

Crude oil futures traded on Multi Commodity Exchange of India Limited (MCX) are commodity derivatives governed by the Securities Contracts Regulation Act (SCRA) and its regulatory framework, not contracts for sale of goods governed by the Sale of Goods Act, and that the SCRA prevails over general contract and sale of goods principles in matters specifically covered by it

The **Bombay High Court** in the case of **Dhanera Diamonds vs SEBI [Writ Petition No.4930 of 2024]** dated **June 24, 2026**, has held that in a cash-settled commodity derivative contract, the due date rate (DDR) is not the “price” for sale of goods but a settlement reference rate contractually linked to the benchmark exchange settlement price, and therefore a negative DDR is not illegal merely because it results in a loss to traders holding net long positions. The Court held that crude oil futures traded on Multi Commodity Exchange of India Limited (MCX) are commodity derivatives governed by the Securities Contracts Regulation Act (SCRA) and its regulatory framework, not contracts for sale of goods governed by the Sale of Goods Act, and that the SCRA prevails over general contract and sale of goods principles in matters specifically covered by it.

The Court further held that writ jurisdiction cannot be invoked to compel SEBI, MCX or Multi Commodity Exchange Clearing Corporation Limited (MCX-CCL) to exercise annulment or emergency powers in a particular manner where those powers are discretionary, where the statutory and bye-law conditions for their invocation are not met, and where granting such relief would disturb final and irrevocable settlements and prejudice counterparties and the market structure. It also held that traders who knowingly remained in net long positions until expiry in a volatile derivatives market cannot later seek judicial intervention simply because the market moved sharply against them. The Court therefore upheld the impugned Circular dated April 21, 2020 and held that the petitioners were bound by the contract specifications and the completed settlement framework.

The Court observed that the entire case of the petitioners proceeded on an incorrect premise that the DDR had to remain a positive “price” in the legal sense applicable to a sale of goods. The Court also observed that under the contract specifications, the parties had expressly agreed that the contract would be settled at the NYMEX crude oil front month settlement price converted into Indian rupees, and there was no dispute as to the actual NYMEX settlement price or the conversion methodology. The real dispute was only that the resulting figure was negative.

The Court accepted the respondents’ submission that in a cash-settled crude oil futures contract there is no sale or delivery of goods; what occurs at settlement is only payment of the difference between the original contract position and the prevailing benchmark settlement rate. Therefore, the DDR was distinct from the trading “price” and functioned only as a settlement reference rate after expiry.

The Court further observed that the Sale of Goods Act definition of “price” had no application to commodity derivatives, because crude oil futures are “commodity derivatives” and “contracts for differences” under Section 2(bc) of the Securities Contracts (Regulation) Act,

1956 (SCRA), with no physical delivery of goods. It held that, under Section 18A of the SCRA, exchange-traded derivative contracts settled in accordance with exchange rules and bye-laws are legal and valid, and the SCRA, being a special law, prevails over the Indian Contract Act, 1872 and the Sale of Goods Act, 1930 in matters specifically dealt with by it. The Bench also accepted that the petitioners were buyers with net long positions betting on a rise in crude oil prices, and that they had consciously chosen to hold those positions till expiry rather than square them off or roll them over.

On the argument that SEBI and MCX should have annulled the trades or exercised emergency powers, the Court held that no case for annulment was made out. It noted that the applicable SEBI circular and MCX bye-laws permit annulment only in narrowly defined situations such as material mistake, erroneous orders, fraud, wilful misrepresentation, system failures, artificial markets, or similar causes, and not merely because traders suffered large losses from market movement. The Court also held that emergency powers under the MCX bye-laws are discretionary and cannot be compelled through a writ of mandamus to be exercised in a particular manner. It observed that unprecedented price fluctuation in an international derivatives market, by itself, did not trigger those provisions.

The Court rejected the complaint based on curtailed trading hours as belated and unpersuasive. It noted that there was no specific prayer challenging the circulars reducing market hours during Covid-19, that the petitioners had continued to trade under the revised timings without contemporaneous objection, and that the negative NYMEX price emerged only around 11:45 p.m. IST. Therefore, even if MCX had traded until 11:30 p.m., it would have made no difference because the price turned negative only after that time. The Court also held that daily price limits and circuit breakers on MCX applied only during MCX trading hours and could not operate after the exchange had closed, while NYMEX had its own circuit breaker framework for its own market.

The Court also placed significant weight on finality of settlement and market-wide consequences. It observed that Regulation 43(2) of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 makes settlement final, irrevocable and binding, and Regulation 43A requires every trade settlement to be guaranteed by the clearing corporation. The Court held that undoing the impugned circular would effectively require reversing settled trades for thousands of traders, recovering monies from brokers and end-clients, fixing a new DDR, and disturbing counterparties who had lawfully profited and were not even before the Court. In the concurring opinion, the Court emphasized that these were sophisticated traders in a volatile derivatives market and that writ jurisdiction should not be used to rescue such traders from losses arising from conscious commercial choices.