



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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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.

¹ Depending on the phase