

NSE Clearing Limited

DEPARTMENT: FUTURES & OPTIONS SEGMENT

Download Ref No: NCL/CMPT/55330

Date: January 20, 2023

Circular Ref. No: 008/2023

All Members,

Sub:- Guidelines for Net Settlement of Capital Market segment and Futures & Options (F&O) segment upon expiry of stock derivatives

This has reference to SEBI circular SEBI/HO/MRD2_DCAP/P/CIR/2022/165 dated November 30, 2022, NCL circular NCL/CMPT/54663, dated November 30, 2022, and NCL consolidated circular NCL/CMPT/55098, dated January 02, 2023. In view of the same the guidelines for net settlements are as below:

a) Netting of Obligations:

1. Obligations in physical settlement of F&O segment for a particular expiry shall be netted with Obligations in Capital Market segment of corresponding trade date.
2. The obligation shall be netted where the clearing member-trading member-client (UCC Code) is common across Capital Market and F&O segments for the same security. The netting shall not be done where trading member clears trades through different Clearing Member / Clearing Corporation (Example of Netting Provided in Annexure A)
3. There shall be no change in computation of STT and Stamp duty and the same shall continue to be levied for F&O physical and Capital Market separately as per the existing mechanism.

b) Securities settlement:

1. The net sell or buy obligations shall be settled in Capital Market segment in settlement/market type and settlement number of Capital Market segment only.
2. Going forward NSE Clearing Ltd. (NCL) shall not issue separate settlement calendar for F&O physical settlement and F&O physical Auction market.

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3. Clearing members in F&O shall henceforth provide requests for voluntary auction for internal shortages of F&O physical in settlement type, settlement number and security series applicable in Capital market as per format specified in Annexure B.
4. Auto DO instructions shall not be provided by NCL with respect to incremental delivery obligation for members/ custodians/ PCM, on T+1 day, on account of trades rejected by custodians in Capital Market segment. Members/ Custodians shall ensure that they provide manual pay-in instructions for such incremental obligation.

c) Funds Settlement:

1. Funds settlement shall happen from settlement bank account of Capital Market segment. Clearing members should ensure to maintain active settlement account in the capital market segment. For clearing members who have not designated NCL as clearing corporation in Capital Market Segment, clearing members shall be required to open separate account for settlement and inform the same to clearing corporation.
2. In case of fund shortages, the shortages shall be apportioned on the basis of the segment-wise obligation of clearing member to NCL, on a pro-rata basis, to take action on shortages. The losses, if any, in case of default of a clearing member to NCL shall be computed on the basis of the segment-wise obligation of clearing member to NCL, on a pro-rata basis.

d) Margin benefit for offsetting positions:

1. The positions in stocks derivative contracts that are converted to settlement by delivery on expiry in F&O segment and obligations in the underlying Capital Market segment shall be allowed margin benefit to the extent of offsetting positions.
2. Such margin benefit shall be allowed only if the offsetting positions in a security at clearing member-trading member-client (UCC) are common across Capital Market and F&O segments.
4. Margin benefit shall be provided on total margins in Capital Market segment and on delivery margins in F&O Segment. (Example of benefit in margins is provided in Annexure C)
5. The margins on the residual positions (post netting) shall continue to be applicable in the respective segments.

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e) Early Pay-in (EPI) of Funds/Securities:

1. Members may provide early pay-in of funds from settlement bank account as mentioned in (c) (1) above towards Capital Market segment settlement type only. The benefit of early pay-in shall be provided as per below order
 - i. Early pay-in of funds shall be first considered in Capital Market segment.
 - ii. Residual amount of EPI of funds allocated at client/client-security level, if any, shall be considered towards net buy obligations in F&O segment under the same clearing member-trading member-client at such client level/client-security level, as the case may be.
2. Early pay-in of securities for net sell obligation by way of block mechanism / pool mechanism and client epi allocation request for pool epi shall be provided in market type and settlement number of Capital Market segment only.
 - i. In case of upload of client EPI allocation file the members shall specify series as applicable in capital market segment, for allocation of epi of securities done from pool route.
 - ii. Benefit Early pay-in of securities shall be first provided in Capital Market segment.
 - iii. Residual Benefit early pay-in of securities, if any, shall then be considered towards net sell obligations in F&O segment under the same Clearing member-Trading member-Client at such security level.
3. Early pay-in of funds/securities in a segment shall be considered towards net obligations after considering the offsetting positions as mentioned in (d) above.

f) Reports:

1. Existing Obligation reports (FOBG) before netting shall continue to be provided to members in Capital Market and F&O segments.
2. Additional report with net obligation across Capital Market and F&O Segments shall be downloaded to members. The file nomenclature and format shall be as given in Annexure D.
 - On T day / Expiry day, net obligation reports shall be downloaded after the cut off of OTR allocation in Capital Market segment.

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- The obligation report shall be based on netted obligation of F&O segment and provisional obligation of Capital market segment based on deemed custodial confirmation for CP / OTR trades.
 - There shall be no change in the obligation for such members who do not have CP/OTR trades in Capital Market Segment. For such members the report downloaded on T day / Expiry day shall be final obligation. No obligation report shall be downloaded to such members on T+1 day.
 - For members who have CP/OTR trades in Capital Market Segment, in case of change in obligation due to rejection/ non-confirmation of any CP/OTR trades by custodian any time up to T+1 confirmation window, revised obligation report shall be downloaded only for such impacted members and custodians on T+1 day, else report downloaded on T day / Expiry day shall be final obligations
3. Delivery reports (DLVR) report for Capital Market segment shall be generated based on final netted delivery obligation.
4. Reports specified in Annexure E shall be discontinued.

g) Do not Exercise facility:

The facility of do not exercise available for stock options on expiry date shall be discontinued.

The above changes shall be effective from March 2023 expiry of F&O contracts. Members are requested to take note of the above.

**For and on behalf of
NSE Clearing Limited**

**Prashant Shinde
Chief Manager**

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Annexure A

Example of netted obligation computation

1) Obligation in Capital Market Segment

CM Code	TM Code	Client Code	Symbol	Buy Qty	Buy Value	Sell Qty	Sell Value	Obligation in CM Segment	
								Quantity to +Receive / -Deliver	Amount +Receivable / -Payable
M00001	TM1	AAA	XYZ	0	0	80	20400	-80	20400
M00001	TM1	BBB	XYZ	80	20400	0	0	80	-20400
M00001	TM1	CCC	XYZ	0	0	100	25500	-100	25500
M00001	TM2*	DDD	XYZ	0	0	80	20400	-80	20400

2) Obligation in Futures & Options Segment

CM Code	TM Code	Client Code	Symbol	F&O Positions on Expiry					Obligation in F&O Segment	
				Option Type	Long Qty	Short Qty	Strike Price	Set Price	Quantity to +Receive / -Deliver	Amount +Receivable / -Payable
M00001	TM1	AAA	XYZ	CE	100		250	260	100	-25000
M00001	TM1	BBB	XYZ	CE		100	250	260	-100	25000
M00001	TM1	CCC	XYZ	CE	100		250	260	100	-25000
M00002	TM2*	DDD	XYZ	CE	100		250	260	100	-25000

*TM2 is clearing through different Clearing member in CM and F&O segment

3) Netted Obligation

a) At Client Level

CM Code	TM Code	Client Code	Obligation in CM Segment		Final Obligation in F&O		Netted Obligation	
			Quantity to +Receive / -Deliver	Amount +Receivable / -Payable	Quantity to +Receive / -Deliver	Amount +Receivable / -Payable	Quantity to +Receive / -Deliver	Amount +Receivable / -Payable
M00001	TM1	AAA	-80	20400	100	-25000	20	-4600
M00001	TM1	BBB	80	-20400	-100	25000	-20	4600
M00001	TM1	CCC	-100	25500	100	-25000	0	500
M00001	TM2	DDD	-80	20400	0	0	-80	20400

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CM Code	TM Code	Client Code	Obligation in CM Segment		Final Obligation in F&O		Netted Obligation	
			Quantity to + Receive / -Deliver	Amount + Receivable / -Payable	Quantity to + Receive / -Deliver	Amount + Receivable / -Payable	Quantity to + Receive / -Deliver	Amount + Receivable / -Payable
M00002	TM2	DDD	0	0	100	-25000	100	-25000

b) At TM Level

CM Code	TM Code	Obligation in CM Segment		Final Obligation in F&O		Netted Obligation	
		Quantity to + Receive / -Deliver	Amount + Receivable / -Payable	Quantity to + Receive / -Deliver	Amount + Receivable / -Payable	Quantity to + Receive / -Deliver	Amount + Receivable / -Payable
M00001	TM1	-100	25500	100	-25000	0	500
M00001	TM2	-80	20400	0	0	-80	20400
M00002	TM2	0	0	100	-25000	100	-25000

c) At CM Level

CM Code	Obligation in CM Segment		Final Obligation in F&O		Netted Obligation	
	Quantity to + Receive / -Deliver	Amount + Receivable / -Payable	Quantity to + Receive / -Deliver	Amount + Receivable / -Payable	Quantity to + Receive / -Deliver	Amount + Receivable / -Payable
M00001	-180	45900	100	-25000	-80	20900
M00002	0	0	100	-25000	100	-25000

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Annexure B

File nomenclature: CM_SA_<DDMMYYYY>_nn.csv

Where DDMMYYYY = Auction Date

and nn is batch number of file (example 01)

File upload path on Member portal/FO/extranet_upld/voluntary auction

File Format:

Sr.No	Field Name	Data Type	Size	Remarks
1	Settlement Type	Char	1	For e.g. N (Normal Market)
2	Settlement Number	Number	7	
3	Security Symbol	Char	10	
4	Security Series	Char	2	For e.g. EQ
5	CM Code	Char	6	Clearing member code of CM
6	TM Code	Char	5	Primary member code of CM
7	Filler			NULL
8	Quantity for auction	Number	7	Not exceeding the internal shortage

If file uploaded is successful and any revisions are to be made, members should upload file with next consecutive batch number. If the earlier file is rejected, then file should be uploaded with same batch number. Members should ensure that every file should contain all records.

A. Return File to member

File nomenclature: <Primary Member Code>_CM_SA_<R/S>_DDMMYYYY_nn.csv

Where DDMMYYYY = Auction Date

and nn is batch number of file (example 01)

File upload path on Member portal/FO/extranet_dnld/voluntary auction

File Format:

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Sr.No	Field Name	Data Type	Size	Remarks
1	Settlement Type	Char	1	
2	Settlement Number	Number	7	
3	Security Symbol	Char	10	
4	Security Series	Char	2	For e.g. EQ
5	CM Code	Char	6	
6	TM Code	Char	5	
7	Filler			NULL
8	Quantity for auction	Number	7	
9	Response Code	Char	2	
10	Valuation Amount in Rupees	Number	(7,2)	

Rejection Code	Rejection Reason
1	Member not permitted for auction
2	Settlement type mentioned in detailed record is not eligible for auction.
3	Mismatch in file nomenclature date and auction start date for mentioned settlement type number combination in detail record
4	Invalid Batch Number
5	Obligation not yet generated for mentioned settlement type number combination in detail record
6	Symbol series combination mentioned in detail record not valid on T day
7	Security not eligible for auction at permitted Exchange
8	Invalid CM code or Primary Member Code
9	Invalid quantity mentioned in file
10	Quantity mentioned not in accordance with market lot
11	Invalid detail record format
12	Window closed for settlement type and number
13	Security not eligible in auction
14	Duplicate Record

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Annexure C

Example of benefit in margins

1) Offsetting positions & EPI of securities		
Description	CM	F&O
CM Code	M50001	M50001
TM Code	TM1	TM1
Client Code	AAA	AAA
Symbol	XYZ	XYZ
Buy Qty	80	0
Buy Value	20,400.00	0.00
Sell Qty	0	100
Sell Value	0.00	25,500.00
Net Quantity to Receive (+) / Deliver (-)	80	-100
Net Value Receivable (+) / Payable (-)	-20,400.00	25,500.00
Eligible for offsetting	YES	
Offsetting positions	-80	80
Value of offsetting positions	20,400.00	-20,400.00
Net Qty after offset	0	-20
Net Value after offset	0.00	5,100.00
EPI of Securities	0	5
EPI of Funds	0.00	0.00
Net Qty after offset & EPI	0	-15
Net Value after offset & EPI	0.00	3,825.00
Total Margin rate	20%	
Close price of Symbol XYZ	265.00	
CM segment - Margins	0.00	N.A
CM segment - MTM Profit (+) / Loss (-)	0.00	N.A
CM segment - Total Margins	0.00	N.A
F&O segment - Margins	N.A.	765.00
F&O segment - MTM Profit (+) / Loss (-)	N.A.	-150.00
F&O segment - Delivery Margins	N.A.	915.00

2) Offsetting positions & EPI of funds		
Description	CM	F&O
CM Code	M50001	M50001
TM Code	TM1	TM1
Client Code	BBB	BBB
Symbol	XYZ	XYZ
Buy Qty	100	0
Buy Value	25,500.00	0.00
Sell Qty	0	80
Sell Value	0.00	20,400.00
Net Quantity to Receive (+) / Deliver (-)	100	-80
Net Value Receivable (+) / Payable (-)	-25,500.00	20,400.00
Eligible for offsetting	YES	
Offsetting positions	-80	80
Value of offsetting positions	20,400.00	-20,400.00
Net Qty after offset	20	0
Net Value after offset	-5,100.00	0.00
EPI of Securities	0	0
EPI of Funds	1,000.00	0.00
Net Qty after offset & EPI	16	0
Net Value after offset & EPI	-4,100.00	0.00
Total Margin rate	20%	
Close price of Symbol XYZ	265.00	
CM segment - Margins	820.00	N.A
CM segment - MTM Profit (+) / Loss (-)	160.78	N.A
CM segment - Total Margins	820.00	N.A
F&O segment - Margins	N.A.	0.00
F&O segment - MTM Profit (+) / Loss (-)	N.A.	0.00
F&O segment - Delivery Margins	N.A.	0.00

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Annexure D

1) Netted Detailed final obligation report to Trading member and Clearing member:

File Name for Clearing Member / Custodian:

<XXXXX>_DNETOBLG_SETTYPENO_DDMMYYYY.csv

File Name for Trading Member:

<XXXXX>T_DNETOBLG_SETTYPENO_DDMMYYYY.csv

Where:

- <XXXXX> is the Member code / Custodian Code
- SETTYPENO will be of Capital Market segment
- DDMMYYYY is the date of report generation

Settlement Type
Settlement Number
CM Code / Custodian Code
TM Code / CP Code
Client Code
Security Symbol
Security Series
Net Qty to Receive/-Deliver (CM Segment)
Net Value (CM Segment)
Net Qty to Receive/-Deliver (F&O Segment)
Net Value (F&O Segment)
Net Qty to Receive/-Deliver
Net Value

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2) Netted final obligation report to Clearing member:

File Name for Clearing Member / Custodian:

<XXXXXX>_NETOBLG_SETTYPENO_DDMMYYYY.csv

Where:

<XXXXXX> is the Member / Custodian Code

SETTYPENO will be of Capital Market segment

DDMMYYYY is the date of report generation.

Settlement Type
Settlement Number
Security Symbol
Security Series
Net Qty to Receive/-Deliver (CM Segment)
Net Value (CM Segment)
Net Qty to Receive/-Deliver (F&O Segment)
Net Value (F&O Segment)
Net Qty to Receive/-Deliver
Net Value

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Annexure E

Sr no	Name	File name
1	Stamp Duty on Auction buyer for physical shortage	NCL_FO_SD05_<MEMBER CODE>_DDMMYYYY.CSV
2	Auction Square Off Report to delivering member	NCL_FO_<MEMBER CODE>_ASQR_D_DDMMYYYY.csv
3	Auction Square Off Report to receiving member	NCL_FO_<MEMBER CODE>_ASQR_R_DDMMYYYY.csv
4	Auction Difference Report	NCL_FO_<MEMBER CODE>_ADIF_DDMMYYYY.csv
5	Security Shortage report to receiving member	NCL_FO_<MEMBER CODE>_SHRT_R_DDMMYYYY.csv
6	Security Shortage report to delivering member	NCL_FO_<MEMBER CODE>_SHRT_D_DDMMYYYY.csv
7	CTM position Member Download	NCL_F_CTM_<MEMBER CODE>_DDMMYYYY.CSV
8	Do not Exercise request Upload	NCL_F_CTM_<MEMBER CODE>_DDMMYYYY.Tnn
9	Do not Exercise request response	NCL_F_CTM_<MEMBER CODE>_DDMMYYYY.Snn or Rnn
10	Early pay-in of securities upload	NCL_CLNTEPI_F_YYYYMMDD.Ynn
11	Early pay-in of securities response	NCL_<Memcode>_CLNTEPI_F_YYYYMMDD.Snn or Rnn
12	Delivery Report in F&O Segment	F_<MEMBER CODE>_DLVR_SETTYPNO_DDMMYYYY.csv