

NSE Clearing Limited

(Formerly known as National Securities Clearing Corporation Limited)

Department : FUTURES AND OPTIONS SEGMENT

Download Ref No: NCL/CMPT/44391

Date : May 15, 2020

Circular Ref. No: 072/2020

All Members,

Sub: Review of Margin framework for Futures & Options Segment

This is with reference to SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020 and in partial modification to Item no. 10 on Margins of the consolidated circular no. 001/2020 (Download Ref No: NCL/CMPT/43079) dated January 01, 2020.

- The changes in the margin framework are detailed in Annexure 1. The changes shall be made effective from **June 01, 2020**
- To enable members to estimate the revised margins as shall be applicable as per the revised margin framework NSE Clearing Ltd shall be providing following files in parallel from **May 18, 2020**
 - End of day parallel SPAN files
Naming convention nsccl.<YYYYMMDD>.s.parallel.spn.gz, where <YYYYMMDD> represents the current date
File Location - /FAOFTP/FAOCOMMON/ Parameter
 - End of day parallel Extreme Loss margin file
Naming convention ael_<DDMMYYYY>_parallel.csv, where <DDMMYYYY> represents the current date
File Location - /FAOFTP/FAOCOMMON/Limit Files
 - End of day client level margin files
Naming convention
F_MG13_<MEMBER CODE>_<DDMMYYYY>_parallel.LIS.gz
F_MG12_<MEMBER CODE>_<DDMMYYYY>_parallel.LIS.gz
F_MG18_<MEMBER CODE>_<DDMMYYYY>_parallel.LIS.gz
File Location - : /FAOFTP/F<MEMBER CODE>/REPORTS
- Revision in headings of file/Additional File shall be as per Annexure 2. The revised headings shall be applicable from **June 01, 2020**. The files downloaded in parallel will be as per the revised heading.

Members are requested to take note of the above.

For and on behalf of
NSE Clearing Limited
(Formerly known as National Securities Clearing Corporation Limited)

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Annexure 1
Changes in the margin framework

1. Volatility calculation

The value of λ , the parameter which determines how rapidly volatility estimation changes in the Exponential Weighted Moving Average (EWMA) method, shall be fixed at 0.995.

2. Price Scan Range

The Price Scan Range in respect of various products shall be as follows:

Product	Price Scan Range
Index derivatives	Based on 6σ , scaled up by $\sqrt{2}$ subject to at least 9.3% of the underlying price after considering scaling up. In case of index option contracts with residual maturity of more than 9 months, the price scan range shall be based on 6σ , scaled up by $\sqrt{2}$ subject to at least 17.7% of the underlying price after considering scaling up.
Single stock derivatives	Based on 6σ , scaled up by $\sqrt{2}$ subject to at least 14.2% of the underlying price after considering scaling up. The price scan range thus arrived shall be further scaled up by $\sqrt{3}$, if the impact cost of the security (as used for categorization of securities for margining in Cash Market) is greater than 1%.

3. Volatility Scan Range

The Volatility Scan Range in respect of various products shall be as follows:

Product	Volatility Scan Range
Index derivatives	25% of annualized EWMA volatility subject to minimum 4%
Single stock derivatives	25% of annualized EWMA volatility subject to minimum 10%

4. Calendar Spread Charge

The Calendar Spread Charge in respect of various products shall be as follows:

Product	Calendar Spread Charge
Index derivatives	1.75% of the far month contract
Single stock derivatives	2.2% of the far month contract

5. Short Option Minimum Charge

There shall be no separate short option minimum charge for index derivatives and single stock derivatives.

6. Extreme Loss Margin

The Extreme Loss Margin rates shall be as under:

Product	Extreme Loss Margin
Index derivatives	2% of the notional value
Single stock derivatives	3.5% of the notional value

Notes:

1. In case of calendar spread positions in futures contracts, extreme loss margin shall be levied on one third of the value of the open position of the far month futures contract.
2. In case of index options contracts that are deep out of the money (i.e., strikes out of the money by more than 10% from the previous day closing underlying price), the applicable Extreme Loss Margin shall be 3%.
3. In case of index option contracts with residual maturity of more than 9 months, the applicable Extreme Loss Margin shall be 5%.
4. In case of single stock options contracts that are deep out of the money (i.e., strikes out of the money by more than 30% from the previous day closing underlying price), the applicable Extreme Loss Margin shall be 5.25%.

7. Margin on consolidated crystallized obligation

The margin on consolidated crystallized obligation in derivatives shall represent:

On intraday basis	Payable crystallized obligations based on the closed-out futures positions and payable/receivable premium at client level
At end-of-day	Payable obligations at client level considering all futures and options positions

Intraday basis

On intraday basis, the net payable/receivable amount at client level shall be calculated using:

1. Premium payable/receivable
2. Futures crystallized profit or loss (calculated based on weighted average prices of trades executed).

If the overall amount at client level is payable, such amount shall be the intraday consolidated crystallized obligation margin for the client.

End-of-day basis

At the end of day, the payable/receivable amount at client level shall be calculated using:

1. Futures mark to market profit/loss to be settled
2. Options premium payable/receivable
3. Options exercise/assignment for expired contracts
4. Futures final settlement for expired contracts

If the overall amount at client level is payable, such amount shall be the end-of-day consolidated crystallized obligation margin for the client. The margin on consolidated crystallized obligations shall replace the net buy premium, intraday crystallized losses, and assignment margin levied currently. The margin on consolidated crystallized obligations shall be released on completion of settlement.

8. Additional Margin for highly volatile stocks

- (i) For securities with intra-day price movement (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) of more than 10% in the underlying market for 3 or more days

in last one month, the minimum total margins shall be equal to the maximum intra-day price movement of the security observed in the underlying market in last one month. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of three months from date of levy.

- (ii) For securities with intra-day price movement (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) of more than 10% in the underlying market for 10 or more days in last six months, the minimum total margins shall be equal to the maximum intraday price movement of the security observed in the underlying market in last six months. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of one year from date of levy.

Annexure 2

Change in file format

1. Extreme Loss margin file

Naming convention ael_DDMMYYYY.csv

where <DDMMYYYY> represents the current date

File Location - /FAOFTP/FAOCOMMON/Limit Files

File Format

Field name	Description
Sr.no	
Symbol	
Instrument type	For ELM applicable on Deep Out-of-Money options value shall be OTM For ELM applicable on other contracts value shall be OTH
Normal ELM Margin %	
Additional ELM% for trade date DD-MMM-YYYY	
Total applicable ELM%	

2. Detailed margin file for clearing member (MG12)

Naming convention - F_MG12_<MEMBER CODE>_DDMMYYYY.LIS.gz

File location: /FAOFTP/F<MEMBER CODE>/REPORTS

File details and format:

The file for a clearing member shall contain the following values

Trade date

Trading member /Custodial participant code

SPAN margin

Filler

Extreme Loss margin

Delivery margin

Margin on consolidated crystallized obligation

Total margin (SPAN margin + Extreme Loss margin+ Delivery margin+ Margin on consolidated crystallized obligation)

3. Detailed margin file for trading member (MG13)

Naming convention - F_MG13_<MEMBER CODE>_DDMMYYYY.LIS.gz

File location: /FAOFTP/F<MEMBER CODE>/REPORTS

File details and format:

The file for a trading member shall contain the following values

Trade date

Client Code

SPAN margin

Filler

Extreme Loss margin

Delivery margin

Margin on consolidated crystallized obligation

Total margin (SPAN margin + Extreme Loss margin+ Delivery margin+ Margin on consolidated crystallized obligation)
Client/Proprietary Flag

4. Detailed margin file for clearing member (MG18)

Naming convention - F_MG18_<MEMBER CODE>_DDMMYYYY.LIS.gz

File location: /FAOFTP/F<MEMBER CODE>/REPORTS

File details and format:

The file for a clearing member shall contain the following values

Trade date

Trading member /Custodial participant code

SPAN margin

Filler

Extreme Loss margin

Delivery margin

Margin on consolidated crystallized obligation

Total margin (SPAN margin + Extreme Loss margin+ Delivery margin+ Margin on consolidated crystallized obligation)

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5. List of Deep out of money option contracts on which higher ELM shall be applicable

Naming convention - F_AEL_OTM_CONTRACTS_DDMMYYYY.CSV

File location: /FAOFTP/FAOCOMMON/ Limit Files

File details and format:

The file contains extreme loss margin for Deep out of the money options strikes

Contract Instrument Type

Symbol

Expiry Date

Strike Price

Option Type

Corporate Action level

Extreme Loss Margin Percentage