

Norms relating to the Monitoring of Warehouses

These norms relating to the monitoring of warehouses are laid down by NCL as per norms outlined by SEBI circular SEBI/HO/CDMRD/DMP/P/CIR/2021/551 dated April 16, 2021 under the heading “Guidelines for warehousing norms for agricultural/agri-processed goods and non-agricultural goods (only base/industrial metals) underlying a commodity derivatives contract having the feature of physical delivery”. Norms relating to the monitoring of warehouses are based on SEBI master circular, below mentioned norms may be changed as per regulatory requirement.

The norms relating to the monitoring of warehouses as follows:

1. Daily MIS

Details about storage facility-wise and / or commodity wise details of opening stock, goods deposited and held in transit (inbound and outbound), rejected stock, closing stock, encumbered/pledged stock and stock eligible for delivery on Clearing Corporation, name of the warehouse service provider, particulars of acceptance/rejection of goods by the storage facility concerned, FED wise stock position, Quantum of goods physically withdrawn by the holders, commodity wise percentage of overall deposits held in various warehouse are monitored on daily basis and displayed in public domain.

2. Financial Soundness of the Warehouse Service Providers:

- a. WSP shall have subscribed and paid-up share capital of at least ₹10 crores.
- b. WSP has furnished a refundable security deposit (SD) wherein:
 1. Such security deposit shall be a minimum amount of ₹50 lakhs.
 2. Such security deposit shall be in the form of Cash / Bank Fixed Deposits / Bank Guarantee.
- c. Security deposit of WSP shall not be released until six months after cancellation or surrender of the accreditation of the WSP or until after satisfaction of every claim against the deposit, whichever is later.
- d. An accredited WSP shall meet the following net worth criteria:-

Type of Goods	Number of Goods	Minimum net worth
Base / Industrial Metals	1	₹10 crores
	More than 1	₹25 crores

1. In case of reduction in net worth of WSPs below the stipulated requirement, a time period of six months may be allowed to the WSPs to augment the net worth.
2. In the event the WSP is unable to augment the net worth to the requisite level within the allowed time frame, the Clearing Corporations shall ensure that WSP does not carry out any new business related to commodity derivatives market.
3. The Clearing Corporation shall take suitable measures, which are disclosed on its website for public information, with respect to the existing goods handled by such WSP.
4. The net-worth of the WSP shall be calculated 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."

- e. The value of the goods stored in the accredited storage facilities of WSP shall not, at any point of time, exceed 33 times the net worth of the WSP, irrespective of the number of Clearing Corporations being served by the WSP. The Clearing Corporations shall obtain suitable information from the WSPs in this regard.
- f. The WSP shall furnish refundable FSD (Financial Security Deposits) for all goods on incremental basis in addition to the security deposit as under:

Type of Goods	Value of Goods stored	Minimum FSD
Base / Industrial Metals	NA	0.5% of the aggregate value of stored commodities

- g. NCL, based on its risk assessment, can decide on restricting the amount of FSD to ₹100 Crores from each WSP.
- h. The FSD shall be in form of liquid assets with applicable haircuts and concentration limits as listed below:

Item	Minimum Haircut	Limit
Cash	0	No Limit but minimum 10%
Bank Fixed Deposit	0	
Bank Guarantees	0	Remaining 90% FSD can be in any combination of the four types of options provided for furnishing the FSD
Securities of the Central Government	10%	

- i. A daily monitoring of the FSD vis-à-vis the value of the goods stored shall be done marked to market on replacement value on ongoing basis to ensure that the minimum stipulated FSD are always maintained with the Clearing Corporation. Based on the risk assessment, NCL may seek additional FSD over and above the requirement from the WSP.
- j. In circumstances where there is shortfall in the minimum required FSD due to sudden deposit of commodities in large quantity towards the end of the day, NCL can allow the WSPs to replenish the FSD within three trading days.
- k. NCL shall utilize in exceptional scenarios FSD by debiting the FSD held with it to compensate the aggrieved client within 7 days and replenish the FSD as required, in the following situations:
 1. for any such losses that have been appropriately established against the WSP.
 2. in case of loss arising from any action or inaction of its WSP or on the part of its warehouses that prevents the buyer or seller from exercising, in whole or in part, their rights.
 3. FSD and the SD deposited by WSP shall be utilized for settlement of the remaining claims.

3. Surprise Visit:

NCL also conduct surprise visit based on the market information or based on complaints at a location. The scope includes SOP implementation at the warehouse.

4. Business Continuity Plan:

WSP shall put in place a business continuity plan (BCP) and submits such plan to the NCL.

5. Warehouse Inspection by Independent Audit Agency:

NCL ensures that independent audit of the stocks and other facilities in the warehouses is carried out by engaging expert agencies, at regular intervals. Such inspections are carried out at least twice in each accredited warehouse in a calendar year with a gap of not more than six months between two inspections/audits of same warehouse.

6. Review of function by Member Committee:

Member Committee (MC) of NCL shall review the function, monitoring and compliance of WSP, VSP and Assayer on a periodic basis.

7. Review of warehouses and Warehouse Service Providers:

NCL shall review and appraise operational performance of each WSP every year. Based on the operational review NCL may adjust the allocation of commodities and the limit of deliveries at various warehouses of the concerned WSP in accordance with the results of such performance evaluation and appraisal.

Such operational performance review will be carried out taking into account various performance areas such as storage facilities, the capacity and appearance of the warehouse, business capabilities, business performance, accounting, the satisfaction level of members/clients, redressal of client grievances, and other factors as NCL may deem necessary for its review.

8. Actions against WSPs

The Clearing Corporation may also direct the WSPs to indemnify an entity aggrieved by the delivery process of its warehouse or, in serious cases of misconduct/malfeasance, revoke the accreditation of the concerned warehouse or/and hold the WSP accountable for any legal liabilities.