

Procedure of Clearing, Settlement, Risk and Collateral Management

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1. SETTLEMENT PROCEDURE

Admitted deals executed on a trading day, shall be cleared on a netted basis for funds obligation, however the Commodities obligation shall be cleared and Settled of Gross basis by the Clearing Corporation as prescribed under the relevant Regulation. Subject to the above, settlement obligations for all clearing members shall arise.

The clearing members shall be responsible for all obligations arising out of such trades including the payment of margins, penalties, any other levies and settlement of obligations of the trades entered by them as trading members and also of those trading members if any, for whom they have undertaken to settle as a clearing member.

Where the clearing member is not a trading member of the Exchange then the trades of those trading members for whom the clearing member has undertaken to settle shall be considered for determining the obligations as a clearing member.

1.1 Settlement Schedule:

- **Settlement Period**

The pay-in and pay-out of daily mark to market settlement and final settlement of commodities and funds shall be effected in accordance with the settlement timelines issued by Clearing Corporation periodically. The Settlement Schedule shall specify the tender period for the commodity as per delivery logic. The Settlement Schedule shall also specify the supplementary settlement dates and timelines.

The paying members are required to have clear balance of funds in their clearing account towards their pay-in obligation by the declared pay-in time on the settlement day. The pay-out of funds shall be credited to the receiving members clearing account thereafter.

- **Settlement Timelines**

Settlement timelines for payin and payout are defined as below:

Settlement	Frequency	Settlement due on	Timelines
Mark to Market	Daily	T+1	8:30 AM
Settlement at Expiry	As specified in the delivery settlement procedure and Settlement Schedule issued from time to time	As specified in the delivery settlement procedure and Settlement Schedule issued from time to time	Funds pay in: 11:00 AM Commodity As per delivery & Funds Settlement Payout: Schedule

1.2 Settlement Price

- **Daily Settlement Price for mark to market settlement of Commodities futures contracts**

Daily settlement price for Commodities futures contracts shall be the closing price of such contracts on the trading day. The closing price for Commodities futures contract shall be calculated on the basis of the last half an hour weighted average price of such contract or such other price as may be decided by the relevant authority from time to time.

- **Theoretical daily settlement price for unexpired Commodities futures contracts which are not traded during the last half an hour on a day**

Theoretical daily settlement price for unexpired futures contracts, which are not traded during the last half an hour on a day, shall be the price computed as per the formula detailed below:-

$$F = S * e^{rt}$$

where:

F = theoretical futures price

S = Spot Price of the underlying Commodity

r = rate of interest (MIBOR)

t = time to expiration

Rate of interest may be the relevant MIBOR rate or such other rate as may be specified.

- **Final Settlement Price for futures contracts**

The Final Settlement Price (FSP) shall be as specified as may be decided by the relevant authority from time to time.

1.3 Procedure for Pay-in/ Pay-out of funds

A. Daily mark to market settlement and final settlement for Commodities contract

Daily mark to market settlement and final settlement in respect of admitted deals in futures contracts shall be cash settled by debit/ credit of the clearing accounts of clearing members with the respective clearing bank. All positions (brought forward, created during the day, closed out during the day) of a clearing member in futures contracts, at the close of trading hours on a day, shall be marked to market at the daily settlement price (for daily mark to market settlement) and settled. All positions (brought forward, created during the day, closed out during the day) of a clearing member in commodity contracts, at the close of trading hours on the last trading day of the contract, shall be marked to market at final settlement price (for final settlement) and settled.

B. Fund settlement Process

- Funds settlement shall be effected through designated clearing banks of Clearing Corporation.
- Every member shall be required to have a separate settlement account with one of the approved clearing banks for commodity Derivatives Fund settlement.

- All the funds settlement will be conducted by effecting debits / credits through electronic transfer of funds in the accounts of member's clearing bank accounts.
- The pay-in and pay-out of mark to market settlement, final settlement of commodity derivatives, additional settlement shall be effected in accordance with the Settlement Schedule issued by the Clearing Corporation periodically.
- The paying members are required to have clear balance of funds in their clearing account towards their pay-in obligation by the declared pay-in time on the settlement day. The Clearing Bank shall credit the receiving members' settlement account in accordance with the pay-out instructions received electronically from the Clearing Corporation on the settlement day.
- Along with mark to market settlement and final settlement of commodity derivatives there are few other transactions which are effected in settlement.
- The said transactions include EPI, Margin, Penalty, CTT, ABC/BC collection/release. These transactions are part of settlement which gets collected/released from/to member's settlement account.
- Funds Supplementary Settlement would happen on basis of Quality difference, Quantity difference, For such instances, Clearing Corporation would create transactions and collect the same (Pay-in/Pay-out) from the clearing members.

C. Fund shortage handling

Buyer default is not permitted. Commodity payout shall not be executed to the receiver in case of fund shortage by the buyer. Penalty as may be decided from time to time shall be levied to the buyer for default.

1.4 Procedure for Pay-in/ Pay-out of Commodities

A. Delivery Logic

Delivery logic of the commodity shall be specified in the Delivery and Settlement Procedure.

Compulsory Delivery

Where the delivery logic is specified as compulsory delivery for a commodity, all the open positions on the expiry of the contract shall result in compulsory delivery of the commodity through vault.

B. Tender/ Staggered delivery framework:

The tender period shall be mentioned in the Delivery and Settlement Procedure. Tender period dates for expiry month shall be communicated through Settlement Schedule issued by Clearing Corporation every month. Seller/buyer have an option of marking an intention of giving/taking delivery on any day from start of the tender period up to expiry of the contract.

- Delivery allocation to buyers having open long position shall be as per random allocation methodology. Preference shall be given to buyers who have marked an intention of taking delivery. However, buyers marked for delivery against the intention submitted by seller, will have to take the delivery of the commodity.

- Pay-in and pay-out shall happen latest by T+1 working day where T is the tender day. Open position on expiry of the contract shall result in compulsory delivery and shall be settled at Final Settlement Price (FSP) of the respective contracts and pay-in and pay-out shall happen as specified by Clearing Corporation in respect of specific commodities.

C. Vault Framework for Delivery

Pay-in and pay-out of commodities shall be executed through Vaults empanelled by the Clearing Corporation from time to time. The details of empaneled vault address, contact person, charges are given in **List of Formats and Annexures**.

An online interface shall be provided to the clearing members and Vaults for Commodity Inventory Management known as IMS (Inventory management System) under the existing NMASS application.

a. Commodity Deposit at vault

Commodity, for providing to Clearing Corporation, can be deposited by Client or by an authorized person on behalf of client at the designated vault and at the delivery location specified in the **List of Formats and Annexures**.

Delivery procedure for Gold, Gold Mini and Silver is mentioned below:

- **Eligible Depositor**

Bullion can be deposited by client. Alternatively, a bullion can be deposited by an authorized person on behalf of client. Client is required to provide Clearing Member and Trading Member details while depositing the bullion.

- **Documentation**

- Bill of entry
- Invoice
- Airway bill
- Packing list
- Purity certificate by LBMA approved refinery
- Indemnity Letter by other VSP – In case where the bullion is moved from another vault, this letter shall be provided by other VSP. The letter mentions that the bullion has not left the vault network.
- Client deposit request letter – As per format specified in **List of Formats and Annexures**.
- CM undertaking – As per format specified in **List of Formats and Annexures**.
- Excel file for bullion deposit to be emailed to the mentioned email ID of the vault

- **Quality Assessment by VSP**

Depositing member is required to provide documentary evidence for quality of the commodity as per **Documentation** part mentioned above.

Premium grade quality can be submitted by the depositing member. The member shall be eligible for receiving premium amount for the higher grade commodity.

Lower grade commodity cannot be deposited by the member. Premium/ discount associated with the quality shall be settled at the time of Supplementary settlement as per the Settlement Schedule issued by Clearing Corporation.

- **Quantity Assessment by the VSP**

VSP shall verify the weight of the commodity deposited at the vault. Weight difference may exist in some commodities w.r.t. delivery quantity/ weight. The acceptable weight difference for the commodities shall be as specified for a commodity in Delivery and Settlement Procedure.

No weight difference out of the permissible limit shall be accepted at the time of commodity deposit/ delivery.

Premium/ discount associated with the permissible quantity difference shall be settled at the time of Supplementary settlement as per the Settlement Schedule issued by Clearing Corporation.

If the depositor is eligible, documents are in order and the bullion is fit for acceptance, VSP shall issue the vault receipt to the depositor. The receipt shall contain the details of bullion deposited. The receipt shall also mention that the stock is deposited in Clearing Corporation Account.

- b. Commodity Deposit information sharing through IMS**

VSP official shall enter the details of accepted commodity in IMS. Clearing members are required to verify the commodity details entered by the VSP officials.

Commodity details entered by VSP shall be available as free balance to the clearing member.

Clearing member is required to enter the details through IMS for further utilization of the commodity towards:

- Early Pay-in
- Intention for Delivery
- Pay-in instruction towards settlement obligation
- Withdrawal

- **Early Pay- in of commodity**

Clearing Corporation shall provide early pay- in facility for commodities. The Early pay-in request shall be marked through IMS.

- **Intention for Delivery**

Clearing Corporation shall specify the time window for submission of intention for delivery and shall transfer the inventory blocked towards EPI to fulfill Intention obligation for Delivery. Clearing member's free inventory can also be utilized towards Intention obligation for Delivery, as the case may be.

- Intention for Delivery can be submitted only for the current settlement day during Tender Period and within specified time window.

- Intention for Delivery is to be given in multiples of Delivery Lots as specified in Delivery and Settlement Procedures.
 - Intention for Delivery shall not be carried forward to the next working day if submitted during tender period.
 - Intention for Delivery once submitted cannot be modified/ withdrawn. Members are advised not to square off their positions once Intention for Delivery is submitted.
- **Pay-in instruction towards settlement obligation**
 - Clearing Corporation shall allocate early pay-in balance and free commodity balance respectively towards settlement obligation of the member.
 - Such commodity balance shall be temporarily marked in Clearing Corporation name from completion of delivery pay-in till initiation of delivery pay-out.

D. Pay-out of commodities

Pay-out of commodities shall be conducted on the scheduled payout day, in accordance with the Settlement Schedule issued by the Clearing Corporation from time to time. After completion of pay out, the commodity shall be available as a free balance in IMS for the receiving member.

E. Commodity not meeting the quality specification:

- The receiving member shall check his delivery in front of the designated vault personnel.
- If buyer is not satisfied with the metal, he can insist for assaying. The clearing member in such case is required to submit assaying request to the Clearing Corporation within 48 hours of receiving the metal.
- If the receiving member chooses for assaying, Clearing Corporation shall communicate the same to vault. Designated vault person will then carry the commodity to the assayer's facilities as specified by Clearing Corporation, get it assayed and bring it back to the designated vault along with assayer's certificate.
- The Assayer report shall be final and binding on both buyer and seller.
- If the assayer's certificate differs from the certificate submitted by the delivering member in respect of quality or weight materially, then the receiving member and delivering member have to mutually negotiate the final settlement proceeds within 1 day from receipt of assayer's report.
- The cost of this assaying as well as cost of transportation from designated vault to assayer's facilities to and fro will be borne by the receiving member. The vault charges during such period will be borne by the receiving members.
- If the buyer does not opt for assaying at the time of lifting delivery, then he will not have any further recourse to challenge the quantity or quality subsequently and it will be assumed that he has received the quantity and quality as per the delivery obligation by the seller.

F. Delivery shortage handling

Penalty as specified by SEBI shall be levied on seller in case of delivery default (default in delivery against open position at expiry in case of compulsory delivery contracts, default in delivery after giving intention for delivery).

G. Commodity withdrawal request

Clearing member shall be eligible to withdraw the free balance of commodity available as per IMS. Clearing member is required to initiate the withdrawal request through IMS and upload the mentioned documents. The withdrawal instruction shall be specific to Commodity and Client.

- **Authority Letter** – As per format attached in **List of Formats and Annexures**.
- **Identity Proof**- Original Identity proof as mentioned in authority letter.

The request shall be now available for Clearing Corporation officials for approval. After approval of the request, the same shall be available to VSP for actual release of the commodity.

Authorized person of the clearing member shall submit the mentioned documents at the vault. The VSP officials will, upon final scrutiny/checking of the identity, deliver commodity to the authorized person. The VSP officials in case of any discrepancy or doubt or any other reason may refuse to issue the commodity to the representative under the intimation to the Clearing Corporation.

VSP users shall update the withdrawal request as ‘withdrawn’ or ‘Not Withdrawn’. The commodity which is ‘Not Withdrawn’ shall attain free status and can further be utilized by the clearing member as mentioned earlier.

H. Vault Charges

Commodity deposit, storage and other ancillary services provided by the vault will be charged as mentioned in **List of Formats and Annexures**

The day-wise storage charges shall be computed based on the closing balance of the clearing member irrespective of status i.e. free balance/ earmarked towards collateral/ EPI/ Intention for Delivery.

Note: For pay-out transaction, the storage charges shall be levied on the delivering member till the pay-out date.

E.g. If the pay-out occurs on Tuesday for which the delivering member has already done pay-in on Monday (i.e. closing balance is in the name of Clearing Corporation), the delivering member shall bear the storage charge till Monday.

If the pay-out occurs on Monday for which the delivering member has already done pay-in on Friday (i.e. closing balance is in the name of Clearing Corporation), the delivering member shall bear the storage charges till Sunday.

The bills shall be generated for the clearing members on the first working day of the month for previous month as per daily storage charges specified by Clearing Corporation from time to time. A

report containing the bill details and day-wise storage charges shall be downloaded to the clearing members on the first working day of the calendar month.

The charges as mentioned in the report shall be collected from the clearing member settlement account maintained with Clearing Corporation.

Any changes in the charge structure shall be informed from time to time.

I. Supplementary Settlement

Supplementary settlement shall be an obligation in addition to the settlement obligation for Quality and quantity difference, and GST.

Supplementary settlement shall always be settled in cash.

a. GST Invoice Facility

Clearing Corporation shall only facilitate the GST settlement for the amount calculated and confirmed by the buyers/ sellers. The process of GST shall be as follows:

- Seller member shall provide GST amount on next day of settlement i.e. T/E+2 through IMS.
- The information shall be available for buyer member confirmation/ rejection for 2 days after settlement i.e. T/E+3 till 3:00 PM
- Buyer member can confirm/ reject the information through IMS. If the buyer member confirms the tax amount:
 - o The buyer shall be able to provide the details of the client in whose name the seller shall issue an invoice.
 - o The seller shall be able to view/ download relevant invoice information
 - o The seller shall upload soft copy of the invoice which will be displayed to the relevant buyer with a facility to download the invoice.
- If the buyer neither confirm nor reject the information till 3:00 PM on E+3:
 - o The invoice information shall be by default the member details
 - o The seller shall be allowed to view/ download relevant invoice information
 - o The seller shall upload soft copy of the invoice which will be displayed to the relevant buyer with a facility to download the invoice.
- In case of rejection, remarks for rejection need to be mentioned.

The seller member shall dispatch the settlement related documents so as to reach the buyer member latest by T/E+7. The seller member shall upload the details of proof of dispatch in the IMS immediately after such documents are dispatched.

GST amount so confirmed by the members shall be settled during supplementary settlement by debiting the receiving member account and crediting the delivering member account on the same day.

Obligations of clearing members:

- All the member accepting/ giving delivery of commodities/ goods shall have the necessary GST Registration as required under the Goods & Service Tax (GST) Act applicable to the

jurisdiction of the delivery centers and obtain other necessary licenses, if any. The members should ensure that the seller who has raised the invoice on the buyer with GST registration number, HSN Code and other particulars, as required under GST, shall file all the statutory GST Returns within the stipulated date.

- The Seller/ Buyer members would be wholly responsible for all statutory compliances applicable to their transactions. It shall be the responsibility of the respective members to pay all applicable statutory fee, stamp duty, taxes and levies in respect of all deliveries as well as futures contracts directly to the concerned Central/State/Local Government Departments and Exchange/Clearing Corporation shall not be held liable or accountable or responsible on account of any non-compliance thereof.
- The Buyer Member is required to inform discrepancy/non receipt of invoice/ delivery related documents etc. or other required information within the above prescribed timelines. In the event of non-receipt of any such reference of discrepancies/ non-receipt of invoice/ delivery related documents etc. in respect of the invoice and applicable delivery related documents within the above prescribed period, Seller Member/ Buyer Member and their clients shall be deemed to have exchanged all requisite documents and information and Clearing Corporation shall not entertain any communication in this regard after the above prescribed period.

1.5 Clearing Bank

A. Designated Clearing Bank(s)

Funds to be paid and/ or to be received shall be settled through such branches of banks which are designated as clearing banks by the relevant authority from time to time. The designated clearing banks and their designated branches are given in **List of Formats and Annexures**.

B. Maintenance and operation of clearing account

a. Primary Clearing Account

Every clearing member shall maintain and operate a separate and distinct primary clearing account with any one of the designated clearing banks as mentioned above. The primary clearing account shall be used exclusively for clearing operations i.e., for settling funds obligation, payment of margins, penal charges, etc as may be specified by the Clearing Corporation from time to time.

b. Additional Clearing Account

- Further, every clearing member shall be able to maintain and operate additional clearing accounts with the designated clearing banks, as mentioned above, exclusively for the purpose of enhancement of collaterals in the form of cash and for providing EPI of funds through CIM.
- All the credits and debits other than collateral enhancement specified by the member shall be routed through the primary clearing account.

C. Operation of Clearing Account

- Clearing members shall irrevocably authorize, as per the format given in **List of Formats and Annexures**, the clearing banks to access their clearing accounts for debiting and crediting their clearing accounts as per the instructions of the Clearing Corporation, reporting of balances and other information as may be required by the Clearing Corporation from time to time and furnish to the Clearing Corporation an acknowledged copy of the same along with the account particulars issued by the clearing banks.
- Clearing members can deposit funds into these accounts in any form and can withdraw funds from these accounts only in self-name
- Clearing members having funds obligation to pay shall have clear balance of requisite funds in the clearing accounts on or before the stipulated funds pay-in day and the stipulated time.
- Clearing members shall not seek to close or de-activate the clearing accounts without the prior written consent of the Clearing Corporation.
- The clearing banks shall debit/credit the clearing accounts of clearing members as per instructions received from the Clearing Corporation from time to time. Any request from the clearing members for revoking the authorization furnished by them shall not be considered by the clearing banks. The clearing banks shall not close the clearing accounts or permit deactivation of the same without the prior written consent of the Clearing Corporation.
- All bank confirmations received from clearing banks on behalf of the members towards margins, funds pay-in, etc. shall be given effect only after receiving a written/electronic confirmation from their respective clearing banks.

D. Procedure for change in primary clearing banks

In case a clearing member wishes to shift the primary clearing account from one designated clearing bank to another, the following procedure shall be followed:

- The clearing member shall request the primary clearing bank in writing for issuing a No Objection Certificate (NOC) for shifting of the primary clearing account.
- The clearing member shall request the Clearing Corporation in writing seeking its permission for shifting of the primary clearing account and enclose the NOC received from the existing primary clearing bank in this regard or where the NOC is not received, furnish an acknowledged copy of the NOC request along with a declaration to the effect that no response has been received from the existing primary clearing bank in respect of the NOC request even after a minimum waiting period of a fortnight.
- The Clearing Corporation would thereon issue a letter of introduction to the other designated clearing bank.
- On opening the clearing account with the other designated clearing bank, the clearing member shall submit to the Clearing Corporation the documents relating to the new primary clearing account issued by the clearing bank as mentioned in **Operation of Clearing Account** above.
- The Clearing Corporation shall thereon communicate the date from which the new primary clearing account shall be operational. The clearing members are required to intimate the Clearing Corporation whether they wish to continue the existing primary clearing account as one of the additional clearing accounts or discontinue the existing primary clearing account after the change in primary clearing bank. In the event of the clearing members wishing to discontinue the existing

primary clearing account, the Clearing Corporation shall communicate the date after which the existing primary clearing account may be closed by the clearing member.

- In the event of the clearing members wishing to continue the existing primary clearing account as one of the additional clearing account, the clearing member shall be required to provide the letter from clearing bank confirming continuance of account as additional clearing account along with the letter in the format as mentioned in **Operation of Clearing Account** above for such additional clearing account.

2. LIQUID ASSETS

A clearing member may deposit liquid assets in the form of cash, bank guarantees, fixed deposit receipts and approved securities, and any other form of collateral as may be prescribed by the relevant authority from time to time.

These liquid assets are segregated as cash component and non-cash component. Cash component shall mean cash, bank guarantees, fixed deposit receipts, units of money market mutual fund, Gilt funds, Government of India Securities and any other form of collateral as may be prescribed from time to time. Non-cash component shall mean all other forms of collateral deposits like deposit of approved list of demat securities, units of the other mutual funds, corporate bonds and any other form of collateral as may be prescribed from time to time.

The total liquid assets comprise of the cash component and the non-cash component wherein the cash component shall be at least 50% of liquid assets. This implies that non cash component in excess of the total cash component would not be regarded as part of total liquid assets.

2.1 Liquid Net worth

Liquid Net worth shall be computed as total liquid assets less initial margin, exposure margin and any other additional margin payable at any point in time. The clearing member shall meet with the liquid net worth requirements prescribed by the Clearing Corporation at all points of time.

2.2 Minimum liquid net worth requirement for clearing members (Security Deposit)

Every clearing member of the Clearing Corporation is required to maintain a minimum liquid net worth of Rs.50 lakhs with the Clearing Corporation in the following manner:

- i. Rs.25 lakhs in the form of cash, and
- ii. Rs.25 lakhs in any one or combination of the following forms:
 - a. Cash
 - b. Fixed Deposit Receipts issued by Approved Banks, deposited with Approved Custodians or with the Clearing Corporation.
 - c. Bank Guarantee in favour of NSE Clearing Ltd. from Approved Banks.
 - d. Equity shares of approved companies and units of Exchange Traded Funds in demat form deposited with Approved Custodians, as per list provided by Clearing Corporation or pledged in favour of Clearing Corporation from any other depository participant of NSDL/CDSL.
 - e. Government of India Securities/T-Bills/Sovereign Gold Bonds, as per list provided by Clearing Corporation
 - f. Open ended Mutual Funds Units in demat form deposited with Approved Custodians, as per list provided by Clearing Corporation or pledged in favour of Clearing Corporation from any any other depository participant of NSDL/CDSL.

2.3 Non-fulfilment of Security Deposit Requirements

Any failure on the part of a clearing member to meet with the deposit requirements as given above at any point of time, will be treated as a violation of the Rules, Bye-Laws and Regulations of the Clearing Corporation and Clearing Corporation may, within such time as it may deem fit, advise the Exchange to withdraw any or all of the membership rights of such clearing member including withdrawal of trading facilities of all trading members and/ or clearing facility of custodial participants clearing and settling through such clearing members, without any notice.

In addition, the outstanding positions of such clearing member and/ or trading members and/ or constituents, clearing and settling through such clearing member, may be closed out forthwith or any time thereafter by the Exchange, at the discretion of the Clearing Corporation, to the extent possible, by placing at the Exchange, counter orders in respect of the outstanding position of such clearing member without any notice to the clearing member and/ or trading members and/ or constituents, and such action shall be final and binding on the clearing member and/ or trading members and/ or constituents. Clearing Corporation may also initiate such other risk containment measures as it deems fit with respect to the open positions of the clearing member and/ or trading members and / or constituents.

Clearing Corporation may, in addition to the foregoing provisions, take additional measures like, imposing penalties, collecting appropriate deposits, invoking bank guarantees/ fixed deposit receipts, realising money by disposing off the securities and exercising such other risk containment measures as it deems fit and may further take such disciplinary action as it may deem fit and appropriate in this regard.

2.4 Margin Deposits by the clearing member

The following requirements are prescribed in respect of margin deposits to be provided by clearing members:

Clearing members who wish to provide any deposits at any point of time, over and above their minimum liquid net worth requirement towards margins and/ or other obligations, may do so in any one or combination of the following forms:

- i. Cash
- ii. Fixed Deposit Receipts issued by Approved Banks, deposited with Approved Custodians or with the Clearing Corporation. .
- iii. Bank Guarantee in favour of NSE Clearing Ltd. from Approved Banks.
- iv. Equity shares of approved companies and Units of Exchange Traded Funds in demat form deposited with Approved Custodians, as per list provided by Clearing Corporation or pledged in favour of Clearing Corporation from any other depository participant of NSDL/CDSL.
- v. Government of India Securities/T-Bills, as per list provided by Clearing Corporation.
- vi. Open ended Mutual Funds Units in demat form deposited with Approved Custodians, as per list provided by Clearing Corporation or pledged in favour of Clearing Corporation from any any other depository participant of NSDL/CDSL.
- vii. Approved corporate bonds in dematerialized form deposited with approved custodian, as per list provided by Clearing Corporation or pledged in favour of Clearing Corporation from any any other depository participant of NSDL/CDSL.

2.5 Guidelines for Submission of Deposits

A. Cash

Clearing members may submit deposit in the form of cash by making the required amount available in their respective clearing bank account(s), sending an authorization to the Clearing Corporation for debiting the said amount from their clearing account.

A web based facility called Collateral Interface for Members (CIM) is provided in this regard which enables the clearing members to log in through internet. Clearing members will be able to log in through specific user-ids and passwords into CIM. To obtain a Login User ID, members are required to send their request to the Clearing Corporation.

The benefit of such cash deposit requests shall be subject to receipt of bank confirmation from the respective clearing bank by the Clearing Corporation. A clearing member who has authorised the Clearing Corporation to debit his clearing account as above shall ensure due performance of the commitment. Non-fulfilment of such obligation will be treated as a violation and/ or non-performance of obligations and shall attract consequences, penalty and/ or penal charges as applicable to violations.

B. Fixed Deposit Receipt

a. Submission of Fixed Deposit Receipts (FDRs)

Clearing members may furnish deposits in the form of FDR as mentioned above, subject to inter-alia, the compliance of the following:

- i. The FDR should be issued either in favour of: "NSE Clearing Ltd A/c CLEARING MEMBER NAME" or "Custodian Name" (as the case may be) - A/c CLEARING MEMBER NAME" as the case may be and should be deposited with the Clearing Corporation or approved custodian.
- ii. Clearing members are required to issue a letter to the approved custodian/ Clearing Corporation agreeing that the approved custodian/ Clearing Corporation has an irrevocable authority to encash the FDR and to withdraw the FDR amount (including accrued interest) at any time, even prior to maturity of FDR without notice to the clearing members, for adjustment of Clearing Corporation dues. The formats of the letter are given in **List of Formats and Annexures**.
- iii. Clearing members are required to submit a letter from the bank issuing the FDR to the approved custodian/ Clearing Corporation in the formats given in **List of Formats and Annexures**.
- iv. The minimum value of FDR that may be accepted shall be Rs.1 lakh. The FDR should be issued for a minimum period of 3 months in case of margin deposit and for a minimum period of 12 months in case of security deposit.
- v. The FDR should be payable at any of the branches situated in cities of Mumbai, New Delhi, Chennai, Calcutta, Ahmedabad, and Hyderabad of the Approved banks.
- vi. Clearing Corporation shall not accept FDRs from clearing members as collateral, which are issued by the clearing member themselves or banks who are associate of clearing member. For this purpose, 'associate' shall have the same meaning as defined under Regulation 2 (b) of SECC Regulations 2012
- vii. Clearing member can additionally provide FDR's in electronic formats. The Procedure is as below:

- a. Clearing member approaches and requests the bank to create FDR and mark lien in favor of Clearing Corporation, the process is same as for physical FDR.
- b. Clearing member submits required documents to the bank for creation of FDR and marking the lien, the process is same as for physical FDR. Additional information to be provided by the clearing member to the bank is given below:
 - Primary Member Code of the Segment
 - Segment for which the FDR is required
 - Security Deposit (SD) or Margin Deposit (MD)
- c. Bank shall issue the FDR and mark a lien in favour of Clearing Corporation
- d. Bank shall send the FDR information in electronic form to Clearing Corporation
- e. Clearing Corporation shall validate and if found correct passes on the benefit of the same to the clearing member
- f. Clearing Corporation shall send a system generated e-mail and sms to clearing member.
- g. To get intimation for addition and renewal of instrument through e-mail and sms, clearing members are requested to register their e-mail ids and/or mobile number under CIM module and subscribe for “Add/Renew Electronic FDR” under CIM-Email or CIM-SMS.

The List of banks approved for issuance of E-FDR is provided in **List of Formats and Annexures**.

b. Renewal of Fixed Deposit Receipts

In case of renewal of FDRs placed with Clearing Corporation/Approved Custodian, the clearing member shall furnish Clearing Corporation/Approved Custodian the renewal letter, from the respective bank as per the formats provided in **List of Formats and Annexures**.

The procedure of renewal of E-FDR is as below

- i. Clearing member shall request Bank to renew the FDR
- ii. Clearing members can also request Bank to renew existing physical FDRs in electronic form.
- iii. Clearing member shall submit the required documents to the bank for renewal of FDR; the process is same as for physical FDR. Additional information to be provided by the clearing member to the bank is given below.
 - a. Primary Member Code of the Segment
 - b. Segment for which the FDR is required
 - c. Security Deposit (SD) or Margin Deposit (MD)
- iv. Bank shall renew the FDR.
- v. Bank shall send the renewed FDR information in electronic form to Clearing Corporation
- vi. Clearing Corporation shall validate and if found correct renews the FDR
- vii. Clearing Corporation shall send a system generated e-mail and sms to member.

Bank Guarantees

c. Submission of Bank guarantee

The acceptance of the bank guarantees by the Clearing Corporation shall be subject to the bank-wise and member-wise and limits as are stipulated from time to time. The maximum value of bank guarantees that can be given from the issuing bank per clearing member is as provided below

Net worth (NW) of the banks *	Applicable total limit per clearing member across all segments (Rupees in Crores)
1000-2000	25
2000-3000	35
>3000 **	

**Over Rs.3000 crores, for each Rs. 1000 crores of net worth, an incremental limit of Rs. 10 crores per clearing member shall be allowed. In respect of bank guarantees issued by the designated clearing banks, the maximum value of bank guarantees that can be accepted from each of these designated clearing banks shall be set at the next higher slab in which they would have ordinarily been, compared with their net worth. Clearing members are advised to check their applicable limit before getting their bank guarantees issued.

Based on the category of the clearing member the above limits shall be subject to a maximum amount as mentioned below:

Category of member	Applicable total limit per clearing member across all segments
Professional Clearing Members in F&O/ Commodity Derivatives segment / Custodian Clearing Members in Capital Market	Rs. 250 crores
Trading Cum Clearing Members in F&O/Commodity Derivatives segment	Rs.125 crores
Other categories of the members	Rs. 50 crores

Further, the maximum value of bank guarantees that can be issued by the primary clearing bank on behalf of their clearing member shall be as under:

Category of member	Applicable total limit per clearing member across all segments
Professional Clearing Members in F&O/ Commodity Derivatives segment / Custodian Clearing Members in Capital Market	Rs.312.50 crores
Trading Cum Clearing Members in F&O/Commodity Derivatives segment	Rs.156.25 crores
Other categories of the members	Rs.62.50 crores

In addition to the above based on category of the clearing member the below mentioned maximum value of bank guarantee limit shall be applicable across all segments /schemes:

Category of member	Applicable total limit per clearing member across all segments
Professional Clearing Members in F&O /Commodity Derivatives segment / Custodian Clearing Members in Capital Market	Rs. 2500 crores
Trading Cum Clearing Members in F&O/Commodity Derivatives segment	Rs. 1000 crores
Other categories of the members	Rs. 500 crores

Clearing members are advised to check their applicable limit before getting their bank guarantees issued.

Additionally, at the time of deposit of the bank guarantee, the clearing member is required to ensure the following:

- i. The bank guarantee is strictly as per the formats for **Fungible Bank guarantee** and Format for **Non-Fungible Bank guarantee**, prescribed by the Clearing Corporation provided in **List of Formats and Annexures**
- ii. Where clearing member is submitting fungible bank guarantee, it shall submit letter to Clearing Corporation as per prescribed format in **List of Formats and Annexures**, specifying the segment where benefit needs to be provided.
- iii. A bank guarantee for security deposit should be issued for a minimum period of 12 months with a specific claim period of at least 3 months. However, where an issuing bank does not provide for a specific claim period beyond the expiry date in the bank guarantee, the clearing members shall submit a bank guarantee for a minimum period of 15 months. The maturity period of such bank guarantee shall be reduced 3 months, which would be considered as the claim period of the bank guarantee.
- iv. A bank guarantee for margin deposit should be issued for a minimum period of 3 months. In case the issuing bank does not provide for a specific claim period beyond the expiry date in the bank guarantee, the maturity period of such bank guarantee shall be reduced 7 days, which would be considered as the claim period of the bank guarantee.
- v. Clearing Corporation shall not accept bank guarantees from clearing members as collateral, which are issued by the clearing member themselves or banks who are associate of clearing member. For this purpose, 'associate' shall have the same meaning as defined under Regulation 2 (b) of SECC Regulations 2012
- vi. While filling the details in a bank guarantee, members shall ensure that:
 - a. No relevant portion is left blank
 - b. All handwritten corrections and blanks are attested by the Bank by affixing the bank seal / stamp duly authorised
 - c. All irrelevant portions struck off on the printed format should also be authenticated by the Bank by affixing the bank seal / stamp duly authorised
 - d. Each page of the bank guarantee should bear the bank guarantee number, issue date and should be signed by at least two authorised signatories of the bank.
 - e. The clearing member should also ensure that the bank guarantee is free from any discrepancy before the same is submitted to the Clearing Corporation.

In case the bank guarantee does not strictly conform to the above-mentioned conditions, the same shall not be accepted by the Clearing Corporation and benefit for the same shall be made available only upon the bank guarantee being strictly in conformity with the prescribed requirements.

d. Renewal of Bank guarantee

In case of renewal of bank guarantees, the clearing members shall furnish the renewal document strictly in the prescribed format as provided in **List of Formats and Annexures** before the date of expiry / maturity date of the bank guarantee.

In case the renewed bank guarantees/ fresh bank guarantees are not submitted within the above mentioned periods whereby the member does not fulfil the security deposit requirements, action as provided above shall be applicable.

e. Reminder letters through extranet

Reminder letters are downloaded on a monthly basis through the extranet in respect of the bank guarantees and FDRs that are due for renewal in the following month. Further the file naming convention for the same is O_REMINDERS_MEMBER CODE_DDMMYYYY.LIS. This is being provided as an additional facility only and members are advised to submit the renewals of the bank guarantees and fixed deposit receipts within the stipulated period.

C. Securities

a. Eligible securities

Clearing Members are permitted to deposit shares of companies and ETFs as communicated to the clearing members from time to time in electronic form ('demat securities') in the designated depository accounts maintained with the approved custodians or through any other depository participants of NSDL/CDSL in this regard. These securities shall be pledged in favour of NSE Clearing Limited.

Currently, securities forming part of VaR Margin Group 1 in the Capital Market segment of National Stock Exchange of India Limited shall be accepted as approved securities.

The valuation of the securities shall be in accordance with the norms prescribed by the Clearing Corporation from time to time. The securities shall be valued based on the closing price of the security at the Exchange. The value of the securities shall be reduced by such haircut as may be prescribed by the Clearing Corporation from time to time to arrive at the collateral value of the securities. Only the value net of applicable haircuts shall be considered as the value of the securities pledged. Valuation of securities shall be done by the custodians/Clearing Corporation at such periodic intervals as may be specified by the Clearing Corporation from time to time.

A report containing details of closing price and applicable haircut for the respective security shall be downloaded to common folder of clearing member on FTP and Exchange website. The report nomenclature will be "APPSEC_COLLVAL_ddmmyyyy.csv".

The quantity of security acceptable by Clearing Corporation from a clearing member shall be restricted in quantity and value terms. The list of approved securities, the acceptable quantity (Market wide limit and member level limit) of the security and applicable hair cut for the respective security shall be as per the Circular issued by Clearing Corporation for the respective month. Further the

quantum of each security acceptable shall be restricted to certain percentage of cash equivalent collateral placed by member with Clearing Corporation and the same shall be specified in list of approved securities.

A report containing security wise utilization of market wide permissible limit shall also be downloaded to common folder of clearing member on FTP. The report nomenclature will be “SEC_OL_ddmmmyyyy.csv” Clearing Corporation may revise the list of approved securities and, the haircuts from time to time. Clearing members who have deposited securities which have been discontinued from the list of approved securities, shall be required to take due care to replace such securities.

b. Securities not approved for acceptance

The following securities shall not be accepted as liquid assets:

- i. Partly paid securities
- ii. Securities subject to any lock in period, buy back scheme any charge or lien, encumbrance of any kind, or such other limitations or title is questioned before the court or any regulatory body.
- iii. Clearing members whose company shares are acceptable as approved securities shall not be permitted to place the same towards their liquid assets requirement.

c. Ownership of Securities

The securities that may be deposited, shall be subject to the legal and beneficial ownership of the clearing member/ spouse, any of the partners/ their spouses or any of the directors, in case of individual, partnership or corporate clearing members respectively, as the sole/ first joint holder, provided no depositor of securities should be a minor as on the date of deposit thereof.

In case of reconstitution / restructuring or any change in the partners /directors of the clearing member, as applicable, a clearing member shall be required to replace the securities belonging to such outgoing partners /directors immediately. The approved custodians shall be required to exercise due care for such replacement of securities and reporting thereof to the Clearing Corporation.

d. Acceptance of securities through approved custodians:

Clearing members are required to open a separate depository account with the approved custodians for the purpose of deposit of securities. Clearing members who are interested in availing of this facility may get in touch with the approved custodians to ascertain the modalities with regard to deposit of securities.

Clearing members may provide demat securities by marking a pledge of the securities in favour of the Clearing Corporation. The clearing member shall be required to submit all such documents as may be required by the Clearing Corporation and the approved custodian from time to time including the Deed of Pledge as per the format as mentioned in **List of Formats and Annexures**

Clearing members shall give the necessary pledge instruction(s) to the approved custodian for the securities to be pledged in favour of the Clearing Corporation. Once the securities are accepted and duly pledged by the approved custodian, the approved custodian shall inform the Clearing Corporation the valuation of the securities after adjusting the relevant hair cut percentages. On the

basis of the approved custodian's advice, benefit towards security pledged shall be provided to the clearing member.

**e. Acceptance of securities through any other depository participant of NSDL/CDSL
Registration**

- i. Clearing member may open a separate beneficial owner demat account ("designated account") with any depository participant of NSDL/CDSL or use any existing Stock Broker Collateral account for this purpose. Clearing member who is a Depository Participant (DP) of NSDL can open demat account under its own DP or any other DP of its choice.
- ii. The account type shall be "Body Corporate/Resident" and sub-type "Stock Broker-Collateral" in NSDL depository system and account type "Corporate/Individual/HUF/LLP" and sub-type "CM/TM-Collateral Account" in CDSL depository system
- iii. The aforesaid designated account shall be permitted for pledging of securities across all segments/schemes of the Clearing Corporation.
- iv. Clearing member shall ensure that designated account is solely used for the purpose of pledging securities in favor of the Clearing Corporation. Any other use of designated account shall be treated as non-compliance and shall be dealt with accordingly.
- v. Clearing member shall submit the following information to the Clearing Corporation:
 - Covering letter as per format provided in **List of Formats and Annexures**
 - Client master of the designated account
 - Pledge deed as per the specified format
 - Security deposit as per format provided in **List of Formats and Annexures**
 - Margin deposit as per format provided in **List of Formats and Annexures**
- vi. On submission of necessary documents as specified above the Clearing Corporation shall enable the designated account for acceptance of pledge.

Pledging of securities

- i. For pledging of securities in NSDL, the Clearing member shall be required to subscribe for SPEED-e facility of NSDL to submit the pledge request in favor of the Clearing Corporation.
- ii. Clearing Member shall initiate a pledge instruction from the designated account in favor of the requisite beneficial owner account of Clearing Corporation using SPEED-e facility of NSDL. Clearing members may note that **only** those pledges which are created through SPEED-e facility of NSDL shall be accepted towards collateral purpose.
- iii. For pledging of securities in CDSL clearing member can register the designated account for "easiest" facility provided by CDSL whereby it can electronically submit the pledge request in favor of Clearing Corporation. Alternately, the clearing member can also follow the existing procedure of submission of pledge instructions to its DP. Thus, pledge created through "easiest" facility of CDSL or through submission of instruction to the DP by using existing procedure shall be accepted for collateral purpose.
- iv. Details of the Clearing Corporation accounts in whose favor the pledge have to be created for different deposit shall be as under

Deposit type	NSDL Account		CDSL Account number
	DP ID	Account number	
Security Deposit	IN001002	10009108	1100001100020487

Margin Deposit	IN001002	10009116	1100001100020508
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- v. Clearing members shall ensure that correct account is selected while initiating the pledge instructions as these pledges will be confirmed automatically in favor of the Clearing Corporation.
- vi. Pledge instructions created in favor of the Clearing Corporation for securities which are not accepted as collateral or in favor of segment/type of deposit for which clearing member is not registered shall not be auto confirmed and instruction will remain in the status 'Pending Pledge Confirmation'. Clearing member shall have to cancel such pledge instructions. Member can request to Depository Participant to cancel the instruction.
- vii. Pledge instructions in respect of approved securities and in favor of segment/type of deposit for which member is registered shall be accepted.
- viii. For pledging of securities in NSDL Clearing members shall be levied a consolidated charges by NSDL on the value of securities pledged in favor of the Clearing Corporation. The charges shall be collected by NSDL from the clearing members. Clearing members may refer to instructions issued by NSDL in this regard. Of the total charges levied, the Clearing Corporation charges shall be @ 0.003% on the value of securities pledged in favor of the Clearing Corporation subject to a maximum of Rs.300 per transaction
- ix. For pledging of securities in CDSL Clearing members shall be levied charges on a monthly basis and collected by Clearing Corporation by debiting from the clearing members settlement account. No additional charges shall be levied by CDSL. The charges shall be @ 0.003% on the value of securities pledged in favour of the Clearing Corporation subject to a maximum of Rs.300 per transaction.(plus applicable taxes)

D. Government of India Securities

Securities in form of Central Government of India Securities (G-Sec) Treasury bills (T-bills) and Sovereign Gold Bonds (SGB) are also accepted as approved collaterals. G-Sec/ T-Bills/SGB can be provided through E-Kuber or through creation of pledge in demat account.

The procedure for submitting G-Sec/T-Bills/SGB as collateral shall be as under:

- i. Clearing member desirous of providing G-Sec/T-Bills/SGB shall enter into an agreement with the Clearing Corporation.
- ii. Clearing Corporation shall prescribe list of G-Sec/T-Bills/SGB that shall be eligible for acceptance as collateral from time to time.
- iii. G-sec/T-bill/SGB shall be accepted as collateral only in electronic form. Clearing members desirous of providing G-Sec/T-Bills/SGB as collateral shall be required to enter the transaction through its custodian/bank on E-Kuber under Margin Transfer Module. The member shall further be required to put request for addition of GSEC in CIM under menu option "EMI – GSEC Deposit – Request / Enquiry-Request the clearing member is required to submit a fax/mail request for addition as per prescribed format .Clearing Corporation shall confirm the transaction entered on the E-KUBER, based on the information received from members in CIM.
- iv. The details of SGL-II account of the Clearing Corporation is as follows:
 - Name of the Account: National Securities Clearing Corporation Limited
 - Member ID BYA00168
 - SGL – II A/c No. SG020168

- v. The benefit of G-Sec/T-bills/SGB provided as collaterals shall be passed on to the members on G-Sec/T-Bills/SGB being transferred to the SGL-II account of the Clearing Corporation.
- vi. The G-sec/T-bills/SGB released by the Clearing Corporation shall be entered on E-KUBER under Margin Transfer Module. The clearing member is required to submit a fax/mail request for release as per prescribed format.
- vii. The clearing members shall ensure that such transactions are approved on E-KUBER by their custodian/Banks.
- viii. G-Sec/ T-Bills/SGB can be alternatively provided to the Clearing Corporation in dematerialized form, through creation of pledge in demat account, on lines of securities. In this case the process for acceptance of G-Sec/ T-Bills/SGB as collaterals is similar to acceptance of securities as collateral as mentioned above
- ix. G-Sec/T-Bills shall be valued daily based on previous day's MTM prices as specified by Clearing Corporation of India Limited (CCIL). SGBs shall be valued based on the closing price of the same on the Exchange
- x. A hair cut of 10% shall be applied on the value of G-Sec/T-bills/SGB provided as collateral by the clearing member. The value after applying the hair cut shall be added to the cash component of the liquid assets of the clearing member.
- xi. Periodic coupon / redemption payments received on the G-Sec/T-Bills/SGB provided by the clearing member shall be passed on to the clearing members by the Clearing Corporation immediately/next working day, upon receipt of relative interest from Reserve Bank of India.
- xii. Clearing members who are also banks may note that G-Sec/T-Bills provided as collaterals should not be reckoned for SLR purpose of the banks and not be used for trading.

E. Open ended Mutual Funds Units as Collaterals

Units of mutual funds shall be accepted as in dematerialized form as collaterals. The list of eligible open ended mutual fund schemes along with the market wide acceptable quantity shall be disseminated by the Clearing Corporation on monthly basis along with the approved list of securities. The valuation of units of the mutual funds shall be done on daily basis based on the NAV of the mutual fund scheme. The value of the units of the mutual fund shall be reduced by such haircut as may be prescribed by the Clearing Corporation from time to time.

The total value of mutual fund debt schemes provided as non-cash portion of the liquid assets shall not exceed 35% of the total liquid assets of the respective member. The total value of other mutual fund schemes (non-debt) provided as non-cash portion of the liquid assets shall not exceed 25% of the total liquid assets of the respective member.

F. Corporate Bonds as Collaterals

Corporate Bonds shall be accepted in dematerialized form as collaterals. The list of eligible corporate bonds along with the market wide acceptable quantity shall be disseminated by the Clearing Corporation on monthly basis.

The corporate bonds shall be valued on daily basis on closing price of the bond listed under Capital Market segment or Debt segment of Exchange or the valuation using yield from sovereign yield curve plus published by FBIL and credit spread published by FIMMDA, whichever is lower. A hair cut of 15% shall be applied on the value of corporate bond. The value of the corporate bonds shall be reduced by such haircut.

The total value of corporate bonds provided as noncash portion of the liquid assets shall not exceed 10% of the total liquid assets of the respective member.

A report containing details of valuation for corporate bond shall be downloaded to clearing member in CSV format in common folder of FTP. The report nomenclature will be “CB_Bhavcopyddmmyyyy.csv”.

A report containing details of haircut for corporate bond shall be downloaded to clearing member in CSV format in common folder of FTP. The report nomenclature will be “CB_Haircut_ddmmyyyy.csv”.

G. Releases of Liquid Assets

Clearing member may request the Clearing Corporation to release deposits held by the Clearing Corporation. Such requests may be considered by the Clearing Corporation if the Clearing Corporation chooses not to exercise its lien pursuant to the Rules, Byelaws and Regulations and subject to availability after due adjustments for the due fulfilment of all obligations and liabilities arising out of or incidental to any deals made by such clearing member and / or trading members clearing and settling the deals through such clearing member and subject to the bye laws, rules and regulations of the Clearing Corporation or anything done in pursuance thereof.

The web based facility of CIM is provided for submission of release requests of collaterals. The clearing members may select the desired available collaterals for release. Release requests though CIM can also be placed using a file upload facility. The format of the file to be uploaded by the clearing member is provided in **List of Formats and Annexures**

H. Collection of released collaterals

The representative of clearing members coming to collect released FDR/Bank guarantee is required to carry an authorization letter.

The released FDRs/Bank guarantee under immediate release mode can be collected on same working day of the release from regional office where as FDRs/Bank guarantee released under value date release mode can be collected on requested value date of the release from regional office.

I. Release of cash collateral in designated secondary account

Clearing member may request for release of collateral in any of the designated clearing account. In case a clearing member opts for cash release to the secondary clearing account the following points may be noted

- Clearing member who wish to release cash collateral in designated secondary account shall select the designated secondary bank while raising the release request in CIM
- Clearing member can raise the request to release cash to its designated secondary account only on an Immediate or End of Day basis. There will be no value date facility for release of cash collateral in designated secondary account.
- The facility shall be available only for cash deposited during the day from the secondary account in the respective segment.

J. Transfer of Collaterals

A facility is provided in CIM to enable members to transfer collaterals from one segment to other segment on an intraday basis. Clearing members shall be required to put a transfer request in CIM and specify the segment where the collateral is to be transferred.

The intra-day transfer facility shall be available for margin deposits provided in form of Cash FDRs and bank guarantee only. Further, members shall also be able to request to avail excess Interest Free Security Deposit over the minimum amount stipulated regulatory in the other segments as collateral towards the margin requirements using the said facility.

The modalities of intraday transfer are mentioned below:

- i. The facility of transfer of collaterals shall be available to clearing members.
- ii. The facility of intraday transfer shall be available for Cash, FDRs and bank guarantee.
- iii. Clearing member shall request for transfer of collaterals in CIM under menu option “Collateral Release – New Request/inquiry - Transfer Request”.
- iv. Transfer request received from the clearing members via CIM shall be treated as request from the clearing members and no separate transfer letter need to be submitted for Cash and FDRs and fungible bank guarantee.
- v. In case of non-fungible bank guarantee the clearing member is further required to submit a letter to Clearing Corporation requesting for the same, the format of the letter is specified by clearing corporation and an amendment letter executed on stamp paper from the respective bank as per format of the amendment letter as specified by clearing corporation in addition to transfer request placed on CIM.
- vi. Intra-day transfer shall be subject to maintenance of minimum deposits as per regulatory requirement and other applicable parameters.
- vii. Clearing member may verify the details of the request for transfer and its status in CIM under menu option “Collateral Release – New Request/inquiry- Transfer Inquiry”.

3. MARGINS

3.1 Initial Margins

Initial margin shall be payable on all open positions of Clearing Members, up to client level, and shall be payable upfront by Clearing Members in accordance with the margin computation mechanism and/ or system as may be adopted by the Clearing Corporation from time to time.

Initial Margin shall include SPAN margins, intra-day crystallised losses and such other additional margins that may be specified by the Clearing Corporation from time to time.

3.2 Computation of SPAN Margin

Clearing Corporation shall adopt SPAN[®] (Standard Portfolio Analysis of Risk) system or any other system for the purpose of real time margin computation.

The Initial Margin requirement shall be so as to cover to cover potential losses for at least a 99% VaR over one day horizon subject to minimum percentage floor value as prescribed by SEBI from time to time. In order to achieve this, the estimated EWMA volatility (standard deviation) shall be scaled up by a factor of 3.5.

Clearing Corporation shall estimate the appropriate Margin Period of Risk (MPOR) for each product based on liquidity in the product and scale up the initial margins, if required. The minimum MPOR for all commodity derivative contracts shall be at least 2 days.

The methodology for computation of value at risk percentage shall be as per the recommendations of SEBI from time to time. The margin computation methodology for SPAN[®] is detailed as **in List of Formats and Annexures**.

Initial margin requirement:

1. For client positions - shall be netted at the level of individual client and grossed across all clients, at the trading/ clearing member level, without any set-offs between clients.
2. For proprietary positions - shall be netted at trading/ clearing member level without any set-offs between client and proprietary positions.

The margins so computed shall be aggregated first at the trading member level and then aggregated at the clearing member level.

For the purpose of SPAN[®] Margin, various parameters shall be as specified hereunder or such other parameters as may be specified by the Clearing Corporation from time to time:

3.3 Minimum value for Initial Margin

The minimum margin percentage shall be as under or as may be specified by the Clearing Corporation from time to time

- Gold Futures – 4%
- Gold Mini Futures – 4%
- Silver – 4%

3.4 Spread Margin

Spread margin benefit has been permitted by SEBI in the following cases:

1. Different expiry date contracts of the same underlying
2. Two contracts variants having the same underlying commodity

Clearing Corporation shall levy a minimum 25% of the initial margin on each of the individual legs of the spread. Maximum benefit in initial margin on spread positions shall be restricted to 75%. Initial margin benefit shall be provided only when each individual contract in the spread is from amongst the first three expiring contracts.

Clearing Corporation may charge spread margins higher than the minimum specified depending upon its risk perceptions. In case of such spread positions, additional margins, if any shall not be levied.

Further margin benefit on spread positions shall be entirely withdrawn latest by the start of tender period or Expiry day, whichever is earlier.

No benefit in Extreme Loss Margins (ELM) shall be provided for spread positions i.e. ELM shall be charged on both individual legs

3. Futures contracts in a commodity complex provided the conditions below are met

Clearing Corporation shall provide spread benefit in initial margin across futures contracts in a commodity complex provided the following conditions are met:

- A. Minimum coefficient of correlation (r) between futures prices of the two commodities is 0.90.
- B. Back testing for adequacy of spread margin to cover MTM has been carried out for a minimum period of one year (back testing for at least 250 days wherein daily settlement price of futures used for back testing have been determined from traded futures prices).
- C. Initial margin after spread benefit has been able to cover MTM on at least 99% of the days as per back testing

Maximum benefit in initial margin on spread positions is restricted to 50%. Initial margin benefit shall be provided only when each individual contract in the spread is from amongst the first three expiring contracts. Further margin benefit on spread positions shall be entirely withdrawn latest by the start of tender period or Expiry day, whichever is earlier.

No benefit in Extreme Loss Margins (ELM) shall be provided for spread positions i.e. ELM shall be charged on both individual legs.

Clearing Corporation shall continuously monitor dynamics of the commodities and their correlation and if there are changes such that spread margin benefit is no longer appropriate to be given, shall take appropriate further course of action.

3.5 Intra-day crystallized Losses

Clearing Corporation shall calculate and levy Intraday Crystallized Losses (ICMTM) in the following manner:

- a. ICMTM shall be computed for all trades which are executed and results into closing out of open positions.
- b. ICMTM shall be calculated based on weighted average prices of trades/positions
- c. ICMTM shall be part of initial margin and shall be adjusted against the liquid assets of clearing member on a real time basis.
- d. Crystallized losses at a contract level for a client shall be adjusted against crystallized profits, if any, from another contract for the same client to arrive at client level profit or loss.
- e. All client level losses across all trading members including losses on proprietary positions of trading members, if any, shall be grossed up to arrive at clearing member level ICMTM.
- f. ICMTM so blocked/ collected shall be released on completion of daily / final mark to market settlement pay-in

3.6 Updation of risk parameters

SPAN risk parameters shall be updated at Beginning-of-Day, End-of-Day and at intervals not exceeding 2 hours during the trading hours. The latest available risk parameters would be applied to member/client portfolios on a real time basis. Risk parameters generated based on the updated parameters shall be provided on the website/FTP.

3.7 Extreme Loss margins (ELM)

Clearing members shall be subject to ELM in addition to initial margins. ELM of 1% on gross open positions shall be levied and shall be deducted from the liquid assets of the clearing member on an online, real time basis.

3.8 Tender Period Margin/Pre-expiry Margin

Clearing Corporation shall levy tender period/pre-expiry margin which may be increased gradually every day beginning from the pre-determined number of days before the expiry of the contract as applicable. Clearing Corporation shall determine the quantum of tender period margin as appropriate based on the risk characteristics of the particular commodity. Tender Period Margin shall be applicable on both buy and sell side.

3.9 Delivery Period Margin

Delivery period margin shall be levied by Clearing Corporation on the long and short positions marked for delivery till the pay-in is completed by the clearing member. Once delivery period margin is levied, all other applicable margins may be released.

Delivery period margins shall be higher of:

- a) 3% + 5 day 99% VaR of spot price volatility

Or

- b) 20%

Clearing Corporation may impose higher delivery margins if it deems fit

3.10 Concentration margins

Clearing Corporation may impose adequate concentration margins (only on concentrated positions) to cover the risk of longer period required for liquidation of concentrated positions in any commodity. The threshold value for imposing concentration margin may be determined taking into account factors including open interest, concentration and estimated time to liquidation based on prevailing liquidity and possible reduction in liquidity in times of market stress etc. The quantum of concentration margins imposed may vary based on the level of concentration

3.11 Additional margins

As a risk containment measure, the relevant authority may require clearing members to make payment of additional margins as may be decided from time to time. This shall be in addition to other margins, which are or may have been imposed from time to time.

3.12 MTM (Mark to Market) Settlement

The mark to market gains and losses shall be settled in cash before the start of trading on T+1 day. If mark to market obligations are not being collected before start of the next day's trading, Clearing Corporation shall collect correspondingly higher initial margin (scaling up) to cover the potential losses over the time elapsed in the collection of margins.

3.13 Mode of payment of margin

Clearing members shall provide for margin in any one or more of the eligible collateral as detailed in Liquid assets section. The margins shall be collected /adjusted from the liquid assets of a clearing member on a real time basis.

3.14 Payment of margins

All applicable margins shall be deducted from the liquid assets of the clearing member on an online real time basis. Margins applicable on client positions have to be compulsorily collected from the clients and reported to the Clearing Corporation by the members.

3.15 Measures in case of repeated shortfall in margin/pay-in

In case of repeated margin/pay-in shortfalls beyond a threshold amount by clearing any member in a month, following risk mitigation measures shall be initiated by Clearing Corporation:

- The member shall be put in square off mode and required to reduce positions.
- The member shall be charged initial margins at a higher rate for the next one month, or the member be subjected to a penal exposure free deposit equal to the cumulative funds/margin shortage over previous one month which could be kept with the Clearing Corporation for the next month.

3.16 Risk Reduction Mode

Clearing/trading member shall be compulsorily placed in risk reduction mode when 90% of the clearing member's capital/trading member limit is utilised towards margins.

When a member moves in to risk reduction mode -

- a. All unexecuted orders shall be cancelled
- b. Fresh orders placed by members to reduce open positions shall be accepted.
- c. Fresh orders placed by members that increase open positions shall be checked for sufficiency of margins and orders that do not satisfy sufficiency of margins will be rejected.
- d. Fresh orders can be placed for immediate or cancel (IOC) only
- e. Members will be able to trade in normal mode as and when the utilisation goes below 85%

Additionally

- i. Members shall not be allowed to place orders with custodial participant code
- ii. Client and Custodial Participant code modification shall not be permitted
- iii. Clearing members will not be allowed to Approve/Reject trades

3.17 Voluntary Closeout Facility

To enhance the risk management capabilities of the clearing / trading members and to avoid a situation of disablement, in addition to the risk reduction mode, members are being provided an additional risk management facility of Voluntary Close out. This facility enables clearing/trading members to voluntarily define a limit (lower than risk reduction limit set) for margins/ position limits beyond which all the orders would get risk managed.

Clearing members desirous of availing the facility shall define limit for margins (upper limit) beyond which they shall move into Voluntary Close out mode and a limit (lower limit) below which they shall move out of Voluntary Close out mode. The voluntary limits shall be lower than the limits specified for risk reduction mode. Similarly trading members desirous of availing the facility shall define separate limits for margins and positions (upper limit) beyond which they shall move into Voluntary Close out mode and a limit (lower limit) below which they shall move out of Voluntary Close out mode.

These limits shall be defined in NCMS- and shall be within a set band. The limits can be modified intra-day provided the member is not in the Risk reduction mode.

When the margin utilization exceeds the upper limit, the clearing/trading member shall move in risk reduction mode. Member shall be allowed to modify the lower limit in voluntary closeout mode.

4. CLOSING OUT

4.1 Closing out

In the event of non-performance by a clearing member of any of his obligations as specified in the Bye-laws, Rules and Regulations, or for any other reason that the relevant authority may deem fit, including, action initiated by Government/ Statutory/ Regulatory Agencies, pursuant to any acts of violation/contravention of any statutes or Rules and/ or Regulations framed there under, committed by the clearing member and/ or trading members and/ or constituents, clearing and settling through such clearing member, the outstanding positions of such clearing member and/ or such trading members and/ or such constituents, may be closed out at any time by the Exchange, at the discretion of the Clearing Corporation, to the extent possible, either by placing at the Exchange, counter orders in respect of the outstanding position of clearing member, without any notice to the clearing member and/ or trading member and/ or constituent, or by such other mechanism provided by the Clearing Corporation from time to time. Such action shall be final and binding on the clearing member and/ or trading member and/ or constituent.

Clearing Corporation may also allow transfer of all or any of the open positions of clients or such other open positions of such clearing member, as may be specified from time to time, to any other clearing member, who agrees to accept such transfer, subject to such terms and conditions as may be specified by the Clearing Corporation from time to time.

Clearing Corporation may initiate such other risk containment measures as it deems fit with respect to the open positions of the clearing member and/ or trading member and / or constituent. Clearing Corporation may also require clearing members to reduce/ close-out open positions to such levels and for such contracts as may be decided by the relevant authority from time to time.

In addition and without prejudice to the foregoing, the Clearing Corporation may, within such time as it may deem fit, advise the Exchange to withdraw any or all of the membership rights of clearing member including the withdrawal of trading facilities of all trading members and/ or clearing facility of custodial participants clearing through such clearing members, without any notice.

Clearing Corporation may, in addition to the foregoing provisions, take additional measures like, imposing penalties, collecting appropriate deposits, invoking bank guarantees, encashment of fixed deposit receipts, realizing money by disposing off the securities, and exercising such other risk containment measures as it deems fit and may further take such disciplinary action as it may deem fit and appropriate in this regard.

4.2 Close-out facility

Trading members shall be provided an online facility to close- out open positions whose trading facility is withdrawn for any reason subject to conditions specified below and that as may be specified by the Clearing Corporation from time to time.

On disablement, trading members shall be allowed to place close-out orders through this facility

- a. Only orders which result in reduction of existing open positions at a client level shall be accepted through the close-out facility
- b. Trading members shall not be allowed to create any fresh position in the close-out mode

- c. Trading members shall not be allowed to place close out orders with custodial participant code
- d. Trading members shall not be allowed to do trade modifications while in close-out mode

Further, this facility does not dilute the powers of the Clearing Corporation to close-out under its Bye-Laws, Regulations and Circulars.

4.3 Close out Facility by Clearing Member on Behalf of Trading Member

Clearing members shall be provided an online facility to close out open positions of their trading members whose trading facility is withdrawn for any reason. Such a facility will be provided, subject to conditions specified below and that as may be specified from time to time.

- a. Clearing members shall be required to send a written intimation to the Clearing Corporation containing a list of trading members for which they would like to close-out positions.
- b. On disablement of a trading member, the clearing member shall be allowed to place close-out orders through this facility only if the concerned trading member has been made eligible for close-out by the clearing member and the clearing member has requested for such facility as per point **(a)** above.
- c. Only orders which result in reduction of existing open positions at a client level of the trading member shall be accepted through the close-out facility.
- d. Clearing members shall not be allowed to create any fresh position for their trading member in the close-out mode.
- e. Clearing members shall not be allowed to place close out orders with custodial participant code.

5. CORE SETTLEMENT GUARANTEE FUND AND DEFAULT WATERFALL

5.1 Core Settlement Guarantee Fund

Clearing Corporation has established the Core Settlement Guarantee Fund(Core SGF) for Commodity segment based on the norms provided under SEBI circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2018/111 dated July 11, 2018.

The Minimum Required Corpus (MRC) of the Core SGF shall be arrived based on the stress test methodology prescribed by SEBI. Clearing Corporation shall compute the MRC which shall be subject to the following;

- a. The MRC shall be fixed for a month.
- b. By 15th of every month, Clearing Corporation shall review and determine the MRC for next month based on the results of daily stress tests of the preceding month. Clearing Corporation shall also review and determine by 15th of every month, the adequacy of contributions made by various contributors and any further contributions to the Core SGF required to be made by various contributors for the next month.
- c. For every day of the preceding month, uncovered loss numbers shall be estimated by the various stress tests for credit risk conducted by the Clearing Corporation for the segment and highest of such numbers shall be taken as worst case loss number for the day.
- d. Average of all the daily worst case loss numbers determined in (c) shall be calculated.
- e. The MRC for next month shall be higher of the average arrived in at step (d) and the segment MRC as per previous review.
- f. The Minimum threshold value of MRC for commodity derivatives segment shall be INR 10 Crores

5.2 Contribution to Core SGF

The contribution to Core SGF from various contributors shall be as follows;

- a. Clearing Corporation contribution to core SGF will be minimum 50% of MRC of segment. Clearing Corporation shall make this contribution from its own funds. Clearing Corporation contribution to core SGFs will be considered as part of its net worth.
- b. Exchange contribution to Core SGF will be minimum 25% of MRC
- c. The total contribution from clearing members to Core SGF for each segment will not be more than 25% of MRC of the respective segment. No exposure shall be available to members on their contribution to Core SGF. The clearing member may bring this contribution in the form of cash, bank fixed deposits or central government securities. The required contributions of each clearing member shall be assessed pro-rata based on the risk they bring to the system.

Clearing Corporation may collect clearing member contribution either upfront or staggered over a period of time. In case of staggered contribution, the remaining balance shall be met by the Clearing Corporation to ensure adequacy of total Core SGF corpus at all times. Such contribution shall be available to Clearing Corporation for withdrawal as and when further contributions from clearing members are received.

5.3 Penalties levied by Clearing Corporation

Any penalties levied by Clearing Corporation shall be credited to Core SGF.

5.4 Interest on Core SGF cash contribution

Interest on cash contribution to Core SGF shall also accrue to the Core SGF and pro-rata attributed to the contributors in proportion to their cash contribution.

5.5 Default Waterfall

The default waterfall for Commodity segment shall follow the following order:

- Defaulting member's monies (including contribution to CSGF)
- Insurance, if any
- Clearing Corporation resources equal to 5% of MRC
- CSGF resources in the following order:
 - Penalties and investment income on CSGF
 - Clearing Corporation contribution to CSGF to the extent of at least 25% of the segment MRC
 - Remaining CSGF (Clearing Corporation, non-defaulting member's primary contribution and Exchange) on pro-rata basis.
- Proportion of remaining Clearing Corporation resources (excluding clearing corporation contribution to core SGFs of other segments and INR 100 Crores) equal to ratio of segment MRC to sum of MRCs of all segments.
- Clearing corporation/NSEIL contribution to Core SGFs of other segments (after meeting obligations of those segments) and remaining NSE Clearing resources to that extent as approved by SEBI.
- Any remaining loss to be covered by way of pro-rata haircut to pay-outs. In case loss allocation is effected through haircut to pay-outs, any subsequent usage of funds shall be with prior SEBI approval.

6. CLIENT MARGIN REPORTING

Client Margin Reporting:

Members are required to compulsorily collect margins from their client/constituents. It is mandatory for all clearing /trading members to report details of such “Margins” collected to the Clearing Corporation in accordance with the procedure and formats specified hereunder or as may be specified by the Clearing Corporation from time to time:

The “Margins” for this purpose shall mean initial margin, extreme loss margin (ELM), mark to market margin, special / additional margin, delivery margin or any other margin as prescribed by the Clearing Corporation to be collected by member from their clients.

The members are required to collect upfront initial margins from their clients. The members will have time till ‘T+2’ working days** to collect margins (except initial margins) from their clients.

*** (The clients must ensure that the initial margins are paid in advance of trade and other margins are paid as soon as margin calls are made by Clearing Corporation/Members. The period of T+2 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.)*

The members shall report to the Clearing Corporation on T + 5 day the actual short -collection/non-collection of all margins from clients.

The cut off day up to which a member may report client margin details to the Clearing Corporation is referred to as the sign off date. It shall be 5 working days after the trade date i.e. members are allowed to upload client margin reporting file up to T+5 working days.

6.1 Files to be submitted by the member

The files are required to be uploaded through the CIM using the client margin file upload menu. (CIM>Client Margin>File upload). The members shall be able to upload client margin reporting files at any time during the day through CIM. The facility of uploading the files through the extranet server in the directory /COMFTP/O<MEMBERCODE>/COLAT/UPLD is also available.

The name of the file to be uploaded by the trading member on the extranet server or thru CIM is O_MRG_TM_<DDMMYYYY>_nn.CSV and that by the clearing member is O_MRG_CM_<DDMMYYYY>_nn.CSV

where:

<DDMMYYYY> is the trade date, TM = Trading Member, CM = Clearing Member and ‘nn’ is the batch number of the file

The files are required to be uploaded through CIM using the client margin file upload menu.

The files can alternatively be uploaded in the following directory on the extranet server:

/COMFTP/O<MEMBERCODE>/COLAT/UPLD where MEMBER CODE is the 5 digit trading member code of the member. (eg. 09999)

Members are requested to take note of the following whilst uploading the client margin reporting files:

- a. Members are not required to provide member code in the file name
- b. Members are required to provide batch number in every file they upload starting with 01. Thereafter subsequent files are required to have incremental batch numbers viz 02, 03 etc up to maximum of 99. This would enable members to send multiple files for the same trade date with incremental batch numbers. Multiple files may be sent by the member up to five working days after the trade date. Where multiple files are uploaded by the members for a client/constituent/trading member for a trade day, the information of client margin collected as provided in the file with latest batch number for the trade date would be considered as final by the Clearing Corporation. If a file is uploaded with the wrong batch number the return file shall have a message indicating that the batch number is incorrect.
- c. If a member uploads a file with incorrect name, such files shall not be picked up by the Clearing Corporation. In case of files uploaded through the extranet the same file shall be renamed as "<filename>.failed" in the respective member folder in order to facilitate members to ascertain file upload failure.
- d. Zero byte uploaded through the CIM shall not be accepted. In case of zero byte files uploaded through the extranet the same file shall be renamed as "<filename>.failed" in the respective member folder.
- e. In case the files are made by customised software at user end, members may note that a new line character has to be present in the last record in order to ensure proper processing.
- f. Members are requested to refer to the return file every day for the short reporting of margins and initiate necessary corrective actions to ensure that the margins are collected and reported upfront.

Members may note the following procedure for providing client margin details:

- a. Each row of the margin file MG12 provides the details of margins for a proprietary account of trading member, as per the code entered by the members at the time of order entry. Clearing Corporation shall provide additional files for clearing members (MG18) as a part of End of Day reports. The files shall contain total margin applicable for each associated Trading Member.
- b. Each row of the margin file MG13 provides the details of margins for a specific trading member/client code, as per the code entered by the members at the time of order entry.
- c. Members are required to add a comma and the margin amount collected figure at the end of each row (for each trading member/client/constituent) in the file representing the actual initial margin amount collected from that trading member/client/constituent as the case may be.
- d. This figure for initial margin amount collected, appended by the member should not be negative.
- e. Members are required to ensure that no information provided in the file is modified. Any modification shall result in such record being rejected by the Clearing Corporation.

6.2 Return files to the members

A return file shall be generated for all files uploaded by the members for client margin reporting with the correct naming convention. Members can download return file through CIM using the client margin file download menu. The return file for member shall also be placed in the extranet directory /COMFTP/O<MEMBER CODE>/COLAT/DNLD.

In case of any errors in the file, the members would be able to correct the same and upload the same on the extranet server with incremental batch number any time prior to Trade date +5 working days.

Two types of return files are generated for the members

1. Rejected Files - where the whole file has been rejected
2. Processed File Records - where some or all records in the file have been rejected

1. Rejected Files –

File Naming convention: O_MRG_TMF_MEMBERCODE_<DDMMYYYY>_nn.CSV for trading members and O_MRG_CMF_MEMBERCODE_<DDMMYYYY>_nn.CSV for clearing members

Some reason for which a file may be rejected are mentioned as under

File loaded after the sign off date - Members are allowed to upload client margin reporting file up to T+5 working days. Such files would be rejected with the reason “File is not being processed as file upload date is greater than sign off date”.

File loaded for future date - If the member uploads the file for September 12, 2018 on September 11, 2018, then the return file would indicate the rejection reason as ‘File is not being processed as file date is greater than system current date’.

Member uploads file for an invalid day - If a member is not required to report the client margin file for a day (say Saturday, Sunday, holiday etc.) and still uploads the same, then the return file would be rejected with the message ‘File is not being processed as the member code is invalid for the file date’.

Member uses non-serial batch number in file name - If the batch number provided by the member for a trade date is not in sequence, for example if the member has uploaded two files for the trade date September 12, 2018 with file names O_MRG_TM_12092018_01.CSV and O_MRG_TM_12092018_03.CSV, the second file would be rejected with error message ‘File is not being processed as file batch number is not proper. Last successful batch no for the day was 01’.

File in wrong format - If the member has provided a file which cannot be read by the system for example- non csv file, then return file would be rejected with the message ‘File is not being processed as the file is not in format’.

2. Processed File Records –

File Naming Convention: O_MRG_TMR_MEMBER CODE_<DDMMYYYY>_nn.CSV for trading members and O_MRG_CMR_MEMBER CODE_<DDMMYYYY>_nn.CSV for clearing members

After processing of client margin file, each record would have a reason code indicating acceptance/rejection, as the case may be. The details of reason codes are as follows:

<i>Reason Code</i>	<i>Description</i>
01	Record size does not match for e.g. extra comma in the record
02	Date in record does not match with file date
03	Record is altered i.e. matching record does not exist in MG-13/MG-12 file. Possible error in date/ client code/ margin amount

<i>Reason Code</i>	<i>Description</i>
04	Record pertains to proprietary position for trading member
05	Record pertains to proprietary position for clearing member
06	Margin amount collected is negative or non-numeric.
07	Insufficient Margin
08	Sufficient Margin

- For reason codes 01 to 06, the difference amount, would not be indicated in the return file. However for reason codes 07 and 08, the difference amount would be indicated.
- If the record contains multiple errors for e.g. reason code 01 as well as 06, the reason code which is the lowest in number would appear against the record i.e. reason code 01.

6.3 Sign-off date

The cut off day up to which a member may report client margin details to the Clearing Corporation is referred to as the sign off date. It shall be 5 working days after the trade date i.e. members are allowed to upload client margin reporting file up to T+5 working days.

6.4 Non-reporting/ non submission of client margin

All instances of non-reporting of client margins by the members shall be treated similar to and as 100% short reporting of client margins and accordingly penalties shall be imposed.

6.5 Penalty for short / non-reporting of client margin

Penalty shall be levied in case of short/ non-reporting by trading/clearing member as per **Violations and Penalties**.

7. VIOLATIONS AND PENALTY

Short / non-reporting of client margin

The following penalty shall be levied on the members for short / non-collection of margins from their clients beyond T + 2 working days in case of short reporting by trading/clearing member as per the details given below per instance.

For each Member	
'a'	Per day penalty as % of 'a'
(< Rs 1 lakh) And (< 10% of applicable margin)	0.5%
(≥ Rs 1 lakh) Or (≥ 10% of applicable margin)	1.0%

Where a = short-collection / non-collection of margins per client per day

1. In case of short-collection /non collection of initial margins, the above penalty structure would be applicable from T day.
2. The members are supposed to report the collection of all margins from their clients at the end of each trading day and to report short collection/non-collection of all margins on the T+5 day.
3. 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. The penalty shall be collected by the Exchanges not later than five days of the last working day of the trading month.
4. With respect to repeated defaulters, who default 3 times or more during a month, the penalty would be 5% of the shortfall in such instances. (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 in 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 number of instances is 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 3rd instance.)
5. All the penalties collected as prescribed above shall be credited to the Core Settlement Guarantee Fund of the Clearing Corporation.

7.1 Position Limit Violation

The following penal provisions are made to discourage/ prevent open interest violations at Commodity level / near month contract level. Monetary penalty on the concerned member for violations in the open interest (either on own account or on account of clients) are linked to the quantum/ value of violation committed and to be charged from the concerned member for each such violation as under:

1. Where the violation is more than 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is higher.
2. Where the violation is up to 2% of the prescribed limit(s) – Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is lower.
3. The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of violation. In case such violation continues, the Exchange would square-off the excess position without any further notice to the member by putting the orders on behalf of the member in that client code and will not be responsible for the consequences of such action
4. In case, the instance at (1) above is observed for more than 3 times in a month across the market, the Exchange would suspend the concerned member for a period of one week. For instances at (2) above, the Exchange may devise its norms to deal with habitual defaulters.
5. Further, in case repeated violations of such nature are observed by SEBI, SEBI may consider action against the concerned Exchange.
6. The monetary penalty as stated above, will be credited to the Core Settlement Guarantee Fund of the Exchange.

7.2 Funds Shortage

Non-fulfilment of settlement obligation towards settlement of Commodity Derivatives contracts by the scheduled date and time shall be treated as a violation.

In case of a settlement shortage of Rs.5 lakhs or more the Clearing Corporation may advise the Exchange to withdraw any or all of the membership rights of the clearing member including the withdrawal of trading facilities of all trading members and/ or clearing facility of custodial participants clearing through such clearing members.

In case of settlement shortage of less than Rs.5lakhs the amount of shortage shall be blocked from the effective deposits of the clearing member to the extent of funds shortage. This may lead to the withdrawal of the trading facility of the clearing member and the associated trading member.

Further, if the clearing member is short for an amount of Rs.2 lakhs or more in six or more occasions in the preceding three months, the Clearing Corporation may advise the Exchange to withdraw any or all of the membership rights of the clearing member including the withdrawal of trading facilities of all trading members and/ or clearing facility of custodial participants clearing through such clearing members.

In case of any over-night settlement shortages a penal charges of 0.07% per day of shortage shall be levied

The funds defaulting member will be allowed such time as may be permitted by the relevant authority depending upon the facts of the case to bring in the amount in default. If the member does not bring in the amount by the time permitted by the relevant authority, and continues to default thereafter, the relevant authority would be constrained to initiate suitable action including withdrawal of his trading facility, appropriation of his capital / deposits with the Exchange / Clearing Corporation and/or declare him a defaulter.

7.3 Delivery Shortage

- Buyer default shall not be permitted.
- Penalty on seller in case of delivery default (default in delivery against open position at expiry in case of compulsory delivery contracts, default in delivery after giving intention for delivery) shall be as follows:
- 3% of Settlement Price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and the following day, if the spot price so arrived is higher than Settlement Price, else this component will be zero.)
- Exchanges shall have the flexibility to increase/decrease penalty for specific commodities depending on situation, in consultation with SEBI.
- Exchange shall have appropriate deterrent mechanism (including penal/disciplinary action) in place against intentional/wilful delivery default.

Norms for apportionment of penalty on Delivery Shortage:-

- At least 1.75% of Settlement Price shall be deposited in the CSGF of the Clearing Corporation.
- Up to 0.25% of Settlement Price will be retained by the Clearing Corporation towards administration expenses.
- 1% of Settlement Price + replacement cost shall go to buyer who was entitled to receive delivery.

7.4 Non-fulfilment of minimum deposit requirements

Any failure on the part of a clearing member to meet with the minimum deposit requirements as given in **Liquid Assets**, at any point of time, shall be treated as a violation.

In case of shortage in minimum deposit requirements of Rs.5 lakhs or more the Clearing Corporation may advise the Exchange to withdraw any or all of the membership rights of the clearing member including the withdrawal of trading facilities of all trading members and/ or clearing facility of custodial participants clearing through such clearing members.

In case of shortage in minimum deposit requirement of less than Rs.5lakhs the clearing member shall require to replenish the shortfall immediately but in any case not later than one week. In case the shortfall is not replenished for a period of more than one week, the Clearing Corporation may advise the Exchange to withdraw any or all of the membership rights of the clearing member including the withdrawal of trading facilities of all trading members and/ or clearing facility of custodial participants clearing through such clearing members

In addition to the above, penal charges of 0.07% per day on the amount of shortages shall be levied.

7.5 Non fulfillment of margin obligations (Initial margin ,Extreme loss margin or any other Margin)

When the margin liability of a clearing member exceeds his liquid assets less minimum liquid net worth or the margin liability of a trading member exceeds the margin limit specified by his clearing member, at any time, including during trading hours it shall be treated as a violation

In the event of a violation, the Clearing Corporation may advise the Exchange to withdraw any or all of the membership rights of the clearing member including the withdrawal of trading facilities of all

trading members and/ or clearing facility of custodial participants clearing through such clearing members. In case of violation by trading member the Clearing Corporation may advise the Exchange to withdraw trading facilities of the trading member.

Additionally, penalty and penal charge as mentioned in 7.6 shall be levied for Non fulfillment of initial margin obligations.

7.6 Penalty and penal charges for margin/limit violation

In respect of violation mentioned in point 7.5 penalty for margin violation shall be levied on a monthly basis based on slabs as mentioned below or such other amount as specified by the Clearing Corporation from time to time

Instances of Disablement	Penalty to be levied
1st instance	0.07% per day
2nd to 5th instance of disablement	0.07% per day + Rs.5,000/- per instance from 2nd to 5th instance
6th to 10th instance of disablement	0.07% per day + Rs.20,000/- (for 2nd to 5th instance) + Rs.10000/- per instance from 6th to 10th instance
11th instance onwards	0.07% per day + Rs.70, 000/- (for 2nd to 10th instance) + Rs.10, 000/- per instance from 11th instance onwards. Additionally, the member will be referred to the Disciplinary Action Committee for suitable action.

Instances as mentioned above shall refer to all disablements during market hours in a calendar month.