



ENERGY INDEX FUTURES (ENRGDEX®) FREQUENTLY ASKED QUESTIONS

1. When was MCX iCOMDEX Energy Index launched?

MCX iCOMDEX Energy Index was launched on October 29, 2020. The index history (daily closing prices) is available from December 31, 2015. Further, daily open, high, low and close prices of the indices are made available from December 20, 2019 on the website.

2. What are the constituents of MCX iCOMDEX Energy Index?

The MCX iCOMDEX Energy index is computed based on crude oil and natural gas futures listed on MCX. The underlying constituents are weighted three-fourths by its liquidity and one-fourth by its physical market size in India, determined by local production and imports. The weights are rebalanced annually.

3. What is the inception date of MCX iCOMDEX Energy Index and what is the base value?

December 31, 2015 is the inception date of iCOMDEX series of indices with base value as 10,000.

4. What is the concept of 'rollover' in the commodity indices?

Rollover refers to the period when index computation shifts from one set of contract expiry months to the next set of contract expiry months. This is necessary as each futures contract has an expiry date, while the index has to be computed continuously. The rollover for the Energy Index takes place over a period of two business days just prior to the Pre-Expiry Margin period of respective month's Crude Oil futures contract.

For instance, the rollover days for Crude Oil during July 2021 in the energy index are 9 and 12 July 2021:

| JULY 2021 | | | | | | |
|-----------|-----|-----|-----|-----|-----|-----|
| SUN | MON | TUE | WED | THU | FRI | SAT |
| | | | | 1 | 2 | 3 |
| 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | 31 |

Energy Index

| | |
|---|--------------------|
| Expiry of Crude Oil Futures | : 19-Jul |
| Pre-expiry Margin Period <i>(5 trade days)</i> | : 13 Jul to 19 Jul |
| Rollover | : 9 Jul to 12 Jul |

5. MCX iCOMDEX indices are 'excess returns' indices. What does that mean?

The return generated by an excess returns index such as the MCX iCOMDEX Energy index comes from not only the changes in the price of energy commodity futures (the 'price return'), but also the profits /losses realised by rolling commodity futures (the "roll return") from near to subsequent month futures contract. The sum of the price return and the roll return associated with investment in the MCX iCOMDEX Energy Index is the 'excess return' of the index.

6. How are constituents of the MCX iCOMDEX Energy Index determined?

The individual index constituents of MCX iCOMDEX Energy Index are futures contracts of crude oil and natural gas, traded on MCX. The Index constituents meet the following criteria to be eligible for inclusion as a new selection or to continue as a selection at a rebalance in the Energy index:

- They have been in existence on MCX for at least previous twelve months.
- They have a traded history for at least 90% of the trading days during preceding twelve months.
- Average daily turnover during the previous twelve months is at least Rs 500 Crore.

Further details on methodology is provided in [Index Methodology Document](#) available on MCX website.

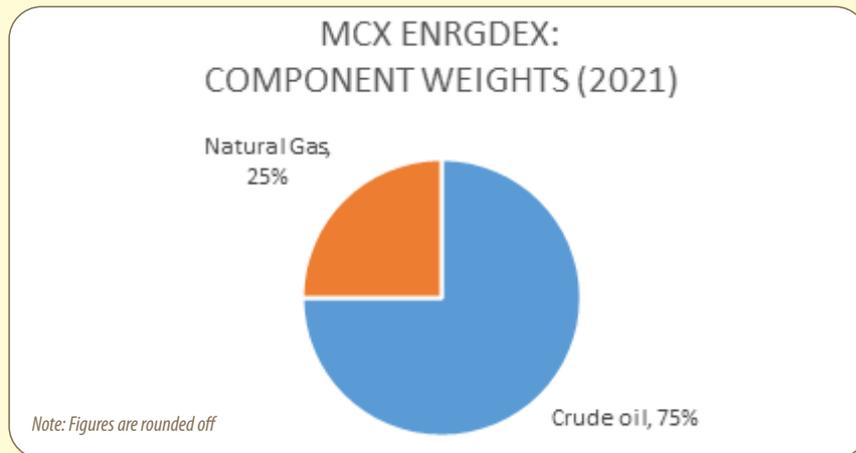
7. How are constituent weights determined?

The weights of the MCX iCOMDEX Energy Index constituents are determined based on two factors: their economic significance to India and the liquidity of the futures contracts listed on MCX.

- a. Economic significance is assessed using the market size in India, determined as the average of the value of deliverable supply (production and imports) of crude oil and natural gas for past five financial years.
- b. Liquidity Value is assessed as the total traded value in the preceding twelve months of the respective commodity futures contract on MCX.
- c. Initial weights are then arrived based on weighted average of these two factors, with the Production Value weighted at 1/4th and the Liquidity Value at 3/4th.
- d. Starting with the initial weights so obtained, the final weights are arrived at by excluding constituents whose weights are below a threshold, assigning caps and floors to individual constituents and re-distributing the excess/shortfall to/from the other constituents.

Details on methodology is provided in the [Methodology Document](#) available on MCX website

The weights of the constituents of MCX iCOMDEX Energy Index (year 2021) are as below:



8. How is the MCX iCOMDEX Energy Index rebalanced?

The MCX iCOMDEX Energy index is rebalanced annually before the start of the January roll period. MCX announces the weights in October every year to ensure that the weights are known to the public at least three months in advance to the actual rebalancing of the Index.

9. Does the rebalancing of MCX iCOMDEX Energy Index have an immediate impact on commodity index movement due to changes undertaken in constituent weights?

No, rebalancing of index does not have any impact on commodity index movement on account of the changes in weights. As is globally practiced, the impact of weight change of underlying constituents on index is taken care by appropriately applying the 'Divisor' or the 'Normalization Constant'.

10. How are Index values determined?

The calculation methodology of MCX iCOMDEX Energy index is provided below:

1. Single commodity indices are calculated using the relevant commodity futures contract. Index on business day t , is calculated with reference to the previous business day $t-1$ as

$$SINGLECOMINDEX_t = SINGLECOMINDEX_{t-1} * \frac{CSR_t}{CSR_{t-1}}$$

where CSR is the price of the front expiry month of the relevant futures contract or, if day t falls within the two day roll period then CSR is the weighted average price of the front and immediate back expiry months.

2. MCX iCOMDEX Energy Index is calculated as weighted average of single commodity indices i.e.

$$MCXiCOMDEXEnergyIndex = \frac{\sum_{i=1}^n SINGLECOMINDEX_t^i * W^i}{DIVISOR}$$

where W^i is the weight of each individual commodity within the energy index and the summation is over all n individual commodities belonging to energy index.

11. Who manages the MCX iCOMDEX Energy Index?

The MCX iCOMDEX indices are managed by a dedicated Index Administration team in MCX. The Index Administration team is supported by an Index Action Committee and an Index Advisory Committee, the latter consisting of external subject matter experts.

12. Does the Index follow any international index in design or administration?

The MCX iCOMDEX Energy Index is an indigenously created index, whose constituents are futures contracts traded on MCX.

The index adheres to the SEBI-prescribed guidelines for the design of commodity indices and also conforms to the financial benchmarks set by the International Organization of Securities Commissions (IOSCO) in construction, administration and governance, as certified by an independent external assurance firm.

13. Which are some of the major global commodity indices?

There are several commodity indices traded across global markets, of which the popular ones include the S&P Dow Jones/ S&P GSCI Commodity Indices, Bloomberg Commodity indices, Refinitiv CRB/ CoreCommodity CRB indices, etc.

14. What are the different ways in which an index like the MCX iCOMDEX Energy index can be used?

An investor can use commodity indices to trade in derivative products on these indices, investing in products such as Exchange Traded Funds (ETFs) on these indices or using the indices to benchmark the performance of their commodity investment portfolios. As the constituents are the major energy commodities used in the country, this index also reflects the energy demand and usage in the country.

15. How is the MCX iCOMDEX Energy Index treated if the index or its constituents tend to become negative or zero?

In extraordinary situations when index constituents tend to fall to zero or below, the Index Administrator can adopt strategies to prevent the index values from becoming negative. These strategies include, but are not restricted to, pre-rolling the index constituent(s) from the front month expiry contract (that may have the potential to take negative values) to farther month expiry contracts (that may stay positive).

However, it is possible that due to some reasons (such as unexpected fall in prices of index constituents in a very short time, steep fall in constituent prices in farther month contracts also, etc.), the Index Administrator is unable to undertake such strategies; or, in spite of taking such strategies, the index values may still become zero or negative.

16. Under what conditions can the index constituents be pre-rolled from the front month expiry contract to farther month expiry contracts?

The index constituent(s) may be pre-rolled to a farther contract expiry to avoid exposing the single-commodity index to a negative / zero price scenario. Such pre-roll may be undertaken, for example, if the Closing Price of the single commodity index's constituent futures contract(s) comes down to the level equal to or lower than the Threshold Price announced by MCXCCL, below which the clearing corporation activates the Alternate Risk Management Framework (ARMF). However, the pre-roll may not be undertaken if liquidity is poor or price level low in the farther month expiry contracts.

Further, in line with the standard practices of index administration, the Index Administrator of MCX iCOMDEX indices retains their rights to exercise judgment on contracts and roll schedules to avoid exposing the indices to negative constituent prices and index levels, with appropriate notifications.

For instance, the Crude Oil constituent of the MCX iCOMDEX Composite Index and Crude Oil Index were pre-rolled during April 2020 from their near-month to the next month expiries to avoid the possibility of indices becoming negative. Some prominent global commodity index providers had also pre-rolled the Crude Oil constituent of their indices at that time.

Notwithstanding the above, Index Administrator retains the right to make exceptions or judgements when applying or deviating from the methodology in exceptional situations, with appropriate notifications.

17. How and when is any unscheduled modification in the methodology of MCX iCOMDEX Energy index, announced?

Any unscheduled modification in MCX iCOMDEX index methodology is announced through a Notification on the MCX website, prior to its implementation. However, if for reasons beyond control, a change in index methodology is to be taken in a very short time, the changes are notified through website display within two business days of making the change.

18. Can MCX iCOMDEX Energy index still turn negative or zero, irrespective of strategies taken to avoid index values from becoming zero or negative?

Yes, in case an index constituent(s) has turned negative, MCX iCOMDEX indices may turn to negative or zero.

19. How does the MCX iCOMDEX computation formula handle prices of constituents if they become negative or zero?

When either the previous day's index close or current day's index constituent prices or previous day's index constituent close price becomes negative or zero, then the following additional formula is used to compute single commodity excess return index, instead of formula given in Q 10. Whenever all these variables are positive or turn positive, the existing formula given in Q 10 is used for computing index values.

$$SINGLECOMINDEX_t = SINGLECOMINDEX_{(t-1)} + \frac{SINGLECOMINDEX_{(t-1)} * (CSR_t - CSR_{t-1})}{|CSR_{(t-1)}|}$$

20. When the price of a constituent commodity futures turns negative, are all indices computed using the additional formula?

No, only the particular single commodity index whose price / index value has turned negative or zero, is computed using additional formula. The other single commodity indices that constitute a sectoral /composite index shall continue to be computed using the formula given in Q. 10. There is no change in computation formula for sectoral or composite index.

21. How is the MCX iCOMDEX Energy Index computed if the index value or price of index constituent closes at zero?

In situations where index previous close or previous close of index constituents is zero, the index computation in current day is not possible. To enable computation, the previous day's close of the index constituents is increased by one positive tick and a revised index previous close is computed. Alternatively, the previous index close is revised to the index tick (i.e. 0.01). These revised constituent prices/ index values, as appropriate, is then used for computation on the current day.

22. What is the trading unit of MCX iCOMDEX Energy futures?

125 times the Index Value (Trading Value ~ Rs 7 lakh)

23. What is the symbol for MCX iCOMDEX Energy Index futures?

The symbol is MCXENRGDEX.

24. What are the trading timings?

The trading timings are from 9:00 a.m. to 11:30 p.m. / 11:55 p.m.

25. How many futures contracts are available for trading on a given day?

At least three futures contracts (All calendar months) are available for trading at all times.

26. What is the tick size?

Tick size refers to the minimum price fluctuation in the value of a contract. The tick of the MCX iCOMDEX Energy Index Futures size is presently '1' or 1 rupee. In Rupee terms, this translates to a minimum price fluctuation of Rs. 125 for a single transaction of MCX iCOMDEX Energy Index Futures contract (Tick size x Contract Multiplier = 1 x Rs. 125).

27. How is the final settlement price (FSP) determined?

The final settlement price (FSP) of the Index Futures is the Index value arrived at based on Volume Weightage Average Prices of the constituents of the underlying Index between 4:00 p.m. and 5:00 p.m. on the expiry day of the Index futures contract*.

28. When is the contract start day of the MCX iCOMDEX Energy Index Futures?

1st day of contract launch month. If 1st day is a holiday then the following working day.

29. When is the contract last trading day?

The contract last trading day is one business (full) day prior to the start of rollover period in the underlying constituent/(s) index.

30. What are MCX iCOMDEX Energy Index futures settled?

All contracts are settled in cash at expiry on the basis of final settlement price (FSP) as described above on that day.

31. How are the benefits of MCX iCOMDEX Energy index futures?

The market participants can get the following benefits using the MCX iCOMDEX Energy index futures:

- Portfolio diversification due to low correlation to equity
- Easy of trading in a basket of commodities
- Availability of monthly contracts
- Relatively small size of the contract
- Liquid underlying constituent (futures) contracts
- Possible to create trading strategies with the underlying (futures) index constituents
- Cash settled at expiry and devoid of delivery/tender period margins
- Optimization of asset allocation
- Sectoral benchmark
- Ease to replicate with minimal tracking errors

Note: For more details, may refer relevant contract specification document available on www.mcxindia.com

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