Index

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1) What is Initial Margin for margin reporting system?

The margin collected upfront for taking long/short position is referred to as Initial Margin. Both Extreme Loss Margin and VaR Margin levied by the Exchange based on volatility form part of the Initial Margin.

2) What are 'Other' Margins?

'Other' margins include Additional/ Special/ Ad hoc margin (Cash or Non-Cash), Unidirectional, Pre expiry margin, Delivery Margin or any other margin as may be specified by the Exchange from time to time.

3) What is Mark-to-Market (MTM) margin?

Mark-to-Market loss calculated at the end of each trading day is termed as mark-to- market margin.

Mark to Market loss is calculated by marking all the positions in the futures contracts to the daily settlement price of the futures contracts at the end of each trading day. The profits/ losses are computed as the difference between the trade price or the previous day's settlement price, as the case may be, and the current day's settlement price. In case the net outstanding position in any futures contract is nil, the difference between the buy and sell values is considered as notional loss for the purpose of calculating the mark to market margin payable.

4) Whether collection of all margins from clients is compulsory?

It is mandatory for Members to collect all types of margins i.e. Initial Margins, Other margins and MTM margins from respective clients/ constituents within prescribed timelines.

5) When should a member collect Initial Margins from clients?

It is mandatory for Members to collect Initial margins from respective clients/constituents on an **upfront basis** i.e. in advance of trade.

6) What if due to volatility or price movement the requirement for initial margin had increased as per EOD margin files of the Exchange?

The members are required to collect upfront initial margin from clients. This may be collected based on the beginning of day ('T' Day) margin percentages notified by the Exchange. However, in case there are variations in margins in EOD files due to VaR re-computation or price movement during the day, this difference in collection of upfront margin may be collected by T+1 day. Accordingly, the member may report the margin collected from clients after considering the effect of collection of such differential amount.

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7) Whether MTM profits of 'T' day can be considered towards collection of Initial Margin of 'T' day?

No. It is mandatory for Members to collect Initial margins from respective clients/Constituents on an **upfront basis** i.e. in advance of trade. However, MTM profits of 'T' day can be considered towards margin reporting of 'T+1' day and onwards.

8) What in case client wishes to trade in evening session but is not able to provide initial margins as the banks and depositories are closed?

It is mandatory for Members to collect initial margins from respective clients/ constituents on an upfront basis i.e. in advance of trade. Accordingly, in case client wishes to trade in evening session they should make necessary provision in advance to meet initial margin requirement.

9) Whether RTGS/NEFT/Online transfers received on T+1 day can be considered towards Initial Margin for 'T' day?

No

10) When should a member collect 'Other margins' and MTM margin from clients?

Members should collect all other margins and MTM margin from respective clients/ constituents promptly and as soon as margin calls are made by Exchanges/ Members and will have time only till 'T+2' working days to collect such margins from clients.

The period of 'T+2' working 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.

11) If the position is squared off on the next day, whether the margins so released can be used for reporting of Other Margin & MTM loss?

Yes. Balance available in client's Ledger due to square off of position can be used for reporting against Other Margin & MTM loss for 'T' day.

12) Can a member collect extra margins than prescribed by Exchange from their clients/constituents?

Members can collect additional amounts towards margins as per their system of risk management to protect themselves from constituent level default.

13) Is margin reporting applicable for all types of margins?

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Yes. The margin reporting mechanism is applicable for all types of margins i.e. Initial Margin, Other Margin and MTM Margin.

14) In what form can a member collect margin from its constituents and how are they to be valued?

The Exchange through its circular No. NCDEX/RISK-017/2011/184 dated June 16, 2011 advised members that margins collected from clients should be in such forms which are highly liquid and are owned by the depositing client. The Exchange further advised members to not accept collaterals such as third party collaterals, immovable properties and other illiquid collaterals towards settlement/ margin requirements of their clients.

Members may collect margins from its respective client, in any of the following form, after taking into account their risk management policy and liquidity aspects.

1. Cash (by way of cheques, bank transfer, etc.)
2. Cash Equivalent:
   (a) Bank Guarantee (BG): Bank guarantee received towards margin, issued by any approved bank and discharged in favor of the Member.
   (b) Fixed Deposit Receipt (FDR): Fixed deposit receipts (FDRs) received towards margin issued by any approved bank and lien marked in favor of the Member.
   (c) Government of India Securities (GOISEC) in electronic form with appropriate haircut.
3. Securities in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges with appropriate haircut.
4. Units of liquid mutual funds in dematerialized form, who's NAVs are available and which could be liquidated readily with appropriate haircut.
5. Commodities actively traded on the National Commodity Exchanges with appropriate haircut.

15) Can securities other than those in the approved list of securities be considered while reporting margin collection to the Exchange?

Liquid securities, in dematerialized form, actively traded on the National level Stock Exchanges, which are specifically not declared as illiquid securities by any Exchanges and are received from the respective client, may be considered by the member while reporting margins to the Exchange.

16) What is the procedure for valuation of Securities?

For the purpose of client Margin collection and reporting, the member shall compute the value of such securities as per the closing rate on T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate (as announced by National level Stock Exchanges) of the security on that day i.e. T-1 day.

17) What precautions are to be kept in mind in case of cheques received from Clients?

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- It is mandatory for members to collect initial margins from respective clients/constituents on an upfront basis. For Initial Margin, the cheques received/ recorded in the books of Member on or before T day and deposited by member by T+1 day (excluding bank holiday, if any) and cleared subsequently, can be considered.

- For other margins and MTM margin, the cheques received/ recorded in the books of Member on or before T+2 day and deposited by member by T+3 day (excluding bank holiday, if any) and cleared subsequently, can be considered.

- Member shall report the margin collected from such client after considering the effect of such cheque, if the same is cleared within T+5 days.

- Only cheques which are cleared should be considered and cheques dishonored or not cleared up to T+5 working days should not be reported as margin collected.

- If subsequent to the margin reporting by the Member, the cheque deposited by the Member is dishonored or not cleared within T+5 working days, then revised margin file shall be uploaded after factoring into the effect of such dishonored or non-cleared cheques, within the above mentioned five days.

18) If cheque which is collected within timelines is replaced by new cheque or RTGS/online transfer after prescribed timelines, can it be considered towards margin collection?

No. The margin should be collected as per prescribed time lines.

19) Is it mandatory to collect Cash Margin in cash from the clients?

Cash Margin can be collected only in form of Cash (by way of cheques, bank transfer, etc.) or Fixed deposit receipt from the clients.

20) Whether margin reporting is applicable for proprietary code?

The Exchange shall provide margin details of ‘Pro’ account in the file. However, margin reporting for ‘Pro’ account is optional for members and non-reporting shall not be taken into account for the purpose of levy of penalty.

The reporting of short/ non collection of margins applies to collection of margins by members from their clients. In case of a trading member who trades on his own account and pays margins to the exchange, the requirement for margin reporting does not arise.

21) What are the related entities for a client, whose balances can be considered for collection and reporting margin?

Members should not allow adjustments for any inter family /Group company / related accounts for margin reporting.

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22) How should the member report margin collected from the client?

The details of client code wise initial margin, other margin and MTM margin will be made available in NCFE to all members on daily basis. Members have to download file from NCFE and update details as per following file format:

Will be provided by the Exchange						To be updated by member		
A	B	C	D	E	F	G	H	I
Trade Date 'T'	**Member ID**	**Client Id**	**Initial Mrgn**	**Other Margins**	**MTM (Profit)/ Loss**	**Upfront Initial Margin collected from clients**	**Other margins collected from clients by 'T+2' day**	**MTM (Profit)/Loss collected from clients by T+2 day**
Date	Member Code	Client Code	For 'T' day	For 'T' day	For 'T' day	Collected from client on 'T' day or prior	Collected from client by 'T+2' day	Collected from client by 'T + 2' day

- 'T' is the Trade date
- Each row of the file provides the details of Initial margin, Other margins and MTM margin as at EOD for a client code, as per the code entered by the member.
- Members are required to update amount collected figure at the end of each row (for each client) in the file representing the actual Initial margin, Other margin and MTM margin collected from that client as the case may be.
- These figures for amount collected, appended by the member should not be negative.
- The initial margin collected on upfront basis from client on 'T' day or prior towards obligation of 'T' day is to be reported in column 'G'.
- The other margins collected from clients by 'T+2' days towards obligation of 'T' day is to be reported in column 'H'.
- The **MTM loss** will be shown in positive and profit in negative in the above report. MTM loss collected from clients by 'T+2' days towards obligation of 'T' day is to be reported in column 'I'.
- Members are required to ensure that no information provided by the Exchange in the above file is modified.
- The file is to be uploaded in NCFE within 5 working days from 'T' day i.e. members can start reporting from T+1 day and can revise the record till T+5 day.
- Where multiple times files are uploaded/records modified for a trade day 'T', the information of client margin collected as provided in the latest file would be considered as final. Based on the latest file / updated record, shortfall will be computed.
- The working day excludes Saturday, Sunday, or a holiday at the Exchange, Clearing Banks.

23) Is reporting of trading member to be done by trading member itself or by clearing member?

The reporting is to be done by the Trading Member for its clients.

24) What does short-collection of margin mean?

In case a member fails to collect requisite margin from the respective client/constituent and reports to the Exchange that margin collected from client is less than the actual amount of margins required to be collected, it is termed as short-collection of margin and shall attract applicable penalty.

Short-collection of Margin = Amount of margin required to be collected – Amount of margin actually collected and reported.

All instances of non-reporting of client margins by members shall be treated as short-collection/ non-collection of client margins.

25) Are there any penalties levied in case of short-collection/ non-collection of margin?

The following penalty will be levied in case of short-collection by member per instance. The amount of penalty as indicated below:

For each member	
Short – collection/Non-collection of margins 'a'	**Penalty as % of 'a'**
(<Rs 1 lakh) And (< 10% of applicable margin)	0.5
(>=Rs 1 lakh) Or (>= 10% of applicable margin)	1

- If short-collection/non-collection of margins of a client continues for more than three consecutive days, then a penalty for 5% of the shortfall amount shall be levied for each day of continued shortfall beyond 3rd day of shortfall.
- 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.
- With respect to repeated defaulters, clients who default 3 times or more during a month, the penalty would be 5% of the shortfall in such instances beyond 3rd instance of shortfall.
- 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 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 numbers of instances are 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 the 3rd instance.
- The penalties along with service tax shall be collected within five days of the last working day of the trading month.

26) What does false reporting of margin (Non-Compliance) mean?

Where the Margin has not been collected by the Member in any of the modes prescribed above, however the same has been reported by the member as margins collected, it would be construed as

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false reporting to the Exchange. If during inspection or otherwise, incorrect reporting on collection of margin from client by member is found, the member shall be **penalized up to 100%** of such amount short collected.

27) In case of short-collection of margin can member pass on the penalty to the clients?

Where the penalty levied by the Exchange on the member for short-collection of client margin is attributable to failure on the part of the client to pay margins as required, member may pass on the actual penalty to the client, provided he has evidence to demonstrate that the client has not made payment of the margins as required. Wherever penalty for short-collection of margin is being passed on to the client relevant supporting documents for the same should be provided to the client.

28) What will happen to inter exchange adjustments for same client (if he is having surplus in one exchange and short in other commodity exchange)?

The members may use surplus funds in one commodity Exchange after making necessary transfer entry in books. The members are required to maintain client ledger Exchange wise.

29) What should be the practice regarding accounting entry of MTM in books?

Member may choose to give the effect of MTM on T day or T+1 day, subject to the member following the practice consistently across all clients.

30) Is there any reporting requirement of STCM/PCM?

The STCM/PCM shall be required to report margin collection for its Trading Member. Members have to download file from NCFE and update details as per following file format:

Will be provided by the Exchange						To be updated by PCM/STCM		
A	B	C	D	E	F	G	H	I
Trade Date	**Clearing Member ID**	**Trading Member ID**	**Initial Margin**	**Other Margins**	**MTM (Profit) /Loss**	**Upfront Initial Margin collected from Trading Members**	**Other Margin collected from Trading Members by 'T+2' day**	**MTM (Profit)/Loss collected from Trading Members by 'T+2' day**
Date	CMID	TMID	For 'T' day	For 'T' day	For 'T' day	Collected from trading member on 'T' day or prior	Collected from trading member by 'T+2' day	Collected from trading member by 'T + 2' day

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31) How much time is allowed for correction of technical error/s in margin reporting after the closure of 'T+5' window?

As per circular no. NCDEX/TRADING-169/2014/354 dated November 13, 2014, penalty is imposed only for actual short/non-collection of margins from clients. Member are advised to download penalty file after margin reporting is completed and verify the penalty levied. If member realize short/non-collection is reported on account of technical errors in reporting after the closure of 'T+5' window then member has to submit request to the Exchange for acceptance of revised file by 15th day of the month of billing of the said penalty. Member are advised to place suitable internal controls to avoid any instances of technical error/s in margin reporting.

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