भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/MRD2/DCAP/CIR/P/2020/127 July 20, 2020

To

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

Dear Sir / Madam

Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments

1 With respect to equity derivatives and currency derivatives segments, Stock Exchanges/ Clearing Corporations have mandated clearing members/ trading members to collect applicable margins from their clients/ constituents on an upfront basis. Similarly, SEBI Circulars CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 and SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 07, 2016 directed to National Commodity Derivatives Exchanges, inter alia, require members to collect Initial Margin and ELM upfront from their clients as applicable at the time of the trade.

2 In order to align and streamline the risk management framework of both cash and derivatives segments, with respect to collection of margins from the clients and reporting of short-collection/non-collection of margins, SEBI, vide Circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019, inter alia, required the Trading Members (TMs) / Clearing Members (CMs) in cash segment as well to mandatorily collect upfront VaR margins and ELM from their clients.

3 Subsequent to the aforesaid Circular dated November 19, 2019, representations were received from the market participants raising issues in operationalization of collection of upfront margin from clients. SEBI held detailed discussions with the market participants so as to evolve a monitoring mechanism for verification of upfront collection of margin from clients.

4 Based on deliberations with the market participants, with an objective to enable uniform verification of upfront collection of margins from clients by TM/ CM and levy of penalty across segments, it has been decided that the Stock Exchanges/ Clearing Corporations shall adopt the framework specified in the **Annexure**, for the purpose of 'Mechanism for regular monitoring of and penalty for short-collection/ non-collection of margins from clients' in Cash and Derivatives segments, as specified vide SEBI Circulars CIR/DNPD/7/2011 dated August 10, 2011, SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 07, 2016, CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019 and CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019.

5 It is reiterated that the applicable upfront margins are required to be collected from the clients in advance of the trade. The aforesaid framework prescribed in the Annexure is only for the purpose of verification of upfront collection of margin and levy of penalty.

6 The provisions of the Circular SEBI/HO/CDMRD/DRMP/CIR/P/2019/149 dated November 29, 2019 shall, accordingly, be amended to the extent mentioned above. All other provisions/ conditions specified in the Circular dated November 29, 2019 shall remain unchanged.

7 The provisions of this Circular shall come into effect from December 01, 2020.

8 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.

9 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.

10 This circular is available on SEBI website at www.sebi.gov.in at "Legal Framework→Circulars".

Yours faithfully

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Annexure

Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments

(i) Clearing Corporations shall send minimum 4 snapshots of client wise margin requirement to TMs/CMs for them to know the intraday margin requirement per client in each segment. The number of times snapshots need to be sent in a day may be decided by the respective Clearing Corporation depending on market timings subject to a minimum of 4 snapshots in a day. The snapshots would be randomly taken in pre-defined time windows.

Further, for commodity derivatives segment, SEBI vide Circular SEBI/HO/CDMRD/DRMP/CIR/P/2019/149 dated November 29, 2019 has prescribed that though trading in commodity derivatives is happening till mid-night, Risk Parameter File (RPF) of 5 PM shall be applicable on End of Day (EOD) portfolio for margin collection from clients. Therefore for the commodity derivatives segment, last snapshot for commodity derivatives shall be generated at 5 PM and EOD margin also shall be determined in accordance with the Circular.

(ii) The client wise margin file (MG-12/13) provided by the CCs to TMs/CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.

(iii) The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:

a) EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.

AND

b) Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.

Higher of the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

(iv) The verification of availability of margins with TM/ CM, as at (iii)(a) and (iii)(b) above, shall be done by exchanges/ clearing corporations on a weekly basis by verification of the balances in the books/ ledgers of the TM/ CM in respect of the client.

Phased adoption

The peak margin obligation of client across snapshots, as at (iii)(b) above, shall be adopted in a phased manner, as given below:

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- Phase 1 (for 3 months from the date of implementation)- 25% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.
- Phase 2 (for subsequent 3 months)- 50% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.
- Phase 3 (for subsequent 3 months)- 75% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.
- Phase 4 (subsequently)- 100% of (Peak margin obligation of the client across the snapshots) shall be compared with respective client peak margin available with the TM/CM during the day.

Shortfall in collection of margins, as detailed in Para (iii) above, shall be calculated by taking into consideration the aforesaid phased adoption of peak margin obligation of client. Further, during the aforesaid period of phased adoption, the member should be able to demonstrate that the balance peak margin obligation (i.e., [peak margin obligation of the client across the snapshots] minus [25%/ 50%/ 75%[1] of Peak margin obligation of the client across the snapshots]) has been funded from the member's own funds and not from any other client.

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[1] Depending on the phase

Annexure A

GUIDELINES/CLARIFICATION ON PEAK MARGIN COLLECTION AND REPORTING

1. Whether early pay-in (EPI) of securities accepted by clearing corporation (CC) during the day can be considered as upfront/peak margin for the said sale transaction?

Yes, in respect of sale of shares by a client for which EPI has been accepted by CC, the same may be considered as margin collected towards peak margin for the said sale transaction.

Clarifications with respect to EPI, as mentioned in the 1st bullet point of question no. 03 in Annexure A of the Exchange circular NSE/INSP/45191 dated July 31, 2020 has been partially modified as under:
In respect of sale of shares by a client for which early pay-in (EPI) has been accepted by CC and credit entry is posted of the sale value of the shares in the ledger account of the client, EPI value may be considered as margin collected towards subsequent margin requirement of the client.
However, the sale value of such securities (EPI value), as reduced by value of the 20% upfront Margin, shall be available as Margin for other positions across all the segments. Illustration is mentioned below:

Day	Transaction	Scrip	Value	Upfront Margin
T day	Sell	ABC Ltd.	100	20
Note: In this case, member can utilize, maximum, 80 (100-20) as margin towards subsequent margin requirement.				

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

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

3. **Whether client can square off the position in one segment during the day and use the same margin, released due to square off the position, in different segments on same day?**

   Yes. Based on the margin availability, member can give exposure in different segments at different time. However, member needs to have proper risk management to ensure that at any point of time maximum exposure given to clients across segments are not exceeding the margins available with the member for such clients. Member shall keep trail of all the square off position and exposures during the day.

4. **How to collect and report the peak margin on settlement day (T+2 day) as peak margin is captured in the snapshots taken before respective pay-in on T+2 day?**

   In case member has collected sufficient upfront margin on T day and the same is available till pay-in day the same may be considered as peak margin collected towards peak margin obligation of the said transaction on settlement day.

5. **After fulfilling the peak margin obligation on T day, whether member can release the margin on T day?**

   Applicable upfront margins are required to be collected from the clients in advance of the trade. In view of the same, free and unencumbered collaterals can be released in case peak margin obligation across all segments is fulfilled. Illustration is mentioned below:

Day	Time	Particulars
T day	09.00 AM	Margin available Rs. 1,00,000
T day	10.00 AM	Client took position (ABC LTD.) of margin Rs. 1,00,000 (transaction value Rs. 5,00,000) in CM segment
T day	03.00 PM	Client squared up the same position (ABC LTD.) in the CM segment (means no EOD margin)
T day	04.00 PM	Member can release the free and unencumbered collaterals (Rs. 1,00,000)