

MECHANISM FOR REGULAR MONITORING OF SHORT-COLLECTION/ NON-COLLECTION OF MARGINS

FREQUENTLY ASKED QUESTIONS (FAQs)

1) What is Initial Margin for margin reporting system?

The margin collected upfront for taking long/short position is referred to as Initial Margin.

2) What are 'Other' Margins?

Additional Margin, Special Margin, Tender Margin and Delivery Margin are grouped as **Other Margin** and are required to be reported accordingly.

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. Accordingly, the member may report the margin collected from clients after considering the effect of collection of such differential amount.

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 obligation 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) 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.

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) 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.

12) What are the forms of collaterals a member can collect from its clients against margin requirements?

Members can consider following forms of collaterals for reporting the margin collection from its clients Acceptable collaterals may include:

- Free and unencumbered Balances (funds and securities) available with the member
- Cash Margin (through cheque/NEFT/RTGS/ECS)

- Bank guarantee favoring the member
- Fixed deposit receipt lien marked in favor of the member
- Liquid Securities in dematerialized form, actively traded on the National Exchanges with appropriate hair-cut
- Units of liquid mutual funds in dematerialized form with appropriate hair-cut
- Exchange Approved commodities with appropriate hair-cut

Members, while accepting collaterals from their clients, may ensure that such collaterals are free from any encumbrance and in sufficiently liquid form, so that the same are readily available for encashment, in the event of client default.

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

- It is mandatory for members to collect initial margins from respective clients / constituents on an upfront basis.
- 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 on 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.

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

No.

15) 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 collection towards margins can only be considered if it is as per para '13' and '14' above.

16) 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

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

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

18) 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.

19) 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 by Exchange to all members on daily basis. Members shall report margin collection as per following format:

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

- 'T' is the Trade date
- The working day excludes Saturday, Sunday, or a holiday at the Exchange, Clearing Banks.

20) Has Exchange prescribed formats for the client margin reporting?

Members are requested to refer the File Formats (Version 6.5.7) issued vide Circular No. MCX/TECH/184/2014 dated May 14, 2014. Section 5.34 to 5.37 of the file formats deal with margin reporting, giving brief description of the file structure that would be exchanged between the Exchange and Members for the margin reporting. Detailed instructions for upload of files and error codes in case of erroneous upload form part of the formats.

21) What is the process of margin reporting from member to Exchange?

Members may refer to the Exchange Circular no. MCX/C&S/203/2014 dated May 28, 2014 in relation to the same. The annexure to the circular defines the procedure for download and upload of files related to client margin reporting as under:

Procedure for Download/Upload of Margin Files through SFTP

Members can download the margin reporting files from the Exchange and upload the response file against the same for each trade date as under:

Download SFTP Path: <CM/TM code>\DD-MM-YYYY

Download File Name: MCX_MARGIN_<CM/TM code>_<YYYYMMDD>.csv

Upload SFTP Path: <CM/TM Code>\Margin\DNLD

Upload File Name: MCX_MARGIN_<YYYYMMDD>_.Mnn

M is the File Indicator; nn will be batch number same as in Member's file.

<YYYYMMDD> in each of the above format refers to the trade date.

22) What are the general instructions for uploading a margin reporting file to the Exchange?

General instructions for upload of margin files are as under:

- While reporting details of margin collection, members are required to append each record with margins collected from client/TM/CP in the respective column defined in the file format for member "*Margin file from Member*" (section 5.35 of the file format).
- Any modification of existing fields would result in the record being rejected.
- Members should adhere to file naming conventions strictly for uploading files to the Exchange.
- Members are required to provide batch number in every file which is a running sequence with the valid values from 01 to 99 for each trade date.

- This would enable members to send multiple files for the same trade date with incremental batch numbers within the defined timelines.
- In case where multiple margin files are sent by the member, the file with latest batch number would be considered as final by Exchange.
- Error codes have been defined along with the file formats for the rejection of the margin file uploaded by the member at individual record /member level.

23) Will Exchange provide any response file for the margin reporting files uploaded by the Members?

Exchange shall provide two auto response files for the margin files uploaded by the members as under:

- i. Members shall receive an auto response file for each uploaded file as under

SFTP Path: <CM/TM Code>\Margin\UPLD

File Name: MCX_MARGIN_<YYYYMMDD>_.Enn

*(**Enn** : 'E' for Exchange file & nn for batch number of member file)*

For successful file import, member will receive a blank file as under:

File Name: MCX_MARGIN_<YYYYMMDD>S.Enn

- ii. At the end of each trade date, member shall receive a margin shortage file as under

SFTP Path: <CM/TM code>\DD-MM-YYYY

File Name: MCX_MARGINSHORTAGE_<YYYYMMDD>.Enn

*(**Enn** : 'E' for Exchange file & nn for batch number)*

This file shall be exported to the members on all days during the T+5 reporting period. The file shall provide information on the margin shortfall after considering the files uploaded by the members on each of these days. The final file exported at the end of the T+5 reporting period shall also cover the amount of penalty levied, if any, on the shortfall value of margin reporting.

<YYYYMMDD> in each of the above format refers to the trade date.

24) What are the timelines to report the margin collection to Exchange?

For a "T" day, Member shall have time upto "T+5" day for reporting actual margin collection from their clients. Members may note that the effective cut-off for reporting will be end of the day of the "T+5" due date.

25) 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.

26) 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 1% 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 of cumulative default during a calendar month, penalty of 5% for the shortfall amount shall be levied from the 4th instance onward. 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 3rd instance.

27) 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 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.

28) 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 evidences to demonstrate that the client has not made payment of the margins as required. Members should take adequate steps to call for the margin from the client and if the client has failed to pay the margin required then the documentary evidence is to be maintained for such steps taken by the Member and to be maintained for verification as and when 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.

29) 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.

30) 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. A well-documented policy should be put in place and any changes in the policy has to be recorded along with reasons for such changes and maintained by the Member. Further these documents are also required to be made available as and when required for verification.

31) Can a member view his Margin Reporting status through eXchange?

On receipt of auto response file for each uploaded file during the T+5 reporting period, member can view the latest information of Margin Reporting through eXchange. "Margin Reporting" option is available under "Reports" menu. Members can export the record in excel format.

Note:- The above mentioned FAQs in relation to client level margin reporting are based on the FMC directive dated 14th Mar 2014 letter no No.6/11/2012-MKT-I, and subsequent clarification received time to time.