

NSE Clearing Limited

(Formerly known as National Securities Clearing Corporation Ltd.)

Department: SECURITIES LENDING & BORROWING SCHEME (SLBS)

Download Ref No: NCL/CMPT/52000

Date: April 12, 2022

Circular Ref. No: 038/2022

All Participants and Custodians,

Sub: Segregation and Monitoring of Collateral at Client Level

This is with reference to SEBI circular no SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021. The following framework for segregation and monitoring of collateral at client level shall be implemented

A. Addition of Collaterals

- There shall be no change in the procedures pertaining to placing of securities as collateral through the margin pledge/re-pledge mechanism in the Depository system.
- There shall be no change in the procedures for depositing Cash, Fixed Deposits (FDs), Bank Guarantees (BGs) (Hereinafter referred to as “Other forms of collateral”).
- While depositing other forms of collateral, Participants shall allocate these collaterals into proprietary account of participant, and/or account of any of the clients (including Custodial Participants (CPs)) clearing through the participant, segment-wise.
- The benefit for the other forms of collateral deposited shall be provided by NSE Clearing only after receiving the allocation of the same from the participant.
- The amount of collateral allocated shall not exceed the amount of collateral received by the participant from the client and reported as such under the client collateral reporting mechanism. Also, the allocation of collateral shall not be lower than the amount of collateral (except securities collateral re-pledged) reported under the client collateral reporting mechanism as having been passed on by the participant to NSE Clearing.
- The total allocation by participant cannot exceed the total other form of collateral deposited by the participant with NSE Clearing.
- The allocation provided by the participant to NSE Clearing shall be considered as final by NSE Clearing for the purpose of granting exposure and utilization during default.
- The detailed procedure for addition and allocation of various forms of collateral (other than securities placed through margin pledge mechanism) is specified in **Annexure 1**.

B. Collateral Valuation

- Participants are required to maintain at least 50% of the total collateral in the form of cash or cash equivalents. For the purpose of monitoring of at least 50% cash-equivalent collateral at the level of participant, the excess cash-equivalent collateral of a client

shall not be considered for other client or for proprietary account of participant. However, the excess cash-equivalent collateral of proprietary account of participant shall be considered for clients trading/clearing through them, for the purpose of monitoring minimum 50% cash-equivalent requirement. An example for the same is provided in **Annexure 2**.

C. Blocking of Margins and Monitoring

- The procedure for blocking of margins only specifies the order of blocking of collateral available with NSE Clearing. The participant shall be required to ensure that sufficient collateral is allocated to clients to cover their margin collection requirements.
- The terms “Client Collateral”, “CP Collateral” and “Participant Collateral” shall mean the total of the allocated collateral value plus the value of securities collateral provided through margin pledge/re-pledge by any individual client, CP and participant respectively to NSE Clearing. The participant collateral shall mean the proprietary collateral of the participant only and shall not include the collateral of any of their clients.
- On receipt of a trade from a client account, the margin shall first be blocked from the value of the client collateral. If the client collateral is not sufficient, the residual margin shall be blocked from the participant proprietary collateral of participant of such client.
- Margins based on trades from proprietary account of the participant shall be blocked from the proprietary collateral of the participant only.
- Example of blocking of margins is provided at **Annexure 3**.

For monitoring of margin violation, the following procedure shall be adopted:

- Participant level: Client margin in excess of 90% of the client collateral shall be identified for each client. The total of such client margin in excess of 90% of the client collateral, plus the proprietary participant margin shall be assessed against the participant proprietary collateral for monitoring of participant level margin violation.

D. Handling of CP Trades

- In case of CP trades executed by participant, the margin shall be blocked in the following order-
 - i. CP collateral through the executing participant, if any,
 - ii. Residual margin from the proprietary collateral of the executing participant
- Upon confirmation of trades by Custodian, the margin so blocked prior to the confirmation shall be released, and margins shall be blocked in the following order-
 - i. CP collateral through the confirming Custodian, and
 - ii. Residual margin from the proprietary collateral of the confirming Custodian.
- In case of CP trades, the requirement to ensure that sufficient collateral is allocated to CP clients to cover their margin requirements shall be on the confirming Custodian. NSE Clearing shall make margin call on the custodian if sufficient CP collateral is not available post confirmation by the custodian.

E. Change of allocation

- Participants shall be permitted to change the allocation of other forms of collateral deposited with NSE Clearing (including change to another segment where the member is CM). Participants to ensure that the value allocated to any CP/client does not exceed the value of actual collateral received from that CP/client (excluding the securities collateral through margin pledge mechanism and repledge to NSE Clearing). However, such change of allocation shall be permitted subject to adequacy of available collateral with NSE Clearing after the change vis-à-vis the margin obligation of CP/Client. Example for change in allocation is provided at **Annexure 4**.

F. Settlement

There shall be no change in the settlement process.

G. Withdrawal of collateral

- There shall be no change in process for requesting and release of securities placed as collateral through the margin pledge/re-pledge mechanism in the Depository system.
- There shall be no change in process for requesting for release of other form of collateral. However, such collateral shall be released only if sufficient amount is available as un-allocated collateral. Accordingly, participants shall ensure that sufficient amount is un-allocated prior to placing release request for other forms of collateral.
- Participants can un-allocate collateral using the process specified in **Annexure 4**.
- In case of collateral provided in the form of BGs and FDRs; the value of the matured BG/FDR shall be reduced from participant collateral as per the existing process. This may result into margin violation by the participant because of reduction in the collateral limits.

H. Deemed allocation

- Participant shall ensure that sufficient collateral is allocated to CP/clients to cover their margin requirements. However, if the margin applicable at NSE Clearing for a CP/client in a segment exceeds the collateral allocated to the CP/client plus the securities collateral re-pledged to NSE Clearing (from that CP/client's account) in the respective segment, then the proprietary collateral of the participant shall be blocked (including re-pledged/pledged securities and allocated collateral). Such margin blocked from the proprietary collateral towards a CP/client's margin shall be deemed to have been the collateral allocated to that CP/client. This provision shall include deemed allocation of proprietary collateral towards CP/client margins. Examples for deemed allocation has been provided in **Annexure 3**.

I. Changes in Reports

List of new reports and reports undergoing format change (along-with revised formats) are listed in **Annexure 5**.

The provisions of this circular shall be effective from May 02,2022.

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)**

Huzefa Mahuvawala
Vice President

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**Annexure 1
Addition and Allocation of Collateral**

- Participant shall follow the existing process for addition of Cash, FDR and BG as collateral
- All Cash, FDR and fungible BGs placed towards margin deposit shall be available as common pool for allocation to participant prop/CP/Clients.
- Participant can use the file upload mechanism as per the format specified in circular no NCL/CMPT/50219 dated November 03, 2021 or API mechanism as per the format specified in circular no NCL/CMPT/51182 dated January 31, 2022 for allocation of collateral from common pool to Participant Prop/CP/Clients in any segment where the participant is a CM.
- The amount mentioned in the file would be the final allocation requested amount for the mentioned combination. Accordingly, the value provided in the file shall replace the previous values for the mentioned combination.
- Any amount added as collateral and not allocated shall remain as un-allocated collateral in the common pool. No exposure for the same shall be provided to any entity for such un-allocated collateral.
- Participant shall provide records for allocation only where there is change in the value of allocation. In order to avoid rejections of file/API participants shall ensure that records where there is no change in value of allocation are not included.
- Participants shall upload the file allocation in NMASS in Collateral Management module under File allocation menu. Participants can use intra-day/immediate options for intra-day change allocation. Any allocation which is expected to be modified at EOD shall be uploaded by selecting EOD option. All allocations uploaded under EOD options shall be processed at the time of EOD collateral release
- In case of non-fungible BGs the same shall be permitted to be allocated by the participants to participant prop/CP/Clients in the same segment where the BG has been added

1. Examples for allocation of fresh collateral

Participant adds following collateral

Cash – Rs 1,00,00,000
 FDR - Rs.5,00,00,000
 BG – Rs 3,00,00,000
 Total – Rs 9,00,00,000

Current and Proposed Allocation

Entity	Amount already Allocated	Amount Proposed to be allocated
Participant 1 Prop	10,00,00,000	11,00,00,000
CP 1	3,00,00,000	3,50,00,000
TM XYZ Cli ABC	0	1,00,00,000
TM XYZ Cli DEF	50,00,000	1,00,00,000
Total	13,50,00,000	16,50,00,000

The file to be uploaded by the participant shall have following records

Current Date	Seg	CM Code	TM Code	CP Code	Cli Code	Acc Type	Amount	Filler1	Filler2	Filler3	Filler4	Filler5	Filler6	Action
01-Mar-22	SB	CM1				P	11,00,00,000							U
01-Mar-22	SB	CM1		CP1		C	3,50,00,000							U
01-Mar-22	SB	CM1	XYZ		ABC	C	1,00,00,000							U
01-Mar-22	SB	CM1	XYZ		DEF	C	1,00,00,000							U

Validations

- Response code shall be populated in the field “**Error Code**” in the return file. It shall be of below format
- First four characters (Field Identifier): refers to specific field or the entire message
- Next characters (Validation code): refers to specific validation failure or success. Success code shall be populated only on successful acceptance of the record.

Field Identifier

Sr. No.	Field Name	Field Code
1	Entire Record	0105
2	Current Date	0107
3	Segment	0108
4	CM Code	0109
5	TM Code	0110
6	CP Code	0111
7	Client Code	0112
8	Account Type	0113
9	Amount	0114
10	Action	0115
11	Filler1	0116
12	Filler2	0117
13	Filler3	0118
14	Filler4	0119
15	Filler5	0120
16	Filler6	0121

Validation Codes:

Sr. No.	Validation	Validation Type	Validation Code	Validation performed on Field
1	Submitted to server successfully.	Message Level	NA	NA
2	Status Request Rejected due to higher margin utilization - 0103 Request partially accepted due to higher margin utilization – 0104 Request accepted successfully - 0100 Processing - 0102	Request level	0103 0104 0100 0102	Entire request
3	Minimum Required Length	Generic	0201	All Fields *
4	Maximum Required Length	Generic	0202	All Fields *
5	Range validation	Generic	0203	All Fields *
6	Mandatory Field	Generic	0204	All Fields *
7	Special Characters not allowed	Generic	0205	All Fields *
8	Data Format like Msg Id or File Name/ Date Format	Generic	0206	All Fields *
9	Minimum allowed value	Generic	0207	All Fields *
10	Maximum allowed value	Generic	0208	All Fields *
11	Invalid Value	Generic	0209	All Fields*
12	Duplicate MsgID /File Name	Generic	0210	All Fields *
13	Service Unavailable	Generic	0212	NA
14	System Error	Generic	0213	NA
15	Number of records	Generic	0214	Number of records submitted is greater than configured allowed records per request
16	Current Date	Field	0217	Current Date
17	Segment Valid segment CM FO CD DT SLB	Field	0218	Segment

Sr. No.	Validation	Validation Type	Validation Code	Validation performed on Field
18	Primary Member Code	Field	0219	CM Code
19	Trading Member Code Should be the part of valid CM-TM link of specified segment	Field	0220	TM Code
20	CP code Should be the part of valid CM-TM link of specified segment	Field	0221	CP Code
21	Account Type P – Prop C - Cli	Field	0222	Account Type
22	Upward or downward	Field	0224	Action
23	No Margin Found	Field	0122	
24	Insufficient allocation amount	Field	0123	Amount

Annexure 2
Monitoring of the minimum 50% cash-equivalent collateral requirement

Consider the following example of collateral provided by various entities under a Participant. Suppose the securities are pledged in the same sequence as the rows in the following table.

Entity	Cash-equivalent (A)	Non-cash (B)	Excess cash-eq. If(A>B,A-B,0)	Excess noncash If(B>A,B-A,0)
Participant Prop	100	40	60	0
Cli-1	200	250	0	50
Cli-2	70	10	60	0
Cli-3	70	100	0	30

The excess cash-equivalent collateral of Cli-2 cannot be used to offset the excess non-cash collateral of Cli-1 and Cli-3. Therefore, there will be excess non-cash collateral to the extent of 80 (50 for Cli-1 and 30 for Cli-3).

Summary of excess cash-equivalent and excess non-cash collateral would be as under:

Entity	Excess Cash-eq	Excess noncash
Prop	60	-
Cli-1	-	50
Cli-3	-	30

The entities who will get benefit would be identified on FIFO basis of margin utilisation. Accordingly, considering the clients trade in order as Cli 3 first and Cli 1 second then collateral considered as per margin utilisation shall be as under

Entity	Cash-equivalent (A)	Non-cash (B)	Margins	Collateral considered	Collateral Not considered
Cli-3	70	100	170	170	0
Cli-1	200	250	450	430	20

Annexure 3 Blocking of margins

Suppose the total collateral (allocated collateral plus securities collateral placed through margin pledge/ repledge to CC) available against various entities are as given below.

Entity	Collateral (Rs)
Participant Prop	1000
Cli-1	300
Cli-2	300

- Trade-1: Cli-2 trades with margin requirement of Rs 100. Blocking of margin shall be as follows:

Entity	Collateral (Rs)	Blocking (Rs)
Participant Prop	1000	0
Cli-1	300	0
Cli-2	300	100

- Trade-2: Cli-1 trades with margin requirement of Rs 600. Blocking shall be as follows:

Entity	Collateral (Rs)	Blocking (Rs)
Participant Prop	1000	300
Cli-1	300	300
Cli-2	300	100

- Trade-3: Cli-2 trades with revised margin requirement for Cli-2 of Rs 600. Blocking shall be as follows:

Entity	Collateral (Rs)	Blocking (Rs)
Participant Prop	1000	600
TM-1 Cli-1	300	300
TM-1 Cli-2	300	300

- Trade-4: Cli-2 trades with revised margin requirement for Cli-2 of Rs 900. Blocking shall be as follows:

Entity	Collateral (Rs)	Blocking (Rs)
Participant Prop	1000	900
Cli-1	300	300

Cli-2	300	300
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In the above examples, the collateral of Rs 900 blocked from the Participant Prop, shall be deemed to be allocated to Cli-1 and Cli-2. The deemed allocation would be as follows:

Client	Margin (Rs)	Blocked from client collateral (Rs)	Deemed allocation from Participant Prop (Rs)
TM-1 Cli-1	600	300	900
TM-1 Cli-2	900	300	

Annexure 4 Change of allocation

1. Examples for checking for change in allocation

Suppose a Participant has following collateral:

Entity	Cash (Rs)
Participant Prop	200
Cli-1	200
Cli-2	200

Out of the total available cash of Rs 600, suppose the Participant has provided an FDR of Rs 400 to the CC (with Rs 200 cash remaining with the member). Suppose, the FDR provided to the CC is allocated by the Participant as follows. Here, the Participant has chosen not to allocate any collateral to Cli-2 in the total collateral placed with the CC:

Entity	Collateral allocated (Rs)
Participant Prop	200
Cli-1	200

Suppose the margin requirement is as follows:

Entity	Collateral (Rs)	Margin blocked (Rs)
Participant Prop	200	160
Cli-1	200	150

Change in allocation: Example 1

Participant shall be permitted to change the allocation as follows (i.e. the Participant chooses to consider the cash retained with it to be as Rs 50 belonging to Cli-1 and Rs 150 belonging to Cli-2):

Entity	Collateral (Rs)
Participant Prop	200
Cli-1	150
Cli-2	50

Change in allocation: Example 2

Participant shall not be permitted to change the allocation as follows (i.e. the Participant chooses to consider the cash retained with it to be as Rs 100 belonging to each client):

Entity	Collateral (Rs)
CM Prop	200
Cli-1	100
Cli-2	100

This allocation shall not be permitted since Cli-1 has a margin requirement of Rs 150.

2. Examples for change in allocation to other segments and for release

Current			Proposed		
Entity	Seg	Amount	Entity	Seg	Amount
Participant 1 Prop	SB	10,00,00,000	Participant 1 Prop	SB	5,00,00,000
CM 1 Prop	FO	3,00,00,000	CM 1 Prop	FO	6,00,00,000
TM XYZ Prop	CM	4,00,00,000	TM XYZ Prop	CM	2,00,00,000
TM XYZ Cli ABC	CM	0	TM XYZ Cli ABC	FO	2,00,00,000
TM XYZ Cli DEF	CM	50,00,000	TM XYZ Cli DEF	FO	50,00,000
TM 123 Prop	CM	5,00,00,000	TM 123 Prop	CM	2,50,00,000
TM 123 Cli 456	CM	50,00,000	TM 123 Cli 456	CM	0
Unallocated	-	0	Unallocated (For release)	-	5,00,00,000
Total		23,00,00,000			23,00,00,000

Records to be uploaded in file/API shall be

Current Date	Seg	CM Code	TM Code	CP Code	Cli Code	Acc Type	Amount	Fill er1	Fill er2	Fill er3	Fill er4	Fill er5	Fill er6	Action
01-Mar-22	SB	CM1				P	5,00,00,000							D
01-Mar-22	CM	CM1	XYZ			P	2,00,00,000							D
01-Mar-22	CM	CM1	XYZ		DEF	C	0							D
01-Mar-22	CM	CM1	123			P	2,50,00,000							D
01-Mar-22	CM	CM1	123		456	C	0							D
01-Mar-22	FO	CM1				P	6,00,00,000							U
01-Mar-22	FO	CM1	XYZ		ABC	C	2,00,00,000							U
01-Mar-22	FO	CM1	XYZ		DEF	C	50,00,000							U

All downward allocation records to be sent/kept before the upward allocation records

Annexure 5 File Format Changes

Report	File Name	Change
Collateral Break up Report	MG05	Shall be discontinued
Margin and Collateral Report	MG01	Format Change
Client Collateral report	CC01	Format Change
Collateral Break up Report	COLLDTLS	New Report

1. Margin and Collateral Report (MG01)

Clearing member File Name- S_MG01_<mem_cd>_DDMMYYYY.lis

STATEMENT

A) Collateral Details

- 1) Cash Collateral
- 2) Non cash component
- 3) Cash Margin
- 4) Total (A1+A2+A3)
- 5) Effective Deposits
- 6) Non-usable Non-cash Component (A4-A5)

B) Margins Details

- 7) Minimum capital
- 8) MTM loss <<will be populated as zero>>
- 9) VAR Margin <<will be populated as zero>>
- 10) Extreme Loss Margin <<will be populated as zero>>
- 11) Adhoc Margin <<will be populated as zero>>
- 12) Margin as Borrower<<will be populated as zero>>
- 13) Margin as Lender<<will be populated as zero>>
- 14) CM Prop Margins
- 15) Client Margins > 90%
- 16) Total Margins (B14+B15)
- 17) CM Effective Deposit required for MTM Loss and Total Margins (B7 + B16)
- 18) Balance Deposits Available (A5-B17)
- 19) Margin Transaction
- 20) Lending Price transaction

2. A. Client Collateral Report for Trading Member (CC01)

Naming convention - S_CC01_<MEMBER CODE>_<DDMMYYYY>.csv.gz

File Location- CMFTP/S<MEMBERCODE>/REPORTS

File details and format:

Client/UCC Code

Cash Component-Allocated

Cash Component- Value of Gsec/GMF/CMF repledged

Non- Cash Component - Value of Non-Cash repledged

Total Value

Margins

3. Collateral Break up Report (COLLDTLS)

Naming convention - S_COLLDTLS_<MEMBER CODE>_<DDMMYYYY>.csv.gz

File Location- CMFTP/S<MEMBERCODE>/REPORTS

File details and format:

Level 1 - Instrument type details

Segment Indicator, Instrument Type, Security Deposit, Margin Deposit, Total

Level 2 - Cash Instrument Details (Cash/BG/FD)

Instrument Type, Bank, Instrument No, Issue Date, Maturity Date, Gross Amount, Segment Indicator

Level 3.1 - G-Sec

Instrument Type, Deposit Type, Custodian, ISIN, Symbol, Qty, Face Value, Net Value, Maturity Date, Segment Indicator

Level 3.2 - Securities

Instrument Type, Deposit Type, Custodian, ISIN, Symbol, Qty, Gross Value, Net Value, Maturity Date, Segment Indicator

Level 4 - Allocation Summary

Cash Allocated, Cash Unallocated

Level 5 – Blocking

Description, Prop/TM Prop/CP, Client Code, Amount Blocked, Block Reason

Level 6 - TM wise deposit details

Segment Indicator, TM Code, TM Name, Deposit Amount