



CIRCULAR

SEBI/HO/MRD2/DCAP/CIR/P/2020/27

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To

All Recognized Stock Exchanges and Clearing Corporations (except Stock Exchanges and Clearing Corporations in International Financial Services Centre)

Dear Sir/ Madam

Review of Margin Framework for Cash and Derivatives segments (except for Commodity Derivatives segment)

- 1 SEBI has, from time to time, put in place various risk containment measures to address the risks involved in the cash and derivatives market. With a view to keeping up pace with the changing market dynamics and to bring more efficiency in the risk management framework, a comprehensive review of the margin framework was done in consultation with the Risk Management Review Committee (RMRC) of SEBI. Based on the review, it has been decided to effect the following changes to the existing risk management framework.

1.1 Margin framework for Cash Market

1.1.1 VaR Margin Rates

The VaR margin rates shall be as follows for different groups of stocks:

| Liquidity Categorization | VaR Margin Rate |
|---------------------------------|--|
| Group I | Based on 6σ , subject to minimum of 9% |
| Group II | Based on 6σ , subject to minimum of 21.5% |
| Group III | 50% if traded atleast once per week on any stock exchange; 75% otherwise |

Note:

In case of ETFs that track broad based market indices and do not include ETFs which track sectoral indices, the VaR margin rate shall be 6 sigma, subject to minimum of 6%.

1.1.2 Extreme Loss Margin

The Extreme Loss Margin shall be 3.5% for any stock and 2% for ETFs that track broad based market indices and do not include ETFs which track sectoral indices.

1.2 Margin framework for Derivatives (Index Derivatives, Single Stock Derivatives, Currency and Interest Rate Derivatives)

1.2.1 Volatility calculation

The value of λ , the parameter which determines how rapidly volatility estimation changes in the Exponential Weighted Moving Average (EWMA) method, shall be fixed at 0.995.

The value of λ shall, accordingly, also get changed for volatility calculation in the cash market.

1.2.2 Price Scan Range

The Price Scan Range in respect of various products shall be as follows:

| Product | Price Scan Range | | | | | | | | | | | | | | | | |
|--|---|-----------------------------------|--|--------|-------|--------|-------|--------|-------|--------|-------|--------|-------|--------|-------|--------|-------|
| Index derivatives | <p>Based on 6σ, scaled up by $\sqrt{2}$ subject to at least 9.3% of the underlying price after considering scaling up.</p> <p>In case of index option contracts with residual maturity of more than 9 months, the price scan range shall be based on 6σ, scaled up by $\sqrt{2}$ subject to at least 17.7% of the underlying price after considering scaling up.</p> | | | | | | | | | | | | | | | | |
| Single stock derivatives | <p>Based on 6σ, scaled up by $\sqrt{2}$ subject to at least 14.2% of the underlying price after considering scaling up.</p> <p>The price scan range thus arrived shall be further scaled up by $\sqrt{3}$, if the impact cost of the security (as used for categorization of securities for margining in Cash Market) is greater than 1%.</p> | | | | | | | | | | | | | | | | |
| Currency and interest rate derivatives | <p>Based on 6σ, subject to the minimum percentage of underlying price as tabulated below.</p> <table border="1"> <thead> <tr> <th>Currency/Interest Rate derivative</th> <th>Minimum percentage of underlying Price</th> </tr> </thead> <tbody> <tr> <td>USDINR</td> <td>1.50%</td> </tr> <tr> <td>EURINR</td> <td>2.15%</td> </tr> <tr> <td>GBPINR</td> <td>2.25%</td> </tr> <tr> <td>JPYINR</td> <td>2.65%</td> </tr> <tr> <td>EURUSD</td> <td>2.50%</td> </tr> <tr> <td>GBPUSD</td> <td>2.50%</td> </tr> <tr> <td>USDJPY</td> <td>2.50%</td> </tr> </tbody> </table> | Currency/Interest Rate derivative | Minimum percentage of underlying Price | USDINR | 1.50% | EURINR | 2.15% | GBPINR | 2.25% | JPYINR | 2.65% | EURUSD | 2.50% | GBPUSD | 2.50% | USDJPY | 2.50% |
| Currency/Interest Rate derivative | Minimum percentage of underlying Price | | | | | | | | | | | | | | | | |
| USDINR | 1.50% | | | | | | | | | | | | | | | | |
| EURINR | 2.15% | | | | | | | | | | | | | | | | |
| GBPINR | 2.25% | | | | | | | | | | | | | | | | |
| JPYINR | 2.65% | | | | | | | | | | | | | | | | |
| EURUSD | 2.50% | | | | | | | | | | | | | | | | |
| GBPUSD | 2.50% | | | | | | | | | | | | | | | | |
| USDJPY | 2.50% | | | | | | | | | | | | | | | | |



| | | |
|--|---------------------------|--------|
| | Interest Rate Derivatives | 1.75% |
| | 91 Day T Bill | 0.065% |
| | MIBOR | 5.50% |

1.2.3 Volatility Scan Range

The Volatility Scan Range in respect of various products shall be as follows:

| Product | Volatility Scan Range |
|--|--|
| Index derivatives | 25% of annualized EWMA volatility subject to minimum 4% |
| Single stock derivatives | 25% of annualized EWMA volatility subject to minimum 10% |
| Currency and interest rate derivatives | 25% of annualized EWMA volatility subject to minimum 3% |

1.2.4 Calendar Spread Charge

The Calendar Spread Charge in respect of various products shall be as follows:

| Product | Calendar Spread Charge | | | | |
|--|---|----------------|-----------------|-----------------|-------------------------|
| Index derivatives | 1.75% of the far month contract | | | | |
| Single stock derivatives | 2.2% of the far month contract | | | | |
| Currency and interest rate derivatives | Calendar spread charge for spreads in months (INR) | | | | |
| | Product | 1 month | 2 months | 3 months | 4 months or more |
| | USDINR | 500 | 600 | 900 | 1100 |
| | EURINR | 750 | 1050 | 1550 | 1550 |
| | GBPINR | 1575 | 1875 | 2075 | 2075 |
| | JPYINR | 675 | 1075 | 1575 | 1575 |
| | EURUSD | 1600 | 1900 | 2100 | 2200 |
| | GBPUSD | 1600 | 1900 | 2100 | 2200 |
| | USDJPY | 1600 | 1900 | 2100 | 2200 |
| | Interest Rate Derivatives | 1700 | 2000 | 2300 | 3200 |
| 91 Day T Bill | 110 | 160 | 210 | 260 | |



| | | | | | |
|--|-------|------|------|------|------|
| | MIBOR | 7000 | 7500 | 8000 | 8000 |
|--|-------|------|------|------|------|

1.2.5 Short Option Minimum Charge

There shall be no separate short option minimum charge for index derivatives, single stock derivatives, currency and interest rate derivatives.

1.2.6 Extreme Loss Margin

The Extreme Loss Margin rates shall be as under:

| Product | Extreme Loss Margin | | |
|--|----------------------------|---------------------|---------------------|
| Index derivatives | 2% of the notional value | | |
| Single stock derivatives | 3.5% of the notional value | | |
| Currency and interest rate derivatives | Product | ELM: Futures | ELM: Options |
| | USDINR | 0.50% | 0.75% |
| | EURINR | 0.15% | 0.75% |
| | GBPINR | 0.25% | 0.75% |
| | JPYINR | 0.35% | 0.75% |
| | EURUSD | 0.50% | 0.50% |
| | GBPUSD | 0.50% | 0.50% |
| | USDJPY | 0.50% | 0.50% |
| | Interest Rate Derivatives | 0.25% | 0.25% |
| | 91 Day T Bill | 0.015% | - |
| | MIBOR | 0.50% | - |

Notes:

1. In case of calendar spread positions in futures contracts, extreme loss margin shall be levied on one third of the value of the open position of the far month futures contract.
2. In case of index options contracts that are deep out of the money (i.e., strikes out of the money by more than 10% from the previous day closing underlying price), the applicable Extreme Loss Margin shall be 3%.
3. In case of index option contracts with residual maturity of more than 9 months, the applicable Extreme Loss Margin shall be 5%.
4. In case of single stock options contracts that are deep out of the money (i.e., strikes out of the money by more than 30% from the previous day closing underlying price), the applicable Extreme Loss Margin shall be 5.25%.



1.2.7 Margin on consolidated crystallized obligation

The margin on consolidated crystallized obligation in derivatives shall represent:

| | |
|-------------------|--|
| On intraday basis | Payable crystallized obligations based on the closed out futures positions and payable/receivable premium at client level. |
| At end-of-day | Payable obligations at client level considering all futures and options positions. |

Intraday basis

On intraday basis, the net payable/receivable amount at client level shall be calculated using:

1. Premium payable/receivable
2. Futures crystallized profit or loss (calculated based on weighted average prices of trades executed).

If the overall amount at client level is payable, such amount shall be the intraday consolidated crystallized obligation margin for the client.

End-of-day basis

At the end of day, the payable/receivable amount at client level shall be calculated using:

1. Futures mark to market profit/loss to be settled
2. Options premium payable/receivable
3. Options exercise/assignment for expired contracts
4. Futures final settlement for expired contracts

If the overall amount at client level is payable, such amount shall be the end-of-day consolidated crystallized obligation margin for the client.

The margin on consolidated crystallized obligations shall replace the net buy premium, intraday crystallized losses, assignment margin and futures final settlement margin levied currently.

The margin on consolidated crystallized obligations shall be released on completion of settlement.

1.3 Additional Margin for highly volatile stocks

- (i) For securities with intra-day price movement (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) of more than 10% in the underlying market for 3 or more days in last one month, the minimum total margins shall be equal to the maximum intra-day price movement of the security observed



in the underlying market in last one month. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of three months from date of levy.

- (ii) For securities with intra-day price movement (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) of more than 10% in the underlying market for 10 or more days in last six months, the minimum total margins shall be equal to the maximum intraday price movement of the security observed in the underlying market in last six months. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of one year from date of levy.
- 2 The provisions of the existing Circulars (given at Annexure A), inter alia, specifying risk management framework for cash and derivatives segments (except for commodity derivatives segment) shall, accordingly, be amended to the extent mentioned at Para 1 above. All other provisions/conditions specified in the Circulars given at Annexure A shall remain unchanged.
- 3 It is reiterated that risk management is primarily a responsibility of Clearing Corporations (CCs) and the framework prescribed by SEBI is minimum framework. CCs are allowed to be more conservative as per their own perception of risk.
- 4 The provisions of this Circular shall come into effect from May 01, 2020.
- 5 Stock Exchanges and Clearing Corporations are directed to:
 - a) take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;
 - b) bring the provisions of this circular to the notice of their members and also disseminate the same on their websites; and
 - c) communicate to SEBI, the status of implementation of the provisions of this circular in the Monthly Development Report.
- 6 This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

7 This circular is available on SEBI website at www.sebi.gov.in at “Legal Framework→Circulars”.

Yours faithfully

(Amit Tandon)
General Manager
Market Regulation Department
email: amitt@sebi.gov.in



List of existing Circulars, inter alia, specifying Risk Management framework for Cash and Derivatives segments (except for Commodity Derivatives segment)

1. IES/DC/CIR-4/99 dated July 28, 1999
2. IES/DC/CIR-5/00 dated December 11, 2000
3. SMDRP/DC/CIR-7/01 dated June 20, 2001
4. SMDRP/DC/CIR-10/01 dated November 02, 2001
5. SMDRP/DC/CIR-13/02 dated December 18, 2002
6. SEBI/SMDRP/DC/Cir-16/2003/04/19 dated April 19, 2003
7. SEBI/SMDRP/DC/Cir-/2004/01/05 dated January 05, 2004
8. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005
9. MRD/DoP/SE/Cir-6/2006 dated June 16, 2006
10. SEBI/DNPD/Cir-34/2008 dated January 11, 2008
11. MRD/DoP/SE/Cir-10/2008 dated April 17, 2008
12. SEBI/DNPD/Cir- 38 /2008 dated August 06, 2008
13. SEBI/DNPD/Cir-41/2008 dated October 15, 2008
14. MRD/DoP/SE/Cir-08/2009 dated July 27, 2009
15. SEBI/DNPD/Cir- 46 /2009 dated August 28, 2009
16. SEBI/DNPD/Cir- 52 /2010 dated January 19, 2010
17. CIR/DNPD/2/2010 dated May 04, 2010
18. CIR/DNPD/3/2010 dated July 07, 2010
19. CIR/DNPD/5/2010 dated July 30, 2010
20. SEBI /DNPD/ 3 /2011 dated March 07, 2011
21. CIR/DNPD/8/2011 dated December 30, 2011
22. CIR/MRD/DP/26/2012 dated September 26, 2012
23. CIR/MRD/DP/22/2013 dated July 08, 2013
24. CIR/MRD/DRMNP/35/2013 dated December 05, 2013
25. CIR/MRD/DP/12/2014 dated April 07, 2014
26. CIR/MRD/DRMNP/11/2015 dated June 12, 2015
27. SEBI/HO/MRD/DP/CIR/P/2016/38 dated March 09, 2016
28. CIR/MRD/DRMNP/008/2018 dated January 08, 2018
29. SEBI/HO/MRD/DRMNP/CIR/P/2018/75 dated May 02, 2018
30. SEBI/HO/MRD/DRMNP/CIR/P/2018/155 dated December 17, 2018
