

NSE Clearing Limited

(Formerly known as National Securities Clearing Corporation Limited)

Department : FUTURES AND OPTIONS SEGMENT

Download Ref No: NCL/CMPT/44900

Date : July 03, 2020

Circular Ref. No: 094/2020

All Members,

Sub: Margin Obligations to be given by way of Pledge/ Re-pledge

NSE Clearing accepts equity securities/Government securities/units of mutual funds/corporate bonds (approved securities) in demat form as collaterals towards margin and security deposit requirement of clearing member as per procedure published from time to time.

SEBI vide its circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 has provided a framework for margin obligations to be given by way of pledge / Re-pledge in Depository System.

Accordingly in view of the above circular and in partial modification to Item 9 of our consolidated circular NCL/CMPT/43079 dated January 01, 2020 the revised procedure to accept approved securities as collateral shall be as follows

1. Membership Deposits (Security Deposit)

- Clearing members shall be permitted to provide **only** Own securities towards the membership deposit requirements
- Own securities shall include securities owned by member/ spouse, any of the partners/ their spouses or any of the directors, in case of individual, partnership or corporate members respectively, as the sole/ first joint holder, provided no depositor of securities should be a minor as on the date of deposit thereof.
- Clearing members shall provide securities towards membership deposit requirement using the existing facility of Approved Custodians or direct pledge in favour of NSE Clearing through any other depository participant of NSDL and CDSL as per the current process

2. Margin Deposits

- Clearing members shall be permitted to provide Own securities or trading member proprietary securities or client securities towards the margin deposit requirements
- Clearing members can provide own securities using the existing facility of Approved Custodians or Margin Pledge facility provided by NSDL and CDSL
- Clearing members can re-pledge client/trading member(TM) proprietary securities only through Margin Pledge facility provided by NSDL and CDSL
- The margin pledge facility shall also be applicable for Custodial Participant (CP) clients of clearing members

3. Procedure for providing securities through Margin Pledge facility provided by NSDL and CDSL is detailed in Annexure 1
4. The current prudential norms (Market wide limits, member wise limits and value based limits) shall be applied on all securities (OWN and Client/TM Proprietary securities) together.
 - Clearing member own securities will be granted priority over client and trading member proprietary securities re-pledged by clearing member for value based limits.
 - For Client/TM Proprietary securities re-pledged, the priority will be on first-in-first-out (FIFO) basis, in other words securities pledged/re-pledged earlier will have a higher priority
5. Procedure for monitoring of margins against the client/TM proprietary securities is detailed in Annexure 2
6. Procedure for release of client/TM proprietary securities is detailed in Annexure 3
7. In case of a default by the clearing member NSE Clearing after encashing the available collateral of clearing member, may invoke the re-pledged securities of client / TM proprietary to meet the loss/shortfall which may arise due to closing out the open positions of that client/TM or clients of TM.
8. Additional report providing break-up of client/TM proprietary wise securities shall be provided to clearing members at end of the day as per the format specified in Annexure 4
9. As per SEBI Circular no SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020 the provision of margin pledge shall be implemented from August 01, 2020. All existing pledges from August 01, 2020 shall be considered as clearing member's own securities.
10. Clearing members shall pledge client/TM proprietary securities to NSE Clearing only through margin pledge facility from August 01, 2020 and shall ensure that all existing client/TM proprietary securities pledged with NSE Clearing are withdrawn by August 31, 2020.

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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Vice President

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Annexure 1**Procedure for providing securities through Margin Pledge facility provided by NSDL and CDSL**

- Clearing Member shall be required to open a separate demat account (“designated account”) with any Depository Participant of NSDL or CDSL.
- The designated account shall have a client sub type of CM – Client Securities Margin Pledge Account or TM/CM – Client Securities Margin Pledge Account in NSDL or CM – Client Securities Margin Pledge Account in CDSL.
- The aforesaid designated account shall be permitted for pledging/re-pledging of securities across all segments/schemes of NSE Clearing.
- Clearing Member shall ensure that designated account is solely used for the purpose of pledging/re-pledging securities in favour of NSE Clearing. Any other use of designated account shall be treated as non-compliance and shall be dealt with accordingly.
- Clearing Member shall submit the following information to NSE Clearing
 - Covering letter as per format provided in Annexure 5
 - Client master of the designated account
 - Pledge deed as per the format specified in Annexure 6
 - Board Resolution with list of authorized signatories authorized to sign the pledge deed
- On submission of necessary documents as specified above NSE Clearing shall enable the designated account for acceptance of pledge/re-pledge.
- Clearing Members shall refer to provisions provided by Depositories with respect to opening the account and creating margin pledge/re-pledge in favour of NSE Clearing.
- Pledge instructions in respect of approved securities only shall be accepted.
- Details of NSE Clearing demat account in favour of which the pledge/re-pledge will be created shall be informed separately
- UCC Details, TM Code, CP Code and segment as received in the pledge/re-pledge instructions from depositories shall be considered for allocating such securities towards margin requirement.
- In case of CP clients, clients/clearing member shall ensure that applicable CP code is populated in the pledge/re-pledge instructions as per the procedure prescribed by the depositories.

Annexure 2

Procedure for monitoring of margins against the client/TM proprietary securities

1. The day to day real time risk management with respect to client / TM exposure and the margin requirement shall continue to be the responsibility of the clearing member, and NSE Clearing shall not monitor the client level exposure against the available client level collateral in real time.
2. The clearing member total margin requirement (aggregated across all clients / clients of TM/Proprietary of TM clearing through clearing member) shall be monitored against the total available collateral of clearing member (Cash and Cash equivalent and clearing member own securities) on a real time basis.
3. NSE Clearing shall not allow any exposure to clearing member on re-pledged securities of the client / TM proprietary securities. In case of a margin requirement by a client / TM proprietary whose securities are re-pledged with NSE Clearing, the same shall be first blocked from the available collateral provided by clearing member as mentioned in point 2 above. At periodical interval NSE Clearing shall release the blocked collateral of clearing member to the extent of value of re-pledged securities collateral of that client / TM proprietary available with NSE Clearing.
4. In addition to monitoring CM level exposure, NSE Clearing shall also monitor the trading member margin against the limit set by the Clearing Member of such trading member. In such case, the margin due to the trades by the trading member will be blocked first from such limit. NSE Clearing shall also release the blocked limit of trading member to the extent of value of re-pledged securities of that client
5. TM proprietary shares re-pledged with NSE Clearing by the clearing member shall be available to be utilized against the margin requirement of proprietary positions of TM and also towards the margin requirement of the clients of such TM
6. The above procedure is explained with below mentioned example

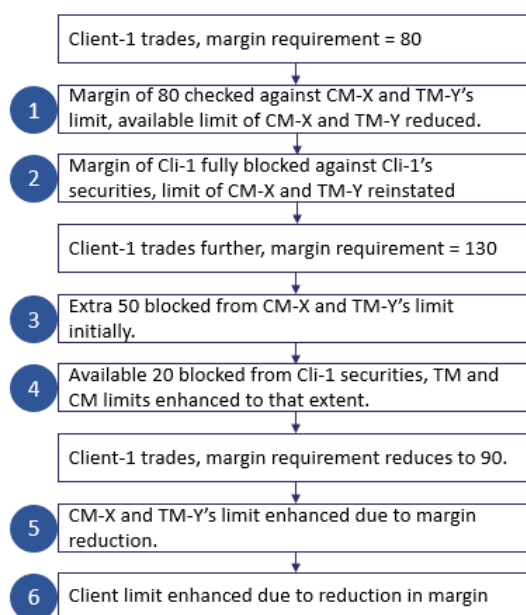
Utilization Example

Security Owner ship	Limit			Utilization					
	Cash	Securities	Total	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
CM-X	1000	200	1200	↓1120 (-80)	↑1200 (+80)	↓1150 (-50)	↑1170 (+20)	↑1200 (+30)	⇌1200
TM-Y	200*	100	300	↓220 (-80)	↑300 (+80)	↓250 (-50)	↑270 (+20)	↑300 (+30)	⇌300
Cli-1		100		⇌100	↓20 (-80)	⇌20	↓0 (-20)	⇌0	↑10 (+10)

Updation logic (illustration for CM level only)

Step #	CM Limit (A)	Margin (B)	Client Securities (C)	Client Coll. Credit (Update in step 2,4,6) (D)=Min (B,C)	Available CM Limit E = Min(A-B+C,A)	Available Client Limit F = C-D
1	1200	80	100		1120	100
2	1200	80	100	80	1200	20
3	1200	130	100	80	1150	20
4	1200	130	100	100	1170	0
5	1200	90	100	100	1200	0
6	1200	90	100	90	1200	10

Trades and margin requirement



Annexure 3

Procedure for release of client/TM proprietary securities

- Clearing member shall use the existing facility available on Collateral Interface for Members (CIM) for requesting for release of re-pledged securities also
- If in case re-pledged securities requested to be released are utilized towards the margin requirement of the client/TM proprietary or TMs clients, then such securities shall be released only if there is sufficient collateral at the clearing member level to meet such margin requirements
- If the re-pledged securities are eligible for release, NSE Clearing shall send necessary intimation to Depositories to release the re-pledge created in favour of NSE Clearing.
- In case of file upload the clearing member shall be required to use the revised file format. The revised file format is as under

File name: F_RRQ_DDMMYYYY_NN.CSV

Where F is Segment indicator

RRQ is release request

DDMMYYYY is the request date which should be current date

NN is sequential file batch number

The file should be CSV file with the following *columns*

Segment Indicator	F
Member Code	Member Code
Type of Collateral	BC /ABC
Instrument Type	CSH/BGN/FDP/SDP/NMF/CMF/GMF/OMF
Instrument Id	Applicable only for BGN/FDP
Custodian code	To be provided only in case of SDP/CMF/NMF/OMF/GMF
Security symbol	To be provided only in case of SDP/CMF/NMF/OMF/GMF
Requested Quantity	To be provided only in case of SDP/CMF/NMF/OMF/GMF
Requested amount	To be provided only in case of BGN/FDP/CSH in Rs. Incase of SDP/CMF/NMF/OMF/GMF it should be typed as NA
ISIN Code	To be provided only in case of OMF/GMF. In case of BGN/FDP/CSH/SDP/CMF/NMF it should be typed as NA
TM Code	To be provided only in case of SDP/CMF/NMF/OMF/GMF TM prop security release / else NA
Client / CP Code	To be provided only in case of SDP/CMF/NMF/OMF/GMF CP / TM client security release / else NA
Bank Code	Mandatory for instrument type CHQ. NA for rest.

Notes:

1. Member code stands for the member code (5 digit) / custodian code.
2. CSH stands for cash, BGN for bank guarantee, FDP for Fixed deposit receipt, SDP for equity securities, NMF for ETFs, CMF for units of liquid mutual funds, GMF for units of gilt mutual funds and OMF for units of other mutual funds
3. Instrument ID stands for the NCL Ref no as is available in the latest MG05 report. For eg the instrument id for NCL. Ref no ABC/BG/39288 will be 39288
4. Non Applicable fields should be NA.
5. The return files giving the status of the acceptance/rejection of the release request will be available through the collateral interface for members (CIM) at the following path Collateral Release > Download Return File. The file naming convention for the same will be F_RRR_Member Code_DDMMYYYY_NN.csv.

Annexure 4**Format of security details report to be downloaded to clearing member**

Naming convention F_MEMBER CODE_SEC_PLEDGE_DDMMYYYYY.CSV

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

File details and format: As per attached excel (Annexure 7)