

**Comments by Multi Commodity Exchange of India Ltd. (MCX) on the
Draft Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations 2020**

CHAPTER I – Preliminary

- I. **Regulation 2(1)(i)** - *“Base Minimum Capital shall mean exposure free deposits required from all members of the gas exchange. The Base Minimum Capital Requirement for any member shall be fifty (50) lakhs rupees”.*

MCX Comment: The Regulations provide for different types of memberships that can be taken by the market participants. Each type of membership shall have its own rights and obligations and financial impact. Accordingly, we propose that a slab-wise Base Minimum Capital could be considered based on the type of membership. As specified Base Minimum Capital is exposure free deposit, the amount should be commensurate with the risks that the member may bring to the exchange. As such the amount may be based on type of membership.

- II. **Regulation 2(1)(tt)** - *“Networth means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and Amalgamation and reduced by the aggregate value of loans and advances to the associates”.*

MCX Comment: It is suggested that the following words may be added in the end to the above definition of ‘Networth’:

“or may be calculated in the manner as may prescribed by the Board from time to time.”

CHAPTER II - Market Structure

- III. **Regulation 3(1) (d)** - *“Any new contract in pipeline capacity trading, forwards, futures, gas price indexing, gas balancing and other areas”.*

Regulation 3(1) (e) – *“These regulations may apply to derivative contracts for natural gas, as and when the Board is empowered either through the provisions of the Act or by any empowerment by the Central Government through relevant sections of the Act or any other means through which the Board is empowered thereof, to regulate by regulations*

licensing of derivative contract exchanges”.

MCX Comment: In the context of the above para that the regulations may apply to the futures for the pipeline capacity trading and derivative contracts for natural gas, there appears to be a Regulatory overlap that needs to be addressed and crystallized in consonance with other Regulations already in place. Currently derivatives market fall under the regulatory jurisdiction of Securities and Exchange Board of India (SEBI) and hence the said jurisdiction over derivative contracts for natural gas and futures for the pipeline capacity trading needs to be reconciled.

IV. Regulation 4 - Applicability of these Regulations

Regulation 4(1) (i) - “Other Exchanges”

Regulation 4(1) (j) - “Any other party transacting at either the gas exchange or Other Exchanges”

MCX Comment: It shall not be feasible to bring ‘Other Exchanges’ under the purview of these Regulations as those exchanges are already operating under the regulatory jurisdiction of SEBI. Hence it is suggested to remove ‘Other Exchanges’ from Regulation 4(1)(i) and Regulation 4(1)(j).

V. Regulation 6 - Principles of Market and Market Design

MCX Comment: As we understand, National Gas Grid Management System (NGGMS) is proposed to be an independent entity to manage the process of pipeline capacity allocation, booking and preparing natural gas dispatch schedules of common carrier natural gas pipelines. The same shall facilitate non-discriminatory access to common carrier capacity of natural gas pipelines, and in turn foster market development. We suggest that establishment of NGGMS may be taken up simultaneously considering its major role in streamlining the delivery procedures. For further clarity the functionality of NGGMS and proposed roles and responsibilities may be defined as part of these Regulations.

VI. Regulation 6(2) (c) (ii): “The gas exchange shall submit to the Board detailed list of its members along with their clients quarterly as per the format B-3 appended to these Regulations”.

MCX Comment: It is suggested that the Board may seek information about members and clients on a specific requirement basis and not based on fixed periodicity. In case the

Board plans to set up a data warehousing system then the information may be sort accordingly and confidentiality of the said data should be ensured.

- VII. Regulation 6 (2)(c) (v):** *“A gas exchange may, at its discretion, stipulate any criteria for membership to the gas exchange including net worth, minimum base capital/ security deposit requirement, liquid asset requirement. However, under all circumstances, the gas exchange has to seek the approval of the Board”.*

MCX Comment: It is proposed that the criteria for membership to the gas exchange including net worth, minimum base capital/ security deposit requirement, liquid asset requirement etc. should be based on uniform criteria and the Regulations may prescribe the minimum requirements.

- VIII. Regulation 6(2) (c) (vii) –**

“Member may charge Member Service Charge for providing services to their clients. This ceiling would be an overall ceiling including the service charges of any subordinate service providers.

Provided further that the Board may, by order, review or specify the members’ service charge criteria from time to time.

Provided also that member service charge shall not include any charges levied by gas exchange, Transportation Tariff, other charges payable, statutory taxes etc.”

MCX Comment: It is suggested that the Regulations should provide for minimum member service charges that should be chargeable by the members. This is necessary so that members do not adopt any unhealthy and uncompetitive market practices which may in turn hinder development of an efficient and robust market ecosystem.

- IX. Regulation 11(3)(g):** *“The applicant has the facility to disseminate information about trades, quantities and quotes in real time and shall, when the Board directs, disseminate such information to at least two information vending networks which are accessible to investors”.*

MCX Comment: As a market practice, data is provided to information vending networks on a commercial basis and is one of the revenue generation source for the exchanges, in domestic as well as international markets. As such it is suggested that even if the Board directs to disseminate the data to at least two information vending networks, there should be no restrictions on commercials and the decision on such fees should be kept

within the purview of exchanges.

CHAPTER V - OWNERSHIP OF GAS EXCHANGE AND CLEARING CORPORATION

- X. Regulation 20(1) (c)** – *“No person, other than a member of an authorized gas exchange, shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than fifteen (15) per cent of the paid-up equity share capital in an authorized gas exchange.*

Provided that the persons, other than members of an authorized gas exchange and promoters of the gas exchange may hold more than 15 % of the paid up equity share capital of the gas exchange. However, they would be required to divest shareholding in excess of 15% within 5 years of authorization of gas exchange.”

MCX Comment: As we understand, the above regulation states that any person including the promoters of the gas exchange may hold more than 15 % of the paid up equity share capital of the gas exchange. However, they would be required to divest shareholding in excess of 15% within 5 years of authorization of gas exchange. Further in any case the members of the exchange are not allowed to hold more than 5%. The proviso above is not reflecting the same clearly and hence for clarity brackets may be added as below:

*“Provided that the persons (**other than members of an authorised gas exchange**) and promoters of the gas exchange may hold more than 15 % of the paid up equity share capital of the gas exchange. However, they would be required to divest shareholding in excess of 15% within 5 years of authorization of gas exchange”.*

Further in certain circumstances or market conditions, the persons (other than members of an authorised gas exchange) and promoters of the gas exchange may not be able to divest their shareholding in excess of 15% within the prescribed timeline of 5 years. It is suggested that the Regulations should provide that in case the promoters of the exchange are unable to divest shareholding in excess of 15% within 5 years of authorization of gas exchange, they may apply to the Board for extension of time for divestment and the extended time may be as agreed and approved by the Board.

XI. Default Remedy Mechanism on Gas Exchange or Clearing Corporation

Regulation 35 (1) (g) –

“Under any other circumstances as may be decided by the gas exchange or clearing

corporation from time to time.

Provided that gas exchange or clearing corporation may, at its discretion, stipulate any additional criteria to declare defaulter in the gas exchange or the clearing corporation, as the case may be.”

MCX Comment: It is proposed that under Regulation 35(1), following two conditions for default may also be added:

- One has been declared as a defaulter by any other Gas Exchange / Clearing Corporation.
- One has been adjudicated as an insolvent or a winding up order has been passed against such member then such member shall be ipso facto declared as a defaulter although he may not be at the same time a defaulter on the Exchange.

In case any other circumstance or additional criteria is decided by the Exchange / Clearing Corporation, the same may be finalized and decided only with the approval of the Board. The approval of the Board may be necessary herein so that uniformity of the Rules and Regulations are maintained in the gas ecosystem and similar conditions are applicable across gas exchanges.

CHAPTER VI – DELIVERY PROCEDURE

XII. Regulation 37(c) (iv) and Report B-4 (IV) – “Coordination with NGGMS for availability of pipeline capacity and estimating flows for the traded contracts”.

MCX Comment: In case there are multiple exchanges generating intraday trades and day ahead trades, it may not be possible to block capacity before orders are placed as there could potentially be positions on multiple exchanges against the same capacity.

If pre-order capacity validation have to be obtained from external agency via API, the time lags may be high, till the time NGGMS operated on real time basis, so a clarification may be required in the regulation for providing information to the Exchanges regarding the maximum available capacity to trade for any client, and then only pre-order capacity validation shall work.

We suggest that establishment of NGGMS be taken up on priority and simultaneously with the implementation of these Regulations as NGGMS would have a major role in streamlining the delivery procedures. Further, the functionality of NGGMS and proposed roles and responsibilities may be defined in these Regulations.

XIII. Regulation 37(3) - *“The gas exchange, shipper, NGGMS, transporter, seller, buyer etc. would have rights and obligations as defined in Access Code or Bye-laws of the gas exchange”.*

MCX Comment: The rights and obligations of gas exchanges, shipper, NGGMS, transporter, seller, buyer etc. are important in the context of scheduling and delivery mechanism. As such it is suggested that the Regulations clearly specify the overriding powers and the overriding authority in case of any conflict between the Access Code and Bye laws of the Gas Exchange.

CHAPTER VII - General Obligations of Gas Exchange and Clearing Corporation

XIV. Regulation 42 - Contribution to the Settlement Guarantee Fund

MCX Comment: It is proposed that the initial contribution, prior to the start of any gas exchange towards the SGF, may be rationalised and reduced to a minimum of Rs. 10 crores. However the exchanges would be required to maintain a minimum SGF amount of Rs. 50 crores after three years of operation.

XV. Regulation 56 – Information Dissemination

MCX Comment: As we understand that the dissemination of general price related information on the website of the Gas Exchanges is necessary. However as a market practice which being followed by domestic as well as international exchanges, data selling is one of the revenue generating source. Hence the exchanges sell historical and real time data to data feed vendors and to other entities for research activities. The Regulation as such should provide a provision for enabling the exchanges to make available their data to data vendors and other entities on commercial basis, while they shall continue to display certain amount of data/information on their website as well.

XVI. Other MCX Comments:

- a. Prescribing Minimum Transaction Charges for Exchanges:** It is suggested that the Regulations should provide for minimum transaction charges that exchanges should charge for transacting on the exchange platform. This is necessary so that exchanges do not adopt any unhealthy and uncompetitive market practices which may in turn hinder development of an efficient and robust market ecosystem.

- b. Listing of Securities of Gas Exchange:** The Regulations should provide for listing of the securities of the Gas Exchange on any recognized stock exchange other than its associated stock exchange. The same deems to be necessary for providing and appropriate divestment route for the promoters of the Gas Exchanges. For making such provision in these Regulations, the details may be referred / adopted from the Securities Contracts (Regulation)(Stock Exchanges and Clearing Corporations) Regulations, 2018 which have been issued by the Securities and Exchange Board of India (SEBI).
- c. Right of Gas Exchanges / Clearing Corporations to issue circulars:** The Regulations should permit the Gas Exchanges / Clearing Corporations to issue circulars for the purposes of implementation of the Board Regulations and matters incidental thereto. The said circulars may also specify the norms, procedures, processes or guidelines as required to be communicated to the market participants and deemed necessary by the Exchange/Clearing Corporation.
- d. Provision for Cloud based Infrastructure:** The regulations do not mandate for a fully owned Data Centre infrastructure. In view of faster implementation with flexible growth options, we suggest that the regulations may provide for a provision to host the trading systems on cloud infrastructure.