



भारतीय प्रतिभूति और विनियम बोर्ड  
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/CDMRD/DRMP/CIR/P/2020/244

December 21, 2020

To,

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

Sir / Madam,

**Sub: Review of inclusion of Historical Scenarios in Stress Testing in Commodity Derivatives Segment**

1. SEBI vide Circular [SEBI/HO/CDMRD/DRMP/CIR/P/2018/111](#) dated July 11, 2018 and [SEBI/HO/CDMRD/DRMP/CIR/P/2020/128](#) dated July 21, 2020, inter alia, had prescribed norms related to Stress Testing for the commodity derivatives segment, which included norms regarding historical scenarios.
2. In light of an unprecedented event of negative final settlement price in the crude oil futures markets in the recent past, SEBI vide circular [SEBI/HO/CDMRD/DRMP/CIR/P/2020/176](#) dated September 21, 2020 had prescribed an Alternate Risk Management Framework that would be applicable in case of near zero and / or negative prices for any underlying commodities/futures.
3. Pursuant to the issuance of the above circular, SEBI received representation to review the requirement of including all the price movements during the last 15 years, in the historical scenarios prescribed for stress testing.
4. The matter was deliberated upon in the Risk Management Review Committee (RMRC) of SEBI. In line with the recommendations of the RMRC, following clause stands inserted after Para '1' of Part 'A' of Annexure to the SEBI Circular [SEBI/HO/CDMRD/DRMP/ CIR/P/2018/111](#) dated July 11, 2018 with a view to address the concerns emanating from exceptional and extreme volatile price events:-



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*“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.”*

5. The circular shall be effective from the date of its issuance.
6. 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 Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
7. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in).

Yours faithfully,

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