भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

CIR/HO/MIRSD/DOP/CIR/P/2019/139 November 19, 2019

To

The Managing Directors / Chief Executive Officers of

All Recognized Stock Exchanges

All Recognized Clearing Corporations

Dear Sir / Madam,

Subject: Collection and reporting of margins by Trading Member (TM) /Clearing Member (CM) in Cash Segment

1. Attention is drawn to SEBI circular no. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005 on 'Comprehensive Risk Management Framework for the Cash Market'.

2. SEBI has also put in place a 'Mechanism for regular monitoring of and penalty for short-collection/ non-collection of margins from clients' in Derivatives segment by issuing the following circulars:
    2.1. Circular No. CIR/DNPD/7/2011 dated August 10, 2011
    2.2. Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 07, 2016 directed to all National Commodity Derivatives Exchanges, and
    2.3. Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019.

3. Further, SEBI vide circular no. SEBI/HO/MIRSD/DOP/CIR/P/2019/14 dated January 11, 2019 implemented uniform membership structure in Cash segment as Trading Member (TM), Self-clearing Member (SCM), Clearing Member(CM) and Professional Clearing Member (PCM) as prevalent in the equity derivatives segment.

4. In cash segment, the VaR margin is collected by Clearing Corporation (CC) upfront from trading member/clearing member by adjusting against the available liquid assets of TM/CM at the time of trade. However, the quantum, form and mode of collection of the margin from the client is left to the discretion of TM/CM. 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, following guidelines are issued:

4.1. Collection of margins from the clients by TM/CM in cash segment:

4.1.1. The ‘margins’ for this purpose shall mean VaR margin, extreme loss margin (ELM), mark to market margin (MTM), delivery margin, special / additional margin or any other margin as prescribed by the Exchange to be collected by TM/CM from their clients.

4.1.2. Henceforth, like in derivatives segment, the TMs/CMs in cash segment are also required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs/CMs will have time till ‘T+2’ working days to collect margins (except VaR margins and ELM) from their clients. (The clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by the Stock Exchanges/TMs/CMs. The period of T+2 days has been allowed to TMs/CMs to collect margin from clients 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 clients have been allowed 2 days to pay margin due from them.)

4.1.3. As prescribed in clause 7 of SEBI circular MRD/DoP/SE/Cir-07/2005 dated February 23, 2005, 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 by the clients.

4.1.4. If the TM/CM had collected adequate initial margins from the client to cover the potential losses over time till pay-in, he need not collect MTM from the client.

4.1.5. As like in derivatives segments, the TMs/CMs shall report to the Stock Exchange on T+5 day the actual short-collection/ non-collection of all margins from clients.

4.2. Penalty structure for short-collection/non-collection of margins and false/incorrect reporting of margin collection from the clients by TMs/CMs:

4.2.1. For short-collection / non-collection of client margins, the Stock Exchanges shall take the disciplinary action as per the framework specified in SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011.

4.2.2. For false/incorrect reporting of margin collection from the clients by TMs/CMs, the Stock Exchanges shall take disciplinary action as per the framework specified in SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019.

5. The provisions of paragraph 4.1 of this circular shall come into force with effect from January 01, 2020 and provisions of paragraph 4.2 of this circular shall come into force with effect from April 01, 2020**.**

6. Stock Exchanges and Clearing Corporations are directed to:

6.1. bring the provisions of this circular to the notice of their members along with illustration as required and also disseminate the same on their websites.

6.2. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above directions in co-ordination with one another to achieve uniformity in approach.

6.3. communicate to SEBI, the status of the implementation of the provisions of this circular in their monthly development reports.

7. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 and Section 10 of Securities Contract (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

8. This circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework".

Yours faithfully,

Rajesh Kumar D

General Manager

Market Intermediaries Regulation and Supervision Department