications and determination of admissible claims for losses shall be notified by the Exchange separately.

In the meantime, the following details should be kept ready in the format as provided hereunder and submitted to Exchange through the member where positions in castor seed contract were held.

Name of the claimant	PAN of the claimant	Client Code of the claimant	Member Code	Member Name	Comtrack Account details of the claimant	Net Short Position as on January 27, 2016 (MT)	Actual physical stock as on January 27, 2016 (MT)	Admissible Quantity (MT)
						Short position after netting long and short positions in all 4 contracts (A)	Valid and deliverable stock held in Comtrack account (B)	Lower of A and B (C)

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