

CONSULTATION PAPER ON DRAFT CIRCULAR ON REVIEW OF INCLUSION OF HISTORICAL SCENARIOS IN STRESS TESTING AND COVERAGE OF SETTLEMENT GUARANTEE FUND FOR COMMODITY DERIVATIVES SEGMENT - FOR PUBLIC COMMENTS

Background

1. SEBI Master Circular SEBI/HO/MRD/MRD-PoD-1/P/CIR/2023/136 for Commodity Derivatives Segment dated Aug 04, 2023, inter alia, prescribes norms related to Core Settlement Guarantee Fund (SGF). The extant provisions pertaining to applicable value of Z-Score (for the purpose of stress testing) and coverage of SGF, as provided in paragraph 22 of Annexure O of the said circular are as follows:

Core Settlement Guarantee Fund (Core SGF) – Annexure O

22) Standardized Stress Testing for Commodity Derivatives

“Part A. Scenarios

Historical Scenarios

1. Peak Historical Return

Price movement in respect of each underlying over the MPOR period during the last 15 years to be considered:

Scenario 1A: Maximum percentage rise over MPOR period

Scenario 1B: Maximum percentage fall over MPOR period

Price movements corresponding to a Z-score of 10 will replace extreme price movements beyond that threshold in peak historical returns of all the commodities. Mean and sigma of returns over the applicable MPOR period across 15 years would be used for calculation of the Z-score

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Part C. Coverage

...

... for each of the scenarios in Part A, Clearing Corporations shall calculate –

- A. Credit exposure due to simultaneous default of at least 2 clearing members (and their associates) causing highest credit exposure.*
- B. 50% of the credit exposure due to simultaneous default of all clearing members.”*

2. SEBI has received representations to review the aforementioned provisions, requesting the following:

- a Z-Score: To reduce the applicable Z-Score from 10 to 5 for considering historical returns during standardised stress testing for commodity derivatives. It was represented that a Z-score of 5 may provide a robust buffer against severe market shocks, effectively covering “extreme but plausible” scenarios that have historically been observed or could credibly occur and the reduction of Z-score would impact only in case of historical scenarios for stress testing.
- b Coverage of SGF: To remove the requirement of 50% credit exposure due to default of all Clearing Members (CMs) and define the coverage of SGF as Top 2 / Top 3 CMs. It was represented that in the Equity Derivatives Segment, for the purpose of applicability of a cover-n standard, the CCs offering clearing and settlement services in the equity derivatives segment are segregated into 2 categories:

 - Category A - CC having equal to or more than 40% of the share of clearing volumes, in which case the credit exposure shall be calculated by considering simultaneous default of at least 3 CMs (and associates) causing the highest credit exposure, OR INR 10,500 crores, whichever is higher
 - Category B - CC having less than 40% of the share of clearing volumes, credit exposure shall be calculated by considering a simultaneous default of at least 2 CMs (and associates) causing the highest credit exposure.

Further, as per PFMI Principle 4, a Central Counterparty (“CCP”) that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions is expected to, at least, meet the Cover 2 requirement. All other CCPs should at least meet the Cover 1 requirement.

Accordingly, it was felt that the captioned proposals may be examined further.

3. The matter with respect to calculation of the coverage of SGF was examined and deliberated in the meeting of the Working Group (WG) on Review of current regulatory norms applicable to Agricultural Commodity Derivatives Segment, wherein subsequent to deliberation, the WG recommended 1) Requirement of 50% credit exposure due to default of all Clearing members may be dropped and 2) The credit exposure shall be calculated by considering simultaneous default of at least 3 CMs (and associates) causing the highest credit exposure. The recommendations of the WG were also placed before the Risk Management Review Committee (RMRC) of SEBI. The RMRC deliberated on the proposal and agreed with the recommendations of the WG.
4. Further, the proposal relating to Z-Score was also placed before the RMRC, wherein subsequent to deliberation, the RMRC recommended the reduction of Z-Score from 10 to 5.

Accordingly, a draft circular has been prepared modifying the provisions contained in Part A (with respect to Z-score) and Part C (with respect to Coverage of SGF) under paragraph 22 of Annexure O of SEBI Master Circular dated August 04, 2023 as follows:

“Part A. Scenarios

Historical Scenarios

1 Peak Historical Return

...

...

“Price movements corresponding to a Z-score of 5 will replace extreme price movements beyond that threshold in peak historical returns of all the commodities. Mean and sigma of

returns over the applicable MPOR period across 15 years would be used for calculation of the Z-score.”

...

...

“Part C. Coverage

For each of the scenarios in Part A, Clearing Corporations shall calculate the credit exposure due to simultaneous default of at least 3 clearing members (and their associates) causing highest credit exposure.”

Public Comments:

1. Comments are invited on the draft circular on **“Review of Inclusion of Historical Scenarios in Stress Testing and Coverage of Settlement Guarantee Fund for Commodity Derivatives Segment”**, placed at **Annexure A**. The comments/ suggestions should be submitted latest by **Feb 26, 2026**, through the online web-based form which can be accessed using the following link:
<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>
2. The instructions to submit comments on the consultation paper are as under:
 - 2.1. Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.
 - 2.2. Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.
 - 2.3. All fields in the form are mandatory.
 - 2.4. Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.
 - 2.5. If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box. There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.

- 2.6. If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under “**Do you want to comment on the proposal**” and use the text boxes provided for the same.
- 2.7. After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.
- 2.8. If you do not want to react on any proposal, please select that proposal from the dropdown and click on “**Skip this proposal**” and move to the next proposal.
- 2.9. After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “**Check your response before submitting**” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.
- 2.10. The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper.

3. In case of any technical issue in submitting your comment through the web based public comments form, you may contact the following through email with the subject: “**Consultation Paper on Draft Circular on Review of Inclusion of Historical Scenarios in Stress Testing and Coverage of Settlement Guarantee Fund for Commodity Derivatives Segment**”.
 - 1) mrd_consultation@sebi.gov.in
 - 2) Ms Neetika Rajpal, DGM (neetikar@sebi.gov.in)
 - 3) Ms Rashmi Sharma, AGM (rashmis@sebi.gov.in)
 - 4) Ms Deepika, Manager (deepika@sebi.gov.in)

Issued on: February 05, 2026

Annexure A

CIRCULAR

SEBI/HO/MRD/MRD-PoD-1/P/CIR/2025/___

February xx, 2026

To,

**The Managing Directors / Chief Executive Officers,
All Recognised Clearing Corporations having Commodity Derivatives Segment**

Sir / Madam,

Sub: Review of Inclusion of Historical Scenarios in Stress Testing and Coverage of Settlement Guarantee Fund for Commodity Derivatives Segment,

1. SEBI Master Circular SEBI/HO/MRD/MRD-PoD-1/P/CIR/2023/136 for Commodity Derivatives Segment dated Aug 04, 2023, inter alia, prescribes norms related to Core Settlement Guarantee Fund (SGF). The extant provisions pertaining to applicable value of Z-Score (for the purpose of stress testing) and coverage of SGF, as provided in paragraph 22 of Annexure O of the said circular are as follows:

Core Settlement Guarantee Fund (Core SGF) – Annexure O

22) Standardized Stress Testing for Commodity Derivatives

“Part A. Scenarios

Historical Scenarios

1. Peak Historical Return

Price movement in respect of each underlying over the MPOR period during the last 15 years to be considered:

*Scenario 1A: Maximum percentage rise over MPOR period
Scenario 1B: Maximum percentage fall over MPOR period*

Price movements corresponding to a Z-score of 10 will replace extreme price movements beyond that threshold in peak historical returns of all the commodities. Mean and sigma of returns over the applicable MPOR period across 15 years would be used for calculation of the Z-score

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Part C. Coverage

... *for each of the scenarios in Part A, Clearing Corporations shall calculate –*

A. Credit exposure due to simultaneous default of at least 2 clearing members (and their associates) causing highest credit exposure.

B. 50% of the credit exposure due to simultaneous default of all clearing members.”

2. Based on representations received from stakeholders, recommendation of the Risk Management Review Committee (RMRC) and public comments received, and with the objective of facilitating Ease of Doing Business, it has been decided to modify the provisions contained in Part A (with respect to Z-score) and Part C (with respect to Coverage of SGF) of paragraph 22 ('Standardized Stress Testing for Commodity Derivatives') of Annexure O of SEBI Master Circular for Commodity Derivatives dated Aug 04, 2023, as under:

“Part A. Scenarios

Historical Scenarios

1 Peak Historical Return

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...

“Price movements corresponding to a Z-score of 5 will replace extreme price movements beyond that threshold in peak historical returns of all the commodities. Mean and sigma of returns over the applicable MPOR period across 15 years would be used for calculation of the Z-score.”

...

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“Part C. Coverage

For each of the scenarios in Part A, Clearing Corporations shall calculate the credit exposure due to simultaneous default of at least 3 clearing members (and their associates) causing highest credit exposure.”

3. The circular shall come into force with immediate effect.
4. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Regulation 51 of the Securities Contracts (Regulation) (Stock Exchange and Clearing Corporations) Regulations, 2018 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
5. The Circular is issued with the approval of the competent authority.
6. This Circular is available on SEBI website www.sebi.gov.in under the category “Circulars” and “Info for Commodity Derivatives”.