CIRCULAR

Circular Ref. No.	ASPL/Cir/19-20/003	Date:	December 31, 2019

Sub: Collection of margin from clients in Cash Segment and reporting to stock exchanges

To our esteemed clients,

Attention is drawn to our existing and upcoming clients about the provisions of *SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019* wherein SEBI has directed all Stock Brokers to mandatorily collect margins from clients trading in cash segment and report to exchange. You are requested to take note of the following:

1) Like in derivatives segment, the clients are mandatorily required to pay/maintain upfront Value at Risk (VaR) margins and Extreme Loss Margin (ELM) with AFFINITY before trading in cash segment of any exchange. Trading in cash segment will not be allowed without upfront VaR margins and ELM.

2) Clients need to pay other margins (incl. mark to market margin (MTM), delivery margin, special / additional margin or any other margin as prescribed by the Exchange) as soon as margin calls are made by AFFINITY however, the maximum time limit for payment of other margin is by T+1 day and clients should adhere to the timeline. Please refer the below table for better understanding:

Segments	On Upfront (Advance) basis before trade	Payable as soon as margin calls made/ by T+1 day
Capital/Cash	VaR margins and Extreme loss Margin (ELM)	Mark-to-market margin (MTM), delivery margin, special/ additional Margin or any other Margin as may be prescribed from time to time.
Futures & Options	Initial margin, net buy premium, delivery margin & exposure margin	Mark-to-market losses (MTM).

3) Those clients who make early pay-in of funds/securities before executing trades in cash segment shall be exempted from paying margins subject to clearance/approval from banks/depositories/stock exchanges/clearing corporations. Clients shall not held AFFINITY responsible for non-execution of Early pay-in (EPI) request given by them due to any practical/unavoidable circumstances.

4) The acceptable form of collateral as margin shall be in accordance with Margin Collection and RMS policy of AFFINITY.

5) The margin required and the margin collected from the clients in cash segment shall be reported by AFFINITY to the relevant Stock exchanges.

6) In case if any client fails to pay the required margin within time in cash segment, AFFINITY will report the same as short reporting of margin and Stock exchange shall levy appropriate penalty as per the following rate which shall be passed on to the respective client:

Criteria	Shortfall Amount	Per segment per day penalty as %age of shortfall amount
1	(< Rs 1 lakh) And (< 10% of applicable margin)	**0.5**
2	(≥ Rs 1 lakh) Or (≥ 10% of applicable margin)	**1.0**

If margin shortfall for a client continues for more than 3 consecutive days, then the penalty of **5%** of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall.

If margin shortfall for a client continues for more than 5 days in a month, then the penalty of **5%** of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.

7) Non-fulfillment of required margin / pay-in obligations within timeframe will also result in square-off/liquidation of clients' positions.

Clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by AFFINITY however, the maximum time limit for payment of other margin is by T+1 day.

The provision of this circular is applicable from **1st January 2020**. Stock Exchange will start imposing penalty on short reporting of margin from **1st April 2020.**

All our clients are requested to strictly comply with the regulatory guidelines. For more details please refer to the aforesaid SEBI circular attached with this circular.

Thanking you and assuring you of our best services.

For and on behalf of
Affinity Securities Private Limited

Sd/-
Sandip K Singh
Compliance Officer

भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

CIR/HO/MIRSD/DOP/CIR/P/2019/139 November 19, 2019

To

The Managing Directors / Chief Executive Officers of

All Recognized Stock Exchanges

All Recognized Clearing Corporations

Dear Sir / Madam,

<u>Subject</u>: <u>Collection and reporting of margins by Trading Member (TM) /Clearing Member (CM) in Cash Segment</u>

1. Attention is drawn to SEBI circular no. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005 on ‘Comprehensive Risk Management Framework for the Cash Market’.

2. SEBI has also put in place a ‘Mechanism for regular monitoring of and penalty for short-collection/ non-collection of margins from clients’ in Derivatives segment by issuing the following circulars:
   2.1. Circular No. CIR/DNPD/7/2011 dated August 10, 2011
   2.2. Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 07, 2016 directed to all National Commodity Derivatives Exchanges, and
   2.3. Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019.

3. Further, SEBI vide circular no. SEBI/HO/MIRSD/DOP/CIR/P/2019/14 dated January 11, 2019 implemented uniform membership structure in Cash segment as Trading Member (TM), Self-clearing Member (SCM), Clearing Member(CM) and Professional Clearing Member (PCM) as prevalent in the equity derivatives segment.

4. In cash segment, the VaR margin is collected by Clearing Corporation (CC) upfront from trading member/clearing member by adjusting against the available liquid assets of TM/CM at the time of trade. However, the quantum, form and mode of collection of the margin from the client is left to the discretion of TM/CM. In order to align and streamline the risk management framework of both cash and derivatives segments, with respect to

collection of margins from the clients and reporting of short-collection/non-collection of margins, following guidelines are issued:

4.1. Collection of margins from the clients by TM/CM in cash segment:

4.1.1. The ‘margins’ for this purpose shall mean VaR margin, extreme loss margin (ELM), mark to market margin (MTM), delivery margin, special / additional margin or any other margin as prescribed by the Exchange to be collected by TM/CM from their clients.

4.1.2. Henceforth, like in derivatives segment, the TMs/CMs in cash segment are also required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs/CMs will have time till ‘T+2’ working days to collect margins (except VaR margins and ELM) from their clients. (The clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by the Stock Exchanges/TMs/CMs. The period of T+2 days has been allowed to TMs/CMs 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.)

4.1.3. As prescribed in clause 7 of SEBI circular MRD/DoP/SE/Cir-07/2005 dated February 23, 2005, the TM/CM shall be exempted from collecting upfront margins from the institutional investors carrying out business transactions and in cases where early pay-in of securities is made by the clients.

4.1.4. If the TM/CM had collected adequate initial margins from the client to cover the potential losses over time till pay-in, he need not collect MTM from the client.

4.1.5. As like in derivatives segments, the TMs/CMs shall report to the Stock Exchange on T+5 day the actual short-collection/ non-collection of all margins from clients.

4.2. Penalty structure for short-collection/non-collection of margins and false/incorrect reporting of margin collection from the clients by TMs/CMs:

4.2.1. For short-collection / non-collection of client margins, the Stock Exchanges shall take the disciplinary action as per the framework specified in SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011.

4.2.2. For false/incorrect reporting of margin collection from the clients by TMs/CMs, the Stock Exchanges shall take disciplinary action as per the framework specified in SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019.

5. The provisions of paragraph 4.1 of this circular shall come into force with effect from January 01, 2020 and provisions of paragraph 4.2 of this circular shall come into force with effect from April 01, 2020**.**

6. Stock Exchanges and Clearing Corporations are directed to:
   6.1. bring the provisions of this circular to the notice of their members along with illustration as required and also disseminate the same on their websites.
   6.2. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above directions in co-ordination with one another to achieve uniformity in approach.
   6.3. communicate to SEBI, the status of the implementation of the provisions of this circular in their monthly development reports.

7. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 and Section 10 of Securities Contract (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

8. This circular is available on SEBI website at www.sebi.gov.in under the categories “Legal Framework”.

Yours faithfully,

Rajesh Kumar D
General Manager
Market Intermediaries Regulation and Supervision Department