NCDEX
Pragati ka Solid Exchange

Frequently Asked Questions for FPOs

- **What are Futures contracts?**
  Futures are financial contracts requiring the buyer to purchase an asset or the seller to sell an asset, such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. It is also a temporary sell or buy position taken by the seller or the buyer before actual sell or buy transaction takes place.

- **What is NCDEX**
  National Commodity & Derivatives Exchange Limited (NCDEX) is a professionally managed on-line multi commodity exchange. The shareholders of NCDEX comprises of large national level institutions, large public sector bank and companies.

- **What is long and short position**
  Long position: When buy position is created in any contract it is termed as long position, i.e. Buys or Purchases contract on Futures exchange
  Short position: When sell position is created in any contract it is termed as short position, i.e. Sells contract on Futures exchange.

- **What is margin and its types**
  Margin in the futures market refers to an initial good faith deposit – essentially, a down payment on the full contract value. The exchanges set the minimum amount of money a Buyer or a Seller must deposit with Exchange account to trade in futures contracts

  For example: Chana near month futures price is Rs. 4000/quintal. The minimum trading lot size of Chana at NCDEX is 10 MT, so the value of one lot (10 MT) is Rs. 4,00,000. Minimum initial margin to trade in NCDEX Chana futures is 4%. Accordingly, if FPO wish to sell at Rs. 4000/quintal they have to deposit Rs. 16,000(4,00,000 * 4%) before initiating the sell trade.

  Types of margins
  - Initial margin
  - Extreme Loss Margin (ELM)
  - Additional Margin
  - Special Margin
  - Pre-expiry Margin
  - Delivery Margin
  - Concentration Margin
  - Mark to mark Margin

- **Is there any way all the above mentioned margins can be waived off**
  Early pay-in: It is a facility provided to market participants permitting them to deposit certified goods (according to prescribed specifications) in the Exchange approved warehouse against relevant sell position in futures contracts and deliver those goods before relevant expiry date to avail benefits of early pay-in.
  For normal participants exchange allows this facility from the 1st day of the contract expiry month in which the sell position is made. But, in the case of FPO this facility is provided any time after the sell position is created in a contract on the Exchange platform.
  https://www.ncdex.com/Downloads/Circulars/PDF/Early_Payin_Facility_Farmer_Producer_Organisation_23022017.pdf

  For example: Chana near month futures price is Rs. 4000/quintal. The minimum trading lot size of Chana at NCDEX is 10 MT, so the value of one lot (10 MT) is Rs. 4,00,000. FPO takes a sell position of 10 MT Chana in near month futures (FPO marks early pay-in against the sell quantity on the same day). From the next day the calculation of margin and mark to market is given below:

Day	Chana Close price	Initial Margin	Extreme Loss Margin	Additional Margin	Pre-Expiry Margin	Total Margin	Total Margin Amount	Mark to Market Amount	Funds Pay-in/ Pay-out
1	3,940	4.00%	1%	20%	1.50%	26.50%	104,410	-6,000	0
2	4,019	4.25%	1%	20%	3.00%	28.25%	113,537	7,880	1,880
3	3,938	4.25%	1%	20%	4.50%	29.75%	117,156	-8,038	0
4	4,094	4.50%	1%	20%	6.00%	31.50%	128,961	15,557	7,519
5	4,258	4.75%	1%	20%	7.50%	33.25%	141,579	16,376	16,376
6	4,215	4.75%	1%	20%	9.00%	34.75%	146,471	-4,258	0
7	4,257	5.25%	1%	20%	10.50 %	36.75%	156,445	4,215	0

(Disclaimer: the figures mentioned above are hypothetical and for illustrative purposes only**)**

It can be seen from the above table that if early pay-in is done by FPO for the relevant sell position, no margin will be charged including mark to market.

- **What is the benefit provided in the early Pay-in**
  Sell positions against which early pay-in has been made shall be exempt from imposition of all types of margins and the pay-in against mark to market.

- **What is mark to market**
  The outstanding (already created) positions in futures contract has to be marked to market daily based on the Daily Settlement Price (DSP) as determined by the Exchange at the end of each trading day.
  There are two counterparties on either side of a futures contract - a buyer and a seller. If at the end of the day, the futures contract in which the position is created goes down in value, the buyer account will be debited and the seller account credited to reflect the change in value of the position. Conversely, an increase in value results in a credit to the buyer and debit to the seller.

- **When FPO has to deposit Initial Margin**
  FPO has to deposit the initial margin before initiating a trade (position)

- **How can one view the quality specifications of different commodities which are being traded on NCDEX platform**
  One can refer to www.ncdex.com -> Products -> Agri products -> select desired commodity -> links -> 1) contract specs

  For example:
  Rapeseed Mustard Seed -
  https://www.ncdex.com/Downloads/ContractSpace/Rapeseed_Mustard_Seed_CS_23032018.pdf

  An excel sheet is attached with this note detailing the quality specifications of all the Agri commodities traded on NCDEX

- **Is there any quality premium / discount applicable on the commodities deposited in NCDEX**
  Yes, in few commodities there is quality premium and discount depending on the nature of the parameter. One can check the same on ncdex website.
  www.ncdex.com -> Products -> Agri Products -> Select the commodity -> Links -> Contract Specs

For example: FPO deposits 3 MT (1 lot) Jeera in NCDEX approved warehouse. The assaying (quality check) results declared by the assayer is as shown below:

Parameters	Basis	Allowable	Slab 1	Slab 2	Result	Discount
Damaged, Discoloured, Shrivelled, and Immature Seeds	2%	4.50%	From 2-4% discounted as 1:0.5	From 4-4.5% discounted as 1:1	4.30%	1.50%
Insect Damaged Matter	0.50%	0.50%			0.45%	
Moisture	9%	9%			8.00%	
Seeds with Stalks	8%	8%			7.80%	
Test weight on count basis	300	300			285	
Foreign Matter	1%	1.50%	1:1		1.20%	0.50%
				Total		2%

If the price at which FPO sold Jeera was Rs.17,900/quintal (Rs.5,37,000 per lot). The realization to FPO will be 2% lesser Rs. 5,26,260 on account of quality discount.
(Disclaimer: the figures mentioned above are hypothetical and for illustrative purposes only)

- **What is validity?**
  Agricultural commodities are perishable in nature i.e. after a certain time period the quality starts going down – deteriorate. This leads to a time frame or validity, after which the commodity is not usable in its current form.

- **Is there any validity applicable for the commodities deposited in NCDEX**
  Yes, NCDEX has defined the commodity wise validity structure for all the commodities. It varies between 4-9 months from commodity to commodity.

  For example: The below table shows the validity structure of Chana in NCDEX. FPO deposits Chana between 20-March to 19-April into NCDEX approved warehouse. If the material gets Quality approved through assaying, the validity according to the NCDEX rules will be 6 months and the Exchange Deliverable Date (EDD) will be 05-October.

Months of Deposit /Date of entry by warehouse in system	Validity period at the time of fresh deposit (no of months)	Exchange deliverable date (EDD)
20-Dec to 19-Jan	1	05-Feb
20-Jan to 19-Feb	0	NA
20-Feb to 19-Mar	6	05-Sep
20-Mar to 19-Apr	6	05-Oct
20-Apr to 19-May	6	05-Nov
20-May to 19-Jun	6	05-Dec
20-Jun to 19-Jul	6	05-Jan
20-Jul to 19-Aug	6	05-Feb
20-Aug to 19-Sep	5	05-Feb
20-Sep to 19-Oct	4	05-Feb
20-Oct to 19-Nov	3	05-Feb
20-Nov to 19-Dec	2	05-Feb

- **What is Exchange deliverable date (EDD)**
  The EDD is a date fixed by the Exchange as the last date to deliver the commodity on NCDEX platform

- **What are pre-requisites (documents) for depositing commodity in NCDEX approved warehouses**
  An indicative list of documents is provided below:
  1. Mandi license with agri market yard near to FPO's base location
  2. GST registration of FPO
  3. Registration (Know Your Depositor) with warehouse service provider (WSP)

- **What is warehouse space reservation (WSR) system**
  Every depositor has to book the desired warehouse space through the warehouse space reservation system. The booking window in WSR operates between 10 am to 4:30 pm. A user guide explaining more details of this process is given on NERL website
  www.nerlindia.com -> Comtrack -> Downloads -> Warehouse space booking request
  https://www.nerlindia.com/comtrack/downloads/WSR%20Client%20User%20Guide%20Mobile%20App%20new.pdf

- **What kind of gunny bags are required for deposit in NCDEX**
  An excel sheet is attached with this note detailing the commodity wise quality of bags accepted for deposits in NCDEX

- **What are the warehouse charges levied by the Exchange**
  Warehouse charges levied by Exchange differs from commodity to commodity. Commodity wise warehouse charges is given on NCDEX website
  www.ncdex.com - > Clearing -> Others -> Indicative warehouse charges
  To support participation, NCDEX endeavours to reduce the warehouse rent for FPOs

  For example: FPO deposits Chana in NCDEX approved warehouse and takes a sell position against the material deposited. If the material is placed into warehouse for 9 days till they deliver (tender) the material on the Exchange platform the charges will be as follows:

Warehouse Rent (MT/day)	No. of days material kept in warehouse	Charges (10 MT)
4.75	9	427.5

- **What is the further process if a deposited commodity (lot) by FPO gets rejected as per assaying report**
  FPO will have to take back the commodity lot from relevant warehouse after paying the applicable warehouse charges

- **Where can a FPO check the commodity holding balance**
  The commodity holding balance can be checked in the Repository a/c through their Repository Participant / Member

- **What are the charges levied by the Exchange and what is the GST slab on those charges**
  Exchange levies maximum 0.006% as Transaction charges, 0.004% as Risk management fees, and 0.15% as delivery charges. GST is charged on all the above mentioned charges @18%.

  For example: FPO takes a sell position in Chana near month futures and delivers the same on Exchange at a price of Rs. 4000/quintal. Exchange will charge them as follows:

Sell Price	Value of Sell	Exchange transaction charges (@0.006%)	Risk Management Fees (@0.004%)	Delivery charges	GST (18%)	Total charges
4,000	4,00,000	24	16	600	115	755

- **How will a FPO withdraw physical delivery from warehouse**
  To take physical delivery from warehouse, FPO will have to submit withdrawal request to its Repository participant (where the Repository a/c is opened). Repository participant will pass on that request to NERL (National E-Repository Ltd.) and the WSP (Warehouse Service Provider) for verification. Post verification, the FPO can go to the relevant warehouse with appropriate vehicle and withdraw the commodity after confirmation from warehouse.

- **How will the FPO give an invoice to the buyer**
  FPO has to generate the invoice and with the help of clearing member (where the trading a/c is opened) upload it on the National Clearing Corporation Ltd (NCCL) portal. The uploaded invoice has to be approved by buyer within stipulated time frame. Post approval of invoice by the buyer, FPO will dispatch the invoice to its clearing member, who will then dispatch the invoice to the buyer's clearing member.

- **How does a FPO gets registered/or part of NCDEX**
  FPO needs to open Trading and Repository a/c with Exchange and Repository Participants respectively. The list of documents needed to open the a/c are:

  1) Account opening form filled and **signed with Seal of company (Authorised Signatory)** at all the places (marked **'**√**'** for client signature) by the authorized signatories
  2) PAN card of company (attested by any director)
  3) Address proof of company (attested by any director)
  4) Certified true copies of Memorandum & Articles of Association (all pages attested by any director)
  5) Banker's authorization letter (For signature verification of authorized Directors)
  6) Copy last two year's ITR (Income tax return)
  7) Copy of Board Resolution on letter head of company (As per prescribed format) with seal of the company (all pages attested by any director)
  8) Last six months Bank statement (all pages attested by any director) with one cancelled cheque leaf
  9) Copy of latest shareholding pattern (direct & indirect) (all pages attested by any director)
  10) Latest audited annual report of the company (all pages attested by any director)
  11) Copy of Aadhar and PAN card of all directors (self-attested)
  12) List of directors (as given on ministry of corporate affairs website) on letter head of company. Status of company on ministry of corporate affairs website should be 'Active'.
  13) List of authorized signatories with photograph and specimen signature