
NATIONAL COMMODITY CLEARING LIMITED

Circular to all Members of the Clearing Corporation

Circular No. : NCCL/CLEARING-008/2021

Date : March 16, 2021

Subject : Calculation of Closing Price or Daily Settlement Price (DSP) for Commodity Futures Contract

This is with reference to SEBI circular no. SEBI/HO/CDMRD/DNPMP/CIR/P/2021/9 dated January 11, 2021 on Revision in Daily Price Limits (DPL) for Commodity Futures Contracts and our circular no. NCCL/CLEARING-002/2018 dated April 07, 2020 on Clearing & Settlement Procedures.

The daily profits/losses of the Members are settled using the Daily Settlement Price. SEBI in the above-mentioned circular has issued guidelines on Calculation of closing price or daily settlement price (DSP) for Commodity Futures contracts (excluding Index Futures and options). Accordingly, the DSP shall be determined in the manner described here under. The Daily Settlement Price notified by NCCL by any such method, shall be binding on all its Members and their Constituents.

Method 1

The Clearing Corporation shall determine the Daily Settlement Price in the following order: -

- i. Volume Weighted Average Price (VWAP) of all trades done during last half an hour of the trading day; or
- ii. If the number of trades during last half an hour is less than 10, then DSP shall be based on the VWAP of the last 10 trades executed during the day; or

Method 2

In the event of failure of Method 1, the Daily Settlement Price will be determined using any of the following methods which in the opinion of NCCL would be a better indicator of market prices:

- i. If the number of trades done during the day is less than 10, then VWAP of all the trades during the day; or
- ii. Theoretical futures price derived from the spot price:

$$F = (S - U) e^{rt}$$

Where F = futures price, S = polled spot price, r = 30 day MIBOR rate and T = time remaining till maturity, e is not defined here, U is a factor of adjustment for backwardation (where the futures prices are lower than spot prices). This can arise due to reasons such as cyclical/seasonal factors, changes expected in supply/demand conditions due to arrival of new crops during harvest season, etc.; or

iii Theoretical Futures price arrived from liquid contracts of the same commodity:

The spreads that prevail between active contracts (the contracts that qualify method 1 described above) shall be used to determine the theoretical futures price for other contracts that do not meet the criteria for liquid contract as stated above, in the same commodity. For example, if we assume that the near month and middle month contracts are active, the theoretical futures price for an illiquid far month contract shall be determined as a theoretical futures price using the spread between the near and the middle month contract; or

iv Previous day's settlement price, settlement price based on other active liquid contracts of same commodity, prices of outstanding orders, price at other Exchanges / CC's or a price arrived through any other method which the Clearing Corporation, in its absolute discretion, considers to reflect the market price better. And any such Daily Settlement Price determined by Clearing Corporation shall be binding on all its Members and their Constituents.

The Daily Settlement Prices will be disseminated to Members through the file NCDEX_CN01_ddmmyyyy.CSV (in Common/Reports directory on Extranet).

Members and participants are requested to note the above.

For and on behalf of
National Commodity Clearing Limited

Vidyadar Bangera
Vice President

For further information /clarifications, please contact

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