NCCL
NCDEX Group Company

NATIONAL COMMODITY CLEARING LIMITED

Frequently Asked Questions – Client Margin Reporting **Version 2.0**

Index

1. **What is Initial Margin for margin reporting system?**

   The margin collected upfront for taking long/short position is referred to as Initial Margin. Both Extreme Loss Margin and VaR Margin levied by NCCL based on volatility forms part of the Initial Margin.

2. **What are 'Other' Margins?**

   'Other' margins include Additional/ Special/ Ad hoc margin (Cash or Non-Cash), Pre expiry margin, Delivery Margin, Concentration margin or any other margin as may be specified by NCCL from time to time.

3. **What is Mark-to-Market (MTM) margin?**

   Mark-to-Market loss calculated at the end of each trading day is termed as mark-to- market margin.

   Mark to Market loss is calculated by marking all the positions in the futures contracts to the daily settlement price of the futures contracts at the end of each trading day. The profits/ losses are computed as the difference between the trade price or the previous day's settlement price, as the case may be and the current day's settlement price. In case the net outstanding position in any futures contract is nil, the difference between the buy and sell values is considered as notional loss for the purpose of calculating the mark to market margin payable.

4. **Whether collection of all margins from clients is compulsory?**

   It is mandatory for Members to collect all types of margins i.e. Initial Margins, Other margins and MTM margins from respective clients/ constituents within prescribed timelines.

5. **When should a member collect Initial Margins from clients?**

   It is mandatory for Members to collect Initial margins from respective clients/constituents on an **upfront basis** i.e. in advance of trade.

6. **What is the Cut off time for determining minimum threshold of margins to be collected from clients for contracts having trading hours beyond 5:00 PM?**

   For the purpose of determining minimum threshold of margins to be collected by members from their clients, cut off time shall be 5:00 PM. Accordingly, for the purpose of determining minimum threshold of margins to be collected from clients: -

   a. With respect to Var margins, VaR Margins percentage applicable at the above mentioned cut off time shall be applied on clients 'EOD portfolio.

b. With respect to ELM margins, the EOD client portfolio shall be valued at the half an hour weighted average trade price arrived at cut-off time mentioned above.

7. **Whether any separate report will be provided to the members considering the Cut off time for determining minimum threshold of margins to be collected from clients?**

   Yes, additional reports on Margin Reporting for Clearing member (MG 18) and Margin Reporting for Trading Member (MG 19) shall be provided giving details of minimum threshold of margins to be collected from clients considering the new cut off time. The same shall be used by members for the purpose of Margin Reporting to NCCL. The current process of margin reporting will continue to remain same.

8. **Whether MTM profits of 'T' day can be considered towards collection of Initial Margin of 'T' day?**

   No. It is mandatory for Members to collect Initial margins from respective clients/Constituents on an **upfront basis** i.e. in advance of trade.

   However, MTM profits of 'T' day can be considered only towards margin reporting of 'T+1' day and onwards.

9. **What in case client wishes to trade in evening session but is not able to provide initial margins as the banks and depositories are closed?**

   It is mandatory for Members to collect initial margins from respective clients/ constituents on an upfront basis i.e. in advance of trade. Accordingly, in case client wishes to trade in evening session they should make necessary provision in advance to meet initial margin requirement.

10. **Whether RTGS/NEFT/Online transfers received on T+1 day can be considered towards Initial Margin for 'T' day?**

    No

11. **When should a member collect 'Other margins' and MTM margin from clients?**

    Members should collect all other margins and MTM margin from respective clients/ constituents promptly and as soon as margin calls are made by Exchanges or CC / Members and will have time only till 'T+2' working days to collect such margins from clients.

    The period of 'T+2' working days has been allowed to members 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.

12. If the position is squared off on the next day, whether the margins so released can be used for reporting of Other Margin & MTM loss?

Yes. Balance available in client's Ledger due to square off of position can be used for reporting against Other Margin & MTM loss for 'T' day.

13. Can a member collect extra margins than prescribed by Clearing Corporation from their clients/constituents?

Members can collect additional amounts towards margins as per their system of risk management to protect themselves from constituent level default.

14. Is margin reporting applicable for all types of margins?

Yes. The margin reporting mechanism is applicable for all types of margins i.e. Initial Margin, Other Margin and MTM Margin.

15. In what form can a member collect margin from its constituents and how are they to be valued?

NCCL through its circular No. advised NCCL/RISK-001/2018 dated September 26,2018 members that margins collected from clients should be in such forms which are highly liquid and are owned by the depositing client. NCCL further advised members to not accept collaterals such as third party collaterals, immovable properties and other illiquid collaterals towards settlement/ margin requirements of their clients.

Members may collect margins from its respective client, in any of the following form, after taking into account their risk management policy and liquidity aspects.

i. Free and unencumbered Balances (funds and securities) available with the Member
ii. Cash (by way of cheques, bank transfer etc.)
iii. Cash Equivalent:
   a) Bank Guarantee (BG): Bank guarantee received towards margin, issued by any approved bank and discharged in favor of the Member.
   b) Fixed Deposit Receipt (FDR): Fixed deposit receipts (FDRs) received towards margin issued by any approved bank and lien marked in favor of the Member.
   c) Government of India Securities (GOISEC) in electronic form with appropriate haircut.

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iv. Securities in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges with appropriate haircut.
v. Units of liquid mutual funds in dematerialized form, who's NAVs are available and which could be liquidated readily with appropriate haircut.
vi. Commodities actively traded on the National Commodity Exchanges with appropriate haircut.

Members, while accepting collaterals from their clients, may ensure that such collaterals are free from any encumbrance and in sufficiency, liquid form, so that the same are readily available for encashment in the event of client default.

16. Can securities other than those in the approved list of securities be considered while reporting margin collection to the Exchange?

Liquid securities, in dematerialized form, actively traded on the National level Stock Exchanges, which are specifically not declared as illiquid securities by any Exchanges and are received from the respective client, may be considered by the member while reporting margins to the Exchange.

17. What is the procedure for valuation of Securities?

For the purpose of client Margin collection and reporting, the member shall compute the value of such securities as per the closing rate on T-1 day as reduced by the appropriate haircut at rate not less than the VAR margin rate (as announced by National level Stock Exchanges) of the security on that day i.e. T-1 day.

18. What precautions are to be kept in mind in case of cheques received from Clients?

i. It is mandatory for members to collect initial margins from respective clients/constituents on an upfront basis.
ii. For other margins and MTM margin, the cheques received/ recorded in the books of Member on or before T+2 day and deposited by member by T+3 day (excluding bank holiday, if any) and cleared subsequently, can be considered.
iii. Member shall report the margin collected from such client after considering the effect of such cheque, if the same is cleared within T+5 days.
iv. Only cheques which are cleared should be considered and cheques dishonored or not cleared up to T+5 working days should not be reported as margin collected.
v. If subsequent to the margin reporting by the Member, the cheque deposited by the Member is dishonored or not cleared within T+5 working days, then revised margin file

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shall be uploaded after factoring into the effect of such dishonored or non-cleared cheques, within the above mentioned five days.

19. If cheque which is collected within timelines is replaced by new cheque or RTGS/online transfer after prescribed timelines, can it be considered towards margin collection?

No. The margin should be collected as per prescribed time lines.

20. Is it mandatory to collect Cash Margin in cash from the clients?

Cash Margin can be collected only in form of Cash (by way of cheques, bank transfer, etc.) or Fixed deposit receipt from the clients.

21. Whether margin reporting is applicable for proprietary code?

NCCL shall provide margin details of 'Pro' account in the file. However, margin reporting for 'Pro' account is optional for members and non-reporting shall not be taken into account for the purpose of levy of penalty.

The reporting of short/ non-collection of margins applies to collection of margins by members from their clients. In case of a trading member who trades on his own account, the Member is the end beneficiary hence the requirement for margin collection and reporting does not arise.

22. What are the related entities for a client, whose balances can be considered for collection and reporting margin?

Members should not allow adjustments for any inter family /Group company / related accounts for margin reporting.

23. How should the member report margin collected from the client?

The details of client code wise initial margin, other margin and MTM margin will be made available in NCFE to all members on daily basis. Members have to download file from NCFE and update details as per following file format:

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Will be provided by the Exchange						To be updated by member		
A	B	C	D	E	F	G	H	I
Trade Date 'T'	**Member ID**	**Client Id**	**Initial Margin**	**Other Margins**	**MTM (Profit)/ Loss**	**Upfront Initial Margin collected from clients**	**Other margins collected from clients by 'T+2' day**	**MTM (Profit)/Loss collected from clients by T+2 day**
Date	Member Code	Client Code	For 'T' Day	For 'T' Day	For 'T' day	Collected from client on	Collected from client by	Collected from client by 'T + 2' day

- T' is the Trade date
- Each row of the file provides the details of Initial margin , Other margins and MTM margin as at EOD for a client code, as per the code entered by the member.
- Members are required to update amount collected figure at the end of each row (for each client) in the file representing the actual Initial margin, Other margin and MTM margin collected from that client as the case may be.
- These figures for amount collected, appended by the member should not be negative.
- The initial margin collected on upfront basis from client on 'T' day or prior towards obligation of 'T' day is to be reported in column 'G'.
- The other margins collected from clients by 'T+2' days towards obligation of 'T' day is to be reported in column 'H'.
- The **MTM loss** will be shown in positive and profit in negative in the above report. MTM loss collected from clients by 'T+2' days towards obligation of 'T' day is to be reported in column 'I'.
- Members are required to ensure that no information provided by the Clearing Corporation in the above file is modified.
- The file is to be uploaded in NCFE within 5 working days from 'T' day i.e. members can start reporting from T+1 day and can revise the record till T+5 day.
- Where multiple times files are uploaded/records modified for a trade day 'T', the information of client margin collected as provided in the latest file would be considered as final. Based on the latest file / updated record, shortfall will be computed.
- The working day excludes Saturday, Sunday, or a holiday at the Exchange, Clearing Banks.

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24. Is reporting of trading member to be done by trading member itself or by clearing member?

The reporting is to be done by the Trading Member for its clients. The Clearing Members under category STCM and PCM shall report the margin collection for all the members where it has undertaken to clear on their behalf.

25. What does short-collection of margin mean?

In case a member fails to collect requisite margin from the respective client/constituent and reports to NCCL that margin collected from client is less than the actual amount of margins required to be collected, it is termed as short-collection of margin and shall attract applicable penalty.

Short-collection of Margin = Amount of margin required to be collected – Amount of margin actually collected and reported.

All instances of non-reporting of client margins by members shall be treated as short-collection/ non-collection of client margins.

26. Are there any penalties levied in case of short-collection/ non-collection of margin?

The following penalty will be levied in case of short-collection by member per instance. The amount of penalty as indicated below:-

For each member	
Short – collection/Non-collection of margins 'a'	**Penalty as % of 'a'**
(<Rs 1 lakh) And (< 10% of applicable margin)	0.5
(>=Rs 1 lakh) Or (>= 10% of applicable margin)	1

i. If short-collection/non-collection of margins of a client continues for more than three consecutive days, then a penalty for 5% of the shortfall amount shall be levied for each day of continued shortfall beyond 3rd day of shortfall.

ii. All instances of non-reporting shall amount to 100% non-collection of margin and the penalty as prescribed above shall be charged on these instances in respect of non-collection.

iii. With respect to repeated defaulters, clients who default 3 times or more during a month, the penalty would be 5% of the shortfall in such instances beyond 3rd instance of shortfall.

iv. Every Short/non- collection of margin is to be considered as one instance of default. In case margin shortage is reported for a client 3 times or more during a month i.e. either in consecutive instances or 3 different instances, the penalty would be 5% of the shortfall from 4th instance of shortfall. E.g. shortage is reported for a client on 1st and 2nd day of month consecutively; thereafter again on 10th day shortage is reported. So the numbers of instances are 3 and in case shortage is reported on any day later in the month, the penalty shall be 5% of the shortfall amount for all such instances beyond the 3rd instance.

v. The penalties along with GST shall be collected within five days of the last working day of the trading month.

27. What does false reporting of margin (Non-Compliance) mean?

Where the Margin has not been collected by the Member in any of the modes prescribed above, however the same has been reported by the member as margins collected, it would be construed as false reporting to NCCL If during inspection or otherwise, incorrect reporting on collection of margin from client by member is found, the member shall be **penalized up to 100%** of such amount short collected.

28. In case of short-collection of margin can member pass on the penalty to the clients?

Where the penalty levied by NCCL on the member for short-collection of client margin is attributable to failure on the part of the client to pay margins as required, member may pass on the actual penalty to the client, provided he has evidence to demonstrate that the client has not made payment of the margins as required. Wherever penalty for short-collection of margin is being passed on to the client relevant supporting documents for the same should be provided to the client.

29. Is there any reporting requirement of STCM/PCM?

The STCM/PCM shall be required to report margin collection for its Trading Member. Members have to download file from NCFE and update details as per following file format:

Will be provided by the Exchange						**To be updated by PCM/STCM**		
A	B	C	D	E	F	G	H	I

Trade Date	Clearing Member ID	Trading Member ID	Initial Margin	Other Margins	MTM (Profit) /Loss	Upfront Initial Margin collected from Trading Member	Other Margin collected from Trading Members by 'T+2'	MTM (Profit)/Loss collected from Trading Members by
Date	CMID	TMID	For 'T' day	For 'T' Day	For 'T' day	Collected from trading member on 'T' day or prior	Collected from trading member by	Collected from trading member by 'T

30. How much time is allowed for correction of technical error/s in margin reporting after the closure of 'T+5' window?

As per circular no. NCCL/CLEARING-020/2020 dated April 07,2020. Penalty is imposed only for actual short/non-collection of margins from clients. Member are advised to download penalty file after margin reporting is completed and verify the penalty levied. If member realize short/non-collection is reported on account of technical errors in reporting after the closure of 'T+5' window then member has to submit request to NCCL for acceptance of revised file by 15th day of the month of billing of the said penalty. Member are advised to place suitable internal controls to avoid any instances of technical error/s in margin reporting.

31. What are the changes in the Client Margin reporting process after introduction of Options product?

The current guidelines with respect to "Mechanism for regular monitoring of and penalty for Short-Collection Non Collection of margins from clients" is also applicable for trades executed in option contracts. Hence a penalty is levied on members for short-collection/non-collection of the initial margins from clients.

Further,

i. Penalty for short-collection/non-collection of margins from clients due to increase in initial margins resulting from devolvement of options into futures shall not be levied for the first day.

E.g. assuming the option contract expiry is on February 21, 2018. In case of devolvement of options into futures, the initial margin requirement shall increase on February 22, 2018 however no penalty for short-collection / non-collection from clients due to increase in initial margins resulting from devolvement of options into futures is applicable for the first day. This increased initial margin amount may be collected by February 23, 2018 and accordingly, the member may report the margin collected from clients after considering the effect of collection of such increased amount.

ii. Pre expiry margin on Options shall be levied on Options buyers (holders) and Options sellers (writers). The pre-expiry margin on Options shall be apart from other margins like initial margin, additional margins, spread margins etc. Pre-expiry margins shall not be included in standard client margin reporting and hence no penalty shall be levied on short collection / non-collection of the same by the members from their clients.

32. What is the impact of early pay-in of commodities on client margin reporting?

Early pay-in' facility is provided to market participants permitting them to deposit certified goods in NCCL approved warehouse against relevant Futures Contracts sold. For such short positions against which EPI has been marked, all margins except Concentration margins and MTM margin shall be exempted to the extent of early pay-in quantity and would not form part of the client margin reporting. However, Concentration margins and MTM margins on such short open position would continue to be considered for the client margin reporting.

33. What is the impact of deferred mark to market settlement in case of FPO clients?

The Members for their FPO Clients can make 'Early pay-in' of commodity at any time for a short position in a contract after the start of trading in such contract on the Exchange platform (the information will be processed at the end of day). For such short positions against which early pay-in has been made, NCCL shall exempt imposition of all types of Margins. With respect to Mark to Market Margin, NCCL continue to compute obligations at member level as per the existing process. Daily mark-to-market profit/ loss for the exempted FPO positions shall be accumulated by NCCL for a deferred settlement till the completion of delivery settlement.

On daily basis members account will be debited or credited based on the MTM for FPO client for the specific transaction against which early pay-in has been made. The member shall post such credit or debit to the account of FPO client. The MTM obligation funded by NCCL can be considered towards compliance of collection of MTM for margin reporting.

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