NCDEX

Pragati ka Solid Exchange

PARTICIPATION OF MUTUAL FUNDS AND PMS IN COMMODITY DERIVATIVES

SEBI has taken a step forward to enhance financial inclusion in commodity derivative market by allowing mutual funds and PMS, broadening the basket of offerings to include commodity derivative products in a structured manner. Such structured products are tailor-made solutions to adapt to the needs of the investors such as risk and return profile, liquidity requirements, flexibility etc., thereby helping them to diversify the existing portfolio of investments and offer retail investors easy access to derivatives.

According to SEBI guidelines with respect to mutual funds vide circular SEBI/HO/IMD/DF2/CIR/P/2019/65 two core categories of products can be developed:

- Hybrid mutual funds including Multi asset mutual funds
- Gold ETFs

Participation of mutual funds in Exchange Traded Commodity Derivatives (ETCDs) will be governed by the appended core guidelines:

- Mutual fund schemes shall participate in ETCDs of a particular goods (single), not exceeding 10% of net asset value of the scheme. However, the limit of 10% is not applicable for investments through Gold ETFs in ETCDs having gold as underlying.
- In case of multi assets allocation schemes, the exposure to ETCDs shall not be more than 30% of the net asset value of the scheme.
- In case of other hybrid schemes excluding multi assets allocation scheme, the participation in ETCDs shall not exceed 10% of net asset value of the scheme.
- The cumulative gross exposure through equity, debt and derivative positions (including commodity derivatives) shall not exceed 100% of net asset value of the scheme.
- Mutual fund schemes may participate in the ETCDs as 'clients' and shall be subject to all the rules, regulations and instructions, position limit norms, etc. as may be applicable to clients, issued by SEBI and Exchanges from time to time. The position limits at mutual fund level be as applicable to 'Trading Members'.
- As mutual fund schemes participating in ETCDs may hold the underlying goods in case of physical settlement of contracts, in that case mutual funds shall dispose of such goods from the books of the scheme, at the earliest, not exceeding 30 days from the date of holding of the physical goods
- No mutual fund scheme shall have net short positions in ETCDs on any particular good, considering its positions in physical goods as well as ETCDs, at any point of time.

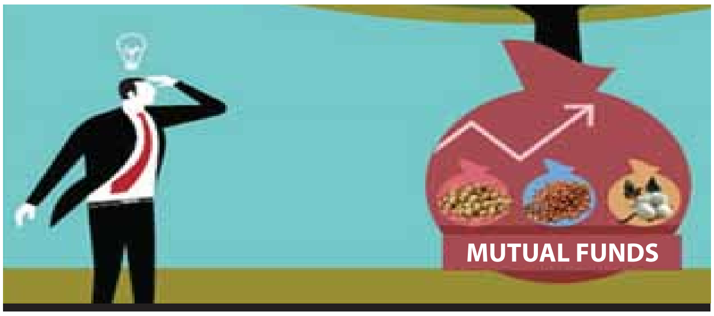
- Mutual funds are permitted to participate in ETCDs in India, except in commodity derivatives on 'Sensitive Commodities' as defined vide SEBI circular no. SEBI/HO/CDMRD/DMP/CIR/P/2017/84 dated July 25, 2017.
- Foreign Portfolio Investors are not allowed to participate in the Exchange Traded Commodity Derivatives market through mutual funds and PMS.

SEBI has released guidelines for PMS houses as well vide the circular SEBI/HO/IMD/DF1/CIR/P/2019/066 which are more or less in line with mutual fund guidelines except for the appended guidelines:

- Holding of physical goods that are a result of physical settlement at the exchange can be held by the PMS basis mutual agreement between client and PMS house.
- Portfolio managers will be governed by client level position limits.

NCDEX is a professionally managed online multi commodity exchange holding a market share of 82% in the agri-commodity space. It offers a basket of commodities to the traders and investors to tap opportunities in this segment.

As India's leading online exchange, NCDEX is where customers repose trust. The institutional promoters and shareholders of NCDEX are prominent players in their respective fields and bring with them institutional building experience, trust, nation-wide reach, technology and risk management skills. As India's largest platform for agricultural produce, the NCDEX Group remains committed to strengthen the entire agri-commodity value chain.



Commodity funds come with several benefits for investors, including:

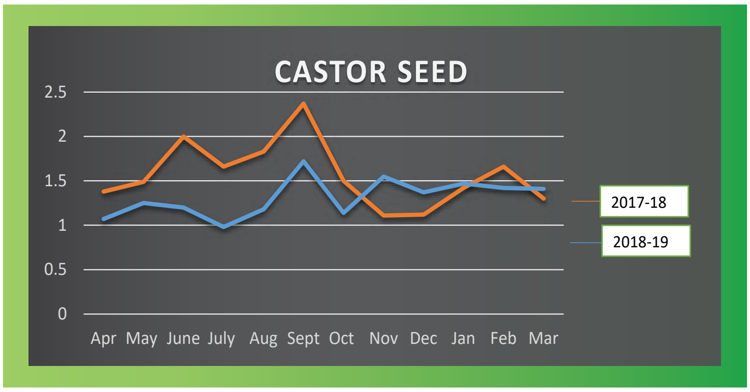
- **Avenue for a heterogeneous portfolio:** Movements in commodity markets have had low correlation with equity market, which makes them a valuable source of diversification in your portfolio.
- **Protection against inflation:** adverse impact of inflation on stock prices are well countered by bullish movement in commodity prices.
- **Tangibility to schemes run by mutual funds and PMS:** permit agricultural commodity ETFs that may take / give physical delivery of agricultural commodity on the exchange platform.
- **Informed Decision making for retail investors:** Retail segment holds 84% share in the mutual fund industry making them a key driver to mobilize retail participation by offering professional research related services.
- **Liquidity in far months:** Mutual funds and PMS participation in commodity derivative markets will help build liquidity in far-month contracts.

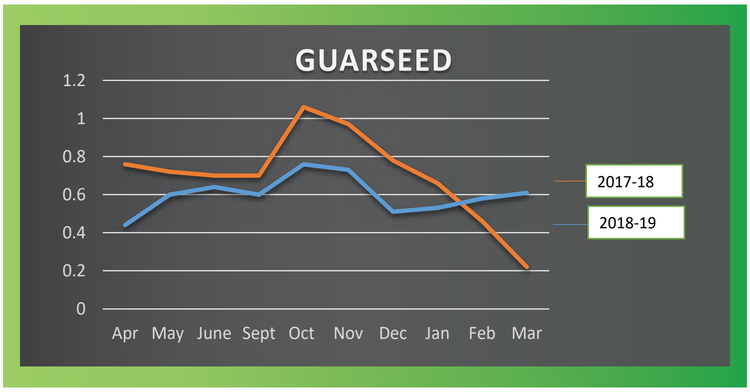


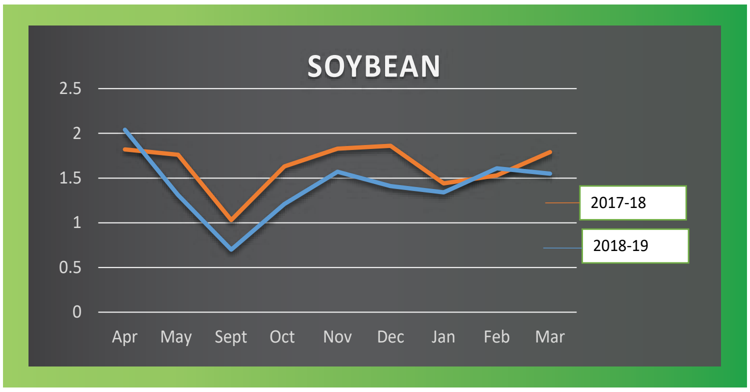


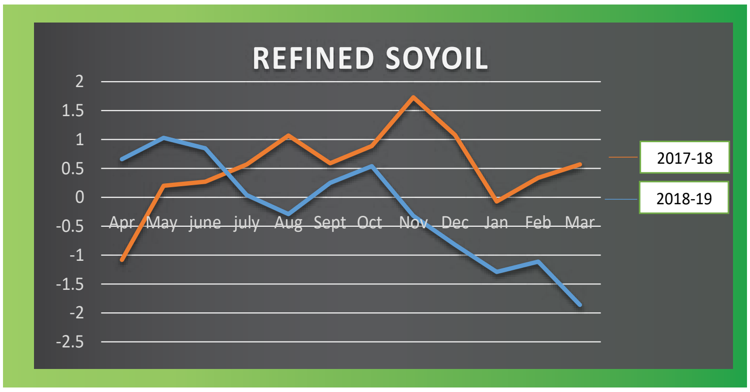
Cereals & Pulses	Spices	Fibres	Guar Complex	Oil & Oil Seeds
Barley Chana Maize	Coriander Jeera Turmeric	Cotton Seed Oilcake Kapas	Guar Seed Guar Gum	Soybean Refined Soy Oil Mustard Seed Castor Seed Crude Palm Oil

TRENDS IN SPREADS IN OUR TOP COMMODITIES









CONCLUSION:

Markets grow due to innovation, markets flourish due to participation and markets sustain due to trust. The recent regulatory notifications have enthused the market to bring in new product offerings, increase participation by allowing new set of institutional players and this overall will enhance the depth in the segment.

Institutional participation will play an important role in adding long- term liquidity and depth to the commodity derivatives market, leading to improvement in price discovery and enhanced efficiency in risk management. Moreover, it will provide the Indian investors easy access to a new asset class and cater to their diversified investment and trading needs.

NCDEX
Pragati ka Solid Exchange

National Commodity & Derivatives Exchange Limited

Akruti Corporate Park, 1st Floor, Near G.E. Garden, L.B.S. Marg, Kanjurmarg (West), Mumbai - 400 078.

T: +91-22-6640 6789 | F: +91-22-6640 6899 | Toll Free: 1800 26 62339 | E: askus@ncdex.com | W: www.ncdex.com

TrustNCDEX @ncdex /TrustNCDEX

CIN: U51909MH2003PLC140116