

## MARGIN TRADING FACILITY – FAQ

**Q1. What are the eligibility requirements for Members to provide Margin Trading Facility (MTF) to clients?**

- A. Only a corporate Member with a net worth of at least **Rs.3.00 crores**, computed as per the Dr. L C Gupta formula, shall be eligible to offer margin trading facility to their clients after obtaining prior approval of the Exchange.

**Q2. How to obtain permission from the Exchange to offer margin trading facility to clients?**

- A. Member needs to seek prior permission of Exchange by submitting an application form under ENIT New Compliance on Member's Portal as per the format mentioned at the link- <https://www.nseindia.com/trade/Membership-formats> under the tab "Form for applying for approval or withdrawal of Margin Trading Facility" along with certified extract of Board Resolution and Auditor's certificate on net worth.

**Q3. How to apply for withdrawal of MTF?**

- A. Member can apply for withdrawal by submitting an online application form under ENIT New Compliance on Member's Portal as per the format mentioned at the link- <https://www.nseindia.com/trade/Membership-formats> under the tab "Form for applying for approval or withdrawal of Margin Trading Facility" along with certified extract of Board Resolution. While seeking the withdrawal, Member must ensure that all open positions under MTF are liquidated and reported to the Exchange accordingly.

**Q4. Is consent from the clients required before offering Margin Trading facility to them?**

- A. Member shall obtain client consent in writing in his own hand or any irrefutable electronic method. Rights & obligations and the Terms and conditions shall also be communicated to the client.

**Q5. Does Member require to allot single UCC to same client who avail both Normal Trading and Margin Trading Facility?**

- A. All clients shall have only one unique client code (UCC) per Member which shall be reported to the Exchange. Clients availing Margin trading facility (MTF) should be segregated at back office with the Trading Member, namely MTF account & Non-MTF account, which shall be mapped to the said unique client code (UCC).

**Q6. Which securities are eligible for margin trading?**

- A. All the equity shares classified as 'Group I security' as per Section 1.1.3 of Chapter IV of SEBI Master Circular No. SEBI/HO/MRD/DP/CIR/P/117 dated October 25, 2019 (previous SEBI circular ref. no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016), are eligible for margin trading facility.

**Q7. How initial margin shall be payable by clients to Member?**

- A. The initial margin payable by the client to the Member shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in Section 1.1.3 of Chapter IV of SEBI Master circular No. SEBI/HO/MRD/DP/CIR/P/117 dated October 25, 2019 (previous SEBI circular SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016), and shall be recorded in the MTF books.

The minimum initial margin required shall be as under: -

Category of Stock	Applicable margin
Group I stock available for trading in the F & O Segment	VaR + 3 times of applicable ELM*
Group I stocks other than F&O stocks	VaR + 5 times of applicable ELM*

*\* For aforesaid purpose, the applicable VaR and ELM shall be as in the cash segment for a particular stock.*

Collateral in the form of securities under the margin trading facility shall be held by way of pledge only in terms of SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020.

Members shall ensure that the initial margin is maintained for all the open funded positions as per the aforementioned prescribed rate at all times.

**Q8. Can excess margin/collateral available in MTF ledgers be considered towards Margins of non-MTF transactions?**

- A. Excess margin/collateral available in MTF ledgers cannot be considered towards Margins of non-MTF transactions. However, in exceptional scenarios, transfers from non-MTF ledgers to MTF ledgers can be considered towards a margin position in MTF, provided they belong to the same clients and there are sufficient & free balances available in the non-MTF ledgers. Any transfer of balances from non-MTF ledgers to MTF ledgers undertaken with a view to avoid the actual settlement requirements will not be permitted. Further, any transfer of balances from non-MTF ledger to MTF ledger for MTF trades post confirmation of client will not be considered for computation of clear ledger balance till the settlement of trades. Members are requested to accordingly report the clear balances of the clients under weekly submissions of monitoring of client funds under Enhanced supervision guidelines of SEBI and Weekly submissions of Cash & Cash Equivalent balances to the Exchange.

**Q9. Is the list of group 1 Securities available on NSE website?**

- A. The list of Group-1 securities is available on the NSE website under the “monthly reports tab” at the following link and downloading the report named “CM-Security Category Impact Cost”: <https://www.nseindia.com/all-reports>

**The Detail Record Format (Securities category file (CATG) is as under<sup>1</sup>:**

S.No.	Field	Description
1.	Record Type	Record Type – Value is 20
2.	Security Symbol	Security Symbol
3.	Security Series	Security Series
4.	ISIN	ISIN of that security
5.	Security Category <sup>2</sup>	Security Category applicable on that security in the following month.
6.	Security Impact Cost	Security Impact Cost

<sup>1</sup> Exchange circular NCL/CMPT/46880 dated January 01, 2021

<sup>2</sup> Security (EQ) with Security category as “1” shall be eligible.

**Q10. Equity Shares that are classified as 'Group I security' are only eligible for margin trading facility (Collateral as well as funded stocks). What if a group 1 stock (funded/provided as collateral) moves out of Group 1 subsequently?**

- A. In case of Group-1 securities pledged as collateral, Member shall be required to replace such security, from the applicable month onwards (when the security ceases to be Group-1 security), with another form of eligible collateral (cash, cash equivalent or Group I equity shares, with appropriate haircut).

In case of funded securities which were categorised as Group-1 at the time of purchase, the same are to be treated as per Exchange circular ref. no. NSE/CMO/0131/2004 dated September 9, 2004, in case they move out of the Group-1 Category.

**Q11. What are the sources of funds which a Member can use to extend MTF?**

- A. A Member may use the following as source of funds:
1. Own Funds.
  2. Borrowed funds from scheduled commercial banks.
  3. Borrowed funds from NBFCs regulated by RBI.
  4. Borrowings by way of issuance of Commercial Papers, subject to compliance with appropriate RBI guidelines.
  5. Borrowings by way of unsecured long-term loans from their promoters and directors, subject to the appropriate provisions of Companies Act.

Member shall not be permitted to borrow funds from any other source except listed above. Further, the Member shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.

**Q12. What is the maximum allowable exposure of the Member towards MTF?**

- A. The maximum allowable exposure shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth". The term "exposure" shall mean the aggregate outstanding margin trading amount in the books of the Member for all his clients at any given point of time. The term "borrowed funds" shall mean the amount borrowed and not the sanctioned limit of borrowings.

"Maximum allowable exposure  $\leq$  [Total Borrowed Funds + (0.5\*Net Worth)]"

*Eg: If the networth of Member X is Rs. 3 Crores and total of borrowings is Rs.1 crore then the total of exposure that is permitted to be provided shall not exceed Rs.2.5crores, computed as under:*

<b>Particulars</b>		<b>Amount</b>
Total Networkth	<b>A</b>	Rs. 3 Crores
Total amount of borrowing for MTF	<b>B</b>	Rs. 1 crore
50% of Networkth	<b>C=50% of A</b>	Rs.1.5 cr. (50% of Rs. 3 crores)
<b>Maximum exposure that can be provided</b>	<b>D = (B+C)</b>	<b>Rs 2.5 crores</b>

**Q13. What shall be the total indebtedness of a Member for the purpose of margin trading?**

- A. Total indebtedness shall mean the aggregate of the outstanding borrowings from Banks/NBFCs/Commercial Papers/unsecured loans from promoters or directors, at any point of time. The total indebtedness of a Member for the purpose of margin trading shall not **exceed 5 times of its net worth.**

*Illustration: If the net-worth of Member X is Rs. 3 Crores, then the total indebtedness for the purpose of MTF shall not exceed Rs. 15 crores.*

**Q14. What shall be the client-wise exposure limit?**

- A. The exposure to any single client at any point of time shall not **exceed 10% of the Member's maximum allowable exposure.** Illustrations:

**Illustration -1**

Particulars		Amount
Member's net worth	A	Rs. 5 Crs.
Total amount of borrowing for MTF	B	Rs. 20 Crs.
Maximum allowable exposure	$C = (50\% \text{ of } A) + B$	Rs. 22.50 Crs
Actual exposure provided	D	Rs. 10 Crs.
<b>Max exposure to any single client</b>	<b><math>E = 10\% \text{ of } C</math></b>	<b>Rs. 2.25 Crs.</b>

**Out of the total exposure of Rs. 10 crores provided during the day, exposure to any single client shall not exceed Rs. 2.25 crores.**

**Illustration -2**

Particulars		Amount
Member's net worth	A	Rs. 5 Crs.
Total amount of borrowing for MTF	B	Nil
Maximum allowable exposure	$C = (50\% \text{ of } A) + B$	Rs. 2.50 Crs.
Actual exposure provided	D	Rs. 2 Crs.
<b>Max exposure to any single client</b>	<b><math>E = 10\% \text{ of } C</math></b>	<b>Rs. 0.25 Crs.</b>

**Out of the total exposure of Rs. 2 crores provided during the day, exposure to any single client shall not exceed Rs. 0.25 crores.**

**Q15. What all records shall be maintained by Member for MTF?**

- A. The Member shall maintain the following records:
1. Separate client-wise ledgers for funds and register of securities (collateral and funded stocks) of clients availing margin trading facility.
  2. Separate record of details of the funds used and sources of funds for the purpose of margin trading.
  3. Books of accounts, maintained by the Member, with respect to the margin trading facility offered by it, shall be audited on a half-yearly basis and Member shall submit an auditor's certificate to the exchange within one month from the date of the half year ending 31st March and 30th September of a year certifying, inter alia, the extent of compliance with the conditions of margin trading facility.

**Q16. Whether Members are required to open a separate demat account for funded stock under the margin trading facility?**

- A. As per SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020, funded stocks held by the TM / CM under the margin trading facility shall be held by the TM / CM only by way of pledge. For this purpose, Members are required to open a separate demat account for MTF funded stock which should be tagged as 'Client Securities under Margin Funding Account'. Such funded stocks shall be held by the Member only by way of pledge in the said account from the BO account of the respective client. The funded stock pledged in 'Client Securities under Margin Funding Account' shall not be available for pledge with any other Bank/ NBFC.
- The funded stock shall be unpledged by the Member, to the extent of the payment made by the client, within one working day of the receipt of the payment. In case of multiple funded

stocks, the stocks to be unpledged can be identified in terms of the internal policy of the Member (which has been informed to the client) or as per the instruction of the client.

**Q17. In case of identification of MTF trades on T+1, when should the margin be available for the trade with the Member?**

- A. In case a transaction is identified under MTF by T+1 day, the minimum Margin as stipulated for under the provisions of MTF should be available with the Member for the client on the date when the MTF trade has been identified. An illustration is as under: -

Day	Remark	Amount	Category	Margin Requirement
Monday (T Day)	Trade day	Rs. 1,000/-	Normal Trading	As per Member's Risk Management policy subject to the minimum upfront margin prescribed by Exchange/SEBI
Tuesday (T+1 Day)	Day of identification	Rs. 1,000/-	Shifted to MTF	Margin should be available as prescribed in SEBI circular CIR/MRD/DP/54/2017 date June 13, 2017

**Q18. What can be done if the client fails to meet the margin call made by the Member?**

- A. The Member may liquidate the securities if the client fails to meet the margin call made by the Member as per the mutually agreed terms & conditions but not exceeding 5 working days from the day of margin call. The Member shall list out the situations/conditions in which the securities may be liquidated and include them in the terms & conditions and "Rights and Obligations Document".

**Q19. Can Member set up its own risk management policy that will be applicable to the transactions done under the Margin Trading Facility?**

- A. Yes. Further, Member may make amendments there to at any time but give effect to such policy after the amendments are duly communicated to the clients registered under the Margin Trading Facility.

**Q20. When shall the margin trading accounts be settled?**

- A. Any excess collateral, in the form of cash & cash equivalent, lying in the MTF account of the client shall be mandatorily settled on a monthly / quarterly basis, as per the client preference, after ensuring a gap of maximum 30/90 days (as per the client mandate) between two running account settlements. Members shall settle both MTF and Non MTF accounts on same day for a particular client.

Further, the funded stock shall be unpledged by the Member, to the extent of the payment made by the client, within one working day of the receipt of the payment. In case of multiple funded stocks, the stocks to be unpledged can be identified in terms of the internal policy of the Member (which has been informed to the client) or as per the instruction of the client.

**Q21. Can the funded stocks and collaterals be comingled?**

- A. The stocks pledged as collateral with the Member for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) shall be identifiable separately and there shall not be any comingling for the purpose of computing funding amount.

**Q22. What are the reporting requirements by the Member?**

- A. Once the Member has started offering margin trading facility to clients, it is mandatory to report the details on gross exposure towards margin trading facility to the stock exchange **on or before 12 noon of the following trading day** as per the format prescribed by SEBI in its circular dated June 13, 2017 (Ref CIR/MRD/DP/54/2017) /Exchange circular dated Nov 22, 2017 (ref. no. NSE/COMP/36350).

The reporting has to be done on the following link-  
<https://ims.connect2nsccl.com/MemberPortal/> under the tab-“Extranet Upload” - CM segment.

**Q23. If MTF is not provided to clients on a particular day, is it mandatory to do reporting for that trading day?**

- A. Yes, reporting of MTF is mandatory till the time facility is not withdrawn by submitting application for withdrawal to Exchange.

**Q24. What are the consequences for non-reporting of daily margin trading file?**

- A. Penalty/ disciplinary action(s) shall be initiated as mentioned below for non-compliance with respect to margin trading submissions:
- For **one** instance of non-reporting in a month- Rs. 1,000/-
  - For **two to five** instances of non-reporting in a month- Rs. 2,000/- per day for the no. of the instances
  - For **more than five** instances in a month- Withdrawal of Margin Trading Facility.

If the trading facility of the Member is withdrawn due to non-submission of MTR for more than 5 instances in a month then the Member cannot provide funding to the new clients and further funding to existing clients. The Member can provide funding only after taking prior approval from Exchange after cooling period of 6 months from the date of withdrawal.

**Q25. Can the securities pledged as collateral under the margin pledge/repledge mechanism with the Member for availing margin trading facility and normal trades be comingled?**

- A. The Member may keep the securities pledged as collateral/margin for availing margin trading facility and normal trades under the same “Client Securities Margin Pledge Account” opened for the purpose of margin pledge/repledge. However, Member shall record the securities pledged as collateral for transactions undertaken under Margin Trading facility (MTF) in the MTF books.

**Q26. Can the Member re-pledge the securities pledged by the clients as margin collateral under MTF with clearing corporation/clearing Member?**

- A. Yes, Members may re-pledge the securities pledged by the clients as margin collateral under **MTF** with clearing corporation/clearing Member.

**Q27. Can a Member collect 20% of the transaction value as margin for MTF trades w.r.t. margin requirement in cash market segment of clearing corporation as stipulated by SEBI?**

- A. No, Members need to collect the upfront margin as per the Margin Trading facility guidelines issued by SEBI/Exchange from time to time even if the upfront margin amount in such case is more than the margin requirement in cash market segment of clearing corporation i.e. 20% of the transaction value.

**Q28. Which circulars shall be referred for MTF?**

A. The list of circulars issued by SEBI/NSE from time to time for MTF is listed below:

S.No.	Circular Ref. no.	Issued by	Date	Subject
1	CIR/MRD/DP/54/2017	SEBI	June 13, 2017	Comprehensive Review of Margin Trading Facility
2	NSE/COMP/35125	NSE	June 15, 2017	Comprehensive Review of Margin Trading Facility
3	NSE/COMP/35260	NSE	June 30, 2017	Rights and Obligations for the purpose of margin trading facility.
4	CIR/MRD/DP/ 86/2017	SEBI	Aug 01, 2017	Margin Trading Facility- Clarification
5	NSE/COMP/35509	NSE	Aug 01, 2017	Uploading of Daily margin trading files
6	NSE/COMP/35521	NSE	Aug 03, 2017	Margin Trading Facility – Clarification.
7	NSE/COMP/36350	NSE	Nov 22, 2017	Uploading of Daily margin trading files
8	NSE/INSP/39732	NSE	December 21, 2018	Indicative Penalty structure for Margin Trading facility