



**Consultation Paper on permitting Category III Alternative Investment Funds (AIFs)  
in the commodity derivatives market**

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**1. Objective**

1.1. To solicit comments from public on proposal pertaining to permitting participation by Category III Alternative Investment Funds (AIFs) in the commodity derivatives market.

**2. Background**

2.1. The Indian Commodity derivatives market, at present, is running sans any institutional participation thereby is lacking in the desired liquidity and depth which is one of the key element for the efficient price discovery and price risk management. In the past, various committees have recommended for participation of institutional investors in the commodity derivatives markets, which would help in improving the quality of price discovery, thereby leading to better price risk management.

2.2. SEBI had constituted an advisory committee known as Commodity Derivatives Advisory Committee (CDAC) to advise SEBI for effectively regulating and developing the commodity derivatives market. CDAC has advised that the commodity derivatives market should be opened up to institutional participation both domestic as well as international in a phased manner.

2.3. Based on the recommendations of CDAC and feedback received from various stakeholders, it is being proposed to allow participation of category III AIFs in the commodity derivatives market. Category III AIF's are those AIF's which employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives.

**3. Proposal:**

3.1. The participation of Category III AIF is proposed to be subjected to the following conditions:

3.1.1. Category III AIFs may participate in all commodity derivatives products being traded on the commodity derivatives exchanges as 'clients' and shall be subjected to all the rules, regulations and instructions as may be applicable to clients, issued by SEBI from time to time.



- 3.1.2. Category III AIFs shall invest not more than ten percent of the investable funds in one underlying commodity.
- 3.1.3. Category III AIFs may engage in leverage or borrow subject to consent from the investors in the fund and subject to a maximum limit, as specified by the SEBI from time to time. As specified in SEBI circular CIR/IMD/DF/10/2013 dated July 29, 2013, presently, the leverage of a Category III AIF shall not exceed 2 times of the NAV of the fund.
- 3.1.4. The category III AIFs shall have position limits as applicable to the clients.
- 3.1.5. Category III AIFs shall make disclosure in private placement memorandum issued to the investors about investment in commodity derivatives and shall take consent of existing investor if such AIFs intend to invest in commodity derivatives.
- 3.1.6. In case the AIF receives investment from a person resident outside India, AIF shall comply with such conditions or guidelines that may be stipulated or issued by RBI and SEBI from time to time.
- 3.1.7. The Category III AIF shall be subject to the reporting requirements as may be specified by SEBI.
- 3.1.8. The participation of Category III AIF shall be subject to the compliance of the provisions of SEBI (Alternative Investment Funds) Regulations, 2012 and circulars, guidelines, directives etc. issued there under from time to time.

#### **4. Public Comments:**

- 4.1. Comments from public are invited on the proposal contained in this paper and same should reach SEBI latest by **May 20, 2017**.

The comments may be sent by email to **cdmrd\_dmp@sebi.gov.in** or alternatively may be sent to following address:

**Shri Vikas Sukhwai,**  
Deputy General Manager,  
Division of Market Policy,  
Commodity Derivatives Market Regulation Department  
Securities and Exchange Board of India  
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**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

4.2. Comments/suggestions may kindly be provided in the format given below:

<b>Name of Entity/Person</b>			
<b>Sr. No.</b>	<b>Para No. of Paper</b>	<b>Suggestions</b>	<b>Rational</b>

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