

**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**
**Frequently Asked Questions – Early Pay-In Facility for Farmers Producer Organization (FPO)**
**Version 1.0**

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### **1. What are Farmers Producer Organization (FPO)?**

A Farmers Producer Organization (FPO) means any entity registered as a Producer Company under Section 581(C) of Companies Act, 1956, a Company under Section 8 of Companies Act 2013, Society Registration Act, 1860, Public Trusts registered under Indian Trusts Act, 1882, Multi-State Cooperative Society Act, 2002 or Cooperative Societies Act/ Autonomous or Mutually Aided Cooperative Societies Act of the respective State.

### **2. What is early pay-in facility?**

'Early pay-in' (EPI) is a facility provided to market participants permitting them to deposit certified goods in the Exchange approved warehouse against relevant futures contracts sold and tender goods towards their settlement obligation before due date to avail benefits of early pay-in.

### **3. What is the benefit of early pay-in facility?**

Short positions against which early pay-in has been made by the FPO client shall be exempt from imposition of all types of margins

### **4. Which all types of margins shall be exempted against early pay-in of commodities made by clients under FPO category?**

All types of margins shall be exempted against early pay-in of commodities including:

- Initial Margin
- Extreme Loss Margin (ELM)
- Additional Margin
- Special Margin
- Pre-expiry Margin
- Delivery Margin
- Mark to Mark Margin
- Concentration Margin

### **5. How much margin exemption shall be available on early pay-in of commodities?**

The margins exemption shall be available on the quantity tendered in early pay-in subject to short open position in the contract against which such early pay-in is marked. So the maximum quantity which shall be considered for calculating margin exemption will be lower of EPI quantity or short open position in the contract against which EPI has been marked.

Example: Client has short open position of 100 MT and against this position marks EPI of 150 MT, the margin exemption shall be available only on 100 MT position. Similarly if member gives EPI of 50 MT against its client's short open position of 100 MT, the margins exemption shall be available only on 50 MT position.

**6. Is it necessary to intimate the Exchange about clients under FPO category to claim the benefit of Early pay-in?**

Yes.

Members are required to inform Exchange the details of clients under FPO category to claim the benefit of 'Early pay-in' before marking an EPI.

**7. When can a FPO client give early pay-in of commodities for availing the margin exemption?**

The members for their FPO clients can make 'Early pay-in' of commodity at any time for a short position in a contract after the start of trading in such contract on the Exchange platform.

**8. What is the procedure of giving early pay-in of commodity for clients under FPO category?**

Members are required to submit early pay-in (EPI) requests using Web NCFE system of the Exchange. While marking EPI members are required to select contract expiry in which the client is holding the short positions, after the start of trading in respective contract.

Example:

In case the client intends to make an Early Payin against a short position in December 2018 Contract (Expiry date – 20th December 2018) say on 5th of September 2018, the member while marking EPI needs to select the Expiry date i.e. 20th December 2018. If the client wants to tender delivery during the tender period of the December 2018 Contract member shall mark the delivery intention accordingly. The EPI marked on 5th of September 2018 shall be considered towards commodity pay-in.

**9. What will happen to mark to market gains / losses on positions for which early pay-in is marked?**

The daily mark to market gains / losses on FPO positions where early pay-in is marked shall be accumulated by Exchange for a deferred settlement till the completion of delivery settlement for such FPO positions. The Exchange shall compute amount to be debited / credited based on daily settlement price / trade price from the date when EPI is marked in the system for such short

positions. Accordingly, the MTM losses shall be funded by Exchange from its own sources and MTM gains shall be retained by the Exchange.

**10. What will be the process of daily Mark to Market settlement for FPO clients for positions against which early pay-in is marked?**

Exchange shall continue to compute obligations at member level as per the existing process. The daily obligation of the Member will include MTM obligation of the FPO client for the short open position against which early pay-in is marked. The clearing member would be required to settle the entire obligation amount.

However, on daily basis the Exchange shall transfer an amount equivalent to the MTM pay-in arising out of FPO clients' position to respective clearing members settlement account. Conversely, in case of MTM gains the exchange shall debit the members settlement account with an amount equivalent to MTM pay-out (gains) of FPO client.

Example:

	Day 1	Day 2	Day 3	Day 4
Client 1	30,000	-10,000	20,000	-10,000
Client 2	40,000	-20,000	10,000	-20,000
Client 3 (FPO Client EPI position )	-30,000	50,000	-60,000	-30,000
Client 4	10,000	-10,000	10,000	-20,000
<b>MTM Obligation of Member</b>				
Payin			20000	80000
Payout	50000	10000		
<b>Debit/Credit in Members Settlement account with respect to FPO Client</b>				
Debit		50000		
Credit	30000		60000	30000

(+) is MTM gain / (-) is MTM loss

**11. How will be the final settlement carried out in case of FPO client with respect to short open position against which early pay-in is marked?**

Daily mark-to-market profit/ loss for the FPO client for the short open position against which early pay-in is marked shall be accumulated by the Exchange for a deferred settlement till the completion of delivery settlement. Accordingly, on daily basis the Exchange shall debit the Members Settlement account in case of MTM gains of FPO client and credit the Members Settlement account in case of MTM loss to the FPO client on positions against which EPI is marked.

The Exchange shall continue to compute obligations at member level as per the existing process. The settlement obligation of the Member will include Final Settlement obligation of the FPO client for the short open position against which early pay-in is marked.

Upon final delivery, the net amount funded by Exchange towards MTM loss shall be debited from the Members account or the MTM gains retained by Exchange shall be credited in the members account.

**12. Is the FPO client required to bring in funds towards MTM Payin obligation for the short open position against which early pay-in is marked?**

No. Daily settlement on account of losses arising on account of FPO shall be made good from NCDEX's own resources. The Exchange shall transfer an amount equivalent to the MTM pay-in arising out of FPO clients' position to respective clearing members settlement account. The member shall post such credit to the account of FPO client and accordingly, there is no need for the FPO client to bring in funds towards MTM Payin obligation.

**13. Is there any cap on funding of MTM margins from Exchange own resources?**

Yes. The funding from exchange for Mark-to-market settlement for FPO client shall be capped at Rs.25 lakhs for a single FPO and Rs 500 lakhs across all FPOs, until further review. Mark to Market settlement in excess of the defined exemption limits shall be collected from the Clearing Member, who in turn would be required to collect the same from the FPO client.

**14. Will Mark to Market losses on the FPO positions exempted from Mark to Market settlement continue to form part of client margin collection?**

Yes

**15. Can Member report collection of MTM margin from FPO clients for Client Margin reporting purpose?**

Yes. On daily basis members account will be debited or credited based on the MTM for FPO client for the specific transaction against which early pay-in has been made. The member shall post such credit or debit to the account of FPO client. The MTM obligation funded by Exchange can be considered towards compliance of collection of MTM for margin reporting.

**16. Whether early pay-in can be automatically considered towards delivery intention during the staggered period or at the expiry of the contract?**

No. The members have to mark delivery intentions separately as per the schedule provided in the Settlement calendar issued by the Exchange. Early pay-in would not in any manner be automatically construed as delivery intention.

**17. What if the FPO client squares off his position against which the early pay-in has been marked and margin benefit availed?**

Members applying for exemption shall ensure that the short open position of such FPOs are not squared off after claiming such exemption. In the event of square off, the cumulative net Mark to Market settlement from the time the EPI has been marked till the date of square-off would be computed. In case of cumulative losses the MTM funded by Exchange shall be recovered from the member and in case of cumulative gains, the same shall be paid to the member.

**18. What are the reports provided by the Exchange for Early pay-in?**

Member will get "CT\_EPI\_<CM Primary Member Code>\_<DDMMYYYYhhmmss.csv" file from the Exchange in member's Extranet folder at the end of the day:

Go to: Extranet (Login) → Report → Dnld

OR

Member can download the EPI transaction report from NCFE system after marking an 'Early Pay-in':

Go to: NCFE (Login) → Click on Settlement tab → Select EPI transaction details Menu