



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/CDMRD/DRMP/CIR/P/2021/08

January 11, 2021

To
The Managing Directors / Chief Executive Officers
All Clearing Corporations having Commodity Derivatives Segment

Sir / Madam,

Sub: Review of Volatility Scan Range (VSR) for Option contracts in Commodity Derivatives Segment

1. SEBI vide circular No. SEBI/HO/CDMRD/DMP/CIR/P/2017/55 dated June 13, 2017 regarding 'Option on Futures' inter alia advised Exchanges to fix and determine the volatility scan range (VSR) values as below:

“Exchanges shall fix prudent price scan range, volatility scan range and/or plausible changes in any other parameters impacting options price. Exchange shall impose appropriate short option minimum margin, calendar spread charge and extreme loss margin for option contracts.”

Further, SEBI vide circular No. SEBI/HO/CDMRD/DMP/CIR/P/2020/05 dated January 16, 2020 on 'Option on Goods' advised Clearing Corporations (CCs), inter alia, to fix prudent VSR.

2. In light of the increased market volatility in the recent past, the adequacy of current VSR values used by CCs in their margin framework was examined. This was done in the context of CPSS-IOSCO prescription for margin models which limits the need for destabilising and pro-cyclical changes.
3. It has, therefore, been decided, in consultation with CCs, to prescribe minimum VSR values for underlying commodities based on their volatility viz, high, medium and low as categorised in SEBI circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2020/15 dated January 27, 2020.
4. The VSR in respect of various categories of commodities shall be subject to following minimum values:

Volatility Category	Minimum VSR % Non Agri commodities	Minimum VSR % Agri Commodities
Low	4	5
Medium	5	6
High	6	7



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5. CCs (providing clearing and settlement for options) shall review the value of VSR by back testing on a monthly basis using last 3 years' data by 15th of every month and any change in VSR shall be implemented from 1st trading day of the following month.
6. The back testing shall be done by using appropriate models to extract volatility (such as EWMA (Exponentially Weighted Moving Average) volatility of the underlying futures contract, implied volatility of options, etc.) over the relevant MPOR (Margin Period of Risk) period.
7. The circular shall be effective from the first trading day of the month of April 01, 2021.
8. This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
9. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully

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