

National Stock Exchange of India Limited

Circular

DEPARTMENT: INSPECTION	
Download Ref No: NSE/INSP/ 49929	Date: October 12, 2021
Circular Ref. No: 48/2021	

To All Members,

Sub: Guidelines/clarifications on Margin collection & reporting

This has reference to Exchange Circular NSE/INSP/45191 dated July 31, 2020 with respect to “Guidelines/clarifications on Margin collection & reporting” wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. However, Exchange has observed that certain members are passing on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins from clients” to respective clients.

In view of the above, it is reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to clients under any circumstances. Further, clarification to Question no. 15 in Annexure A of the Exchange Circular NSE/INSP/45191 dated July 31, 2020, has been partially modified as below:

15. In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?

Member shall not pass on the penalty w.r.t short collection of upfront margins to clients under any circumstances. In case of failure (requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of margins other than “upfront margins” such as consolidated crystallized obligation, Delivery margins, other margins (Mark-to-market & additional margins), member may pass on the actual penalty to the client, provided he has evidence to demonstrate the failure on part of the client. Wherever penalty for short reporting of margins other than “upfront margins” is being passed on to the client relevant supporting documents for the same should be provided to the client.

Members are requested to take note of the contents of the circular and comply.

National Stock Exchange of India Limited

**For and on behalf of
National Stock Exchange of India Limited**

**Harinatha Reddy M
Senior Manager - Inspection**

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

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

Download Ref No: NSE/INSP/45191

Date : July 31, 2020

Circular Ref. No: 47/2020

To All Trading Members,

Sub: Guidelines/clarifications on Margin collection & reporting

Based on representations received from Members, Exchange is pleased to issue revised guidelines/clarifications 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/clarifications 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**.

Further, SEBI has issued circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020, on the subject "Implementation of SEBI circular on 'Margin obligations to be given by way of Pledge / Re-pledge in the Depository System'". The copy of the said SEBI circular is enclosed as **Annexure C** for your reference.

Members are requested to take note of the contents of the circular and comply.

**For and on behalf of
National Stock Exchange of India Limited**

Pranav Tanna
Chief Manager-Inspection
Enclosed: Annexure A, B and C

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

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

1. What margins are required to be collected by Trading Members from clients in Capital & Derivative Segments?

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 clearing corporations.

B. F&O segment

In the F&O segment, it is mandatory for Trading Members to collect SPAN margin & Extreme loss margin from respective clients on a upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Delivery Margin and margin on consolidated crystallized-obligation 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 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. Margin on consolidated crystallized obligation 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 from its clients?

Trading Members shall collect the margins 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) ¹ (read with point no. 3).
- Bank guarantee received towards margin, issued by any approved bank and discharged in favor of the Member.
- Fixed deposit receipts (FDRs) received towards margin issued by any approved bank and lien marked in favor of the Member.
- Securities (including mutual fund, Government securities and Treasury bills) 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)².
- Any other such collaterals, as may be specified by clearing corporation from time to time.

¹ Free and Unencumbered funds where funds are available in the bank account of client and specifically blocked by member on T day and actually moved to client bank account maintained by the member by T/T+1 day.

²With effect from August 01, 2020, TM shall, inter alia, accept collateral from clients in the form of securities, by way of 'margin pledge', created in the Depository system (in accordance with the SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020).

Note: The TM shall be allowed to accept client securities as collateral by way of title transfer into the Client Collateral Account as per the present system. The system of parallel acceptance of the client securities by way of title transfer shall be available only upto August 31, 2020.

3. Whether securities available in Trading member's account can be considered for margin collection and reporting?

Member shall accept collateral from clients in the form of securities, only by way of 'margin pledge', created in the Depository system.

In view of the same, following clarifications are given for margin collection and reporting purpose after August 31, 2020:

- Securities which are sold in cash market and available in TM's account i.e. POOL/EPI³ will not be considered as margin collected for any other trade/position. However, in respect of sale of shares by a client for which early pay-in has been accepted by CC, since settlement of the trade is guaranteed by the CC, member may choose to give credit of the sale value of the shares in the ledger account of the client, which may be considered as margin towards subsequent trade/s of the client.
- Securities received in pay out and available in CUSA account will not be considered for margin collection. However, in case client buys a share on T day with upfront payment of applicable margin and If client sells the same shares on T+1 day, client will be required to pay separate applicable margin for sale trades also, as Buy and Sell trades are executed in different settlements. However, member may choose to pay for the buy position of client (buy value – margin paid by the client) and collect the payout of shares on T+2 day in CUSA. Member may deliver the shares from CUSA on T+3 day towards pay-in for sale trade on T+1 day. Member may also choose to post the buy and sale value of shares to the account of client in ledger on execution of sale transaction, which could be used towards margin for subsequent trades of the client.

³Clearing corporation guidelines (NCL/CMPT/42900 dated December 12, 2019) with respect to reduction in margin requirement due to EPI, will remain applicable.

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. 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.

6. 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.

7. 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, can be considered by the member while reporting margins to the Exchange.

8. 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.

9. 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. 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.

10. 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 and pledge 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%.

11. What precautions are to be kept in mind in case of cheques received from Clients towards margin/margin on consolidated crystallized obligation /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 margin on consolidated crystallized obligation (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/ margin on consolidated crystallized obligation/ MTM collected.
- If subsequent to the margin/margin on consolidated crystallized obligation/ 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.

12. Whether balances/securities of related entities of the client can be considered for collection and reporting margin?

Margin available with related entities of the client cannot be considered as margin of the respective client.

13. What does short reporting of upfront margins/ MTM/ margin on consolidated crystallized obligation mean?

In case a Trading Member fails to collect requisite margin from the respective client on an upfront basis, margin on consolidated crystallized obligation by T+1(in case of F&O and CD segments) and MTM losses by T+2 (in case of cash and commodity segments) and reports to the clearing corporation that margin/ margin on consolidated crystallized–obligation/MTM losses collected from client is less than the actual amount of margins/ margin on consolidated crystallized–obligation/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.

14. What does false reporting of margin/margin on consolidated crystallized obligation/ MTM (Non Compliance) mean?

Where the margins including upfront margins/ margin on consolidated crystallized obligation/MTM Losses have 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.

15. In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?

In case of failure (cheque not cleared or margin* requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of client upfront margins/ margin on consolidated crystallized obligation/MTM losses, 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/ margin on consolidated crystallized-obligation/ MTM losses is being passed on to the client relevant supporting documents for the same should be provided to the client.

*Member cannot pass on the penalty w.r.t. short collection of upfront margin to client.

16. Are Members required to provide the Margin related information to clients?

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

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 collaterals of 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.

17. How will upfront margin collection and reporting be undertaken in case of NRI clients under the portfolio investment scheme (PIS)?

In case of NRI clients undertaking buy transactions under PIS, funds received from the NRI's PIS bank account before the respective pay-in, will be considered as collection of upfront margin.

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

18. 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:

Transaction	Scrip	Qty	Margin @ 10%
Buy	ABC Ltd.	100	10
Sell	ABC Ltd.	100	Nil (Since the net quantity of the scrip is nil)
Total Upfront Margin collected			10

19. Can member open segment wise 'Client Securities Margin Pledge Account'?

Yes, member can open segment wise margin pledge account (one

account per depository) or member can open single margin pledge account (per depository).

20. Whether margin pledge collaterals are required to be mentioned in daily margin statement?

Yes, margin pledge collaterals have to be mentioned in the daily margin statement. Please refer revised daily margin statement format attached as annexure B.

21. Can member accept security deposit from Authorised Person (AP) in the form of demat securities?

Yes, member can accept such securities in the form of pledge in it's 'Client Securities Margin Pledge Account'.

22. Can TM debit Margin pledge, unpledge and invocation charges to the client?

Member may pass on the actual charges for margin pledge/unpledged/invocation to respective client as per the agreed terms in writing and the same shall form part of tariff sheet.

23. As per SEBI circular, Pledge instructions shall have details of client UCC, TM/CM and Default Segment. So whether free securities pledged in one segment can be used for margin in other segment?

Yes, free securities of one segment can be considered for another segment for the purpose of margin collection and reporting.

24. As per the circular TMs shall be required to close all existing demat accounts tagged as 'Client Margin/ Collateral' by August 31, 2020.

- What is to be done in case the Member is unable to transfer the securities to the client by August 31, 2020 due to any legitimate reasons?

All securities lying in the existing Client Margin/Collateral Accounts shall be either returned to the clients upon fulfillment of obligation or disposed-off after giving notice of 5 days to the client, on or before August 31, 2020.

In case any security lying in such demat account cannot be sold or transferred, for any reason including litigation or court orders or other enforcement orders, such accounts can be frozen/suspended for credits except on account of any corporate actions.

- In CDSL such account can be marked for closure allowing only debits and prohibiting fresh credits except on account of corporate actions. Said account by default will be closed during the EOD of the day when balance becomes NIL.
- In case of NSDL, the standing instructions for credit in such account can be disabled which will restrict credits (except on account of corporate action) in such accounts

In case, Member is unable to transfer the securities to client's BO account due to any legitimate reasons, Member may proceed to liquidate the securities lying in such demat accounts, and transfer the funds to the bank account of the client. In case Member is unable to transfer the funds due to client's bank account becoming dormant & client is not contactable, Member shall set aside such funds (either in separate account or in the form of fixed deposit) till the client is contactable and correct bank account details are obtained. Member shall keep adequate trail to sufficiently prove that the clients were untraceable and sufficient follow ups have been made.

25. What are changes to be required in existing POA?

Member needs to delete the existing clause of POA w.r.t. transfer of securities for margin purpose and add relevant extract in POA related to execution of margin pledge. Member shall create an addendum to the existing POA for this purpose and inform the client accordingly in line with SEBI circular CIR/MRD/DMS/28/2010 dated August 31, 2010.

26. Whether members are required to open a separate demat account for funded stock under the margin trading facility?

Yes. Members are required to open a separate demat account for MTF funded stock which should be tagged as '**Client Securities under Margin Funding Account**'.

Further, all existing demat account of MTF funded stock, which are not tagged as specified above, will have to be closed by August 31, 2020.

27. Whether members can keep funded stock under the margin trading facility in 'Client Securities under Margin Funding Account'?

With effect from September 01, 2020, funded stocks held by the member under the margin trading facility shall be held only by way of pledge in **Client Securities under Margin Funding Account**.

Please note that pledging of funded stocks under margin trading facility cannot be accepted in 'Client Securities Margin Pledge Account'. Further, such funded stock cannot be re-pledge to CM/CC.

28. Whether pledge collaterals are required to be reported in weekly reporting of holding statement?

No.

29. Whether pledge collaterals are required to be recorded in Register of Securities (ROS)?

No. However member needs to maintain all records of pledge/Re-pledge stocks (including client wise records) in the back-office records.

Note:

- In case Pledge/Re-pledge securities are invoked by member, (as specified in the SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020), such transactions are required to be recorded in ROS appropriately.

- In case securities are lying in member's account (i.e POOL/EPI/CUSA/OWN), such securities also need to be recorded in ROS appropriately.
- Invoked securities and securities lying in EPI/CUSA/POOL/OWN to be reported in weekly Holding submission.

30. Can member change the type of existing demat Account to 'Client Securities Margin Pledge Account' / 'Client Securities under Margin Funding Account' instead of opening a separate account?

No, Member will not be permitted to change the type of the existing demat accounts to "Client Securities Margin pledge Account" / 'Client Securities under Margin Funding Account'.

Annexure-B

Format – Daily Margin Statement to be issued to clients

Client Code:

ClientName:

Exchange:

Seg	Trade day	Margins available till T day						Margin/ Consolidated Crystallized Obligation / 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	MarginStatus (Balance with Member /Due fromclient)
		Funds	Value of Securities (after haircut)	Value of margin pledge Securities (after haircut)	Bank Guarantees / FDR	Any other approved form of Margin	Total Margins Available (E)	Total upfront Margin	Consolidated Crystallized Obligation / MTM	Delivery Margin	Total Requirement			
		A	B	C	D	E	F=(A+B+C+D+E)	G	H	I	J=(G+H+I)	K=F-J	L	M=(K-L)

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

Notes:

1. Daily Margin Statement to be issued on T dayitself
2. Daily Margin statement to mention the name, email id, telephone number and address of complianceofficer
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)

CIRCULAR

SEBI/HO/MIRSD/DOP/CIR/P/2020/143

July 29, 2020

To,

- 1. All Recognised Stock Exchanges**
- 2. All Recognised Clearing Corporations**
- 3. All Depositories**

Madam / Sir,

Subject: Implementation of SEBI circular on 'Margin obligations to be given by way of Pledge / Re-pledge in the Depository System'

1. SEBI, vide circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, specified mechanism with regard to Margin obligations to be given by way of Pledge / Re-pledge in the Depository System. The provisions of this circular were initially to come into effect from June 01, 2020. The implementation date of the circular was extended till August 01, 2020 vide SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020 read with SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/90 dated May 29, 2020 in view of disruptions on account of COVID-19 pandemic including restrictions in movement of people.
2. In view of the prevailing situation due to Covid-19 pandemic, partial lockdowns in various areas of the country, representations received from the stock brokers and stock broker associations and that the changes to the systems and software development still under progress, it has been decided that
 - 2.1. The mechanism of pledge / re-pledge issued vide circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 shall be implemented with effect from August 01, 2020. Trading member (TM) / Clearing member (CM) shall endeavor to align their systems and accept client collateral and margin funded stocks by way of creation of pledge / re-pledge in the Depository system.
 - 2.2. The TM / CM shall also be allowed to accept client securities as collateral by way of title transfer into the Client Collateral Account as per the present system. The system of parallel acceptance of the client securities by way of title transfer shall be available only upto August 31, 2020 and no further extension shall be granted.
 - 2.3. Funded stocks held by the TM / CM under the margin trading facility shall preferably be held by the TM / CM by way of pledge with effect from August 01, 2020. TM / CM may continue to hold funded stocks in respect of margin funding in 'Client Margin

Trading Securities Account' till August 31, 2020 by which date all such accounts shall be closed.

3. It is reiterated that, in terms of paragraph 12 of the circular dated February 25, 2020, the TM / CM shall be required to close all existing demat accounts tagged as 'Client Margin / Collateral' by August 31, 2020.
4. Stock Exchanges, Clearing Corporations and Depositories are directed to bring the provisions of this circular to the notice of their members / participants and also disseminate the same on their websites.
5. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, and Section 19 of the Depositories Act, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.

Yours faithfully

Narendra Rawat
General Manager
Market Intermediaries Regulation and Supervision Department