

## Additional Surveillance Margin - Equity Derivatives Segment

As an ongoing measure of risk containment and surveillance, the following additional margins / measures have been implemented by Exchange / Clearing Corporation in consultation with SEBI.

### 1. Top 10 client concentration

In case of securities in Equity Derivatives segment, in which top 10 clients account for more than 20% of the applicable Market Wide Position Limit (MWPL), Clearing Corporation shall levy additional extreme loss margin of 15% on such securities.

However, for such securities wherein additional surveillance margin is also applicable, the higher of additional extreme loss margin as stated above or the additional surveillance margin shall be levied.

The identification of securities under this framework shall be based on three months rolling data and shall be reviewed on a monthly basis.

(Ref. Exchange circular - NSE/SURV/40779 dated April 16, 2019)

### 2. MWPL utilization

Markets are alerted at different levels of MWPL utilization to allow investors to take an informed decision well before regulatory / surveillance action sets in. Extreme loss margins in Equity Derivatives segment shall increase for securities that may move in ban period based on MWPL utilization.

<b>Combined MWPL utilization at End of Day across Exchanges</b>	<b>Applicable Extreme Loss Margin of the Security</b>
Less than 70%	No additional margins
70% to less than 75%	To be increased by 50% of the normal Extreme Loss margin from next trading day
75% to less than 80%	To be increased by 100% of the normal Extreme Loss margin from next trading day
80% to less than 85%	To be increased by 150% of the normal Extreme Loss margin from next trading day
85% to less than 90%	To be increased by 200% of the normal Extreme Loss margin from next trading day
90% and above	To be increased by 300% of the normal Extreme Loss margin from next trading day



The change in extreme loss margin shall be applicable from the next trading and shall be applicable till the open interest in the security reduces to below 70% of MWPL at the end of day.

(Ref. Exchange circular - NSE/SURV/40824 dated April 24, 2019)

### 3. Additional margins for Security in Ban

In case a security in Equity Derivatives segment moves into ban period, then the applicable rate of margin in equity segment for such security shall be increased by 15%, subject to the maximum rate of margin capped at 100%.

(Ref. Exchange circular - NSE/SURV/40824 dated April 24, 2019)

### 4. Additional margins on Client Positions

Clearing Corporation monitors all client level positions in Equity Derivatives segment based on the below mentioned scenarios and, if required, impose additional surveillance margins and/or take other actions as deemed necessary.

- Extreme scenario of 20% market fall and 17.74% market rise shall be modelled on all client level portfolios and gross client level losses shall be computed at end of day.
- Net client level losses after considering applicable margins and hedged positions, if any based on the holdings provided by depositories, shall be computed.
- In respect of clients having net loss of Rs.25 crores and more, full amount of the loss in excess of Rs. 25 crores shall be levied as Additional Margins.
- Additional Margins shall be blocked from the collaterals of clearing member on T+1 day basis.

(Ref. Exchange circular - NCL/CMPT/40458 dated March 15, 2019)

### 5. Collection of Option Value in Cash

As an ongoing measure of risk containment and surveillance, the following measures on In the Money (ITM) and Out of the Money (OTM) options contracts are levied:

- Cash collection of option value shall be applicable for the following contracts

<b>% of Strike Price away (±) from the Closing Value of Index / Stock</b>	<b>Applicable on contracts with expiry</b>
≥ 40%	All contracts (stock and Index)
≥ 30%	Index Contracts with expiry from 9 months up to 2 years
≥ 20%	Index Contracts with expiry up to 9 months



- For any fresh net short position created in contracts which meet the above specified criteria (based on end of day closing index / stock) the net short value shall be collected in cash from clearing member on T+1 day (Along with funds settlement).
- The cash collected shall be retained with Clearing Corporation till expiry of contract or till square-up of short positions. The amount of cash collected from the clearing members shall be added to collaterals of the clearing member.
- In case of partial square-up the cash collected shall be released on proportionate basis.
- The cash release shall be on T+1 day (Along with funds settlement)

Non-payment of cash by clearing members shall be treated as margin shortfall and all actions (including penalty) as applicable for margin shortfall shall be applicable.

(Ref. Exchange circular - NCL/CMPT/40281 dated February 20, 2019)

## **6. Additional margins on derivatives on Sectoral Indices**

Clearing Corporation shall monitor the open interest in derivatives based on sectoral indices (particularly where top 3 stocks collectively constitute more than 50% of the weightage in the index), and, if required, may impose higher margins as may be deemed necessary.

(Ref. Exchange circular - NSCCL/CMPT/38768 dated September 01, 2018)

## **7. Additional margin for highly volatile stock in Equity segment and Equity Derivatives segment**

- i. For securities with intra-day price movement (maximum of [High - Low], [High - Previous Close], [Low - Previous Close]) of more than 10% in the underlying market for 3 or more days in last one month, the minimum total margins shall be equal to the maximum intra-day price movement of the security observed in the underlying market in last one month. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of three months from date of levy.
- ii. For securities with intra-day price movement (maximum of [High - Low], [High - Previous Close], [Low - Previous Close]) of more than 10% in the underlying market for 10 or more days in last six months, the minimum total margins shall be equal to the maximum intraday price movement of the security observed in the underlying market in last six months. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of one year from date of levy.

Equity Segment - Ref. Exchange circular - NCL/CMPT/44387 dated May 15, 2020



Equity Derivatives segment - [Ref. Exchange circular - NCL/CMPT/44391 dated May 15, 2020](#)

## **8. Additional margins on Deep Out of The Money (OTM) contracts**

Additional margin of 20% on the notional option value shall be levied and collected from the clearing member in case an entity trades in Equity Derivatives Stock Options contracts and creates fresh Short Open Interest in deep Out of Money strikes (OTM).

Deep OTM are those strikes which are 30% away from the underlying price at the time of trade.

This additional margin shall be levied on the top 10 clients, if they account for more than 30% of the overall fresh short positions created on that trading day (to be computed separately in respect of call and put options).

([Ref. Exchange circular - NSE/SURV/42382 dated October 11, 2019](#))

For more information on surveillance measures for Deep Out-of-The-Money (OTM) contracts please refer to our Frequently Asked Questions (FAQs) at the below mentioned link:

<https://www.nseindia.com/regulations/measures-for-deep-otm-contracts>

## **9. Additional margins on Stock with High Promoter Pledge / 'Encumbrance' as per Reg.28(3) of SEBI (SAST) Regulation 2011**

Minimum margin of 35% shall be applicable on the stocks (including stocks in derivatives segment) that satisfy the following criteria:

- Market Capitalization is greater than Rs.1000 crores.  
**AND**
- Pledged holding of the promoter accounts for more than 25% of the total number of the issued shares of the company,  
**AND**
- Concentration of Top 25 clients in trading during the last 30 days is 30% or more,  
**AND**
- High - Low Price variation in the scrip in the last 3 months is greater than 40%.

The applicable rate of margin on the shortlisted stocks in the Equity and Equity Derivatives segment shall be 35% or existing margin, whichever is higher.

([Ref. Exchange circular - NSE/SURV/42507 dated October 24, 2019](#) and [NSE/SURV/44169 dated April 17, 2020](#))



## 10. Additional Surveillance Margin on Trading Member for Order Spoofing

In the joint surveillance meeting held on May 23, 2019 between SEBI and Exchanges, certain instances of Order Spoofing were discussed and following was decided:

- If any Trading member places and cancels order on his own account or on behalf of his client, which is considerable portion of the pending order book and at the same time executes trade(s) on the opposite side of the order book, then Exchanges shall initiate suitable action which may include levy of additional surveillance margin of 5%. This additional surveillance margin when levied shall remain for a period of one month and shall be applicable on both Equity and Equity Derivatives Segment, across all Exchanges.
- The Trading members identified by the Exchanges shall be informed individually about the additional surveillance margins.

Additional Surveillance Margin of 5% shall be levied on the shortlisted Trading Members in the Equity and Equity Derivatives segment (*on all open positions*).

(Ref. Exchange circular - NSE/SURV/41107 dated May 23, 2019)

Market Participants are requested to refer the latest circulars issued by the Exchange / Clearing Corporation with respect to Additional Surveillance Margin.

The circulars are available on our website at the following link:

<https://www.nseindia.com/resources/exchange-communication-circulars>

**\*\*\* End of Document \*\*\***

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