

National Stock Exchange of India

Circular

Department: COMPLIANCE	
Download Ref No: NSE/COMP/54704	Date: December 02, 2022
Circular Ref. No: 89/2022	

To All Members,

Sub: Inclusion of Equity Exchange Traded Funds as the list of eligible securities under Margin Trading Facility

This has reference to the SEBI Circular SEBI/HO/MRD/MRD-PoD-3/P/CIR/2022/166 dated November 30, 2022, regarding Inclusion of Equity Exchange Traded Funds as the list of eligible securities under Margin Trading Facility.

The SEBI circular is attached as Annexure.

All the Members and Market Participants are requested to take note of the above.

For and on behalf of
National Stock Exchange of India Limited

Pradnya Pinto
Chief Manager

**CIRCULAR****SEBI/HO/MRD/MRD-PoD-3/P/CIR/2022/166****November 30, 2022**

To,
All Recognized Stock Exchanges
All Recognized Clearing Corporations
All Registered Stock Brokers

Madam/Sir,

Subject: Inclusion of Equity Exchange Traded Funds as list of eligible securities under Margin Trading Facility

1. SEBI vide Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017 issued a comprehensive framework for Margin Trading Facility (MTF) and subsequently provided clarification on source of funds vide SEBI Circular No. CIR/MRD/DP/86/2017 dated August 01, 2017.
2. Based on the feedback received from market participants, recommendation of Secondary Market Advisory Committee (SMAC) of SEBI and taking into account the emergence of Exchange Traded Funds (ETFs) as an investment product with various advantages such as transparency, diversification, lower cost, etc., it has been decided to allow units of Equity Exchange Traded Funds (Equity ETFs) categorized as Group-I security as per provisions of SEBI Circular No. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005 as an eligible security for MTF as well as an eligible collateral under MTF.
3. Accordingly, provisions under paragraphs 3, 4, 5, 6, 14 and 18 of SEBI Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017 have been modified as under:

3.1. *Securities Eligible for Margin Trading*

Paragraph-3 of the aforesaid circular has been modified as under:

“Equity shares and units of Equity ETFs that are classified as 'Group I security' as per SEBI circular MRD/DoP/SE/Cir-07/2005 dated February 23, 2005 shall be eligible for MTF.”



3.2. **Margin Requirement**

- i. Paragraph-4 of the aforesaid circular has been modified as under:

“In order to avail MTF, initial margin required shall be as under:

Category of Stock	Applicable Margin
<i>Group I stocks available for trading in the F&O Segment</i>	<i>VaR + 3 times of applicable ELM*</i>
<i>Group I stocks other than F & O stocks and units of Equity ETFs</i>	<i>VaR + 5 times of applicable ELM*</i>

**For aforesaid purpose, the applicable VaR and ELM shall be as in the cash segment for a particular stock.”*

- ii. Paragraph-5 of the aforesaid circular has been modified as under:

“The initial margin payable by the client to the stock broker shall be in the form of cash, cash equivalent, or Group I equity shares or units of Group I Equity ETFs, with appropriate haircut as specified in SEBI Circular No.MRD/DoP/SE/Cir-07/2005 dated February 23, 2005.”

- iii. Paragraph-6(i) of the aforesaid circular has been modified as under:

“The stock brokers shall be required to comply with the following conditions:

(i) The stocks or units of Equity ETFs deposited as collateral with the stock broker for availing MTF (‘Collaterals’) and the stocks or units of Equity ETFs purchased under the MTF (‘Funded stocks’) shall be identifiable separately and no comingling shall be permitted for the purpose of computation of funding amount.”

3.3. **Leverage and Exposure Limits**

Paragraph-18(b) of the aforesaid circular has been modified as under:

“While providing the MTF, the stock broker shall ensure that:

b). exposure towards stocks and/or units of Equity ETFs purchased under MTF and collateral kept in the form of stocks and/or units of Equity ETFs are well diversified. Stock brokers shall have appropriate Board approved policy in this regard.”



- 3.4. For the purpose of applicable haircuts for units of Equity ETFs as collateral for MTF, it is clarified that the haircuts applicable to Liquid (Group I) Equity Shares (under “Other Liquid Assets” category) as per SEBI circular MRD/DoP/SE/Cir-07/2005 dated February 23, 2005 shall be applicable to units of Equity ETFs.

3.5. **Disclosure Requirement**

The format for disclosure by the stock broker to the stock exchange on gross exposure towards MTF as prescribed under paragraph-19 of the aforesaid circular has been modified to include information with regard to MTF for units of Equity ETFs and enclosed at Annexure 1 and Annexure 2.

3.6. **Source of Funds**

Paragraphs-3 and 4 of SEBI Circular No. CIR/MRD/DP/86/2017 dated August 01, 2017 read with paragraph-14 of SEBI Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017 has been modified as under:

“For the purpose of providing the MTF, a stock broker may use own funds, borrow funds from scheduled commercial banks and/ or NBFCs regulated by RBI, borrow funds by way of issuance of Commercial Papers (CPs) and by way of unsecured long term loans from their promoters and directors. The borrowing by way of issuance of CPs shall be subject to compliance with relevant RBI Guidelines. The borrowing by way of unsecured long term loans from the promoters and directors shall be subject to the compliance with appropriate provisions of Companies Act, 2013.

A stock broker shall not be permitted to borrow funds from any other source, other than the sources stated above.”

4. The Stock Exchanges are advised to:-

- 4.1. take necessary steps and put in place necessary systems for implementation of this circular;
- 4.2. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision; and
- 4.3. bring the provisions of this circular to the notice of the member brokers of the stock exchange and also disseminate the circular on the website.



5. Applicability

The provisions of this circular shall come into force with effect from 30th day of issuance of this circular.

6. This circular is being issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market.
7. This circular is available on SEBI website at www.sebi.gov.in under the category 'Circulars'.

Yours faithfully,

Hruda Ranjan Sahoo
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Annexure 1

Format of the Daily Reporting by the members to the Stock Exchange on the amount financed by them under the Margin Trading Facility

Name of the member

Clearing No.

Name of Client	Category of Holding (Promoter/ Promoter Group or Non Promoter)	PAN	Name of Stock or Equity ETF (Collateral or Funded Stock)	Stock Exchange	Quantity Financed (Number of Shares or Units of Equity ETFs)	Amount Financed (INR in lakhs)

Sr. No	Particulars	(INR in lakh)
1	Total outstanding on the beginning of the day	
2	Add: Fresh exposure taken during the day	
3	Less: Exposure liquidated during the day	
4	Net outstanding at the end of the day	

Source of Funds

1	Out of net worth	
2	Out of borrowed funds	
3	If borrowed, name of lenders and amount borrowed to be specified separately	

Note: Disclosure is required to be made on or before 12 noon on the following trading day.

Annexure 2



Format for dissemination of information by the Stock Exchange

Name of the Stock/ Equity ETF	Quantity Financed by all the members (Number of shares or units of Equity ETFs)	Amount financed by all the members (INR in lakh)

Sr. No.	Particulars	(INR in lakh)
1	Scrip-wise total outstanding on the beginning of the day	
2	Add: Fresh exposure taken during the day	
3	Less: Exposure liquidated during the day	
4	Net scrip-wise outstanding at the end of the day	

Note: Disclosure is required to be made immediately before end of the following trading day in respect of previous day's margin trading facility.