SECURITIES AND EXCHANGE BOARD OF INDIA
SECONDARY MARKET DEPARTMENT
Mittal Court, A Wing, Gr. Floor,
224, Nariman Point, Mumbai 400 021

SMDRP/POLICY/CIR-19/99
July 02, 1999

To:

The President/ Executive Director/ Managing Director
All Stock Exchanges

Sub: Rationalisation of the existing Margin System

Dear Sir/ Madam,

Different margins have evolved/ were prescribed by SEBI, at different points of time keeping in view the requirements and exigencies of the prevailing situations. Though the existing margin system has been working well, it was felt that there were certain variations in the implementation of various margins by the exchanges. SEBI had constituted a committee comprising of SED, Shri L K Singhvi, ED, Shri Pratip Kar, ED Shri M D Patel and some representatives of the exchanges, to review, rationalise and streamline the margining system. The committee met from time to time and the following decisions have been taken.

Mark-to Market Margin

Computation

i. Mark to Market Margin is to be calculated by marking each transaction in a scrip to the closing price of the scrip at the end of trading. For the trading cycle in progress, the Mark to Market values for scrips showing losses are to be taken into account and Mark to Market values for scrips showing profits are not to be taken into account.
ii. After close of a trading cycle, Mark to Market margin would continue to be computed in respect of transactions of the closed trading cycle till its funds pay-in day. However, for Mark to Market margin for the closed cycle computed during this period, Mark to Market losses in a scrip may be netted against Mark to Market profits in other scrips.
iii. It is clarified that margins shall be calculated separately for the two trading cycles. Credit for Mark to Market profits of the closed trading cycle may not be given against Mark to Market losses of the current trading cycle.

Sale for Delivery

iv. Transactions of sales for delivery would be exempt from payment of Mark to Market margin, subject to the condition that exemption shall be given only after the delivery is submitted to the Clearing House/ Clearing Corp. of the exchange and NOT on the basis of mere declaration that the sale is for delivery.
v. It is further clarified that

   - Exemption is to be given only to the extent of loss incurred on the sale position, for which delivery has been given and NOT to the extent of value of shares delivered.
   - In case delivery is given at a date later than when the margin payment is due, margin would first be collected in full, and credit for the margin amount would be given on deposit of delivery. However, margin once collected will not be refunded before the pay-out day.

     If a member subsequently squares up his sale position after availing exemption for margin by depositing delivery, then the reverse purchase position would be treated as a fresh position for margin calculations.

Collection and Release

i. Margins due should be collected by the exchanges on T+1 basis.
ii. The margin is to be collected in the form of cash/ Bank Guarantee (BG)/ FDR only.
iii. The margin collected for a trading cycle is to be released in the pay-in of the corresponding settlement.

Volatility Margin

Volatility margin was prescribed in June 1998 to curb excessive volatility in the market and to act as a deterrent to building of excessive outstanding positions. Since imposition of this margin, the volatility in the market has reduced. However, it was felt that this margin addressed volatility over a very short period of one week only. With the objective of addressing volatility over short term as well as a longer period of 6 weeks, volatility will be computed on a rolling basis over a period of preceding 6 weeks.

Computation

i. **Volatility percentage = { (6 week high – 6 week low)/ 6 week low[3] } * 100%**
ii. Volatility margins would be imposed as follows:

Volatility in percentage terms	Percentage of volatility margin applicable
40% and above but less than 50%	5%
50% and above but less than 70%	10%
70% and above but less than 90%	15%
90% and above	20%

iii. The Volatility Margin is to be computed for the net outstanding position of the broker in each scrip. For a net outstanding position in a scrip against which Mark to Market as well as Volatility Margin are payable, higher of the two should be collected.
iv. For scrips which attract volatility margin, higher of volatility margin and Mark to Market should be charged, irrespective of whether the scrip is attracting any other margin e.g. gross exposure/ daily margin etc.
v. Volatility Margin collected for a trading cycle is to be retained by the exchange till the pay-in day of the corresponding settlement.
vi. Volatility Margin is to be charged only during the trading cycle in which it is applicable. However, for the last day of a trading cycle, Volatility margin is to be collected on the first day of the subsequent trading cycle e.g. for a Monday to Friday trading cycle, margin applicable for Friday trading, is to be collected on Monday.

Applicability

vii. Volatility Margin would not be applicable for scrips priced below Rs.40.
viii. The margin would be payable on the outstanding positions commencing with the first day of the trading cycle and the same rate would be applicable for the entire trading cycle.
ix. In Modified Carry Forward System, the positions carried forward would attract volatility margin on the first day of the subsequent trading cycle. The volatility margin to be retained by the exchange after close of a trading cycle, up to the pay-in day of that trading cycle would be computed on the post badla delivery figures.

Collection and Release

x. The margin collected would be due for release in the pay-in of the relevant settlement cycle. i.e. Credit for Volatility Margin collected in the preceding trading cycle would not be available against Volatility Margin requirements of the current trading cycle.
xi. The margin is to be collected on T+1 basis in the form of cash/ BG/ FDR only.

Concentration Margin and Margin on Net Exposure

Based on the overall assessment of risk and the rationalisation of the margin system it has been decided that concentration margin and Margin on Net Exposure were no longer necessary and may be discontinued.

90 day Special Margin

Vide SEBI circular no. SMD/SED/RCG/271/96 dated Jan 19, 1996, a special margin is imposed on sellers for a period of three months in respect of undelivered quantity of shares in newly listed and other scrips where price manipulation is noticed. This margin may be dropped, in view of the system of immediate auctions now in place.

Base Capital and Additional Capital

i. The exchanges which have complied with the SEBI circular no. SMD/SED/RCG/270/96 dated Jan 19, 1996 and have doubled their Base Capital, are required to maintain Base Capital in the proportion of minimum 12.5% cash and another minimum 12.5% in cash and/or FDR. Balance 75% of Base Capital may be maintained in cash/ FDR/ BG/ Securities. Other exchanges will maintain Base Capital in the proportion as prescribed by SEBI circular no. SMD/SED/CIR/93/22570 dated Oct 21, 1993.
ii. Additional Capital may be deposited in the form of cash/ BG/ FDR/ Securities subject to the condition that securities shall not exceed 75% of the total Additional Capital in any case.
iii. For the securities component, while accepting shares, only those scrips should be accepted as part of Base Capital / Additional Capital which are part of the BSE Sensex/ S&P CNX Nifty/ BSE 100/ CNX Nifty Junior/ BSE 200/ CNX Midcap 200. The scrips, which are in compulsory demat trading for all investors, should be accepted in demat form only. Exchanges are required to comply with this requirement within three months of this communication.
iv. Valuation of securities deposited as Base Capital / Additional Capital should be done at least once a month. Where valuation of securities is done at least on a weekly basis, the valuation may be done at a haircut of 15% to market value. In all other cases valuation should be done at a haircut of 30% to market value.

Adjustment of Additional Capital

After meeting the requirements of Gross Exposure, excess additional capital lying with the exchange in the form of cash/ BG/ FDR may be utilised for meeting margin requirements.

Early Pay-in of funds/securities

In cases where early pay-in of securities or funds is made, the outstanding position to the extent of early pay-in will not be considered for computing mark to market margin and volatility margin. It will also not be counted for the purpose of exposure limits. Consequently, set off for profit on such positions will also not be given for Mark to Market computation.

Incremental Carry Forward Margin

Incremental Carry Forward margin was implemented in June 1998, wherein for every 1%, or part thereof, increase in the carry forward position of a scrip over 3% of the total number of share paid-up, a 10% margin is levied on incremental basis. As against the flat rate of 10%, incremental margin will now be charged on a graded scale.

In case the carry forward position in any exchange, in any scrip, exceeds 3% of the total number of shares paid up, a margin will be levied for further increase in the carry forward position as follows, in addition to the daily and carry over margins:

Carry Forward position	Total Incremental margin
Exceeding 3% going up to 4%	5%
Exceeding 4% going up to 5 %	8%
Exceeding 5% going up to 6%	12%
Exceeding 6% going up to 7%	17%
Exceeding 7% going up to 8%	23%
Exceeding 8%	30%

Once this margin is imposed by any one exchange, the other exchanges with MCFS will also follow the same from the start of the next settlement. The margin is to be collected on T+1 basis in the form of cash/ BG/ FDR only.

<u>Margin Threshold</u>

The margin payable towards Mark to Market Margin, Volatility Margin and Incremental Carry Forward Margin shall be payable in full and there shall be no threshold or exemption limit.

It may be noted that the margins prescribed by SEBI are the minimum margins which exchanges are required to collect. **It is again emphasised that risk management is primarily the responsibility of stock exchanges. In cases of excessive market volatility or circumstances where risk element is higher, exchanges are expected to impose higher margins and/or additional margins in the form of special/ ad-hoc or other margins as considered appropriate by the exchanges.**

Other existing margins presently being collected by exchanges, which have not been addressed above, will continue without dilution till a final decision is taken by SEBI on the same and communicated to the exchanges.

Exchanges having a daily turnover of more than Rs.100 crore are expected to have facility of on-line monitoring of mark to market margin

Exchanges are advised to implement these decisions at the earliest but not later than from the first settlement immediately after July 31^{st}, 1999.

Yours sincerely.

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and Publications Department
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