

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

### **1. Whether collection of margins from clients is required in the Capital Market Segment?**

In case of Capital Market segment, Members should have a prudent system of risk management to protect themselves from client default. Margins are an important element of such a system. The risk management system should be well documented and be made accessible to the clients and the Exchange / NSCCL. However, the quantum of margins and the form and mode of collection of margins is left to the discretion of Members.

### **2. Whether collection of margins/ Mark-to-market losses (MTM) from clients is required in the F&O segment and Currency Derivatives segment?**

#### **A. 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. Mark-to-market losses (MTM) shall be collected from clients by T+1 day.

#### **B. 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. 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.

### 3. In what form should a Trading Member collect the upfront margin & Mark-to-Market (MTM) losses from its clients?

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

- Free and unencumbered Balances (funds and securities) available with the member of respective client in different segments of the Exchange\*.
- 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 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 liquid 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.
- Free and unencumbered Balances (funds and securities) available with the member of respective client in different segments of any Stock Exchange, with specific authorization from the client, subject to certification by independent Chartered Accountant.
- 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.
- Any other such collaterals, as may be specified by NSCCL 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.**

**4. 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 3 above and cannot be set off against MTM profit of T+1 day.

**5. For the purpose of collection and reporting Margin/MTM losses, financial balances of which segment should be used?**

Members can use segment-wise balances or consolidated (all segments) financial balances of the Exchange for the purpose of collection and reporting Margin/MTM losses, however the practice followed shall be followed consistently for a minimum period of 1 financial year.

In case segment-wise balances are maintained and considered for collection & reporting Margin/MTM losses, transfer from other ledgers is permissible only when there is adequate credit for the respective client in the ledger from where funds are transferred.

**6. 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.

## 7. 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.

## 8. 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.

## 9. 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%.

## 10. What precautions are to be kept in mind in case of cheques received from Members 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** : 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.
- 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.

### **11. 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 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.

### **12. 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 as spouse, dependent children and parents with clients
- 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

### **13. 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 and reports to the Exchange that margin/MTM losses collected from client is less than the actual amount of margins/MTM losses required to be collected (as per MG13), it is termed as short reporting of margin collection and shall attract applicable penalty as mandated by NSCCL from time to time.

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

Where the upfront Margin/MTM Losses has not been 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 Exchange/NSCCL.

Further, with reference to SEBI circular CIR/DNPD/7/2011 dated August 10, 2011 captioned "Short-collection/Non-collection of client margins (Derivatives segments)", it is clarified by SEBI circular SEBI/HO/MRD/DRMNP/CIR/P/2018/75 dated May 02, 2018 that the 'margins', for both Equity Derivatives Segment and Currency Derivatives Segment, shall also include mark to market (MTM) losses that are required to be collected from clients.

### **15. 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.

## **16. 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**.