Annexure A

GUIDELINES/CLARIFICATION ON MARGIN COLLECTION AND REPORTING

1. Margins required to be collected by Clearing Members from Trading Members and Custodial Participants in Capital Market & Derivatives Segment

A. Capital Market Segment

In Capital Market segment, Clearing Members (CMs) are required to mandatorily collect VaR margins and Extreme Loss Margin (ELM) from their Trading Members (TMs) and Custodial Participants (CPs) on an upfront basis. Other margins such as 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 TMs/CPs. The period of T+2 days has been allowed to CMs to collect margin from TMs/CPs taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that TM/CPs have been allowed 2 days to pay margin due from them. The TM/CM shall be exempted from collecting upfront margins from the institutional investors carrying out business transactions and in cases where early pay-in of securities is made

B. F&O segment

In the F&O segment, it is mandatory for CMs to collect Initial Margin & ELM from respective TMs/CPs on an 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 TMs/CPs by T+1 day.

C. Currency Derivatives segment

In case of Currency Derivatives segment also, it is mandatory for Trading Members to collect Initial Margin and ELM from TMs/CPs 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 TM/CPs by T+1 day. However, in case of currency future contracts, final settlement amount shall be collected by T+2 day.

D. Commodity Derivatives Segment

Initial Margin and ELM shall be collected from TMs/CPs 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 the TMs/CPs.

2. Form of collection of margins by Clearing Members in all segments

CMs may collect the margins from its respective TMs/CPs, 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 Clearing Corporations (including Commodities)
- Bank guarantee received towards margin, issued by any scheduled commercial bank and approved in accordance with the risk management policy of the CM
- Fixed Deposit Receipts (FDRs) received towards margin issued by any scheduled commercial bank and approved in accordance with the risk management policy of the CM
- Securities in dematerialized form actively traded on the National Exchanges, which are liquid securities traded on in any of the Exchanges, with appropriate haircut.
- Units of 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.
- Securities, which are provided as margin, but are sold in the cash market can be considered up-to T+1 end of the day from the date of sale.
- Any other such collaterals, as may be specified by clearing corporation from time to time

3. Manner of collection of margins on Consolidated Crystallised Obligation in F&O and Currency Derivatives segment

The CMs are required to collect margins on Consolidated Crystallised Obligation from its respective TMs/CPs only in the form of Cash (and not in the form of FDRs/BGs or any other form of collateral) in the F&O and Currency Segment (except for physical settlement component on expiry of the contract, as may be specified by Clearing Corporation).

4. Adjustment of margins on Consolidated Crystallised Obligation with T+1 day obligations

T-day margin on Consolidated Crystallised Obligation has to be collected by T+1 day in Cash and cannot be set off against margins on Consolidated Crystallised Obligation of T+1 day.

5. Exemption in case of Early Payin (EPI) of securities / funds

CM shall not be required to collect upfront margins, for which early pay-in of securities/funds is made by TMs/CPs to the CM on the date of execution of the transaction.

In case of EPI to Clearing Corporation, the sale value of such securities, as reduced by value of the upfront Margin (i.e. VAR + ELM component), exempted in CM segment due to such EPI, shall be available as Margin, for other positions across all the segments up-to T+1 end of the day. For availing margin benefit against early pay-in to Clearing Corporation, the CM shall provide details of the TMs / CPs / clients for whom the early pay-in has been made to the Clearing Corporation.

Illustration is mentioned below:

Day	Transaction	Scrip	Value	VAR and ELM(Value)	Upfront margin
T day	Sell	ABC Ltd.	100	20	Nil (Since EPI is made to CC on T day)
Note: In this case, member can consider 80 (100-20) as margin for other positions across all the segments up-to T+1 day.					

6. Procedure for valuation of Securities

For the purpose of margin collection and reporting, the CM may compute the value of such securities as per the closing rate on T-1 day or more frequent interval as per the risk management policy of the CM as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security on that day.

7. Methodology to be adopted while considering 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 considering margins collection and reporting from TMs/CPs. Such units should be available with the CM 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.

8. Methodology to 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 CM may also be considered while reporting margin collection to the CC.
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 at a rate not less than the VAR margin rate of the security on that day

9. Precautions to be taken in case of securities expected to be received in pay-out

Only free and unencumbered balances of securities available with the CM for respective TMs/CPs in different segments shall be considered for margin collection and reporting. Accordingly, securities received in pay out shall be considered only after it is actually received from the clearing corporation. However, funds pay- in received from TMs/CPs for such securities may be considered while calculating the ledger balance for the purpose of reporting of margins.

10. Recovery of penalties for short reporting of upfront margins/ margins on Consolidated Crystallised Obligation from TMs/CPs

The penalty levied by the Clearing Corporation on the CM for short reporting of TMs/CPs upfront margins/ margins on Consolidated Crystallised Obligation and attributable to failure on the part of the TMs/CPs, can be passed to the TMs/CPs, provided the CM has evidences to demonstrate failure on part of the TMs/CPs to pay the margin.

11. Requirement for a Risk Management Policy

The Clearing Member shall be required to have a Risk Management Policy (RMP) in place. The RMP should be duly approved by the Board / Board approved Authority/ Committee (for corporate members) and by the managing partners in case of partnership firm and shall inter alia include the following:

i. Internal escalation matrix with respect to non-compliances / defaults by TMs/CPs
ii. Performance evaluation process of TMs/CPs registered with the CMs including its periodicity
iii. Seeking data information from TMs/CPs in the event of repeated cases of shortfall in margins / margins on Consolidated Crystallised Obligation or governance issues
iv. Procedures for segregation of TM proprietary and Client collaterals
v. Inspection of TMs
vi. Upper Cap for acceptance of securities from a member and / or across all members in absolute terms and / or on an overall basis to avoid concentration risk
vii. List of banks from which FDRs and BGs shall be accepted
viii. List of securities that shall be accepted as collaterals
ix. Components of cash collateral and non cash collateral
x. Ratio of Cash and Non cash component of collateral
xi. Haircut percentage for all types of collaterals other than Cash, FDRs and BGs.
In this regard, Securities subject to a minimum of VAR. and other collateral shall be subject to minimum haircut of 10%
xii. Timelines and threshold limits beyond which action such as square off of positions shall be undertaken by CM for non-payment of margins on Consolidated Crystallised Obligation by the TMs/CPs.