

**National Stock Exchange Of India Limited****Department : Inspection**

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To All Trading Members,

**Sub: Guidelines/clarifications on Margin collection & reporting**

In view of the SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 on “Collection and reporting of margins by Trading Member (TM) /Clearing Member (CM) in Cash Segment”, Exchange is pleased to issue revised guidelines/clarification on Margin collection & reporting.

All Trading Members are requested to take note of the below and comply while collecting margin from their clients and reporting:

- i. Revised guidelines/clarification on margin collection & reporting is enclosed as **Annexure A**.
- ii. A format of daily margin statement which stipulates minimum information to be provided to clients is enclosed as **Annexure B**.

**For and on behalf of****National Stock Exchange of India Limited****Manish Sharma****Senior Manager-Inspection****Encl: Annexure A & Annexure B**

In case of any clarifications, Members may contact our below offices:

| <b>Regional Office</b> | <b>CONTACT NO.</b>              | <b>E MAIL ID</b>             |
|------------------------|---------------------------------|------------------------------|
| Ahmedabad (ARO)        | 079-49008632                    | inspectionahm@nse.co.in      |
| Chennai (CRO)          | 044- 66309915/17                | inspection_cro@nse.co.in     |
| Delhi (DRO)            | 011-23459127 / 38 / 46          | delhi_inspection@nse.co.in   |
| Kolkata (KRO)          | 033-40400411 / 06               | inspection_kolkata@nse.co.in |
| Mumbai(WRO)            | 022-25045264/259/224            | compliance_wro@nse.co.in     |
| Central Help Desk      | compliance_assistance@nse.co.in |                              |

## **GUIDELINES/CLARIFICATION ON MARGIN COLLECTION AND REPORTING**

### **1. What margins are required to be collected by Trading Members from clients in Capital & Derivatives Segment?**

#### **A. Capital Market Segment**

In capital segment, Trading Members (TM) are required to mandatorily collect VaR margins and Extreme loss Margin (ELM) from their clients on an upfront basis. Other margins such as Mark-to-market margin (MTM), delivery margin, special/additional Margin or such other margins as may be prescribed from time to time, shall be collected within 'T+2' working days from their clients. It must be ensured that VaR margins and ELM are collected in advance of trade and other margins are collected/paid as soon as margin calls are made by the Stock Exchanges.

#### **B. F&O segment**

In the F&O segment, it is mandatory for Trading Members to collect initial margin, net buy premium, delivery margin & exposure margin from respective clients on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Mark-to-market losses (MTM) shall be collected from clients by T+1 day.

#### **C. Currency Derivative segment**

In case of Currency Derivatives segment also, it is mandatory for Trading Members to collect initial margin, net buy premium and extreme loss margins from their client on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. The Mark-to-market losses shall be collected from clients by T+1 day. However, in case of currency future contracts, final settlement amount shall be collected by T+2 day.

## **D. Commodity Derivative Segment**

Initial Margin and extreme loss margins shall be collected from client on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Other margins such as Mark-to-market margin (MTM), delivery margin, special/additional Margin or such other margins as may be prescribed from time to time, shall be collected within 'T+2' working days from their clients.

### **2. In what form should a Trading Member collect the margins, including upfront margins & Mark-to-Market (MTM) losses from its clients?**

Trading Members may collect the margins & Mark-to-Market (MTM) losses from its respective client, in any of the following forms, provided they are free & unencumbered, after taking into account their risk management policy and liquidity aspects.

- Consolidated funds balance across all segments and Exchanges (including Commodities)\*.
- Bank guarantee received towards margin, issued by any approved bank and discharged in favor of the Member/Clearing Corporation.
- Fixed deposit receipts (FDRs) received towards margin issued by any approved bank and lien marked in favor of the Member/Clearing Corporation.
- Securities in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges, with appropriate haircut. (List of illiquid securities are declared on a regular basis by the Exchanges)\*.
- Units of mutual funds in dematerialized form, whose NAVs are available and which could be liquidated readily with appropriate haircut.
- Government securities and Treasury bills in electronic form with appropriate haircut.
- Securities, which are provided as margin, but are sold in the cash market can be considered up-to T+1 day from the date of sale without any haircut. (For EPI cases, please refer point no. 5 below)
- Any other such collaterals, as may be specified by clearing corporation from time to time

**\*Free and Unencumbered funds / securities in the account of the client for which the client has given POA in favor of the member client allowing the member to transfer the same for the purpose of margin, may also be considered provided:-**

- a) **Trading Member or its associate company is a Depository Participant and POA for considering securities towards margins is in favor of Trading Member,**
- b) **Funds available in the bank account of client and actually moved to client bank account maintained by the member by T+1 day, using POA issued by the client in favor of the member.**

**3. Can MTM loss of T-day be considered collected against MTM profit of T+1?**

No. T-day MTM loss has to be collected by T+1 day in the approved forms as stated in point 2 above and cannot be set off against MTM profit of T+1 day.

**4. Is upfront margin collection required to be done in respect of clients who have done early pay-in of securities to Trading member/s?**

No. Trading Member shall not be required to collect upfront margins, in respect of positions for which early pay-in of securities/funds is made by the clients to the trading member on the date of execution of the transaction.

**5. Can the securities sold and given as early Pay-in (EPI) to clearing corporation (CC) be considered as margin for other positions across all the segments?**

In case of EPI to CC, the sale value of such securities, as reduced by value of the upfront Margin (i.e. VAR + ELM component), exempted in CM segment due to such EPI, shall be available as Margin, for other positions across all the segments up-to T+1 end of the day. Illustration is mentioned below:

| Day  | Transaction | Scrip    | Value | VAR and ELM(Value) | Upfront margin                         |
|--|-------------|----------|-------|--------------------|--|
| T day  | Sell        | ABC Ltd. | 100   | 20                 | Nil (Since EPI is made to CC on T day) |
| Note: In this case, member can report 80 (100-20) as margin for other positions across all the segments up-to T+1 day. |             |          |       |                    |  |

## **6. What balances can be considered for collection and reporting of Margin executed under Margin trading facility**

For transactions undertaken under Margin Trading facility (MTF), upfront margin collected in the form of funds & securities for such MTF transactions and recorded in the MTF books can be considered. Balances in non- MTF ledgers shall not be considered towards collection of margin under MTF.

## **7. Can excess margin/collateral available in MTF ledgers be considered towards Margins of non-MTF transactions?**

Excess margin/collateral available in MTF ledgers cannot be considered towards Margins of non-MTF transactions. Any transfers between Non MTF & MTF ledgers & vice versa should happen only in exceptional scenarios, where they belong to the same clients and there is sufficient & free balances available.

## **8. Can securities other than those in the approved list of securities be considered while reporting margin collection to the Exchange?**

Liquid securities, in dematerialized form, actively traded on the National Exchanges, which are specifically not declared as illiquid securities by any Exchanges and are received from the respective client, may be considered by the member while reporting margins to the Exchange.

## 9. What is the procedure for valuation of Securities?

For the purpose of client Margin collection and reporting, the member shall compute the value of such securities as per the closing rate on T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security on that day i.e. T-1 day.

## 10. What methodology should be adopted while reporting margin received in the form of liquid mutual funds?

Dematerialized units of liquid mutual funds whose NAVs are available and which could be liquidated readily may be considered while reporting margins collected from constituents. Such units should be available with the member or should be lien marked in favour of the member. The value of listed liquid mutual funds should be computed based on the NAV on T-1 day, reduced by a haircut equivalent to the VAR. In case of others (mutual funds not listed) the haircut should be equivalent to 10% of the NAV.

## 11. What methodology should be adopted while reporting margin received in the form of Government securities and Treasury bills?

- G-Sec/T-Bills available in electronic form or lien marked in favour of the trading member may also be considered while reporting margin collection to the Exchange.
- The valuation of G-Sec/T-Bill shall be based on closing price of G-Sec/T-Bills on NDS on T-1 day reduced by a haircut of 10%.

## 12. What precautions are to be kept in mind in case of cheques received from Clients towards margin/MTM losses?

- **Towards collection/reporting of upfront margins** : Cheques received / recorded in the books of Member on or before T day and deposited by Member by T+1 day (excluding bank holiday, if any), can be considered, provided the same is cleared within T+5 working days.

- **Towards collection /reporting of MTM losses (in Derivatives Segment)** : Cheques received / recorded in the books of Member on or before T+1 day and deposited by member by T+2 day (excluding bank holiday, if any), can be considered, provided the same is cleared within T+5 working days.
- **Towards collection /reporting of MTM losses (in Cash and Commodity Segment)** : Cheques received / recorded in the books of Member on or before T+2 day and deposited by member by T+3 day (excluding bank holiday, if any), can be considered, provided the same is cleared within T+5 working days.
- Only cheques which are cleared should be considered and cheques dishonored or not cleared up to T+5 working days should not be reported as margin/MTM collected.
- If subsequent to the margin/MTM reporting by the Member, the cheque deposited by the Member is dishonored or not cleared within T+5 working days, then revised margin file shall be uploaded after factoring into the effect of such dishonored or non-cleared cheques ,with incremental batch number within the above mentioned five days.

### **13. What precautions are to be kept in mind in case of securities expected to be received in pay-out?**

Only free and unencumbered balances of securities available with the Member for respective client in different segments of the Exchange shall be considered for margin collection and reporting. Accordingly, only securities received in pay out shall be considered only after it is actually received from the clearing corporation. However, funds pay- in received from clients for such securities may be considered while calculating the ledger balance for the purpose of reporting of margins till T+1.

### **14. What are the related entities for a client, whose balances/securities can be considered for collection and reporting margin?**

Margin collected/available with the member in approved form, from entities related to the client as mentioned below and certified by an independent Chartered Accountant with specific authorization/consent:

- In case of individuals having relationship with clients as spouse, dependent children and parents
- In case of HUF, any of the Co-parceners
- In case of a Trust, any of the trustees or beneficiaries
- In case of Partnership firm, the partners, their spouse, dependent children and parents
- In case of Corporates, the promoters having controlling shareholdings, their spouse, dependent children and parents

**15. What does short reporting of upfront margins/MTM mean?**

In case a Trading Member fails to collect requisite margin from the respective client on an upfront basis or MTM losses by T+1(in case derivative segment) and T+2 (in case of cash and commodity segment) and reports to the clearing corporation that margin/MTM losses collected from client is less than the actual amount of margins/MTM losses required to be collected, it is termed as short reporting of margin collection and shall attract applicable penalty as mandated by clearing corporation from time to time.

**16. What does false reporting of margin/MTM (Non Compliance) mean?**

Where the margins including upfront margins /MTM Losses has not been collected/short collected by the Member in any of the applicable modes prescribed above, however the same has been reported by the member as collected, it would be construed as false reporting to the clearing corporation.

**17. In case of short reporting of margin/MTM can member pass on the penalty to the clients?**

Where ever the penalty levied by the Clearing Corporation on the member for short reporting of client upfront margins/MTM losses is attributable to failure on the part of the client to pay upfront margins/MTM losses as required, member may pass on the actual penalty to the client, provided he has evidences to demonstrate the failure on part of the client .Wherever penalty for short reporting of upfront



margin/MTM losses is being passed on to the client relevant supporting documents for the same should be provided to the client.

## **18. Are Members required to provide the Margin related information to clients?**

Members should send margin related information to their clients, which shall, inter-alia, include:

- Client code and name, Trade day (T)
- Margin deposit available for the client on day T (with break-up in terms of cash, FDRs, BGs and securities)
- Margin adjustments (including MTM losses) for day T after adjusting MTM profit if any.
- Margin status (balance with the member / due from the client) at the end of T day.

Such margin related information (Daily margin statement) should be issued by Members to clients on a daily basis at the end of the trade day (T-Day) itself or by such timelines as may be specified from time to time.

Additionally, every member shall maintain proper records of collateral received from clients as under:

- Receipt of collateral from client and acknowledgement issued to client on receipt of collateral
- Record of return of collateral to client
- Credit of corporate action benefits to clients

Members should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Members should also maintain records to ensure proper audit trail of use of client collateral.

An indicative format of daily margin statement stipulating the minimum information to be provided to clients is enclosed as **Annexure B**.

## **19. How will upfront margin collection and reporting be undertaken in case of NRI clients under the portfolio investment scheme (PIS) on repatriation basis?**

In case of NRI clients undertaking buy transactions under PIS on

repatriation basis, funds received from the NRI's PIS bank account (NRE) before the respective pay-in, will be considered as collection of upfront margin.

In case of NRI clients undertaking sell transactions under PIS on repatriation basis, securities received before the respective pay-in, shall be considered as collection of upfront margin.

## **20. How will margin be collected in case of intra-day transactions (buy & sell) in same scrip?**

As per SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019, upfront margins viz. VaR margins and ELM are required to be collected in advance of trade. In case of any intra-day transactions in the same scrip on the same day, Margins shall be collected as per the below illustration:

| <b>Transaction</b>                    | <b>Scrip</b> | <b>Qty</b> | <b>Margin @ 10%</b>                                 |
|---------------------------------------|--------------|------------|---|
| Buy                                   | ABC Ltd.     | 100        | 10  |
| Sell                                  | ABC Ltd.     | 100        | Nil<br>(Since the net quantity of the scrip is nil) |
| <b>Total Upfront Margin collected</b> |              |            | <b>10</b>   |

## Annexure-B

### Format – Daily Margin Statement to be issued to clients

**Client Code:**

**Client Name:**

**Exchange:**

| Seg | Trade day | Margins available till T day |                                     |                       |                                     |                             | Margin/MTM required by Exchange/CC end of T & T+1 day respectively |     |                   | Excess / Shortfall w.r.t. Requirement by Exchange / CC | Additional Margin required by member as per RMS | Margin Status (Balance with Member / Due from client) |
|-----|-----------|------------------------------|-------------------------------------|-----------------------|-------------------------------------|-----------------------------|--|-----|-------------------|--|---|---|
|     |           | Funds                        | Value of Securities (after haircut) | Bank Guarantees / FDR | Any other approved form of Margins* | Total Margins Available (E) | Total upfront Margin   | MTM | Total Requirement |  |   |   |
|     |           | A                            | B                                   | C                     | D                                   | E=<br>(A+B+C+D)             | F  | G   | H=(F+G)           | I=E-H  | J   | K=(I-J)   |
|     |           |                              |                                     |                       |                                     |                             |  |     |                   |  |   |   |

\*approved form as may be specified by the Exchange/CC from time to time

**Notes:**

1. Daily Margin Statement to be issued on T day itself
2. Daily Margin statement to mention the name, email id, telephone number and address of compliance officer
3. Detailed exhibits for the margin collected to be provided to the clients. In case of securities (scrip name, qty, value ) Bank Guarantee (BG no, amount, expiry date) and FDR's (FDR No., Amount and Maturity date)