NATIONAL COMMODITY CLEARING LIMITED

Circular to all Members of the Clearing Corporation
Circular No. : NCCL/RISK-028/2020
Date : July 24, 2020
Subject : Margins for Options in Goods Contract on Rapeseed - Mustard Seed, Wheat and Maize - Feed/Industrial Grade

This is with reference to NCDEX circular no. NCDEX/TRADING-036/2020 dated July 20, 2020 on Launch of Options in Goods Contract on Rapeseed - Mustard Seed, Wheat and Maize - Feed/Industrial Grade.

Members are hereby informed that as per the Byelaws, Rules and Regulations of the Clearing Corporation, in accordance with the approval received from the Securities and Exchange Board of India (SEBI) and further to the above mentioned circular, the following risk management measures have been adopted by NCCL for Options in Goods Contract on Rapeseed - Mustard Seed, Wheat and Maize - Feed/Industrial Grade.

1. Initial Margins (IM)

NCCL shall adopt appropriate initial margin model and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to participants/clients.

The initial margin shall be imposed at the level of portfolio of individual client comprising of his positions in futures and options contracts on each commodity.

Margins shall be adequate to cover atleast 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) shall be as follow:

Sr. No	Underlying Commodity	Margin Period of Risk (MPOR)
1	Maize - Feed/Industrial Grade	3 days
2	Rapeseed - Mustard seed	3 days
3	Wheat	3 days

For buyer of the option, buy premium shall be charged as margins and blocked from the collaterals.

On computation of settlement obligation at the end of day, the premium blocked shall be released and collected as pay-in as per the process notified.

NCCL shall fix prudent price scan range and volatility scan range based on the volatility in the price of the underlying commodity.

Registered Office: 1st Floor, Akruti Corporate Park, Near G.E. Garden, LBS Road, Kanjurmarg West, Mumbai 400 078, India. CIN No. U74992MH2006PLC163550
Toll Free: 1800 266 6007, Website: www.nccl.co.in

Short Option Minimum Margin (SOMM) on option contract of below underlying commodity shall be as follow:

Sr. No.	Underlying Commodity	Short Option Minimum Margin (SOMM)
1	Maize - Feed/Industrial Grade	10%
2	Rapeseed - Mustard seed	8%
3	Wheat	8%

2. Extreme Loss Margin (ELM)

NCCL shall levy appropriate extreme loss margin on short option contracts as applicable. The minimum extreme loss margin of 1% on gross open positions shall be levied.

3. Spread Margin Charge

The calendar spread charge shall be calculated on the basis of delta of the portfolio of futures and options. A calendar spread charge of 25% on each leg of the positions shall be charged.

Margin benefit on spread positions shall be withdrawn equally in three days from the expiry of contract including the expiry date.

To be eligible for initial margin benefit, each individual contract in the spread shall be from amongst the first three expiring contracts.

In case of spread positions, additional margins shall not be levied. No benefit in Extreme Loss Margin (ELM) would be provided for spread positions i.e. ELM shall be charged on both individual legs.

4. Mark to Market (MTM)

NCCL shall mark to market the options positions by deducting/adding the current market value of options (positive for long options and negative for short options) times the number of long/short options in the portfolio from/to the margin requirement. Thus, mark to market gains and losses would not be settled in cash for options positions.

5. Pre expiry margin

Pre expiry margin will be charged on potential In the money (ITM), Close to money (CTM) and Close to money Extended (CTM- E) long and short option positions. Pre expiry Margin shall be charged at 3% per day incrementally for 7 days prior to the expiry of contract including expiry date on long and short positions. Further for short option positions, actual short option margin charged shall be reduced from total pre expiry margin to be charged.

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6. Delivery margins

Delivery Margin will be charged on the long and short positions resulting into physical delivery. The Delivery Margin shall be higher of 3% + 5 day 99% VaR of spot price volatility or 20% on the long and short positions marked for delivery till the pay-in is completed by the member.

7. Other margins

Other margins like additional margins and special margins shall be applicable as and when they are levied by the Exchange/Clearing Corporation/Regulator.

8. Margining at client level

Clearing Corporation shall impose initial margins at the level of portfolio of individual client comprising of his positions in futures and options contracts on each commodity.

NCCL shall be free to charge margins higher than the minimum specified depending upon its risk perception.

Members and participants are requested to note the above.

For and on behalf of
National Commodity Clearing Limited

Ruchit Chaturvedi
Head - Risk Management

For further information / clarifications, please contact
1. Customer Service Group on toll free number: 1800 266 6007
2. Customer Service Group by e-mail to : contactus@nccl.co.in