NCDEX

Pragati ka Solid Exchange

NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED
***Member Compliance Guide* – Delivery Logic**

Settlement of a contract depends on the delivery logic of a particular commodity. Delivery logic is specified as a part of contract specification and list of contracts expiring in the particular month are informed to the market vide a circular pertaining to Settlement Calendar and submission of delivery Intentions giving details about the delivery logic. Delivery logic defines the method of physical settlement, penalties for delivery default, timelines for submission of delivery intentions etc. Before trading in a particular commodity market participants are advised to take note of the delivery logic of a commodity.

Following are different types of delivery logic applicable for commodities traded on our Exchange.

1. Compulsory Delivery Contract
2. Compulsory with Staggered Delivery
3. Seller's Option Contract
4. Sellers Option with Staggered Delivery
5. Intention Matching Contract

Details pertaining to Compulsory delivery contracts

Nature	At the expiry of the contract, the open positions are settled through physical delivery. That is, upon expiry of the contracts, the seller shall give delivery of the commodity. The corresponding buyer as matched by the process put in place by the Exchange shall be bound to settle by taking physical delivery.
Delivery Intentions	The tender period for marking delivery intention will start 2 days prior to expiry of the contract. The Exchange would compile delivery requests received from members on the day of Expiry. Further, all open positions on the expiry day of the contract would result in compulsory delivery. The Buyers and the Sellers need to give their delivery location preference. If the Sellers fail to give the location preference then the quantity of commodity to the extent of his open position will be allocated to the basis delivery center on the day of Expiry of the contract.
Penalty for delivery default	Penalty on seller in case of delivery default (default in delivery against open position at expiry in case of compulsory delivery contracts, default in delivery after giving intention for delivery) shall be as follows: **A. Futures Contracts on agri-commodities**: 3% of Settlement price + replacement cost (difference between settlement price and average of three highest of the last spot prices of 5 succeeding days after the commodity pay-out date, if the average price so determined is higher than settlement price, else this component will be zero.) **B. Futures contracts on non-agri commodities**: 3% of settlement price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and

	the following day, if the spot price so arrived is higher than settlement price, else this component will be zero.) The norms for apportionment of the 3.0 % penalty collected as mentioned above shall be as follows: i. 1.75 % of Settlement Price shall be deposited in the Settlement Guarantee Fund of the Exchange ii. 0.25 % of Settlement Price shall be retained by the Exchange towards administrative expenses. iii. 1 % of Settlement Price + replacement cost shall go to the Buyer who was entitled to receive delivery. For further details, please refer circular no. NCDEX/CLEARING-020/2016/247 dated September 28, 2016.
Fresh position	There is no restriction on creation of fresh position during the intention marking period i.e. till the expiry of the contracts.
Squaring off of position after intention	Positions can be squared off even after giving intention to delivery during intention marking period i.e. till the expiry of the contracts.

<u>Details pertaining to Compulsory with Staggered Delivery contracts</u>

Nature	As the name suggests, these types of commodities require that at the expiry of the contract, the open positions are settled through physical delivery. That is, upon expiry of the contracts, the seller shall give delivery of the commodity. The corresponding buyer as matched by the process put in place by the Exchange shall be bound to settle by taking physical delivery.
Different sub categories	In case of Compulsory Delivery contracts the physical settlement of contracts happens only on the expiry of the contract. In order to encourage delivery of the Exchange platform as well as satisfy the needs of players in physical market, the Exchange has introduced Staggered Delivery Mechanism' in Compulsory delivery contract.
Delivery Intentions	The Buyers and the Sellers need to give their delivery location preference. If the Sellers fail to give the location preference then the quantity of commodity to the extent of his open position will be allocated to the basis delivery center on the day of Expiry of the contract.
Staggered Delivery	In this category, period during which the deliveries can be tendered on exchange platform is pre-defined which is as below.

	The delivery request / tender period for such contracts would start on the 11th of every month in which the contract is due to expire. In case 11th, happens to be a Saturday, a Sunday or a holiday at the Exchange, the tender period would start from the next working day. During the Tender period, if any delivery is tendered by seller, the corresponding buyer having open position and matched as per process put in place by the Exchange, shall be bound to settle by taking delivery on T + 2 day from the delivery center where the seller has delivered same.
Penalty for delivery default	Penalty on seller in case of delivery default (default in delivery against open position at expiry in case of compulsory delivery contracts, default in delivery after giving intention for delivery) shall be as follows: **A. Futures Contracts on agri-commodities:** 3% of Settlement price + replacement cost (difference between settlement price and average of three highest of the last spot prices of 5 succeeding days after the commodity pay-out date, if the average price so determined is higher than settlement price, else this component will be zero.) **B. Futures contracts on non-agri commodities:** 3% of settlement price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and the following day, if the spot price so arrived is higher than settlement price, else this component will be zero.) The norms for apportionment of the 3.0 % penalty collected as mentioned above shall be as follows: i. 1.75 % of Settlement Price shall be deposited in the Settlement Guarantee Fund of the Exchange ii. 0.25 % of Settlement Price shall be retained by the Exchange towards administrative expenses. iii. 1 % of Settlement Price + replacement cost shall go to the Buyer who was entitled to receive delivery. For further details, please refer circular no. NCDEX/CLEARING-020/2016/247 dated September 28, 2016.
Fresh position	There is no restriction on creation of fresh position during the intention marking period i.e. till the expiry of the contracts.
Squaring off of position after intention	Positions can be squared off even after giving intention to delivery during intention marking period i.e. till the expiry of the contracts.

Details pertaining to Sellers Option contracts

Nature	In these types of commodities, Sellers are given an option to deliver the commodities i.e. sellers can decide whether to give physical delivery of commodities at the time of expiry of the contract. Once the seller gives his intention for giving physical delivery of commodities at a particular location then the corresponding buyer would be bound to take the physical delivery from that delivery center. All open positions of those sellers who do not provide required information for physical delivery shall be settled in cash with prescribed penalties.
Delivery Intentions	Seller can give his preference of giving physical delivery during the intention marking period. Buyer can also give his preferred location for receiving the commodities. This information is useful only when there are sellers willing to give delivery from that location. **Agri Commodities:** The seller would be required to give their intention/notice to the extent of his open position, at least 5 trading days prior to the expiry of the contracts. Accordingly, the window for acceptance of delivery requests will be open for 3 working days. The window will close 5 days prior to the expiry date of the contract. **Non-Agri Commodities:** The seller would be required to give their intention/notice to the extent of his open position, at least 3 trading days prior to the expiry of the contracts. Accordingly, the window for acceptance of delivery requests will be open for 3 working days. The window will close 3 days prior to the expiry date of the contract. The open positions for which information have been provided for and have been matched by the Exchange, would result in physical delivery. On expiry of the contract, the following type of open positions would be cash settled with penalty: i. Delivery information not provided. ii. Unmatched Deliver Information.
Penalty for delivery default	Penalty on seller in case of delivery default (default in delivery after giving intention for delivery) shall be as follows: **A. Futures Contracts on agri-commodities:**

	3% of Settlement price + replacement cost (difference between settlement price and average of three highest of the last spot prices of 5 succeeding days after the commodity pay-out date, if the average price so determined is higher than settlement price, else this component will be zero.) **B. Futures contracts on non-agri commodities:** 3% of settlement price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and the following day, if the spot price so arrived is higher than settlement price, else this component will be zero.) The norms for apportionment of the 3.0 % penalty collected as mentioned above shall be as follows: i. 1.75 % of Settlement Price shall be deposited in the Settlement Guarantee Fund of the Exchange ii. 0.25 % of Settlement Price shall be retained by the Exchange towards administrative expenses. iii. 1 % of Settlement Price + replacement cost shall go to the Buyer who was entitled to receive delivery. For further details, please refer circular no. NCDEX/CLEARING-020/2016/247 dated September 28, 2016.
Fresh position	No fresh positions can be created during the last five days of the expiry of the contract. The financial gains made by taking fresh position during the last 5 trading days in violation of the above direction will not be payable to the violator but will instead be deposited in the Investor Protection Fund of the Exchange – refer circular no. 327 of 2006
Squaring off of position after intention	Members giving delivery requests for the commodities are not permitted to square off their open positions once such request is made. A penalty of 3% of final settlement price on the position squared off, if any, will be levied besides any further action as deemed fit by the Exchange. Refer circular no. NCDEX/CLEARING-020/2016/247 dated September 28, 2016.
Cash Settlement Penalties	In case of Sellers Option contract, in case seller decides not to give physical delivery, a penalty for cash settlement @ 0.5% of FSP would be levied on the sellers. Ten percent (10%) of such penalty amount shall be retained by the Exchange and the balance ninety percent (90%) shall paid to the buyers to whom the deliveries could not be made.

Details pertaining to Sellers Option with Staggered Delivery contracts

Nature	In these types of commodities, Seller shall have an option of marking an intention of delivery on any day during the tender period up to the expiry of the contract and corresponding buyers matched by the process put in place would have to take delivery. Once the seller gives his intention for giving physical delivery of commodities at a particular location then the corresponding buyer would be bound to take the physical delivery from that delivery center. All open positions of those sellers who do not provide required information for physical delivery shall be settled in cash with prescribed penalties.
Different sub categories	In case of Seller's Option contracts the physical settlement of contracts happens only on the expiry of the contract. In order to encourage delivery of the Exchange platform as well as satisfy the needs of players in physical market, the Exchange has introduced 'Staggered Delivery Mechanism' in Seller's Option contract.
Delivery Intentions	Seller can give his preference of giving physical delivery during the tender period up to the expiry of the contract. Buyer can also give his preferred location for receiving the commodities. This information is useful only when there are sellers willing to give delivery from that location. On expiry of the contract, the following type of open positions would be cash settled with penalty: i. Delivery information not provided. ii. Unmatched Deliver Information. The open positions, for which information have been provided for and have been matched by the Exchange, would result in physical delivery.
Staggered Delivery	In this category, period during which the deliveries can be tendered on exchange platform is pre-defined which is as below. The delivery request / tender period for such contracts would start on the 11th of every month in which the contract is due to expire. In case 11th, happens to be a Saturday, a Sunday or a holiday at the Exchange, the tender period would start from the next working day. During the Tender period, if any delivery is tendered by seller, the corresponding buyer having open position and matched as per process put in place by the Exchange, shall be bound to settle by taking delivery on T + 2 day from the delivery center where the seller has delivered same.

Penalty for delivery default	Penalty on seller in case of delivery default after giving intention for delivery shall be as follows: **A. Futures Contracts on agri-commodities:** 3% of Settlement price + replacement cost (difference between settlement price and average of three highest of the last spot prices of 5 succeeding days after the commodity pay-out date, if the average price so determined is higher than settlement price, else this component will be zero.) **B. Futures contracts on non-agri commodities:** 3% of settlement price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and the following day, if the spot price so arrived is higher than settlement price, else this component will be zero.) The norms for apportionment of the 3.0 % penalty collected as mentioned above shall be as follows: i. 1.75 % of Settlement Price shall be deposited in the Settlement Guarantee Fund of the Exchange ii. 0.25 % of Settlement Price shall be retained by the Exchange towards administrative expenses. iii. 1 % of Settlement Price + replacement cost shall go to the Buyer who was entitled to receive delivery. For further details, please refer circular no. NCDEX/CLEARING-020/2016/247 dated September 28, 2016.
Fresh position	Fresh positions can be created during the last five days of the expiry of the contract in case of Soybean – refer circular no. 217 of 2012.
Squaring off of position after intention	Positions can be squared off even after giving intention to delivery during intention marking period i.e. till the expiry of the contracts.
Cash Settlement Penalties	All open positions of those sellers who do not provide required information for physical delivery shall be settled in cash with a penalty @ 0.5% of FSP. Ten percent (10%) of such penalty amount shall be retained by the Exchange and the balance ninety percent (90%) shall paid to the buyers to whom the deliveries could not be made.

Details pertaining to Intention Matching contracts

Nature	In these types of commodities option is given to both, the seller as well as the buyer to give their intention to give/take physical delivery. In case of intention is received from both the seller and the buyer and their intentions are matching for quantity, delivery location etc. their open position would result in physical delivery. In case of open positions for which either intentions are received from both the parties or which remains unmatched, these positions would be cash settled.
Delivery Intentions	Sellers & Buyers having open positions are required to give their intention/notice to deliver to the extent of their open position. **Agri Commodities:** The seller would be required to give their intention/notice to the extent of his open position, at least 5 trading days prior to the expiry of the contracts. Accordingly, the window for acceptance of delivery requests will be open for 3 working days. The window will close 5 days prior to the expiry date of the contract. **Non-Agri Commodities:** The seller would be required to give their intention/notice to the extent of his open position, at least 3 trading days prior to the expiry of the contracts. Accordingly, the window for acceptance of delivery requests will be open for 3 working days. The window will close 3 days prior to the expiry date of the contract. The open positions for which information have been provided for and have been matched by the Exchange, would result in physical delivery. On expiry of the contract, the following type of open positions would be cash settled: i. Delivery information not provided. ii. Unmatched Deliver Information.
Penalty for delivery default	Penalty on seller in case of delivery default after giving intention for delivery shall be as follows: **A. Futures Contracts on agri-commodities:** 3% of Settlement price + replacement cost (difference between settlement price and average of three highest of the last spot prices of 5 succeeding

	days after the commodity pay-out date, if the average price so determined is higher than settlement price, else this component will be zero.) **B. Futures contracts on non-agri commodities:** 3% of settlement price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and the following day, if the spot price so arrived is higher than settlement price, else this component will be zero.) The norms for apportionment of the 3.0 % penalty collected as mentioned above shall be as follows: i. 1.75 % of Settlement Price shall be deposited in the Settlement Guarantee Fund of the Exchange ii. 0.25 % of Settlement Price shall be retained by the Exchange towards administrative expenses. iii. 1 % of Settlement Price + replacement cost shall go to the Buyer who was entitled to receive delivery. For further details, please refer circular no. NCDEX/CLEARING-020/2016/247 dated September 28, 2016.
Fresh position	Same as referred in case of Sellers Option contracts However, fresh positions can be created during the last five days of the expiry of the contracts in case of Crude Palm Oil, RBD Palmolein, Yellow Soybean meal domestic, Degummed Soy Oil, Refined Soy Oil and some international reference able commodities.
Squaring off of position after intention	Members giving delivery requests for the commodities are not permitted to square off their open positions once such request is made. A penalty of 3% of final settlement price on the position squared off, if any, will be levied besides any further action as deemed fit by the Exchange. Refer circular no. NCDEX/CLEARING-020/2016/247 dated September 28, 2016.

The matching for deliveries would take place firstly, on the basis of locations and then randomly keeping in view the factors such as available capacity of the vault/warehouse, commodities already deposited and in electronic form and offered for delivery and any other factor as may be specified by the Exchange from time to time.

Buyer's defaults are not permitted in any of the contracts. The amount due from the buyers shall be recovered as Pay in shortage along with the prescribed charges. Exchange shall have right to sell the goods on account of such Buyer to recover the dues and if the sale proceeds are insufficient, the Buyer would be liable to pay the balance.

Any intentional / wilful delivery default by seller would be viewed seriously and the Exchange shall take suitable penal / disciplinary action against such members over and above the prescribed penalty.

A seller who has got requisite stocks in the Exchange approved warehouses and / or has marked an intention during staggered delivery period is not allowed to default and any such delivery default by seller would be viewed seriously and the Exchange shall take suitable penal / disciplinary action against such members over and above the prescribed penalty for delivery defaults.

Settlement calendar issued every month specify the exact timelines and other details pertaining to settlement of all contracts expiring in that month.

Market participants are requested to refer to product note of respective commodity as well as physical delivery guide available on our website for further details.

References:

- Regulations 9.3 Regulations of the Exchange
- Circular no. NCDEX/CLEARING-037/2005/267 dated December 3, 2005
- Circular no. NCDEX/RISK-037/2006/316 dated November 30, 2006
- Circular no. NCDEX/RISK-007/2010/064 dated March 05, 2010
- Circular no. NCDEX/TRADING-094/2011/266 dated August 26, 2011
- Circular no. NCDEX/TRADING-060/2012/217 dated June 14, 2012
- Circular no. NCDEX/RISK-039/2013/370 dated December 05, 2013
- Circular no. NCDEX/RISK-007/2014/127 dated April 22, 2014
- Circular no. NCDEX/CLEARING-020/2016/247 dated September 28, 2016