



**Consultation paper on framework for Warehouse Service Providers (WSP),
warehouses, assayers and other allied service providers engaged in
respect of non- agricultural goods such as precious metals, gems &
stones, metals, minerals and alloys but excluding crude oil, electricity and
natural gas**

1 Objective

- 1.1 The objective of the consultation paper is to seek comments / views from the public on the framework for Warehouse Service Providers (WSP), warehouses, assayers and other allied service providers engaged in respect of non- agricultural goods such as precious metals, gems & stones, metals, minerals and alloys but excluding crude oil, electricity and natural gas

2 Background

- 2.1 Warehousing or Storage infrastructure and its ancillary services play a critical role in the delivery mechanism of the Commodity Derivatives Markets. A robust & credible warehousing infrastructure is sine qua non for an effective Commodity Derivatives Market that can inspire confidence amongst the market participants and other stake holders. Clearing corporations are responsible for guaranteeing settlement and ensuring good delivery. Therefore it is imperative on their part to ensure that warehouses exercise due diligence to ensure safety and quality of the goods deposited with them by the depositors.
- 2.2 To achieve this objective, all the Clearing Corporations are required to frame norms for storage and other allied services for compliance by the WSPs, assayers and other such allied service providers to be engaged by them, so as to put in place a robust mechanism, for ensuring good delivery of the goods to the market participants.
- 2.3 In this regard, SEBI vide its circular dated September 27, 2016 has already issued a comprehensive framework for Warehouse Service Providers (WSP), warehouses, assayers and other allied service providers engaged by Stock Exchanges/Clearing Corporations in respect of agricultural and agri-processed goods.



2.4 Besides the agricultural and agri-processed goods, derivative contracts on various non-agricultural goods are also traded on the stock exchanges wherein deliveries are taking place on the exchanges. Although the stock exchanges/clearing corporations may have prescribed certain storage norms regarding non-agricultural commodities, there is no uniformity in the norms specified by such exchanges/CCs. Hence, in order to ensure good delivery by the clearing corporations, SEBI is considering prescribing (as under) a broad set of standards and norms for compliance by CC accredited storage agencies for storage of physically delivered non-agri goods such as precious metals, gems & stones, metals, minerals and alloys etc., but presently excluding crude oil, electricity and gas.

3 Tripartite agreement between Stock Exchange, Clearing Corporation and WSP: The responsibility of the clearing and settlement of commodity derivatives trades lies with the clearing corporations, but the contract design lies with the recognised stock exchanges. Thus, it is appropriate that both the stock exchanges and the respective clearing corporation (CC) shall enter into a tripartite agreement with the WSPs recognised by them.

4 Accreditation of Warehouse Service Providers (WSP) for Non-Agricultural goods:

4.1 **Warehouse Service Provider:** A warehouse service provider (WSP) is an entity which provides a storage facility for storing underlying goods related to a commodity derivatives contract. Depending on the nature of the commodity the storage facility may include warehouses, sheds, tanks, pipelines, marine vessels, open storage areas, vaults or other forms of storage as appropriate to a deliverable good.

4.2 The Clearing Corporation shall follow a transparent process for accreditation of warehouses/vaults by issuing open advertisements in leading newspapers and/or putting the same up on the website and by following a transparent selection process thereafter. The selection process being/to be followed for such accreditation shall be displayed on the website of the Clearing Corporation in advance. The accreditation of the warehouses/vaults shall be done with the approval of the Risk Management Committee of the Clearing Corporation. The Clearing Corporations shall ensure that the applications of the **WSPs** are processed within a stipulated time frame.



- 4.3 A **WSP** can be accredited with more than one Clearing Corporation. In such case, no Clearing Corporation shall mandate that its **WSP** cannot provide services to another Clearing Corporations. However, if a warehouse of a WSP is accredited for a particular commodity on a Clearing Corporation, then the same warehouse shall not be used for the same commodity for another Clearing Corporation.
- 4.4 The accreditation of a **WSP** shall, unless any expulsion proceedings pending against it, be subject to renewal after a period of 3 **years** considering **WSP's** performance during the accreditation period such as quality of services rendered, number of clients' complaints and effective resolutions thereof etc.. The renewal shall be approved by the Risk Management Committee of the Clearing Corporation. During the renewal process, the Clearing Corporation and the **WSP** shall continue to be responsible for the commodities stored therein. The existing accreditation, if any, would be valid for 6 months from the date of issue of these guidelines and thereafter the same would be subject to renewal.
- 4.5 The Warehouses/ Vaults shall obtain registration under applicable laws or any other registration as may be required under any law and the same may be intimated by it to the Clearing Corporation prior to providing the storage services to the Clearing Corporation.

5 Eligibility and Experience of WSP /Promoters/Promoter Group of WSP:

- 5.1 A **WSP** shall be a corporate body and in the business of providing storage services for various non-agricultural commodities such as Precious metals, Metals, Gems & Stones, etc.
- 5.2 The Promoters of the **WSP** should be responsible persons/entities with a good business reputation and credibility, and must be in the warehousing business for **at least 3 years** as on the date of their operation having domain knowledge of handling storage/delivery operations of Precious Metals, Metals, Gems & Stones and alloys.



- 5.3 **WSP** and Promoters/ Promoter Group of **WSP** shall not have any previous record of serious violation of laws or being expelled by any Exchange/Clearing Corporation in at least last three years. The Clearing Corporation can take an appropriate undertaking from the **WSP** in this regard.

6 Financial Norms for the **WSP**:

- 6.1 **Capital and Net worth:** A **WSP** shall be a corporate body with the minimum net worth requirement as under:

6.1.1. An accredited **WSP** shall have subscribed and paid-up share capital of at least, INR 10 crore.

6.1.2. An accredited **WSP** providing storage services shall meet the following net worth criteria:-

| Commodity Complex | Minimum net worth |
|----------------------------------|---|
| Precious metals, Gems and Stones | INR 25 crores for Precious metals, Gems and Stones |
| Base/Industrial Metals | INR 10 crores for single metal INR 25 crores for multiple metals |

6.1.3. Existing **WSPs** shall meet the requirements prescribed at 6.1.1 and 6.1.2 latest by March 31, 2020.

6.1.4. Further, the Clearing Corporation shall ensure that the value of the goods stored in the accredited warehouses of **WSP** shall not, at any point of time, exceed 33 times of the net worth of the **WSP**.

6.1.5. The Clearing Corporation shall calculate the net worth of **WSP** in the following manner.

"the aggregate value of paid up equity share capital plus free reserves (excluding statutory funds, benefit funds and



reserves created out of revaluation) reduced by the investments in businesses, whether related or unrelated, aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off."

6.1.6. In case of reduction in net worth below the stipulated amount, a time period of six month may be allowed to the **WSP** to augment its net worth. In the event the **WSP** is unable to augment the net worth to the requisite level within the allowed time frame, the **WSP** shall not carry out any new business i.e. can not include any new warehouse/vault for new contracts/commodity/location. The Clearing Corporation may take suitable measures, which shall be disclosed on its website for public information, with respect to the existing goods handled by such **WSP**.

6.1.7. The **WSP** shall submit a net worth certificate wherever available and/or certificate from its statutory auditors to the Clearing Corporation once in every six months i.e. net worth as at the end of every March and September, within 45 calendar days, from the end of March and September.

6.1.8. The Annual Financial Statements of the **WSP** should be audited and submitted to the Clearing Corporation within six months from the end of Financial Year. Further, each **WSP** shall also be required to file its unaudited quarterly financial statements for all the quarters of a financial years to the Clearing Corporation, within 30 calendar days of the date of a quarterly statement.

6.2 **Security Deposit:** The **WSP** / **WSP** seeking accreditation with a Clearing Corporation shall be required to furnish a refundable security deposit along with the application form.

6.2.1. Such security deposit shall be at least INR 50 lakhs.

6.2.2. Security deposit shall not be released until six months after cancellation or revocation or surrender of the accreditation of the **WSP** or until after satisfaction of every claim against the deposit, whichever is later.



6.2.3. Such security deposit shall be in form of cash or cash equivalent like Bank Fixed Deposits, Bank Guarantees etc.

6.3 Financial Security Deposits (FSD):

6.3.1. The **WSP** shall furnish FSD in addition to the aforesaid security deposit as under :-

| Value of Goods stored | FSD |
|--|---|
| Upto INR 250 crores | 3% of the aggregate value of stored commodities |
| Above INR 250 crores and upto INR 500 crores | 4% of the aggregate value of stored commodities |
| Above INR 500 crores | 5% of the aggregate value of stored commodities |

6.3.2. The FSD shall be in form of liquid assets with applicable haircuts and concentration limits as listed below:-

| Item | Minimum haircut | Limits |
|--------------------------------------|-----------------|--------------------------|
| Cash | 0 | No Limit but minimum 25% |
| Bank Fixed Deposit | 0 | |
| Bank Guarantees | 0 | |
| Securities of the Central Government | 10% | |

6.3.3. The Clearing Corporations shall lay down exposure limits either in rupee terms or as percentage of the total assets to be received as FSD/SD that can be exposed to a single bank directly or indirectly. The total exposure towards any bank would include Bank Fixed Deposit and Bank Guarantees issued by the bank which have been deposited by **WSP**.



- 6.3.4. Not more than 1% of such assets deposited with the Clearing Corporation, shall be exposed to any single bank which has a net worth of less than INR 500 crores and is not rated P1 (or P1+) or equivalent, by a recognized credit rating agency or by a reputed foreign credit rating agency, and not more than 10% of such deposit deposited with the Clearing Corporations shall be exposed to all such banks put together.
- 6.3.5. A daily monitoring of the FSD vis-à-vis the value of the commodities stored needs to be done so as to ensure that the minimum stipulated FSD are always maintained with the Clearing Corporation. The Clearing Corporation may ask for additional FSD over that stipulated above, if considered necessary.
- 6.3.6. The FSD vis-a-vis the value of goods stored should be marked to market on replacement value on ongoing basis.
- 6.3.7. The Clearing Corporations may specify the liquidity ratio (i.e. Liquidity Ratio= Current Assets/Current Liabilities) for **WSP**, however it is desirable that such ratio is greater than 1. The Clearing Corporations may, however, keep higher ratio.

7 Fit and Proper Criteria:

- 7.1 The Clearing Corporation shall ensure that the **WSP**, Promoters of **WSP**, assayers, Key Management Personnel (KMPs) of **WSP**, warehouses and their Assayers shall always be 'fit and proper' to carry out business of warehousing/vaulting, have adequate knowledge of, and experience in generally accepted warehousing / vaulting and handling practices for Commodities, and are competent and willing to operate such a warehouse/vault for which the **WSP** has a valid license/registration /expertise under the appropriate state warehousing laws/GST Laws/or any other registration as may be required under any law in respect of the warehouses/vaults concerned.



8 Corporate Governance norms for WSP:

8.1 **Management and Employees:** The Clearing Corporation shall ensure that the accredited **WSP** has a professional management team to oversee its functioning and operations.

8.1.1. The Clearing Corporation shall ensure that the Key Management Personnel (KMPs) of **WSP** have adequate knowledge of, and experience in generally accepted warehousing and handling practices for the specific commodities for which it has been accredited and are competent and willing to operate such a warehouse/vault, and do not have any conflict of interest in discharge of their functions.

8.1.2. The Clearing Corporation shall ensure that the **WSP/Management of WSP** (defined as 'key managerial personnel' including whole time directors of **WSP** and their 'relatives' as per Companies Act, 2013) or entities owned or controlled by promoters/management of **WSP** / Group concerns / associates directly or indirectly or persons 'acting in concert' are not allowed, either directly or indirectly, to trade on the commodity derivatives exchange in the commodity for which it is accredited by Clearing Corporation. The Clearing Corporation shall not provide for any exemption in this regard.

8.1.3. The Clearing Corporation may obtain an annual declaration from the compliance officer of **WSP** to the effect that the **WSP/Management of WSP** or entities owned or controlled by management of **WSP/Group** concerns directly or indirectly or persons 'acting in concert' have not traded on exchange.

8.1.4. The Clearing Corporation shall ensure that the **WSP** has adequate number of competent employees at all times who have the experience, capacity and ability of operating the business without any conflict of interest.

8.1.5. The Clearing Corporation shall ensure that the staff/employees of the **WSP** including the assayers, who are managing the day-to-day affairs of the warehouses/vaults, deployed both in the office of the **WSP** and in its warehouses/vaults, are duly trained on their expected tasks through the Clearing Corporation's delivery business related training



programmes or are deputed to attend the certification programme on commodity derivatives and storage practices/warehousing conducted by National Institute of Securities market (NISM), if any.

8.2 **Compliance officer:** The **WSP** shall appoint a compliance officer who shall be responsible for monitoring the compliance with relevant Act, rules and regulations, notifications, guidelines and instructions issued by relevant authorities from time to time. The Compliance officer of the **WSP** shall ensure that all norms mentioned are followed by the **WSP** and should issue a declaration to that effect to the Clearing Corporation, at regular intervals as directed by the Clearing Corporation.

8.3 The **WSP** shall comply with relevant ISO standards and/or its equivalent.

8.4 **Standard Operating Procedure (SOP):** The **WSP** shall have a SOP and the Clearing Corporation shall obtain a standard operating procedure in respect of all the concerned warehouses/vaults from the **WSP** before granting accreditation to such warehouses/vaults. The SOP may cover the following but not restricted to:

- 8.4.1. Procedures for acceptance of goods to be deposited
- 8.4.2. Weigh bridge empanelment in case of base metals/industrial metals while digital electronic weighing scales for the precious metals, gems and stones. Procedure for the calibration of the weighing scales.
- 8.4.3. Procedures for weighing, sampling of goods to be deposited as per industry standards,
- 8.4.4. Procedure for verification of commodity and communication to depositors,
- 8.4.5. Procedure for depositing and identifying the Exchange related goods,
- 8.4.6. Procedure for maintaining the quality of the goods stored as per the exchange contract specification,
- 8.4.7. Procedure for Know your depositor requirements,
- 8.4.8. Security policy for ensuring the safety of the goods from theft, burglary etc.,
- 8.4.9. Procedure and guidelines for scientific storage of commodities including stacking
- 8.4.10. Procedure for losses caused due to theft, fire, burglary, fraud, negligence and force majeure events,
- 8.4.11. Procedure for internal verification of commodities



- 8.4.12. Selection of Location
- 8.4.13. Grievance redressal procedures
- 8.4.14. Role and responsibilities of employees (including outsourced staff)
- 8.4.15. Model warehouse/vault agreement format
- 8.4.16. Maintenance of surroundings, infrastructure etc.

8.5 The **WSP** shall have good internal systems and controls which should meet the operating guidelines issued by the Clearing Corporation from time to time. The **WSP** shall have clear delegation of powers to meet operational requirement.

8.6 A **WSP** shall intimate / notify in writing to the Clearing Corporation, if there is any material change in its SOP and its internal systems and control, prior to making such change.

8.7 **WSP** shall report to the Clearing Corporation within three business days of initiation of any civil and criminal proceedings by or against it and shall also intimate the Clearing Corporation if there is probability of any such legal proceedings being initiated involving it ,as soon as the same comes to the knowledge of the **WSP**.

9 Know Your Depositor:

9.1 The **WSP** shall comply with Know Your Depositor (KYD) Policy as prescribed by the Clearing Corporation from time to time.

9.2 The Clearing Corporation and **WSP** shall at any point of time be able to identify the depositor of the goods deposited in registered warehouses/vault, the owner of the deposited goods (in case the depositor is an agent of the actual owner), and also the actual beneficiary (in case the owner and the actual beneficiary are also different) of the deposited/stored commodities.



10 PAN requirement:

- 10.1 The Clearing Corporation shall ensure that the **WSPs** are under obligation to provide to the Clearing Corporation the details including PAN numbers of its Promoters, Promoter group entities, its holding/subsidiaries/associates and other related entities, persons 'acting in concert', Key Management Personnel at the time of accreditation and update the same on periodical basis as mandated by the Clearing Corporations and whenever any change is noted by **WSP**, in this regard.

11 Facilities & Infrastructure Requirement

- 11.1 The Clearing Corporation shall ensure that the **WSP** should ideally own the warehouse/vault. Alternatively the **WSP** should hold a direct lease with the owners for a long period, say for at least 3 years. The Clearing Corporation shall ensure that the warehouses/vaults provided by the **WSP** are under absolute control of the **WSP**. In case a warehouse/vault is a leased property it should be ensured that no third party including the owner/ lessor of the warehouse, has any role to play in the operations and managing the concerned warehouses operated by the **WSP**.



A. Precious Metals, Gems and Stones:

- 11.2 The Clearing Corporation shall ensure that the **WSP** for precious metals to be eligible for accreditation have reasonable facility and infrastructure for proper handling and storage of commodity such as:-
- 11.2.1 The warehouses/ vaults are physically and operationally suitable for the proper storage of such precious metals and the security and surveillance equipments to include:
- 11.2.1.1 CCTV (Close Circuit TeleVision) monitors.
 - 11.2.1.2 Indoor & Outdoor IR (Infra-Red) Cameras.
 - 11.2.1.3 Sensors: Vibration, Smoke, Movement etc.
 - 11.2.1.4 Panic Switches & Alarm Systems.
 - 11.2.1.5 Recoding systems such as DVR (Digital Video Recording) System and have DVR (Digital Video Recording) in a secured place/ area (pre-vault Area/Packing Area) under lock and key.
 - 11.2.1.6 Interlocking Panel for steel doors.
 - 11.2.1.7 Electromagnetic locks for steel doors.
 - 11.2.1.8 Control Panel with Auto dialer.
 - 11.2.1.9 Video Door Phone/Biometric Sensor.
 - 11.2.1.10 Metal Detector.
 - 11.2.1.11 The vault shall be attack and fire proof with SFSR (Steel Fabricated Strong Room) or Additional RCC wall
 - 11.2.1.12 HSD (High Security Door) with Grill Gate with combination, mechanical & timer locks (Steel Door with 2 mechanical locks may be used in low risk areas) to be used to Control Access to Vault.
 - 11.2.1.13 All doors to feature high security locking mechanism & equipped with a spring or hydraulic automatic door closure.
 - 11.2.1.14 The recording / storage capability of surveillance data in the DVR should be adequate and meets international standards say for a period of minimum one year.
 - 11.2.1.15 Security & Surveillance system to be checked daily & a record maintained thereof
 - 11.2.1.16 Non-functioning items to be reported to Security & repaired /replaced immediately or as earliest as possible.



- 11.3 The WSP shall provide a fully secured indoor facility for the storage of precious metals, as acceptable to the Clearing Corporation. The Vault for gold, silver, other precious metals, gems and stones must be accessible by armoured vehicle.
- 11.4 WSPs shall have adequate security personnel for each of its registered vault with required facilities to immediately communicate any unlawful entry, burglary, theft or damage or potential loss to the deposited goods to the WSP.
- 11.5 There shall be provision to accommodate two separate power supplies, one for main lighting/fans and other for sensors, cameras, etc. All electrical wiring inside vault shall be as per the state-of-the-art safety standards. The power for lighting/fans inside vault shall be controlled by a power cut-off switch provided on vault door so that when the external vault door is closed, the power for lighting/fan inside vault shall get cut-off automatically. The other power supply for sensors and cameras inside vault shall continue even after the vault door is closed.
- 11.6 The Clearing Corporation shall ensure that the vaults provided by the WSP are under absolute control of the WSP. In case a vault is a leased property it should be ensured that no third party including the owner/ lessor of the vault, has any role to play in the operations and managing the concerned vaults operated by the WSP.
- 11.7 The Clearing Corporation shall ensure that the accredited vaults have communication link with the nearest police station.
- 11.8 The Clearing Corporation shall develop the SOP with respect to the maintenance, preservation and retrieval of data/records/books of accounts which shall be uniformly adopted by each of their accredited **WSP**/vault including for-
- 11.8.1. vault security and access control systems;
 - 11.8.2. systems for tracking commodities;
 - 11.8.3. risk control and operations manuals (enclose copies);
 - 11.8.4. independent internal control mechanisms for monitoring, evaluation and review of accounting safekeeping and reporting systems and procedures.



11.9 Clearing Corporation shall develop guidelines regarding automatic data processing systems and record keeping-

- 11.9.1. details of hardware, software and communications systems, their capability, function and location;
- 11.9.2. details of data storage and back up procedures and sites, their capability, function and location;
- 11.9.3. details of disaster recovery systems and procedures.

11.10 The **WSPs** shall not disseminate any information that is false or misleading or disclose any confidential information obtained during the course of their dealings with the Clearing Corporation or their positions on the market or any information received during the course of performance of their duties.

B. Other Metals and alloys:

11.11 The Clearing Corporation shall ensure that the **WSP** for metals to be eligible for accreditation, has reasonable facility and infrastructure for proper handling and storage of commodity such as:-

- 11.11.1. All its warehouses are well connected with rail and/or road networks and have sufficient space for parking and movement of large vehicles. The warehouse must have a fully fenced perimeter/boundary. If any side of the warehouse borders a public road, then it should not have any operational doors bordering the road and any of such doors must always be locked and alarm secured. Loading and unloading shall always take place within the perimeter/boundary of the warehouse and not in a public area;
- 11.11.2. The warehouses are physically and operationally suitable for the proper storage of Metals;
 - 11.11.2.1. Are of sound construction and in a state of good repair and floor properly levelled. The walls, the floor and the roof do not permit water seepage;
 - 11.11.2.2. Ferrous metals shall be stored in a way so as to prevent distortion, corrosion, scaling and rusting. They shall be stacked adequately above the ground level.
 - 11.11.2.3. Have adequate equipment, installed and maintained in good working order, as may be prescribed by the Clearing



Corporation, for the movement of commodities into, out of and within the warehouse.

- 11.11.2.4. Have adequate fire-fighting equipment installed within its premises and have fire escapes and fire hydrant points clearly marked. Further, the employees employed at the warehouses shall undergo training in fire safety and use of fire-fighting equipments.
 - 11.11.2.5. Have required ventilation, installed and are maintained in good working order, as may be prescribed by the Clearing Corporation, for proper storage and preservation of quality of goods;
 - 11.11.2.6. Have adequate lighting arrangement as may be prescribed by the Clearing Corporation;
 - 11.11.2.7. Have a safe work environment;
 - 11.11.2.8. Have ensured adequate security as prescribed by the Clearing Corporation for protection of stored or handled commodities to prevent from tampering or adulteration;
 - 11.11.2.9. Have facilities for storing the deliverable commodities of derivative contracts which need to be stored and piled properly in a separate storage area as specified by the Clearing Corporation thereby providing clear-cut demarcation between Exchange / non- Exchange commodities.
- 11.11.3. **WSPs** shall have adequate security personnel for each of its registered warehouse with required facilities to immediately communicate any unlawful entry, burglary, theft or damage or potential loss to the deposited goods to the **WSPs**.
- 11.11.4. Each warehouse of a **WSP** shall assign a special place to store the samples (if any) used for inspection and testing for purpose of further examination and testing.
- 11.11.5. The Clearing Corporation shall develop the SOP with respect to the maintenance, preservation and retrieval of data/records/books of accounts which shall be uniformly adopted by each of their accredited **WSP**/warehouse including for-
- 11.11.5.1. Warehouse/ vault security and access control systems;
 - 11.11.5.2. systems for tracking commodities;
 - 11.11.5.3. risk control and operations manuals



- 11.11.5.4.independent internal control mechanisms for monitoring, evaluation and review of accounting safekeeping and reporting systems and procedures.
- 11.11.6. Clearing Corporation shall develop guidelines regarding automatic data processing systems and record keeping viz:
- 11.11.6.1.details of hardware, software and communications systems, their capability, function and location;
- 11.11.6.2.details of data storage and back up procedures and sites, their capability, function and location;
- 11.11.6.3.details of disaster recovery systems and procedures.
- 11.11.7. The **WSP** shall undertake to have assaying/testing facilities for the commodities it intends to offer warehousing facility, or shall undertake to be associated with an assaying/testing agency which may preferably be certified by one or more national/international agencies as specified by the exchange.
- 11.11.8. The **WSP** shall provide for accurate and efficient weighing, sampling, inspection and grading of the metal deposited in its warehouses. The Clearing Corporation shall ensure that the **WSP** has deployed personnel who have knowledge and experience in sampling, weighing, inspecting and/or grading of commodities.
- 11.11.9. Clearing Corporation shall ensure that the **WSP** has in place, necessary policies, control and system in place for dealing with the risk that may be arising due to the warehouses being used for purposes other than commodity derivatives market.
- 11.11.10. The Clearing Corporation and WSP shall be responsible to accept the goods/commodities in warehouses which meets the quantity and quality parameters as per the exchange contract specifications. The WSP shall take necessary steps to maintain the quality and quantity of goods stored in the warehouse, in accordance with the conditions/parameters (for maintaining the quality) as laid down by the exchanges for each of such commodity.



11.11.11. The WSP shall display on a daily basis warehouse/ commodity wise details of the space available, goods deposited and held in transit, details of location of the warehouse/vault, particulars of rejection of the goods etc., on its website and the archives of such reports shall be available on its website.

11.11.12. The WSP shall not disseminate any information that is false or misleading or disclose any confidential information obtained during the course of their dealings with the Clearing Corporation or their positions on the market or during the course of performance of their duties.

11.11.13. **Other goods**

Exchanges shall specify storage norms for storage of other goods taking into account industry best practices and/or any applicable standards specified by any government agency or standard setting body.

12 Approval of Armoured Car Company and Weigh master

12.1 The Clearing Corporation shall designate and approve an armoured car company as a carrier whose function is to provide for the secure transportation of precious metals, gems and stone and shall maintain a chain of integrity for each such metal, as described in the applicable metals futures contract rule chapters.

12.2 The Clearing Corporation shall designate and approve a weighmaster whose function is to verify the weight of the metal.



13 Accreditation of assayers

- 13.1 The Clearing Corporation shall follow a transparent process for accreditation of assayers by issue of open advertisement in leading newspapers and by putting up the same on the Clearing Corporation website. The process to be followed for such accreditation shall be displayed on the website of the Clearing Corporation in advance. The accreditation shall be done with the approval of the Risk Management Committee of the Clearing Corporation.
- 13.2 The Clearing Corporation shall conduct independent pre-empanelment due diligence of Assayers by visiting the laboratories and assessing the testing and certification facilities. The CCs shall give preference to the government assayers or to those Assayers who are having government approved testing and certification facilities at various locations across India.
- 13.3 The Clearing Corporation shall ensure that the empanelled assayers work independently and their operations are governed by prescribed Standard Operating Procedures (SOPs).



14 Warehouses/Vaults at delivery centres:

- 14.1 The Clearing Corporation shall ensure that all the warehouses/vaults of a WSP accredited by them are registered with an appropriate statutory authority, wherever and whenever applicable.
- 14.2 The exchanges shall have at least one warehouse/vault at each of the delivery centres (as specified in the contract specification) at the time of launch of contract itself and address of such warehouses/vault shall be mentioned in the contract specifications.
- 14.3 The Clearing Corporation may accredit an warehouses / vault of a WSP within radius of 50 Kms of the delivery centres for base metals and within the municipal limits of the delivery centre in case of the precious metals depending on the feasibility and market requirements.
- 14.4 The Clearing Corporations on their websites shall disclose all the details, starting from the date of receipt of the application till its disposal (either acceptance or rejection) with respect to the processing of the application for accreditation of storage infrastructure proposed by the **WSPs**.

15 Insurance:

- 15.1 The WSP shall at all times ensure to fully cover under insurance, the value of goods stored at Clearing Corporation approved warehouses against all potential perils relevant to the commodities for which insurance cover is available and necessary.
- 15.2 The WSP shall undertake to take insurance cover for risks such as viz. Fire and allied perils including flood, cyclone, earthquake and spontaneous combustion, Burglary and Theft and special perils covering riots, strikes and terrorism.
- 15.3 The WSP shall take Fidelity guarantee & crime insurance and Professional indemnity cover to cover all deliverable stocks on the Clearing Corporation.
- 15.4 The value of goods to be insured should be marked to market on replacement value on ongoing basis.



16 Monitoring/Inspection/Audit of warehouses by WSPs and Clearing Corporations:

16.1 Periodic inspection/audit by WSP: The **WSP** should ensure that there is periodic inspection/audit of the warehouse as well as the commodities stored in the warehouses.

16.1.1 Inspection staff must be independent of the employees / staff deployed at the registered warehouse.

16.2.1. The inspection/audit report shall be submitted to the Clearing Corporation within a week of the completion of such inspection/audit.

16.2.2. The Clearing Corporation shall ensure that the physical counting of stocks and their reconciliation with the corresponding electronic records is done periodically.

16.2 The **WSP** shall allow the members /clients to do physical inspection. However, the request for such physical inspection would have to be submitted to the Clearing Corporation and the Clearing Corporation after verification of such request, shall forward the same to the concerned **WSP** for allowing such inspection within a stipulated time.

16.3 Periodic inspection/audit of warehouses/vaults by the Clearing Corporation: The Clearing Corporation shall ensure that independent audit of the stocks and other facilities in the warehouses/vaults is carried out by engaging expert agencies, at regular intervals.

16.3.1. For base metals, such inspections shall be carried out at least twice for each accredited warehouse in a calendar year with a gap of not more than six months between two inspections/audits of same warehouse. While for the vaults having precious metals, gems and stones, the frequency shall be once in a quarter with a gap of not more than 3 months between two inspections/audits of same vault.

16.3.2. The Clearing Corporation shall prepare a panel of such independent expert agencies for carrying out inspection of warehouses/vaults, which shall also be reviewed by the Clearing Corporation from time to time. In addition, the Clearing Corporation shall also conduct in-house physical audit of accredited warehouses/vaults at regular intervals.

16.3.3. Clearing Corporation should also carry out surprise inspections of warehouses /vaults as and when such exigencies arise in terms of the prescribed norms.



- 16.3.4. The Clearing Corporation shall have a policy of rotation of such independent expert agencies for carrying out inspection after every 3 years with a provision for 'cooling off' period of 1 year.
- 16.3.5. The Clearing Corporation shall have a detailed inspection manual for carrying out the audits and inspections of the warehouses/vaults concerned.
- 16.3.6. In addition to the above, the audit may also be conducted on risk profiling, as identified by the Clearing Corporation. For this purpose, the Clearing Corporation shall form a panel of independent expert agencies and the cost of such audit shall be borne by the respective Clearing Corporation.
- 16.3.7. The result of such audit/audit report shall be displayed by the Clearing Corporation on its website immediately after the completion of the audit and submission of report by the auditor.

16.4 Monitoring of warehouses/vaults by Clearing Corporation: The Clearing Corporation shall be responsible for the monitoring the warehouses/vaults of their accredited **WSP**. In this regard :

- 16.4.1. Norms relating to the monitoring of warehouses/vaults shall be placed in public domain
- 16.4.2. A deliberation on the continuous functioning, monitoring and compliance of norms by WSPs/WSPs, warehouse, vaults and assayers shall be a mandatory agenda item in all Board meetings as well as the Risk management committee meeting of the Clearing Corporation.



17 Review of WSPs/warehouses/vaults:

- 17.1 The Clearing Corporation shall review and appraise operational performance of each WSP every year. Based on the operational review the Clearing Corporation may adjust the allocation of commodities and the limit of deliveries at various warehouses/vaults of the concerned WSP in accordance with the results of such performance evaluation and appraisal.
- 17.2 Additionally, the Clearing Corporation may carry out biennial and quarterly performance review of all warehouses/vaults accredited by it, taking into account various performance areas such as storage facilities, the capacity and appearance of the warehouse/vault, business capabilities, business performance, accounting, the satisfaction level of members/clients, redressal of client grievances, and other factors as the Clearing Corporation may deem necessary for its review.
- 17.3 The Clearing Corporation may take necessary action as mentioned under the para "Actions against WSP", if the warehouse/vault is unable to meet the requirements of an accredited warehouse/vault and fails to improve the standard within the stipulated time.

18 Code of conduct:

- 18.1 The Clearing Corporation shall frame necessary code of conduct for the WSPs, warehouses, vaults and assayers.
- 18.2 The said code of conduct shall be displayed on the Clearing Corporation website.



19 Grievance Cell:

- 19.1 The Clearing Corporation shall ensure that it has a Grievance Cell to handle consumer complaints.
- 19.2 The Clearing Corporation shall take proactive steps to resolve customer related issues and maintain a record of complaints received / resolved.
- 19.3 The Clearing Corporation shall require the WSP to report the details of complaints received / resolved by it/ pending and action taken on the complaints, once in very fortnight.

20 MIS System:

- 20.1 WSP shall have a Standard Operating Procedure (SOP) which is process-dependent and not person-dependent. There should be electronic record of information at the WSP and a MIS system with an arrangement for flow of real time information from the warehouse/vault location to the central MIS and onwards to Clearing Corporation electronically. The MIS should have the capability to capture and disseminate information regarding stocks being held warehouse-vault wise/location wise, and the availability of space in the warehouses/vaults.
- 20.2 The Clearing Corporation shall display on a daily basis warehouse/ vault wise details of the space available, stock of goods held, name of the warehouse/vault service provider, details of location of the warehouse/vault, particulars of acceptance/rejection of goods by the warehouse/vault concerned, details of empanelled assayers and independent assayers, if any, attached to the warehouse/vault etc, on its website. The archives of such reports shall be available on the Clearing Corporation website.
- 20.3 The participants/clients willing to deposit goods in Clearing Corporation accredited Warehouses / Vault would submit a request to the Clearing Corporation. The Clearing Corporation shall use a transparent and time-bound process for the participants to identify the warehouse/vault where the participants can deposit the goods. After such identification, the Clearing Corporation shall intimate the participants about the time, place and the particular warehouse/vault where they can deposit the goods. The Clearing Corporation shall then issue directions to the concerned warehouse/vault for accepting deposits from the concerned participants/clients after assaying/ quality testing as per the laid down procedure in a transparent manner. The warehouse/vault shall accept the goods for deposits only at the instruction of Clearing Corporation concerned.



21 Surrender/Cancellation of accreditation:

- 21.1 Any WSP that applies for surrender of its accreditation shall submit its Application for Surrender to the Clearing Corporation for evaluation and approval.
- 21.2 The Clearing Corporation may cancel the accreditations of a WSP if it fails to comply with the provisions of the rules/regulations specified by it and intimate the same to the market participants through circular. Further, the Clearing Corporation shall put in place a cancellation policy for WSP in public domain. However, the Clearing Corporation shall offer the WSP concerned an opportunity of being heard and take a decision on cancellation after considering the explanation of the WSP.
- 21.3 A WSP that surrenders its accreditation or its accreditation is cancelled, shall attend to the following matters urgently:
- 21.3.1. All commodities for futures contract delivery shall be dispatched out of the warehouse/vault or converted to physical commodities;
 - 21.3.2. All liabilities and debts vis-a-vis the Clearing Corporation, Member and Clients shall be settled;
 - 21.3.3. There is no obligation on its part to deliver goods to the clients pertaining to their trades on the exchange platform, and
 - 21.3.4. No customer complaints pertaining to any of its registered warehouses/vaults are pending for redressal.
- 21.4 SD and FSD shall be returned in accordance with the Clearing Corporation's rules, keeping aside 10% of such deposits with the Clearing Corporation, which shall not be released until six months after cancellation or surrender of accreditation of the WSP or until satisfaction of all claims against the deposits made in its warehouses/vaults, whichever is later.
- 21.5 A WSP which surrenders its accreditation with the Clearing Corporation shall not be eligible to provide its services to the exchange for a period of 3 years.



- 21.6 Once the accreditation of a WSP is cancelled or WSP is expelled by an Clearing Corporation then it shall not be eligible to provide its services to any commodity derivatives exchanges for 5 years.
- 21.7 Adequate notice intimation to general public / clients should be given through widely published newspapers and website etc. before accepting the surrender of WSP or before cancellation/expulsion of the WSP.

22 Business Continuity Plan:

A **WSP** shall put in place, a business continuity plan and submit such plan to the Clearing Corporation.

23 Actions against WSP:

- 23.1 The Clearing Corporation may frame byelaws/rules/regulations/guidelines with respect to its accredited WSP to rectify / correct their misconduct or misconduct on the part of any of its approved warehouses/vaults that are used for storing goods for delivery on exchange platform. The Clearing Corporation may also direct the WSPs/WSPs to indemnify an entity aggrieved by the delivery process of its warehouse/vault or, in serious cases of misconduct/malfeasance, revoke the accreditation of the concerned warehouse/Vault or/and hold the WSP accountable for any legal liabilities, if the concerned erring WSP/ warehouse/vault engages in any of the following offences:
- 23.1.1. refuses to accept delivery without any bonafide reasons or, issues a falsified certificate of delivery;
 - 23.1.2. violates any of the Clearing Corporation's rules or limits the movement of a deliverable commodity into or out of the warehouse/vault;
 - 23.1.3. discloses any confidential business information relating to a buyer or seller or a futures contract;
 - 23.1.4. provide inaccurate or incomplete information, conceal the facts;
 - 23.1.5. engages in the futures trading activities; or
 - 23.1.6. engages in any other behaviour in breach of the Clearing Corporation's rules; or
 - 23.1.7. any other offence not listed above.

However, the above actions may be initiated only after taking due approval from the Risk management Committee.



23.2 The accredited WSP shall be liable for any losses resulting from any action or inaction on its part or on the part of its warehouses/vaults that prevents the buyer or seller from exercising, in whole or in part, their rights. The Clearing Corporation shall compensate the aggrieved client for any such losses that have been appropriately established in a time bound manner by debiting the FSD of WSP held with the Clearing Corporation, in accordance with its applicable rules, and WSP shall within 7 days replenish the FSD as required.

23.3 The Clearing Corporations have necessary arrangements to ensure that in the event of bankruptcy or insolvency of the WSP or other such contingency, there must be no restrictions placed upon owners/depositors of the commodity wishing to take possession of their individually identified commodity and remove it from the accredited vaults.

24 Status report:

24.1 The Clearing Corporation shall upload a status report on their websites by 5th of every month giving the details of the number of applications received for accreditation of warehouses/vaults, warehouses pending for accreditation/registration of warehouses rejected by Clearing Corporation with reason for the same, etc.

24.2 The archives of such reports shall be available on the Clearing Corporation website.

25 Public Comments:

In light of above, public comments are invited on the proposal contained in this consultation paper. Comments/suggestions may kindly be provided in the format given below:

| Name of Entity/Person intermediary/ Organization | | | |
|--|-------------------|--------------|----------|
| Sr. No. | Para No. of Paper | Suggestions* | Rational |
| | | | |
| | | | |

** Any other suggestions on the subject, including on issues not covered in this paper, may also be given*



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

The comments may be sent by email to cdmrd_dmp@sebi.gov.in or alternatively may be sent to following address latest by one month from the date of issue of the consultation paper i.e. **December 29, 2018.**

Shri Vikas Sukhwai,
Deputy General Manager,
Division of New Products and Market Policy,
Commodity Derivatives Market Regulation Department
Securities and Exchange Board of India
SEBI Bhavan, Plot C4-A, G-Block,
Bandra Kurla Complex,
Mumbai – 400051

Issued on: November 29, 2018