भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

SEBI/HO/___

August **, 2026

To

All recognised Clearing Corporations

Dear Sir/ Madam,

Sub: Master Circular for Clearing Corporations

1. Securities and Exchange Board of India (SEBI), from time to time, has been issuing various circulars/directions to Clearing Corporations. In order to enable the users to have access to the applicable circulars at one place, Master Circulars are being issued. The Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024 is a compilation of relevant circulars/communications pertaining to Stock exchanges and Clearing Corporations issued by SEBI up to October 31, 2024. Similarly, Master Circular for Commodity Derivatives Segment dated August 04, 2023 covered various circulars issued till March 31, 2023.

2. Hereinafter, from the point of view of facilitating ease of doing business and reducing the compliance burden for Clearing Corporations, review of aforesaid Master Circulars were undertaken, in terms of simplification of regulatory requirements,

removal of redundant provisions, discontinuation of duplication, amongst others and towards having single consolidated Master Circular for Clearing Corporations:

3. Consequent to the review, this Master Circular is being issued which contains the consolidated regulatory norms (with necessary modifications) pertaining to Clearing Corporations. This covers the relevant circulars/communications pertaining to Clearing Corporations issued by SEBI up to June 30, 2026 and rescinds all circulars and communications pertaining to Clearing Corporations issued till date. This circular shall come into force from the date of its issue.

4. Notwithstanding such rescission:

4.1 anything done or any action taken or purported to have been done or taken under the rescinded provisions of the Master circulars, including registrations or approvals granted, fees collected, registration or approval suspended or cancelled, any inspection or investigation or enquiry or adjudication commenced or show cause notice issued, prior to such rescission, shall be deemed to have been done or taken under the corresponding provisions of this Circular;

4.2 any application made to SEBI under the rescinded provisions of the Master circulars, prior to such rescission, and pending before it shall be deemed to have been made under the corresponding provisions of this Circular;

4.3 the previous operation of the rescinded provisions of the Master circulars or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded provisions of the Master circulars, any penalty, incurred in respect of any violation committed against the rescinded circulars, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded provisions of the Master circulars have never been rescinded.

4.4 any area of operation, current and prospective, for which clear demarcation of responsibility is not specified, the clearing corporations and exchanges shall in consultation with each other decide their specific obligation and responsibility.

4.5 any circular, forming part of this master circular, for which effective date prescribed is after the effective date of the master circular, shall come into effect on the date specified in the original circular.

5. Words and expressions used but not defined in this Circular shall have the same meanings as may be defined in Securities Contracts (Regulation) Act, 1956 or the Securities and Exchange Board of India Act, 1992 or the Depositories Act, 1996 or Regulations made thereunder i.e. Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, SEBI (Depositories and Participants) Regulations, 2018, PIT Regulations, SEBI (Prohibition of Fraudulent and Unfair Trade

Practices relating to Securities Market) Regulations, 2003, unless the context requires otherwise.

6. This Circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 and Regulation 51 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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LIST OF ABBREVIATIONS

ABBREVIATION	FULL FORM
BG	Bank Guarantee
BIS	Bureau of Indian Standards
CC / CCs	Clearing Corporation / Clearing Corporations
CISO	Chief Information Security Officer
CO	Compliance Officer
CRiO	Chief Risk Officer
CTO	Chief Technology Officer
DVP	Delivery Versus Payment
eNWRs	Electronic Negotiable Warehouse Receipts
EWMA	Exponentially Weighted Moving Average
FAQ / FAQs	Frequently Asked Questions
FED	Final Expiry Date
FDR	Fixed Deposit Receipts
FPIs	Foreign Portfolio Investors
FSD	Financial Security Deposit
FSP	Final Settlement Price
IM	Initial Margins
IPF	Investor Protection Fund
ISC	Investor Service Centers
ISF	Investor Services Fund
KMP	Key Management Personnel
LODR	Listing Obligations and Disclosure Requirement
LPCC	Limited Purpose Clearing Corporation
MD/CEO	Managing Director / Chief Executive Officer
MIIs	Market Infrastructure Institutions
MPOR	Margin Period of Risk
MRC	Minimum Required Corpus
MTM	Mark to Market
NABL	National Accreditation Board for Calibration and Testing Laboratories
NID	Non-Independent Directors
NISM	National Institute of Securities Markets
NOC	No Objection Certificate
PAN	Permanent Account Number
PFMI	Principles for Financial Market Infrastructures
PID / PIDs	Public Interest Directors

ABBREVIATION	FULL FORM
PSR	Price Scan Range
RBI	Reserve Bank of India
ROC	Registrar of Companies
RPF	Risk Parameter File
SCM	Self-Clearing Member
SCORES	SEBI Complaints Redressal System
SE / SEs	Stock Exchange / Stock Exchanges
SECC	Stock Exchanges and Clearing Corporations
SGF	Settlement Guarantee Fund
SGL / CSGL	Subsidiary General Ledger / Constituent Subsidiary General Ledger
SOP	Standard Operating Procedures
STP	Straight-through Processing
TM	Trading Member
TM-CM	Trading Member-Clearing Member
VaR	Value at Risk
WDRA	Warehouse Development and Regulatory Authority
WSP	Warehouse Service Provider

CHAPTER 1 : SETTLEMENT

1. Settlement In Equity Cash Market

1.1 Activity Schedule

1.1.1 **Introduction of T+1 rolling settlement**

1.1.1.1 In T+1 settlement, the securities for pay-out in the equity cash segment (including netted cash and F&O Physical Settlement) shall be credited directly to the respective client's demat account on the same settlement day by the CCs.

1.1.1.2 The settlement option for security shall be applicable to all types of transactions in the security on that SE. For example, if a security is placed under T+1 settlement on a SE, the regular market deals as well as block deals will follow the T+1 settlement cycle on that SE.

1.1.2 **Activity Schedule for T+1 Rolling Settlement**

Sr. No.	Day	Time	Description of activity
1	T		Trade Day
2	T+1	By 07:30 AM	Completion of custodial confirmation of trades to Clearing Corporation ("CC").
		By 09:00 AM	Download of final obligations to custodians and members by CC
		By 11:00 AM	Pay-in of securities and funds.
		By 01.30 PM	Pay-out of funds.
		By 03.30 pm	Pay-out of securities[1]

[1] Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/137 dated October 10, 2024

1.1.3 **Introduction of Beta version of T+0 rolling settlement cycle on optional basis in addition to the existing T+1 settlement cycle in Equity Cash Markets[2,3]**

1.1.3.1 It has been decided to put in place a framework for introduction of the Beta version of T+0 settlement cycle on optional basis in addition to the existing T+1 settlement cycle in equity cash market for top 500 scrips in terms of market capitalization as on December 31, 2024 and to 25 scrips introduced initially. The scrips shall be made available for trading and settlement starting with scrips at bottom 100 companies out of the aforesaid 500 companies and gradually include the next bottom 100 companies every month till top 500 companies are available for trading in optional T+0 settlement cycle.

1.1.3.2 **Participation by all Stock Brokers**: All stock brokers are allowed to participate in the optional T+0 settlement cycle. Stock Brokers are permitted to charge differential brokerage for T+0 and T+1 settlement cycles, within the regulatory limit

1.1.3.3 **Participation by Qualified Stock Brokers (QSBs):**

i. Stock brokers who are designated as QSBs and meet the parameter of minimum number of active clients for qualification as QSB as on December 31, 2024 shall put in place necessary systems and processes for enabling seamless participation of investors in optional T+0 settlement cycle. Further guidance with regard to the timeline for QSBs for putting in place the necessary systems and processes shall be intimated by SEBI.[4]

ii. In case of change in the list of QSBs, the exiting QSB shall continue to provide the necessary systems and process and the new QSBs shall put in place the necessary systems and processes for enabling seamless participation of investors in optional T+0 settlement cycle within 3 months from the date of updation of the list.

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[2] Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/20 dated March 21, 2024

[3] Circular No. SEBI/HO/MRD/POD-3/P/CIR/2024/172 dated

[4] Circular No.HO/47/11/12(1)2025-MRD-POD3 I/72/2025 dated October 30, 2025 and SEBI Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2025/58 dated April 29, 2025

1.1.3.4 **Participation by Custodians**: The MIIs and Custodians shall put in place necessary systems and processes for seamless participation of institutional investors in optional T+0 settlement cycle.

1.1.3.5 The operational guidelines in this regard are as under:

i. Eligible Investors: All investors are eligible to participate in the segment for T+0 settlement cycle, if they are able to meet the timelines, process and risk requirements as prescribed by the CCs.

ii. Surveillance Measures: The surveillance measures as applicable in T+1 settlement cycle shall be applicable to scrips in T+0 settlement cycle.

iii. Index calculation and settlement price computation: T+0 prices will not be considered in index calculation and settlement price computation. There shall be no separate close price for securities based on trading in T+0 segment.

iv. Netting of Obligations: There shall be no netting in pay-in and pay-out obligations between T+1 and T+0 settlement cycle.

1.1.3.6 To ensure smooth implementation, the CCs shall publish the operational guidelines (including mechanism for trading, clearing and settlement, risk management, etc.) and Frequently Asked Questions (FAQs) along with the list of eligible scrips and list of QSBs for the optional T+0 settlement cycle and disseminate the same on their respective websites.

1.1.3.7 CCs shall provide a fortnightly report on the activities under optional T+0 settlement cycle till further direction

1.1.4 **Systems for effecting settlement on T+1 basis**[5]

[5] Circular No. SMD/POLICY/Cir - /03 dated February 6, 2003

1.1.4.1 The CCs shall put in place the following systems for effecting settlement on T+1 basis.

i. A facility of late confirmation of trades by the custodians shall be provided. However, the time limit for late confirmation shall be fixed in a manner that the download of the final obligation files to brokers is not delayed.
ii. The CCs would levy an additional charge to discourage late confirmations by the custodians.
iii. The CCs would provide a system for handling shortages of funds and securities in an expeditious manner to adhere to the time schedule for pay-out.

1.1.4.2 CCs would encourage members to adopt automatic downloading of pay-in files for securities and funds. The members would also be encouraged to adopt direct transfer of funds to clients account on pay-out.

1.1.4.3 The CCs shall provide the following facilities for smoothing clearing and settlement process:

i. Facility of online confirmation of trades by custodians.
ii. System to capture the details of the client's depository account and bank account.
iii. System for online transmitting the client wise pay-in obligation to depository so that the depository in turn could download the security pay-in instructions to depository participants in respect of the investor maintaining account with them.
iv. System wherein the pay-out files could be sent to the clearing banks with a request to online credit to the bank accounts of the clients.

1.1.5 **Activity schedule for Auction Session**[6]

[6] Circular No. CIR/MRD/DP/39/2010 dated December 28, 2010, Circular No. CIR/MRD/DRMNP/8/2015 dated May 14, 2015 and Circular No. CIR/MRD/DRMNP/16/2015 dated August 06, 2015

1.1.5.1 **The following shall be the auction schedule for default by the selling broker**

Auction settlement for T day trade under T+1 Settlement Cycle		
1	By T+1	Auction session
2	By T+2	Pay-in/pay-out and close-out of auction

However, as the bank and stock exchange holidays are not common there are days when multiple settlements are conducted on the working day immediately following the day(s) of the closure. In such instances, the auction session shall be immediately following the day(s) of the closure and as under:

1.1.5.2 The auction of first settlement ("S1") shall be conducted on the same day ("Tm") and settled by next day (Tm+1).

1.1.5.3 The auction for the second settlement ("S2") shall be conducted on the next day (Tm+1) along with the shortages/auction of that day. The settlement of the same shall happen by the subsequent day (Tm+2).

1.1.6 **Net Settlement of Cash segment and Futures & Options (F&O) segment upon expiry of stock derivatives**[7]

1.1.6.1 The details of the said Net Settlement Mechanism upon expiry of stock derivatives are as under:

i. The obligations arising out of cash segment settlement and physical settlement of F&O segment, upon expiry of stock derivatives, shall be settled on net basis as against the current approach of settling such obligations separately.

ii. The benefit of netting (merged settlements) shall be available to investors whose trading member ("TM") clears trades in Futures and options ("F&O") segment and cash segment through the same clearing member ("CM") i.e. benefit of netting shall be available to investors who trade and clear through the same TM-CM combination in Cash and F&O

[7] Circular No SEBI/HO/MRD2_DCAP/P/CIR/2022/165 dated November 30, 2022

segment. However, investors whose TM clears trades through different CM /CC will not be able to avail the benefit of netting.

iii. Netting of settlement obligations of cash segment and physical settlement of F&O segment shall not be available for the institutional investors (including all categories of Foreign Portfolio Investors) since the extant regulatory framework specifies that all transactions by the institutional investors (including all categories of Foreign Portfolio Investors) in cash market should be backed by delivery.

iv. Netting of settlement shall be available for non-institutional Custodial Participants ("CPs") clearing through the same entity registered both as a custodian in cash market and as a CM in F&O segment, except and otherwise for those investors/ clients/ participants (for instance Portfolio Managers - PMS) which have been mandatorily directed to enter into delivery backed transactions only.

v. Under the Net Settlement mechanism, netting of delivery obligations shall be only for the purpose of settlement. Therefore, Securities Transaction Tax ("STT") and Stamp Duty shall continue to be computed, levied and reported on a segment wise level.

vi. CCs shall continue to settle obligations on net basis at CM level. Further, CCs shall continue to maintain segment-wise default waterfalls, regardless of a single settlement across segments. The losses, if any, in case of default of a CM to CC shall be computed on the basis of the segment-wise obligation of CM to CC, on a pro-rata basis.

1.2 CLOSE-OUT AND AUCTION

1.2.1 Close-out Procedure[8]

"The close out Price will be the highest price recorded in that scrip on the exchange in the settlement in which the concerned contract was entered into and up to the date of auction or close out"

OR

"20% above the latest available closing price at the exchange on the day on which auction offers are called for"

whichever is higher

1.2.2 Close-out Procedure in case of indefinitely suspended or delisted scrips[9]

In the case of close out for scrips which have been indefinitely suspended/ delisted, the reference price would be the twenty-six weeks' average traded price while the close out mark-up would be 20%.

1.2.3 Close-out Procedure for ETFs[10]

i. <u>For Overnight ETFs and Liquid ETFs</u>

"The close-out price will be the highest price recorded in that ETF on the exchange in the settlement in which the concerned contract was entered into and up to the date of auction or close out"

OR

"5% above the latest available closing price at the exchange on the day on which auction offers are called for"

whichever is higher.

[8] Circular No. SMD/Policy/Cir-03/2002 dated January 30, 2002 and SMD/Policy/Cir-08/2002 dated April 16, 2002 and Circular No. SMD/Policy/IECG/5548/96 dated December 09, 1996

[9] Circular No. SMD/Policy/Cir-21/02 dated September 04, 2002

[10] Circular No. HO/47/11/11(1)2026-MRD-POD3/I/13804/2026 dated June 15, 2026

ii. For all other ETFs the provisions as specified in Paragraph 1.2 above shall remain applicable.

iii. The existing provisions on "Auction" and "Proceeds from Auction or Close-out" as specified below in para 1.2.5 and 1.2.6 shall continue to be applicable for ETFs.

1.2.4 **Close-out mark up in respect of Debentures and Bonds traded on the SEs[11]**

The debentures and bond issued by the companies which are traded at the exchanges do not experience daily price variation similar to the equities. Therefore, close out mark up of 5% would be applied in case of debentures and bonds which are assigned a credit rating of AAA. However, for the other debentures and the bonds with below AAA credit rating, the existing close out mark up of 20% shall be applicable as is applicable in the case of equities.

1.2.5 **Auction[12]**

1.2.5.1 In no case the auction would be held more than once unless the same is approved by a special resolution of the governing board of the CC. The outstanding position at the end of the first auction cycle shall be automatically closed out.

1.2.5.2 In no case the auction shall be held beyond a period of one week from the pay-in day of the settlement in which the concerned contract had been entered into.

1.2.6 **Proceeds from Auction or Close-out[13]**

The Proceeds from Auction or Close-out should be used to settle the claim of the aggrieved party. Any amount remaining thereof should be credited to the Core Settlement Guarantee Fund ("Core SGF") instead of crediting it to the defaulting party's account.

[11] Circular No. SEBI/SMD/SE/Cir-26/2003/25/06 dated June 25, 2003
[12] Circular No. SMD/Policy/IECG/5548/96 dated December 09, 1996
[13] Circular No. SMD/Policy/Cir-10/99 dated May 04, 1999

1.3 DELIVERY VERSUS PAYMENT (DVP) OR HAND DELIVERY BARGAINS

1.3.1 Hand Delivery Bargains or DVP[14]

1.3.1.1 All transactions executed on the SEs shall be settled through the CC except for the following exceptional circumstances under which Hand Delivery Bargains or Delivery Versus Payment ("DVP") may be permitted by the SEs without attracting any margins and any penalty:

i. Total connectivity failure to the SE or CC or STP. (Specific connectivity issues of the custodians and members shall not be considered as valid exceptions).
ii. International Holidays that may be decided upfront by the SEs in consultation with the custodians.
iii. Closing down of national or international centers due to calamities.

1.3.1.2 In the event of rejection of an institutional trade by the custodian after the trade has been executed, the CC would consider the trade as an institutional trade only if evidence to that effect is available with or made available to the CC and permit the trade to be settled through the Hand Delivery Bargain on a DVP basis, without imposing any margin. Such trades would however be subject to penalties as may be imposed by the CCs.

1.3.1.3 In case the evidence as mentioned above is not made available to the CC, the CC, while allowing the trade to be settled through Hand Delivery Bargain on a DVP basis will however impose both margin and penalties.

1.4 TRANSFER OF FUNDS AND SECURITIES

[14] Circular No. MRD/DoP/SE/Cir- 17/2005 dated September 2, 2005

1.4.1 Transfer of Funds and Securities from member to client[15]

1.4.1.1 The member shall transfer Funds from their respective pool account to the respective beneficiary account of their client within 1 working day after the pay-out day.

1.4.1.2 The CC of the SEs shall provide the settlement-wise details of securities to the depositories and the depositories shall maintain the settlement-wise records for the purpose.

2. SETTLEMENT IN DERIVATIVES (EQUITY, CURRENCY, INTEREST RATE FUTURES,FOREIGN INDICES)

2.1 Settlement Mechanism in Equity derivatives

Index Futures	Index Options	Stock Futures	Stock Options
2.1.1. Settled in INR on E+1 day (E=Expiry day)	2.1.2. Settled in INR on E+1 day (E=Expiry day)	2.1.3. Physical settlement on E+1 day (E=Expiry day)	2.1.4. Physical settlement on E+1 day (E=Expiry day)

2.2 Settlement Mechanism in Currency derivatives

2.2.1 The currency derivatives contracts shall be settled in cash in INR. Daily settlement shall be on T+1 basis (T denotes Trade date) and the Final Settlement shall be on T+2 basis (T denotes Expiry date).

2.2.2 **Settlement of Premium in currency options**

2.2.2.1 Premium would be paid in by the buyer in cash and paid out to the seller in cash on T+1 day.

[15] Circular Nos. MRD/DoP/SE/Dep/Cir-30/2004 dated August 24, 2004, SEBI/MRD/Policy/AT/Cir-19/2004 dated April 21, 2004 and SMDRP/Policy/Cir-05/2001 dated February 01, 2001

2.2.2.2 Until the buyer pays in the premium, the premium due shall be deducted from the available Liquid Net Worth on a real time basis.

2.2.3 **Settlement of Premium in cross currency derivatives**

2.2.3.1 Premium would be settled in INR and would be paid in by the buyer in cash and paid out to the seller in cash on T+1 day. Until the buyer pays in the premium, the premium due shall be deducted from the available liquid assets on a real time basis.

2.2.3.2 For arriving at the settlement value in INR for EUR-USD and GBP-USD contracts, the latest available RBI reference rate for USD-INR shall be used. For USD-JPY contracts, the settlement value in INR shall be arrived at using the latest available exchange rate published by RBI for JPY-INR.

2.3 Settlement Mechanism in Interest Rate Futures

Interest Rate Futures on 91-Day (GOI) Treasury-Bill (T-Bill)	**Interest Rate Futures on 2 Year Notional Coupon Bearing GOI security**	**Interest Rate Futures on 5 Year Notional Coupon Bearing GOI security**	**Exchanges Traded Cash Settled Interest Rate Futures (IRF) on 6 Year, 10 Year and 13 Year GOI Security**
2.3.1. The 91-day T-Bill future would be settled in cash in INR	2.3.2. The futures on notional GoI security would be settled in cash in INR.	2.3.3. The futures on notional GoI security would be settled in cash in INR	2.3.4. Settlement day shall be the next working day of the Expiry day. Settlement shall happen in cash in INR

2.3.5 **Settlement Mechanism in Interest Rate Futures on 10-Year Government of India (GOI) Security**

2.3.5.1 The contract would be settled by physical delivery of deliverable grade securities using the electronic book entry system of the existing Depositories (NSDL and CDSL) and Public Debt Office (PDO) of the RBI. The delivery of the deliverable grade securities shall take place from the first business day of the delivery month till the last business day of the delivery month. The owner of a short position in an expiring futures contract shall hold the right to decide when to initiate delivery. However, the short position holder shall have to give intimation, to the Clearing Corporation, of his intention to deliver two business days prior to the actual delivery date.

2.3.5.2 **Delivery Schedule and Delivery Process/Mechanism**

Buyer and seller in Interest rate Futures on 10-year Notional Coupon bearing GoI security shall take and give securities respectively in the demat or PDO mode. The delivery schedule shall be as follows:

T +0 day:

i. **Delivery notice:** It is the day when the selling Clearing Member (CM) sends a notice to the Clearing Corporation (CC) expressing his intention to deliver along with details of the security to be delivered. CM shall send the notice before 6:00 pm IST on the second business day prior to the day he wishes to deliver. For example, if he wishes to deliver on 4th September 2009 and 2nd and 3rd are business days, he shall give notice before 6 PM on 2nd September 2009. Along with the notice, he shall provide the notional face value (equal to its short position in the expiring contract), security ISIN, coupon, maturity date, issuance date, coupon convention, and other details as may be sought by the CC. Based on these details CC shall calculate the invoice price.

ii. **Allocation:** The CC shall identify the eligible long positions for allocation and assign the deliveries to long position holders at client level starting with the highest vintage till the allocation is over. Vintage data shall be computed and maintained at client level for every contract and shall be tracked by the

CC on end of day basis. For a given vintage, if the contracts to be allocated (Short) are less than the total long positions, the allocation to such long position holders shall be done on a 'random' basis.

iii. Based on the client level allocations as above, CC shall compute CM level deliverable/receivable obligations using multilateral netting and intimate the identified long position holders, by 8 pm IST on the date of receipt of notice, the details of the securities that they would be receiving and the invoice price.

iv. The seller CM shall not be permitted to fulfill an individual futures contract by delivering a mixed portfolio of deliverable security (for example, Rs.1,20,000 face value of one issue and Rs. 80,000 face value of another issue is not permissible). However, a selling CM making delivery for more than one futures contract, say two contracts, may deliver two deliverable securities for two different contracts (Rs.2,00,000 face value of one issue for one contract and Rs.2,00,000 face value of another issue for the other contract).

T + 2 day

v. On the second business day following the receipt of the delivery notice, the CMs shall discharge their obligations and the CC shall complete the settlement accordingly.

2.3.6 Penalties (Interest Rate Futures on 10-Year GoI Security)

In case there is a failure to honour the settlement obligation by the CM, the following action shall be followed:

2.3.6.1 Selling CM fails to deliver the securities

i. **T +0 day**: Selling CM gives intention to deliver the securities
ii. **T+2 day**: Buying CM pays-in funds and the selling CM fails to deliver the securities

iii. **T+2 or T+3 day**: CC shall conduct buy-in auction of the securities.
In case of successful auction, the defaulting CM shall be debited by:
the actual auction price,

difference in invoice price and auction price, if the auction price is less than the invoice price, and
a penalty of 2% of the face value of security short delivered.

iv. In case of unsuccessful auction, transaction shall be closed out wherein the defaulting CM shall be debited by:
invoice price, and
a penalty of 5% of the face value of security short delivered.

v. In respect of the seller in an auction failing to honour the auction obligations, he shall be debited by:
invoice price, and
a penalty of 3% of the face value of security short delivered

vi. These penalties shall be passed on to the buying CM, who shall pass it on to the buying client.

2.3.6.2 **Buying CM fails to pay-in funds**

T +0 day: Selling CM gives intention to deliver the securities
T+2 day: Selling CM delivers securities and the buying CM fails to pay-in funds.
The CC shall pay-out funds to the selling CM on T+2 day

Further,

i. In case of a settlement shortage of Rs. 5 lakh or more, the trading facility of all trading members clearing through the buying CM shall be withdrawn in the Currency Derivatives Segment and the securities pay-out to the buying CM shall be withheld.
ii. If the buying CM is short for an amount of Rs. 2 lakh or more on six or more occasions in the preceding three months, the trading facility of all the trading members clearing through the buying CM shall be withdrawn in the Currency Derivatives Segment and the securities pay-out to the buying CM shall be withheld.
iii. A penalty of 0.07% per day shall be levied on the amount of the shortage.

iv. The trading facility shall be restored and securities withheld shall be released on the buying CM making good the shortage amount in all the above cases.

Regulatory Penalty: In case a selling CM defaults in delivering securities 5 times during a period of preceding 6 months, the trading facility of all the trading members clearing through the CM shall be withdrawn for 7 days.

2.3.6.3 **Margins and action on deliverable positions**

i. **Margins on physical delivery positions**: For positions marked for delivery, a margin equal to VaR of the futures on the invoice price plus 5% of face value along with mark to market adjustments shall be charged both to the buying client and selling client. The margins shall be levied from the intention day and shall be released on the completion of the settlement.

ii. **Margins from last trading day to last intention day**: For positions from last trading date till date of intention in cases where no intention is provided, a margin amount equal to VaR of the futures on the invoice price of the costliest security from the deliverable basket plus 5% of face value along with mark to market adjustments based on the underlying closing prices of the costliest security from the deliverable basket shall be charged on both buying client and selling client. The margins shall be levied from the last trading day till the day of receipt of intention to deliver.

iii. **Action in case no intent to deliver is provided**: In case no intent is provided by the selling CM till two business days prior to the last delivery date, it shall be presumed that selling CM has failed to deliver the security and the auction mechanism, as specified for security shortages, shall be activated. The auction shall take place one business day prior to the last delivery date.

3. SETTLEMENT IN COMMODITY DERIVATIVES.

3.1 Staggered Delivery [16]

3.1.1 Staggered delivery period is the period, beginning few working days prior to expiry of any contract and ending with expiry, during which sellers/buyers having open position may submit an intention to give/take delivery.

3.1.2 All compulsory delivery commodity futures contracts (agriculture commodities as well as non-agriculture commodities) shall have a staggered delivery period.

3.1.3 The minimum duration of staggered delivery period shall be at least three working days.[17]

3.1.4 Clearing Corporations shall have the flexibility to set higher duration of staggered delivery period for any commodity futures contract, as deemed fit, taking into account various factors such as historical open interest, volume near expiry etc. In this regard, for the benefit of the market participants, all the CCs shall jointly prepare and publish a detailed framework outlining various circumstances and factors which would generally require longer duration of staggered delivery period in any commodity.

3.1.5 In the interest of trade and public, SEBI or CC may exercise its due discretion in modifying the aforesaid staggered delivery period at any time.

3.1.6 Framework

i. Seller/buyer having open position shall have an option, of submitting an intention of giving/taking delivery, on any day during the staggered delivery period.

ii. On each day (except for the expiry day), CCs shall allocate intentions received to give delivery during the day, to buyers having open long position as per random allocation methodology to ensure that all buyers have an equal opportunity of being selected to receive delivery irrespective of the size or value of the position. However, preference may be given to buyers who have marked an intention of taking delivery, which may be based on aspects such as location, quality etc.

iii. Pay-in and pay-out for the allocated deliveries shall happen within 2 working days after allocation.

[16] SEBI Circular No. SEBI/HO/CDMRD/DNPMP/CIR/P/2019/83 dated July 26, 2019.

[17] SEBI Circular no: SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/57 dated May 24, 2024

iv. All open positions after expiry of the contract shall result in compulsory delivery and be settled at Final Settlement Price ("FSP") of the respective contract and pay-in and pay-out shall happen latest by the 2nd working day after expiry.

3.2 Early Delivery System [18]

3.2.1 In all futures contracts for which early delivery system is mandated, the framework shall be as given below:

3.2.1.1 An early delivery period may be provided during E-14 to E-1 days (where E stands for expiry day) of the contract during which buyers/sellers can give intention to take/give delivery. If the intentions of the buyers/sellers match, then the respective positions will be closed out by physical deliveries. The process of pay in and pay-out will be completed on T + 2 basis, where 'T' stands for the day on which matching has been done.

3.2.1.2 If there is no intention matching for delivery between sellers and buyers, then such delivery intention shall get automatically extinguished at the close of E-1 day. The intentions can be withdrawn during the course of E-14 to E-1 day if they remained unmatched.

3.2.1.3 In respect of delivery defaults after the matching of delivery intentions, penalty provisions as applicable in the case of delivery defaults in compulsory delivery contracts shall be applied.

3.2.1.4 On the expiry of the contract, all outstanding positions shall be settled by delivery and all the penalty provisions for delivery default applicable in the compulsory delivery contracts shall apply.

3.3 Early Pay-in Facility[19,20]

3.3.1 Clearing Corporations shall provide early pay-in facility to market participants permitting them to deposit certified goods to the CC accredited warehouse against relevant derivatives contracts. For such positions against

[18] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/90 dated September 21, 2016
[19] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/90 dated September 21, 2016
[20] SEBI Circular No. HO/47/16/13(4)2026-MRD-POD1/I/14266/2026 dated June 19, 2026

which early pay-in has been made, based on risk perception, CCs may exempt imposition of all types of margins. However, CCs shall continue to collect mark to market margins from such market participants against such positions.

3.3.2 In case of compulsory delivery and seller's option contracts, delivery to the extent of open position at the expiry of the contract shall be mandatory after claiming early pay-in facility on the position. CCs should provide for extremely strict penalties including disciplinary actions against such members who fail to do so.

3.4 Penalty on Delivery Default [21]

3.4.1 Penalty on seller in case of delivery default (default in delivery against open position at expiry in case of compulsory delivery contracts, default in delivery after giving intention for delivery) shall be as follows:

i. Futures contracts on agri-commodities: [4%] of Settlement Price + replacement cost (difference between settlement price and average of three highest of the last spot prices of 5 succeeding days after the commodity pay-out date, if the average price so determined is higher than Settlement Price, else this component will be zero.)

ii. Futures contracts on non-agri commodities: 3% of Settlement Price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and the following day, if the spot price so arrived is higher than Settlement Price, else this component will be zero.)

3.4.2 [22]Clearing Corporation shall have the flexibility to increase/ decrease penalty for specific commodities depending on situation, in consultation with SEBI.

3.4.3 Norms for apportionment of penalty –

[21] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/90 dated September 21, 2016
[22] SEBI circular SEBI/HO/CDMRD/DRMP/CIR/P/2021/35 dated March 23, 2021

i. At least 1.75% of Settlement Price shall be deposited in the Settlement Guarantee Fund (SGF) of the Clearing Corporation
ii. Up to 0.25% of Settlement Price may be retained by the Clearing Corporation towards administration expenses
iii. [23](1% of Settlement Price in case of non-agri goods or 2% of Settlement price in case of agri goods) plus replacement cost shall go to buyer who was entitled to receive delivery

3.4.4 [24]Clearing Corporation may have appropriate deterrent mechanism (including penal/disciplinary action) in place against intentional/wilful delivery default.

3.4.5 [25]In the case of a default by a buyer in both agricultural and non-agricultural commodities, following standard procedure shall be followed by the CCs:

i. The CCs shall review the loss incurred by the non-defaulting Party, i.e. Seller, at its sole discretion, and accordingly, levy penalty on the defaulting buyer. However, such penalty shall be within the overall cap of delivery margins collected by the CCs, from such defaulting buyer.

3.5 Penalty for Repeated Delivery Default[26]

3.5.1 In the case of repeated default by a seller or a buyer, for each instance of repeated default, an additional penalty shall be imposed, which shall be 3 % of the value of the delivery default.
3.5.2 Repeated Default shall be defined as an event, wherein a default on delivery obligations takes place 3 times or more during a six months' period on a rolling basis.

[23] SEBI circular SEBI/HO/CDMRD/DRMP/CIR/P/2021/35 dated March 23, 2021
[24] SEBI circular SEBI/HO/CDMRD/DRMP/CIR/P/2021/35 dated March 23, 2021
[25] SEBI circular SEBI/HO/CDMRD/DRMP/CIR/P/2021/35 dated March 23, 2021.
[26] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2021/619 dated August 17, 2021

3.5.3 The penalty levied shall be transferred to the SGF of the Clearing Corporation.

3.6 Fixation of Final Settlement Price (FSP) [27]

3.6.1 For contracts where Final Settlement Price ("FSP") is determined by polling, unless specifically approved otherwise, the FSP shall be arrived at by taking the simple average of the last polled spot prices of the last three trading days viz., E0 (expiry day), E-1 and E-2. In the event the spot price for any one or both of E1 and E-2 is not available; the simple average of the last polled spot price of E0, E-1, E-2 and E-3, whichever available, shall be taken as FSP. Thus, the FSP under various scenarios of non-availability of polled spot prices shall be as under

Scenario	*Polled spot price availability on*				*FSP shall be simple average of last polled spot prices on*
	E0	*E-1*	*E-2*	*E-3*	
1	Yes	Yes	Yes	Yes/No	E0, E-1, E-2
2	Yes	Yes	No	Yes	E0, E-1, E-3
3	Yes	No	Yes	Yes	E0, E-2, E-3
4	Yes	No	No	Yes	E0, E-3
5	Yes	Yes	No	No	E0, E-1
6	Yes	No	Yes	No	E0, E-2
7	Yes	No	No	No	E0

3.6.2 In case of non-availability of polled spot price on expiry day (E0) due to sudden closure of physical market under any emergency situations noticed at the basis centre, the CCs shall decide further course of action for determining FSP in consultation with SEBI.

[27] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/90 dated September 21, 2016

3.6.3 In case of change in Expiry date, delivery period may be advanced accordingly for contract having staggered delivery. The FSP of such contract shall be fixed as per the above mentioned procedure.

3.7 Criteria for Settlement Mode of Commodity Derivative Contracts[28]

3.7.1 The first preference of settlement type for commodity derivatives contracts shall always be by the way of physical delivery.

3.7.2 Any exemption from the above i.e. cash settlement of commodity derivatives contract, may be considered only in following scenarios with a proper justification –

i. Physical delivery is difficult to implement due to any reason, which may inter-alia include the following:

   a. commodity is intangible; or
   b. commodity is difficult to store may be due to low shelf life or inadequate storage infrastructure; or
   c. it is difficult to physically handle and transport the commodity due to inadequate logistics and transport infrastructure.

ii. There is availability of reliable benchmark price of the commodity which can be used as reference for settlement price. CCs shall satisfy themselves that the reference spot price is robust – fair indicator of prevailing prices and not susceptible to any distortion/manipulation.

3.7.3 Subject to the above conditions, both cash settled and physically settled derivative contracts on the same commodity may also be considered for trading, in case basis of price discovery of the proposed contracts is different.

3.8 Timelines for Marking Delivery Intention [29]

[28] SEBI Circular no SEBI/HO/CDMRD/DMP/CIR/P/2017/116 dated October 16, 2017

[29] SEBI Circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2016/93 dated September 26, 2016

3.8.1 CCs may decide the timelines for submission of delivery instruction by members based on their assessment of the time required for marking as well as for modifying any delivery intentions wrongly marked.

3.9 Location Premium / Discount [30]

3.9.1 CCs shall determine and disclose for contracts the location premium / discount prior to launch of the contract in various commodities.

[30] SEBI Circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2016/93 dated September 26, 2016

3.10 Warehousing Norms For Agriculture And Agri-Processed Commodities and Non-Agricultural Goods[31]

3.10.1 **General**

3.10.1.1 The Clearing Corporations to have in place comprehensive framework of norms for adherence by the Warehouse Service Providers ("**WSP**"), assayers and other allied service providers engaged by them so as to exercise a robust mechanism, for ensuring good delivery as mandated under the SECC Regulations.

3.10.1.2 The norms prescribed herein are the minimum requirements/standards which the CC will set out for compliance by its accredited WSPs and assayers and are to be complied with in conjunction with the applicable norms laid down by Ware Housing Development and Regulatory Authority (WDRA) or any other government authority overseeing the warehousing or storage infrastructure and its ancillary services for the respective goods.

3.10.1.3 The CCs are at liberty to prescribe additional norms/guidelines for compliance by their accredited WSPs, warehouses and assayers, if they deem so fit, for ensuring good delivery of commodities by them. However, it must be ensured by the CCs that such additional norms specified are not in contravention with the provisions issued herein.

3.10.1.4 The CCs shall put in place necessary arrangements for ensuring compliance with the provisions of Regulation 43A of SECC Regulations. Further, the CCs shall have necessary arrangements to ensure that in the event of bankruptcy or insolvency of the WSP or other such contingency, there must be no restrictions placed upon owners/depositors of the commodity desiring to take possession of their individually identified commodity and remove it from the accredited Warehouse(s).

[31] SEBI Circular no. SEBI/HO/CDMRD/DMP/P/CIR/2021/551 dated April 16, 2021.

3.10.2 **Accreditation of Warehouse Service Provider (WSP)**

3.10.2.1 For accreditation of WSPs, the CC shall publish open advertisements in leading newspapers and/or put up the same on their website and follow transparent selection process thereafter. The selection process to be followed for such accreditation shall be displayed on the website of the CC before the process begins. The CC shall ensure that the applications of the WSPs are processed within a stipulated time frame.

Note: For the purpose of this Circular, a WSP is an entity which provides a storage facility for storing underlying goods related to a commodity derivatives contract.

3.10.2.2 The CC shall ensure that the WSP had obtained the required registrations of the proposed storage facility from the WDRA for commodities notified by the WDRA and for other commodities under applicable law/s and the same shall be intimated by it to the CC prior to providing the storage services to the CC.

For the purpose of this chapter, Storage Facility, depending on the nature of the commodity, may include warehouses, silos, cold storages, sheds, tanks, pipelines, marine vessels, open storage areas, or other forms of storage as appropriate to a physically deliverable good for settlement of commodity derivatives contracts traded on stock exchanges.

3.10.2.3 The accreditation of the WSPs shall be done with the approval of the relevant committee of the board of directors of the CC in terms of the SECC Regulations.

3.10.2.4 A WSP can be accredited with more than one CC. In such case, the CC shall not mandate that its WSP cannot provide services to other CCs.

3.10.2.5 A storage facility of a WSP may be utilized by more than one CC with proper segregation, demarcation and putting in place appropriate risk management procedures. However, the same storage facility shall not be utilized by more than one Clearing Corporation for the same commodity.

3.10.2.6 The accreditation of a WSP shall remain valid until:

i. it is surrendered by the WSP and accepted by the CC; or
ii. cancelled by the CC.

3.10.3 **Eligibility and Experience of WSP/Promoters/Promoter Group of WSP**

3.10.3.1 A WSP shall be a corporate body which is in public warehousing business.

3.10.3.2 The Promoters/ Promoter Groups of the WSP should be responsible persons/entities of repute with a good business reputation and credibility.

3.10.3.3 The Promoters/Promoter Groups of the WSP should be in the business of public warehousing for at least 3 years as on the date of their application and have knowledge of, and experience in, generally accepted warehousing and handling practices for commodities for which they propose to provide their services.

3.10.3.4 However, the CC in its discretion, may relax the norm of 3 years stated in para 3.10.3.3 above, provided that the WSP or its promoter/promoter group:

i. Meets all other criteria
ii. Submit an undertaking that they shall comply with any additional norm that may be specified by the CC within the time frame as may be specified by the CC or meet 3 years' criterion whichever is earlier.

3.10.3.5 WSP / Promoters/ Promoter Group of WSP shall have no record of serious violation of law of land including that of laws governing warehousing / securities markets; or being expelled by any Clearing Corporation/stock exchange in last three years. The Clearing Corporation can take an appropriate undertaking from the WSP in this regard.

3.10.4 **Financial Soundness of the WSP**

3.10.4.1 **Share Capital:** The Clearing Corporation shall ensure that an accredited WSP shall have subscribed and paid-up share capital of at least ₹10 crores.

3.10.4.2 **Net worth**

i. An accredited WSP shall meet the following net worth criteria:-

	Type of Goods	**Number of Goods**	**Minimum net worth**
A	Agricultural / Agri-processed	1	₹10 crores
		More than 1	₹25 crores
B	Base / Industrial Metals	1	₹10 crores
		More than 1	₹25 crores
C	Composite*	NA	₹50 crores
	**Composite means combination of A and B*		

ii. In case of reduction in net worth of WSPs below the stipulated requirement, a time period of six months may be allowed to the WSPs to augment the net worth. In the event the WSP is unable to augment the net worth to the requisite level within the allowed time frame, the CCs shall ensure that WSP does not carry out any new business related to commodity derivatives market. The CC shall take suitable measures, which are disclosed on its website for public information, with respect to the existing goods handled by such WSP.

iii. The value of the goods stored in the accredited storage facilities of WSP shall not, at any point of time, exceed 33 times the net worth of

the WSP, irrespective of the number of CCs being served by the WSP. The CCs shall obtain suitable information from the WSPs in this regard.

iv. The net-worth of the WSP shall be calculated in the following manner.

"*the aggregate value of paid up equity share capital plus free reserves (excluding statutory funds, benefit funds and reserves created out of revaluation) reduced by the investments in businesses, whether related or unrelated, aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off.*"

v. The CC shall ensure that the WSPs submit the following documents to them:

a) the unaudited quarterly financial statements for all the quarters of a financial year, within 45 calendar days.
b) unaudited net worth certificate duly certified by the statutory auditor of the WSP, on half yearly basis i.e. at the end of every March and September, within 45 calendar days.
c) the audited Annual Financial Statements along with audited net worth certificate to the Clearing Corporation within six months of the end of Financial Year.

3.10.4.3 **Security Deposit ("SD")**

i. The CC shall ensure that the accredited WSP has furnished a refundable security deposit wherein:

a. Such security deposit shall be a minimum amount of INR 50 lakhs.
b. Such security deposit shall be in the form of Cash / Bank Fixed Deposits / Bank Guarantee.

ii. Security deposit shall not be released until six months after cancellation or surrender of the accreditation of the WSP or until after satisfaction of every claim against the deposit, whichever is later.

3.10.4.4 **Financial Security Deposits ("FSD")**

i. The WSP shall furnish refundable FSD for all goods on incremental basis in addition to the security deposit as under: -

Type of Goods	**Value of Goods stored**	**Minimum FSD**
Agricultural/Agri-processed	Up to ₹250 crores	2% of the aggregate value of stored commodities
	Between ₹250 crores and ₹500 crores	₹5 crores + 3% of aggregate value of stored commodities exceeding ₹250 crores
	Above ₹500 crores	`12.5 crores + 4% of the aggregate value of stored commodities exceeding ₹500 crores
Base / Industrial Metals	NA	0.5% of the aggregate value of stored commodities

ii. The CC, based on its risk assessment, can decide on restricting the amount of FSD to ₹100 Crores from each WSP.

iii. The FSD shall be in the form of liquid assets with applicable haircuts and concentration limits as listed below: -

Type	**Minimum haircut**	**Limits**
Cash	0	

Bank Fixed Deposit	0	No limit but minimum 10%
Bank Guarantees	0	Remaining 90% FSD can be in any combination of the four types of options provided for furnishing the FSD
Securities of the Central Government	10%	

iv. A daily monitoring of the FSD vis-à-vis the value of the goods stored shall be done marked to market on replacement value on ongoing basis to ensure that the minimum stipulated FSD are always maintained with the CC. Based on the risk assessment, the CC may seek additional FSD over and above the requirement stipulated in Para 3.10.4.4, if necessary.

v. In circumstances where there is shortfall in the minimum required FSD due to sudden deposit of commodities in large quantity towards the end of the day, the CCs can allow the WSPs to replenish the FSD within three trading days.

3.10.4.5 **Exposure norms for FSD/SD**

i. The Clearing Corporations shall lay down exposure limits (for Bank Fixed Deposit and Bank Guarantees) either in rupee terms or as percentage of the total assets to be received (with respect to SD/FSD) that can be exposed to a single bank directly or indirectly.

ii. Further, CCs shall ensure that no SD/FSD shall be accepted from a Bank which has a net worth of less than INR 1000 crores and/or is not rated P1 (or P1+) or equivalent, by a recognized credit rating agency or by a reputed foreign credit rating agency.

3.10.4.6 **Coordination between Clearing Corporation and WDRA in respect of SD / FSD maintained by the WSPs**[32]

[32] SEBI Circular no. SEBI/HO/CDMRD/DMP/P/CIR/2021/551 dated April 16, 2021.

i. The Clearing Corporations shall immediately after accreditation of WSPs, provide the details of WDRA registered warehouses with full details of warehouseman registration, warehouse registration, WSP, address etc. to WDRA. WDRA will in turn, share the details of security deposit received from these accredited warehouses/WSPs to the respective CCs as per the format enclosed in **Annexure 1a** on Formats for providing details of Security Deposit. CCs shall inform the changes, if any, with respect to accreditation status of these warehouses, to enable WDRA to provide the required information as above. WDRA will also inform CCs of any changes, if any, in the security deposit placed by such warehouses/WSPs with WDRA.

ii. Clearing Corporations shall continue to compute FSD requirement as mentioned in this chapter. The deposits placed by WSPs with WDRA for Stock Exchange/Clearing Corporation specific outstanding eNWRs shall be considered by the Clearing Corporation in the calculation of available FSD for the WSP.

iii. The CC shall compensate the aggrieved clients, in accordance with its rules, regulations etc., by debiting the FSD of WSP held with it, in the following situations:

a. for any such losses that have been appropriately established against the WSP.
b. in case of loss arising from any action or inaction of its WSP or on the part of its warehouses that prevents the buyer or seller from exercising, in whole or in part, their rights.

iv. In case the FSD available with CC is not sufficient to compensate for the loss the FSD and the SD maintained by such WSP with WDRA shall be made available to CC within 7 days of the release request from CC to WDRA, for settlement of the remaining claims.

v. The settlement of security deposit by WDRA originates only after the goods stored, if any, are disposed of/ withdrawn by the holder.

vi. The discrepancy noted / claim received by any agency (Clearing Corporation or WDRA) shall be brought to the notice of other agency irrespective of invoking the security deposit.

3.10.4.7 **Fit and Proper Criteria**

i. The Clearing Corporation shall ensure that:

a) the WSP, assayers, Promoters of WSP / assayers, Key Management Personnel ("**KMP**") of WSPs / assayers responsible for business operation relating to the Stock Exchanges / Clearing Corporations shall always be 'fit and proper' to carry out business of warehousing.

b) such persons have adequate knowledge of, and experience in generally accepted warehousing and handling practices for the goods concerned, and are competent and willing to operate such a warehouse for which the WSP has a valid license/expertise under the appropriate state warehousing laws in respect of the warehouses concerned.

3.10.4.8 **Corporate Governance norms for WSP**

i. **Management and Employees**:

a. The Clearing Corporation shall ensure that the accredited WSP has a professional management team to oversee its functioning and operations.

b. The CC shall ensure that the KMPs of WSP taking care of business operations and warehousing in general have adequate knowledge of, and experience in generally accepted warehousing and handling practices for goods for which they are accredited. The CC shall also ensure that the KMPs of WSP are competent and willing to operate such a storage facility and do not have any conflict of interest in discharge of their functions.

c. The Clearing Corporation may obtain, and share with Stock Exchanges, an annual declaration from the compliance officer of WSP to the effect that the WSP/Management of WSP or entities owned or controlled by management of WSP/Group concerns directly or indirectly or persons

'acting in concert' have not traded on exchange. Such declaration may be obtained within a month of end of the financial year.

d. The Clearing Corporation shall ensure that the WSP always has adequate number of competent employees who have the experience, capacity and ability of operating the business without any conflict of interest.

e. The Clearing Corporation shall ensure that the WSP and its KMPs, shall not disseminate any information that is false or misleading or disclose any confidential information obtained during the course of their dealings with the Clearing Corporation or their positions on the market or any information received during the course of performance of their duties.

f. The Clearing Corporation shall ensure that the staff/employees of the WSP who are managing the day-today affairs of the warehouses, deployed both in the office of the WSP and in its warehouses, are duly trained on their expected tasks through the relevant training programmes or are deputed to attend the certification programme conducted by the NISM

ii. **Compliance officer**

a. The Clearing Corporation shall ensure that its WSP appoints a compliance officer who would be responsible for monitoring the compliance with all relevant Acts, byelaws, rules and regulations, notifications, guidelines and instructions issued by relevant authorities from time to time.

b. The compliance officer shall be responsible for ensuring that all applicable norms are followed by the WSP and shall be issuing a declaration to that effect to the Clearing Corporations, at regular intervals as directed by the Clearing Corporation.

3.10.4.9 **Know Your Depositor**

i. The CC shall ensure that the WSP complies with Know Your Depositor ("KYD") Policy as prescribed by the CC from time to time.

ii. The CC shall ensure that they and the WSP shall, at any point of time be able to identify the depositor of the goods deposited in registered warehouses, and the actual beneficiary (in case the depositor and the beneficiary are different) of the deposited/stored commodities.

3.10.4.10 **PAN requirement**

i. The Clearing Corporation shall ensure that the WSPs are under obligation to provide to it the details including PAN numbers of its Promoters, Promoter group entities, its holding / subsidiaries / associates and other related entities, persons 'acting in concert', Key Management Personnel, at the time of accreditation and update the same on periodical basis as mandated by the CC and whenever any change is noted by WSP, in this regard.

3.10.4.11 **Facilities & Infrastructure Requirement for WSP**

A. General requirements applicable to all goods

i. The Clearing Corporation shall ensure that the storage facilities provided by the WSP are under absolute control of the WSP. In case a storage facility is a leased property it should be ensured by Clearing Corporation that no third party including the owner / lessor of the storage facility, has any role to play in the operations and managing the concerned storage facilities operated by the WSP.

ii. The Clearing Corporation shall ensure that the accredited WSPs have reasonable facility and infrastructure for proper handling and storage of commodity as specified under:

a. All its storage facilities are well connected with rail and/or road networks and have sufficient space for parking and movement of loading/unloading vehicles.
b. All its storage facilities have adequate equipment, installed and maintained in good working order, as may be prescribed by the Clearing Corporation,

for the movement of commodities into, out of and within the storage facility.

c. All its storage facilities are physically and operationally suitable for the proper storage of commodities and are of sound construction and in a state of good repair.
d. All its storage facilities provide for a safe work environment;
e. All storage facilities shall have adequate security personnel with required facilities to immediately communicate to Clearing Corporation regarding any unlawful entry, burglary, theft or damage or potential loss to the goods deposited with it.
f. All its storage facilities have adequate lighting arrangement as may be prescribed by the Clearing Corporation.
g. All its storage facilities have adequate firefighting equipment installed within its premises, have fire escapes and fire hydrant points (in case of goods which are inflammable) clearly marked. Further, the employees of the WSP shall undergo training in fire safety and use of firefighting equipment.
h. All its storage facilities have required ventilation, installed and maintained in good working order, as may be prescribed by the Clearing Corporation, for the proper storage and preservation of quality of goods;
i. Each storage facility has adequate infrastructure for storing the deliverable commodities of commodity derivative contracts which needs to be piled properly in a separate storage area as specified by the Clearing Corporation thereby providing clear-cut demarcation between Exchange / non-Exchange commodities;
j. All its storage facilities are free from materials and substances that may adversely affect the quality of stored commodities;
k. All its storage facilities to have adequate security as prescribed by the Clearing Corporation for protection of stored or handled commodities to prevent from tampering or adulteration;
l. All its storage facilities to assign a separate place to store the samples used for inspection / testing for further examination / testing.
m. Shall uniformly follow the Standard Operating Procedure ("SOP") developed by the CCs with respect to the maintenance, preservation and retrieval of data/records/books of accounts.

iii. CCs shall ensure that the WSP have adequate infrastructure and shall take utmost care in storing commodities in accordance with the climatic conditions and the nature of commodity stored.

iv. CCs shall ensure that the WSP has put in place necessary infrastructure for accurate and efficient weighing, sampling, inspection and grading of the commodities deposited in its storage facility and WSP has deployed personnel who have knowledge and experience in sampling, weighing, inspecting and/or grading of commodities.

v. CCs shall ensure that the WSPs always gives priority to commodities meant for derivatives contracts delivery while receiving, storing and dispatching goods, in case its warehouse is also permitted to store goods not meant for delivery on exchange platform. The Clearing Corporation shall ensure that WSP should have internal process that enables it to physically verify, by deputing its officials or through any agencies / experts engaged by it, the goods deposited, the facilities available in such warehouse, or to inspect the level of compliance of the warehousing norms stipulated by the CC/regulator from time to time.

vi. The CC shall ensure that WSP shall be responsible to accept the goods/commodities in warehouses which meets the quantity and quality parameters as per the exchange contract specifications. The WSP shall take necessary steps to maintain the quality and quantity of goods stored in the warehouse, in accordance with the conditions/parameters (for maintaining the quality) as laid down by the exchanges for each of such commodity.

vii. Further, the CC shall ensure that it has put in place appropriate procedure and controls in place so that there is minimal queuing of deposits/withdrawal at a storage facility.

viii. CCs shall ensure that its WSPs have in place, necessary policies, control and system in place for dealing with the risk that may be arising due to the warehouses being used for purposes other than commodity derivatives market.

B. Requirements applicable for Agricultural & agri-processed commodities

i. The Clearing Corporation shall ensure that each storage facility of accredited WSP meant for storing the Agricultural and agri-processed commodities shall meet the following conditions in addition to requirements stated in Para A above:

a. the walls, the floor and the roof do not permit water seepage and there is no source of any insect infestation.
b. has a fully fenced perimeter/boundary.
c. are free from materials and substances that may adversely affect the quality of stored commodities;
d. has its own or has access to fumigation facilities/agencies for pest control activities.
e. has assaying/testing facilities for the commodities it intends to render warehousing facility for, or shall undertake to be associated with an assaying/testing agency which may preferably be certified by one or more national/international agencies like National Accreditation Board for Calibration and Testing Laboratories ("**NABL**"), Bureau of Indian Standards ("**BIS**') etc., as specified by the Clearing Corporation.

ii. WSPs shall take utmost care on daily basis for keeping surroundings for their respective warehouses under vegetation control and for disposal of waste which can otherwise create a favorable habitat for rodents and other pests. WSP should regularly inspect and verify whether rodent control structures in the warehouse are sound and whether there are any pools of water around the facility, which can increase the danger of water seepage into it, and take appropriate remedial steps.

C. Requirements applicable for Base Metals/Industrial Metals

i. The Clearing Corporation shall ensure that each storage facility of accredited WSP meant for storing Base Metals/Industrial Metals shall meet the following conditions in addition to requirements stated in Para A above:

a. The storage facilities must have a fully fenced perimeter/boundary. Loading and unloading shall always take place within the perimeter/boundary of the warehouse and not in a public area.

b. All its storage facilities are of sound construction and in a state of good repair and floor properly levelled and can bear the load of the weight of the stored metals. The walls, the floor and the roof do not permit water seepage.

ii. The Clearing Corporation shall ensure that the ferrous metals are stored by WSP in a manner so as to prevent distortion, corrosion, scaling and rusting. They shall be stacked/piled adequately above the ground level.

iii. The Clearing Corporation shall ensure that the WSP undertakes to have assaying/testing facilities for the commodities it intends to offer warehousing facility, or shall undertake to be associated with an assaying/testing agency which may preferably be certified by one or more national/ international agencies as specified by the Clearing Corporation.

3.10.4.12 **Standard Operating Procedure (SOP) and Standards**

I. ISO or other Relevant Standards

In case the Clearing Corporations prescribes relevant International Organization for Standardization ("**ISO**") standards and/or its equivalent, then the Clearing Corporation shall ensure that the WSPs comply with relevant ISO standards and/or its equivalent within the timelines prescribed by it.

II. SOPs

a. The Clearing Corporation shall ensure that the WSP has a Standard Operating Procedure ("**SOP**") which is process-dependent and not person-dependent. The Clearing Corporation shall examine the SOPs in respect of all the concerned storage facilities before granting accreditation to such storage facilities.
b. The SOP of a storage facility may cover the following but not restricted to:
   (i) Procedures for acceptance of goods to be deposited
   (ii) Weigh bridge empanelment

(iii) Procedures for weighing, sampling of goods to be deposited as per industry standards, Procedure for verification of commodity and communication to depositors,
(iv) Procedure for depositing and identifying the Exchange related goods,
(v) Procedure for maintaining the quality of the goods stored as per the exchange contract specification,
(vi) Procedure for Know your depositor requirements,
(vii) Security policy for ensuring the safety of the goods from theft, burglary etc.,
(viii) Procedure and guidelines for scientific storage of goods, including stacking etc.,
(ix) Procedure for losses caused due to theft, fire, burglary, fraud, negligence and force majeure events,
(x) Procedure for internal verification of stock,
(xi) Preservations of Stock – maintenance of godown hygiene, maintenance of warehouse structure, aeration, periodical examination of goods, classification of presence of insects, pre-monsoon precautions etc.
(xii) Selection of Location for offering warehousing services
(xiii) Grievance redressal procedures
(xiv) Role and responsibilities of employees (including outsourced employees)
(xv) Model warehouse agreement format
(xvi) Maintenance of surroundings, infrastructure etc.

c. The Clearing Corporation shall ensure that the WSP has good internal systems and controls which should meet the operating guidelines, if any, issued by the Clearing Corporation from time to time. The WSP shall have clear delegation of powers to meet operational requirement.

d. The Clearing Corporation shall ensure that WSP intimates / notifies in writing to the Clearing Corporation, if there is any material change in it SOP, prior to making such change.

e. The Clearing Corporation shall ensure that WSP reports to the Clearing Corporation within three days of initiation of any civil and criminal proceedings by or against it and shall also intimate the Clearing Corporation if there is probability of any such legal proceedings being initiated involving it, as soon as the same comes to the knowledge of the WSP.

3.10.4.13 **Sampling Procedure**

i. The Clearing Corporations shall ensure that, wherever assaying is carried out by WSPs, adequate samples of goods are collected/retained from the goods deposited and are sealed in the presence of the depositor or his authorized representative.

ii. In order to resolve potential disputes arising with respect to the quality of goods, if any, at least four samples shall be taken of which one sample shall be used for analysis, one shall be kept with the WSP for comparison purpose, one shall be given to the depositors while one shall be kept for record/lab reference purpose.

3.10.4.14 **Accreditation of Assayers**

i. The Clearing Corporation shall follow a transparent process for accreditation of assayers by issue of open advertisement in leading newspapers and/or by putting up the same on the website of the Clearing Corporation. The process to be followed for such accreditation shall be displayed on the website of the Clearing Corporation before the beginning of the selection process. The accreditation shall be done with the approval of the relevant Committee of the board of directors of the Clearing Corporation in terms of the SECC Regulations.

ii. The Clearing Corporation shall conduct independent pre-empanelment due diligence of Assayers by visiting the laboratories and assessing the testing and certification facilities. The Clearing Corporation shall give preference to the Government assayers or to those Assayers who are having testing and certification facilities at various locations across India. In addition to the

empanelment of assayers for deployment by the WSPs at their warehouses, the Clearing Corporation shall also identify and empanel separate independent assayer(s) where the market participants can get their goods/commodities assayed independently, at the time of depositing into or withdrawing such commodities/goods from a warehouse. However, if the original empanelled assayers engaged by WSP at a delivery centre happen to be Government assayer, then the need for empanelling an additional independent assayer may be dispended with.

iii. The Clearing Corporation shall ensure that the empanelled assayers work independently, and their operations are governed by the SOPs prepared by the Clearing Corporation. The assayers shall be preferably certified by one or more national/international agencies like NABL, BIS etc., and shall have the facilities as laid down by the Clearing Corporation from time to time.

3.10.4.15 **Warehouses at delivery centres**

i. The Clearing Corporation shall have at least one storage facility at each of the delivery centres (as specified in the contract specification) at the time of launch of contract itself and address of such storage facility shall be disclosed along with the contract specifications by the Clearing Corporation on their website / by issuance of relevant Circular to all market participants.

ii. The Clearing Corporation may accredit warehouses of a WSP within a radius of 100 km of the delivery centres depending on the feasibility and market requirements in respect of all commodities.

3.10.4.16 **Insurance**

a. The Clearing Corporation shall ensure that its WSPs, whether presently registered with the WDRA or not, comply with the insurance guidelines/ norms issued by the WDRA.

3.10.4.17 **Embracing new technology**

i. The Clearing Corporations shall strive to adopt the latest technology for routine and surprise inspections/audits, monitoring and surveillance of the warehouses etc.

ii. The Clearing Corporation shall ensure that to the extent possible the WSP to be accredited by them has adopted or shall adopt the latest technology with respect to the operations of the warehousing business. The Clearing Corporation may identify the areas where use of latest technology can be mandated by it and provide a timeframe to its WSPs for adoption of the same.

3.10.4.18 **Monitoring/Inspection/Audit**

i. Periodic inspection/audit by WSPs

a. The Clearing Corporation shall ensure that there is periodic inspection/audit by the WSP of the storage facilities and the goods stored therein.

b. The Clearing Corporation shall ensure that the staff of the WSP conducting inspection is independent of the employees / staff deputed at the registered storage facility.

c. The Clearing Corporation shall ensure that the inspection/audit report is submitted to the Clearing Corporation within 15 days of the completion of such inspection/audit.

ii. **Periodic inspection/audit of warehouses by the Clearing Corporation**

a. The Clearing Corporation shall ensure that independent audit of the goods and other facilities in the storage facilities is carried out by engaging expert agencies, at regular intervals.

b. Such inspections[33] shall be carried out in each accredited storage facility, with a gap of not more than six months between two

[33] SEBI Circular No SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/64 dated May 29, 2024

inspections/audits of same storage facility. However, in case there are NIL stocks in an accredited storage facility during preceding six months, the number of such inspections may be limited to once in a calendar year. Only in the event, there are NIL stocks in an accredited storage facility continuously during the calendar year, the Clearing Corporations would be exempted from requirement of inspection by independent agency. In case of NIL inspection by independent agency in previous calendar year, the clearing corporation shall ensure the compliance of Para i above before allowing accredited warehouse to accept new deposits.

c. Additionally, the audit may also be conducted on risk profiling, as identified by the Clearing Corporation. For this purpose, the Clearing Corporation shall form a panel of independent expert agencies and the cost of such audit shall be borne by the respective Clearing Corporation.

d. The panel of such independent expert agencies for carrying out inspection of warehouses, shall also be reviewed by the Clearing Corporation from time to time.

e. The Clearing Corporation shall have a policy of rotation of such independent expert agencies for carrying out inspection after every 3 years with a provision for 'cooling off' period of 1 year.

f. In addition, the Clearing Corporation shall also conduct in-house physical audit of accredited storage facilities at regular intervals.

g. The audit report conducted by independent expert agencies shall be displayed on the website of the Clearing Corporation within 15 days after the submission of report by the auditor.

h. The Clearing Corporations shall carry out surprise inspections of storage facilities as and when such exigencies arise.

i. The Clearing Corporations shall have a detailed manual for carrying out the audits and inspections of the WSP/ storage facilities concerned.

iii. **Monitoring of goods stored at accredited storage facilities by the Clearing Corporations**

a. The Clearing Corporations shall be responsible for monitoring the storage facilities of their accredited WSPs.

b. Norms relating to the monitoring of storage facilities shall be placed in public domain by the Clearing Corporation.

c. A deliberation on the continuous functioning, monitoring and compliance of norms by WSPs, storage facilities and assayers may be one of the agenda items in all meetings of the board of directors of the Clearing Corporation in terms of the SECC Regulations.

d. The Clearing Corporations and WSPs shall ensure that the goods whose Final Expiry Date ("**FED**") is over, are removed from the concerned warehouse immediately, but not later than 3 months from the date of the final expiry date. However, it is clarified that WSP shall ensure proper demarcation of goods which have crossed FED and where follow ups have been done may be considered compliance of guidelines by WSPs. If there is space constraint, the Clearing Corporations shall identify new warehouse nearby for deposit of goods.

Note: For the purpose of this Circular, FED is the date after which the goods cannot be delivered for settlement of derivatives contracts on the stock exchange platform.

e. To further strengthen the process of monitoring, the Clearing Corporations shall mandate their WSPs to submit the report of the inspections carried out by the statutory authorities like WDRA to the

Clearing Corporations within 2 weeks from the receipt of report by WSPs of such inspection along with their comments.

iv. Physical inspections of goods by beneficiary owner of goods

a. The Clearing Corporations shall ensure that the beneficiary owner of the goods is allowed by the concerned WSPs to physically inspect their goods as and when requested by the holders of eNWRs.

b. The request for such physical inspection shall be submitted to the Clearing Corporations and the Clearing Corporations after verification and satisfaction of need for such request, shall forward the same to the concerned WSP for allowing such inspection to be completed within a stipulated timeframe.

c. Upon receipt of such advice from the Clearing Corporations, the WSP shall allow the holder/its authorized representatives holding eNWRs or any other electronic receipts/credit balances to do physical inspection of their goods.

v. Physical reconciliation of goods

a. The Clearing Corporation shall put in place adequate procedures to ensure that the physical counting of goods and their reconciliation with the corresponding electronic records is done on fortnightly basis by its WSPs.

b. The Clearing Corporation shall submit report to SEBI of details of discrepancy observed during the physical reconciliation of goods along with reasons and action taken thereof, on a quarterly basis. Only in extreme cases, in the judgement of the Clearing Corporation, SEBI may be informed of the discrepancy observed on immediate basis.

vi. Review of WSPs/Warehouses

a. The Clearing Corporations shall review and appraise operational performance of each WSP every year. Based on the operational review the

Clearing Corporations may adjust the allocation of commodities and the limit of deliveries at various storage facilities of the concerned WSP in accordance with the results of such performance evaluation and appraisal.

b. Additionally, the Clearing Corporations may carry out quarterly and quarterly performance review of all warehouses accredited by it, taking into account various performance parameters such as storage facilities, the capacity and appearance of the warehouse, business capabilities, business performance, accounting, the satisfaction level of members/clients, redressal of client grievances, and other factors as the Clearing Corporation may deem necessary for its review.

c. The Clearing Corporations may take necessary action against WSPs as mentioned in para 3.10.4.24 below, if the storage facility is unable to meet the requirements of an accredited storage facility and fails to improve the standard within the stipulated timeframe.

3.10.4.19 **Code of Conduct**

i. The Clearing Corporation shall frame code of conduct for the WSPs, storage facility and assayers which shall be disclosed on the website of the Clearing Corporation.

3.10.4.20 **Grievance Cell**

i. The Clearing Corporation shall ensure that it has a Grievance Cell to handle the investor complaints.

ii. The Clearing Corporation shall take proactive steps to resolve client/customer related issues and maintain a record of complaints received and resolved.

iii. The Clearing Corporation shall require the WSP to report the details of complaints received, resolved by it, pending and action taken on the complaints, once in very fortnight.

3.10.4.21 **Monthly Information System (MIS)**

i. It is desirable that there should be electronic record of information at the WSP and a MIS system with an arrangement for flow of real time information from the storage facility location to the central MIS and onwards to the Clearing Corporations electronically. The MIS should have the capability to capture and disseminate information regarding goods being held either storage facility -wise or location-wise, or the availability of space in the storage facilities.

ii. The Clearing Corporation shall display on its website, the list of accredited warehouses for the deposit of goods for delivery on the exchange platform along with the policy for deposit of such goods. The market participants willing to deposit goods in accredited warehouses shall submit a request to the WSP in accordance with the policy put in place by the Clearing Corporation for deposit of goods. The WSP shall intimate the depositing participant about the logistic details such as the time, place and storage facility where the goods can be deposited by them. The WSP shall accept the goods for deposits for all such confirmed deposit requests in accordance with the policy put in place by the Clearing Corporation for deposit of goods.

3.10.4.22 **Surrender/Cancellation of accreditation**

i. The WSP may apply for surrender of its accreditation by submitting the Application for Surrender to the concerned Clearing Corporation for evaluation and approval.

ii. The Clearing Corporation may cancel the accreditations of a WSP if it fails to comply with the provisions of the rules/regulations specified by it and intimate the same to the market participants through circular. Further, the Clearing Corporation shall put in place a cancellation policy for WSP in public domain. However, the Clearing Corporation shall offer the WSP concerned an opportunity of being heard and take a decision on cancellation after considering the explanation of the WSP.

iii. A WSP that surrenders its accreditation, or its accreditation is cancelled, shall attend to the following matters urgently:

a. All commodities for delivery towards settlement of derivatives contract shall be dispatched out of the warehouse;
b. All liabilities and debts vis-a-vis the Stock Exchange/Clearing Corporation, Member and Clients shall be settled;
c. There is no obligation on its part to deliver goods to the clients pertaining to their trades on the exchange platform, and
d. No client/customer complaints pertaining to any of its registered warehouses are pending for redressal.

iv. Financial Security Deposit ("FSD") shall be returned in accordance with the rules framed by the Clearing Corporations, keeping aside 10% of such deposits with the Clearing Corporations, which shall not be released until six months after cancellation or surrender of accreditation of the WSP or until satisfaction of all claims against the deposits made in its warehouses, whichever is later.

v. A WSP which surrenders its accreditation with the Clearing Corporations shall not be eligible to provide its services to the same Clearing Corporations for a period of 3 years.

vi. Once the accreditation of a WSP is cancelled by a Clearing Corporation then it shall not be eligible to provide its services to any other Clearing Corporation for 3 years.

vii. Adequate notice intimation to general public / clients should be given by the Clearing Corporation through widely published newspapers and website etc. before accepting the surrender of WSP or cancellation of the WSP.

3.10.4.23 **Business Continuity Plan**

i. Clearing Corporations shall ensure that the WSP shall put in place, a business continuity plan and submits such plan to the Clearing Corporations.

3.10.4.24 **Actions against WSPs**

i. The Clearing Corporation may frame norms for its accredited WSPs to rectify or correct their misconduct or misconduct on the part of any of its approved warehouses used for storing goods for delivery on exchange platform. The Clearing Corporation may also direct the WSPs to indemnify an entity aggrieved by the delivery process of its warehouse or, in serious cases of misconduct/malfeasance, revoke the accreditation of the concerned warehouse or/and hold the WSP accountable for any legal liabilities, if the concerned erring WSP/ warehouse engages in any of the following offences:

a. refuses to accept delivery without any bonafide reasons or, issues a falsified certificate of delivery;
b. violates any of the Clearing Corporation's rules or limits the movement of a deliverable commodity into or out of the warehouse;
c. discloses any confidential business information relating to a buyer or seller of a commodity derivative contract;
d. provide inaccurate or incomplete information to the Clearing Corporation, conceal the truth of the facts;
e. engages in the commodity derivatives trading activities; or
f. any other offence not listed above.

However, the above actions may be initiated only after taking due approval from the relevant committee of the board of directors of the Clearing Corporation in terms of the SECC Regulations.

ii. The accredited WSP shall be liable for any losses resulting from any action or inaction on its part or on the part of its warehouses that prevents the buyer or seller from exercising, in whole or in part, their rights. The Clearing Corporation shall compensate the aggrieved client for any such losses that have been appropriately established by debiting the FSD of WSP held with the CC, in accordance with its applicable rules, and WSP shall within 7 days replenish the FSD as required.

3.10.4.25 **Policy for depositors for rejection of goods**

i. The Clearing Corporations shall frame a policy for rejection of goods deposited by the depositors.

3.10.4.26 **Disclosures by Clearing Corporations**

i. Daily disclosure on the following:

a. Details about the storage facility including available and utilized capacity, type of commodity allowed to be stored, location of storage facility etc.

b. Details about storage facility-wise and / or commodity wise details of opening stock, goods deposited and held in transit (inbound and outbound), rejected stock, closing stock, encumbered/pledged stock and stock eligible for delivery on Clearing Corporation, name of the warehouse service provider, particulars of acceptance/rejection of goods by the storage facility concerned, details of empanelled assayers and independent assayers, if any, attached to the storage facility etc., on their websites.

c. FED wise stock position in approved warehouses.

d. Quantum of goods physically withdrawn by the holders.

e. Commodity wise %age of deposits held by top 3, 5 & 10 beneficiary owners for commodity as under:

	Commodity A	**Commodity B**	**Commodity C**	**Commodity D and so on**
Top 3				
Top 5				
Top 10				
Others				

ii. Monthly disclosure on the following:

a. A summary of number of complaints with status as per the following format:

WSP wise status of complaints for Month ended			
WSP Name	**No. of complaints received during month**	**No. of complaints resolved during month**	**No. of complaints pending for month with reasons for pendency**

b. A summary of nature of complaints received as per the following format:

Month ending					
Nature of Complaint	**Name of WSP 1**	**Name of WSP 2**	**…….**	**Name of WSP n**	**Total**
Total					

c. Details of the number of applications received for accreditation of warehouses, Warehouses registered with WDRA during the month, registration pending with WDRA, warehouses pending with Inspecting Agencies, accreditation/registration of warehouses rejected by CC/WDRA with reason for the same, etc.

d. Details of storage fee and assaying charges.

e. Details of commodity wise goods deposited in WSP's Clearing Corporation accredited warehouse - by WSP, Management of WSP (defined as 'key managerial personnel' including whole time directors of WSP and their 'relatives' as per Companies Act, 2013), entities owned or controlled by promoters/management of WSP/Group

concerns/associates directly or indirectly or persons 'acting in concert'.

The above discourse should be made available on the website of the Clearing Corporation latest by 7th of the Month.

iii. Other periodical disclosures:

a. Disclosure of the audit report of the WSP within 15 days after the submission of report by the auditor.
b. Quarterly Disclosure on average value of various quality parameters of commodities stored
c. Commodity wise and WSP wise quarterly disclosure on request of resampling and its results
d. Warehouse wise Half yearly disclosure on indicative Load-in and Load-out Rate (Quantity in Metric Ton- MT)

iv. The archives of above reports shall be available on the website of Clearing Corporation.

4. MISCELLANEOUS

4.1 SETTLEMENT IN CASE OF HOLIDAYS

4.1.1 Settlement of Transaction in case of Holidays[34]

The following guidelines shall be followed with a view to enable smooth settlement process and enable CCs meet their obligations in case of holidays:

4.1.1.1 The CCs shall clear and settle the trades on a sequential basis i.e., the pay-in and the pay-out of the first settlement shall be completed before the commencement of the pay-in and pay-out of the subsequent settlement(s).

4.1.1.2 The cash or securities pay out from the first settlement shall be made available to the member for meeting his pay-in obligations for the subsequent settlement(s).

4.1.1.3 Further, in-order to meet their pay-in obligations for the subsequent settlement, members may need to move securities from one depository to another. The CC should ensure that the depositories shall, therefore, facilitate the inter-depository transfers within one hour and before pay-in for the subsequent settlement begins.

4.1.1.4 The CCs and depositories shall follow a strict time schedule to ensure that the settlements are completed on the same day.

4.1.1.5 The CCs shall execute Auto Delivery Out facility for all the settlements together, so as to make the funds and the securities available with the member on the same day for all the settlements, thereby enabling the availability of the funds/securities at the client level by the end of the same day.

4.1.2 Settlement in case of Unscheduled Holidays[35]

4.1.2.1 If the settlement holiday is unscheduled (on account of strike etc.) the clubbing of settlement at the last minute may not be possible and hence there will be no alteration or clubbing of any trading cycle.

[34] Circular No. SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004
[35] Circular No. SMDRPD/Policy/Cir-43/2001 dated August 20, 2001

4.1.2.2 Margins for the concerned trading period will not be released before completion of the pay-in for that trading period.

4.1.2.3 CCs may charge higher margins to deal with enhanced risk arising out of the payment delays caused by unscheduled holidays.

4.1.2.4 To manage the impact of unscheduled holidays on operational activities related to settlement, the CCs shall formulate an SOP in consultation with Exchanges, Depositories and other market participants. The SOP shall be updated whenever a new scenario is encountered.

4.2 Settlement Procedure for trades through Trading Terminals abroad-

All trades shall be settled in India in dematerialized form only. Clients with status of FPIs shall settle the trade through their registered custodian/ designated bank. Clients with the status of NRIs/PIOs/OCBs shall settle the trade through a designated bank. Such a designated bank shall be responsible for repatriation of fund.

4.3 Failure to deliver securities at settlement in Short selling[36]: The clearing corporations shall frame necessary uniform deterrent provisions and take appropriate action against the brokers for failure to deliver securities at the time of settlement which shall act as a sufficient deterrent against failure to deliver.

4.4 Broad framework for securities lending and borrowing (SLB) [37]

4.4.1 The CCs shall put in place, a full-fledged securities lending and borrowing (SLB) scheme, within the overall framework of "Securities Lending Scheme, 1997" (the scheme), that is open for all market participants in the Indian securities market.

4.4.2 To begin with, the SLB shall be operated through Clearing Corporations who will be registered as Approved Intermediaries (AIs) under the SLS, 1997.

4.4.3 The SLB shall take place on an automated, screen based, order-matching platform which will be provided by the AIs. This platform shall be independent of the other trading platforms.

[36] Circular No. MRD/DoP/SE/Dep/Cir- 14 /2007 dated December 20, 2007.
[37] Circular No. MRD/DoP/SE/Dep/Cir- 14 /2007 dated December 20, 2007.

4.4.4 In addition to the scrips on which derivatives contracts are available, scrips that fulfil the following criteria shall be considered eligible for SLB:

i. Scrip classified as 'Group I security' as specified in Chapter: Settlement of this Master Circular;
AND

ii. Market Wide Position Limit (MWPL) of the scrip, shall not be less than Rs.100 crores;
AND

iii. Average monthly trading turnover in the scrip in the Cash Market shall not be less than Rs.100 crores in the previous six months.

4.4.5 CCs shall review the scrips eligible for SLB on a half-yearly basis. In the event a scrip fails to meet the eligibility criteria, no new SLB transaction shall be allowed in the scrip from the next trading day. However, the existing contracts in such scrips shall be allowed to continue till expiry.[38]

4.4.6 All categories of investors including retail, institutional etc. will be permitted to borrow and lend securities. The borrowers and lenders shall access the platform for lending/borrowing set up by the AIs through the clearing members (CMs) (including banks and custodians) who are authorized by the AIs in this regard.

4.4.7 The Authorised Intermediary (AIs) shall enter into an agreement with Clearing Members (CMs) for the purpose of facilitating lending and borrowing of securities. The agreement shall specify the rights, responsibilities and obligations of the parties to the agreement. The agreement shall include the basic conditions for lending and borrowing of securities as prescribed under SLB framework. Further, the exact role of AIs/ CMs vis-à-vis the clients shall be laid down in the agreement. AIs shall ensure that there shall not be any direct agreement between the lender and the borrower. In addition to that, AIs may also include suitable conditions in the agreement to have proper execution, risk management and settlement of lending and borrowing transactions with clearing member and client. The AIs shall frame a rights and obligations document laying down the rights and obligation of CMs and clients for the purpose of lending and borrowing of securities. The

[38] Amended vide Circular No. MRD/DP/18/2013 dated May 30, 2013.

rights and obligation document shall be mandatory and binding on the CMs and the clients for executing trade in the SLB framework.[39]

4.4.8 The AIs shall allot a unique ID to each client which shall be mapped to the Permanent Account Number (PAN) of the respective clients. The AIs shall put in place appropriate systemic safeguards to ensure that a client is not able to obtain multiple client IDs.

4.4.9 The tenure of contracts in SLB may be up to a maximum period of 12 months. The Approved Intermediary (Clearing corporation) shall have the flexibility to decide the tenure (maximum period of 12 months).[40] In this regard, it is clarified that AIs can introduce contracts of different tenures ranging from 1 day to 12 months based on the need of the market participants.

4.4.10 The settlement cycle for SLB transactions shall be on T+1 basis. The settlement of lending and borrowing transactions shall be independent of normal market settlement.

4.4.11 The settlement of the lending and borrowing transactions shall be done on a gross basis at the level of the clients, i.e., no netting of transactions at any level will be permitted.

4.4.12 AIs would frame suitable risk management systems to guarantee delivery of securities to borrower and return of securities to the lender. In the case of lender failing to deliver securities to the AI or borrower failing to return securities to the AI, the AI shall conduct an auction for obtaining securities. In the event of exceptional circumstances resulting in non-availability of securities in auction, such transactions would be financially closed-out at appropriate rates, which may be more than the rates applicable for the normal close-out of transactions, so as to act as a sufficient deterrent against failure to deliver securities.

4.4.13 There shall be no lending/borrowing activity during the periods of corporate action in the security and shall be disclosed by AI to the market.

4.4.14 Details of treatment of corporate actions during the contract tenure, such as Dividend, stock split etc., are specified as below:[41]

[39] Circular No. SEBI/MRD/DP/19/2014 dated June 03, 2014
40 Circular No. SEBI/MRD/DoP/SE/Dep/Cir- 01 /2010 dated January 06, 2010
[41] Circular No. CIR/MRD/DP/122/2017 dated November 17, 2017

i. Dividend: The dividend amount would be worked out and recovered from the borrower on the book closure/ record date and passed on to the lender.[42]
ii. Stock split: The positions of the borrower would be proportionately adjusted so that the lender receives the revised quantity of shares.
iii. Other corporate actions such as bonus/ merger/ amalgamation / open offer etc.: The contracts would be foreclosed on the Ex-date. The lending fee would be recovered on a pro-rata basis from the lender and returned to the borrower.
iv. AGM/EGM: In the event of the corporate actions which is in nature of AGM/EGM, presently the AIs are mandatorily foreclosing the contracts. It has been represented by market participants that mandatory foreclosure during the life of the contract may not be necessary as, all lenders may not be interested in taking part in the AGM/EGM. It has therefore been decided that the AIs shall provide the following facilities to the market participants:
    a) Contracts which shall continue to be mandatorily foreclosed in the event of AGM/EGM.
    b) Contracts which shall not be foreclosed in the event of AGM/EGM.

4.4.15 Any borrowing/lending and return of securities would not amount to purchase/disposal/transfer of the same for the purpose of compliance with the extant FDI/FPI limits and the norms regarding acquisition of shares/disclosure requirements specified under the various Regulations of SEBI.

4.4.16 Adequate systems shall be put in place by the stock exchanges/Depositories to distinguish the SLB transactions from the normal market transactions in the demat system.

4.4.17 AIs shall provide suitable arbitration mechanism for settling the disputes arising out of the SLB transactions executed on the platform provided by them.

4.4.18 AIs shall disseminate in public domain, the details of SLB transactions executed on the platform provided by them and the outstanding positions on

[42] Circular No. CIR/MRD/DP/ 33 /2010 dated October 07, 2010

a weekly basis. The frequency of such disclosure may be reviewed from time to time with the approval of SEBI.

4.4.19 With a view to facilitate physical settlement of equity derivatives contracts, it has been decided to permit Stock exchanges to set their trading hours in the SLB Segment, subject to the condition that:[43]

i. The trading hours are between 9 AM and 5 PM, and
ii. The Clearing Corporation has in place risk management system and infrastructure commensurate to the trading hours

4.4.20 Risk Management

i. With regard to risk management in SLB, it is advised that common risk management practices shall be followed by clearing corporations for SLB. It is reiterated that the exchanges should ensure that the risk management framework strikes a balance between ensuring commercial viability of SLB transactions and ensuring adequate and proper risk management. Exchanges should satisfy themselves regarding the adequacy of the risk management system.
ii. The collateral to be accepted for meeting margin obligations related to SLB transactions shall be in the same form as applicable in the Cash Market.[44]

4.4.21 The lender/ borrower shall be provided with a facility for early recall / repayment of shares.[45]

4.4.22 In case the borrower fails to meet the margin obligations, the Approved Intermediary (AI) shall obtain securities and square off the position of such defaulting borrower, failing which there shall be a financial close-out.

4.4.23 In case lender recalls the securities any time before completion of the contract, the AI on a best effort basis shall try to borrow the security for the balance period and pass it onward to the lender. The AI will collect the lending fee from the lender who has sought early recall.

[43] Circular No. SEBI/CIR/MRD/DoP-1/P/125/2018 dated August 24, 2018
[44] Circular No. MRD/DP/18/2013 dated May 30, 2013.
[45] Circular No. SEBI/MRD/DoP/SE/Cir-01/2010 dated January 06, 2010

4.4.24 In case of early recall by the lender, the original contract between the lender and the AI will exist till the contract with the new lender for the balance period is executed and the securities returned to the original lender.

4.4.25 In case of early repayment of securities by the borrower, the margins shall be released immediately on the securities being returned by the borrower to the AI. The AI shall on a best effort basis, try to onward lend the securities and the income arising out of the same shall be passed on to the borrower making the early repayment of securities.

4.4.26 In case AI is unable to find a new borrower for the balance period, the original borrower will have to forego lending fee for the balance period.

4.4.27 In case of early recall by lender or early repayment of securities by borrower, the lending fee for the balance period shall be at a market determined rate.

4.4.28 **Operationalisation of Short Selling and Securities Lending and Borrowing**[46]

i. The broad framework for short selling by institutional investors and a full-fledged securities lending and borrowing scheme for all market participants were operationalised with effect from April 21, 2008.

4.4.29 Introduction of roll-over facility[47]

i. Any lender or borrower who wishes to extend an existing lent or borrow position shall be permitted to roll-over such positions, i.e., a lender who is due to receive securities in the pay out of an SLB session, may extend the period of lending. Similarly, a borrower who has to return borrowed securities in the pay-in of an SLB session, may, through the same SLB session, extend the period of borrowing. The roll-over shall be conducted as part of the SLB session.

ii. The total duration of the contract after taking into account rollovers shall not exceed 12 months from the date of the original contract. It is clarified that multiple rollovers of a contract by the lender or borrower is permitted.[48]

iii. Rollover shall not permit netting of counter positions, i.e., netting between the 'borrowed' and 'lent' positions of a client.

[46] Circular No. MRD/DoP/SE/Cir-05/2008 dated March 19, 2008
[47] Circular No. CIR/MRD/DP/30/2012 dated November 22, 2012
[48] Modified vide Circular No. CIR/MRD/DP/122/2017 dated November 17, 2017

4.4.30 Introduction of Liquid Index Exchange Traded Funds (ETFs) under the SLB scheme

i. Liquid Index ETFs shall be eligible for trading in the SLB segment.

ii. For the purposes of this circular, an Index ETF shall be deemed 'liquid' provided the Index ETF has traded on at least 80% of the days over the past 6 months and its impact cost over the past 6 months is less than or equal to 1%.

iii. Positions limits for SLB in respect of ETFs shall be based on the assets under management of the respective ETF.

4.5 Trading supported by blocked amount in Secondary market[49]

Clearing Corporations shall coordinate with Exchanges and Depositories for effective functioning of the Trading supported by Blocked Amount in Secondary Market.

4.5.1 Settlement

4.5.1.1 There shall be two rounds of pay-in and one round of pay-out.

4.5.1.2 In Round 1 Pay-in, settlement obligation shall be calculated at client level, individually, for the clients opting for UPI block facility. There shall be no netting of obligations across different clients opting for UPI block facility and the settlement obligations shall be inclusive of standard statutory levies such as securities transaction tax (STT), stamp duty etc. The first deadline for pay-in shall be for the UPI clients. Clients with payable funds shall provide UPI block atleast to the extent of obligations, and clients with deliverable securities shall ensure availability of securities to the extent of obligations through the prevailing Early Pay-in (EPI) block mechanism wherein the securities given as EPI are blocked in favour of CC in the demat account of the client undertaking sale transaction. At the end of the Round 1 pay-in deadline defined by the CCs, the clients who have not provisioned for their pay-in shall be considered as short.

4.5.1.3 **Round 2 Pay-in**

i. The second round of funds obligation shall be a single net settlement of funds obligation at CM level for (i) proprietary account of CM/TM, (ii)

[49] Circular No. SEBI/HO/MRD/MRD-POD-2/P/CIR/2023/99 dated June 23, 2023

clients not opting for UPI block facility and (iii) shortages from UPI clients in Round 1 pay-in, including shortfall of funds in lieu of securities, if any.

ii. [Illustration for funds in lieu of securities: Consider a scenario when a security sold for Rs. 100 was not delivered by client and last closing price available on settlement day for the said security was Rs. 105. In such a case, the CC shall not provide the pay-out of Rs. 100 to the client and in addition shall debit Rs. 5 from the block amount of the client. In case the blocked amount is insufficient, then CC shall debit this amount to CM.]

iii. The second round of securities obligation shall be a single net settlement at CM level for (i) proprietary account of CM/TM, and (ii) clients not opting for UPI block facility, as per the existing process.

iv. The CMs shall be required to provide the aforementioned funds/securities obligations to the CC.

v. If the CMs fail to fulfil the obligation, then such members shall be treated as short and relevant provisions for shortage handling/default management shall apply.

4.5.1.4 **Pay-out -** The pay-out shall be done in a single round after the two pay-in rounds. The CC shall give pay-out of funds directly to the bank account of the clients opting for UPI block facility, provided they have fulfilled their pay-in obligations. The CCs shall provide instructions to depositories for securities pay-out to the clients, which shall be directly delivered to client's account without the need of handling of such securities pay-out by TM/CM. For all other clients and proprietary account of CM/TM, there shall be single net settlement by CC to CM as is currently being done.

4.5.2 **Release of block**

4.5.2.1 Client can request for release of block to TM through TM app. TM shall request CM, and CM shall request CC. In case the TM, CM and CC do not have any residual claim, the CC shall release the block through UPI. Upon release of the block, the client's bank shall unfreeze the amount in the account of the client. Information regarding release shall be shared by NPCI with CC (through CC's sponsor bank) who in-turn shall transmit it to CM and TM. Further, since the release of the block is going to result in collateral being unallocated in favour of the client, as per the existing

process, the CC shall send a notification to the client regarding the collateral being removed.

4.5.3 **Various scenarios**

4.5.3.1 An analysis of how various scenarios i.e. (i) prefunded purchase by client, (ii) delivery sale by client by EPI, (iii) purchase/ sale by client supported by margins and (iv) intraday cash market/ derivatives trading, would be handled under the proposed UPI block facility vis-a-vis the current process is placed as **Annexure-1b**.

4.5.4 **Dealing with shortages:**

4.5.4.1 Cash Market: Funds shortage

i. CC shall provide pay-out of securities to the client's demat account and instruct the depository to auto-pledge such securities to the TM's "client unpaid securities pledgee account".

ii. CC shall maintain the shortage amount of client. The obligation shall devolve on TM's CM, who shall settle the same with CC.

iii. If client provides additional block subsequently, the CC shall debit the amount to the extent of shortfall and provide the same to the CM.

iv. In case client fails to provide the amount, then TM can sell the securities pledged in favour of Client Unpaid Securities Pledgee Account (CUSPA) and/ or provided by way of margin pledge and mark early pay-in.

v. Out of the funds pay-out due to the client, amount to the extent of shortfall shall be paid to the CM who fulfilled the obligation. The remaining funds, if any, shall be paid out to the client.

vi. The CC shall continue to maintain and update the residual short amount of the client, if any.

4.5.4.2 **Cash Market: Securities shortage**

i. Funds pay-out shall not be provided to the client. The amount shall be withheld by CC and used towards requirement of funds in lieu of securities delivered short.

ii. Funds required in lieu of securities shortage in excess of funds pay-out shall be debited from block amount of client. In case of insufficient blocked amount, the same shall devolve on clearing member.

iii. Auction shall be conducted to buy the securities short delivered by UPI clients.

iv. If actual amount required towards auction purchase or financial close-out exceeds the pay-out amount referred to in para 4.5.4.2 above, the same shall be debited from client block. In case of insufficient client block, the same shall devolve on clearing member.

v. In case of any devolvement on member, the short amount of client shall be maintained and in case any blocking is done in future, the block shall be debited to the extent of shortfall and provided to the clearing member.

4.5.5 **Shortfall: Derivatives**

4.5.5.1 CC shall debit block to the extent of pay-in requirements, irrespective of whether such debit causes a margin shortfall. In exceptional circumstances, if pay-in exceeds the margin, the residual amount shall devolve on CM.

4.5.5.2 In case of margin shortfall, TM/CM can close-out the position of the client and resultant loss shall be debited to the block or resultant profit shall be paid out to the client by the CC. Till the time TM/CM closes-out the position, the provisions related to deemed allocation of proprietary collateral shall apply.

4.5.5.3 In case obligations have devolved on CM, any pay-out resulting from close-out of positions, or any new block created by client, to the extent of devolvement, shall be provided to the CM.

4.5.6 Since the framework requires certain changes to be made in the systems and processes of clearing corporations, stock exchanges, depositories, stock brokers and NPCI, the concerned entities are expected to make requisite changes and test the systems and processes for robustness.

4.5.7 The facility may be made available in the equity cash segment. The CCs may extend the facility to additional segments subsequently.

4.5.8 Further, detailed operational guidelines including mode of brokerage collection shall be issued by CCs in consultation with relevant stakeholders such as stock exchanges, depositories etc.

ANNEXURES OF CHAPTER: SETTLEMENT

Annexure – 1a :Formats for providing details of Security Deposit –

Details of Bank Guarantee

Sr. No.	*Name of WSP*	*BG Number*	*Bank Name*	*Branch Name*	*Date of Issuance (DD/MM/YYYY)*	*Maturity Date (DD/MM/YYYY)*	*Claim Date (DD/MM/YYYY)*	*Amount*

Details of Fixed Deposit Receipt

Sr. No.	*Name of WSP*	*FDR Number*	*Bank Name*	*Branch Name*	*Date of Issuance (DD/MM/YYYY)*	*Maturity Date (DD/MM/YYYY)*	*Amount*

Annexure 1b – Various Scenarios (Trading supported by blocked amount in Secondary Market)

Current Process	Proposed Process
Scenario 1: Prefunded purchase by client	
1. Client transfers Rs. 150 to member. **2.** Member may retain the client funds with itself and allocate collateral to the extent of 20% margin requirements at the CC (Say Rs. 30). **3.** Client purchases a share for Rs. 100, the margin collection requirement is Rs. 20 which is blocked from client's allocation. **4.** Collateral is released after the member completes the net settlement with the CC.	**5.** Client creates a block of Rs. 150 in favour of the CC. The amount shall get allocated as collateral. **6.** The client purchases a share worth Rs. 100. The margin requirement is 20, this shall get adjusted from the block (which is allocated as collateral). **7.** STT and stamp duty shall be 11 paise, which shall be added to the client's obligation. The CC shall debit 100.11 towards settlement at the stipulated time. **8.** With the successful debit from the client, the securities receivable by the client shall be provided in the client's depository account directly by the CC at the time of settlement pay-out.
• **Scenario 2: Delivery sale by client by early pay-in**	
9. Client uses block mechanism for early pay-in of securities **10.** Such early pay-in information is received by the CC from depositories. **11.** A sell order is executed on behalf of the client. **12.** If sell order is executed after early pay-in, then no margin is applicable at any time.	**15.** The client shall provide securities as early pay-in through the block mechanism only. **16.** If the early pay-in information is received from depository before trade execution, there shall be no margin. If the information is received subsequently, the proprietary collateral of the member shall be blocked till the receipt of early pay-in.

13. If early pay-in is received subsequent to the sell order execution, the proprietary collateral of the member shall be blocked till receipt of early pay-in. **14.** While providing pay-out to the client, the member may adjust other statutory dues (stamp duty, STT), brokerage etc.	**17.** Since the client has completed the settlement, the CC shall pay out funds directly in the client account. While providing the funds pay-out, CC shall deduct the STT and stamp duty.
Scenario 3: Purchase/sale by client supported by margins	
18. Client provides 20% margin to the member. Client can execute trades based on the margins on trade date. The client shall need to provide the remaining 80% amount (in case of purchase) or deliver the security (in case of sale) till the applicable settlement deadline.	**19.** The client may create only partial block to the extent of margin instead of entire upfront value or early pay-in through block mechanism. The client shall need to provide additional block or provide early pay-in till the stipulated time. Further process shall be same as discussed in Scenario 1 and Scenario 2.
Scenario 4: Intraday cash market/derivatives trading	
20. Client provides margin money to the member. Client carries out intraday trading or trade in derivatives. There are no exchange-of-value delivery obligations (funds against securities or vice-versa), but only losses or gains. Losses shall be deducted from the margin money given by clients and gains may be added to the margin money of client or paid out.	**21.** In case of losses, the CC shall debit the block to the extent of losses towards client pay-in. **22.** In case of gains, the pay-out shall be given by CC in the client account. The CC shall not add the pay-out to the funds collateral of the client, and if desired the client may create another block.

CHAPTER 2: RISK MANAGEMENT

1. COMMON RISK MANAGEMENT FRAMEWORK[50]

1.1 Comprehensive Risk Management Framework

1.1.1 Overview

The core of the risk management system is the liquid assets deposited by members with the clearing corporation. These liquid assets shall cover the following requirements:

a. ***MTM (Mark To Market) Losses:*** Mark to market losses on outstanding settlement obligations of the member.

b. ***VaR Margins:*** Value at risk margins to cover potential losses for 99.9% of the days.

c. ***Extreme Loss Margins(ELM):*** Margins to cover the expected loss in situations that lie outside the coverage of the VaR margins.

At all points of time, the liquid assets of the member shall be adequate to cover all the above requirements.

1.1.2 Liquid Assets[51]

The acceptable liquid assets and the applicable haircuts are listed below:

Item	Haircut (see Note i)	Limits
Cash Equivalents		
Cash	0%	No limit
Bank fixed deposits (FDs)	0%	No limit

[50] Circular Nos. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005 and SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

[51] Modified vide Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/65 dated May 29, 2024

Bank guarantees (BGs)	0%	Limit on exchange's exposure to a single bank (see Note ii)
Securities of the Central Government (T-bills and G-Secs)	See Note iii	No limit
Units of growth plans of Overnight Mutual Fund schemes	5%	No limit
Units of Overnight Mutual Fund schemes (other than growth plans), Liquid Mutual Fund schemes or Government Securities Mutual Fund schemes (by whatever name called which invest in Government Securities)	10%	No limit
Other Liquid Assets 1. Cannot be used for mark to market losses (see Note iv) 2. Total of Other Liquid Assets cannot exceed total of Cash Equivalents (see note v)		
Equity shares with impact cost of upto 0.1% for an order value of Rupees 1 lakh and traded for at least 99% of days over the period of previous 6 months.	VaR Margin based on 6σ, subject to minimum of 9%. (VaR Margin applicable to liquid securities (Group I) as mentioned at	Limit on exposure to a single issuer (see Note vi)

	paragraph 1.1.9.1 below)	
Mutual fund units other than those listed under cash equivalents	VaR Margin based on 6σ, subject to minimum of 9%. (VaR Margin for the units computed using the traded price on stock exchange, if available, or else, using the NAV of the unit treating it as liquid securities (Group I) as mentioned at paragraph 1.1.9.1 below)	No limit
Corporate Bonds[52]	Fixed percentage based or VaR based Haircut. A higher haircut may be considered to cover the expected time frame for liquidation. To begin with the haircut shall be a minimum of 10%	Not to exceed 10% of the total liquid assets of the clearing member.
Specific for commodity derivatives:		
Bullion	20%	[53]Total commodities collateral for any
Gold ETF	20%	

[52] Circular No. CIR/MRD/DRMNP/9/2013 dated March 20, 2013
[53] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/112 dated 14 October 2016.

Agricultural Commodities	40%	clearing member shall not exceed 30% of the total liquid assets of the clearing member, out of which non-bullion collateral shall not exceed 15% of the total liquid assets of the clearing member. All commodities to be accepted as collateral should be of same quality specification which is deliverable under the contract specification of commodity derivatives being traded on the Stock Exchange.
Base metals and Alloys[54]	30%	
Diamond	40%	

Notes:

i. The valuation of the liquid assets shall be done on a daily basis after applying applicable haircuts.
ii. Refer para 1.1.3.3. below
iii. Haircut on securities of the Central Government[55]

Type and Tenor of Securities	Haircut
Treasury Bills, and Liquid* Government of India Dated Securities having residual maturity of less than 3 years	2%

[54] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2019/100 dated September 13, 2019.
[55] Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2019/33 dated February 21, 2019

Liquid* Government of India Dated Securities having residual maturity of more than 3 years	5%
For all other Semi-liquid* and Illiquid* Government of India Dated Securities	10%

*As jointly decided by clearing corporations. The classification of the Government of India Dated Securities, as above, shall be reviewed on 15th of every month. The revision in classification, if any, shall be implemented with effect from 1st of the next month.

iv. For cash markets, Mark to market losses shall be paid by the member in the form of cash or cash equivalents.

v. Cash equivalents shall be at least 50% of liquid assets. This would imply that Other Liquid Assets in excess of the total Cash Equivalents would not be regarded as part of Total Liquid Assets.

vi. Refer para 1.1.3.4. below

1.1.3 **Additional Norms for acceptable collaterals and exposure of Clearing Corporations**

In addition to the list of acceptable collateral, as stated at para 1.1.2. above, the following shall be applicable

1.1.3.1 For the purposes of monitoring of exposure, Clearing Corporations (CCs), shall, inter-alia, consider the following types of exposure:

i. CCs' own funds invested or deployed in FDs, units of overnight and liquid mutual funds, T-bills and G-secs

ii. Core SGF corpus invested or deployed in FDs, units of overnight and liquid mutual funds, T-bills and G-secs;

iii. CCs' exposure through their members, warehouse service providers or other entities:

a) CCs' balances with the bank in its capacity as a clearing bank;

b) FDs and BGs lien marked to CCs;

c) Equity shares, debt instruments, mutual fund unitspledged or re-pledged with CCs;

iv. CCs' exposure through their subsidies

v. Inter-CC collateral will be exempt from the exposure limit to individual banks

1.1.3.2 Criteria for selection of banks (Indian banks and Foreign banks)[56]

i. CCs shall devise well-defined criteria for selection of banks for the purpose of exposure through Cash, FDs and BGs, which shall be based on parameters such as financials (including net-worth), capital adequacy, credit worthiness considering long term credit rating, etc. of the bank as part of their internal policy.

ii. CCs shall closely and continuously monitor such parameters and other material events or news surrounding such banks in order to take appropriate steps for mitigating the risks that may arise on account of any significant event.

iii. CCs shall have exposure (through Cash, FDs and BGs) to only such banks which fulfil the following criteria.

a) Minimum net worth of the bank shall be INR 5,000 Cr.

b) Banks with unsupported long-term rating of AA and above or banks issuing unsupported long-term instrument with rating of AA and above(excluding rating of bonds issued by the Bank for the purpose of capital requirements under the Basel III).Banks issuing unsupported long-term instrument with rating below AA, shall not be eligible for this purpose. In case of foreign banks, an equivalent credit rating on the global credit rating scale (equivalent to AA and above rating by domestic Credit Rating Agencies (CRAs)) may be considered by the CCs for assessment of the credit worthiness of the bank;

c) In case, credit rating is obtained from multiple CRAs, the most conservative rating shall be considered for this purpose.

d) Meet the capital adequacy requirements prescribed by Reserve Bank of India (RBI) from time to time; and

[56] SEBI Email on Exposure of Clearing Coropration dated October 18, 2024

e) Banks which are not under Prompt Corrective Action (PCA) Framework of RBI.

iv. In case of exposure to banks which subsequently fails to meet any of the above eligibility conditions, CCs shall rebalance its exposure through own funds and Core SGF to such banks as soon as possible but not later than three months from such non-compliance. However, exposure of CC to such banks through CMs shall be removed at the earliest.

1.1.3.3 Single Bank Exposure Limits

i. The exposure of CCs and its subsidiaries towards banks through Cash, FDs and BGs must be adequately diversified, and daily exposure to a single bank shall not exceed:

a) 15% of the average daily exposure of previous three months considering all liquid assets of CCs, for banks with AAA rating; and

b) 10% of the average daily exposure of previous three months considering all liquid assets of CCs, for banks with AA (include both AA and AA+) and above rating but below AAA.

ii. At the end of every month, the average daily exposure of CC in liquid assets shall be calculated based on the exposure of previous three months. The single bank exposure limit for the next month would be based on this average daily exposure. The same shall be monitored on daily basis.

iii. Further with respect to monitoring of exposure limits through debt and equity, to ensure consistency, the process defined in para 1.1.1.1.2 above will be applicable.[57]

iv. In order to allow the CCs to have operational flexibility, the daily exposure may be extended by 5%. In those cases, the CCs shall record the reasons for such increase in exposure and ensure to bring down the daily exposure to a single bank to 15% (or 10% as the case may be) on monthly average basis on priority.

[57] SEBI Email on Exposure of Clearing Coropration dated October 18, 2024

v. The above limits shall be applicable separately for the following heads:

a) CCs' own funds.
b) Core SGF corpus.
c) CCs' exposure through their members, warehouse service providers or other entities.

vi. CCs' own funds and core SGF corpus can only be deployed in FDs, T-bills, G-secs and units of Liquid and Overnight mutual fund scheme.

vii. The exposure to FDs shall be through premature withdrawable FDs, which can be terminated at any time before maturity, at the discretion of the CM/CC, without any loss of principal.

viii. Margin monies or cash collateral received after closing of RTGS window and/or market hours leading to breach of the exposure limit shall not be treated as non-compliance on that day and shall be rebalanced on the next day.

1.1.3.4 Exposure of CCs to equity, corporate debt instruments and units of overnight & liquid mutual fund schemes

Exposure of CCs to equity and debt instruments (both bank and non-bank entities) through CMs may be subject to the following:

i. CCs shall devise well-defined criteria for exposure to equity and debt instruments through CMs (i.e. acceptance of collateral) in order to ensure adequate diversification, liquidity, etc.

ii. The total exposure of the CC to equity and debt instruments of an issuer, received as collateral from CM in both cash and F&O segment (including commodity and currency derivatives segment) put together, shall not exceed 15% of total liquid assets of the CC received from CMs; and shall be treated as part of non-cash component of the total liquid assets of the CC.

iii. CCs shall ensure that the corporate bonds provided by a CM shall not exceed;

a) 10% of the total liquid assets of the CM placed with CC, in case the unsupported long-term issuer rating or unsupported rating of long-term instruments of that issuer is AAA.

b) 8% of the total liquid assets of the CM placed with CC, in case the unsupported long-term issuer rating or unsupported rating of long-term instruments of that issuer is AA and above but below AAA.

c) Exposure for this purpose through equity and debt instruments shall be based on mark to market value of the securities less the applicable haircuts.

d) In case of exposure to entities whose own rating or rating of any of its instruments has been downgraded subsequently from the rating criteria specified in paragraphs above, the CCs shall remove the exposure to such issuers at the earliest.

iv. In case the equity security does not meet the liquid security criteria (as specified in the table above), the same needs to be replaced by the CM at the earliest. In case of passive breach in exposure limit for equity securities due to mark to market valuation, the CCs shall rebalance the excess exposure to the issuer within three months from such deviation.

v. CCs shall not accept the collaterals from CMs, which are acquired through bespoke transactions (i.e. the CM is the sole subscriber of such corporate debt issuances).

vi. The aforesaid exposure limits to debt instruments shall not be applicable to securities which are underlying the repo on corporate debt securities.

vii. Investments made by CCs in units of Overnight and Liquid Mutual Fund Schemes shall not exceed a limit of 10% of the total investible resources held in CCs' own funds and Core SGF corpus separately, at any point in time.

1.1.3.5 Overall Bank Exposure:

The overall daily exposure of a CC to a single bank (including cash, FD, BG, equity and debt) through CM collateral shall not exceed 20% of the total liquid assets.

1.1.3.6 Restriction on Exposure to instruments of TM/CMs' Own Group:

CCs shall not accept collateral including FDs, BGs, equity, or debt securities issued by CMs/TMs themselves or their group or associate entities. A Declaration to that effect will be given by CMs/TMs mentioning all their group/associate entities to CCs. Explanation - for this

purpose, 'associate' shall have the same meaning as defined under Regulation 2 (1)(b) of SECC Regulations 2018.

1.1.3.7 Exemption from these norms for trading based on UPI Blocking:

In case of trading based on UPI Blocking, amount received through UPI blocks shall be exempted from computation of exposure limits to the banks providing such services to CC.

1.1.3.8 Implementation and Monitoring of the norms by the CC:

i. CCs shall incorporate periodic targets in their internal policy so as to achieve the above mentioned exposure limits in a timely manner. Further, CCs shall have a mechanism in place for monitoring their exposure through CMs/TMs on End of day (EoD) basis and keep a cushion of limits so that the exposures can be maintained within the limit without any operational difficulties.

1.1.3.9 The prudential norms prescribed above represents the minimum standards to be adopted by the CCs. However, CCs based on their own risk assessment, may stipulate more conservative prudential norms.

1.1.4 Framework to Enable Verification of Upfront Collection of Margins[58]

1.1.4.1 To enable uniform verification of upfront collection of margins from clients by TM/ CM and levy of penalty across segments, it has been decided that the Clearing Corporations shall adopt the framework specified in the **Annexure-2a**, for the purpose of 'Mechanism for regular monitoring of and penalty for short-collection/ non-collection of margins from clients' in Cash and Derivatives segments.

[58] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020

1.1.4.2 The applicable upfront margins are required to be collected from the clients in advance of the trade. The aforesaid framework specified in the **Annexure-2a** is only for the purpose of verification of upfront collection of margin and levy of penalty.

i. In derivatives segments (including commodity derivatives) EOD margin & intra-day margin collection requirement shall be based on the fixed Beginning of Day (BOD) margin parameters[59]

ii. It is clarified that the above mentioned change is only for the purpose of verification of upfront collection of margins from clients. The margin parameters applicable for collection of margin obligation by Clearing Corporations shall continue to be updated on intra-day and EOD basis.

1.1.4.3 **Upfront Collection of option premiums[60](Applicable for equity derivatives segment)**

i. The above framework stipulates that TM/CM to collect Initial Margin (IM) and Extreme Loss Margin (ELM) upfront from their clients.

ii. In addition to aforesaid framework, for the equity derivatives segment, the upfront collection margin requirement shall also include net options premium payable at the client level.

iii. The same may be included in the intraday snapshots conducted by Clearing Corporations for verification of upfront collection of margins, and for imposition of penalty in the event of non-compliance.

1.1.5 **Additional Ad-hoc Margins:** CCs have the right to impose additional risk containment measures over and above the risk containment system mandated

[59] Circular No SEBI/HO/MRD2/DCAP/P/CIR/2022/60 dated May 10,2022 & Circular No SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/016 dated February 01, 2023
[60] Circular No SEBI/HO/MRD/TPD-1/P/CIR/2024/132 dated October 01, 2024

by SEBI. However, the CCs should keep the following three factors in mind while taking such action:

i. Additional risk management measures (like ad-hoc margins) would normally be required only to deal with circumstances that cannot be anticipated or were not anticipated while designing the risk management system. If ad-hoc margins are imposed with any degree of regularity, CCs should examine whether the circumstances that give rise to such margins can be reasonably anticipated and can therefore be incorporated into the risk management system mandated by SEBI. CCs are encouraged to analyse these situations and bring the matter to the attention of SEBI for further action.

ii. Any additional margins that the CCs may impose shall be based on objective criteria and shall not discriminate between members on the basis of subjective criteria.

iii. Transparency is an important regulatory goal and therefore every effort must be made to make the risk management systems fully transparent by disclosing their details to the public.

1.1.6 **Segregation and Monitoring of Collateral at Client Level[61](Applicable to all segments)**

1.1.6.1 In order to strengthen the mechanism of protection of client collateral from
(i) misappropriation/misuse by TM/ CM and
(ii)default of TM/CM and/or other clients,
the following framework for segregation and monitoring of collateral at client level is specified:

1.1.6.2 **Reporting Mechanism by TMs and CMs**

With a view to providing visibility of client-wise collateral (for each client) at all levels, viz., TM, CM and Clearing Corporation (CC), a reporting mechanism, covering both cash and non-cash collateral, shall be specified by the CCs. Details in respect of the same are as under:

[61] Circulars SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021 and SEBI/HO/MRD2/DCAP/P/CIR/2022/0022 dated February 24, 2022

i. The reporting structure shall entail disaggregated information (segment-wise and asset type wise break-up)of each client collateral in the following manner:

a. TM shall report disaggregated information on collaterals upto the level of its clients to the CM.
b. CM shall report disaggregated information on collaterals upto the level of clients of TM and proprietary collaterals of the TMs to the SEs and CCs in respect of each segment.

ii. The details to be submitted in the report shall essentially cover the following information, in order to provide a holistic view of the entire client collateral at various levels upto the level of CC:

TM → CM	**CM → SE & CC**
Client collateral received by TM	Client collateral received by TM
Client collateral retained by TM	Client collateral retained by TM
Client collateral placed with CM	Client collateral placed with CM
	Client collateral retained by CM
	Client collateral placed with CC

iii. The aforementioned information shall be required to be reported on a daily basis.
iv. A web portal facility shall be provided by the CCs to allow clients to view aforesaid disaggregated collateral reporting by TM/CM.

1.1.6.3 **Collateral Deposit and Allocation**

i. In case of securities collateral provided to CC through margin pledge/re-pledge in the Depository system, CC has visibility of the client to whom such securities belong to, and accordingly is able to assign the value of the securities collateral, based on applicable haircut, to that client's account.

ii. Similarly, for other forms of collateral placed with the CC, the CCs shall provide a facility to CMs for upfront segment-wise allocation of collateral to a TM/ client or CM's own account. The CCs shall use such collateral allocation information to ensure that the collateral allocated to a client is used towards the margin obligation of that client only.

iii. There shall be no change in the procedures pertaining to placing of securities as collateral through the margin pledge/re-pledge mechanism in the Depository system, and this collateral will be identified as belonging to a client or as being proprietary securities of the TM or CM, as the case may be, as per the existing procedures.

iv. While depositing other forms of collateral i.e. Cash, Fixed Deposits (FDs), Bank Guarantees (BGs) or Government Securities provided through the SGL/CSGL route, etc, the CM shall allocate these collaterals into proprietary account of CM, and/or proprietary account of any TM clearing through the CM, and/or account of any of the clients (including Custodial Participants (CPs)) clearing through the CM, and/or of any of the clients trading through the TM who in turn is clearing through the CM, segment-wise.

v. In case of such collateral received by the CM from any TM, the CM shall not accept the same without the TM specifying break-up of such collateral into proprietary account of the TM and/or uniquely identified client account. Similarly, the CC shall not accept such collateral without the CM specifying appropriate break-up of such collateral into proprietary account of CM/ proprietary account of TM/ client account. The CM shall ensure that the sum of break-up of such collateral provided by TM is equal to the total value of such collateral provided by TM, and that the allocation of such collateral to any entity as reported to the CC does not exceed the allocation of collateral reported by the TM for that entity.

vi. The amount of collateral allocated shall not exceed the amount of collateral received by the TM/CM from the client and reported as such under the reporting mechanism (refer 1.1.6.2), excluding the securities collateral re-pledged to CC through margin pledge mechanism. Further, the sum of

client collateral retained by the TM/CM and client collateral passed on to CM/CC shall equal the amount of collateral received by the TM/CM from the client. Also, the allocation of collateral at CC shall not be lower than the amount of collateral (except securities collateral re-pledged to CC) reported as having been passed on by the CM to the CC. The CC shall have appropriate validations in place in respect of allocations and reporting done by CMs. Further, CMs shall also perform validations at their end in respect of allocations and reporting done by TMs.

vii. In case of BGs, the TM/CM may consider the unfunded portion of the BG as proprietary collateral.

viii. The allocation thus provided by the CM to CC and by TM to CM shall be considered as final by the CC and CM respectively for the purpose of granting exposure and utilization during default.

ix. The TM/CM shall ensure that sufficient collateral is allocated to clients to cover their margin requirements. However, if the client margin applicable at the CC for a client in a segment exceeds the collateral allocated to the client plus the securities collateral re-pledged to CC (from that client's account) in the respective segment, then the proprietary collateral of the TM/CM shall be blocked (including re-pledged/pledged securities and allocated collateral). Such margin blocked from the proprietary collateral towards a client's margin shall be deemed to have been the collateral allocated to that client. This provision shall include deemed allocation of TM's proprietary collateral towards client margins and deemed allocation of CM's proprietary collateral towards TM/CP/client margins.

x. The members shall ensure that allocated collateral plus value of securities collateral re-pledged to the CC for a client is at all times greater than or equal to the minimum margin collection requirement for the respective client in the respective segment, since the amount of minimum margin collection requirement for a client may be different from the margin applicable at CC. CCs shall put in place effective deterrent mechanisms (penalty structure) in consultation with SEBI, which shall be applicable in

cases where the allocated collateral plus the securities collateral re-pledged to CC in respect of a client, is falling short of minimum margin collection requirement in the respective segment.

xi. Information regarding the collateral allocated by the CM shall be made available on a daily basis on the web portal facility to clients to view disaggregated collateral reporting by TM/CM (refer Para 1.1.6.2(iv)). Further, CC shall also provide a facility to the TMs of the clients to view such collateral allocation to the clients by the CM.

1.1.6.4 **Collateral Valuation**

CMs are required to maintain at least 50% of the total collateral in the form of cash or cash equivalents. The minimum 50% cash equivalent collateral requirement may not be applied at the client level. For the purpose of monitoring of at least 50% cash-equivalent collateral at the level of CM, the excess cash-equivalent collateral of a client shall not be considered for other client or for proprietary account of TM/CM. However, the excess cash-equivalent collateral of proprietary account of TM/CM can be considered for clients trading/clearing through them, for the purpose of monitoring minimum 50% cash-equivalent requirement.

1.1.6.5 **Blocking of Margins**

i. The procedure for blocking of margins only specifies the order of blocking of collateral available with the CC. There shall be no change in the requirement of collection of upfront margins by the TM/CM. The TM/CM shall be required to ensure that sufficient collateral is allocated to clients to cover their margin requirements (refer Para 1.1.6.3(ix) and 1.1.6.3(x)).

ii. The terms “Client Collateral”, “TM Collateral”, “CP Collateral” and “CM Collateral” shall mean the total of the allocated collateral value plus the value of demat securities collateral provided through margin pledge/re-pledge by any individual client, TM, CP and CM respectively to the level of CC. The TM/CM collateral shall mean the proprietary collateral of the TM/CM only and shall not include the collateral of any of their clients.

iii. On receipt of a trade from a client account by the CC, the margin shall first be blocked from the value of the client collateral. If the client collateral is not sufficient, the residual margin shall be blocked from the TM proprietary collateral of the TM of such client. If the TM proprietary collateral is also not sufficient, then the residual margin shall be blocked from the CM proprietary collateral of the CM of such TM.

iv. In case of a trade from the proprietary account of a TM, the margin shall first be blocked from the TM proprietary collateral, and in case such collateral is not sufficient, then the residual margin shall be blocked from the CM proprietary collateral.

v. Margins based on trades from proprietary account of the CM shall be blocked from the proprietary collateral of the CM only.

vi. For monitoring of the risk reduction mode (90% utilization or such applicable limit), the following procedure shall be adopted:

a. **TM level risk reduction mode:** Client margin in excess of 90% of the client collateral shall be identified for each client under a TM. The total of such client margin in excess of 90% of the client collateral, plus the proprietary TM margin shall be assessed against the TM proprietary collateral for monitoring of TM level risk reduction mode.

b. **CM level risk reduction mode**: Sum of client margin in excess of 90% of the client collateral for each client under a TM plus the proprietary TM margin, in excess of 90% of TM proprietary collateral shall be calculated as TM margin in excess of 90% of TM collateral. Sum of such margin for each TM clearing through a CM, plus sum of client margin in excess of 90% of the client collateral for each client clearing through such CM, plus the proprietary CM margin shall be assessed against the proprietary CM collateral for monitoring of CM level risk reduction mode.

vii. In case of CP trades executed by TMs, the margin shall be blocked in the following order-

(i) CP collateral through the executing TM, if any,

(ii) residual margin from the proprietary collateral of the executing TM, and

(iii) residual margin from the proprietary collateral of the CM of the executing TM.

Upon confirmation of such trades by CM of the CP, the margin so blocked prior to the confirmation shall be released, and shall be blocked in the following order-

(i) CP collateral through the confirming CM, and

(ii) residual margin from the proprietary collateral of the confirming CM. In case of CP trades, the requirement to ensure that sufficient collateral is allocated to clients to cover their margin requirements shall be on the confirming CM.

However, if the trade is confirmed under the auto approval facility provided by the CC, then margin shall be directly blocked in the following order-

(i) CP collateral through the confirming CM, and

(ii) residual margin from the proprietary collateral of the confirming CM.

1.1.6.6 **Change of allocation**

i. CMs shall be permitted to change the allocation of collateral deposited with the CC, subject to the value allocated to any client not exceeding the value of actual collateral received from that client (excluding the securities collateral re-pledged to CC through margin pledge mechanism). However, such change of allocation shall be permitted subject to adequacy of available collateral with the CC after the change vis-à-vis the margin obligation.

ii. CC shall also provide notification of such change of allocation of collateral to the concerned client, in respect of whom the allocation has been changed, pursuant to the change of allocation.

1.1.6.7 **Withdrawal of collateral**

i. Subject to the CM not being in default and fulfilling all obligations on a going concern basis, the CM may place requests for withdrawal of collateral to the CC.

ii. After validation of such requests, if the collateral is found to be releasable, the CC shall release the collateral to the CM. CM may return the collateral to TM/CP/Clients or utilize collateral of the entities who are in default.

iii. CC shall also provide notification of such withdrawal of allocation of collateral to the concerned clients, in respect of whom the allocation has been withdrawn, pursuant to the withdrawal of allocation.

1.1.6.8 **Default Management Process**

The default management process by the CCs in case of default by a CM shall take place in four stages:

i. **Stage 1: Completion of settlement to non-defaulting CMs**

i. CC shall utilize available financial resources to complete settlement in a timely manner and complete the pay-outs to the non-defaulting members.

ii. **Stage 2: Portability or immediate return of collateral**

(i) CC shall put in place a mechanism/ process for TMs/clients/CPs of defaulting CM to establish that they are not in default to the defaulting CM and have deposited collateral to the extent of allocation (including deemed allocation). This process shall be completed within a pre-specified time period. On identification of such non-defaulting TMs/clients/CPs, CC shall provide them opportunity for either porting of their positions and collateral to another CM or immediate return of their collateral.

(ii) Portability of Positions and Collateral:

a) Entities desirous of availing the facility of portability shall be required to have established alternative trading/clearing arrangements with other TMs/CMs other than the defaulting CM.

b) If any pay-out is due to such entities, such pay-out shall be made to the entities. As a result, the amount of such pay-out shall be added to the pay-in shortfall of the defaulting CM.

(iii) Immediate return of collateral:

a) Collateral of such entities shall only be utilized to the extent of losses due to liquidation of their respective positions, and the remaining collateral shall be returned, along with the pay-out due to such entities, if any. As a result, the amount of such pay-out shall be added to the pay-in shortfall of the defaulting CM.

(iv) In some circumstances, it may be desirable to liquidate the positions and even the collateral, since both are subject to risks. Under such circumstances, not closing out positions/collateral to allow for portability may lead to accumulation of losses. Considering the nature of positions, market conditions and such other risk assessment, the CC may at any stage decide to not provide the facility of portability. If the CC decides to not provide the opportunity for portability, the CC shall crystalize the profits/losses on close-out of positions and the value of collateral arrived at after liquidation of the same.

iii. **Stage 3: Close-out of positions and provisional appropriation of collateral**

For the remaining entities after Stage 2, i.e., entities other than the ones who could avail the opportunity of either porting or immediate return of collateral in Stage 2, following process shall be followed:

i. CC shall close out all open positions of the defaulting CM, including the positions of TMs/clients/CPs clearing through such CM.

ii. CC shall first utilize the CM/TM/Client/CP collateral for meeting any losses in close-out of respective positions. It is clarified that

TM/Client/CP collateral shall include both allocated collateral (including deemed allocated collateral) and the value of securities collateral provided through margin pledge/re-pledge to the level of CC.

iii. In case of any shortfall in collateral of any entity under the CM, any excess proprietary collateral of the TM / CM of such entity shall be used. This shall follow the same order of utilization as in case of blocking of margins. Any shortage in the proprietary collateral of the TM / CM shall be met by applying the default waterfall of the CC.

iv. With regard to the defaulted settlement obligations, following process shall be followed:

a) Any pay-out made to the non-defaulting clients in Stage 2 shall be added to the defaulted obligations.

b) The defaulted obligations (including pay-out in Para (a) above) shall be first adjusted with the proprietary obligation of the defaulting CM to the extent of funds/securities payable for the proprietary trades.
Any shortage in the proprietary collateral of the defaulting CM shall be met by applying the default waterfall of the CC.
Any excess proprietary collateral of the CM shall also be used for meeting the defaulted obligations.

c) Remaining defaulted obligations shall be attributed pro-rata: funds pay-in shortfall shall be attributed pro-rata among TM/clients/CP having funds payable and securities pay-in shortfall shall be attributed pro-rata among TM/clients/CP having deliverable positions in the security. Such losses shall be recovered from the collateral of the TM/clients/CP available, if any.
Any shortage in the collateral of such TM/clients/CP shall be met by applying the default waterfall of the CC.

d) In case of any defaulted obligations attributed to a TM in Para (c) above (and in turn to its clients), the process enunciated above at Para (b) and

(c) above for a defaulting CM and its constituents shall apply, *mutatis mutandis*, to the TM.

v. The aforesaid pro-rata attribution of shortages shall be provisional. The actual attribution of shortages to clients shall be done in Stage-4.

vi. In case there is any profit to a TM/client/CP during the close-out process, such close-out profit shall be considered as pay-out due to the TM/client/CP.

iv. **Stage 4: Identification of defaulting clients and final appropriation of collateral**

i. The procedure for verification and settlement of claims of constituents of defaulting CM shall be as follows:

a. The process for identification of defaulting TM/CP/clients and the return of collateral of non-defaulting TM/CP/clients shall be administered by the appropriate committee viz., Member Committee (MC) [62]of the SE or CC.

b. The amount that can be claimed by the non-defaulting TM/CP/clients from the CC shall be limited to the allocated collateral (including deemed allocated) and the value of securities collateral provided through margin pledge/re-pledge to the level of CC, plus the pay-out (including profit if any during close-out) due to the constituent, less the losses in close-out of positions of the constituent.

c. The MC of the CC/SE shall implement the relevant procedures for verification and settlement of claims of the non-defaulting TM/CP/clients of the defaulting CM.

d. The constituents actually in default shall be identified and the pro-rata attribution of shortages performed in Stage-3 shall be replaced by the actual attribution of shortages. If there has been any excess collateral appropriated at Stage-3 due to pro-rata attribution, such excess appropriation shall be corrected, and the constituents shall be returned the collateral in full along with the pay-

[62] Circular No. SEBI/HO/MRD/MRD-PoD-3/2024/088 dated June 25, 2024

out due to such entities. This amount shall be recovered from the constituents who have higher shortage (pursuant to actual attribution) than the one attributed on pro-rata basis. If such clients do not have sufficient collateral, then the default waterfall of the CC (including its Core Settlement Guarantee Fund (Core SGF), as per the specified order of waterfall) shall be applied.

e. For any collateral of a client retained by TM/CM, and not allocated to that client's account, the Exchange or the CC shall initiate suitable actions before appropriate court of law for liquidating the assets (movable and immovable) of the defaulter member as per the existing provisions. Further, eligible clients will also have the access to compensation from the Investor Protection Fund, as per the existing provisions.

1.1.6.9 **Default of TMs to CMs**

i. The following procedure shall be adopted in case of default of TM to CM:

a. The CM shall continue to meet its obligations towards its other constituents, as well as the CC.

b. The CM shall close-out all open positions of the defaulting TM (including clients under the TM).

c. Under the supervision of the CC, the CM shall appropriate the collateral towards losses. The losses in closing-out open positions and the settlement obligations due from clients of the TM shall be appropriated first from the allocated collateral (as per allocation provided by TM to CM, including deemed allocated) and securities collateral provided through margin pledge/ re-pledge to the level of CM/CC of respective clients. Any residual losses as well as the losses in closing-out open positions and the settlement obligations of the TM proprietary account shall be appropriated from the TM proprietary collateral. In case of TM proprietary collateral being insufficient, the losses shall not be appropriated from any other constituent of the CM or any constituent of the defaulting TM.

d. After the above utilization towards losses in closing-out open positions of the defaulting TM (and clients under the TM) and net settlement shortfall, all remaining collateral/funds received from the defaulting TM (lying with CM/CC) shall be provided by the CM to the Stock Exchanges.

1.1.6.10 **Violations**

i. Any false allocation by members shall be treated as a violation and disciplinary action shall be taken against the members.

ii. The aforementioned framework for segregation and monitoring of collateral at client level shall be applicable to all segments and product classes at SE/CCs.

1.2 CORE SETTLEMENT GUARANTEE FUND (CORE SGF)[63](Applicable for all segments)

1.2.2 Objective of Core SGF

1.2.2.1 CCs shall have a fund called Core SGF for each segment of each SE to guarantee the settlement of trades executed in respective segment of the SE. In the event of a CM failing to honour settlement commitments, the Core SGF shall be used to fulfil the obligations of that member and complete the settlement without affecting the normal settlement process.

1.2.2.2 In order to bring greater clarity and uniformity as well as align the same with international best practices while enhancing the robustness of the present risk management system in the CCs, the following norms related to Core SGF, stress testing and default procedures have been prescribed:

[63] Circular CIR/MRD/DRMNP/25/2014 dated August 27, 2014

i. no exposure against Core SGF shall be given and is the same shall be readily and unconditionally available to meet settlement obligations of CCs in case of CMs failing to honour settlement obligation,
ii. align stress testing practices of CCs with Financial Market Infrastructure ("FMI") Principles (norms for stress testing for credit risk, stress testing for liquidity risk and reverse stress testing including frequency and scenarios),
iii. capture in stress testing, the risk due to possible default in institutional trades,
iv. harmonise default waterfalls across CCs,
v. limit the liability of non-defaulting members in view of the Basel capital adequacy requirements for exposure towards Central Counterparties ("CCPs"),
vi. ring-fence each segment of CC from defaults in other segments, and
vii. bring in uniformity in the stress testing and the risk management practices of different CCs especially with regard to the default of members.

1.2.3 **Corpus of Core SGF**

1.2.3.1 The corpus of the fund should be adequate to meet out all the contingencies arising on account of failure of any member(s). The risk or liability to the fund depends on various factors such as trade volume, delivery percentage, maximum settlement liability of the members, the history of defaults, capital adequacy of the members, and the degree of safety measures employed by the CC/ SE etc. A fixed formula, therefore, cannot be prescribed to estimate the risk or liability of the fund. However, in order to assess the fair quantum of the corpus of Core SGF, CC should consider the following factors:

i. Risk management system in force
ii. Current and projected volume or turnover to be cleared and settled by the CC on guaranteed basis
iii. Track record of defaults of members (number of defaults, amount in default)

1.2.3.2 Minimum Required Corpus of Core SGF ("MRC") for each segment of each SE shall be subject to the following:

i. The MRC shall be fixed for a month.
ii. By 15th of every month, CC shall review and determine the MRC for next month based on the results of daily stress tests of the preceding month. (For example, by 15th February, CC shall determine MRC for March based on results of various stress tests conducted in January). CC shall also review and determine by 15th of every month, the adequacy of contributions made by various contributors and any further contributions to the Core SGF required to be made by various contributors (as per para 1.2.4.1) for the next month.
iii. For every day of the preceding month (i.e., January as per example in 1.2.3.2.(i) above), uncovered loss numbers shall be estimated by the various stress tests for credit risk conducted by the CC for the segment (as per para 1.2.13) and highest of such numbers shall be taken as worst case loss number for the day.
iv. Average of all the daily worst case loss numbers determined in para 1.2.3.2 (iii) above shall be calculated.
v. The MRC for next month (i.e., March as per example in 1.2.3.2(ii) above) shall be higher of the average arrived in at step 1.2.3.2(iv) above and the segment MRC as per previous review (i.e., review done on 15th January for the month of February).

1.2.4 **Contribution to Core SGF**

1.2.4.1 At any point of time, the contributions of various contributors to Core SGF of any segment shall be as follows:

i. CC contribution: CC contribution to Core SGF shall be at least 50% of the MRC. CC shall make this contribution from its own funds. CC contribution to Core SGF shall be considered as part of its net worth.
ii. SE contribution: SE contribution to Core SGF shall be at least 25% of the MRC.
iii. CM primary contribution: If the CC wishes, it can seek risk based contribution from CMs of the segment (including custodial clearing members) to the Core SGF subject to the following conditions:

a) that total contribution from CMs shall not be more than 25% of the MRC,
b) that no exposure shall be available on Core SGF contribution of any CM (exposure-free collateral of CM available with CC can be considered towards Core SGF contribution of CM), and
c) that required contributions of individual CMs shall be pro-rata based on the risk they bring to the system.

iv. CC shall have the flexibility to collect CM primary contribution either upfront or staggered over a period of time. In case of staggered contribution, the remaining balance shall be met by CC to ensure adequacy of total Core SGF corpus at all times. Such CC contribution shall be available to CC for withdrawal as and when further contributions from CMs are received.

v. The above prescribed limits of contribution by CC, SE and CMs may be reviewed by SEBI from time to time considering the prevailing market conditions.

1.2.4.2 Any penalties levied by CC (as per Regulation 32 of SECC Regulations, 2018) shall be credited to Core SGF corpus.

1.2.4.3 Interest on cash contribution to Core SGF shall also accrue to the Core SGF and pro-rata attributed to the contributors in proportion to their cash contribution.

1.2.4.4 CC shall ordinarily accept cash collateral for Core SGF contribution. However, CC may accept CM contribution in the form of Central Government Securities, in addition to Cash and Bank Fixed Deposits[64]. CC shall adhere to specific guidance which may be issued by SEBI from time to time in this regard.

1.2.4.5 The unutilized portion of contribution made by the SE towards the Core SGF, for any segment(s), maintained by the CC, as available with the CC, shall be refunded to the SE, in case the SE decides to close down its business or decides to avail the clearing and settlement services of another CC for that segment(s), subject to it meeting all dues of the CC.[65]

[64] Circular No. CIR/MRD/DRMNP/33/2017 dated April 26, 2017
[65] Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2016/54 dated May 4, 2016

1.2.5 **Transfer of excess contribution made by SEs from Core SGF of one CC to the Core SGF of another CC**[66]

1.2.5.1 CCs shall allow SEs to transfer excess contribution made by them from Core SGF of one CC to the Core SGF of another CC, in inter-operable scenario. However, CCs are advised to ensure the following:

1.2.5.2 Upon receipt of request from a SE in this regard, the CC shall transfer directly such excess contribution of the SE, in its Core SGF to the core SGF of another CC, under intimation to that SE.

1.2.5.3 The CCs shall ensure compliance with requirements of Minimum Required Corpus of Core SGF as prescribed by SEBI.

1.2.6 **Contribution to Core SGF of Limited Purpose Clearing Corporation**[67]

1.2.6.1 At any point of time, the contributions of various contributors to Core SGF of Limited Purpose Clearing Corporation ("LPCC") shall be as follows:

i. Issuer contribution: Contribution of Issuers of Debt securities to Core SGF shall be equivalent to 0.5 bps of the issuance value of debt securities per annum based on the maturity of debt securities, to be collected upfront, in the manner specified by the Board.

ii. Clearing Member (CM) primary contribution:

CMs contribution to Core SGF shall be risk based and equivalent to deficit in MRC post contribution by Issuers. The said contribution by CMs shall be subject to the following conditions:

[66] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2021/03 dated January 08, 2021
[67] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/245 dated December 21, 2020 and Circular No. SEBI/HO/MRD/M RD-PoD-2/P/CIR/2024/83 dated June 19, 2024

a) that no exposure shall be available on Core SGF contribution of any CM (exposure-free collateral of CM available with CC can be considered towards Core SGF contribution of CM), and

b) that required contributions of individual CMs shall be pro-rata based on the risk they bring to the system.

LPCC shall have the flexibility to collect CM primary contribution, including flexibility to either collect the CM primary contribution upfront or staggered over a period of time. In case LPCC does not seek contribution from CM or seeks staggered contribution, the remaining balance shall be met by LPCC to ensure adequacy of total Core SGF corpus at all times. Such LPCC contribution shall be available to LPCC for withdrawal as and when further contributions from CMs are collected / received.

iii. CC contribution: LPCC shall transfer profit to the Core SGF in terms of norms specified by SEBI, within 30 days of adoption of financial statements by the shareholders in the Annual General Meeting. LPCC may make additional contribution to Core SGF from its own funds. LPCC's contribution to Core SGF shall be considered as part of its net worth.

iv. Participants contribution:

i. Contribution of Participants who desire direct participation and not through a clearing member to Core SGF shall be risk based and equivalent to deficit in MRC post contribution by Issuers and Clearing Members. The said contribution by Participants shall be subject to the following conditions:

a. that no exposure shall be available on Core SGF contribution of any Participant (exposure-free collateral of participants available with CC can be considered towards Core SGF contribution of Participants), and

b. that required contributions of individual Participants shall be pro-rata based on the risk they bring to the system.

ii. LPCC shall have the flexibility to collect Participant primary contribution, including flexibility to either collect the Participant primary contribution upfront or staggered over a period of time. In case LPCC does not seek contribution from Participants or seeks staggered contribution, the remaining balance shall be met by LPCC to ensure adequacy of total Core SGF corpus at all times. Such LPCC contribution shall be available to LPCC for withdrawal as and when further contributions from Participants are collected /received.

The term 'Participant' would be construed as defined in the Regulation 3 (3) of the SEBI (Stock Broker) Regulations 2026.

The above prescribed limits of contribution may be reviewed by SEBI from time to time (latest by end of 5 years from the date of grant of recognition to a LPCC), considering the prevailing market conditions.

1.2.7 **Management of Core SGF**

1.2.7.1 The Regulatory Oversight Committee ("ROC") of the CC shall manage the Core SGF.[68]

1.2.7.2 The CCs shall follow prudential norms of Investment policy for Core SGF corpus. The CCs shall establish and implement, policies and procedures to ensure that Core SGF corpus is invested in highly liquid financial instruments with minimal market and credit risk and is capable of being liquidated rapidly with minimal adverse price effect.

1.2.7.3 While framing the 'Investment policy', the CCs shall consider the following principles[69]:

[68] Circular No. SEBI/HO/MRD/MRD-PoD-3/2024/088 dated June 25, 2024
[69] Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2016/54 dated May 04,2016

i. The investment policy of the CC shall be built on the premise of highest degree of safety and least market risk.

ii. The investments shall be broadly in Fixed Deposits, Central Government Securities, Treasury-bills and Overnight & Liquid schemes of Mutual Funds.

iii. The criteria for selection of banks is given below:[70]

a) CCs shall devise well-defined criteria for selection of banks for the purpose of exposure through Cash, FDs and BGs, which shall be based on parameters such as financials (including net-worth), capital adequacy, credit worthiness considering long term credit rating, etc. of the bank as part of their internal policy.

b) CCs shall closely and continuously monitor such parameters and other material events or news surrounding such banks in order to take appropriate steps for mitigating the risks that may arise on account of any significant event.

c) CCs shall have exposure (through Cash, FDs and BGs) to only such banks which fulfil the following criteria:

   a. Minimum net worth of the bank shall be INR 5,000 Cr.

   b. Banks with unsupported long-term rating of AA and above or banks issuing unsupported long-term instrument with rating of AA and above (excluding rating of bonds issued by the Bank for the purpose of capital requirements under the Basel III). Banks issuing unsupported long-term instrument with rating below AA, shall not be eligible for this purpose. In case of foreign banks, an equivalent credit rating on the global credit rating scale (equivalent to AA and above rating by domestic Credit Rating Agencies (CRAs)) may be considered by the CCs for assessment of the credit worthiness of the bank;

   c. In case, credit rating is obtained from multiple CRAs, the most conservative rating shall be considered for this purpose.

   d. Meet the capital adequacy requirements prescribed by Reserve Bank of India (RBI) from time to time; and

   e. Banks which are not under Prompt Corrective Action (PCA) Framework of RBI.

[70] Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/65 dated May 29 2024

d) In case of exposure to banks which subsequently fails to meet any of the above eligibility conditions, CCs shall rebalance its exposure through own funds and Core SGF to such banks as soon as possible but not later than three months from such non-compliance. However, exposure of CC to such banks through CMs shall be removed at the earliest.

iv. Investment in overnight and liquid scheme of mutual funds shall not exceed a limit of ten per cent of the total investible resources held by the CC, at any point in time.

v. Investments beyond the threshold limit prescribed above are not permitted.

vi. The financial instruments in which the Core SGF corpus is invested shall remain sufficiently diversified at all times.

vii. Any other policy which may be specified by SEBI from time to time

1.2.8 **Timelines for contribution to and recoupment of Core SGF**

1.2.8.1 Requisite contributions to Core SGF by various contributors for any month shall be made by the contributors before start of the month.

1.2.8.2 In the event of usage of Core SGF during a calendar month, contributors shall, as per usage of their individual contribution, immediately replenish the Core SGF to MRC. However, such contribution towards replenishment of Core SGF by the members would be restricted to only once during a period of 30 calendar days regardless of the number of defaults during the period. The period of 30 calendar days shall commence from the date of notice of default by CC to market participants.[71]

1.2.8.3 In case there is failure on part of some contributor(s) to replenish its (their) contribution, same shall be immediately met, on a temporary basis during the month, in the following order:

i. By CC

ii. By SE

[71] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/01 dated January 03, 2020

1.2.9 **Timelines for contribution to and recoupment of Core SGF of LPCC**[72]

1.2.9.1 Requisite contributions to Core SGF by various contributors, except upfront contribution by Issuers (as per para 1.2.6.1(i)) and annual contribution of profits by LPCC (as per para 1.2.6.1(iii)), for any month shall be made by the contributors before start of the month.

1.2.9.2 In the event of usage of Core SGF during a calendar month, contributors shall, as per usage of their individual contribution, immediately replenish the Core SGF to MRC. However, such contribution towards replenishment of Core SGF by the members/ Participants would be restricted to only once during a period of 30 calendar days regardless of the number of defaults during the period. The period of 30 calendar days shall commence from the date of notice of default by CC to market participants.

1.2.9.3 In case there is failure on part of some contributor(s) to replenish its (their) contribution, same shall be immediately met, on a temporary basis during the month, by LPCC.

1.2.10 **Review of Core SGF**

1.2.10.1 The monthly review results shall be communicated to the Risk Management Committee and the Governing Board of the CC. The exception reporting shall be made to SEBI detailing the outcome of the review by the CC's Governing Board, including steps taken to enhance the Core SGF.

1.2.11 **Default Waterfall**

1.2.11.1 The default waterfall for CC, for each segment shall generally follow the following order:

[72] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/245 dated December 21, 2020 and Circular No. SEBI/HO/MRD/M RD-PoD-2/P/CIR/2024/83 dated June 19, 2024

i. Monies of defaulting member (including defaulting member's primary contribution to Core SGF(s) and excess monies of defaulter in other segments).
ii. Insurance, if any.
iii. CC resources (equal to 5% of the segment MRC).
iv. Core SGF of the segment in the following order:
    a. Penalties
    b. CC contribution to the extent of at least 25% of the segmentMRC
    c. Remaining Core SGF: CC contribution, SE contribution and non-defaulting members' primary contribution to Core SGF on pro-rata basis.
v. Proportion of remaining CC resources (excluding CC contribution to core SGFs of other segments and INR 100 Crore or the capital requirement towards orderly winding down of critical operations and services) equal to ratio of segment MRC to sum of MRCs of all segments*
vi. CC/SE contribution to Core SGFs of other segments (after meeting obligations of those segments) and remaining CC resources to that extent as approved by SEBI.
vii. Capped additional contribution by non-defaulting members of the segment.**[73]
viii. Any remaining loss to be covered by way of pro-rata haircut to payouts***

** INR 100 Crore to be excluded only when remaining CC resources (excluding CC contribution to core SGFs of other segments) are more than INR 100 Crore.*

*** (i) CC shall call for the capped additional contribution only once during a period of 30 calendar days regardless of the number of defaults during the period. The period of 30 calendar days shall commence from the date of notice of default by CC to market participants.*
(ii) CCs shall have relevant regulations/provisions for non-defaulting members to resign un-conditionally within the abovementioned period of 30 calendar days, subject to member closing out/settling any outstanding positions, paying the capped

[73] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/01 dated January 03, 2020

additional contribution and any outstanding dues to SEBI. No further contribution shall be called from such resigned members.
(iii) The maximum capped additional contribution by non-defaulting members shall be lower of 2 times of their primary contribution to Core SGF or 10% of the Core SGF of the segment on the date of default in case of equity/ debt segments.
(iv) The maximum capped additional contribution by non-defaulting members shall be lower of 2 times of their primary contribution to Core SGF or 20% of the Core SGF of the segment on the date of default in case of derivatives segment.
(v) In case of shortfall in recovery of assessed amounts from non-defaulting members, further loss can be allocated to layer 'vi' with approval of SEBI."

****In case loss allocation is effected through haircut to payouts, any subsequent usage of funds shall be with prior SEBI approval. Further, any exit by CC post using this layer shall be as per the terms decided by SEBI in public interest.*

1.2.12 **Default waterfall of LPCC**[74]

1.2.12.1 The default waterfall of CC shall generally follow the following order:

i. Monies of defaulting member/ Participant (including defaulting member's/ Participant's primary contribution to Core SGF.
ii. Insurance, if any.
iii. Issuers contribution to Core SGF.
iv. LPCC resources (equal to 5% of MRC).
v. Core SGF in the following order:
    a) Penalties
    b) Previous financial years profit of LPCC transferred to Core SGF
    c) Remaining Core SGF: LPCC contribution and non-defaulting members'/ Participant's primary contribution to Core SGF on pro-rata basis.
    d) Remaining profit of LPCC transferred to Core SGF

[74] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/245 dated December 21, 2020 and Circular No. SEBI/HO/MRD/M RD-PoD-2/P/CIR/2024/83 dated June 19, 2024

vi. Remaining LPCC resources (excluding higher of INR 100 Crore or the capital requirement towards orderly winding down of critical operations and services).*
vii. Remaining LPCC resources to the extent as approved by SEBI
viii. Capped additional contribution by non-defaulting members/ Participants.**
ix. Any remaining loss to be covered by way of pro-rata haircut to payouts.***

** INR 100 Crore to be excluded only when remaining LPCC resources are more than INR 100 Crore.*

*** (i) LPCC shall call for the capped additional contribution only once during a period of 30 calendar days regardless of the number of defaults during the period. The period of 30 calendar days shall commence from the date of notice of default by LPCC to market participants.*
(ii) LPCC shall have relevant regulations/provisions for non-defaulting members/ Participants to resign un-conditionally within the abovementioned period of 30 calendar days, subject to member/ Participant closing out/settling any outstanding positions, paying the capped additional contribution and any outstanding dues to SEBI. No further contribution shall be called from such resigned members/ Participants.
(iii) The maximum capped additional contribution by non-defaulting members/ Participants shall be lower of 2 times of their primary contribution to Core SGF or 10% of the Core SGF on the date of default.
(iv) In case of shortfall in recovery of assessed amounts from non-defaulting members/ Participants, further loss can be allocated to layer 'VII' with approval of SEBI."

****In case loss allocation is effected through haircut to payouts, any subsequent usage of funds shall be with prior SEBI approval. Further, any exit by CC post using this layer shall be as per the terms decided by SEBI in public interest.*

1.2.13 **Stress testing and back testing**

1.2.13.1 CCs shall effectively measure, monitor, and manage its credit exposures to its participants and those arising from its payment, clearing, and settlement processes.

1.2.13.2 **Stress test for credit risk:** CCs shall carry out daily stress testing for credit risk using at least the standardized stress testing methodology prescribed for each segment. Apart from the stress scenarios prescribed for cash market and derivatives market segments, CCs shall also develop own scenarios for a variety of 'extreme but plausible market conditions' (in terms of both defaulters' positions and possible price changes in liquidation periods, including the risk that liquidating such positions could have an impact on the market) and carry out stress testing using self-developed scenarios. Such scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

1.2.13.3 Also, for products for which specific stress testing methodology has not been prescribed in this master circular, CCs shall develop extreme but plausible market scenarios (both hypothetical and historical) and carry out stress tests based on such scenarios and enhance the corpus of Core Settlement Guarantee Fund/ reserves, as required by the results of such stress tests.

1.2.13.4 **Liquidity stress test and adequacy of liquidity arrangements:** CCs shall ensure that it maintains sufficient liquid resources to manage liquidity risks from members, settlement banks and those generated by its investment policy. CCs shall daily test the adequacy of its liquidity arrangements in order to ensure that its liquid resources are adequate to meet simultaneous default of at least two clearing members and their associates that would generate the largest aggregate liquidity obligation for the CC in extreme but plausible market conditions and compare such obligation with the resources mentioned hereunder:

i. Cash

ii. Committed lines of credit available to CC

1.2.13.5 **Reverse stress test:** CCs shall periodically carry out reverse stress tests designed to identify under which market conditions and under what scenarios the combination of its margins, Core SGF and other financial resources prove insufficient to meet its obligations (e.g. simultaneous default of top N members or N% movement in price of top 2 scrips by turnover or 20% movement in price of top N scrips by turnover etc.)

1.2.13.6 **Back testing for adequacy of margins:** CCs shall daily conduct back testing of the margins collected vis-à-vis the actual price changes for the contracts being cleared and settled in every segment to assess appropriateness of its margining models.

1.2.13.7 **Adequacy of financial resources:** CCs shall ensure that it maintains sufficient financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their associates that would potentially cause the largest aggregate credit exposure to the CC in extreme but plausible market conditions. Thus, CCs shall continuously monitor the adequacy of financial resources (as available in its default waterfall) against the uncovered loss estimated by the various stress tests conducted by the CCs and take steps to beef up the same in case of shortfall.

1.2.13.8 On at least a monthly basis, CCs shall perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. CC shall perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CC's participants increase significantly. A full validation of CC's risk-management model shall be performed at least annually.

1.2.13.9 The results of tests carried out as per clauses 1.2.13.2 to 1.2.13.7 above and review conducted as per clause 1.2.13.8. shall be monitored by the Risk Management Committee of the CC and the same should be communicated for discussion and review by the Board of the CC.

1.2.13.10 **Other Provisions**[75] (**Applicable to commodity derivatives segment**)

SEBI, may, after due deliberation, grant exemptions or relaxations from the strict enforcement of provisions relating to the SGF in the commodity derivatives segment, on a case to case basis. Such exemptions may be considered after taking into account the prevailing market conditions, the adequacy of applicable risk management framework and keeping in view the overall objective of investor protection.

1.3 Stress Testing Framework for determining the corpus of Core SGF

1.3.1 Stress Testing Framework for Equity Derivatives segment for determining the corpus of Core SGF[76]

1.3.1.1 Stress testing methodologies based on Price Scan Range (PSR)

The PSR based stress testing methodologies to be used for stress testing in equity derivatives segment, have been tabulated below

Table

[75] Circular No.: HO/47/16/14(1)2026-MRD-POD1/I/7115/2026 dated March 16, 2026
[76] SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/131, dated October 01, 2024

Scenario	Direction	Movement
1a	Up	PSR + 1.5[1] x sigma (λ=0.995) x √2; volatility increasing by 1.5 VSR
1b	Up	PSR + 1.5[1] x sigma (λ=0.94) x √2; volatility increasing by 1.5 VSR
2a	Down	– PSR – 1.5[1] x sigma (λ=0.995) x √2; volatility increasing by 1.5 VSR
2b	Down	– PSR – 1.5[1] x sigma (λ=0.94) x √2; volatility increasing by 1.5 VSR
3	Up	Max 1 day rise over past 10 years
4	Down	Max 1 day fall over past 10 years

1. Multiple of 1.5 for indices and 1.75 is used for stocks

1.3.1.2 **Additional stress testing scenarios to be used for stress testing in the equity derivatives segment**

In addition to the above stated PSR based scenarios, the following additional hypothetical stress testing scenarios would be used for determining the Minimum Required Corpus (MRC) of Core SGF

i.Stressed VaR

a) Uses the variance-covariance matrix from a stress period to determine the price movements of the underlying.
b) Volatility observed during the stress period is to multiplied by a factor of 2.

c) Montecarlo simulations are carried out assuming multivariate normality of daily returns.
d) The resultant figure gives the price movement for each underlying.
e) For revaluing options, the volatility would be shocked by 100% for each underlying.

ii. Filtered Historic Simulation

a) Adjust past data in a way so that it captures the prevailing volatility.
b) Historical returns are divided by contemporaneous estimated volatility and then multiplied by latest estimate of volatility.
c) For this purpose, volatility is calculated as EWMA with λ 0.94.

iii. Factor Model

a) Highest 3-day, close to close, movement of NIFTY, upwards and downwards, is to be considered based on historical data since 2000.
b) The said highest upwards and downwards movement of NIFTY are multiplied by the beta (β) of the stock from a stress period to arrive at a figure representing price movement for each underlying.
c) For revaluing options, the volatility would be shocked by 100% for each underlying.

1.3.1.3 **Choice of stress period**

i. For each of the stress testing models specified at para 1.3.1.2. above, the data for modeling returns/movements in each underlying shall be based on stress period(s), as specified by the CCs.

ii. Further, the CCs shall jointly frame a policy on updation and review of stress periods and get it approved by their respective Risk Committees.

iii. Additionally, for the above models, a Stress Period of Risk (SPOR) of 3 days would be considered (i.e. non-overlapping return movements over a period of 3 days would be considered).

1.3.1.4 **Inter-segment transfer of funds from Core SGF**

i. With a view to cater to increase in the initial MRC requirement of equity derivatives segment after adoption of additional stress testing methodologies, as outlined at para (1.3.1.2) above, a one-time inter-segment transfer of funds would be allowed to CC subject to the following framework:

ii. If average stress loss applicable for the month < 50% of the applicable MRC of the month, in the equity cash segment for the last 12 months, then CCs can transfer upto 100% of the additional amount available over and above the MRC of the month, from the Core SGF of the equity cash segment (ECM) and transfer it to the Core SGF of equity derivatives segment (EDX).

iii. For inter-segment transfer, CC's shall be required to maintain minimum 50% of MRC, exchanges shall be required to maintain 25% (as per their volume) and 25%-member contribution may be attributed to the Parent Exchange, in the remaining Core SGF of ECM, from which the money is being transferred. The amount remaining in ECM segment beyond the limits stated above, will be the excess money, available for transfer, for the respective Market Infrastructure Institution (MII).

iv. This excess amount can be transferred from ECM segment to EDX segment and can be allocated to the contributions under the head of respective MIIs only.

v. In addition, since contribution requirements to ECM are irrespective of penalties, all CCs shall be permitted a one-time transfer of penalties and the interest accrued thereon in ECM to EDX segment. It will be transferred under Penalty head in the EDX segment.

<u>Illustration</u>

Table

MRC for current Month (A)	Total Core SGF in the segment (B)	Total SGF Corpus – MRC for the month (C=B-A)	Average stress loss for each month since past 12 months# (single figure shown for simplifying the example) (D)	Upper limit of the amount that can be transferred to Core SGF of equity derivatives segment, if (D) for each of the last 12 months < 50% (A) (E =100% of C)
100	200	100	30	100

CCs will have to check for each month for the last 12 months

vi. Any inter-segment transfer of core SGF funds should be carried out after a CC has taken approval from its Risk Committee.

1.3.1.5 **Additional contribution to the Core SGF of equity derivatives segment:**

i. As per the extant directions, by 15th of every month, CC shall review and determine the MRC for next month based on the results of daily stress tests of the preceding month.

ii. The MRC for next month shall be higher of the average of all daily worst case loss numbers arrived in at 7.5.1. above and the segment MRC as per any previous review. CCs shall also review and determine by 15th of every month, the adequacy of contributions made by variouscontributors and any further contributions to the Core SGF required to made by such contributors.

1.3.1.6 **Staggered contributions to the Core SGF of equity derivatives segment:**

i. Further, on an ongoing basis, the subsequent contributions (after the initial contribution) to the Core SFG, based on monthly MRC

requirements, can be made by the contributors in a staggered manner. CCs shall put in place a detailed framework in this regard.

ii. It is clarified that the above provision, outlined at para above, is only for the purpose of bringing in additional contribution for the Core SGF in a staggered manner. It is reiterated that the MRC requirement for the next month shall continue be based on provisions outlined at para 1.3.1.2. above.

1.3.1.7 **Coverage of stress losses**

i. The stress testing methodologies would be applied uniformly across all CCs providing clearing and settlement services in the equity derivatives segment.

ii. However, for the purpose of applicability of a cover-n standard, the CCs offering clearing and settlement services in the equity derivatives segment will be segregated into 2 categories:

a) Category A - CC having equal to or more than 40% of the share of clearing volumes in equity derivatives segment.
b) Category B - CC having less than 40% of the share of clearing volumes in equity derivatives segment.

iii. For the purpose of above categorization, the clearing volumes shall be based on daily average value (in Rs. crores) of contracts cleared by the CCs in the equity derivatives segment for each financial year. Sum of futures turnover and notional options turnover will be considered for this purpose.

iv. CCs offering clearing and settlement services in the equity derivatives segment, shall jointly decide on their categorization.

v. CCs offering clearing and settlement services in the equity derivatives segment shall, within 15 days from the end of each financial year, shall inform SEBI about their respective categorization, by means of a joint communication.

vi. For CCs classified as Category B, as per the provisions of para 1.3.1.7(ii) above, credit exposure shall be calculated by considering a simultaneous default of at least 2 clearing members (and associates) causing the highest credit exposure.

vii. For a CC classified as category A, as per the provisions of para 1.3.1.7.(ii) above, credit exposure shall be calculated as follows:

viii. By considering simultaneous default of at least 3 clearing members (and associates) causing the highest credit exposure, OR INR 10,500 crores, whichever is higher.

1.3.1.8 Clearing Corporations and stock exchanges are directed to formulate a joint (Standard Operating Procedures) SOP document, pertaining to the following aspects and get it approved by their respective Risk Committees:

i. Specifying the initial stress period(s)

ii. Specifying operational aspects and detailed implementation mechanism of the new stress testing models.

iii. Specifying the framework for updation and revision of stress periods.

iv. Specifying the methodologies to be adopted for calculating stress losses for stocks where data is not available for the chosen stress period(s)

v. Specifying the framework for making staggered contributions to the Core SGF.

vi. Any other operational aspect.

1.3.1.9 **Calculation of credit exposure**

The credit exposure for each clearing member shall be calculated as specified at Annexure-2b below.

1.3.2 Standard Stress Test Scenarios in Cash Market Segment

Day of Stress test –'S' day

Scenario 1: Default by 2 Brokers

i. CC shall compute the 'Cumulative Funds pay-in', 'Cumulative Funds pay-out', 'Cumulative Securities pay-in' and 'Cumulative Securities pay-out' of all members as on the end of pay-in deadline on the 'S' day. For this purpose, cumulative payin/payout of each member's trades (shall include non-institutional trades as well as 2X% by value of those institutional trades which have not yet been confirmed by the custodian) undertaken on 'S-2' day, 'S-1' day and on 'S' day till the pay-in deadline shall be considered. (X being the highest daily % by value of custodial rejects in the previous 12 months)

ii. Any early pay-in of funds/securities shall be ignored.

iii. It shall be assumed that each clearing member would default in meeting its 'cumulative funds pay-in' and 'cumulative securities pay-in' obligations.

iv. Loss:

I. Securities pay-in failure of the member: It shall be assumed that the failure to bring in securities would result in financial close-out and the CC would suffer a loss of 20% (at the minimum) of the value of such securities pay-in obligation.

II. Funds pay-in obligation failure of the member: The assumed loss on liquidation of securities that would have been paid-out to the defaulting member shall be –

a. Group 1 securities – 20%
b. Group 2 & 3 securities – 20% scaled up by root of 3.

III. Gross loss due to member = (Funds pay-in) + (120% of securities pay-in) - (funds pay-out) - (liquidation value of securities pay-out)

v. Coverage:

CC shall calculate the gross loss (as per 4 above) for each clearing member and assess that against the defaulting clearing members' ***required margins*** (In case of early pay-in, those margins which would have been applicable had the early pay-in was not made, to be considered. Excess collateral, if any, shall be ignored) and other mandatory deposits to find the credit exposure of CC towards each member. Equity scrips as collateral, if any, shall be valued with minimum 20% haircut.

vi. CC shall calculate the total credit exposure due to simultaneous default of at least two clearing members (based on residual loss calculated in v above) and their associates causing highest credit exposure.

Scenario 2: Default by 1 Custodian

vii. CC shall compute the 'Cumulative Funds pay-in', 'Cumulative Funds pay-out', 'Cumulative Securities pay-in' and 'Cumulative Securities pay-out' of all custodians as on the end of pay-in deadline on the 'S' day. For this purpose, cumulative pay-in/payout of each custodian's trades (shall include those trades which have been confirmed by the custodian) undertaken on 'S-2' day, 'S-1' day and on 'S' day till the pay-in deadline shall be considered.

viii. Any early pay-in of funds/securities shall be ignored.

ix. It shall be assumed that each custodian would default in meeting its 'cumulative funds pay-in' and 'cumulative securities pay-in' obligation.

x. Loss:

I. Securities pay-in failure of the member: It shall be assumed that the failure to bring in securities would result in financial close-out and the CC would suffer a loss of 20% (at the minimum) of the value of such securities pay-in obligation.

II. Funds pay-in obligation failure of the member: The assumed loss on liquidation of securities that would have been paid-out to the defaulting member shall be –

a. Group 1 securities – 20%

b. Group 2 & 3 securities – 20% scaled up by root of 3.

III. Gross loss due to member = (Funds pay-in) + (120% of securities pay-in) - (funds pay-out) - (liquidation value of securities pay-out)

xi. Coverage:

CC shall calculate the gross loss (as per iv above) for each custodian and assess that against the defaulting custodians' ***required margins*** (In case of early pay-in, those margins which would have been applicable had the early pay-in was not made, to be considered. Excess collateral, if any, shall be ignored) and other mandatory deposits to find the credit exposure of CC towards each custodian. Equity scrips as collateral, if any, shall be valued with minimum 20% haircut.

xii. CC shall calculate the total credit exposure due to default of the custodian (based on residual loss calculated in v above) causing highest credit exposure.

1.3.3 Standard Stress Test Scenarios in Currency Derivatives segment:

The loss on closing out of client/proprietary positions shall be as per the following scenarios:

i. Hypothetical

For Hypothetical Stress Testing scenarios in the curreny derivatives segment, the upward and downward movement in respect of each underlying shall be higher of the resultant movements derived from the following two scenarios

Scenario 1: Underlying price increasing and decreasing by PSR [six sigma (λ=0.995)] plus 1.75 sigma (λ=0.94) and volatility increasing by 1.5 VSR, OR

Scenario 2: Underlying price increasing and decreasing by PSR [six sigma (λ=0.995)] plus 1.75 sigma (λ=0.995) and volatility increasing by 1.5 VSR.

ii. Historical:

Price movement in respect of each underlying over the last 10 years to be considered.

The maximum percentage price movement shall be applied to the price on the day for which the stress test is being done:

Scenario 3: Maximum percentage rise over a period of 1 day

Scenario 4: Maximum percentage fall over a period of 1 day

All open positions shall be assumed to be squared up at the theoretical price corresponding to the revised prices of the underlying in each of the scenarios 1, 2, 3 and 4. The net profit/loss in squaring off the portfolio is to be calculated under each of the scenarios 1, 2, 3 and 4.

iii. Calculation of credit exposure

As specified in Annexure-2b

For each of the scenarios 1, 2, 3 and 4, CC shall calculate the total credit exposure due to simultaneous default of at least 2 clearing members (and their associates) causing highest credit exposure.

1.3.4 Standardized Stress Testing for Commodity Derivatives

Part A. Scenarios

Historical Scenarios

i. Peak Historical Return

Price movement in respect of each underlying over the MPOR period during the last 15 years to be considered:
Scenario 1A: Maximum percentage rise over MPOR period
Scenario 1B: Maximum percentage fall over MPOR period

Price movements corresponding to a Z-score of 10 will replace extreme price movements beyond that threshold in peak historical returns of all the commodities. Mean and sigma of returns over the applicable MPOR period across 15 years would be used for calculation of the Z-score.[77]

ii. Peak historical price volatility

Historical price volatility (EWMA volatility) in respect of each commodity during the previous 15 years is to be considered. Percentage price movement equal to 3.5 times the peak historical volatility adjusted for applicable MPOR period of the commodity shall be considered (subject to a maximum of 110% of the price movement considered for the commodity under the peak historical return scenario):
Scenario 2A: Percentage price rise
Scenario 2B: Percentage price fall

iii. Augmented historical

Exchange shall identify top 10 days during the previous 15 years based on average of absolute percentage price change across all commodities witnessed over the MPOR period. For each of the day, exchange shall identify percentage price change in each commodity (in case of unavailability of prices in any of the commodity on any of the identified days, price change equal to applicable initial margin in the commodity to be considered). All the price movements to be scaled up by 10%.
Thus, one scenario corresponding to each of the 10 identified days shall be generated.

Hypothetical scenarios

[77] Inserted vide circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2020/244 dated December 21, 2020

iv. Stressed MPOR

It shall be assumed that liquidation of open positions would require 5 days and percentage price movement equal to 3.5 times current volatility adjusted for 5 day period (i.e., scaling up by square root of 5) shall be considered.
Scenario 4A: Percentage rise over 5 day period
Scenario 4B: Percentage fall over 5 day period

v. Stressed PSR and VSR

Price movement in respect of each underlying to the extent of 1.5 times the normal price scan range (PSR) over the MPOR period and change in implied volatility equal to 1.5 times the normal volatility scan range shall be considered.
Scenario 5A: Underlying price increasing by 1.5 PSR adjusted for MPOR period, volatility increasing by 1.5 VSR.
Scenario 5B: Underlying price decreasing by 1.5 PSR adjusted for MPOR period, volatility increasing by 1.5 VSR.

CCs shall carry out stress tests using each of the scenarios given in **Part A** as follows :
a. By stressing positions in all commodities simultaneously
b. By first identifying top 10 commodities based on OI and stressing 1 commodity at a time (ignoring positions in other commodities and the corresponding margins)

Part B. Methodology

The percentage price movements identified in each of the above scenarios shall be applied to the commodity price on the day for which the stress test is being done. All open positions shall be assumed to be squared up at the theoretical price corresponding to the revised prices/volatility of the underlying in each of the scenarios. For each clearing member, the credit exposure to Clearing Corporation shall be calculated as follows:

i. The time of stress test shall be end of day
ii. It shall be assumed that clearing member will default in paying the settlement obligations and all outstanding positions will be squared off at the theoretical price corresponding to the revised price/volatility of the underlying in the scenario.
iii. Loss shall be calculated at client portfolio level.
iv. For each client, residual loss shall be equal to –> (loss due to close-out of client positions– margin supporting that specific client's positions)
v. All residual losses (residual profits to be ignored) for all clients shall be grossed to compute total residual losses due to client positions.
vi. Loss due to close-out of proprietary positions shall be considered.
vii. Loss at (e) and loss at (f) and the net pay-in/pay-out requirement of the clearing member shall be assessed against required margins (excluding margin supporting client positions and excess collateral, if any) and other mandatory deposits of defaulting member to calculate credit exposure of Clearing Corporation to the member. Equity scrips as collateral, if any, shall be valued with minimum 20% haircut.
viii. While calculating the residual losses as per 'd' and 'f' above, for positions on which early pay-in are given by the clients/brokers, and margin exemption are granted on such positions, CCs are permitted to consider the 'margin exemption granted' or 'value of early paid-in goods', whichever is lower, as 'margins supporting those positions'.[78]

Part C. Coverage

For each of the scenarios in Part A, CCs shall calculate the credit exposure due to simultaneous default of at least 3 clearing members[79] (and their associates) causing highest credit exposure.

[78] SEBI Circular No SEBI/HO/CDMRD/DRMP/CIR/P/2020/128 dated July 21, 2020
[79] SEBI Circular No HO/47/16/14(1)2026-MRD-POD1/I/7115/2026 dated March 16, 2026

1.4 Short-collection/Non-collection of client margins[80] (Except commodity derivatives segment)

1.4.1 Clearing Coporations shall levy following penalty on trading members for short-collection/non-collection of margins:

For each member	
'a'	**Per day penalty as %age of 'a'**
(<Rs 1 lakh) And (< 10% of applicable margin)	0.5
(≥ Rs 1 lakh) Or (≥ 10% of applicable margin)	1.0

Where a = Short-collection/non-collection of margins per client per segment per day

1.4.2 If short/non-collection of margins for a client continues for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall.

1.4.3 If short/non-collection of margins for a client takes place for more than 5 days in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.

1.4.4 Notwithstanding the above, if short collection of margin from clients is caused due to movement of 3% or more in the index (close to close value of Nifty/Sensex for all equity derivatives) on a given day (day T), then, the penalty for short collection shall be imposed only if the shortfall continues to settlement day. Further, in currency derivatives segment, if short collection/non-collection of margin from clients is caused due to movement of 1% or more in the USD-INR currency pair (close to close settlement price of currency futures, in case of all currency derivatives) on a given day, (day T), then, the penalty for short collection shall be imposed only if the shortfall continues to settlement day.

1.4.5 The penalty shall be collected by the CCs within five days of the last working day of the trading month and credited to its SGF.

1.4.6 The margin statement which is forwarded on a daily basis by the broker to the clients shall include a column stating the margin charged by the Clearing Corporation.

[80] Circular Nos. CIR/DNPD/7/2011 dated August 10, 2011, and CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019

1.4.7 When penalty is being collected by a broker for short collection/ non-collection from a client, then the broker shall provide the relevant supporting documents to the client.

1.4.8 If TM/ CM collects minimum 20% upfront margin from the client, then penalty for short-collection/ non-collection of margin shall not be applicable. CC shall collect the upfront margin from the TM/ CM based on VaR and ELM.[81]

1.4.9 In respect of penalty for non-collection of "other margins" (other than VaR and ELM) on or before settlement day[82] from clients by TM/ CM, following is clarified:[83]

1.4.9.1 If pay-in (both funds and securities) is made by settlement day, the other margins would deemed to have been collected and penalty for short/ non collection of other margins shall not arise.

1.4.9.2 If Early Pay-In of securities has been made to the Clearing Corporation, then all margins would be deemed to have been collected and penalty or short/ non-collection of margin including other margins shall not arise.

1.4.9.3 If client fails to make pay-in by settlement day and TM/ CM do not collect other margins from the client by settlement day, the same shall also result in levy of penalty as applicable.

1.5 Rationalization of imposition of fines for false/incorrect reporting of margins or non-reporting of margins by TM/CM[84]

1.5.1 The Stock Exchanges and Clearing Corporations, in all segments, in consultation with one another, shall devise a standard framework for imposition of fine on the TM/CM for incorrect/false reporting and non-reporting of margin collected from the clients.

1.5.2 Considering the principle of 'proportionality', the fine shall be charged to the member based on the materiality of non-compliance done by the member which may include factors such as number of instances, repeated violations, etc. The amount of fine to be charged upon the member may extend to 100%

[81] Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020
[82] Circular no SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/57 dated April 28, 2025
[83] Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/173 dated September 15, 2020
[84] Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019

of such false/incorrectly/non reported amount of margin and/or suspension of trading for appropriate number of days.

1.6 Risk management framework for Foreign Portfolio Investors (FPI) under the SEBI (Foreign Portfolio Investors) Regulations, 2019[85]

1.6.1 Margining of trades undertaken by FPIs in the Cash Market:

1.6.1.1 For T+1 rolling settlement, the trades of FPIs shall be margined on a T basis.

1.6.1.2 However, the trades of FPIs who are Corporate bodies, Individuals or Family offices shall be margined on an upfront basis as per the extant margining framework for the non-institutional trades.

1.6.2 **FPI Facility for allocation of trades** -The following framework shall be implemented to facilitate allocation of trades of a FPI to other FPIs:

1.6.2.1 Entities who trade on behalf of FPIs shall inform the stock brokers of the details of FPIs on whose behalf the trades would be undertaken.

1.6.2.2 The stock broker, in turn, shall inform the CCs the details of such related FPIs.

1.6.2.3 CCs shall put-in place suitable mechanism to ensure that allocation of trade by a FPI is permitted only within such related FPIs.

1.6.2.4 Further, Obligation Transfer Request (OTR) allocation of Custodian Participant (CP) codes at CC may be allowed for different PANs within a FPI group/family managed by same Investment Manager.

1.6.3 Custodians/ DDPs shall provide necessary details related to FPIs, including categorisation of FPIs, to the CCs for the purpose of implementing the aforementioned provisions.

1.7 Allocation of Institutional trades at Clearing Corporation:

1.7.1 For FPIs, allocation of trades at CC shall be as prescribed above in Para 1.6.2.

[85] Circular No. CIR/MRD/DP/15/2014 dated May 15, 2014

1.7.2 For other Institutional investors, allocation of trades at CC shall be monitored for any change in beneficial ownership.

1.7.3 In case of any allocation of trades beyond the norms prescribed above in paras 1.6.2 and 1.7.1, Clearing Corporations shall levy penalty in line with the penalty structure prescribed for Exchanges for modification of client codes.

1.8 Disclosures by Clearing Corporations:

CCs are directed to make the following details available on its website:

Policy on composition and contributions

i. Policy on composition and contributions to be made to the Core SGF ;
ii. Break up of funds contributed into SGF will be updated on quarterly basis
iii. Investment policy for Core SGF;
iv. Default waterfall for each segment along with the quantum of resources available in each layer of default waterfall;
v. Any difference between the required contribution for the month and the contribution actually made, along with their monthly Core SGF data
vi. Report on the penalties as collected by the CCs shall be disclosed on their respective websites by the 10th day of the following month.

2. RISK MANAGEMENT FRAMEWORK FOR CASH SEGMENT

2.1 Liquidity Categorization of Securities

The securities shall be classified into three groups based on their liquidity:

Group	Trading Frequency (over the previous six months – see Note A)	Impact Cost (over the previous six months – see Note A)
Liquid Securities (Group I)	At least 80% of the days	Less than or equal to 1%
Less Liquid Securities (Group II)	At least 80% of the days	More than 1%
Illiquid Securities (Group III)	Less than 80% of the days	N/A

A. Note: For securities that have been listed for less than six months, the trading frequency and the impact cost shall be computed using the entire trading history of the scrip.

2.2 Monthly Review

The trading frequency and impact cost shall be calculated on the 15th of each month on a rolling basis considering the previous six months for impact cost and previous six months for trading frequency. On the basis of the trading frequency and impact cost so calculated, the securities shall move from one group to another group from the 1st of the next month.

2.3 Categorisation of newly listed securities

For the first month and till the time of monthly review as mentioned in para 2.1, a newly listed stock shall be categorised in that Group where the market capitalization of the newly listed stock exceeds or equals the market capitalization of 80% of the stocks in that particular group. Subsequently, after one month, whenever the next monthly review is carried out, the actual

trading frequency and impact cost of the security shall be computed, to determine the liquidity categorization of the security.

In case any corporate action results in a change in ISIN, then the securities bearing the new ISIN shall be treated as newly listed scrip for group categorization.

2.4 Mark to Market (MTM) Losses

MTM Losses shall be collected in the following manner:

2.4.2 The CCs shall collect the mark to market margin (MTM) from the member/broker before the start of the trading of the next day.

2.4.3 The MTM margin shall also be collected/adjusted from/against the cash/cash equivalent component of the liquid net worth deposited with the CC.

2.4.4 The MTM margin shall be collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including his proprietary position. For this purpose, the position of a client would be netted across his various securities and the positions of all the clients of a broker would be grossed. Further, there would be no netting across two different settlements.

2.4.5 There would be no netting off the positions and setoff against MTM profits across 2 rolling settlements i.e. T day and T-1 day. However, for computation of MTM profits/losses for the day, netting or setoff against MTM profits would be permitted.

2.4.6 The margin so collected shall be released along with the pay-in, including early pay-in of securities.

2.5 VaR Margin

2.5.2 **Computation of VaR Margin**

2.5.2.1 The VaR Margin is a margin intended to cover the largest loss that can be encountered on 99.9% of the days (99.9% Value at Risk).

The VaR Margins are specified as follows for different groups of stocks[86]:

Liquidity Categorization	VaR Margin
Liquid Securities (Group I)	Based on 6σ, subject to minimum of 9%
Less Liquid Securities (Group II)	Based on 6σ, subject to minimum of 21.5%
Illiquid Securities (Group III)	50% if traded at least once per week on any stock exchange; 75% otherwise

2.5.3 **VaR Margin rate[87]**

The applicable VaR margin rates shall be updated at least 5 times in a day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m. and at the end of the trading session.

2.6 Extreme Loss Margin (ELM)

The term ELM replaces the terms "exposure limits" and "second line of defence" that have been used hitherto. It covers the expected loss in situations that go beyond those envisaged in the 99% value at risk estimates used in the VaR margin.

2.6.1 The ELM shall be 3.5% for any stock.[88]

2.6.2 The ELM shall be collected/ adjusted against the total liquid assets of the member on a real time basis.

2.6.3 The ELM so collected shall be released along with the pay-in.

[86] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
[87] Circular No. MRD/DoP/SE/Cir- 6/2006 dated June 16, 2006
[88] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

2.7 Collection and reporting of margins by Trading Member (TM) /Clearing Member (CM)[89]

2.7.1 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 CC to be collected by TM/CM from their clients.

2.7.2 Collection of Margins[90]

2.7.2.1 The VaR margin shall be collected on an upfront basis by adjusting against the total liquid assets of the member at the time of trade.

2.7.2.2 The VaR margin so collected shall be released along with the pay-in, including early pay-in of securities.

2.7.2.3 The MTM margin, ELM margin, VaR margin shall be collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including his proprietary position.

2.7.2.4 For this purpose, there would be no netting of positions across different settlements.

2.7.3 The TMs/CMs are required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs/CMs will have time till settlement day[91] 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 CCs/TMs/CMs. The period till settlement[92] 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

[89] Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated Nov 19, 2019
[90] Circular No. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005
[91] Circular no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/57 dated April 28, 2025
[92] Circular no. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/57 dated April 28, 2025

be construed that clients have been allowed time till settlement day to pay margin due from them.)

2.7.4 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.

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

2.8 Margining Of Institutional Trades in Cash Market[93]

All Institutional trades in the cash market would be subject to payment of margins as applicable to transactions of other investors.

For T+1 rolling settlement, all institutional trades in the cash market would be margined on a T basis with margin being collected from the custodian upon confirmation of the trade.

2.9 Shortfall of Margins/ Pay-in of funds[94]

2.9.1 Margin shortfall

In case of any shortfall in Margin, the terminals of the broker shall be immediately deactivated.

2.9.2 Pay-in shortfall

i. In cases where the amount of shortage in a settlement for a trading member is in excess of 1% of the Base Net-worth specified for Self Clearing Member (SCM) or INR 5 lakhs whichever is lower, the trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld.

ii. In cases where the amount of shortage exceeds 0.4% of the Base Net-worth specified for SCM or 2 lakhs whichever is lower, but less than Base Net-worth specified for SCM or 5 lakhs whichever is lower on six

[93] Circular No. MRD/DoP/SE/Cir- 06/2008 dated March 19, 2008
[94] MRD/DoP/SE/Cir-07/2005 dated February 23, 2005

occasions within a period of three months, then also the trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld.

iii. Upon recovery of the complete shortages, the member shall be permitted to trade subject to his providing a deposit equivalent to his cumulative funds shortage as the 'funds shortage collateral'. Such deposit shall be kept with the CC for a period of ten rolling settlements and shall be released thereafter. Such deposit shall not be available for adjustment against margin liabilities and also not earn any interest. The deposit may be by way of cash, fixed deposit receipts or bank guarantee.

iv. The CC may levy a penal interest of not less than 0.07% per day on the pay-in shortage of the member.

2.10 Margining with respect to Exchange Traded Funds (ETFs)[95]

2.10.1 Use of VaR Methodology with respect to Exchange Traded Funds

2.10.1.1 Index ETFs are based on a basket of securities. However, for computing margins on ETFs they are treated at par with stocks and margins that are applicable on stocks are being applied for ETFs.

2.10.1.2 VaR margin computation for ETFs that track an index shall be computed as 6 sigma, subject to minimum of 6%.[96]

2.10.1.3 This margin framework is applicable to ETFs that tracks broad based market indices and does not include ETFs which track sectoral indices.

2.10.2 The Extreme Loss Margin shall be 2% for ETFs that track broad based market indices and do not include ETFs which track sectoral indices. [97]

2.10.3 **Introduction of Cross-Margining facility in respect of offsetting positions in ETFs based on equity indices and constituent stocks.[98]**

[95] Circular No. CIR/MRD/DP/26/2012 dated September 26, 2012
[96] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
[97] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
[98] Circular No. CIR/MRD/DP/ 26 /2012 dated September 26, 2012

In order to facilitate efficient use of margin capital by market participants, it has been decided to extend cross margining facility to ETFs based on equity index and its constituent stocks for following off-setting positions in cash market segment, as follows:

i. ETFs and constituent stocks (in the proportion specified for the ETF) to the extent they offset each other,
ii. ETFs and constituent stocks futures (in the proportion specified for the ETF) to the extent they offset each other and
iii. ETFs and relevant Index Futures to the extent they offset each other.
iv. In the event of a suspension on creation/ redemption of the ETF units, the cross-margining benefit shall be withdrawn.

2.11 Additional Margins

Clearing corporations have the right to impose additional risk containment measures over and above the risk containment system mandated by SEBI. However, the CCs should keep the following factors in mind while taking such action:

2.11.1 Additional risk management measures (like ad-hoc margins) would normally be required only to deal with circumstances that cannot be anticipated or were not anticipated while designing the risk management system. If ad-hoc margins are imposed with any degree of regularity, CCs should examine whether the circumstances that give rise to such margins can be reasonably anticipated and can therefore be incorporated into the risk management system mandated by SEBI. CCs are encouraged to analyse these situations and bring the matter to the attention of SEBI for further action.

2.11.2 Any additional margins that the CCs may impose shall be based on objective criteria and shall not discriminate between members on the basis of subjective criteria.

2.11.3 The risk management systems shall be fully transparent by disclosing their details to the public.

2.11.4 **Additional Margin for highly volatile stock**[99]

i. For securities with intra-day price movement (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) of more than 10% in the underlying market for 3 or more days in last one month, the minimum total margins shall be equal to the maximum intra-day price movement of the security observed in the underlying market in last one month. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of three months from date of levy.

ii. For securities with intra-day price movement (maximum of [High-Low], [High-Previous Close], [Low-Previous Close]) of more than 10% in the underlying market for 10 or more days in last six months, the minimum total margins shall be equal to the maximum intraday price movement of the security observed in the underlying market in last six months. The same shall be continued till monthly expiry date of derivative contracts which falls after completion of one year from date of levy

2.12 Margins from the Client

Members should have a prudent system of risk management to protect themselves from client default. Margins are likely to be an important element of such a system. The same shall be well documented and be made accessible to the clients and the Stock Exchanges. However, the quantum of these margins and the form and mode of collection are left to the discretion of the members.

2.13 Provision of early pay-in.[100]

2.13.1 As regards the transactions executed on behalf of institutional clients in the cash market, it shall be permissible to maintain their entire margin in the form of approved securities with appropriate haircuts as prescribed above.

[99] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
[100] Circular No. MRD/DoP/SE/Cir-10/2008 dated April 17, 2008

2.13.2 Necessary systems shall be put in place to enable early pay-in of funds. In cases where early pay-in of funds is made by the members, the outstanding position to that extent of early pay-in shall not be considered for computing the margin obligations.

2.13.3 Necessary systems shall be put in place so as to enable adjustment of the pay-in obligations of the members from the cash component of the liquid assets deposited by them.

2.13.4 Exemptions: In cases where early pay-in of securities is made, the outstanding position to the extent of early pay-in shall not be considered for margin purpose.

2.14 Margin provisions for intra-day crystallised losses [101]

2.14.1 The intra-day crystallised losses shall be monitored and blocked by Clearing Corporations from the free collateral on a real-time basis only for those transactions which are subject to upfront margining. For this purpose, crystallised losses can be offset against crystallised profits at a client level, if any.

2.14.2 If crystallised losses exceed the free collateral available with the Clearing Corporation, then the entity shall be put into risk reduction mode as specified.

2.14.3 Crystallised losses shall be calculated based on weighted average prices of trades executed.

2.14.4 Adjustment of intraday crystallised losses shall not be done from exposure free liquid networth of the clearing member.

2.15 Margin Requirement for Margin Trading Facility[102]

2.15.1 In order to avail margin trading facility, initial margin required shall be as under;

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

[101] Circular No. CIR/MRD/DRMNP/008/2018 dated January 08, 2018
[102] Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017

Group I stocks other than F&O stocks and units of Equity ETFs	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.*

2.15.2 The initial margin payable by the client to the Stock Broker shall be in the form of cash, cash equivalent, or equity shares[103], with appropriate hair cut as specified on "Liquid Assets".

2.15.3 The Stock brokers shall be required to comply with the following conditions:

2.15.3.1 The stocks or units of Equity ETFs deposited as collateral with the stock broker for availing margin trading facility (Collaterals) and the stocks or units of Equity ETFs [104]purchased under the margin trading facility ('Funded stocks') shall be identifiable separately and no comingling shall be permitted for the purpose of computing funding amount. Further, if the broker has collected cash collateral from the client in form of margin for availing margin trading facility and the Trading Member has given the said cash collateral to the CC towards settlement obligation of the said client, then same can be considered as maintenance margin to the extent of securities received from CC against such cash collateral given to CC and such shares are pledged in favour of Trading Member in form of funded stock.[105]

2.15.3.2 Collateral and Funded stocks shall be marked to market on a daily basis;

2.15.3.3 In case of increase in the value of Collaterals, stock brokers may have the option of granting further exposure to their clients subject to applicable haircuts;

2.15.3.4 However, no such exposure shall be permitted on the increased value of funded stocks.

2.15.3.5 In case the funded stock is considered towards maintenance margin to the extent of cash collateral provided by the client, The Trading Member shall ensure that the funded stock considered is under Group 1 securities. The

[103] Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/65 dated May 29, 2024
104 Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2022/166 dated November 30, 2022
[105] Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/118 dated September 11, 2024

applicable margin shall be VaR + 5 times of Extreme Loss Margin, irrespective of whether the funded stock is available in F&O segment or not.[106]

2.15.4 Stock brokers shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls.

2.15.5 The CC/stock broker, based on the risk assessment, shall have the discretion to impose/collect higher margin than the margin specified para-2.15.4 above.

2.16 Risk Management Framework for Dedicated Debt Segment on Stock Exchanges

Risk management framework with respect to debt segment shall be prepared by CCs in consultation with SEBI.

2.17 Margins not to exceed the purchase value of a buy transaction[107]

In case of a buy transaction in cash market, VaR margins, Extreme loss margins and mark to market losses together shall not exceed the purchase value of the transaction. Further, in case of a sale transaction in cash market, the existing practice shall continue viz., VaR margins and Extreme loss margins together shall not exceed the sale value of the transaction and mark to market losses shall also be levied.

2.18 Securities as collateral for foreign institutional trades in cash market[108]

2.18.1 Reserve Bank of India (RBI) vide A. P. (DIR Series) Circular no. 47 dated April 12, 2010 (latest directions may be referred to) has permitted FPIs to offer

[106] Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/118 dated September 11, 2024
[107] Circular No. MRD/DoP/SE/Cir-08/2009 dated July 27, 2009
[108] Circular No. CIR/MRD/DP/15/2010 dated April 28, 2010

domestic Government Securities (acquired by the FPIs in accordance with the provisions of Schedule 5 to Notification No. FEMA 20/2000-RB dated May 3, 2000,(latest FEMA directions may be referred to) as amended from time to time and subject to the overall limits specified by the SEBI from time to time; the current limit being USD 5 billion), and foreign sovereign securities with AAA rating, as collateral to the recognized Stock Exchanges in India, in addition to cash, for their transactions in the cash segment of the market. However, cross-margining of Government Securities (placed as margins by the FPIs for their transactions in the cash segment of the market) shall not be allowed between the cash and the derivative segments of the market.

2.18.2 **Corporate bonds as collateral in cash market**[109]

2.18.2.1 Reserve Bank of India vide RBI/2012-13/439 A.P. (DIR Series) Circular No. 90 dated March 14, 2013 (latest directions may be referred to) has permitted FPIs to use, in addition to already permitted collaterals, their investments in corporate bonds as collateral in the cash segment. FPIs are permitted to offer the following collaterals - government securities, corporate bonds, cash and foreign sovereign securities with AAA ratings, for their transactions in cash segment.

2.18.2.2 Clearing Corporations while enabling the framework for acceptance of corporate bonds as collateral for transactions of any entity in the cash segment shall ensure that:

i. The bonds shall have a rating of AA or above (or with similar rating nomenclature) by recognised credit rating agencies.
ii. The bonds shall be in dematerialized form.
iii. The bonds shall be treated as part of the non-cash component of the liquid assets of the clearing member and shall not exceed 10% of the total liquid assets of the clearing member.
iv. The bonds shall have a fixed percentage based or VaR based haircut. A higher haircut may be considered to cover the expected time

[109] Circular No. CIR/MRD/DRMNP/9/2013 dated March 20, 2013

frame for liquidation. To begin with the haircut shall be a minimum of 10%.

2.19 The current risk management system for cash market shall be applicable during Closing Auction Session[110]

3. RISK MANAGEMENT FRAMEWORK –EQUITY DERIVATIVES SEGMENT

3.1 Liquid Net Worth of a Clearing Member

3.1.1 The Liquid Net Worth is defined as - Total liquid assets deposited with the clearing corporation towards initial margin, extreme loss margin and capital adequacy,

LESS

Initial margin and extreme loss margin applicable to the total gross open positions at any given point of time on all trades to be cleared through the clearing member.

3.1.2 The clearing member's liquid net worth shall not be less than Rs 50 lakhs at any point of time.

3.2 Securities as liquid assets

3.2.1 Equity securities with impact cost of upto 0.1% for an order value of Rs. 1 lakh and traded for atleast 99% of days over the period of previous 6 months, in the underlying cash market may be accepted towards liquid assets in the derivative markets. The equity securities shall be valued/marked to market on a daily basis after applying a haircut equivalent to the respective VaR margin based on 6σ, subject to a minimum of 9%of the equity securities. The list of acceptable equity securities shall be updated on the basis of trading and mean impact cost on the 15th of each month. In case the equity security does not meet the liquid security criteria (as specified above), the same needs to be replaced by the CM at the earliest. In case of passive breach in exposure limit for equity securities due to mark to market valuation, the CCs shall rebalance the excess exposure to the issuer within three months from such deviation.

[110] SEBI Circular No.: HO/47/11/11(3)2025-MRD-POD2/I/2765/2026 dated Jan 16, 2026

3.2.2 Units of all mutual funds may also be accepted as the securities component of liquid assets. The unit shall be valued on the basis of its Net Asset Value (NAV) after applying a haircut equivalent to the VaR margin based on 6σ, subject to a minimum of 9%of the units NAV and any exit load charged by the mutual fund. The valuation or the marking to market of such units shall be carried out on a daily basis. The valuation / marking to market of all securities, including debt securities and central govt. securities (T-bills and G-Secs), shall be carried out daily, with appropriate haircuts.

3.2.3 Debt securities may also be accepted, only if they are investment grade.

3.2.4 Reserve Bank of India (RBI) has permitted clearing corporations and clearing members (latest RBI directions may be referred to) :

i. to open and maintain demat accounts with foreign depositories and to acquire, hold, pledge and transfer the foreign sovereign securities, offered as collateral by FPIs;

ii. to remit the proceeds arising from corporate action, if any, on such foreign sovereign securities; and

iii. to liquidate such foreign sovereign securities if the need arises.

3.2.5 Further, RBI has permitted FPIs to use, in addition to already permitted collaterals, their investments in government securities and corporate bonds as collaterals in the Futures and Options (F&O) segment. (latest RBI directions may be referred to)

3.2.6 In light of the above, FPIs are permitted to offer the following collaterals - government securities, corporate bonds, cash and foreign sovereign securities with AAA ratings, for their transactions in F&O segments. In this regard, the stipulations specified by SEBI and RBI with regard to the acceptance of various collaterals shall be adhered to.

3.2.7 Clearing members are permitted to accept foreign sovereign securities with 'AAA' rating, (hereinafter referred to as "sovereign securities") as collateral from FPI client with the following necessary safeguards:

i. Before accepting sovereign securities as collateral from FPI, the clearing member shall enter into a written agreement with the FPI and also with the clearing corporation, containing, *inter alia*, the following terms:

a) In the event of any dispute regarding liquidation or return of the sovereign securities tendered as collateral, or any other incidental matter, the courts in India will have jurisdiction to decide such disputes. Alternatively, the agreement may contain an arbitration clause.

b) The agreement shall also contain the right of the clearing corporation as well as the clearing member to liquidate the sovereign securities tendered as collateral, in the event of default by clearing member or FPI, as the case may be.

ii. The clearing corporation and clearing member shall also take due care to ensure that sovereign securities tendered as collateral are available for liquidation in the event of insolvency of the clearing member or FPI or any intermediary or other person located overseas through whom the securities are held.

iii. The clearing corporation shall take adequate care to ensure that the sovereign securities accepted by it as margin are tendered under a mechanism which does not unduly hinder timely liquidation in the event of default by the clearing member.

3.2.8 The clearing corporation shall value the collateral tendered by applying due haircuts. The haircut may either be a fixed percentage or VaR based. A higher haircut may be considered to cover the expected time frame for liquidation. A market determined price as obtained from an internationally recognized data vendor shall be considered for valuation. The prices shall be converted into rupee terms on a daily basis. The rupee value so used for conversion shall be the "RBI Reference rate". The RBI reference rate shall be disclosed by the clearing corporation to the clearing members, so as to enable them to report the value of the margins collected from FPIs.

3.2.9 The sovereign securities tendered as collateral shall be treated as part of the cash component of the liquid assets of the clearing member, and shall be subject to the condition that the value of the sovereign securities shall not be more than 10% of the total value of the cash component of the liquid assets of the clearing member.

3.2.10 The existing procedure for acceptance and release of collateral tendered by domestic investors in the case of domestic securities shall be adopted mutatis mutandis for the sovereign securities tendered by FPI, except to the extent specifically provided otherwise.

3.3 Margin framework for Equity Derivatives (Index Derivatives, Single Stock Derivatives) [111]

3.3.1 Initial Margin Computation

Index Futures	Index Options	Stock Futures	Stock Options
3.3.1.1. The volatility scan range (VSR) is specified at 25% of annualized Exponential Weighted Moving Average method (EWMA) volatility subject to minimum 4%.	3.3.1.2. The VSR is specified at 25% of annualized EWMA volatility subject to minimum 4%.	3.3.1.3.The VSR is specified at 25% of annualized EWMA volatility subject to minimum 10%.	3.3.1.4.The VSR is specified at 25% of annualized EWMA volatility subject to minimum 10%.
3.3.1.5. Price Scan Range (PSR) is specified at six standard deviations (6σ) scaled up by √2 subject to at least 9.3% of the underlying price after considering scaling up.	3.3.1.6. PSR is specified at six standard deviations (6σ) scaled up by √2 subject to at least 9.3% of the underlying price after considering scaling up. In case of index option contracts with residual maturity of more than 9 months, the PSR shall be based on 6σ, scaled up by √2 subject to at least	3.3.1.7. PSR is specified at six standard deviations (6σ) scaled up by √2 subject to at least 14.2% of the underlying price after considering scaling up. The PSR thus arrived at will be further scaled up by √3, if the impact cost of the security (as used for categorization of securities for margining in Cash Market) is greater than 1%.	3.3.1.8. PSR is specified at six standard deviations (6σ) scaled up by √2 subject to at least 14.2% of the underlying price after considering scaling up. The PSR thus arrived at will be further scaled up by √3, if the impact cost of the security (as used for categorization of securities for margining in Cash

[111] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020 dated February 24, 2020

	17.7% of the underlying price.		Market) is greater than 1%.

3.3.1.9 The Initial Margin requirements are based on worst scenario loss of a portfolio of an individual client to cover 99% VaR over a one day horizon across various scenarios of price changes and volatility shifts.[112]

3.3.1.10 Clearing Corporations shall estimate the appropriate Margin Period of Risk (MPOR), subject to a minimum of 2 days, for each equity derivative product based on liquidity therein and scale up the initial margins. For initial margins, the revised MPOR shall be given effect by way of scaling up the Price Scan Range (PSR) used for computing the Worst Scenario Loss. There shall be no separate short option minimum charge .[113]

3.3.1.11 The Initial Margin requirement shall be netted at level of individual client and it shall be on gross basis at the level of Trading/Clearing Member. The Initial margin requirement for the proprietary position of Trading/Clearing member shall also be on net basis.

3.3.1.12 The EWMA shall be used to obtain the volatility estimate every day. The estimate at the end of day t (σt) is estimated using the previous volatility estimate, i.e., as at the end of t-1 day (t-1), and the return (rt) observed in the futures market during day t.

3.3.1.13 The formula shall be as under:

$$\sigma_t^2 = \lambda(\sigma_{t-1})^2 + (1-\lambda)(r_t)^2$$

where

[112] Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/155 dated December 17, 2018
[113] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

λ is a parameter which determines how rapidly volatility estimates changes. The value of λ is fixed at 0.995[114].

σ (sigma) means the standard deviation of daily returns in the index derivatives market.

3.3.1.14 The margins for 99% VaR should be based on six sigma limits (six times the standard deviation). The "return" is defined as the logarithmic return: $r_t = \ln (I_t/I_{t-1})$ where I_t is the index futures price at time t. The plus/minus six sigma limits for a 99% VaR based on logarithmic returns would have to be converted into percentage price changes by reversing the logarithmic transformation. The percentage margin on short positions would be equal to $100(\exp (6\sigma_t)-1)$ and the percentage margin on long positions would be equal to $100(1-\exp (-6\sigma_t))$. This implies slightly larger margins on short positions than on long positions. Clearing corporations may apply the higher margin on both the buy and sell side.

3.3.1.15 On the first day of index futures trading the formula given above would require a value of σ t-1, i.e. the estimated volatility at the end of the day preceding the first day of index futures trading. This would be obtained as follows:

i. Calculate the standard deviation of returns in the cash index during the last one year.

ii. Set the volatility estimate at the beginning of that year equal to this average value.

iii. Move forward through the year, one day at a time, using the formula above to get the estimated volatility at the end of that day using cash index prices.

iv. The estimated volatility by this method at the end of the day preceding the first day of index futures trading would be the value of σ t-1 to be used in the formula given above at the end of the first day of futures trading. Thereafter each day's estimate σ t becomes the σ t-1 for the next day.

[114] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

For the first six months of index futures trading, a parallel estimation of volatility would be done using the cash index prices and the index futures prices and the higher of the two volatility measures would be used to set margins, however, during the first six months, in no case shall the initial margin be less than 9.3%.

3.3.1.16 The volatility estimated at the end of the day's trading would be used in calculating the initial margin calls at the end of the same day. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute what the margin would be for any given closing level of the index. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

3.3.1.17 **Portfolio Based Margining**

A portfolio based margining approach shall be adopted which will take an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in futures and options contracts. The parameters for such a model should include-

3.3.1.18 **Worst Scenario Loss**

i. The worst case loss of a portfolio would be calculated by valuing the portfolio under several scenarios of changes in the underlying and changes in the volatility of the underlying. The scenarios to be used for this purpose would be:

Risk Scenario Number	**Price Move in Multiples of Price Range**	**Volatility Move in Multiples of Volatility Range**	**Fraction of Loss to be Considered**
1.	0	+1	100%
2.	0	-1	100%
3.	+1/3	+1	100%
4.	+1/3	-1	100%

5.	-1/3	+1	100%
6.	-1/3	-1	100%
7.	+2/3	+1	100%
8.	+2/3	-1	100%
9.	-2/3	+1	100%
10.	-2/3	-1	100%
11.	+1	+1	100%
12.	+1	-1	100%
13.	-1	+1	100%
14.	-1	-1	100%
15.	+2	0	35%
16.	-2	0	35%

ii. While computing the worst scenario loss, it shall be assumed that the prices of futures of all maturities on the same underlying index move up or down by the same amount.

iii. For the purpose of the calculation of option values, the exchanges may use any of the following standard Option Pricing Models – Black-Scholes, Binomial, Merton, Adesi-Whaley.

iv. The maximum loss under any of the scenario (considering only 35% of the loss in case of scenarios 15 and 16 in the table above) is referred to in this circular as the Worst Scenario Loss. Subject to the additions and adjustments mentioned below, the Worst Scenario Loss is the margin requirement for the portfolio.

3.3.2 **Real Time Computation**

3.3.2.1 The computation of Worst Scenario Loss has two components. The first is the valuation of the portfolio under sixteen scenarios. At the second stage, these Scenario Contract Values are applied to the actual portfolio positions to compute the portfolio values and the initial margin (Worst Scenario Loss). For computational ease, CCs are permitted to update the Scenario Contract Values only at discrete time points each day and the latest available Scenario Contract Values would be applied to member/client portfolios on a real time basis.

3.3.2.2 However, in order to ensure that the most recent scenario are applied for computation of the portfolio values and the initial margin, the scenario contract values shall be updated at least 5 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m., and at the end of the trading session.

3.3.3 Extreme Loss Margin (ELM)[115]

Index Futures	Index Options	Stock Futures	Stock Options
3.3.3.1. ELM rate shall be 2% of the notional value. In case of calendar spread positions in futures contracts, ELM shall be levied on one third of the value of the open position of the far month futures contract.	3.3.3.2. ELM rate shall be 2% of the notional value. The notional value is to be computed using the last available closing price of the underlying for the options contracts. 3.3.3.3. However, in case of index options contracts that are deep out of the money (i.e. strikes out of the money by more than 10% from the previous day closing underlying price) the applicable ELM will be 3%. 3.3.3.4. In case of index option contracts with residual maturity of more than 9 months, the applicable ELM will be 5%.	3.3.3.6. ELM rate shall be 3.5% of the notional value. In case of calendar spread positions in futures contracts, ELM shall be levied on one third of the value of the open position of the far month futures contract.	3.3.3.7. ELM rate shall be 3.5% of the notional value. In case of single stock options contracts that are deep out of the money (i.e. strikes out of the money by more than 30% from the previous day closing underlying price), the applicable ELM shall be 5.25%.

[115] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

Index Futures	Index Options	Stock Futures	Stock Options
	3.3.3.5. Increase in tail risk coverage on the day of options expiry:[116] On the day of options contracts expiry, it has been decided to increase the tail risk coverage by levying an additional ELM of 2% for short options contracts. This would be applicable for all open short options at the start of the day, as well on short options contracts initiated during the day that are due for expiry on that day. For instance, if weekly expiry on an index contract is on 7th of the month and other weekly/monthly expiries on the index are on 14th, 21st and 28th then, for all the options contracts expiring on 7th, there would be an additional ELM of 2% on 7th.		

[116] Circular No: SEBI/HO/MRD/TPD/P/CIR/2024/132 dated October 01, 2024

3.3.4 Calendar Spread[117]

3.3.4.1 A calendar spread is a situation in which a position at one maturity is hedged by an offsetting position at a different maturity on the same underlying, e.g., a short position in six months contract hedged by a long position in nine month contract.

3.3.4.2 **Margins for Calendar Spreads in various products**:

Index Futures	**Index Options**	**Stock Futures**	**Stock Options**
3.3.4.2.1 The margin on calendar spreads shall be at a flat rate of 1.75% of the far month contract.	3.3.4.2.2. The margin on calendar spreads shall be at a flat rate of 1.75% of the far month contract.	3.3.4.2.3. The margin on calendar spreads shall be at a flat rate of 2.2% of the far month contract.	3.3.4.2.4. The margin on calendar spreads shall be at a flat rate of 2.2% of the far month contract.

3.3.4.3 The margin shall be calculated on the basis of delta of the portfolio in each month. Thus, a portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of –100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month futures and short 100 far month futures. The Calendar Spread Margin would be charged in addition to the Worst Scenario Loss of the portfolio.

3.3.5 Removal of calendar spreads on expiry day[118,119]

[117] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
[118] Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/132 dated October 01, 2024
[119] Circular No. HO/47/15/11(2)2025-MRD-TPD1/ I/4226/2026 dated February 5, 2026

3.3.5.1 For Index derivatives and single stock derivatives, the benefit of offsetting positions across different expiries ('calendar spread') shall not be available on the day of expiry for contracts expiring on that day.The existing margin calculations for calendar spread positions shall remain unchanged for calendar spread positions involving all expiries other than the contracts expiring on a given day.

3.3.5.2 Further, the ELM for calendar spread positions on futures, if one of the legs is expiring on the same day, shall be computed without considering such futures positions as an offsetting calendar spread position.

3.3.5.3 The existing margin calculations for calendar spread positions shall remain unchanged for calendar spread positions involiving all expiries other than the contracts expiring on a given day.

3.3.6 Margin on consolidated crystallized obligation[120]

3.3.6.1 The margin on consolidated crystallized obligation in derivative contracts shall represent:

On intraday basis	Payable crystallized obligations based on the closed out futures positions and payable/receivable premium at client level.
At end-of-day	Payable obligations at client level considering all futures and options positions.

Intraday basis

On intraday basis, the net payable/receivable amount at client level shall be calculated using:

1. Premium payable/receivable
2. Futures crystallized profit or loss (calculated based on weighted average prices of trades executed).

[120] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

If the overall amount at client level is payable, such amount shall be the intraday consolidated crystallized obligation margin for the client.

End-of-day basis
At the end of day, the payable/receivable amount at client level shall be calculated using:

1. Futures mark to market profit/loss to be settled
2. Options premium payable/receivable
3. Options exercise/assignment for expired contracts
4. Futures final settlement for expired contracts

If the overall amount at client level is payable, such amount shall be the end of day consolidated crystallized obligation margin for the client.

3.3.6.2 The margin on consolidated crystallized obligations shall replace the net buy premium, intraday crystallized losses, assignment margin and futures final settlement margin levied currently.

3.3.6.3 The margin on consolidated crystallized obligations shall be released on completion of settlement.

3.3.7 Cross Margining[121]

3.3.7.1 The positions of clients in both the cash and derivatives segments to the extent they offset each other shall be considered for the purpose of cross margining as per the following priority:

i. Index futures position and constituent stock futures position in derivatives segment,
ii. Index futures position in derivatives segment and constituent stock position in cash segment, and
iii. Stock futures position in derivatives segment and the position in the corresponding underlying in cash segment

[121] SEBI/HO/MRD/TPD-1/P/CIR/2024/24 dated April 23, 2024

3.3.7.2 A basket of positions in index constituent stock/stock futures, which is a complete replica of the index in the ratio specified by the Clearing Corporation, shall be eligible for cross margining benefit. The positions in the derivatives segment for the stock futures and index futures shall be in the same expiry month to be eligible for cross margining benefit.

3.3.7.3 A spread margin of 25% of the total applicable margin on the eligible off-setting positions, in case of same expiry date of the index and constituents, shall be levied in the respective cash and derivative segments.

3.3.7.4 A spread margin of 35% would be levied in case of offsetting positions in index and its constituents having expiry date different from index. While the expiry date of index futures can be different from that of its constituents, the expiry date of futures contracts of all constituents should be same in order to obtain the aforesaid cross margin benefit.

3.3.7.5 The aforesaid spread margin benefit would be revoked at the beginning of the expiry day of the position which expires first (i.e. first of the expiring indices or constituents) in case the expiry dates of both legs of the position are different.

3.3.7.6 Cross margining benefit shall be computed at client level on an online real time basis and provided to the trading member/clearing member/custodian, as the case may be, who, in turn, shall pass on the benefit to the client. For institutional investors, however, the cross margining benefit shall be provided after confirmation of trades.

3.3.7.7 To avail the facility of cross margining, a client may maintain two accounts with the trading member/clearing member, namely arbitrage account and a non-arbitrage account, to allow converting partially replicated portfolio into a fully replicated portfolio by taking opposite positions in two accounts. However, for the purpose of compliance and reporting requirements, the positions across both accounts shall be taken together and client shall continue to have unique client code.

3.3.7.8 A client may settle through a trading member/clearing member/custodian, as the case may be, who is clearing in both the segments or through two trading members/clearing members/custodians, one of whom is a trading member/custodian in the

cash segment and the other is a clearing member in the derivatives segment.

3.3.7.9 In the event of default by a trading member/clearing member/custodian, as the case may be, whose clients have availed cross margining benefit, the Clearing Corporation shall have the option to:

i. Hold the positions in the cross margin account till expiry in its own name.
ii. Liquidate the positions/collateral in either segment and use the proceeds to meet the default obligation in the other segment.

3.3.7.10 The Clearing Corporation shall enter into agreement with client/clearing member/trading member/custodian, as the case may be, clearly laying down the inter-se distribution of liability / responsibility in the event of default. The Clearing Corporation shall also specify the legal agreements between the clearing entities for the purpose of margin utilization in case of liquidation/default etc.

3.3.8 Cross Margining facility in respect of offsetting positions in co-related equity Indices[122]

3.3.8.1 In order to facilitate efficient use of collateral by market participants, it has been decided to extend cross margining facility to off-setting positions in highly co-related equity indices.

3.3.8.2 **Eligibility Criteria**

Cross margin benefit shall be provided on off-setting positions in futures on equity indices pairs which satisfy the below mentioned conditions:

i. A positive correlation of more than 0.90 for a period of six months between the values of the equity Indices and

[122] Circular no. SEBI/HO/MRD/DOP1/CIR/P/2019/128 dated November 08, 2019 and Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/24 dated April 23, 2024

ii. At least 80% of constituents of one of the index is present in the other index and

iii. The constituents of smaller index based on free float market capitalization shall have at least 80% weightage in the larger index based on free float market capitalization.

3.3.8.3 For cross margining benefit to continue the abovementioned eligibility criteria shall be checked by Clearing Corporations as under:

i. on a monthly basis on the 15th of every month
ii. on the day of change in the constituents of the equity indices

3.3.8.4 If the equity indices pairs fail to fulfil any of the abovementioned eligibility criteria, cross margining benefit shall not be given after the upcoming monthly expiry.

3.3.8.5 **Computation of cross margin**

i. Spread margin of 30% of the total applicable margin on the eligible off-setting positions in correlated indices, shall be levied, in case of same expiry date.

ii. A spread margin of 40% would be levied in case of offsetting positions in correlated indices having different expiry dates.

iii. Cross margining benefit shall be computed at client level on an online real time basis and provided to the trading member / clearing member, as the case may be, who, in turn, shall pass on the benefit to the client.

iv. Clearing Corporations shall apply to SEBI for approval for providing of cross margining benefit on co-related equity indices which fulfil the eligibility criteria. The application shall be accompanied with the data on eligibility criteria specified above.

3.3.9 **Margin Collection and Enforcement**

3.3.9.1 The payment of MTM shall mandatorily be made by all the members on T+0 basis i.e. before start of trading on the next day.[123]

3.3.9.2 The clearing corporation should lay down operational guidelines for collection of margin and standard guidelines for back office accounting at the level of clearing member and trading member to facilitate the detection of non-compliance at each level. The accounting guidelines shall be in conformity with the guidelines, if any, issued by SEBI from time to time. The initial margin (or the worst scenario loss) plus the calendar spread charge shall be adjusted against the available Liquid Net worth of the member who, in turn, shall collect the initial margin from their clients.

3.3.9.3 **Margin Collection Requirement:**[124]

For the Equity Derivatives segment, the client margins which are required to be compulsorily collected and reported to the Clearing Corporation, by the Clearing members/ Trading members shall include initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements and any other margin as may be specified by the Clearing Corporation.

3.3.9.4 **Margin Enforcement Requirement:**

The 'margins', for Equity Derivatives Segment shall include initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements or any other margin as specified by the Clearing Corporation to be collected by Clearing Members from their clients (i.e. Custodial Participants and Trading Members -for their proprietary positions) and by Trading Members from their clients.

3.3.10 **Reporting and Disclosure**

3.3.10.1 The Clearing Corporation shall submit quarterly reports to its ROC (Regulatory Oversight Committee) regarding the functioning of the risk

[123] Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/155 dated December 17, 2018
[124] Circular no. SEBI/HO/MRD/DRMNP/CIR/P/2018/75 dated May 02, 2018

estimation methodology highlighting the specific instances where price moves have been beyond the estimated 99% VaR limits. The clearing corporation shall disclose the details of incidences of failures in collection of margin and/or the settlement dues on a quarterly basis. Failure for this purpose means a shortfall for three consecutive trading days of 50% or more of the liquid net worth of the member.

3.3.10.2 Any proposal for changes in the methodology to compute the initial margin should be filed with SEBI and released to the public for comments along with detailed comparative back testing results of the proposed methodology and the current methodology. The proposal shall specify the date from which the new methodology will become effective and this effective date shall not be less than three months after the date of filing with SEBI. At any time, up to two weeks before the effective date, SEBI may instruct the clearing corporation not to implement the change, or the clearing corporation may on its own decide not to implement the change.

3.3.10.3 The clearing corporation may choose to impose more stringent requirements, other than those prescribed above.

4. RISK MANAGEMENT FRAMEWORK –COMMODITY DERIVATIVES

4.1 Risk Management overview in commodity derivatives segment[125]

4.1.1 Clearing Corporations shall adopt risk management framework compliant with the Principles for Financial Market Infrastructures issued by the CPMI and IOSCO.

4.1.2 **Liquid Assets:** Liquid assets shall be deposited by members with the Clearing Corporations (CCs) in compliance with the norms specified herewith to cover various margin and deposit requirements.

4.1.3 **Margining model:**

CCs shall adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to

[125] SEBI Circular No. CIR/CDMRD/DRMP/01/2015 dated October 01, 2015

participants/clients in the interval between the last margin collection and the close out of positions following a participant/client default. The model should:

4.1.3.1 use a conservative estimate of the time horizons for close out of the positions (including in stressed market conditions),

4.1.3.2 have an appropriate method for measuring credit exposure that accounts for relevant risk factors and portfolio effects, and

4.1.3.3 to the extent practicable and prudent, limit the need for destabilizing, pro-cyclical changes.

4.1.4 **Initial Margins ("IM")[126] :** Value at Risk (VaR) Margins to cover potential future exposure for at least 99% of the days to participants in the interval between the last margin collection and the close out of positions following a participant default subject to minimum percentage floor value as specified by SEBI from time to time.

4.1.5 **Extreme Loss Margins ("ELM"):** Margins to cover the loss in situations that lie outside the coverage of the VaR based initial margins**.**

4.1.6 **Additional Margins:** Margins imposed on both long and short sides over and above the other margins, would be called additional margins.

4.1.7 **Pre-expiry Margin**[127]**:** CCs shall levy pre-expiry margin which may be increased gradually every day.

4.1.8 **Delivery Period Margin**: Appropriate delivery period margin shall be levied by CC on the long and short positions marked for delivery till the pay-in is completed by the member. Once delivery period margin is levied, all other applicable margins may be released.

[126] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated September 01, 2016.

[127] SEBI Circular No. SEBI/HO/CDMRD/DNPMP/CIR/P/2019/83 dated July 26, 2019.

4.1.9 **Minimum Liquid Net-worth Requirement[128]:** Members of Clearing Corporations in commodity derivatives segment shall maintain a minimum Liquid Net-worth of at least INR 50 Lakhs at all points of time.

4.1.10 **MTM (Mark to Market) Settlement:** Mark to market settlement of all open positions of clients/members shall be done on daily basis.

4.1.11 **Concentration margins:** Margins to cover the risk of longer period required for liquidation of concentrated positions in any commodity derivatives contract.

4.2 Commodity Futures

I. Initial Margins (IM)[129] : CCs shall impose initial margins sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. CCs shall therefore estimate appropriate MPOR for each product based on liquidity in the product.

a. **Minimum value for Initial Margin and minimum MPOR[130]:**

CPSS-IOSCO Principles for Financial Market Infrastructure ("**PFMI**") inter alia prescribes under Key Considerations for Principle 6 on margin that margining model should to the extent practicable and prudent, limit the need for destabilising, pro-cyclical changes. In light of the above and given the wide variation of liquidity and volatility among different commodity derivatives, accordingly, norms regarding Minimum IM and minimum MPOR for commodity derivatives segment stands are as per the framework mentioned below: -

[128] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2018/52 dated March 21, 2018
[129] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated September 01, 2016
[130] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2020/15 dated January 27, 2020.

i. CCs shall categorise their commodities into three categories of volatility based upon the realized volatility for last three years as given below: -

Volatility Category of Commodity	***Realized Annualized Volatility criteria***
Low	0 to 15%
Medium	Above 15 % to 20%
High	Above 20%

ii. Realized volatility shall be calculated from series of daily log normal return of main near month future contracts of the respective commodity. The series of daily log normal return shall be rolled over to next month contract on start of staggered delivery period if it is applicable. If staggered delivery is not applicable, then rollover shall be done on the day after the expiry of near month contract.

iii. Stock Exchange having maximum average daily turnover across all derivative contracts on the respective commodity based on last six months' period shall be termed as the Lead Stock Exchange. The CC of the Lead Stock Exchange shall do the categorisation of the respective commodities and same shall be intimated to, and adopted by all other CCs

iv. Based on volatility category, minimum initial margin (IM) and minimum MPOR shall be as under:

Volatility Category of Commodity	***Minimum IM***		***Minimum MPOR***	
	Non-Agri	***Agri***	***Non-Agri***	***Agri***
Low	6%	8%	2	3

Volatility Category of Commodity	*Minimum IM*		*Minimum MPOR*	
	Non-Agri	*Agri*	*Non-Agri*	*Agri*
Medium	8%	10%	2	3
High	10%	12%	3	4

v. It is also clarified that floor values prescribed for IM in table above need not be scaled up by MPOR.

vi. CCs shall review the categories of all commodities once in every six months' period based upon past three years' data. Commodity may be moved from higher volatility category to lower category only if it satisfies criteria of the revised category of volatility for two consecutive reviews. However, movement from a lower to higher volatility category shall be done based upon a single review.

vii. The categorization shall be done on 1st March and 1st September of each year on rolling basis and changes if any shall be made applicable from 1st April and 1st October respectively of each year.

viii. In case derivatives are launched on any new underlying commodity for the first time for which no reference futures prices are available, it shall be initially categorized based upon prices available in the spot markets subject to a minimum of Medium Category of volatility. Re-categorization of such commodity from higher to lower category of volatility can only be done after two consecutive reviews.

b. **Additional Lean Period Margin in Agri Commodities**:

(i) In case of Agri commodities, it has been observed that during lean period (i.e. the period before the arrival of new crop) there is often uncertainty about the arrivals of new crop. This may lead to higher volatility in prices of commodities during this period. Therefore, CCs shall levy additional lean period margin of 2% on contracts expiring during lean period.

c. **Margin Computation at client portfolio level:** Margins shall be computed at the level of portfolio of each individual client comprising his positions in futures contracts across different maturities. For Trading/Clearing Member level margins computation, margins shall be grossed across various clients. The proprietary positions of the Trading Member shall also be treated as that of a client for margin computation.

d. **Spread margin benefit: –**

(i) Spread benefit in initial margin shall be permitted in the following cases:

a) Different expiry date contracts of the same underlying
b) Two contracts variants having the same underlying commodity
c) Futures contracts in a commodity complex provided the conditions in para (ii) below are met[131].

(ii) CCs may provide spread benefit in initial margin across futures contracts in a commodity complex provided the following conditions are met:

Minimum coefficient of correlation (r) between futures prices of the two commodities is 0.90.
Back testing for adequacy of spread margin to cover MTM has been carried out for a minimum period of one year (back

[131] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2018/51 dated 20 March 2018

testing for at least 250 days wherein daily settlement price of futures used for back testing have been determined from traded futures prices).
Initial margin after spread benefit has been able to cover MTM on at least 99% of the days as per back testing.

(iii) Maximum benefit in initial margin on spread positions indicated in para [i – (a) and (b)] is restricted to 75%. Maximum benefit in initial margin on spread positions indicated in para [i – (c)] is restricted to 50%.

(iv) In case of spread positions, additional margins and special margins [132] shall not be levied. No benefit in ELM would be provided for spread positions i.e. ELM shall be charged on both individual legs. CCs are free to charge margins higher than the minimum specified depending upon their risk perception.

(v) Margin benefit on spread positions shall be entirely withdrawn latest by the start of tender period or start of expiry day, whichever is earlier. [133]

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

(vi) While providing spread benefit across futures contracts in a commodity complex, CCs shall continuously monitor dynamics of the commodities and their correlation and if there are changes such that spread margin benefit is no longer appropriate to be given, CCs shall take appropriate further course of action.[134]

[132] SEBI Circular No. CIR/ISD-2/CDD-1/99/2016 dated September 27, 2016
[133] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/130 dated December 02, 2016.
[134] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2018/51 dated March 20, 2018

(vii) In case of calendar spreads or spreads consisting of two contract variants having the same underlying commodity (wherein currently 75% benefit in initial margin is permitted), benefit in initial margin shall be permitted when each individual contract in the spread is from amongst the first six expiring contracts. [135]

e. **Real Time Computation:** The margins shall be computed on real time basis. The computation of portfolio initial margin shall have two components. The first is the computation of initial margin for each individual contract. At the second stage, these contract initial margins shall be applied to the actual portfolio positions to compute the portfolio initial margin. The CCs are permitted to update EWMA volatility estimates for contracts at discrete time points each day (with a gap of not more than 2 hours between any two consecutive updates and at the end of the trading session) and the latest available scaled up Exponential Weighted Moving Average ("**EWMA**") volatility estimates would be applied to member/client portfolios on a real time basis.

II. **Extreme Loss Margin ("ELM"):** ELM of 1% on gross open positions shall be levied and shall be deducted from the liquid assets of the clearing member on an online, real time basis.

III. **Additional Margins:** CCs may levy Additional Margins based on their evaluation in specific situations as may be necessary.

IV. **Pre-expiry Margin:** CCs shall levy pre-expiry margin which shall be increased gradually every day beginning from the pre-determined number of days before the expiry of the contract and latest by the start of the staggered delivery period. CCs shall determine the quantum of pre-expiry margin as appropriate based on the risk characteristics of the particular commodity.

[135] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2021/ dated 9 August, 2021.

V. **Delivery Period Margin**[136]: Appropriate delivery period margin shall be levied by CCs on the long and short positions marked for delivery till the pay-in is completed by the member. Once delivery period margin is levied, all other applicable margins may be released.

However, delivery period margins shall be higher of:

a) 3% + 5 day 99% VaR of spot price volatility

Or

b) 20%

Or

c) Applicable delivery period margins

CCs may impose higher margins if deemed fit.

VI. **Mark to Market (MTM) Settlement:** All open positions of a futures contract would be settled daily, only in cash, based on the Daily Settlement Price ("**DSP**"). DSP shall be as reckoned and disseminated by the stock exchange at the end of every trading day. The MTM gains and losses shall be settled in cash before the start of trading on T+1 day. If MTM obligations are not collected before start of the next day's trading, the CC shall collect correspondingly higher initial margin (scaling up by a factor of square root of two) to cover the potential losses over the time elapsed in the collection of margins.

VII. Risk management is primarily a responsibility of CCs and the framework prescribed by SEBI is minimum framework. CCs are allowed to be more conservative as per their own perception of risk.[137]

VIII. CCs shall disclose detailed break up of various applicable margins on contracts cleared by them along with volatility on their websites.

[136] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated 01 September 2016

[137] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2020/15 dated 27 January, 2020

4.3 Concentration Margins[138] : CCs shall impose adequate concentration margins (only on concentrated positions) to cover the risk of longer period required for liquidation of concentrated positions in any commodity. The threshold value for imposing concentration margin may be determined taking into account factors including open interest, concentration and estimated time to liquidation based on prevailing liquidity and possible reduction in liquidity in times of market stress etc. The quantum of concentration margins imposed may vary based on the level of concentration.

4.4 Margin Provisions for Intra-day crystallized losses [139] : In order to mitigate the risk arising out of accumulation of crystallized obligations incurred on account of intra-day squaring off of positions, the CCs shall adopt the following:

i. The intra-day crystallized losses shall be monitored and blocked by CCs from the free collateral on a real-time basis only for those transactions which are subject to upfront margining. For this purpose, crystallised losses can be offset against crystallised profits at a client level, if any.
ii. If crystallised losses exceed the free collateral available with the CC, risk reduction mode shall be followed.
iii. Crystallised losses shall be calculated based on weighted average prices of trades executed.
iv. Adjustment of intraday crystallised losses shall not be done from exposure free liquid net-worth of the clearing member.

4.5 Margin Collection and Enforcement: All applicable margins shall be deducted by CCs from the Liquid Assets of the clearing members on an online, real time basis. Margins applicable on client positions have to be compulsorily collected from the clients and reported to the Clearing Corporation by the members.

[138] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated 01 September 2016
[139] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2018/52 dated March 21, 2018

4.6 Measures in case of repeated shortfall in margin/pay-in[140] : In case of repeated margin/pay-in shortfalls beyond a threshold amount by any member in a month, following risk mitigation measures shall be initiated:

i. The member be put in square off mode and required to reduce positions.

ii. The member be charged initial margins at a higher rate for the next one month,

Or

The member be subjected to a penal exposure free deposit equal to the cumulative funds/margin shortage over previous one month which could be kept with the CC for the next month.

iii. CC shall keep a close watch on such member.

4.7 Risk Management in Options in Goods, Options on Commodity futures, Futures on Commodity Indices, Options on Commodity Indices

Parameter	**Option in Goods**	**Option on commodity futures**	**Futures on commodity indices**	**Options on commodity indices**
4.7.1. Initial Margin requirement	4.7.1.1. Initial margin requirement shall be adequate to cover at least 99% VaR.			
4.7.2. Margin Period of Risk (MPOR)	4.7.2.1. At least three days or MPOR of corresponding futures contracts, whichever is higher.	4.7.2.2. MPOR shall be at least two days.	4.7.2.3. MPOR shall be at least two days	4.7.2.4. MPOR shall be at least two days

[140] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated 01 September 2016

<table>
<tr><th>Parameter</th><th>Option in Goods</th><th>Option on commodity futures</th><th>Futures on commodity indices</th><th>Options on commodity indices</th></tr>
<tr><td>4.7.3. Portfolio Based Margining</td><td colspan="4">4.7.3.1. Applies to each distribution of portfolio's exposure. Accordingly, CCs shall fix prudent PSR, VSR and/or plausible changes in any other parameters impacting futures/options price. CCs shall impose appropriate short option minimum margin, calendar spread charge, ELM, concentration margins, additional margins, pre-expiry margin, etc. for option contracts.</td></tr>
<tr><td>4.7.4. Volatility Scan Range[141](VSR)</td><td colspan="2"><table>
<tr><td>Volatility Category</td><td>Minimum VSR% Non- Agri commodities</td><td>Minimum VSR% Agri-commodities</td></tr>
<tr><td>Low</td><td>4</td><td>5</td></tr>
<tr><td>Medium</td><td>5</td><td>6</td></tr>
<tr><td>High</td><td>6</td><td>7</td></tr>
</table></td><td></td><td></td></tr>
<tr><td>4.7.5. VSR Review & Back Testing</td><td colspan="2">4.7.5.1. CCs (providing clearing and settlement for options) shall review the value of VSR by back testing on a monthly basis using last 3 years' data by 15th of every month and any change in VSR shall be implemented from 1st trading day of the following month.

4.7.5.2. The back testing shall be done by using appropriate models to extract volatility (such as the "EWMA" volatility of the underlying futures contract, implied volatility of options, etc.) over the relevant MPOR period.</td><td></td><td></td></tr>
<tr><td>4.7.6. Margining at Client Level</td><td colspan="4">4.7.6.1. CCs shall impose initial margins at the level of portfolio of individual client comprising positions in futures and options contracts on each commodity.</td></tr>
</table>

[141] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2021/08 dated January 11, 2021

Parameter	Option in Goods	Option on commodity futures	Futures on commodity indices	Options on commodity indices
4.7.7. Real Time Computation	4.7.7.1. Though the margining models may update various scenarios of parameter changes (underlying price, volatility etc.) at discrete time points each day (at least every two hours), the latest available scenarios shall be applied to client portfolios on a real time basis.			
4.7.8. Mark to market	4.7.8.1. CCs shall mark to market the options positions by adding the current market value of options (positive for long options and negative for short options) to the margin requirement. Thus, mark to market gains and losses would not be settled in cash for options positions.	4.7.8.2. CCs 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.	NA	4.7.8.3.CCs shall mark to market the options positions by adding the current market value of options (positive for long options and negative for short options) to the margin requirement. Thus, mark to market gains and losses would not be settled in cash for options positions.

4.7.9. Risks pertaining to options that devolve into futures on expiry:

i. For handling increase in margins on expiry when options devolve into futures position, specifically for long option positions which are probable to be exercised, CCs shall start sensitizing the option holders of the impending increase in margins (along with the estimated increase) at least few days in advance, and/or, based on their risk perception, may

also consider gradually collecting increased margins during the last few days so as to have adequate margins to cover the risk of futures position that will be created on devolvement of options into futures.

ii. Penalty is levied on members for short-collection/non-collection of the initial margins. Penalty for such short-collection/non-collection due to increase in initial margins resulting from devolvement of options into futures may not be levied by CCs for the first day.

4.8 Cross Margin in Commodity Index Futures and its underlying constituent futures or its variants[142]

4.8.1 SEBI has prescribed norms, inter-alia, for providing margin benefit on spread positions in commodity futures contracts. In order to improve the efficiency of the use of the margin capital by market participants, cross margin benefit between Commodity Index futures and futures of its underlying constituents or its variants was introduced as it would reduce the cost of trading and may lead to enhanced liquidity in both the Commodity index futures and its underlying constituent futures or its variants.

4.8.2 The following provisions shall be applicable in this regard;

i **Computation of cross margin benefit:**

a) Cross margin benefit of 75 % on Initial Margin may be allowed for eligible offsetting positions of index futures and futures of its underlying constituents or its variants. The ELM and MTM margin shall continue to be levied.

b) Cross margin benefit shall be computed at the client level on an online real time basis and provided to the trading member / clearing member, as the case may be. This benefit in turn shall be passed on to the client.

[142] SEBI Circular no. SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2021/586 dated June 29, 2021

ii **Separate Accounts**

a) Clients may be allowed to maintain two accounts with trading member/clearing member, viz arbitrage account (which holds fully replicated portfolio) and a non-arbitrage account. This is for the purpose of allowing clients to convert a partially replicated portfolio into a fully replicated portfolio by taking opposite positions in two accounts. A fully replicated portfolio is one which has exact offsetting positions of index futures contract and all its constituent futures contracts or its variants.

b) However, for the purpose of compliance and reporting requirements, the positions across both the accounts shall be taken together and the client shall continue to have a unique client code.

iii **Eligibility**

a) To be eligible for cross margin benefit, contracts belonging to Index futures and underlying constituents or its variants shall belong to same expiry month or to the nearest expiry month and should be from amongst the first three expiring contracts only.
b) Cross Margin benefit on the eligible positions shall be entirely withdrawn latest by the start of the tender period for the constituent futures of the index or its variants or start of the expiry day, whichever is earlier.
c) Clearing Corporations may introduce cross margin benefit, after back testing for adequacy of cross margin to cover Mark to Market losses ("**MTM**") for a minimum period of six months. Initial margin after cross margin benefit should be able to cover MTM on at least 99% of the days as per back testing.

iv **Default**

a) In the event of a default by a trading member / clearing member, as the case may be, whose clients have availed cross

margin benefit, the Clearing Corporation shall have the option to:

1) Hold the positions in the cross margin account till expiry, in its own name.
2) Liquidate the positions / collateral and use the proceeds to meet the default obligation.

v **Agreement:** The Stock Exchange / Clearing Corporation shall enter into an agreement with the trading member / clearing member, as the case may be, clearly laying down the distribution of liability / responsibility in the event of a default.

vi CCs shall apply to SEBI for approval for provision of cross margin benefit on the indices. The application shall be accompanied with the back testing data as mentioned at para 4.8.2 (iii)(c).

4.9 Alternative Risk Management Framework ("ARMF")[143]

4.9.1 In order to enable risk management framework to handle the scenario of 'near zero' and negative prices, the following provisions shall be complied: -

i ARMF shall be applicable in such cases of near zero and negative prices for any underlying commodities/futures.

ii Commodities having the following characteristics may be in principle treated as susceptible to the possibility of near zero and negative prices: -

a. Commodities that need specialized storage space in physical markets, which, if not followed, may cause environmental hazards or have other external implications AND

[143] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2020/176 dated September 21, 2020

b. Commodities that can't be disposed of/destroyed with ease i.e. disposal/ destruction of such commodities may cause an environmental hazard or may incur significant cost.

iii However, any CC that does not presently provide for the clearing and settlement services of any such susceptible commodity, are not required to update their systems for the prescribed ARMF. This is subject to certification by their Risk Management Committee that none of the products being presently cleared by the CC are susceptible to near zero and negative prices as per Clause (ii) above. However, before the launch of any such susceptible commodities in future, they shall ensure that their systems are updated for the ARMF.

iv [144]The pre-expiry margins shall be imposed on cash settled contracts where in the underlying commodity is deemed susceptible to possibility of near zero and/or negative prices as identified by CC. In case of these contracts, pre-expiry margins shall be levied during the last five trading days prior to expiry date, wherein they shall increase by 5% every day.

4.9.2 The Alternate Risk Management Framework ("ARMF") in the event of Near Zero and Negative Prices is as follows:

I. **Activation of ARMF**

i. In case the CC foresees the possibility of negative/near zero prices in any commodity, then for such commodity derivatives, it shall activate an ARMF. This framework should be capable of estimating the risk in the event of negative/near zero prices of the underlying/futures.

ii. The shift to the ARMF shall be conditional, based on triggers indicating the likelihood of near zero/ negative prices. Some of the

[144] SEBI Circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2021/20 dated February 23, 2021

conditions/circumstances which are indicative in nature and may warrant the activation of the ARMF are illustrated below: -

a. There is a fall in the commodity prices by more than 50% within 20 trading days, while comparing the intra-day highest and lowest prices.
b. In case of internationally referenced contracts, the international stock exchange/ clearing corporation having the benchmark contract decides to introduce such measures for negative prices.
c. Options contracts having strike price values of near zero/negative are introduced by the stock exchange for trading.
d. Price of the underlying commodity/futures contract comes down to the level equal to or lower than the maximum price movement observed over the Margin Period of Risk ("**MPOR**") in past 12 months.
e. Any other conditions as per the discretion of the CC, which might indicate the likelihood of negative prices.

iii. In case one or more of the above mentioned conditions or any other additional conditions that may be identified by the CC becomes applicable, the CC in consultation with stock exchange will conduct a review and take a formal decision on whether there is a need to activate the ARMF. The CC shall subsequently also communicate its decision to the market and other stock Exchanges/CCs. If the Lead CC, as defined above, has activated the ARMF, then the other CCs shall also follow the same.

iv. The CC shall strive to intimate to the market, well in advance, the threshold price level, below which the ARMF shall be activated.

II. **Characteristics of ARMF**: The ARMF shall have the following characteristics:

i. Normal Distribution: In the regular risk management framework, prices are assumed to be log normally distributed and volatility is

calculated based on the difference in log prices. This assumption is valid only for positive prices, as logarithm of zero or negative prices is not defined.

In a scenario wherein the ARMF gets triggered, the prices shall be assumed to follow normal distribution. Therefore, in such scenario, volatility shall be based on the absolute differences in prices. This volatility shall be determined based on Exponentially Weighted Moving Average ("**EWMA**") as per the parameters of the regular framework.

ii. Minimum Margin in Absolute terms: In the regular framework, a floor value for initial margin is prescribed in percentage terms. In case the prices turn negative, floor value in percentage terms shall be applied on the absolute value of price levels. Further, floor value shall also be prescribed in absolute INR terms. The higher of the two values shall be the applicable floor for the initial margin. The CC shall determine and notify such floor value based on past price movements and past margin amounts observed in respect of such commodities.

iii. Spread margin benefit: The correlation between different contracts on the same underlying may not hold in the event of near zero/negative prices. Therefore, margin benefit on spread positions shall be completely withdrawn upon the activation of the ARMF.

iv. Option Pricing Model: The theoretical price determination of options shall be done using appropriate models like the Bachelier model, or any other model which can be applied on negative underlying prices.

v. Pre-expiry margins: The appropriate pre-expiry margins shall also be levied by CCs on cash settled contracts, in respect of those commodities in which the ARMF is triggered.

vi. Extreme Loss Margin ("**ELM**"): In case the price of any futures contract goes below a threshold, ELM shall be levied on such threshold price or absolute price of the contract, whichever is higher. The CC shall decide threshold price in respect of each commodity on which ELM under the ARMF shall be made applicable.

vii. Other margins: CCs may levy other margins such as additional margins, special margins, concentration margins etc. as per their own discretion.

III. Deactivation of ARMF

i. The following principles shall be taken into account by CCs for deactivation of the ARMF i.e. switching from alternate to regular risk management framework:
   a. The de-activation of the ARMF shall be done when the conditions that triggered the activation of the ARMF no longer prevail. The exit from the ARMF shall be done after a reasonable time lag so as to avoid frequent switching between alternate and regular frameworks.
   b. In case the entry and exit of the ARMF is defined in terms of specific price points, the exit point shall be kept sufficiently above the entry point to avoid frequent switching between alternate and regular frameworks.
   c. The de-activation of the ARMF and re-activation of regular framework will be done when the margin requirement under the two frameworks sufficiently converges.

ii. The observation of a zero or negative prices shall have to be excluded from model under regular margin framework since log return involving zero or negative price is not defined.

4.10 Regaining matched book

4.10.1 In the event of a member/client failing to honour pay-in/margin obligations, CCs may employ the below given alternative tools to liquidate the positions and regain a matched book based on the conditions of market liquidity, volatility, size of position to be liquidated etc. Any tool lower in the list prescribed hereunder may be resorted to only in extremely rare occasions when the CC reasonably expects that it may not be able to restore a matched

book by choosing the alternatives above it and also records the reasons for the same in writing:

i. **Alternative 1**: Liquidation in normal market in orderly manner (with relaxed price limits, if required);
ii. **Alternative 2**: Auction of the positions within a specified price band
iii. **Alternative 3**: Voluntary tear-up at last mark-to-market price along with compensation equal to 10% of last mark-to-market price and penalty equal to 1% of last mark-to-market price (to be credited to SGF);
iv. **Alternative 4**: Partial tear-up (pro-rata against members/clients having opposite positions) at last mark-to-market price along with compensation equal to 8% of last mark-to-market price and penalty equal to 1% of last mark-to-market price (to be credited to SGF).[145]

4.10.2 To enable timely and error free execution, CCs shall have an automated system to implement all such tools. CCs shall put in place such system, and also conduct testing of the same.

4.11 Mechanism for regular monitoring of and penalty for short- collection/ non-collection of margins from clients[146]

4.11.1 The penalty structure and framework for short-collection/non-collection of margins by members from their clients shall be as under:

i. The 'margins' for this purpose shall mean initial margin ("**IM**"), extreme loss margin ("**ELM**"), mark to market margin ("**MTM**"), special / additional margin, delivery margin or any other margin as prescribed by the stock exchange to be collected by member from their clients.

[145] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2020/32 dated March 03, 2020.
[146] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 7, 2016

ii. The members are required to collect upfront initial margins and extreme loss margins [147] from their clients. The members will have time till settlement day[148] to collect margins (except initial margins and extreme loss margins) from their clients. (The clients must ensure that the initial margins and extreme loss margins are paid in advance of trade and other margins are paid as soon as margin calls are made by CC/ members. The period till settlement 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 time till settlement day to pay margin due from them.)

iii. Penalty shall be levied as per the details given below on the members for short / non-collection of margins from their clients beyond settlement day:

For each member	
'a'	Per day penalty as % of 'a'
(< INR 1 lakh) and (< 10% of applicable margin)	0.5
(>= INR 1 lakh) or (>= 10% of applicable margin)	1.0
Where a = short-collection / non-collection of margins per client per day	

iv. In case of short-collection /non-collection of initial margins and extreme loss margins, the above penalty structure would be applicable from T day.

[147] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2016/93 dated September 26, 2016

[148] Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/57 dated April 28, 2025

v. The CCs shall put in place a suitable mechanism to enable the members to report the collection of all margins from their clients at the end of each trading day.

vi. The penalty shall be collected by the CCs not later than five days of the last working day of the trading month.

vii. With respect to repeated defaulters, who default 3 times or more during a month, the penalty would be 5% of the shortfall in such instances. (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 in 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 number 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.)

viii. All the penalties collected by CCs as prescribed above shall be credited to Core SGF [149].

ix. The CC shall direct their members to monitor trades of every client. Suitable mechanism may be put in place to intimate the clients as and when the margins are used up to an appropriate level as considered fit.

x. In exceptional situations wherein members and/or clients were not in position to square off the open positions to avoid levy of penalty for margin shortfall due to lack of adequate liquidity and/or high market volatility, CC may take a suitable decision depending upon the merit of the circumstances and keep SEBI informed of the same. Further, the CCs are directed to take such exceptional matters to their board of directors for decision.

[149] SEBI Circular No. SEBI/HO/CDMRD/DRMP/CIR/P/2019/73 dated June 20, 2019

xi. For commodity derivative contracts having trading hours beyond 5:00 PM [150,151]:

a. The Risk Parameter Files currently used by the Clearing Corporations for collecting margins from the Members shall also be used for generating margin obligations from the clients throughout the trading hours in the commodity derivatives segment.

b. Clearing corporations shall send an additional minimum two snapshots for commodity derivative contracts which are traded till 9:00 PM and additional minimum three snapshots for the commodity derivatives contracts which are traded till 11:30/11:55 PM. Margins/EOD margins shall be determined as per the relevant Risk Parameter Files.

c. Risk Parameter File ("**RPF**") to be generated at cut-off time shall be applied on clients' End of Day ("**EOD**") portfolio for the purpose of determining minimum threshold of margin to be collected from clients by members.

d. Similarly, for the purpose of determining minimum threshold of ELM to be collected from clients, EOD client portfolio shall be valued at the half an hour weighted average trade price arrived at cut-off time stipulated above.

xii. For commodity derivative contracts having trading till 5:00 PM, margin collection from clients shall be on EOD basis.

4.12 Interoperability among Clearing Corporations

The interoperability framework is not available for commodity derivatives products available for trading on the stock exchange.[152]

[150] SEBI circular no. SEBI/HO/CDMRD/DRMP/CIR/P/2019/149 dated November 29, 2019
[151] SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2021/689 December 16, 2021
[152] SEBI Circular No. CIR/MRD/DRMNP/CIR/P/2018/145 dated November 27, 2018

5. Risk Management in Currency Derivatives (Currency Futures, Currency Options and Cross-Currency Futures and Options)

A robust risk management system not only impose margins on the members of the clearing corporation but also enforce collection of margins from the clients.

5.1 Initial Margin[153]

5.1.1 The Initial Margin requirement would be based on a worst scenario loss of a portfolio of an individual client comprising his positions in options and futures contracts on the same underlying across different maturities and across various scenarios of price and volatility changes as given in table (below) [154].

Risk Scenario Number:	Price Move in Multiples of Price Range	Volatility Move in Multiples of Volatility Range	Fraction of Loss to be Considered
1	0	1	100%
2	0	-1	100%
3	+1/3	1	100%
4	+1/3	-1	100%
5	-1/3	1	100%
6	-1/3	-1	100%
7	+2/3	1	100%
8	+2/3	-1	100%
9	-2/3	1	100%
10	-2/3	-1	100%
11	1	1	100%
12	1	-1	100%
13	-1	1	100%
14	-1	-1	100%

[153]Revised vide Circular CIR/MRD/DP/22/2013 dated July 08, 2013 and CIR/MRD/DP/12/2014 dated April 07, 2014

[154] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

15	2	0	35%
16	-2	0	35%

5.1.2 **PSR (Price Scan Range):** The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the PSR shall be based on 6σ, subject to the minimum percentage of underlying price as tabulated below[155].

Currency Derivative	Minimum percentage of underlying Price
USDINR	1.50%
EURINR	2.15%
GBPINR	2.25%
JPYINR	2.65%
EURUSD	2.50%
GBPUSD	2.50%
USDJPY	2.50%

5.1.3 For Cross-currency futures and options contracts, the margins shall be collected in INR. For this purpose, RBI reference rate of previous day for USD-INR and the corresponding exchange rate published by RBI for JPY-INR, as applicable, shall be used till 02:00 p.m. The latest available RBI reference rate for USD-INR and the corresponding exchange rate published by RBI for JPY-INR, as applicable, shall be used post 02:00 p.m.

5.1.4 For Cross-currency futures and options contracts, since the margins shall be collected in INR, the PSR shall be scaled up by the total futures margin rate of the contract involving the quoted currency in cross-currency pair and INR.

5.1.5 However, for Cross-Currency derivatives for first two days of trading, the initial margin shall be computed using a sigma of 1.15% for EUR-USD contracts, 0.95% for GBP-USD contracts and 0.60% for USD-JPY contracts.

[155] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

Thereafter, the sigma would be calculated using the methodology specified for currency futures and would be the standard deviation of daily logarithmic returns of futures price.

5.1.6 **VSR (Volatility Scan Range):** The VSR is specified at 25% of annualized EWMA volatility subject to minimum 3%[156]. The initial margin shall be deducted from the liquid assets of the clearing member on an online, real time basis.

5.1.7 While computing the worst scenario loss, it shall be assumed that the prices of futures of all maturities on the underlying move up or down by the same amount.[157]

5.1.8 The maximum loss under any of the scenario (considering only 35% of the loss in case of scenarios 15 and 16) is referred to in this circular as the Worst Scenario Loss.

5.1.9 The sigma would be calculated using the methodology specified for formula for determining standard deviation in Para 5.4 and would also be the standard deviation of daily logarithmic returns of FCY-INR futures price.

5.1.10 For the purpose of calculation of option values, the following standard option pricing models - Black-Scholes, Binomial, Merton - would be used.

5.2 Portfolio based margining

A portfolio based margining approach shall be adopted to take an integrated view of the risk involved in the portfolio of each individual client comprising his positions in options and futures contracts across different maturities. The client-wise margins would be grossed across various clients at the Trading/Clearing Member level. The proprietary positions of the Trading/Clearing Member would be treated as that of a client.

5.3 Real time computation

The computation of worst scenario loss would have two components. The first is the valuation of the portfolio under the various scenarios of price changes. At the second stage, these scenario contract values would be applied to the

[156] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

[157] Revised vide Circular CIR/MRD/DP/22/2013 dated July 08, 2013 and CIR/MRD/DP/12/2014 dated April 07, 2014

actual portfolio positions to compute the portfolio values and the initial margin. The CCs shall update the scenario contract values at least 5 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m. and at the end of the trading session. The latest available scenario contract values would be applied to member/client portfolios on a real time basis.

5.4 Formula for determining standard deviation

5.4.1 The exponential moving average method would be used to obtain the volatility estimate every day. The estimate at the end of time period t (σ_t) is estimated using the volatility estimate at the end of the previous time period. i.e. as at the end of t-1 time period (σ_{t-1}), and the return (r_t) observed in the futures market during the time period t. The formula would be as under:

$$(\sigma_t)^2 = \lambda (\sigma_{t-1})^2 + (1 - \lambda) (r_t)^2$$

where

5.4.1.1 λ is a parameter which determines how rapidly volatility estimates changes. The value of λ is fixed at 0.995.

5.4.1.2 σ (sigma) means the standard deviation of daily returns in the currency futures market.

5.4.1.3 The "return" is defined as the logarithmic return: rt = ln(Ct/Ct-1) where Ct is the Currency futures price at time t. The plus/minus 6 sigma limits for a 99% VAR based on logarithmic returns would have to be converted into percentage price changes by reversing the logarithmic transformation. The percentage margin on short positions would be equal to 100(exp (6 σt)-1) and the percentage margin on long positions would be equal to 100(1-exp (-6σt)). This implies slightly larger margins on short positions than on long positions. The clearing corporation may apply the higher margin on both the buy and sell side.

5.4.1.4 During the first time period on the first day of Currency futures trading, the sigma would be equal to 0.5%.

5.4.1.5 The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute

what the margin would be for any given closing level of the currency futures price. Further, CC should ensure that the trading software itself should provide this information on a real time basis on the trading workstation screen.

5.5 Calendar spread margins[158]

5.5.1 A currency futures position at one maturity which is hedged by an offsetting position at a different maturity would be treated as a calendar spread.

5.5.2 For currency options, a long currency option position at one maturity and a short option position at a different maturity in the same series, both having the same strike price would be treated as a calendar spread.

5.5.3 For currency options, the margin would be calculated on the basis of delta of the portfolio in each month. A portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of –100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month currency futures and short 100 far month currency futures. Portfolio would mean portfolio consisting of futures and /or options contract on a particular underlying. Option positions of different expiry, irrespective of their strike prices, shall also attract calendar spread margin.

5.5.4 The calendar spread charge in respect of various products shall be as follows[159]:

Product	Calendar Spread charge for spreads in months (INR)			
	Less than or equal to 1 month	More than 1 month and Less than or equal to 2 months	More than 2 months and Less than or equal to 3 months	More than 4 months
USDINR	500	600	900	1100
EURINR	750	1050	1550	1550
GBPINR	1575	1875	2075	2075

[158] Revised vide Circular CIR/MRD/DP/22/2013 dated July 08, 2013 and CIR/MRD/DP/12/2014 dated April 07, 2014

[159] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

JPYINR	675	1075	1575	1575
EURUSD	1600	1900	2100	2200
GBPUSD	1600	1900	2100	2200
USDJPY	1600	1900	2100	2200

5.6 Extreme Loss margin(ELM)[160]

The ELM rates shall be as under:

Product	ELM: Futures	ELM: Options
USDINR	0.50%	0.75%
EURINR	0.15%	0.75%
GBPINR	0.25%	0.75%
JPYINR	0.35%	0.75%
EURUSD	0.50%	0.50%
GBPUSD	0.50%	0.50%
USDJPY	0.50%	0.50%

5.7 Liquid networth: The initial margin and the extreme loss margin shall be deducted from the liquid assets of the clearing member. The clearing member's liquid net worth after adjusting for the initial margin and extreme loss margin requirements must be at least Rs. 50 Lakhs at all points in time. The minimum liquid networth shall be treated as a capital cushion for days of unforeseen market volatility.

5.8 Updation of risk parameters

For cross currency Futures and options, the CCs shall undertake two additional updates of the SPAN risk management parameters during the extended trading hours. Accordingly, SPAN parameters shall be updated at

[160] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

Beginning-of-Day, 11:00 a.m., 12:30 p.m., 02:00 p.m., 03:30 p.m., 05:00 p.m., 06:30 p.m., End-of-Day.

5.9 Net Option Value

For Currency Options, the Net Option Value is the current market value of the option times the number of options (positive for long options and negative for short options) in the portfolio. The Net Option Value would be added to the Liquid Net Worth of the clearing member. Thus, mark to market gains and losses would not be settled in cash for options positions.

5.10 Safeguarding client's money

The CC should segregate the margins deposited by the Clearing Members for trades on their own account from the margins deposited with it on client account. The margins deposited on client account shall not be utilized for fulfilling the dues which a Clearing Member may owe the CC in respect of trades on the member's own account. The client's money is to be held in trust for client purpose only. The following process is to be adopted for segregating the client's money vis-à-vis the clearing member's money:

5.10.1 At the time of opening a position, the member should indicate whether it is a client or proprietary position.

5.10.2 Margins across the various clients of a member should be collected on a gross basis and should not be netted off.

5.10.3 When a position is closed, the member should indicate whether it was a client or his own position which is being closed.

5.10.4 In the case of default, the margins paid on the proprietary position would only be used by the Clearing Corporation for realising its dues from the member.

5.11 Margin Collection and Enforcement

The client margins (initial margin, extreme loss margin, calendar spread margin and mark to market settlements) have to be compulsorily collected and reported to the CCs by the members. The CCs shall impose stringent penalty on members who do not collect margins from their clients. The CCs shall also conduct regular inspections to ensure margin collection from clients.

5.12 Mark to market settlement(MTM)

The MTM gains and losses shall be settled in cash before the start of trading on T+1 day. If MTM obligations are not collected before start of the next day's trading, the Clearing Corporation shall collect correspondingly higher initial margin to cover the potential for losses over the time elapsed in the collection of margins.

5.13 Periodic risk evaluation report

The CC shall on an ongoing basis and at least once in every six months, conduct back testing of the margins collected vis-à-vis the actual price changes. A copy of the study shall be submitted its ROC along with suggestions on changes to the risk containment measures, if any.

6. Risk Management in Interest Rate Futures

6.1 Initial Margin

6.1.1 Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover more than 99% VaR over a one day horizon. PSR shall be based on 6σ, subject to the minimum percentage of underlying price as tabulated below[161]. The initial margin shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

Interest Rate Derivative	Minimum percentage of underlying Price
Interest Rate Derivatives	1.75%
91 Day T Bill	0.065%

[161] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

MIBOR	5.50%

6.1.2 **Volatility Scan Range (VSR):** The VSR is specified at 25% of annualized EWMA volatility subject to minimum 3%[162].

6.1.3 **For Interest Rate Futures on 10- Year GoI Security** : The initial margin so computed would be subject to a minimum of 2.33% of the value of the futures contract on the first day of trading in 10-year Notional Coupon-bearing GoI security futures and 1.6% of the value of the futures contract thereafter. For the purpose of intra-day updation of VaR, the CCs shall use the yield of the benchmark 10-Year bond, from the NDS Order Matching platform. Methodology A, as specified in Annexure-2c, shall be adopted for computation of initial margin. For this purpose, the yield for 10-Year benchmark GoI security, as published by FIMMDA, shall be used. During the first time-period on the first day of trading in 10-year Notional Coupon-bearing GoI security futures, the sigma to be considered shall be the historical volatility of FIMMDA marked nodal points for that tenor[163].

6.1.4 **For Interest Rate Futures on 91-Day GoI (T-Bill):** The initial margin so computed would be subject to a minimum of 0.1% of the notional value of the contract on the first day of trading in 91-day T-bill futures and 0.05% of the notional value of the contract thereafter (the notional value of the contract shall be Rs. 2,00,000).

6.1.5 **For Interest Rate Futures on 2 Year Notional coupon bearing GoI security:** The initial margin so computed would be subject to a minimum of 0.35% of the notional value of the contract on the first day of trading in Futures on 2 Year Notional Coupon Bearing Government of India (GoI) Security and 0.3% of the notional value of the contract thereafter.

6.1.6 **For Interest Rate Futures on 5 Year Notional coupon bearing GoI security:** The initial margin so computed would be subject to a minimum of 0.7% of the notional value of the contract on the first day of trading in Futures on 5 Year Notional Coupon Bearing GoI Security and 0.6% of the notional value of the contract thereafter.

[162] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
[163] SEBI letter SEBI/HO/MRD2/2021/11510/01 dated June 03rd, 2021

6.1.7 The initial margin so determined shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

6.2 Extreme Loss Margin

The Extreme Loss Margin rates shall be as under[164]:

Product	ELM: Futures	ELM: Options
Interest Rate Derivatives	0.25%	0.25%
91 Day T Bill	0.015%	-
MIBOR	0.50%	-

6.3 Margin on consolidated crystallized obligation[165]

6.3.1 The margin on consolidated crystallized obligation in derivative contracts shall represent:

On intraday basis	Payable crystallized obligations based on the closed out futures positions and payable/receivable premium at client level.
At end-of-day	Payable obligations at client level considering all futures and options positions.

Intraday basis

On intraday basis, the net payable/receivable amount at client level shall be calculated using:

1. Premium payable/receivable
2. Futures crystallized profit or loss (calculated based on weighted average prices of trades executed).

[164] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
[165] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

If the overall amount at client level is payable, such amount shall be the intraday consolidated crystallized obligation margin for the client.

End-of-day basis
At the end of day, the payable/receivable amount at client level shall be calculated using:

1. Futures mark to market profit/loss to be settled
2. Options premium payable/receivable
3. Options exercise/assignment for expired contracts
4. Futures final settlement for expired contracts

If the overall amount at client level is payable, such amount shall be the end of day consolidated crystallized obligation margin for the client.

6.3.2 The margin on consolidated crystallized obligations shall replace the net buy premium, intraday crystallized losses, assignment margin and futures final settlement margin levied currently.

6.3.3 The margin on consolidated crystallized obligations shall be released on completion of settlement.

6.4 Calendar Spread Margin

Interest rate futures position at one maturity hedged by an offsetting position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be as follows[166]:

Product	Calendar Spread charge for spreads in months (INR)			
	Less than or equal to 1 month	More than 1 month and Less than or	More than 2 months and Less than or	More than 4 months

[166] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020

		equal to 2 months	equal to 3 months	
Interest Rate Derivatives	1700	2000	2300	3200
91 Day T Bill	110	160	210	260
MIBOR	7000	7500	8000	8000

6.5 Formula for Determining Standard Deviation

As specified at Annexure-2c

6.6 Portfolio Based Margining

The Standard Portfolio Analysis of Risk (SPAN) methodology shall be adopted to take an integrated view of the risk involved in the portfolio of each individual client comprising his positions in futures contracts across different maturities. The client-wise margins would be grossed across various clients at the Trading / Clearing Member level. The proprietary positions of the Trading / Clearing Member would be treated as that of a client.

6.7 Real-Time Computation

The computation of worst scenario loss would have two components. The first is the valuation of the portfolio under the various scenarios of price changes. At the second stage, these scenario contract values would be applied to the actual portfolio positions to compute the portfolio values and the initial margin. The CCs shall update the scenario contract values at least 6 times in the day, which may be carried out by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m., 3.30 p.m. and at the end of the trading session. The latest available scenario contract values would be applied to member/client portfolios on a real time basis.

6.8 Liquid Networth

The initial margin and the extreme loss margin shall be deducted from the liquid assets of the clearing member. The clearing member's liquid net worth after adjusting for the initial margin and extreme loss margin requirements must be at least Rs. 50 Lakhs at all points in time. The minimum liquid networth shall be treated as a capital cushion for days of unforeseen market volatility.

6.9 Liquid Assets

The liquid assets for trading in Interest Rate Futures would have to be provided separately and maintained with the Clearing Corporation. However, the permissible liquid assets, the applicable haircuts and minimum cash equivalent norms would be mutatis mutandis applicable from the equity/currency derivatives segment.

6.10 Mark-to-Market (MTM) Settlement

6.10.1 The MTM gains and losses shall be settled in cash before the start of trading on T+1 day. If MTM obligations are not collected before start of the next day's trading, the Clearing Corporation shall collect correspondingly higher initial margin to cover the potential for losses over the time elapsed in the collection of margins.

6.11 Margin Collection and Enforcement

The client margins (initial margin, extreme loss margin, calendar spread margin and mark to market settlements) have to be compulsorily collected and reported to the CCs by the members. The CCs shall impose stringent penalty on members who do not collect margins from their clients. The CCs shall also conduct regular inspections to ensure margin collection from clients.

6.12. Safeguarding Client's Money

The Clearing Corporation should segregate the margins deposited by the Clearing Members for trades on their own account from the margins deposited with it on client account. The margins deposited on client account shall not be utilized for fulfilling the dues which a Clearing Member may owe the Clearing Corporation in respect of trades on the member's own account.

The client's money is to be held in trust for client purpose only. The following process is to be adopted for segregating the client's money vis-à-vis the clearing member's money:

6.12.1 At the time of opening a position, the member should indicate whether it is a client or proprietary position.

6.12.2 Margins across the various clients of a member should be collected on a gross basis and should not be netted off.

6.12.3 When a position is closed, the member should indicate whether it was a client or his own position which is being closed.

6.12.4 In the case of default, the margins paid on the proprietary position would only be used by the Clearing Corporation for realizing its dues from the member.

6.13. Periodic Risk Evaluation Report

The Clearing Corporations shall on an ongoing basis and atleast once in every six months, conduct back testing of the margins collected vis-à-vis the actual price changes. A copy of the study shall be submitted to its ROC (Regulatory Oversight Committee) along with suggestions on changes to the risk containment measures, if any.

7. Miscellaneous

7.1 Risk management in Pre-Open Call Auction session

7.1.1 The current risk management system for cash market shall be applicable to pre-open session.

7.1.2 All orders shall be checked for margin sufficiency at order level for inclusion in pre-open session.

7.2 Risk management in Pre-Open Call Auction session for IPO and Re-listed Scrips:

7.2.1 For IPO scrips with an issue size greater than Rs. 250 crore the risk management provisions as prescribed **for call auction in pre-open session shall be** applicable. For IPO scrips with issue size up to Rs. 250 crore and Re-listed scrips it is advised that margins shall be checked and blocked for 100%

of the order value at the order level itself before considering the order eligible for inclusion in preopen session

7.3 Settlement and Risk Management provisions in Offer For Sale Of Shares by promoters through Stock Exchange Mechanism[167]

7.3.1 **Risk management:**

7.3.1.1 Clearing Corporations shall collect 100% margin in cash from non-institutional investors. In case of institutional investors who place orders or bids with 100% of margin upfront, custodian confirmation shall be within trading hours. In case of institutional investors who place orders without upfront margin, custodian confirmation shall be as per the existing rules for secondary market transactions. The funds collected shall neither be utilized against any other obligation of the trading member nor co-mingled with other segments.

7.3.1.2 In respect of bids in the retail and employee category, clearing corporation shall collect margin to the extent of 100% of order value in cash or cash equivalents. Pay-in and pay-out for retail bids shall take place as per normal secondary market transactions.

7.3.1.3 In case of order or bid modification or cancellation, such funds shall be released or collected on a real time basis by the clearing corporation.

7.3.1.4 The seller(s) shall deposit the entire quantity of shares offered for sale including the shares reserved for "Employee" category and additional shares disclosed, in terms of provisions specified for green shoe option, as pay-in with the designated clearing corporation under the framework of interoperability of clearing corporations prior to the commencement of the offer. No other margin shall be charged on the seller(s).

7.3.2 **Settlement:** The allocation and the obligations resulting thereof shall be intimated to the brokers or clearing members on T day.

167 SEBI Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/10 dated January 10, 2023

7.3.2.1 Settlement shall take place on trade for trade basis. For non-institutional orders or bids and for institutional orders with 100% margin, settlement shall take place on T+1 day. In case of orders or bids of institutional investors with no margin, settlement shall be as per the existing rules for secondary market transactions.

7.3.2.2 Settlement for bids received on T+1 day shall be carried out as per the existing rules for secondary market transactions.

7.3.2.3 Funds collected from the bidders who have not been allocated shares shall be released after the download of the obligation.

7.3.2.4 On the day prior to settlement, to the extent of obligation determined, the designated clearing corporation of the seller broker(s) under the framework of interoperability among clearing corporations shall transfer such number of shares to the other interoperable clearing corporations. The other interoperable clearing corporation(s) shall transfer funds consideration to designated clearing corporation on settlement day. Excess shares, if any, shall be returned to seller broker(s). The direct credit of shares shall be given to the demat account of the successful bidder provided such manner of credit is indicated by the broker or bidder.

7.3.3 **Handling of Default in Pay-in**

7.3.3.1 In case of default in pay-in by any investor, 10% of the order value shall be charged as penalty from the investor and collected from the broker. This amount shall be credited to the Investor Protection Fund of the stock exchange.

7.3.3.2 The price at which allotments have been made based on the allocation on T day shall not be revised as a result of any default in pay-in.

7.3.3.3 Seller(s) shall have the option to cancel in full or conclude the offer.

7.3.3.4 Settlement Guarantee Fund shall not be available for OFS through stock exchange mechanism.

7.4 Risk management framework for cash settled Corporate Bond Index Futures (CBIF)

7.4.1 The clearing corporations shall define appropriate risk management framework (including margining methodology) and the clearing and settlement mechanism etc. for the product, and submit the same to SEBI for approval.

7.4.2 The initial margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be computed to cover a 99.9% VaR over a one day horizon. Further, Extreme Loss Margins and calendar spread margins shall also be prescribed by the clearing corporations. Margins shall be deducted from the liquid assets of the clearing member on real time basis.

7.5 Periodic submissions of CCs to Depositories: The requirement for submission of periodic 'Depository Participant(DP)'-related reports/filings to depositories shall not be applicable to Clearing Corporations registered as Depository participants.

7.6 Risk management framework for Exchange Traded Cash Settled Interest Rate Futures on 6 Year, 10 Year, 13 Year GoI Security

7.6.1 Clearing Corporations shall determine appropriate risk management framework for the product and submit the same to SEBI for approval.

7.6.2 The Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. Further Extreme Loss margins and calendar spread margins shall also be prescribed by clearing corporations. Margins shall be deducted from the liquid assets of the clearing member on an on line, real time basis.

7.6.3 Margin on consolidated crystallized obligation is as applicable for Index futures contracts.

7.7 Information to be furnished by CCs to SEs for applications for approval of derivatives contracts: CCs shall provide necessary information pertaining to margin related aspects such as details of back testing of the margin calculation etc to SEs seeking approval of derivatives contracts from SEBI.

Annexures of Chapter 2: Risk Management

Annexure-2a :
Framework to Enable Verification of Upfront Collection of Margins

i. Clearing Corporations shall send minimum 4 snapshots of client wise margin requirement to TMs/CMs for them to know the intraday margin requirement per client in each segment. The number of times snapshots need to be sent in a day may be decided by the respective Clearing Corporation depending on market timings subject to a minimum of 4 snapshots in a day. The snapshots would be randomly taken in pre-defined time windows.

Further, for commodity derivatives segment, clearing corporations shall send an additional minimum two snapshots for commodity derivative contracts which are traded till 9:00 PM and additional minimum three snapshots for the commodity derivatives contracts which are traded till 11:30/11:55 PM. Margins/EOD margins shall be determined as per the relevant Risk Parameter Files.[168]

[168] SEBI Circular No. SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2021/689dated December 16, 2021

ii. The client wise margin file provided by the CCs to TMs/CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.

iii. The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:

i. EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.

AND

ii. Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.

Higher of the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

iv. The verification of availability of margins with TM and SCM/TMCM/PCM, as at (iii)(a) and (iii)(b) above, shall be done by exchanges and clearing corporations respectively on a periodic basis by verification of the balances in the books/ ledgers of the TM or SCM/TMCM/PCM in respect of the client. In this regard, the Clearing Corporations in consultation with the exchanges shall formulate an SOP for supervision of Clearing Members.

Annexure-2b: Calculation of credit exposure

For each clearing member, the credit exposure to CC shall be calculated as follows:

a. The time of stress test shall be the time of pay-in deadline.
b. It shall be assumed that clearing member will default at the time of pay-in.
c. Loss shall be calculated at client portfolio level.
d. For each client/CP, residual loss shall be equal to –> loss due to close-out of client positions – margin supporting client positions; client/CP margin shall not include margin on consolidated crystallized obligation (COBG)
e. All residual losses (residual profits to be ignored) for all clients shall be grossed to compute total residual losses due to client positions.
f. Loss due to close-out of proprietary positions shall be considered.
g. Loss at (e) and loss at (f) shall be assessed against required margins (excluding margin supporting client positions and excess collateral, if any) and other mandatory deposits of defaulting member to calculate credit exposure of CC to the member. Required margin shall not include margin on consolidated crystallized obligation (COBG) . Equity scrips as collateral, if any, shall be valued with minimum 20% haircut.

Annexure-2c

I. Formula for Determining Standard Deviation-in Interest Rate Futures on 10-Year GoI Security

1. The EWMA method would be used to obtain the volatility estimate every day. The estimate at the end of time period t (σ_{yt}) is arrived at using the volatility estimate at the end of the previous time period i.e. as at the end of t-1 time period (σ_{yt-1}), and the return (r_{yt}) observed in the futures market during the time period t. The formula would be as under:

$$(\sigma_{yt})^2 = \lambda\ (\sigma_{yt-1})^2 + (1 - \lambda\ )\ (r_{yt})^2$$

Where

i. λ(lambda) is a parameter which determines how rapidly volatility estimates changes. The value of λ is fixed at 0.995.
ii. σ_{yt} (sigma) is the standard deviation of daily logarithmic returns of yield of 10-year Notional Coupon-bearing GoI security futures at time t.
iii. The "return" is defined as the logarithmic return: $r_t = \ln(Y_t/Y_{t-1})$ where Y_t is the yield of 10-year Notional Coupon-bearing GoI security futures at time t.

2. For computing the margin, two methodologies can be considered.

Methodology A. The plus/minus 6 sigma limitsfor a 99% VAR based on logarithmic returns on yield of 10-year Notional Coupon-bearing GoI security futures would have to be converted into price volatility through the following formula:

$$\sigma_{pt}=D*\sigma_{yt}* Y_t$$

where

σ_{pt} is the standard deviation of percentage change in price at time t;

D is Modified Duration[169];
Y^{170}_t is the yield of 10-year Notional Coupon-bearing GoI security futures at time t; and

σ_{yt} (sigma) is the standard deviation of daily logarithmic returns of yield of 10-year Notional Coupon-bearing GoI security futures at time t.
The percentage margin on long position would be equal to 100 ($D*6\sigma_{yt}* Y_t$) and the percentage margin on short position would be equal to 100 ($D*(-6\sigma_{yt)}* Y_t$). The Modified Duration for 10-Year Notional Coupon-bearing GoI security futures shall be 10.

Methodology B. The potential price change corresponding to 99% VAR can be computed by multiplying the appropriate yield change by the modified duration. That is,

$$\delta P = D^* \delta Y ,$$

$$\delta Y = Y_t - Y_0 \text{ , and}$$

$$Y_t = Y_0 e^{\pm \sigma_y * \sqrt{t/252} * z}$$

Where,

δP = Percentage change in price
δY = Change in yield
Y_t=Yield of 10-year Notional Coupon-bearing GoI security futures at time t; and

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[169] Modified Duration = $\frac{D^*}{1+y/m}$, where D* (Macaulay's duration) = $\frac{\sum_{i=1}^{n} t_i c_i /(1+y/m)^i}{B}$

C_i is coupon at time t_i, y is the annually compounded yield, m is the frequency of coupon payments, B is the price of the bond. Modified duration essentially measures percentage change in price due to change in yield by 100 bps.

[170] Yield of security is its YTM (Yield to maturity) calculated as $B = (\sum_{t=1}^{n} \frac{C_t}{(1+Y/m)^t}) + \frac{P}{(1+Y/m)^n}$

where Y is the YTM of the security, B is the price of the security, P is the par value of the bond, n is the number of periods for coupon payment, m is the frequency of coupon payments and C is the coupon payment per period.

σ_y = Annualized yield volatility[171] of 10-year Notional Coupon-bearing GoI security futures
z = One-tailed standard normal variate (value 6 as mentioned in footnote 5)

Thus, the percentage margin on long positions would be equal to

$$\delta P_{Long} = D * Y_0 * (e^{\sigma_y * \sqrt{t/252} * 3.5} - 1)$$

and the percentage margin on short positions would be equal to

$$\delta P_{Short} = D * Y_0 * (e^{-\sigma_y * \sqrt{t/252} * 3.5} - 1)$$

Alternatively, the CCs can adopt uniform margins for both short and long positions, equivalent to the higher of the two values derived above.

The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute the margin for any given closing level of the interest rate futures price. Further, CC shall ensure that the trading software itself should provide this information on a real time basis on the trading workstation screen.

II. Formula for determining standard deviation on Interest Rate Futures on 91- Day GoI T-Bill

The exponential moving average method would be used to obtain the volatility estimate every day. The estimate at the end of time period t (σydt) is estimated using the volatility estimate at the end of the previous time period. i.e. as at the end of t-1 time period (σydt-1), and the return (rydt) observed in the futures market during the time period t. The formula would be as under:

$(\sigma_{ydt})^2 = \lambda (\sigma_{ydt-1})^2 + (1 - \lambda) (r_{ydt})^2$

where

[171] Annualized yield volatility is obtained by multiplying the standard deviation of daily logarithmic return by square root of the number of trading days, usually taken as 252.

λ is a parameter which determines how rapidly volatility estimates change. The value of λ is fixed at 0.995.

i. σ_{ydt} (sigma) means the standard deviation of daily logarithmic returns of discount yield of 91-day T-Bill futures at time t.

ii. The "return" is defined as the logarithmic return: $r_{ydt} = ln(Y_{dt}/Y_{dt-1})$ where Y_{dt} is the discount yield of 91-day T-Bill futures at time t. The plus/minus 6 sigma limits for a 99% VAR based on logarithmic returns on discount yield of 91-day T-Bill futures would have to be converted into price changes through the following formula:

$$\sigma_{pt}=D*\sigma_{ydt}* Y_{dt}$$

where
σ_{pt} means the standard deviation of percentage change in price at time t
D means Modified Duration
Y_{dt}=Discount Yield for 91-day T-Bill futures at time t
σ_{ydt} (sigma) means the standard deviation of daily logarithmic returns of discount yield at time t

*The margin on long position would be equal to 100 * ($D*6\sigma_{ydt}* Y_{dt}$) percentage of the notional value of the futures contract and the margin on short position would be equal to 100 ($D*-6\sigma_{ydt}* Y_{dt}$) percentage of the notional value of the futures contract. The Modified Duration for 91 day T-Bill Futures shall be -0.25.*
iii. The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute the margin for any given closing level of the interest rate futures price. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

iv. During the first time-period on the first day of trading in 91-day T-bill futures, the sigma would be equal to 2.7%.

III. Formula for determining standard deviation on Interest Rate Futures on 2 Year Notional Coupon bearing GoI Security

The exponential moving average method would be used to obtain the volatility estimate every day. The estimate of volatility (σ_t) for the time period t is estimated using the volatility estimate (σ_{t-1}) for the previous time period and the return (r_{t-1}) observed in the futures market during the previous time period. The formula would be as under:

$(\sigma_t)^2 = \lambda (\sigma_{t-1})^2 + (1 - \lambda) (r_{t-1})^2$

where

λ is a parameter which determines how rapidly volatility estimates change. The value of λ is fixed at 0.995.

a) σ_t (sigma) means the standard deviation of daily logarithmic returns of futures price of 2 Year Notional Coupon Bearing Government of India (GoI) Security at time t.

b) The "return" is defined as the logarithmic return: $r_t = \ln(P_t/P_{t-1})$ where P_t is the futures price of 2 Year Notional Coupon Bearing Government of India (GoI) Security at time t. The plus/minus 6 sigma limits for a 99% VaR based on logarithmic returns would have to be converted into percentage price change by reversing the logarithmic transformation. The percentage margin on short positions would be equal to $100(\exp(6\sigma)-1)$ and the percentage margin on long positions would be equal to $100(1-\exp(-6\sigma))$. This implies slightly larger margins on short positions than on long positions. The derivatives exchange/clearing corporation may apply the higher margin on both the buy and sell side.

c) The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can comput

d) e the margin for any given closing level of the interest rate futures price. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

e) During the first time-period on the first day of trading in 2 Year Notional Coupon Bearing Government of India (GoI) Security futures, the sigma would be equal to 0.10%.

IV. Formula for determining standard deviation on Interest Rate Futures on 5 Year Notional Coupon Bearing GoI Security

The exponential moving average method would be used to obtain the volatility estimate every day. The estimate of volatility (σ_t) for the time period t is estimated using the volatility estimate (σ_{t-1}) for the previous time period and the return (r_{t-1}) observed in the futures market during the previous time period. The formula would be as under:

$(\sigma_t)^2 = \lambda (\sigma_{t-1})^2 + (1 - \lambda) (r_{t-1})^2$

where

λ is a parameter which determines how rapidly volatility estimates change. The value of λ is fixed at 0.995.

σ_t (sigma) means the standard deviation of daily logarithmic returns of futures price of 5 Year Notional Coupon Bearing Government of India (GoI) Security at time t.

The "return" is defined as the logarithmic return: $r_t = \ln(P_t/P_{t-1})$ where P_t is the futures price of 5 Year Notional Coupon Bearing GoI Security at time t. The plus/minus 6 sigma limits for a 99% VaR based on logarithmic returns would have to be converted into percentage price change by reversing the logarithmic transformation. The percentage margin on short positions would be equal to $100(\exp(6\sigma)-1)$ and the percentage margin on long positions would be equal to $100(1-\exp(-6\sigma))$. This implies slightly larger margins on short positions than on long positions. The derivatives exchange/clearing corporation may apply the higher margin on both the buy and sell side.

The volatility estimation and margin fixation methodology should be clearly made known to all market participants so that they can compute the margin for any given closing level of the interest rate futures price. Further, the trading software itself should provide this information on a real time basis on the trading workstation screen.

During the first time-period on the first day of trading in 5 Year Notional Coupon Bearing GoI Security futures, the sigma would be equal to 0.2%.

CHAPTER 3: ADMINISTRATION OF CLEARING CORPORATIONS

1. ADMINISTRATION AND GOVERNANCE FOR CLEARING CORPORATIONS

1.1 Commencement of operations by a newly recognized Clearing Corporation[172]

1.1.1 After grant of recognition, the clearing corporation can commence clearing and settlement operations with a minimum of 10 clearing members.

GOVERNANCE

1.2 Statutory Committees[173]:

1.2.1 In order to ensure effective oversight of the functioning of clearing corporations Regulation 29 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (henceforth referred to as 'SECC Regulations') inter alia, states that, CCs shall have the following statutory committees:

1.2.1.1 Functional Committees:

a. Member Committee (MC)
b. Nomination and Remuneration Committee (NRC)

1.2.1.2 Oversight Committees:

a. Standing Committee on Technology (SCOT)
b. Regulatory Oversight Committee (ROC) and
c. Risk Management Committee (RMC)

1.2.1.3 Investment Committee

[172] SEBI Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019
[173] SEBI Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019 and Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/26 dated February 05, 2019 and Circular No. SEBI/HO/MRD/MRD-PoD-3/2024/088 dated June 25, , 2024

1.2.2 The ToR for each of the Committees, as specified above, is provided at Annexure 3a.

1.2.3 The overarching principles for composition and quorum for the statutory committees of CCs shall be as under:

1.2.3.1 Composition

Composition of Statutory Committees at CCs		
S.No.	**Name of Statutory Committee**	**Composition**
1.	Member Committee (MC)	The Committee may include two Key Management Personnel (KMP) including the Managing Director (MD), Non-Independent Directors (NIDs) (other than Executive Director[174]), Independent External Professionals (IEPs) along with Public Interest Directors (PIDs). The committee shall be chaired by the PID with expertise in Capital Markets.
2.	Nomination & Remuneration Committee (NRC)	The Committee may include NIDs (other than Executive Director and MD), IEPs along with PIDs. IEPs may be part of the committee for the limited purpose of recommendation relating to selection of the MD.
3.	Standing Committee on Technology (SCOT)	The Committee may include the MD, NIDs (other than Executive Director), at least 2 IEPs along with PIDs. The IEPs should be proficient in technology with at least one of them being an expert and practitioner in cyber security.

[174] As per SECC Regulations, 2018 and D&P Regulations, 2018, any employee of an MII may be appointed on the governing board in addition to the managing director and such director shall deemed to be a non-independent director. Such employee of MII appointed to the governing board has been termed as "Executive Director".

Composition of Statutory Committees at CCs		
S.No.	**Name of Statutory Committee**	**Composition**
		The Chief Technology Officer (CTO) and Chief Information Security Officer (CISO) should be invitees to the meetings of the Committee. The committee shall be chaired by the PID with expertise in technology.
4.	Regulatory Oversight Committee (ROC)	The Committee may include NIDs (other than Executive Director and MD) and IEPs, along with PIDs. Relevant KMP(s) may be invited to the meetings of the committee, whenever required. The Committee shall be chaired by the PID with expertise in legal and regulatory practices.
5.	Risk Management Committee (RMC)	The Committee may include the MD, NIDs (other than Executive Director) and IEPs, along with PIDs. The Chief Risk Officer (CRiO) and CISO should be invitees to the meetings of the Committee. If a PID with expertise in risk management is present in the governing board, the committee may preferably be chaired by the said PID.
6.	Investment Committee	The Committee may include the MD, NIDs (other than Executive Director), IEPs, along with PIDs.

a. Appointment of the Managing Director as part of MC and IEPs as part of SCOT, ROC and RMC shall be ensured[175].

b. In any statutory committee, the total number of PIDs shall not be less than the total number of other members of the Committee (including IEPs) put

[175] SEBI Letter No. SEBI/HO/MRD/MRD-PoD-3/P/OW/2024/26682/1 dated August 22, 2024 issued to MIIs

together. In case of SCOT, the total number of PIDs shall not be less than the total number of other members of the Committee, excluding IEPs.

1.2.3.2 The Chairperson of each statutory committee at CC shall be a PID who shall have the casting vote in meetings of the committee

1.2.3.3 The voting on a resolution in the meetings of the statutory committees at CCs shall be valid only when the number of PIDs that have casted their vote on such resolution is not less than the total number of other members put together who have casted their vote on such resolution.

1.2.3.4 The invitees, if any, to the meetings of the Committees shall not have any voting rights.

1.2.3.5 The functions or TOR of any statutory committee cannot be delegated. However, for the MC of CCs, certain operational activities of the Committee can be delegated to Internal Committee(s) (ICs). In such cases the ICs shall at least have one member from the MC, other than KMPs.

1.2.3.6 CCs shall lay down the policy for the procedure for conducting of meetings, frequency of meetings, timelines for placing of agenda papers, etc., of their statutory committees.

1.2.4 If certain activities of the CC are not covered under the TOR of statutory committees, the governing board of the CC shall be directly responsible for the functioning and oversight of such activities. Further, in order to ensure accountability within the CC, the governing board and each statutory committee shall identify the KMP(s) or employees for executing the responsibilities assigned to them by the governing board or statutory committees.

1.2.5 **Further, CCs shall ensure compliance with the following:**

1.2.5.1 Over and above the statutory committees, the requirement to have mandatory committees under relevant laws for listed companies shall apply mutatis mutandis to CCs.

1.2.5.2 **PIDs in Statutory Committees at CCs**:

i. PIDs on the governing board of a CC shall not act simultaneously as a member on more than five statutory committees of the CC.

ii. The above restrictions shall not be applicable to committees constituted under other relevant laws such as The Companies Act, 2013, SEBI (LODR) Regulations, 2015, amongst others.

iii. CCs shall ensure availability of the required number of PIDs in order to fulfil the requirement of composition of statutory committees.

1.2.5.3 **IEPs in Statutory Committees at CCs**:

i. The IEPs forming a part of statutory committees shall be from amongst the persons of integrity, having a sound reputation and not having any conflict of interest. They shall be specialists in the field of work assigned to the committee; however, they shall not be associated in any manner with the relevant CC, its associates, its subsidiaries, any other entity associated with the CC and its members.

ii. CCs shall frame the guidelines for appointment, tenure, code of conduct, etc., of IEPs. Extension of the tenure may be granted to IEPs at the expiry of the tenure, subject to performance review in the manner prescribed by SEBI for PIDs.

iii. The maximum tenure limit of IEPs in a committee of CC shall be at par with that of PIDs, as prescribed under Regulation 24(3) of the SECC Regulations, 2018.

1.2.5.4 In the interest of securities market, SEBI may suo moto nominate members on any statutory committee of the CCs, if felt necessary.

1.2.5.5 CCs shall devise an internal mechanism to obtain regular feedback, inputs, suggestions, etc. on regulatory, non-regulatory and operational matters from various stakeholders including trading members, clearing members and depository participants, investors, etc.

1.2.5.6 The newly recognized clearing corporation shall submit a confirmation to SEBI within three months from the date of their recognition regarding the formation and composition of statutory committees.

1.2.6 **Meeting of PIDs:**

1.2.6.1 As per code of conduct for PIDs provided in SECC Regulations, 2018 the PIDs shall be required to meet separately atleast once in every six months. It is added that each PID shall endeavour to attend all such meetings of PIDs, with mandatory attendance in any two such meetings during a year.

1.2.6.2 The objective of such meetings, shall include, inter alia, include the following:[176]

i. To review the status of compliance with all applicable regulations, circulars, guidelines, letters issued by SEBI from time to time;
ii. To review the functioning of Vertical-1 i.e."Critical Operations"and Vertical-2 i.e. "Regulatory, Compliance, Risk Management and Investor Grievances";
iii. To review the adequacy of resources (both financial and human) for functions under Verticals 1 and 2;
iv. To identify important issues which may involve conflict of interest for the CC or may have significant impact on the functioning of the CC or may not be in the interest of securities market; and
v. To review the corrective steps taken by the CC on observations of SEBI inspections particularly on issues of governance standards, technology, cyber security, system audit and cyber security audit observations.

1.2.6.3 In order to achieve the above objectives, PIDs may discuss with the concerned Vertical Heads or KMPs or any other personnel, as may be felt appropriate by the PIDs.

1.2.6.4 PIDs as member of various committees (including statutory committees) shall discuss and update amongst themselves on the working of committees where they are members.

1.2.6.5 A report on the outcome of such meetings shall be submitted by the PIDs to the Governing Board of CC within 30 days of such meeting. In case there are important issues which may involve conflict of interest for the CC or may have significant impact on the market, the CC shall report the same to SEBI within 30 days of such meeting.

1.3 Performance review of Public Interest Directors (PIDs)[177]

1.3.1 For complying with the Regulation 24(3), of Securities Contracts (Regulation) (SECC Regulations, 2018) while developing a framework for performance review of PIDs, CCs need to consider the following:

[176] Circular No.: SEBI/HO/MRD/POD-3/P/CIR/2024/162 dated November 22, 2024
[177] Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/26 dated February 5, 2019

1.3.1.1 Policy for Performance review of PIDs:

i. The NRC of the CCs will be responsible for framing the performance review policy for PIDs.

ii. Such performance review policy shall include criteria for performance evaluation, methodology adopted for such evaluation and analyzing the results, amongst others.

iii. Performance review policy of PID shall include scope for both internal evaluation as well as external evaluation.

iv. Further, as performance review is not a static process and requires periodical review, NRC shall also be responsible for reviewing such performance review policy, at least once in 3 years.

v. Such performance review policy and changes made therein, shall be approved by the governing board of CC.

1.3.1.2 **Guiding criteria of Performance Review:**

As a part of framing performance review policy, NRC shall be primarily responsible for formulation of performance evaluation criteria. The criteria for performance review of PIDs, which shall be considered for both internal evaluation and external evaluation, may be framed by NRC taking into consideration minimum guiding principles provided at **Annexure 3b**. These principles may be adopted by respective CCs, as considered appropriate, with additional principles, if any.

1.3.1.3 **Evaluation mechanism:**

i. PIDs shall be subjected to internal evaluation as well as external evaluation, carrying equal weightage.

ii. Internal evaluation: All the governing board members shall evaluate the performance of each PID, on an annual basis at the end of every financial year.

iii. External evaluation: PIDs shall also be subject to external evaluation during their last year of the term in a CC, by a management or a human resources consulting firm. The consultant shall take into consideration the performance of the PID for the entire tenure served in

a given CC, at least up to 6 months before expiry of his/ her term. In order to avoid any bias or conflict of interest, external consultant should not be a related party or associated with the CC, the concerned PID or any other governing board members.

iv. Such performance review should be carried out in fair & objective manner and the review should be recorded with clarity and verifiable facts in a standardized format covering all the relevant criteria / aspects.

v. While evaluating conflict of interest of a PID, the governing board of CC shall also take into consideration provisions of Clause 2(d) of Schedule II Part H of SECC Regulations, 2018 under the head 'Public Interest Director'; and conflict of interest, if any, of any PIDs should be disclosed to SEBI by the governing board with their comments/ views.

1.3.1.4 **Disclosure:** Performance evaluation criteria for PIDs shall be disclosed in their annual report as well as on the website of the concerned CC.

1.3.1.5 **Recommendation to SEBI:** After taking into account the performance of a PID in the concerned CC, on the basis of internal evaluation and external evaluation both carrying equal weightage, NRC shall consider and recommend extension of his / her tenure to the Governing Board of the CC. The Governing Board of the CC shall in-turn consider and recommend to SEBI if the tenure of the PID is desired to be extended by another term of three years.

1.3.2 The application for extension of term of a PID shall be accompanied with the attendance details of PID in the meetings of various mandatory committees and of the governing board of the CC along-with specific reasons for seeking extension of his / her term as a PID. Such specific reasons shall include facts such as whether the concerned PID, during the term served, had identified any important issues concerning any matter which may involve conflict of interest, or have significant impact on functioning of CC, or may not be in the interest of securities market as a whole, and whether the PID had reported the same to SEBI.

1.3.3 In terms of SECC Regulations, 2018 it is clarified that a minimum of two names shall be submitted by CCs at the time of making request for

appointment of PID. However, in case of reappointment of an existing PID, CCs need not send two names to SEBI.[178]

1.3.4 It has been decided to simplify the appointment process of PIDs to make it a two stage process:

Stage 1: The CCs shall submit brief profiles of at least two prospective candidates. SEBI, based on the information available, shall prima facie shortlist and give NOC to one candidate.

Stage-2: The CCs, shall collect all the other information and documents required under the extant regulations from the shortlisted candidate and submit the same to SEBI. SEBI shall then consider the complete application and grant its approval subject to compliance with regulatory requirements.

1.3.5 All CCs shall develop a skill evaluation metrics to assess the applications for appointment or reappointment of PIDs. The indicative parameters and weightage for such evaluation is placed at **Annexure 3c**. CCs shall develop a similar skill evaluation metric for appointment or reappointment of NIDs.

1.3.6 In order to bring parity in the frequency of skill evaluation between NIDs and PIDs, the following is clarified: [179]

1.3.6.1 Similar to PIDs, the skill evaluation for NIDs shall be carried out both at the time of appointment and also at the time of re-appointment after 3 years from the date of the initial appointment and any re-appointment within this period of 3 years would not require any fresh skill evaluation.

1.3.7 Further, CCs shall take the help of an independent Human Resource (HR) Agency to independently collect/verify the information as required under points 1, 2 and 3 of Annexure 3c.

1.3.8 In order to ensure independence of PIDs, CCs are advised to conduct appropriate due diligence so as to ascertain if there exists any pecuniary

[178] SEBI/HO/MRD/POD-3/P/CIR/2024/162 dated November 22 ,2024
[179] SEBI Email dated July 28, 2025

relationship between the PID with the CC/its subsidiaries/its associates at least for a period of 3 years preceding the date of submission of the proposal to SEBI. CCs are advised to ensure that as far as possible, names where such relationship exists are not recommended for nomination as PID[180].

1.3.9 Additionally, with regard to tenure of existing PIDs as on date of this master circular, following is clarified:

1.3.9.1 The term of existing PIDs serving in a CC for more than three years, can be extended, subject to his / her performance review and a maximum tenure of 6 years as PID in that particular CC.

1.3.9.2 The term of existing PIDs, that have already served for six years or more in a single CC, shall not be eligible for further extension in that CC.

1.3.10 **Re-appointment of PID[10]:** Based on approval of the Board, if it has been decided that in case the existing PID after completion of his first term is not considered for re-appointment by the Governing Board of the CC, the rationale for the same shall be recorded and informed to SEBI.

1.4 Monitoring shareholding of CCs[181]

1.4.1 The framework for monitoring and ensuring compliance with shareholding norms currently applicable to listed Stock Exchanges and listed Depositories shall be applicable to all CCs and

1.4.2 All CCs shall disclose their shareholding pattern as per the requirements and formats specified for listed companies under SEBI (LODR Regulations, 2015) on their respective websites.

In view of the above, the framework for monitoring of the shareholding norms of CCs is as under:

[180] SEBI Letter dated December 04, 2019
[10] Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2025/75 dated May 26, 2025
[181] Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/139 dated October 14, 2024

1.4.3 Every CC shall appoint a depository as "Designated Depository (DD)" for the purpose of monitoring of their shareholding limits as per SECC Regulations, 2018. The DD of a CC, shall not be an associate (as defined under SECC Regulations, 2018) of the CC.
However, in case the ISIN of any CC is frozen for debits by the company (CC), the appointment of DD is not required for monitoring the shareholding limits of that CC. In such case, the CC shall verify the shareholding limits prior to recording the transfer of its shares.

1.4.4 All CCs shall disclose their shareholding with category wise breakup as per the requirements and formats specified for listed companies under SEBI, LODR Regulations, 2015 on a quarterly basis on their respective websites.

1.4.5 The CCs shall at the time of appointment of the DD provide the details of paid-up equity share capital including the number of shares to the DD and as and when there are changes, the same shall be informed to the DD on End of Day (EoD) basis.

1.4.6 The DD shall monitor and inform the CC as and when the threshold limit of 5% or 15%, as applicable under SECC Regulations, 2018, is breached and take appropriate consequential actions, as mentioned at paragraph 1.4.10 below.

1.4.7 The DD shall monitor and inform the CC as and when threshold limit of combined holding of 49% of all persons' resident outside India (directly or indirectly, either individually or together with persons acting in concert) in the paid-up equity share capital of a CC is breached and take consequential actions as mentioned at paragraph 1.4.10 below.

1.4.8 **For recognized Clearing Corporations (CCs)**

1.4.8.1 The DD shall monitor that at least 51% of paid-up equity share capital of a CC shall always be held by one or more recognized stock exchange(s) and no recognized stock exchange shall, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than 15% of the paid-up equity share capital in more than one CC and

take consequential actions as mentioned at paragraph 1.4.10 below, in case of any breach.

1.4.8.2 However, the provision at paragraph 1.4.8.1 would not be applicable to AMC Repo Clearing Limited (ARCL).

1.4.9 **Fit and Proper**

1.4.9.1 All the shareholders should be fit and proper persons at all times. For shareholding of a person who directly or indirectly, acquires or holds two percent or more equity shares or voting rights of any recognized CC, the CC shall ensure that such shareholders are fit and proper at all times.

1.4.9.2 The CCs shall notify on its website and undertake all measures to make investors aware of the requirement of eligibility for acquiring or holding its shares and fit and proper criteria for being its shareholders as per Regulation 19 and 20 of SECC Regulations, 2018.

1.4.9.3 The CCs shall submit to ROC on a quarterly basis an exceptional report regarding the shareholders who are not fit and proper and action taken thereof as per the format given below:

Sl. No.	Name of the Shareholder	Nature of Shareholder (Person Resident India/ Person Resident Outside India)	% Holding	Reason for not Fit and Proper and action taken thereof

1.4.10 **Freezing of Voting Rights and Corporate Benefits**

1.4.10.1 Upon breach of the fit and proper criteria; and various threshold limits for shareholding of CCs, the DD shall apply ISIN level freeze on the demat account of the relevant shareholder for the excess shareholding and inform the respective CC and RTA to disable e-voting for the account holder on EoD basis. The DD shall initiate the freezing of corporate benefits, in the manner described below:

i. With respect to freezing of voting rights, the DD shall inform the CC, RTA and the other depository about the breach by the shareholders on EoD basis. The CC in consultation with the DD and RTA shall also disable the e-voting of the shareholder for the portion of the shareholding in excess of the regulatory requirement and the CC shall ensure that the shareholder's vote for such excess shareholding is not considered in the regular voting process.

ii. With respect to corporate benefits, the DD shall inform the list of shareholders whose corporate benefits are to be frozen, to the CC and other depository on EoD basis. The CC or its RTA shall transfer the corporate benefits (dividend) of such shareholders on the portion of shareholding in excess of the regulatory requirement to their Settlement Guarantee Fund (SGF) of CCs.

1.4.10.2 Any excess shareholding in CC shall be divested as per the directions given by SEBI on case to case basis.

1.5 Investment Policy, Liquid Assets for the purpose of Calculation of Net Worth of a Clearing Corporation and Contribution to the Settlement Guarantee Fund[182]

1.5.1 **'Investment Policy' of Clearing Corporation**

[182] Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2016/54 dated May 04, 2016

1.5.1.1 Regulation 38(1) of SECC Regulations, 2018 states the following:

"*The utilization of profits and investments by recognised clearing corporations shall be in accordance with the norms specified by the Board.*"

1.5.1.2 While framing the 'Investment policy', the CCs shall consider the following principles:

i. The investment policy of the CC shall be built on the premise of highest degree of safety and least market risk.

ii. The investments shall be broadly in Fixed Deposits/ T-bills/ Central Government Securities and units of Liquid and overnight Mutual Fund schemes.

1.5.1.3 Accordingly, the CCs shall align the investment policy in line with the principles for investment laid down at para 1.5.1.2 above, subject to the following:

i. Fixed Deposit with Banks [only those banks which have a minimum net worth of more than INR 5,000 crore and are having unsupported long term rating of AA and above or banks issuing unsupported long-term instruments with rating of AA and above (excluding rating of bonds issued by the bank for the purpose of capital requirement under the Basel III), as mentioned under 'Core Settlement Guarantee Fund' of Chapter (Risk Management) of this Master Circular on Clearing Corporations.[183]

1.5.1.4 Combined investments made by CCs in units of Liquid and Overnight Mutual Fund schemes shall not exceed a limit of ten per cent of the total investible resources held by the CC, at any point in time. Further, the investments in Overnight Funds shall also be considered as 'Liquid Assets', for the purpose of calculation of Net worth of a CC.

[183] Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/65 dated May 29, 2024

1.5.2 **Liquid assets for the purpose of calculation of Net worth of Clearing Corporation**

1.5.2.1 The eligible instruments for investment such as fixed deposits, Central Government Securities (T-bills and G-Secs) and liquid and overnight mutual fund schemes to the extent permissible, other instruments as may be specified by SEBI from time to time, and cash and bank balance, shall be considered as 'Liquid Assets', for the purpose of calculation of Net worth of a CC.

1.6 Disclosures relating to regulatory orders and arbitration matters on websites of Clearing Corporations[184]

1.6.1 In order to improve transparency in disclosing the regulatory orders and arbitration awards issued by clearing corporations, it has been decided that all regulatory orders i.e. orders against clearing members and arbitration / appellate awards by arbitrators need to be made available to investors.

1.6.2 Accordingly, the Clearing Corporations shall post all regulatory orders and arbitration / appellate awards issued since June 20, 2012, on their websites within 30 days. Further, all regulatory orders and arbitration / appellate awards as and when issued by Clearing Corporations from the date of this master circular shall be posted on their website immediately.

1.6.3 In addition to the above, Clearing Corporations shall disseminate information with respect to brief profile, qualification, areas of experience / expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their website.

1.7 Framework for Orderly Winding Down of Critical Operations and Services of a Clearing Corporation[185]

CCs shall have a policy framework for orderly winding down of critical operations and services, as per Securities Contracts (Regulation) (SECC Regulations, 2018) This shall at least contain the following provisions:

1.7.1 **Identification of Potential Scenarios**

[184] Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/24 dated March 16, 2017
[185] Circular no. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2022/173 dated December 16, 2022

The scenarios which may potentially prevent a CC from being able to provide its critical operations and services as a going concern and may lead to wind down of its critical operations and services, shall be identified. Some of the reasons for winding down of CC can be:

1.7.1.1 **Voluntary**: The CC is solvent and is able to meet all its obligations towards Clearing Members (CMs) as well as other creditors; however, wishes to wind down its critical operations and services and exit as a strategic or business decision.

1.7.1.2 **Involuntary:** The winding down of critical operations and services on involuntary basis may be due to various factors including but not limited to the following:

1.7.1.2.1. **Losses due to default by CM(s):** The default management resources maintained by the CC may get exhausted due to default by CM(s), and, consequently, the CC fails to fulfil its obligations towards CM(s) and/or its constituents.

1.7.1.2.2. **Losses due to other factors:** There is no CM default and the settlements have been happening in a timely manner; however, the solvency of a CC may get adversely affected as a result of some large operational expenses, legal expenses, business or investment losses, etc. thereby rendering a CC unable in fulfilling its obligations to CM(s), its constituents and/ or other creditors.

1.7.1.2.3. **Regulatory Actions**: Directions to a CC to wind down its critical operations and services by SEBI or any other statutory authority under applicable laws. SEBI may direct a CC to wind down its critical operations and services including but not limited to the following scenarios:

i. A CC shall be required to continuously meet the annual clearing turnover, aggregated across segments, including by way of interoperability, of at least INR 1,000 Cr. per annum or any other amount as may be specified by SEBI from time to time. In case the CC fails to meet the aforesaid requirement for two consecutive years, it

shall be liable to exit and accordingly, apply for orderly winding down of its critical operations and services.

Provided that the above threshold condition shall not be applicable to a CC for a period of 5 years from the date of grant of recognition.

In case where the CC does not apply for voluntary winding down of critical operations and services, pursuant to breaching the minimum turnover threshold as mentioned above, SEBI may proceed with compulsory de-recognition of such CC under applicable laws.

ii. SEBI may also direct a CC to wind down its critical operations and services in case of non-compliance of either the conditions of grant of recognition or renewal, wherever applicable; or any other condition under the applicable laws.

1.7.2 **Identification of Critical Operations and Services of CCs**

1.7.2.1 To identify the operations and services which may be classified as critical, CCs shall, *inter alia,* consider their risk profile, operations, organizational structure, financial resources, business practices, interconnectedness and interdependencies, and any other relevant factor as deemed appropriate. As timely clearing and settlement of trades is a core function of CCs, the operations and services such as collateral management, risk management, clearing and settlement, etc. shall be deemed to be critical.

1.7.2.2 Further, the contractual obligations of CCs with CMs, Stock Exchanges, Depositories and other CCs, arising out of clearing and settlement of trades, shall necessarily be classified as critical or essential.

1.7.3 **Standard Operating Procedure (SOP)**

1.7.3.1 The policy framework of CCs shall contain a Standard Operating Procedure (SOP) duly approved by their governing board, *inter alia,*

outlining the manner in which the critical operations and services of the CCs shall be carried out in an orderly manner so as to not cause any disruption to the financial system, upon triggering of any of the scenarios as mentioned at paragraphs 1.7.1.1 and 1.7.1.2 above. A notice or intimation regarding winding down of critical operations and services shall be issued by the CC as and when the scenarios get triggered, with prior approval of SEBI.

1.7.3.2 The SOP shall, *inter alia,* include details of infrastructure and premises, technological systems including back-up, outsourcing activities/ vendors/ service providers, etc. which would need to be retained or continued for orderly winding down of critical operations and services. The SOP shall also contain details of key employees or staff members, along with their roles and obligations, etc., who shall be retained and responsible for development, review, and ongoing monitoring etc. of the critical operations and services, once the process of orderly winding down of critical operations and services is initiated.

1.7.3.3 The CCs shall include the operational modalities relating to transfer or close-out of positions, collateral, etc. in detail considering interoperable or non-interoperable scenarios as applicable, while framing their policy for orderly winding down of critical operations and services. Broad guidelines in this regard are as under:

i. Voluntary Winding Down – Voluntary winding down of a CC shall be approved by the governing board, its shareholders and SEBI. The CC shall inform the members and the market regarding its decision to wind down voluntarily and shall also mention a sufficient notice period (at least six months) for such winding down, after prior approval of SEBI, so as not to have a significant impact in financial system. Since the CC shall be solvent, it shall have the choice of continuing full range of operations or providing only critical services during the notice period. However, the CC shall continue to provide at least the critical services during the notice period. Once the winding down process is initiated, any open positions of the CMs and/ or its constituents at the exiting CC shall have to be transferred to the new CC where the CMs become member within the notice period. Any

open positions within the notice period that could not be transferred shall be closed-out at the daily settlement price and in terms of the provisions of the Rules, Bye-laws and Regulations of the exiting CC.

ii. Involuntary Winding down (due to default by CM(s) or due to other factors) - The procedure for winding down shall be as follows:

a) The CC shall announce a termination date, with prior approval of SEBI.
b) The CMs who have open positions may change their designated CC, or close-out their open positions.
c) All open positions, if any, shall expire at the daily settlement prices of the termination date.

iii. Involuntary Winding down due to regulatory action - In this case, SEBI on case to case basis may issue appropriate directions for winding down.

1.7.4 The provisions of SECC Regulations, 2018 and various circulars and guidelines issued thereunder, shall continue to apply during the entire period of winding down of critical operations and services of CCs. This shall be mentioned in the policy framework of CCs. The framework shall be (i) periodically reviewed, at least on an annual basis, and (ii) published or disclosed on the website of the CC (excluding any confidential details).

1.7.5 **Return of Assets**

1.7.5.1 The exiting CC shall be permitted to distribute its assets subject to conditions as laid down in its framework, guidelines issued by SEBI from time to time, or any other direction issued by SEBI or any other statutory authority.

1.7.5.2 For the purpose of valuation of the assets of the CC, a valuation agency may be appointed by SEBI.

1.7.5.3 The quantum of assets available for distribution shall be arrived at after payment of statutory dues, including applicable taxes; contribution to SEBI as specified in para 1.7.5.4 and 1.7.5.5 below, return of refundable collateral and membership deposits of CMs, return of deposits to warehouse service providers, if any, and the unutilized Core SGF contributions of CMs and Stock Exchanges, as the case may be, depending upon the scenario triggering winding down of critical operations and services.

1.7.5.4 Subsequent to exit, the CC shall also be required to contribute up to 20% of its assets (after applicable taxes) towards SEBI Investor Protection and Education Fund (IPEF) in order to provide for settlement of any claims pertaining to pending arbitration cases, unresolved complaints or grievances lying with the CC, etc. The contribution percentage may be decided by SEBI taking into account relevant factors such as the governance standards of the CC, estimation of future liabilities, etc.

1.7.5.5 The CC shall pay following dues to SEBI:

i. The dues outstanding to SEBI;
ii. The outstanding fees of CMs of such exiting CC till the date of such exit:

In this regard, the CC shall recover the dues of the CMs to SEBI out of the CMs' own deposits/ capital/ share of sale proceeds/ winding down proceeds of CC, etc. available with the CC. The CC shall be liable to make good any shortfall in collection of dues of CMs to SEBI.

1.7.5.6 Penalties collected from CM(s), issuer(s) contribution in case of Limited Purpose Clearing Corporation (LPCC), and interest on these components, forming part of Core SGF shall be used by the CC in a manner as specified by SEBI from time to time.

1.7.5.7 An exiting CC shall not alienate any assets without taking prior approval of SEBI.

1.7.6 **Financial Resources**

1.7.6.1 Regulation 14(3)(b) of SECC Regulations, 2018 stipulates that every CC shall hold additional capital to cover costs required for orderly winding down or recovery of operations. Further, SEBI has stipulated that while computing the capital requirements for winding down, a CC shall consider a minimum time span of six months for ensuring an orderly winding down or restructuring of its activities and thus, hold liquid net assets equal to at least six months of gross operational expenses.

1.7.6.2 As the instant policy proposal is intended to serve the purpose as envisaged under the above mentioned regulatory provisions, the said capital requirements for CCs shall be required to be maintained at all

times, and shall be used for carrying out critical operations and services of the CCs, once the process of orderly winding down of critical operations and services is initiated.

1.7.7 **Oversight**

The Regulatory Oversight Committee (ROC) of the CC shall oversee the implementation of steps or processes involved in orderly winding down of critical operations and services of the CC and shall submit a report to SEBI after approval from the governing board, in a manner as may be specified by SEBI, upon completion of necessary steps or processes.

1.7.8 **Directions to be issued by SEBI**

Appropriate directions by SEBI shall be issued to CCs for orderly winding down of their critical operations and services.

1.7.9 Obligations of Clearing Member(s)

1.7.9.1 For both non-interoperable and interoperable segments, the CMs of exiting CC shall have to become members of new or another CC within the notice period. Alternatively, such CMs may close-out their open positions within the notice period.

1.8 Outsourcing of activities by Clearing Corporations[186]

1.8.1 It is observed that the clearing corporations avail the services of third party service providers/ outsourced agencies to perform certain processes, services or activities.

1.8.2 In this regard clearing corporations are advised to formulate and document an outsourcing policy duly approved by their Board based on the guidelines

[186] Circular No. SEBI/HO/MRD/DP/CIR/P/2017/101 dated September 13, 2017

placed at **Annexure 3d.** These guidelines are minimum standards which are compulsory to be followed, CCs may frame more stringent guidelines.

1.8.3 Internal policies for periodic monitoring of Back Office Vendors or Outsourced Agencies[187]

1.8.3.1 In order to ensure compliance with various regulatory requirements by the back office vendors or outsourced agencies appointed by the CC and/or by their members or participants, the CCs shall have policies for appointment and monitoring of such back office vendors or outsourced agencies.

1.8.3.2 Such policy shall clearly outline the risks that may arise from the back office vendors or outsourced agencies and steps to eliminate or reduce such risks.

1.8.3.3 Such policy shall define the minimum standards or thresholds in terms of quantitative and qualitative parameters that shall be met by the back office vendors or outsourced agencies (including technology vendors) for appointment.

1.8.4 Outsourcing of activities by Limited Purpose Clearing Corporation (LPCC)[188]

1.8.4.1 LPCC has been permitted to enter into outsourcing agreements with existing Clearing Corporations for the purpose of using their core and critical IT support infrastructure/ activities for running the core activities (transaction process, clearing and settlement) of the LPCC and related operations.

1.8.4.2 For the purpose of execution of repo in corporate bonds, LPCC shall enter into necessary agreements with the Stock Exchanges where it proposes to offer clearing/ settlement of repo transactions and their associated Clearing Corporations for continuity purposes.

[187] Circular No. SEBI/HO/MRD/POD-3/P/CIR/2024/162 dated November 22, 2024

[188] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/227 dated November 06, 2020

1.8.4.3 In view of the above, towards compliance with requirement under Regulation 7 of SECC Amendment Regulations 2020, the framework governing the outsourcing activities by the LPCC is placed at **Annexure 3e**.

1.9 Risk-based capital and net worth requirements for Clearing Corporations under Securities Contracts (Regulation) (SECC) Regulations, 2018[189]

1.9.1 In order to ensure that the net worth of a CCP adequately captures the risks faced by it, SEBI vide Regulation 14(3) of SECC Regulations, 2018 has adopted a risk-based approach towards computation of capital and net worth requirements for CCPs.

1.9.2 Accordingly, granular norms related to computation of risk-based capital and net worth requirements for CCPs as under:

1.9.2.1 For Credit Risk ("A"):

i. The credit risk from default of clearing members is being captured through the Core SGF framework as prescribed under Chapter (Risk Management) of the master circular

ii. The CCP contribution to Core SGF shall be at least 50% of the Minimum Required Corpus (MRC). This shall not be applicable for LPCC.[190]

iii. The minimum contribution required to be made by the CCP towards Core SGF shall be considered for the purpose of computing capital requirements towards credit risk.

iv. The contribution made by LPCC towards Core SGF, shall be considered for the purpose of computing capital requirements towards credit risk.[191]

1.9.2.2 **For Business Risk ("B")**:

[189] Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2019/55 dated April 10, 2019
[190] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/245 dated December 21, 2020
[191] Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/245 dated December 21, 2020

i. The capital requirement for general business risk shall be based on a CCP's own estimate as it is dependent on factors specific to each CCP such as execution of business strategy, market environment, response(s) to competition or technological progress etc.

ii. A CCP shall identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern.

iii. The capital requirement for business risk shall be subject to a minimum of 25% of annual gross operational expenses.

1.9.2.3 **For Orderly Wind-down ("C")**:

i. A CCP shall have in place a viable recovery or orderly wind-down plan and hold sufficient liquid net assets funded by equity to implement this plan.

ii. These assets shall be determined by the general business risk profile of the CCP and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services.

iii. While computing the capital requirement for winding down, a CCP shall consider a minimum time span of six months for ensuring an orderly winding down or restructuring of its activities and thus, hold liquid net assets equal to at least six months of gross operational expenses.

1.9.2.4 **For Operational and Legal Risks ("D")**:

i. A CCP shall identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, and control measures. CCPs may be exposed to risk of litigations from participants/investors or other entities. It is, therefore, important that the CCP identifies such risks and

maintains adequate financial resources to mitigate any losses in the foreseeable future.

ii. The capital requirement for legal and operational risks shall at least be 20% of the aggregate of capital requirements for counterparty credit risk, business risk and orderly wind-down or recovery of operations, i.e. 20% of (A+B+C).

1.9.3 The total risk-based net worth requirement for CCPs shall be computed as the aggregate of capital requirements each for counterparty credit risk, business risk, orderly winding down or recovery of operations and legal and operational risks i.e. (A+B+C+D) or, 1.20 (A+B+C). Thus, the CCPs shall be required to maintain, at all times, in the form of liquid assets, a net worth of either INR 100 crore or as determined in the manner specified above, whichever is higher.

1.9.4 The CCPs shall use the most recent audited information from their annual financial statement for the purposes of calculation of gross operational expenses.

1.9.5 The CCPs shall regularly review their net worth requirement and ensure that the net worth does not fall below the prescribed threshold. In case, the net worth falls below the prescribed threshold at any point in time, the same shall be intimated to SEBI immediately -
mentioning the reason(s) behind the same and the measure(s) it intends to adopt in order to re-attain the prescribed net worth.

1.10 Appointment of Managing Director and CEO[192]

1.10.1 Nomination and Remuneration Committee (NRC) is responsible for selecting the suitable person for the post of Managing Director The procedure for appointment of Managing Director & CEO is as under:

1.10.1.1 At least two names for appointment as an independent external person along with their profile (without any order of preference), shall be forwarded to SEBI for approval

[192] SEBI Letter dated May 29, 2019

1.10.1.2 At least two names for the post of MD/CEO, without any order of preference, shall be forwarded to SEBI for approval.

1.10.2 Further, the clearing corporations are required to forward the new names to SEBI before two (2) months from the last working day of the existing MD/CEO. Hence, it is advised to send the names for the independent external person well in advance taking into accounts the aforesaid timeline.

1.11 Appointment of Executive Directors[193,194]

1.11.1 The EDs of Vertical 1 (Critical Operations) and Vertical 2 (Regulatory, compliance, risk management and investor grievances) shall be members on the Governing Board of the CC.

1.11.2 Application for appointment of EDs shall be through open advertisement in all editions of at least one national daily. The applicants shall have adequate experience and qualification relevant to the respective verticals.

1.11.3 MD may be an invitee to the NRC for the appointment process of EDs.

1.11.4 Appointment of IEPs in NRC for the purpose of selection of EDs is optional. However, if IEPs are considered to be part of the NRC for the purpose of selection of ED, at least 2 names per IEP with their profiles shall be forwarded to SEBI for approval. Further, in case IEPs in NRC for the selection of MD have been recently approved by SEBI i.e post notification of amendments to the regulations for appointments of EDs (Nov 22, 2025), such IEPs may be considered to be part of the NRC for selection of EDs.

1.11.5 At least two names for the post of an ED, without any order of preference, shall be forwarded to SEBI for approval. At the time of seeking approval of SEBI, the CC shall also seek approval for the compensation of the EDs. The terms and conditions of the compensation of the EDs shall not be changed without prior approval of the Board.

1.11.6 Prior to completion of term of the existing ED, the CC shall forward the names to SEBI at least two months before the last working day of the existing ED.

1.11.7 PIDs shall ensure that the performance of EDs is assessed based on an annual performance evaluation mechanism similar to that of MD.

1.11.8 The two-stage process for approval of SEBI is applicable only for appointment of PIDs. Thus, the applications for the post of EDs shall be forwarded to SEBI

[193] SEBI Circular No: HO/47/12/11(5)2025-MRD-POD3/I/196/2025 dated December 12, 2025
[194] SEBI letter No. HO/47/12/11(5)2025- MRD-POD3/I/5609/2026 dated February 25, 2026

post approval of the Governing Board of the CC similar to that of the MD. Appointment of EDs (i.e commencement of tenure of the EDs) shall be on or before the timelines specified by SEBI.

1.11.9 **Appointment of ED of Vertical 3:** CCs may at their discretion, devise their own framework for appointment of EDs. However, joining of the ED of Vertical 3 on the Governing Board of the CCs shall be subject to approval of both SEBI and shareholders.

1.11.10 Recognizing the heterogeneous nature of CCs (i.e. size, financial health, growth stage, etc.), CCs facing genuine practical difficulties in complying with the provisions relating to appointment of ED may seek exemption for a certain period of time from SEBI, which shall be evaluated on a case-by-case basis.

1.12 Reporting Structure of Executive Directors[195]

1.12.1 EDs of vertical 1 and 2 shall report to the Managing Director (MD) of the CC for all purposes.

1.12.2 The Standing Committee on Technology (SCOT) shall hold separate quarterly meetings with the ED of Vertical 1, without the presence of MD and other executives. The SCOT shall independently assess the performance of the ED, and the Nomination and Remuneration Committee (NRC) shall consider inputs of both the SCOT and the MD in finalising the performance appraisal of the ED of Vertical 1.

1.12.3 The Regulatory Oversight Committee (ROC) and Risk Management Committee (RMC) shall hold separate quarterly meetings with the ED of Vertical 2, without the presence of MD and other executives. The ROC and RMC shall independently assess the performance of the ED, and the NRC shall consider inputs of the ROC, RMC and the MD in finalising the performance appraisal of the ED of Vertical 2.

1.12.4 EDs will be required to report to the Governing Board of the CC on a quarterly basis, on areas concerning their respective verticals. In addition, where deemed necessary and important, EDs may bring matters directly to the attention of SEBI.

1.13 Reporting of Key Management Personnel (KMPs) to EDs[316]

[195] SEBI Circular No: HO/47/12/11(5)2025-MRD-POD3/I/196/2025 dated December 12, 2025

1.13.1 All Heads of Department within Vertical 1, including the Chief Technology Officer (CTO) and Chief Information Security Officer (CISO), shall report to the ED of Vertical 1. Similarly, all Heads of Department within Vertical 2, including the Compliance Officer (CO) and Chief Risk Officer (CRiO), shall report to the ED of Vertical 2.

1.13.2 As the specific KMPs (CTO, CISO, CO and CRiO) of Verticals 1 & 2 report to the respective EDs, the existing reporting structure of such KMPs stands modified from MD to ED. However, the Statutory Committees shall continue to hold separate meetings with such KMPs at least once a quarter without the presence of the MD and ED.

1.14 Provisions related to Chief Risk Officer[196]

1.14.1 The technology audits of the CC, i.e. the System Audit and Cyber Security Audit shall be handled by the CRiO of the CC.

1.14.2 The CRiO shall also be an invitee to the meetings of the SCOT along with CTO and CISO.

1.15 Process for appointment, re-appointment, termination or acceptance of resignation of specific KMPs of a CC[197]:

1.15.1 To strengthen the governance framework of Clearing Corporations, it is required that the Key Management Personnel (KMPs) of CCs in the crucial areas of operations such as compliance, risk management, technology and information security are of appropriate stature and independence. These KMPs namely the Compliance Officer (CO), Chief Risk Officer (CRiO), Chief Technology Officer (CTO) and Chief Information Security Officer (CISO) are crucial for any CC to deliver on its core public interest mandate of giving primacy to compliance, risk management, technological resilience and market integrity, over commercial considerations.

1.15.2 While the Governing Board of the CC sets the overall tone, a culture of prioritizing efficient discharge of responsibilities towards public interest falling under Verticals 1 and 2,over commercial interest under Vertical 3 must be ingrained at the operating level as well.

[196] SEBI Circular No: HO/47/12/11(5)2025-MRD-POD3/I/196/2025 dated December 12, 2025
[197] Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2025/75 dated May 26, 2025

1.15.3 Along with having a capable and efficient Managing Director (MD), there is a need for KMPs of appropriate stature and ability in Vertical 1 and 2 to ensure that the CC delivers its primary mandate as a public utility infrastructure institution and a first line regulator.

1.15.4 The process for appointment, re-appointment, termination or acceptance of resignation of specific KMPs of Verticals 1 & 2 of a CC shall be as under:

1.15.5 For Appointment:

1.15.5.1 The CC shall engage an independent external agency to identify and recommend suitable candidates for appointment as CO, CRiO, CTO and CISO or by whatever designations called. The Agency shall submit its recommendations to the NRC of the CC.

1.15.5.2 The NRC will evaluate the recommendations of the agency and after discussion with the management of the CC, submit its recommendations for appointment of such KMPs to the Governing Board of the CC.

1.15.5.3 The Governing Board shall take the final decision for appointment of such KMPs.

1.15.6 For Re-appointment, Termination or acceptance of Resignation:

1.15.6.1 The NRC shall evaluate the cases of re-appointment, termination or acceptance of resignation of CO, CRiO, CTO and CISO or by whatever designations called and after discussion with the management of the CC, submit its recommendations to the Governing Board of the CC.

1.15.6.2 The Governing Board shall take the final decision for re-appointment, termination or acceptance of resignation of

such KMPs. Provided that no such KMPs shall be terminated unless he/she has been given a reasonable opportunity of being heard by the Governing Board.

1.15.6.3 The appointment, re-appointment, termination or acceptance of resignation of KMPs other than the MD, CO, CRiO, CTO and CISO shall continue to be with the NRC of the CC. However, the CCs are free to implement the above mechanism for all KMPs.

1.15.7 **Cooling-off period for KMPs of an MII joining a competing MII**

1.15.7.1 The cooling-off period for Non-Independent Directors and PIDs shall be as prescribed by the Governing Board of the CC. The Governing Board of an MII shall prescribe the mechanism for a cooling-off period for KMPs (including the MD) of the MII joining a competing MII as a KMP.

1.15.7.2 For the purpose of this provision, the expression"competing MII" i.e. "competing recognised stock exchange or recognised clearing corporation" and "competing depository"shall be as explained under SECC Regulations, 2018.

1.16 Variable Pay to KMPs of CCs: [198]

1.16.1. The variable pay component for a financial year shall be fixed at the beginning of the financial year or at the time of appointment of a KMP, whichever is later and shall be within the range of 25% to 50% of the total pay of the KMP.

1.16.2. However, the actual variable pay payable for the financial year may go below the lower range fixed (25%) or the variable pay may not be paid at all, considering various factors including the performance of the KMP and financial health of the CC.

1.16.3. In any financial year, the variable pay payable to a KMP shall not be more than 50% of the total pay payable to the KMP for the financial year.

[198] SEBI letter No. HO/47/12/11(3)2025-MRD-POD3/I/5192/2026 dated February 17, 2026

1.16.4. 50% of the variable pay payable to a KMP for a financial year, shall be paid on a deferred basis after a minimum period of three years.

1.16.5. The term variable pay shall include any other compensation over and above the fixed pay of the KMP, but shall not include previously deferred variable pay, sign-on bonus and payment on account of buy out of notice period.

1.17 Code of Conduct & Institutional mechanism for prevention of Fraud or Market Abuse[199]

1.17.1 Based on the recommendations of the committee on Fair Market Conduct, it has been decided that the Code of Conduct and Institutional Mechanism for prevention of fraud or market abuse shall be applicable to Clearing Corporations also, on the lines of Regulation 9(1) to 9(4) of PIT Regulations, 2015.

1.17.2 Accordingly, CCs shall do the following:

1.17.2.1 Formulate a Code of Conduct to regulate, monitor and report trading by their designated persons and immediate relative of designated persons towards achieving compliance with the PIT Regulations, by adopting the minimum standards set out in Schedule C to the PIT Regulations.

1.17.2.2 Managing Director (MD)/ Chief Executive Officer (CEO) of the CC shall be obligated to frame the referred code of conduct. The Board of Directors may ensure the compliance by MD/ CEO in this regard.

1.17.2.3 CC shall identify and designate a compliance officer to administer the aforesaid code of conduct.

1.17.2.4 The Board of Directors of CC, in consultation with the aforesaid compliance officer, shall specify the designated persons to be covered by the code of conduct on the basis of their role and function in the organisation and the access that such role and function would provide to unpublished price sensitive information in addition to seniority and professional designation and shall include the position / designation as specified in the Regulation 9(4) of the PIT Regulations.

1.17.3 CCs shall put in place an Institutional Mechanism for prevention of fraud or market abuse covering the following:

[199] Circular No. SEBI/HO/MRD/DCAP/CIR/P/2021/23 dated March 03, 2021

1.17.3.1 MD/ CEO of the CC shall put in place adequate and effective system of internal controls to ensure compliance with the regulations and circulars issued by the Board from time to time, to prevent fraud or market abuse by CC or its designated persons and immediate relatives of designated persons.

1.17.3.2 The Board of Directors of the CC shall ensure that the MD / CEO ensures compliance with Para 1.17.2 and Para 1.17.3.1 above. The compliance officer of the respective CC shall administer the internal controls to prevent fraud or market abuse by designated persons and immediate relatives of designated persons of the CC.

1.17.3.3 The ROC of the CC shall review compliance with the provisions of this circular at least once in a financial year and shall also verify that the systems for internal control are adequate and are operating effectively.

1.17.3.4 CC shall formulate written policies and procedures for inquiry in case of suspected fraud or market abuse by its designated persons and immediate relatives of designated persons, which shall be approved by its Board of Directors. Any enquiry/ investigation against the designated persons and immediate relatives of designated persons of the CC may be undertaken under the supervision of Regulatory Oversight Committee comprising of PIDs and independent external expert with consideration of avoidance of conflict of interest, if any, so as to ensure maximum fairness and transparency.

1.17.3.5 CC shall initiate appropriate inquiry upon becoming aware of any illegal or unethical practices or transactions of suspected fraud or market abuse by its designated persons and immediate relatives of designated persons and promptly inform its Board of Directors of such suspected fraud or market abuse and results of the inquiry.

1.18 Guidelines on strengthening governance at Clearing Corporations [200]

1.18.1 Quarterly reporting by Compliance Officer (CO)

[200] SEBI/HO/MRD/POD-3/P/CIR/2024/162 Circular dated November 22, 2024

1.18.1.1 The CO shall submit the quarterly report as specified by Regulation 30(3) of SECC Regulations, 2018 to SEBI, within 45 days from the end of the quarter (i.e. June, September, December and March). The format of the report for CCs is placed at **Annexure 3f.**

1.18.2 **Half yearly reporting by Chief Risk Officer (CRiO)**

1.18.2.1 The CRiO shall submit the half yearly report as specified by Regulation 30A(2) of SECC Regulations, 2018 to SEBI within 90 days from the end of half year (i.e. September and March). The content and format of the report is placed at **Annexure 3g.**

1.18.3 **Disclosure of Board Meeting Agenda and Minutes**

1.18.3.1 The CCs shall comply with Regulation 33(7) of the SECC Regulations, 2018. The CCs may, however, subject to adherence to disclosure requirements as specified under SEBI (LODR) Regulations, 2015 not publicly disclose items which are of strategic/ confidential in nature and disclosure of which will put them in a disadvantageous business position. Such items should be classified as "confidential" along with reasons for such classification by their governing board

1.18.3.2 The relevant agenda and minutes shall be disclosed within 7 working days from the date of approval of such minutes.

1.18.4 **SOP for disciplinary actions against KMPs:**

1.18.4.1 All CCs shall devise internal SOPs for undertaking disciplinary actions against KMPs for any non-compliance with regulatory provisions and internal guidelines. The policy shall be approved by NRC and the Governing Board of the CC.

1.18.4.2 The SOP shall include list of actions that may be initiated against a KMP for breach of any provision, including advisory, warning, impact on annual increment or promotion, invocation of malus-clawback provisions, suspension, termination, amongst other actions as may be suggested by the NRC.

1.18.4.3 The scenarios for invoking the malus-clawback provisions shall be clearly specified in the SOP.

1.18.4.4 In case of repeated non-compliances or considering the seriousness of noncompliance, stringent actions like termination or malus-clawback may be effected.

1.18.5 **Whistle Blower Policy of CCs**

1.18.5.1 As per the extant regulatory provisions, the disclosure requirements and corporate governance norms as specified for listed companies shall mutatis mutandis apply to all **CC**s.

1.18.5.2 CC shall have an effective whistler-blower policy to enable stakeholders, including employees to freely communicate their concerns about illegal or unethical practices and report instances of fraud or market abuse or any suspicion of fraud or market abuse.

1.18.5.3 CC shall ensure that the policy framed under Para 1.18.5.1 provides for suitable protection against any discharge, termination, demotion, suspension, threats, harassment, directly or indirectly or discrimination against any employee who reports instances of fraud or market abuse or any suspicion of fraud or market abuse.

1.18.5.4 In order to further strengthen the whistle blower mechanism, the following has been decided:

CCs shall resolve the whistle blower complaints within 60 days from the date of receipt of such complaints.

1.18.5.5 Appropriate checks and balances should be implemented by the CC to ensure that disincentives for misreporting, if any, do not dissuade genuine whistle blowers from reporting irregularities.

1.18.5.6 The ROC shall annually review the whistle blower policy of the CC.

1.18.5.7 The CCs shall disclose the whistle blower policy on their respective websites.

1.18.6 **The Audit Committee shall:**

1.18.6.1 Receive and investigate the whistle blower complaints.

1.18.6.2 Take appropriate decision, including any further course of action, with respect to the whistle blower complaint.

1.18.6.3 Submit a report to the governing board of the CC containing the details of all whistle blower complaints received during a quarter and decisions, if any, taken with respect to such complaints in the next governing board meeting after the end of the quarter (i.e. June, September, December and March). In case, the Audit Committee is

not able to take any decision on the matter, the same may be escalated to the Governing Board of the CC.

1.19 Enhancing Supervision and Monitoring Mechanism of CCs[201]

1.19.1 Mechanisms to monitor their Members

1.19.1.1 CCs shall adopt advanced technologies such as Regulatory Technologies (RegTech) and Supervisory Technologies (SupTech) to further strengthen their regulatory and supervision mechanisms.

1.19.1.2 CCs shall enable systems that require their members or participants (such as stock brokers, clearing members, depository participants, warehouse service providers) to make most of the submissions online and reduce reliance on physical information sharing. **CC**s should be able to generate alerts and reports on such submissions to meet their regulatory and supervisory objectives.

1.19.1.3 CCs shall disclose all material information pertaining to their members or participants on their website. Such information shall include aspects related to the following:

i. Details of number of investor complaints or grievances received against its members or participants, resolved and pending for the past 3 financial years (including the current financial year), to be updated on monthly basis;
ii. Details of regulatory action taken against their members during the past 3 financial years;
iii. Net worth (as on end of the previous financial year);
iv. Other relevant information.

1.19.1.4 In case of any significant or material non-compliance of the regulatory requirements by any member or participant observed by a CC, the same shall be shared with other MIIs

1.20 Training or knowledge up-gradation of Directors on Governing Board of CCs[202]

1.20.1 SECC Regulations, 2018 require the CCs to provide at least seven days of training in a year to all its directors.

[201] Circular No.: SEBI/HO/MRD/POD-3/P/CIR/2024/162 dated November 22, 2024
[202] Circular No.: SEBI/HO/MRD/POD-3/P/CIR/2024/162 dated November 22, 2024

1.20.2 CCs, in coordination with reputed institutions like National Institute of Securities Markets (NISM) or experts/professionals, shall organize either online or offline learning modules related to ongoing development in capital markets and regulatory space, major developments in other developed economies in related areas, overview of development of various RegTech and SupTech, etc.

1.20.3 At the time of joining of a new director on the Governing Board, the CC shall provide familiarization programme to such directors with regard to their roles & responsibilities and expectations from them. Further, CCs shall also provide a list of applicable regulatory provisions including the code of conduct applicable to directors amongst other materials for ease of reference.

1.21 Policy on Data Sharing[203]

1.21.1 As per SECC Regulations, 2018, CC shall have an internal policy for sharing and monitoring of confidential and sensitive data.

1.21.2 The policy should adequately cover all methods of data sharing online and offline including e-mails and social media, with appropriate delegation of powers for sharing of data.

1.21.3 The policy shall contain mechanisms to monitor the data being shared on a regular basis through technology and conduct periodic audits, at least once in six months (ending with September and March), to ensure compliance with the data sharing policy.

1.21.4 The policy shall be reviewed for its effectiveness annually by SCOT.

1.21.5 Non-compliances (including data breaches and leakages of confidential and sensitive data), if any, shall be reported within 15 days to governing board of the **CC** and SEBI by the Compliance Officer (CO) along with remedial steps taken or to be taken in this regard.

1.21.6 Data sharing should be done on a non-discriminatory basis.

1.22 Reporting lines of KMPs[204,205]

1.22.1 SEBI through regulations and circulars require CCs to have certain KMPs. They include Compliance Officer (CO) who heads the Compliance function, the Chief Risk Officer (CRiO) who is responsible for identification and

[203] Circular No.: SEBI/HO/MRD/POD-3/P/CIR/2024/162 dated November 22, 2024

[204] Circular No.: SEBI/HO/MRD/POD-3/P/CIR/2024/162 dated November 22, 2024

[205] Circular No.: HO/47/12/11(5)2025-MRD-POD3/I/196/2025 dated December 12, 2025

mitigation of risks being faced by the CC, the Chief Technology Officer (CTO) who focuses on the organization's overall technology strategy, innovation, and technical infrastructure and the Chief Information Security Officer (CISO) who is responsible for safeguarding data and information through cybersecurity practices.

1.22.2 To ensure there is sufficient independence for the KMPs to freely provide their views to the governing board and/or statutory committees of CCs and the functioning of the CC is not disrupted, the following reporting structures for KMPs shall be implemented by CCs:

1.22.2.1 **For CO**: CO shall report to the respective ED. However, ROC shall hold separate meeting with CO at least once a quarter without the presence of MD / ED or any other executive.

1.22.2.2 **For CRiO**: CRiO shall report to the respective ED. However, RMC shall hold separate meeting with CRiO at least once a quarter without the presence of MD/ED or any other executive.

1.22.2.3 **For CTO and CISO:** CTO and CISO shall report to the respective ED. However, **SCOT** shall hold separate meeting with CTO and CISO at least once a quarter without the presence of MD/ED or any other executive.

1.22.3 Currently, NRC of the CC, while accessing the performance of KMPs, take reports or inputs from the functional heads or reporting authority, and observations received from SEBI, if any. In view of the above, it has been decided that for performance appraisal of CO, CRiO, CTO and CISO, in addition to the above requirements, NRC shall also take reports or inputs from relevant statutory committees.

1.23 Norms for Internal Audit Mechanism and composition of the Audit Committee of CC[206]

1.23.1 **Norms for the Internal Audit Mechanism at CC**

[206] Circular no. SEBI/HO/MRD/POD 3/P/CIR/2025/69 dated May 19, 2025

1.23.1.1 Internal audit helps to identify, assess, and mitigate risks that could impact the CCs operations, efficiency, financial stability, etc. Internal audit also ensures that the CCs comply with relevant laws, regulations, circulars, guidelines, industry standards, etc

1.23.1.2 CCs being corporate entities governed by the provisions of Companies Act, 2013 are required to conduct Internal Audit. Further, in terms of Securities Contracts (Regulation) (SECC Regulations, 2018**)** the governing boards of the CCs are required to provide for three lines of defense of which the third line of defense comprises the Internal Audit Function.

1.23.1.3 In order to further strengthen the governance mechanism at CCs, the following guidelines for the internal audit mechanism at CCs have been prescribed:

i. Every CC shall conduct internal audit of all functions and activities of the CC (i.e. functions and activities of Vertical 1 (Critical operations), Vertical 2 (Regulatory, compliance, risk management and investor grievances) and Vertical 3 (Other functions including business development)) at least once in a Financial Year.

ii. The internal auditor of the CC shall be an independent audit firm(s). The CCs shall have a policy for appointment of internal auditors approved by the Audit Committee and governing board of the CC.

iii. Internal auditor of a CC shall report only to the Audit Committee of the CC.

iv. The scope of the internal auditor shall include all functions and activities of the CCs (i.e. functions and activities of Vertical 1, Vertical 2 and Vertical 3) and shall be approved by the Audit Committee of the CC (including any other area as may be specified by the Audit Committee). Further, in order to standardize the terms of reference of the internal auditor across similar MIIs, the MIIs may do so in consultation with the Industry Standards Forum of MIIs (ISF).

v. The observations of the internal auditor shall be sent to the respective Head of Departments (HoDs) for their comments in a time bound manner.

vi. The internal auditor after incorporating comments of the HoDs shall share the final report with the Audit Committee in a time bound manner. Further, any initial observation(s) of the internal auditor, which have been dropped/closed subsequent to the

clarifications/comments of HoDs, shall also be included in the Final Report, along with rationale/justifications for dropping such observation(s). Wherever required, the Audit Committee may seek views of other Statutory Committees of the CC on the observations of the internal auditor.

vii. The various timelines for internal audit shall be prescribed by the Audit Committee of the CC.

viii. The internal auditor of the CC shall appraise the Audit Committee, at least once in every six months within 60 days from the end of September and March, on critical issues concerning the CC, in the absence of the management.

1.23.2 **Composition of the Audit Committee of the CC**

1.23.2.1 The terms of reference of the Audit Committee (AC) amongst others involves approval of related party transactions, scrutiny of financial statements, evaluation of internal financial controls and risk management systems, etc. which requires objective evaluation of the functioning and decisions of the management.

1.23.2.2 In order to further strengthen the governance of the CC, the following have been decided:

i. The Audit Committee of the CC shall not consist of any Executive Director (including the Managing Director) of the CC;

ii. The auditors of the CC and the KMPs shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote; and

iii. Wherever required, the KMPs (including the MD) can be invited to attend the meeting of the Audit Committee with permission of the Chairman of the Committee but shall not have the right to vote.

2. INTEROPERABILITY AMONG CLEARING CORPORATIONS[207]

2.1 Interoperability among Clearing Corporations

[207] Circular No. CIR/MRD/DRMNP/CIR/P/2018/145 dated November 27, 2018

2.1.1 Interoperability among Clearing Corporations(CCs) necessitates linking of multiple CCs. It allows market participants to consolidate their clearing and settlement functions at a single CC, irrespective of the stock exchange on which the trade is executed.

2.1.2 SEBI approved suitable amendments to the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations to, inter alia, enable interoperability among clearing corporations.

2.1.3 Principle 20 of PFMIs, which is relevant to the interoperability among clearing corporations, prescribes that "An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks."

2.1.4 the broad guidelines for operationalizing the interoperable framework among CCs are prescribed for compliance hereunder:

2.2 Scope of Interoperability among CCs

2.2.1 The interoperability framework shall be applicable to all the recognised clearing corporations excluding those operating in International Financial Services Centre.

2.2.2 All the products available for trading on the stock exchanges (except commodity derivatives) shall be made available under the interoperability framework.

2.3 Interoperable links among CCs

2.3.1 The recognised clearing corporations shall establish peer-to-peer link for ensuring interoperability. A CC shall maintain special arrangements with another CC and shall not be subjected to normal participant (membership) rules. Risk management between the CCs shall be based on a bilaterally approved framework and shall ensure coverage of inter-CC exposures. CCs shall exchange margins and other financial resources on a reciprocal basis based on mutually agreed margining models.

2.3.2 However, SEBI, in certain cases, may require a CC to establish participant link for interoperability. In such cases the CC concerned shall become participant of another CC (the host CC) and shall be subjected to the host CC's normal participant rules. Since the participant CC would be posting margins with the host CC, but would not be collecting margins from the host CC, it

shall be required to hold additional financial resources to protect itself against default of the host CC.

2.4 Inter CC Collateral

2.4.1 To manage the inter-CC exposure in the peer-to-peer link, CCs shall maintain sufficient collateral with each other so that any default by one CC, in an interoperable arrangement, would be covered without financial loss to the other non-defaulting CC. The inter-CC collateral shall comprise two components, viz.

2.4.1.1 Margins as per the existing Risk Management Framework (initial margin, extreme loss margin, calendar spread margin, etc.) prescribed by SEBI; and

2.4.1.2 Additional capital, to be determined by each CC, based on the credit risk from the linked CC, on which no exposure shall be granted to the linked CC.

2.4.2 The collateral posted by one CC with another CC shall be maintained in a separate account which can be clearly identified in the name of such linked CC which is providing collateral and shall not be included in the Core SGF of the CC receiving them.

2.4.3 The liquid assets as well as hair-cuts as prescribed under Chapter: Risk Management of this Master Circular[208]

2.5 Inter CC Settlement[209]

2.5.1 The CCs shall undertake multilateral netting to create inter-CC net obligations and exchange funds and securities on a net basis. The pay-in and pay-out shall be completed as per the settlement schedule prescribed under Chapter: 'Settlement' of this Master Circular.

2.6 CCP-Trading Venue Link

2.6.1 In an interoperable arrangement, the stock exchange and the CC may not be located at the same venue. Accordingly, to ensure real time flow of information between the stock exchange (trading venue) and the CC, so as to

[208] SEBI Circular MRD/DoP/SE/Cir-07/2005 dated February 23, 2005 and SEBI Circular CIR/MRD/DRMNP/9/2013 dated March 20, 2013

[209] SEBI Circular MRD/DoP/SE/Dep/Cir-18/2005 dated September 02, 2005 and Circular SEBI/HO/MRD2/DCAP/P/CIR/2021/628

facilitate effective real-time risk monitoring and mitigation, each interoperable CC shall put in place appropriate infrastructure including deployment of adequate servers at each of the linked trading venues.

2.6.2 Provisions on "Risk Reduction Mode[210] defined by SEBI would be the criteria for the Stock Exchanges to determine the stock brokers which would be admitted to the risk-reduction Mode.[211]

2.7 Default Handling Process[212]

2.7.1 In case of default by a CC, in the interoperable arrangement, the collateral provided by such CC shall be utilized by the non-defaulting CC to cover losses arising from such default, as per the default waterfall prescribed under 'Core Settlement Guarantee Fund' of Chapter: Settlement of this Master Circular.

2.8 Dispute Resolution

2.8.1 The Conflict Resolution Committee (CRC) may be constituted by SEBI shall address disputes, among CCs and Stock Exchanges, arising out of interoperability.

2.9 Inter-CCP Agreement

2.9.1 Securities Contracts (Regulation) (SECC Regulations, 2018) prescribes that "...in case a recognised stock exchange enters into an arrangement with more than one recognised Clearing Corporation, it shall enter into a multipartite agreement in writing with such recognised clearing corporations to ensure interoperability among the clearing corporations".

2.9.2 The agreements entered into by the Stock Exchanges/ Clearing Corporations shall, inter alia, include system capability, inter-CC links and CC-trading venue link, risk management framework, monitoring of client margin/position limits, obligation system, settlement process, surveillance systems, sharing of client data, sharing of product information, default handling process and dispute resolution process.

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[210] circular CIR/MRD/DP/34/2012 dated December 13, 2012
[211] Removed vide Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/45 dated March 23, 2020
[212] SEBI Circular CIR/MRD/DRMNP/25/2014 dated August 27, 2014

2.10 Clarifications on Interoperability[213]

2.10.1 Breach of Service Level Agreement/non-action by Exchanges- trades which take place in breach of Service Level Agreement shall not be annulled and shall continue to be guaranteed by CC.

2.10.2 Re-use of collateral - For inter-CC exposure, the CCs shall exchange Bank Guarantees with each other. However, the practice of placing of collateral by CMs with CC shall continue.

2.10.3 Breakdown of RMS of CC or CC unable to shift to DR of the Exchange- In case of disruption at one of the CC, Exchanges shall continue to permit trades, which are cleared and settled at other unaffected CCs, in accordance with the existing mechanism. Any risks or litigations, arising out of such disruption, shall lie with the affected CC.

2.10.4 Institutional margining –The framework of not subjecting the institutional trades for upfront margins, in Capital Market segment, to be continued at inter-CC level.

2.10.5 Commercial matters- For clearing services rendered, CCs would be free to charge either Exchanges or clearing members. However, such charges should be non-discriminatory, fair and reasonable.

2.10.6 Infrastructure- Charges for infrastructure deployed by the CC for implementation of interoperablility shall be borne by the respective Exchanges. However, such charges should be non-discriminatory, fair and reasonable.

Netting of positions - Netting of positions across Exchanges shall be permitted for Capital Market, Single Stock Derivatives, Currency Derivatives and Interest Rate Futures. VWAP of the settlement prices across the exchanges shall be reckoned as the daily/final settlement price of the contract.

2.10.7 Exchange contribution to Core SGF - as mutually agreed upon by CCs, post interoperability, Exchanges may withdraw excess contribution made to Core SGF of one CC (incremental contribution made post interoperability), to make contribution to the Core SGF of another CC. However, Exchanges shall not be allowed to withdraw the contribution made, to the Core SGF of their CC, prior to the operationalization of interoperability.

[213] SEBI email dated April 25, 2019 regarding clarifications on interoperability

3. Principles of Financial Market Infrastructures (PFMIs)[214]

3.1 SEBI, as a member of IOSCO, is committed for adoption and implementation of the CPSS-IOSCO Principles for Financial Market Infrastructures (FMIs) in its regulatory functions of oversight, supervision and governance of the key FMIs under its purview. The PFMIs issued on comprise of 24 principles **(Annexure 3h),** which are designed to ensure that the infrastructure supporting global financial markets is robust and well placed to withstand financial shocks.

3.2 Full, timely and consistent implementation of the PFMIs is fundamental to ensuring the safety, soundness and efficiency of key FMIs and for supporting the resilience of the global financial system. Global central clearing requirements reinforce the importance of strong safeguards and consistent oversight of derivatives CCPs in particular.

Financial Market Infrastructure (FMI)

3.3 The Principles apply to systematically important FMI entities such as Central Counterparty (CCP), Central Securities Depository (CSD)/ Securities Settlement System (SSS), Payment and Settlement Systems (PSS) and Trade Repository (TR) which are responsible for providing clearing, settlement and recording of monetary and other financial transactions. The principles are international standards set forth to –

3.3.1 Enhance safety and efficiency in payment, clearing, settlement, and recording arrangements

3.3.2 Reduce systemic risk

3.3.3 Foster transparency and financial stability

3.3.4 Promote protection of participants and investors

3.4 SEBI regulated Depositories and Clearing Corporations are FMIs. These systemically important FMIs provide essential facilities and perform systemically critical functions in the market and shall be required to comply with the PFMIs specified by CPSS-IOSCO as applicable to them.

3.5 FMIs shall carry out self-assessment on a periodic basis against the PFMIs and disclose the same on their websites. For this purpose, the 24 principles for FMIs

214 Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/190 dated December 19, 2023

have been classified as "quantitative" and "qualitative" and their applicability for the Clearing Corporations is as follows:

Principle No	Principle	Classification
1	Legal basis	Qualitative
2	Governance	Qualitative
3	Framework for the comprehensive management of risk	Qualitative
4	Credit Risk	Quantitative
5	Collateral	Quantitative
6	Margin	Quantitative
7	Liquidity Risk	Quantitative
8	Settlement finality	Qualitative
9	Money settlements	Qualitative
10	Physical deliveries	Qualitative
11	Central securities depositories	Not Applicable
12	Exchange-of-value settlement systems	Quantitative and Qualitative
13	Participant-default rules and procedures	Qualitative
14	Seggregation and Portability	Quantitative and Qualitative
15	General business risk	Quantitative and Qualitative

16	Custody and investment risk	Quantitative and Qualitative
17	Operational risk	Quantitative and Qualitative
18	Access and participation requirement	Qualitative
19	Tiered participation arrangements	Quantitative and Qualitative
20	FMI links	Qualitative
21	Efficiency and effectiveness	Qualitative
22	Communication procedures and standards	Qualitative
23	Disclosure of rules, key procedures and market data	Qualitative
24	Disclosure of market data by Trade Repositories	Not Applicable

3.6 The periodicity of self-assessment and disclosure by the FMIs shall be as follows:

Self-assessements and Disclosures	**Periodicity**
Quantitative	Quarterly (within 45[215] days from the end of the quarter-June, September, December and within 60 days from the end of March quarter).

[215] SEBI Letter No. SEBI/HO/MRD/MRD-PoD-3/P/OW2024/14792/ 1-7 dated April 19, 2024 to MIIs

Qualitative	Annually (within 60[216] days from the end of the financial year)

3.7 FMIs shall be monitored and assessed against the PFMIs on annual basis by the Regulatory Oversight Committee (ROC) of the FMI and the ROC shall submit a report to the governing board of the FMI within 90[217] days from the end of the financial year.

4. Parameters for Performance Evaluation of Clearing Corporations[218]

4.1 In order to bring consistency and uniformity with respect to evaluations to be done by the external agency, it was felt that basic minimum standards and principles should be developed along with weightages.

4.2 The minimum criteria for the independent external evaluation of performance of CCs and their weightages are as under:

S.No.	Criteria	Weightage
(i)	Resilience in technology and processes of CC, in delivery of its core functions.	40%
(ii)	Investor Education and Protection.	17%
(iii)	Efficient discharge of Regulatory role by CC.	15%
(iv)	Compliance with Regulatory Norms.	10%

[216] SEBI Letter No. SEBI/HO/MRD/MRD-PoD-3/P/OW2024/14792/ 1-7 dated April 19, 2024 to MIIs
[217] SEBI Letter No. SEBI/HO/MRD/MRD-PoD-3/P/OW2024/14792/ 1-7 dated April 19, 2024 to MIIs
[218] Circular SEBI/HO/MRD/POD-III/CIR/P/2024/127 dated September 24, 2024

(v)	Evaluation of Governance Practices.	8%
(vi)	Adequacy of Resources.	5%
(vii)	Fair access and treatment to all stakeholders and information disclosure.	5%

The above criteria may be subsequently reviewed, depending upon the evolving regulatory and operating context.

4.3 A broad framework in this regard, developed in consultation with ISF of MIIs is provided at **Annexure- 3i**.

4.4 Rating Framework

4.4.1 In order to ensure consistency in the manner of assessment and outcomes across similar MIIs, compare performance of such MIIs and monitor trends over time, a rating framework has been developed which would be assigned after evaluation of the MIIs. The rating would reflect the Independent External Agency's judgment on the performance of the MII in respect of expected outcomes. The rating framework is provided at **Annexure-3j**.

4.5 Principles for appointment of Independent External Agency:

The following principles shall be adhered to by the CCs for selection of an independent external agency:

4.5.1 The Independent External Agency shall be appointed with prior No Objection Certificate (NOC) from SEBI and on such terms and conditions, including fees, timelines, etc. as may be approved by the Governing Board of the CC.

4.5.2 The Independent External Agency shall have requisite domain knowledge, experience and expertise on matters concerning the securities market and the functioning of the CC.

4.5.3 CC shall ensure that there is no conflict of interest in the appointment of the Independent External Agency and the Agency had not been employed/hired by the CC for the evaluation period and till submission of the report.

4.6 Timelines for External Evaluation

4.6.1 The independent external evaluation shall take place once in three years for each CC. In this regard, the following shall be ensured:

The first independent external evaluation shall be only for the Financial Year (FY) 2024-2025. The subsequent independent external evaluation(s) shall be for a block of next three FYs and so on. Upon completion, a report in this regard shall be submitted to the Governing Board of the MII and SEBI within 6 months from the end of the 3rd FY to be evaluated.

4.7 Performance Evaluation Metrics for KMPs including MD

4.7.1 The provisions of SECC regulations, 2018 require CCs to clearly define the roles & responsibilities and the Key Performance Indicators (KPIs) of each Key Management Personnel (KMP) and have performance management mechanisms for their evaluation. Further, these KPIs have to inculcate regulatory, risk management and compliance outcomes.

4.7.2 In order to effectively reflect the efforts of the Managing Director (MD) and KMPs towards outcomes of various functions under Verticals 1 (Critical Operations) and Vertical 2 (Regulatory, compliance, risk management and investor grievances), CCs shall ensure that their internal performance evaluation metrics have allocated sufficient weightage for these outcomes.

4.7.3 The performance evaluation of MD should provide at least 50% weightage towards Verticals 1 and 2 related outcomes.

4.7.4 The performance evaluation of MD and KMPs shall include the minimum criteria as specified for the CCs at **Annexure-3i.** However, for KMPs the criteria and corresponding weightages may be adjusted depending upon the specific roles and responsibilities assigned to such KMPs.

4.8 Parameters for external evaluation of Performance of Statutory Committees of CC and mechanism for internal evaluation of performance of CC and its statutory committees[219]

4.8.1 The minimum criteria for the independent external evaluation of performance of Statutory Committees of CCs and their weightages are as under:

S.No.	Criteria	Weightage
(i)	Roles, Responsibilities and Duties of Statutory Committees	40%
(ii)	Effectiveness of meetings of Statutory Committees	30%
(iii)	Governance aspect of Statutory Committees	30%

The above criteria may be reviewed, depending upon the evolving regulatory and operating context.

4.8.2 The broad framework in this regard, developed in consultation with ISF of MIIs is provided at **Annexure 3k.**

4.8.3 Rating Framework

4.8.3.1 In order to ensure consistency in the manner of assessment and outcomes across Statutory Committees of similar MIIs, compare performance of such Committees and monitor trends over time, a rating framework has been developed which would be assigned after evaluation of Statutory Committees of CCs. The rating would reflect the Independent External Agency's judgment on the performance of the Statutory Committees of a CC in respect of expected outcomes. The rating framework is provided at **Annexure 3l**.

[219] Circular No.: SEBI/HO/MRD/POD-III/P/CIR/2025/12 dated January 30,2025

4.8.4 **Principles for appointment of Independent External Agency:** The following principles shall be adhered to by the ccs for selection of an independent external agency:

4.8.4.1 The Independent External Agency shall be appointed with prior No Objection Certificate (NOC) from SEBI and on such terms and conditions, including fees, timelines, etc. as may be approved by the Governing Board of the CC. Thus, the CC shall forward the details of the external agency to SEBI for prior NOC before appointment.

4.8.4.2 The Independent External Agency shall have requisite domain knowledge, experience and expertise on matters concerning the securities market and/or the functioning of the Statutory Committees of CCs.

4.8.4.3 CC shall ensure that there is no conflict of interest in the appointment of the Independent External Agency and the Agency had not been employed/hired by the CC for the evaluation period and till submission of the report. However, the CC can hire the services of the same Independent External Agency appointed for external evaluation of the CC, for external evaluation of its Statutory Committees, subject to compliance with the requirements stated at paragraph 4.8.4.2 above.

4.8.5 **Timelines for External Evaluation**

4.8.5.1 The independent external evaluation of Statutory Committees shall take place once in three years for each CC. In this regard, the following shall be ensured:

4.8.5.2 The first independent external evaluation shall be only for the Financial Year (FY)2024-2025.

4.8.5.3 The subsequent independent external evaluation(s)shall be for a block of next three FYs and so on. Upon completion, a report in this regard shall be submitted to the Governing Board of the CC and SEBI within 6 months from the end of the 3rd FY to be evaluated.

4.8.6 **Internal Evaluation of Performance of CCs and its Statutory Committees**

4.8.6.1 The CCs shall develop the set of criteria for comprehensive internal evaluation of performance of the CC and its Statutory Committees in terms of Regulation 33(5) of SECC Regulations, 2018.

4.8.6.2 The report of the internal evaluation of the CC and its Statutory Committees shall be submitted to the Governing Board of the CC within 3 months from the end of each FY. The first report shall be for the FY 2024-25.

5. Miscellaneous[220]

5.1 Issue of Master Circular by Clearing Corporations:

5.1.1 Clearing Corporations communicate with market participants including investors on a regular basis by way of circulars, directions, operating instructions, communiques or any other mode of communication(hereinafter collectively referred to as 'guidelines') for necessary compliance. This has led to a plethora of guidelines by the CCs on various subjects.

5.1.2 Due to the issuance of such guidelines of varied nature and based on the feedback received from the market participants, to ensure that all market participants, including investors, find all applicable provisions on a specific subject at a place, the CCs shall ensure the following:

a. Issue the respective Master Circulars consolidating all guidelines issued and applicable as on March 31of every year, segregated subject-wise.

b. Take due care to include only the relevant guidelines into the respective Master Circular while reviewing all the existing guidelines on a particular subject.

c. Such Master Circular shall not include the following:

i. Bye-laws, Rules and Regulations issued by CCs.
ii. Status of any compliance by the market participant.
iii. Actions taken against any entity.

d. Each Master Circular shall contain a list of all guidelines incorporated therein as well as provision rescinding all such guidelines

[220] Circular No.: SEBI/HO/MRD/POD 3/CIR/P/2023/58 dated April 20, 2023

with effect from the date of implementation of the Master Circular. All such rescinded guidelines shall be archived on the respective websites of the CCs.

e. The Master Circulars shall contain a savings clause as under:

"Notwithstanding such rescission,

a. Anything done or any action taken or purported to have been done or contemplated under the rescinded guidelines before the commencement of this Master Circular shall be deemed to have been done or taken or commenced or contemplated under the corresponding provisions of the Master Circular or rescinded guidelines whichever is applicable.

b. The previous operation of the rescinded guidelines or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded guidelines, any penalty, incurred in respect of any violation committed against the rescinded guidelines, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the rescinded guidelines have never been rescinded."

5.1.3 CCs shall update the Master Circular incorporating all guidelines issued during the financial year, and issue the same on or before April 30 of each year.

5.1.4 The CCs are directed to:

a. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately;
b. disseminate each Master Circular on their website and bring the same to the notice of all stakeholders including the Members, Depository Participants and the investors.

5.2 Norms for Scheme of Arrangement by unlisted MIIs:[221]

[221] SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/45 dated March 28, 2023

5.2.1 The unlisted MII desirous of undertaking a scheme of arrangement or involved in a scheme of arrangement as per the provisions of Companies Act 2013 shall file the draft scheme of arrangement along with a non-refundable fee with SEBI for obtaining the observation letter or no-objection letter, before filing such scheme with any Court or Tribunal, in terms of requirements specified by SEBI from time to time.

5.2.2 The unlisted MII shall pay a fee to SEBI at the rate of 0.1% of the paid-up share capital of the unlisted or transferee or resulting company, whichever is higher, post sanction of the proposed scheme, subject to a cap of INR 5,00,000.

5.2.3 The provisions may not apply to schemes which solely provide for merger of a wholly owned subsidiary or its division with the parent company. However, such draft schemes shall be filed with SEBI for the purpose of disclosures and the same shall be disseminated on the websites of the unlisted MII.

5.2.4 Information to be provided to SEBI:

5.2.4.1 The unlisted MIIs shall provide the following information to SEBI while filing the draft scheme of arrangement for obtaining the observation letter or no- objection letter:

a. The Draft Scheme of Arrangement or Amalgamation or Merger or Demerger or Reconstruction or Reduction of Capital, etc. (hereinafter referred as "Scheme")
b. Approval of the governing board of the unlisted MII for the proposed Scheme.
c. Valuation Report provided by an independent registered valuer, accompanied with an undertaking from the unlisted MII stating that no material event impacting the valuation has occurred during the last 6 months. The Valuation Report is required to be placed before the Audit Committee of the unlisted MII.

   For the purpose of this clause, the Registered Valuer shall be a person, registered as a valuer, having such qualifications and experience and being a member of an organization recognized, as specified in Section 247 of the Companies Act, 2013 read with the applicable Rules issued thereunder.
d. Report from the Audit Committee recommending the draft Scheme, taking into consideration, inter-alia, the Valuation Report, and also having comments on the following:
   i. Need for the Scheme
   ii. Rationale of the Scheme

iii. Synergies of business of the entities involved in the Scheme
iv. Impact of the Scheme on the shareholders.
v. Cost benefit analysis of the Scheme.

e. Fairness opinion on valuation of assets or shares done by the valuer for the unlisted MII shall be taken from an independent SEBI registered Merchant Banker.

f. Shareholding pattern of the unlisted MII pre and post the Scheme.

g. Audited financials of last 3 years (financials not being more than 6 months old) of unlisted entities.

h. Auditor's Certificate stating that the accounting treatment contained in the Scheme is in compliance with all the Accounting Standards specified by the Central Government under Section 133 of the Companies Act, 2013 read with the rules framed thereunder or the Accounting Standards issued by ICAI, as applicable, and other generally accepted accounting principles.

i. Declaration from the unlisted MII on any past defaults of debt obligations (including listed debt, if any) of the entities forming part of the Scheme.

j. No Objection Certificate (NOC) from the lending scheduled commercial banks or financial institutions or debenture trustees, in case the unlisted MII or entities forming part of the Scheme have any outstanding debt obligation.

k. Report on Complaints containing the details of complaints or comments received by it on the proposed Scheme from various sources (complaints or comments received directly or forwarded by SEBI or any other agency) as per **Annexure 3m.**

l. Detailed Compliance Report as per the format specified at **Annexure 3n** duly certified by the Company Secretary, Chief Financial Officer and the Managing Director, confirming compliance with various

regulatory requirements specified for the Scheme and all accounting standards.

m. The unlisted MII shall ensure that all dues to, and fines or penalties imposed by SEBI or any other agency have been paid or settled before filing the draft Scheme. In case of unpaid dues or fines or penalties, the unlisted entity shall submit to SEBI a 'Report on the Unpaid Dues' which shall contain the details of such unpaid dues in the format given at **Annexure 3o**, prior to filing the draft Scheme.

n. The unlisted MII shall provide the information regarding any pending proceedings or litigations against the unlisted MII or entities forming part of the Scheme and the liabilities thereof, if any.

o. Immediately upon filing of the draft Scheme with SEBI, the unlisted MII shall disclose the draft Scheme along with all relevant documents on its website.

p. Subsequent to filing the draft Scheme with SEBI, no changes to the draft Scheme, except those mandated by the regulators or authorities or court or tribunal, shall be made without specific written consent of SEBI.

5.2.4.2 The valuation report referred to in paragraph 5.2.4.1(c) above and the fairness opinion referred to in paragraph 5.2.4.1(e) above shall be provided by a Registered Valuer and Independent SEBI Registered Merchant Banker respectively. The Registered Valuer and the merchant banker referred therein shall not be treated as independent in case of existence of any conflict of interest among themselves or with the company, including that of common directorships or partnerships.

5.2.5 **Processing of the Draft Scheme by SEBI**

5.2.5.1 Upon receipt of the application from the unlisted MII, SEBI shall provide its observation letter or no-objection letter on the draft Scheme to the MII. While processing the draft Scheme, SEBI may seek clarifications from any person relevant in this regard including the unlisted MII and if required, may also seek an opinion from an Independent Chartered Accountant.

5.2.5.2 SEBI shall endeavour to provide its observation letter or no-objection letter on the draft Scheme within 30 days from the later of the following:

a. date of receipt of satisfactory reply on clarifications, if any, sought from the unlisted MII; or
b. date of receipt of opinion from Independent Chartered Accountant, if any, sought by SEBI; or
c. All complaints or comments received by SEBI on the draft Scheme, if any, shall be forwarded to the unlisted MII, for necessary action and resolution of the same.

5.2.6 Validity of observation letter or no-objection letter: The validity of the observation letter or no-objection letter of SEBI shall be for six months from the date of issuance, within which the Scheme shall be filed with any Court or Tribunal, as required, for approval.

ANNEXURES OF CHAPTER 3: ADMINISTRATION

Annexure- 3a: Terms of Reference for Statutory Committees of Clearing Corporations

S.N.	Name of Committee	Brief terms of reference
Functional Committees		
1.	**Member Committee (MC)**	**(I) On admission, transfer and surrender of membership/Withdrawal/Change in control.** a. Formulate the policy to scrutinize, evaluate, accept or reject applications for admission of members and transfer of membership and approve voluntary withdrawal of membership or withdrawal and Change in Control. b. The activities with regard to scrutinizing, evaluating, accepting or rejecting applications for admission, transfer surrender/withdrawal and change in control of membership can be implemented through an Internal Committee (IC) under MC. c. Also, in case of clearing corporations with commodity derivatives segment, the committee shall also look into: Approving the empanelment & cancellation of Warehouse Service Providers or Vault Service Providers or Assayers, accreditation of warehouse, etc. Reviewing the continuous functioning, monitoring, and compliance of norms by Warehouse Service Providers, Vault Service Providers and assayers. d. The activities with regard to empanelment, cancellation, continuous functioning, monitoring and compliance by Warehouse Service Providers or Vault Service Providers or

S.N.	Name of Committee	Brief terms of reference
		Assayers, accreditation of warehouse, etc. could also be implemented through an IC under MC. e. Define the Standard Operating Procedure (SOP) for the ICs, including the timelines to be followed by ICs, its composition, standardize criteria to scrutinize, evaluate, accept and grounds for rejection of applications, and other associated aspects to ensure uniformity and consistency while dealing. / with applications or cases. For scenarios not covered in the SOP, ICs should seek approval of MC. f. Oversee the implementation of the SOP by the ICs, including its timelines, uniformity and consistency in approach, based on quarterly report submitted by ICs. MC shall continue to be responsible and accountable for the activities of the ICs. **(II) <u>On Regulatory Actions</u>** g. Ensure that the clearing corporation has detailed SOP and processes in place towards monitoring the activities of its members through inspections. h. Ensure that there is mechanism for monitoring of its members on various parameters through technology and take necessary action for non-compliance. i. Formulate policy for regulatory actions, including warning, monetary penalty, suspension, withdrawal of clearing membership, declaring of default, expulsion, to be taken by the clearing corporations for various violations by the members of the clearing corporation. The policy should have an SOP for undertaking such actions. j. Based on the laid down policy, consider all cases of violations observed and impose appropriate regulatory measures on the members of the clearing corporation. k. For enforcement actions against violations, where no discretion of MC is involved, the same could be delegated to an

S.N.	Name of Committee	Brief terms of reference
		IC/Functional department head, provided corresponding regulatory action, including penalty amount, if any, is standardized in the policy framed by MC or through a circular issued by the clearing corporation/SEBI. If the same is delegated, quarterly report in this regard should be placed before MC by the IC/Functional department head. However, for scenarios which require immediate regulatory action, the clearing corporation shall inform the MC post imposition of such actions. l. Oversee the regulatory actions taken by IC/Functional department head, if delegated, including evaluating that no discretion has been exercised in the process. For any violation by IC/Functional department head, MC will be responsible and liable for the same. m. While imposing the regulatory measure, the Committee shall adopt a laid down process, based on the 'Principles of natural justice' and 'Principle of proportionality'. The 'Principle of natural justice' may be extended by the MC/IC, as applicable. n. Any request for review, appeal or waiver of penalty filed against actions taken by the Internal Committee (IC) of the Member Committee (MC),or against actions taken by the MII as per pre-approved policy on regulatory action shall be placed before the MC for its consideration.[222] o. Any request for review, appeal or waiver of penalty filed against actions taken by the MC from the date of implementation of this circular shall be handled by a mechanism set up by the Governing Board of the MII with Public Interest Directors and/or Independent External Professionals not forming part of the MC. The Governing Board shall issue the Standard Operating Procedure (SOP) with regard to handling of such review, appeal or waiver of penalty requests, if any, emanating out of actions taken by the MC. [223]

[222] Circular No.: SEBI/HO/MRD/POD-III/CIR/P/2025/112 dated August 05, 2025
[223] Circular No.: SEBI/HO/MRD/POD-III/CIR/P/2025/112 dated August 05, 2025

S.N.	Name of Committee	Brief terms of reference
		p. For further appeal against the decisions emanating out of the appeal mechanism of the MII, the members or participants would be free to approach appropriate authority based on the applicable law[224] **(III) <u>On Defaulter Members:</u>** q. Formulate the policy to realize the assets or deposits of defaulter or expelled member and appropriate the same amongst various dues and claims against the defaulter or expelled member in accordance with the Rules, Byelaws and Regulations of the clearing corporation and applicable regulatory provisions. r. The activities with regard to realization of assets, and deposits of the defaulter or expelled member and appropriation of the same amongst various dues and claims against the defaulter or expelled member, etc. can be implemented through an IC under MC. s. Define the SOP for the IC, including the timelines to be followed by IC and its composition. For scenarios not covered in the SOP, IC should seek approval of MC. t. In the event both the clearing member and the constituent trading member are declared defaulter, then the MC of the clearing corporation and that of the stock exchange shall work together to realise the assets of both the clearing member and the trading member. u. Admission or rejection of claims against such members over the assets of the defaulter or expelled member.
2.	**Nomination and Remuneration**	**<u>(I) Governing Board & its Members related aspects:</u>** a. Scrutinising and interviewing applicants for selecting the MD of the clearing corporation.

[224] Circular No.: SEBI/HO/MRD/POD-III/CIR/P/2025/112 dated August 05, 2025

S.N.	Name of Committee	Brief terms of reference
	Committee (NRC)	b. Adhering and developing a skill evaluation metrics to assess applications of new or existing PIDs and NIDs for their appointment and/or reappointment and recommending their names to the Governing Board. c. Ensuring at all times that the governing board comprises of directors with required skill set and expertise in the areas as provided in SECC Regulations, 2018. d. Ensure compliance with governing board level skill diversity at the time of appointment, reappointment or extension of tenure of PIDs or NIDs. e. Framing & reviewing the policy to carry out internal evaluation of every director's performance, including that of PIDs. f. Reviewing and recommending extension of the term of appointment and re-appointment of existing PIDs. g. Appointment of Independent External Professionals (IEPs). **<u>(II) KMPs related aspects:</u>** h. Identifying KMPs based on importance of activities carried out by them, including being key decision makers within the clearing corporation, other than those specifically provided under regulation 2(1)(j) of the SECC Regulations, 2018. For identifying KMPs, one of the criteria should be, persons (including employees/consultants) drawing annual pay higher than any KMP(s). i. Review, at least once a year hierarchical set ups across the departments, in order to identify KMPs due to a change in role and responsibilities assigned to them. Such review should necessarily include, consultants reporting to the MD/CEO or ED. j. The appointment and removal of KMPs other than resignations.

S.N.	Name of Committee	Brief terms of reference
		k. Laying down policy for accountability of KMPs. Further, mapping legal and regulatory duties to the concerned position and Delegation of Power (DoP) at various levels l. Laying down the policy for compensation of KMPs in compliance with the compensation norms prescribed under SECC Regulations, 2018 and ensuring that the compensation paid to KMPs is as per the compensation policy. m. Framing performance review parameters for evaluation of KMPs, including that of MD. n. Assess the performance of KMPs based on reports submitted by the functional heads/reporting authority, and observations, if any, received from SEBI, and submit such reports to the governing board every year. o. Determining the tenure of a KMP, other than a director, to be posted in a particular role within regulatory compliance, risk management and investor grievance vertical. p. Determining and finalizing the KRAs of all KMPs at the beginning of the year. Review the same in line with organizational needs. q. Ensuring that no KMP reports to a non-KMP. **<u>(III) On other organisation level related aspects:</u>** r. Ensure that no employee of the clearing corporation is working or reporting to an employee of any other company where the clearing corporation has invested and vice versa. s. Ensure that hiring of consultants is based on a pre-defined SOP of the clearing corporation. t. Framing, reviewing, implementing and monitoring SOP for imposing disciplinary actions against employees of clearing corporation.

S.N.	Name of Committee	Brief terms of reference
		u. Besides the above, it will also discharge the function as Nomination & Remuneration Committee under the Companies Act, 2013 and SEBI (LODR) regulations, 2015 as amended from time to time.
Oversight Committees		
3.	**Standing Committee on Technology (SCOT)**	a. Ensure availability of required IT infrastructure for core and critical functions under verticals for "Critical operations" and "Regulatory, compliance, risk management and investor grievances". b. Ensure existence of adequate Business Continuity Plan (BCP) and Disaster Recovery (DR) plans c. Ensuring sound and prudent policies, standards and procedures for managing technology risks and safeguard information assets in the clearing corporation. d. Review the implementation of technology risk management framework and strategy of clearing corporation. e. Monitor whether the technology used by the clearing corporation remains up to date and meets the growing demands of the markets. f. Periodic review of the IT system and network architecture design to identify any weaknesses in the existing design. g. Review of in-house availability of appropriate IT staff to manage IT systems and related outsourcing arrangement. h. Monitor the adequacy of system capacity and efficiency. i. To look into the changes being suggested by the clearing corporation to the existing software or hardware. j. Oversee investigation into the computerized risk management or clearing & settlement system, such as hanging or slowdown or breakdown etc. k. Ensure that transparency is maintained in disseminating information regarding slowdown or break down risk in Online Clearing & Settlement System and ensure that the Clearing

S.N.	Name of Committee	Brief terms of reference
		Corporation issues a press release specifying the reasons for any such breakdown. l. Approve Root Cause Analysis (RCA) of any stoppage of Clearing and Settlement system and report to the governing board and SEBI. m. Review the implementation of board approved cyber security and cyber resilience policy and its framework and ensure existence of advanced Cyber Security and Cyber Resilience framework at the clearing corporation. n. Review the identification and classification process of critical assets based on their sensitivity and criticality for business operations, services and data management. o. Ensuring that the scope of the system audit, cyber audit and VAPT of the clearing corporation is broad and representative of all critical areas of the clearing corporation. p. Monitoring the results of periodic cyber security and DR drills conducted by clearing corporations. q. Review and approve the report regarding overall cyber security posture and technology implementation at the Clearing Corporation and submit to the Governing Board. Upon approval by the governing board, submit the report to SEBI. r. On the above areas, the Committee shall submit a report to the Governing Board of the clearing corporation for necessary action, if any s. Such other matters as may be referred by the Governing Board of the Clearing Corporation and/or SEBI.
4.	**Regulatory Oversight Committee (ROC)**	Oversee the matters related to the following: a. <u>Compliance</u>: i.Oversee implementation and compliance with SECC Regulations, 2018 as amended from time to time and other

S.N.	Name of Committee	Brief terms of reference
		applicable rules and regulations along with SEBI Circulars and other directions issued thereunder. ii. Review the observations arising from various SEBI inspections, ensuring its advisories and findings are appropriately and timely addressed, and reports to governing board on timely basis. iii. Monitor and assess the clearing corporation against the PFMIs on an annual basis and submit a report to the governing board of the clearing corporation. b. <u>Code of Conduct</u> i. Lay down procedures for implementation of the code of conduct and prescribe the reporting formats for disclosures required under the code of conduct. ii. Oversee the compliance of the code of conduct by KMPs and members of statutory committees (except directors) iii. Review compliance with the provisions on "Code of Conduct & Institutional mechanism for prevention of Fraud or Market Abuse" at least once in a financial year and also verify that the adequacy and operational effectiveness of the systems for internal control. iv. Periodically oversee the dealings in securities by KMPs and IEPs. v. Periodically oversee the trading conducted by firms or corporate entities in which the directors of the Clearing Corporation hold twenty percent or more beneficial interest or hold a controlling interest. vi. While monitoring trades by KMPs and members of statutory committees, ROC shall take into consideration sensitive information held by them as per structured digital database maintained by clearing corporation.

S.N.	Name of Committee	Brief terms of reference
		vii. Monitor compliance with the fit and proper criteria by shareholders of CC c. Ensure the adequacy of resources dedicated to functions under verticals for "Critical operations" and "Regulatory, compliance, risk management and investor grievance". d. <u>Grievance Redressal mechanism</u>: i. Define policy and SOP for dealing with complaints by clearing corporation. ii. Review of complaint resolution process, complaints remaining unresolved over long period of time, etc. iii. Ensuring that Clearing Corporations take pro-active actions in case of repeated nature of complaints against particular CMs, if any. e. Supervising the functioning of Investors Services Cell of the clearing corporation. f. <u>Whistleblower Mechanism</u>: i. Frame the Whistle Blower Policy to be approved by the governing board ii. Communicate the whistle blower policy internally to all persons and display the same on the clearing corporation's website. iii. Review the whistle blower policy based on feedback received. g. Review the fees and charges levied by a Clearing Corporation including comments on its appropriateness, on a periodic basis as well as each time there is change.

S.N.	Name of Committee	Brief terms of reference
		h. Manage the Core Settlement Guarantee Fund (Core SGF) of the clearing corporation, including its investments as per norms laid down and ensure proper utilization of Core SGF.
5.	**Risk Management Committee (RMC)**	a. Formulate a detailed Risk Management Framework (RMF) which shall be approved by the governing board of the clearing corporation to ensure continuity of operation at all points of time. b. The RMF shall include the following: i. The framework for identification of internal and external risks; ii. Measures for risk mitigation including systems and processes for internal control and; iii. Business continuity plan. c. Monitor each risk associated with the functioning of the clearing corporation more specifically for functions under vertical 1 and 2. d. Review the RMF & risk mitigation measures at least once annually taking into account the changing industry dynamics and evolving complexity. e. Monitor and review enterprise-wide risk management plan and lay down procedures to inform governing board about the risk assessment and mitigation procedures. f. RMC shall coordinate with other committees. In case of overlap with activities of other committees, RMC may consider views of such committees. g. Monitor implementation of the RMF and also keep the governing board informed about implementation of the RMF and deviation, if any. h. Approve the Half-Yearly Risk report to be submitted by the Chief Risk Officer (CRiO) to SEBI and the governing board of the clearing corporation.

S.N.	Name of Committee	Brief terms of reference
		i. Comply with the roles and responsibilities as provided under the Companies Act 2013 and the SEBI (Listing Obligation and Disclosure Requirement), Regulations, 2015.
6.	**Investment Committee (IC)**	a. Evaluate each investment and divestment proposals, whether requiring infusion of funds or otherwise, except treasury investments. b. Evaluate proposals of capital expenditure. c. Make detailed analysis of existing investments. d. Investment Committee can provide the recommendation along with rationale to the governing Board

SEBI clarification/response letter dated August 22, 2024 on Joint Representation by MIIs on SEBI Circular dated June 25, 2024 on Statutory Committees at MIIs[41]

S.No	Query of MIIs	SEBI Comments
1.	**<u>All Committees</u>**: a) With regard to the term 'may" referred to in the composition of the various statutory committees, the same is considered to be optional. b) Wherever plural is used in the case of Non Independent Director (NID), IEP, it is understood that it includes singular also except in the case of SCOT since the Circular specifically mandates	a) As per SEBI circular dated June 25, 2024, the composition of the Statutory Committees is left to the discretion of the MIIs subject to compliance with the regulatory requirements. However, it is clarified that appointment of the Managing Director as part of Member Committee (MC) and Independent External Professionals (IEPs) as part of Standing Committee on Technology (SCOT), Regulatory Oversight Committee (ROC) and Risk Management Committee (RMC) shall be ensured. b) The understanding with the provision is appropriate.

[41] SEBI letter SEBI/HO/MRD/MRD-PoD-3/P/OW/2024/26682/12 dated August 22, 2024

S.No	Query of MIIs	SEBI Comments
	induction of at-least 2 IEPs in the Committee. c) There are certain activities that are essential and critical for the adherence/ completion of TOR, although these activities may not be covered as TOR. It is understood that such activities would be addressed by the concerned Committees.	c) Paragraph 6 of SEBI Circular dated June 25, 2024 may be referred in this regard.
2.	**For Nomination and Remuneration Committee (NRC), SCOT, ROC, RMC & Investment Committee (IC):** MD and relevant Key Management Personnel (KMP) can attend the entire meeting(s) as invitees.	As per the provisions of SEBI Circular dated June 25, 2024: a) KMPs including MD are not part of NRC. b) MD is not part of ROC. c) SCOT, RMC and Investment Committee may include the MD as member and KMPs like Chief Risk Officer (CRiO), Chief Information & Security Officer (CISO), Chief Technology Officer (CTO), etc. as invitees in meetings of certain Committees. However, if MD is not included as a member, then he/she may attend the meeting as an invitee for the specific agenda item(s) where their involvement is considered essential by the Chairman of respective Committees based on documented necessity rather than as a permanent invitee.
3.	**SCOT:** a) Clarity is required as to what constitutes 'expert' and 'practitioner' in cyber security'. b) Since the circular permits more Non Independent Directors (NIDs) and IEPs than Public Interest Directors (PIDs) in the composition of SCOT, there could be situations wherein proposals cannot be put to vote since the number of PIDs would be out-numbered by the non-PID members.	a) The terms of reference in this regard is clear and self-explanatory. b) As a special exception has been made for the composition of SCOT where the total number of PIDs shall not be less than the total number of other members of the Committee, excluding IEPs, it is clarified that voting on any resolution shall be considered to be valid when the total number of PIDs that voted is not less than other members of SCOT, excluding IEPs.

S.No	Query of MIIs	SEBI Comments
4.	**MC**: It is understood that a) It is at the discretion of the MII whether or not to form an Internal Committee(s). b) The interpretation of expertise in "Capital Markets" as prescribed by SEBI would broadly encompass a wide range of products and expertise including that in financial markets and commodity markets such as agriculture, warehousing etc. c) Various proposals have been stated for Internal Committee (IC) to be formed for Regulatory Actions under Member Committee(MC) and how enforcement action shall be taken against members by exchanges. Additional points were raised with respect to delegation to MII for system based actions and other routine actions to be delegated to officials of MII.	a) The understanding with the provision is appropriate. b) The term, "capital markets" can be construed to be an overarching term which has been used to include stocks, bonds, along with key components of the commodities markets such as agriculture, warehousing, etc. c) In this regard, it is stated that any action against members or participants for violations/non-compliance, no discretion shall be exercised by IC or the officials of the stock exchange and they shall act as per the SOP approved by MC. All decisions where discretion is required shall be referred to MC. Further MC shall be responsible for all actions being taken against members. Thus, the MIIs shall strictly follow the regulatory requirement in this regard.
5.	**NRC:** Regulation 38(3) of SECC Regulations, 2018 inter alia states that an employee of a recognised stock exchange or recognised clearing corporation shall not simultaneously be an employee of any other company where the recognised stock exchange or recognised clearing corporation has invested. In this context, the provision in the revised ToR of NRC states that "*Ensure that no employee of the stock*	In this regard, it is clarified that an employee of an MII cannot simultaneously be an employee of any other company where the MII has invested, whether treasury investment or otherwise. The revised provision does not restrict deputation of employees of an MII to its subsidiaries. As per the terms of NRC, they have to ensure that no employee of the stock exchange is working or reporting to an employee of any other company simultaneously where the stock exchange has invested and vice-versa.

S.No	Query of MIIs	SEBI Comments
	exchange is working or reporting to an employee of any other company where the stock exchange has invested and vice-versa." The above seems to indicate that the restriction does not apply to the deputation of employees from an MII to its subsidiaries. We request your confirmation on the above clarification	
6.	The SEBI Circular dated June 25, 2024 does not state clearly whether SEBI Circular No. SEBI/HO/MRD/DOP2DSA2/CIR /P/2019/13 dated January 10, 2019 on "Committees at Market Infrastructure Institutions (MIIs)" stands rescinded.	The circular SEBI Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019 dated January 10, 2019 was rescinded when the Master Circular of stock exchange, clearing corporation and depositories were issued.
7.	As per composition requirement, certain committees are required to have Chairperson with specific expertise. The MIIs have a well-diversified Board and Directors having the requisite qualifications and experience as prescribed under SECC Regulations. In view of the same, except for SCOT, we request SEBI to grant relaxation for having a Chairperson with specific expertise for all other Statutory Committees.	SEBI have amended the SECC Regulations, 2018 and D&P Regulations 2018 to have at least one PID with specific skill-sets and experience in each of the areas of technology, capital markets, legal and regulatory practice and finance and accountancy in the MIIs. These skills/qualifications are essential in the operations of the MIIs. Therefore, with specialized PIDs available in the above stated areas, the mentioned statutory committees shall be chaired by these specific PIDs only. In view of the above, the request is not acceded to.

Annexure 3b

Guide for CCs to frame criteria for performance review of PIDs:

a. ***Qualifications***[225]: PID's qualification in area of capital markets, finance and accountancy, legal and regulatory practice, technology, risk management and management or administration.

b. ***Experience***: PID's prior experience in area of law, finance, accounting, economics, management, administration or any other area relevant to the financial markets, including any recent updates in this regard.

c. ***Knowledge and Competency***:

i. Whether the PID has sufficient understanding and knowledge of the entity in which it operates and the applicable regulatory norms.

ii. Whether the PID has sufficient understanding of the role, responsibilities and obligations of PID under the relevant regulatory norms.

iii. How the PID fares across different competencies as identified for effective functioning of Board of the concerned CC (The CC may list various competencies and mark all PIDs against every such competency e.g. Constructive and analytical decision making abilities).

iv. Whether the PID has sufficient understanding of the risk attached with the business structure.

d. ***Fulfilment of functions:***

i. Whether the PID understands and fulfils the functions as assigned to him/her by the Board and the regulatory norms.

ii. Whether the PID gives views and opinion on various regulatory matters when comments are invited by SEBI through various means.

e. ***Ability to function as a team***:

[225] Pursuant to the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2023, the qualification criteria for PIDs has been revised.

i. Whether the PID is able to function as an effective team- member.
ii. Whether the PID listens attentively to the contributions of others and gives adequate weightage to the views and perception of other Board members.
iii. Whether the PID shares good interpersonal relationship with other directors.

f. ***Initiative***:
i. Whether the PID actively takes initiative with respect to various areas.
ii. Whether the PID insists on receiving information necessary for decision making.
iii. Whether the concerned PID keeps himself well informed about the functioning of CC and the external environment in which it operates.
iv. Whether the PID remains updated in terms of developments taking place in regulatory areas.
v. Whether the PID has identified any important issues concerning any matter which may involve conflict of interest for the concerned CC, or may have significant impact on their functioning, or may not be in the interest of securities market, and whether the PID reported same to SEBI.
vi. Whether the PID appropriately deals with critical matters.

g. ***Availability and attendance:***
Whether the PID is available for meetings of the Board and attends the meeting of Governing board and Committees regularly and timely, without delay. It must be ensured that the concerned PID hasn't remained absent for three consecutive meetings of the governing board and has attended seventy-five per cent of the total meetings of the governing board in each calendar year; failing which PID shall be liable to vacate office.

h. ***Commitment:*** Whether the PID is adequately committed to the Board and the CC.

i. ***Contribution:***
i. Whether the PID has contributed effectively to the entity and in the Board meetings.

ii. Whether the PID participates in the proceedings of Board meetings keeping in mind the interests of various stakeholders.

iii. Whether the PID actively deliberates and contributes on proposed business propositions and strategic decisions taking into consideration pros and cons of such propositions, long term outlook, business goals, cost-benefit analysis, etc.

j. ***Integrity:***

i. Whether the PID demonstrates highest level of integrity (including conflict of interest disclosures, maintenance of confidentiality, etc.).

ii. Whether PID strictly adhere to the provisions of the SEBI SECC Regulations, 2018, SEBI (D &P) Regulations, 2018 and any other regulatory provision, as applicable, along-with the code of conduct and code of ethics prescribed under other applicable regulatory norms.

iii. Whether disclosures such as dealing in securities and other regulatory disclosures are provided by PID on timely basis.

iv. Confirmation on PID being a Fit & Proper person.

v. Confirmation that PID doesn't disclose confidential information, including technologies, unpublished price sensitive information, unless such disclosure is expressly approved by the Board of directors or required under the applicable laws.

k. ***Independence:***

i. Whether PID is independent from the entity and the other directors and there is no conflict of interest.

ii. Confirmation as to non-association with relevant CC and its member.

iii. Whether the PID keeps regulators informed of material developments in the concerned CCs functioning, from time to time.

l. ***Independent views and judgment***:

i. Whether the PID exercises his/ her own judgment and voices opinion freely.

ii. Whether PID's participation in decisions taken during meetings are unbiased, based on ethical judgment and are in strict conformity to the applicable regulatory norms.

iii. Whether PID raises his concern if anything is observed contrary to regulatory norms and the expected norms of ethical conduct.

iv. Whether PID is committed to ensure that there is fairness and integrity in CCs system, in letter as well as spirit.

Annexure 3c

Skill evaluation metrics to assess the applications for appointment or reappointment of PIDs

Criterion	Weightage	Grouping	Indicative Parameters for Assessing the same
1. Value Assessment (Core personal attributes)	30%	(i) High Standards of Ethical Behaviour **(30%)**	• No instances of bribery, fraud, or malpractice. • No instances of misuse/ abuse of any position/ power. • Violation of any Acts, Rules, Regulations, Guidelines, Code, etc. • High degree of interpersonal skills and repute amongst peers and industry professionals. • Comments of CCs in case of any adverse comments by an independent HR agency.

Criterion	Weightage	Grouping	Indicative Parameters for Assessing the same
		(ii) Potential Conflict of Interest **(30%)**	• If there are any business interests / conflicts which were not disclosed. • If there are connections to competitors or other parties that may impede independence. • Whether such candidate has been a material supplier, service provider or customer (other than the user) of the CC or its subsidiary or has/had any other pecuniary relationship with CC or its subsidiary in the preceding three financial years. • Association of candidate / relative of candidate with the CC or its subsidiary or its associates in the capacity of director, advisor, KMP, etc. in any direct or indirect manner. • Association of candidate / relative of candidate with any major vendor of the CC or its subsidiary or its associates in the capacity of promoter, director, KMP, etc. • Association with any trading member or clearing member or their associates and agents of any CC.
		(iii) Integrity (**30%**)	• Civil Proceedings, if any, related to Financial and Ethical matters. • Criminal Proceedings, if any, related to Financial and Ethical matters.

Criterion	Weightage	Grouping	Indicative Parameters for Assessing the same
			• If the individual has been involved in civil or criminal proceedings, frauds, offences involving moral turpitude, corruption charges, abuse of various positions held etc. and if yes, • Parties to the issue. • Status of such cases. • Credit and Reputation Risk database check. • Criminal Records Database Checks. • Civil Litigation Database Checks. • Compliance Authorities Database Checks. • Regulatory Authorities Database Checks. • Web and Media Searches. • Serious and Organized Crimes Database Checks. • Comments of MII
		(iv) Availability (**5%**)	• No. of other directorships currently held / Other services provided in personal capacity, and time allotted for the same. • Whether the individual has sufficient time based on current professional obligations, for informed and balanced decision making. • Attendance record (In case of reappointment of the director).

Criterion	Weightage	Grouping	Indicative Parameters for Assessing the same
		(v) Political affiliations (**5**%)	• Whether the individual or his/her relative is a politically exposed person. (**A politically exposed person (PEP) is an individual with a high-profile political role, or someone who has been entrusted with a prominent public function.)**
2. General Competencies (General skillsets for CC Board level appointment)	30%	(i) Qualification, experience, and knowledge in the relevant skill set. (**50**%)	• Educational Qualifications. • Professional experience and knowledge. • Key assignments handled in past; attributable to the relevant skillset required by the CC. • Major achievements/career milestones. • Relevant and important Seminars/ webinars/ symposium/ conferences etc. addressed. • Contribution to Industry associations, professional memberships & academia, etc. • Policy advocacy. • Part of relevant committees (like RBI/SEBI, etc.).
		(ii) Leadership responsibilities (Corporate Governance, Strategy, and planning, etc.) (**50**%)	• Directorships / Committee memberships held in other Companies. • Communication skills, People management skills, Accountability. • Extended leadership experience resulting in a practical understanding of organizations, processes,

Criterion	Weightage	Grouping	Indicative Parameters for Assessing the same
			strategic planning, and risk management. • Demonstrated strengths in developing talent, planning succession, driving change and long-term growth.
3. Domain Expertise (Specialised competencies)	30%	(i) Technology (Fintech/ Block chain/Cyber Security/ Artificial Intelligence/ Machine Learning etc.) **(25%)**	• Significant background in the field of technology and digitisation, envisage new technological business trends, generate disruptive innovation and experience in creating new business models through technology. • Expertise or experience in information technology business, technology consulting and operations, emerging areas of technology such as digital, cloud and cyber security, intellectual property in information technology domain etc. relevant to CC.
		(ii) Legal and Regulatory practices**(25%)**	• Preferred experience in Securities Law. • Significant background in the field of law or having experience of working with a regulator with respect to framing, implementation or monitoring of the various applicable industry specific laws.

Criterion	Weightage	Grouping	Indicative Parameters for Assessing the same
		(iii) Finance and accounting **(25%)**	• Leadership or relevant experience of working in a financial firm or management of the finance function of an enterprise, proficiency in complex financial management, capital allocation, and financial reporting processes, or experience in actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor, or person performing similar function.
		(iv) Capital Markets **(25%)**	• Significant background in the field of capital market. Understanding of the functioning/mechanism of capital markets, its products, and its participants. • Experience in identifying and evaluating the significant risk exposures to the business strategy of the Company and assess the Management's actions to mitigate strategic, legal and compliance, and operational risk exposures. • Ability to identify and evaluate the significant risk affecting the business operations of the Company and to monitor the effectiveness of risk management framework and practices.

Criterion	Weightage	Grouping	Indicative Parameters for Assessing the same
4. CC Board Composition (Reduce Skill gap in the CC Board)	10%	Qualifications and experience in the areas of capital markets, finance and accountancy, legal and regulatory practice, technology, risk management and management or administration (**100%**)	• Fulfilling the requirement as per regulatory norms and desired skillset matrix of Board of directors of CC. • Based on new skill requirement assessment vis-à-vis skills and experiences of existing Board of directors of CC. • Possession of any additional/multiple skill sets, other than the desired skill set for which the person is being considered for the position of a PID. • A competency matrix detailing desired technical/functional (domain expertise) competencies vs competencies as captured from candidate profile.

Annexure 3d- Outsourcing policy Guidelines for Clearing Corporations

1. Definition

Outsourcing is an arrangement whereby an entity engages a third party (the service provider/ outsourced agency) to provide a service that may already or may conceivably be performed by the entity itself.

2. Material Outsourcing

The Clearing Corporations shall develop a process for determining the materiality of outsourcing arrangements with emphasis on the potential impact on the market, including where the service provider/ outsourced agency fails to perform.

3. Core and Critical activities of Clearing Corporations

3.1. The Core and critical activities of clearing corporations shall not be outsourced. However, clearing corporations may outsource activities to associate or group companies / entities of the CC, provided there is a clear demarcation of activities with clear arms-length relationship.

3.2. Further, services rendered by any intermediary registered with SEBI (e.g., custodians, depositories, etc.) shall not be covered under these guidelines.

3.4. The core and critical activities of the clearing corporations shall include but may not be limited to the following:

(a) Post trade activities and services such as clearing and settlement and risk management, inter-alia, including pay-in and pay-out of funds and securities, margin blocking, margin reporting, collateral management (including addition, release, maintenance), capital adequacy, stress testing;

(b) Enforcement of clearing corporation rules/self-regulation;

(c) Admission of clearing members;

(d) Monitoring and redressal of grievances;

(e) Maintenance and safe keeping of trade related data pertaining to clearing and settlement;

(f) Inspection of the members of the clearing corporation;

(g) Compliance functions;

(h) Core and Critical IT support infrastructure / activities for running the core activities of clearing corporations (however, where the infrastructure is being shared with the group / associate company / entity, the same shall be allowed with the pre-condition

of having a clear demarcation of infrastructure between the parties involved. Access control and responsibility would need to remain with the Clearing Corporations)

3.5. Certain Core activities may be outsourced to specialist vendors who are experts in their field (eg., IT services/ Network services/ IT Security etc.). However, in all such cases, the responsibility and control shall wholly vests with the clearing corporations. Further, in case the Trading and / or Clearing software is purchased from a vendor, then there must be an arrangement to keep the source code in escrow, such that in case of any issue with the vendor, the software can be taken out of escrow and used to continue the business.

4. Selection of Service Providers/ Outsourced agencies and Due Diligence

4.1. The service provider/ Outsourcing agency shall be subjected to appropriate due diligence to assess its capability to employ a high standard of care in performing the service and comply with its obligations under the outsourcing agreement. The due diligence should take into consideration qualitative and quantitative, financial, operational and reputation factors of the service provider/ Outsourcing agency.

4.2. The clearing corporations shall ensure that entities having proven high delivery standards or expertise in the field, are selected after a proper due-diligence process which may include parameters like track record, delivery standard, unique selling proposition, service standards.

4.3. Due diligence undertaken during the selection process should be documented and re-performed periodically as part of the monitoring and control processes of outsourcing.

5. Legal Accountability

5.1. Clearing Corporations shall ensure that there is a legally binding written contract with the service provider/ Outsourcing agency.

5.2. Clearing corporation shall ensure that the outsourcing arrangement does not in any way diminish its obligations and those of its board and senior management, to comply with relevant laws and regulations, guidelines and other directions.

5.3. The board and senior management of the clearing corporation shall retain ultimate responsibility for the effective management of risks arising from outsourcing.

6. Sub-contracting

6.1. Clearing corporations shall ensure that outsourced activities are further outsourced downstream only with the prior consent of the clearing corporation and with appropriate safeguards including proper legal documentation/ agreement.

6.2. Clearing corporations shall also consider the ability of the sub-contractor to perform the services as a part of the due diligence process.

7. Contract with Service Provider/ Outsourcing agency

7.1. Contractual terms and conditions governing relationships, functions, obligations and responsibilities of the contracting parties, potential conflict of interests should be carefully and properly defined in written agreements.

7.2. Every outsourcing agreement should address the risks and risk mitigation strategies identified at the risk evaluation and due diligence stages. Each agreement should allow for renegotiation and renewal to enable the CCto retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet its legal and regulatory obligations.

7.3. The agreement should provide for a dispute resolution mechanism, inter-alia specifying the resolution process, events of default, and the indemnities, remedies and recourse of the respective parties in the agreements.

8. Monitoring of Service Provider's/ Outsourcing agency's Performance

8.1. Clearing Corporations shall maintain the capability and appropriate level of monitoring and control over outsourcing agencies, in order to be able to maintain continuity of business, even in the event of disruption or unexpected termination of the service.

8.2. Clearing corporation should evaluate its aggregate exposure to a particular service provider/ outsourced agency in cases where the institution outsources various functions to the same service provider/ outsourced agency.

8.3. Clearing Corporation shall undertake periodic reviews of its outsourcing arrangements to identify new material outsourcing risks as they arise and analyze the impact of the arrangement on its overall risk profile and whether there are adequate internal expertise and resources to mitigate the risks identified.

9. Business Continuity at the Service Provider

9.1. Stock exchanges and clearing corporations should take appropriate measures to determine that its service providers/ Outsourcing agencies establish and maintain emergency procedures and a plan for business continuity /disaster recovery, with periodic testing of backup facilities.

10. Security and Confidentiality of Information

10.1. Clearing Corporations should have adequate procedures in place that require the service provider/ Outsourcing agency to protect exchange's proprietary, member-related and potentially market sensitive information and software from unauthorized usage.

11.Termination Procedures

11.1. Clearing corporations should include contractual provisions relating to the termination of the contract and appropriate exit strategies inter-alia specifying events that may trigger termination of the service contract, what will occur on termination and strategies for managing the transfer of the activity back to the stock exchange and clearing corporation or to another party.

12. Access to Information and other records

12.1. The outsourcing arrangement should provide for the access by the regulatory authority of the records of service providers/ Outsourcing agencies and other information relating to the activities that are relevant to regulatory oversight.

13. Audit

13.1. The outsourcing policy document shall act as a reference for audit of the outsourced activities. Audit of implementation of risk assessment and mitigation measures listed in the outsourcing policy document and outsourcing agreement/

service level agreements pertaining to IT systems shall be part of System Audit of Clearing Corporations.

Annexure 3e: Outsourcing policy Guidelines for LPCC

1. The LPCC is permitted to enter into outsourcing agreements with existing Clearing Corporations for the purpose of using their core and critical IT support infrastructure/ activities for running the core activities (transaction process, clearing and settlement) of the LPCC and related operations.

2. For the purpose of execution of repo in corporate bonds, the LPCC shall enter into necessary agreements with Stock Exchanges and their associated Clearing Corporations (CCs) for continuity purposes.

3. The transactions would be executed on the platform of exchanges. As part of the risk management process, the LPCC would define the risk management parameters, such as eligible bonds ISINs, applicable margins, type of collateral, applicable haircuts, quantum of collateral, etc. Further, for the purpose of margin blocking, collateral management, pay-in and pay-out of funds and securities, separate bank and demat account would be opened by the LPCC.

4. For clearing and settlement of repo transactions based on the parameters defined by the LPCC, and other related processes/ operations, the infrastructure of the existing CCs shall be used. For availing such facility/ service, the LPCC shall enter into comprehensive outsourcing agreements with the existing CCs.

a. **Selection Process**: The LPCC shall enter into outsourcing agreements with at least two existing CCs (Service Providers) so that there is complete redundancy and business continuity in place. The parameters for selection of Service Providers shall include at least the following parameters:

i. Proven technology and capacity to handle volume
ii. Experience of staff
iii. Compliance with cyber security requirements
iv. Speed of implementation with ability to adapt the existing segments/ modules in place
v. Ability to undertake software enhancement and customization as per LPCC requirements

vi. Ongoing support

b. **Fees & Charges:** In determining the charges, amongst others, the following type of charges, shall be taken into account:

i. Customization of systems – based on time and material
ii. Dedicated team for operations – based on time and material
iii. Platform fee – based on negotiation and subject to SEBI approval

Further, the existing transfer pricing between Stock Exchanges and CCs and interoperability charges shall also be taken into consideration.

c. **Role and Responsibility:** The outsourcing agreements shall encompass the following underlying principles:

i. The LPCC shall have the overall responsibility in respect of all the outsourced activities/ operations.
ii. Service Providers (SPs) themselves being MIIs, shall ensure that their platform, system and processes are in compliance with extant regulatory framework.
iii. For any dispute vis-a-vis the investors/ participants/ constituents with respect to clearing and settlement, the LPCC shall be liable.
iv. For any dispute with respect to trading in repo, the respective Stock Exchange shall be liable.
v. For system failure, the LPCC shall be liable and appropriate financial disincentive qua the repo segment may be imposed. The LPCC may in turn provide for necessary liability clauses in the contractual agreement with the Service Provider.
vi. Similarly, for any process failure, the LPCC shall remain liable, who may in turn provide for indemnity clauses in agreement with the Service Provider.
vii. In the event of any inter-se service disputes, between the LPCC and the SPs, neither there can be any service disruption, nor any market disruption, during the pendency of the said inter-se service disputes. Further, contracts should provide sufficient financial disincentive against market disruption and both the LPCC and the SP shall remain committed to provide uninterrupted service to the market participants, irrespective of their inter-se disputes pending for resolution before the competent authorities.
viii. There shall be no dilution in access of the regulator to the LPCC and its SPs in monitoring and inspecting the regulatory compliance by the LPCC and the SPs. For any violation of SEBI regulations the LPCC shall remain liable.

5. The LPCC shall handle the functions relating to risk management, rule setting viz. byelaws, rules, regulations and for the process of clearing and settlement, maintenance of SGF, decision making, default process, disciplinary proceedings, etc.

Annexure 3f:

Format For Quarterly Report To Sebi By Compliance Officer

https://www.sebi.gov.in/sebi_data/commondocs/nov-2024/AnnexureA1%20Format%20for%20Compliance%20Report%20from%20Stock%20Exchanges_%20and%20Clearing%20Corporations_p.pdf

Annexure 3g:

Format for Half-yearly Report to SEBI by Chief Risk Officer

https://www.sebi.gov.in/sebi_data/commondocs/nov-2024/AnnexureB%20Format%20for%20CRiO%20Report_p.pdf

Annexure 3h: Principles of PFMIs

Principle 1: Legal basis
An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Principle 2: Governance
An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Principle 3: Framework for the comprehensive management of risks
An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Credit and Liquidity Risk Management

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.
In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

Principle 5: Collateral
An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle 6: Margin
A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle 7: Liquidity risk
An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Settlement

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Central Securities Depositories and Exchange-of-value Settlement Systems

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Default Management

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

General Business and Operational Risk Management

Principle 15: General business risk
An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Principle 16: Custody and investment risks
An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Principle 17: Operational risk
An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Access

Principle 18: Access and participation requirements
An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Principle 19: Tiered participation arrangements
An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

Efficiency

Principle 21: Efficiency and effectiveness
An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Principle 22: Communication procedures and standards
An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Transparency

Principle 23: Disclosure of rules, key procedures, and market data
An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Principle 24: Disclosure of market data by trade repositories
A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

Annexure- 3i

Broad Framework for evaluation of MIIs by External Agency

Annexure- 3j: Rating Framework

Rating Framework							
Sample Rating Score	Scale/ Level of Governance	Assessment criteria					CC Overall final Rating Score
		Level of Compliance	Level of Comprehensiveness	Degree of improvement/ maintenance of score	Timelines/TAT and comprehensiveness	Number of non-compliances, replies submitted, and corrective actions taken	
4	Substantially Observed	CC substantially observes the criterion. Any identified gaps and shortcomings are not issues of concern and are minor or are self identified and appropriately mitigated by the CC, and therefore manageable. The CC is governing well.					3.51 to 4.00

3	Broadly Observed	The CC broadly observes the criterion. One or more issues of concern have been identified, which the CC is encouraged to address and follow up to better manage its risks or improve operations. The CCshould pursue further improvements in a defined and time-bound manner.	2.01 to 3.50
2	Partly Observed	The CC partly observes the criterion. One or more issues of concern have been identified, which will become serious if not addressed in a timely manner. Intervention is desirable by senior management by undertaking structural reforms, to address the issues.	0.51 to 2.00
1	Not Observed	The CC does not observe the principle. One or more issues of concern have been identified that warrant immediate action. Intervention is desirable by Governing Board to address the issues.	0.00 to 0.50

Annexure 3k - Parameters for evaluation of performance of Statutory Committees of CCs by External Agency

https://www.sebi.gov.in/sebi_data/commondocs/jan-2025/Annexure%20A%20-%20Parameters%20for%20external%20evaluation%20of%20Statutory%20Committee_p.pdf

Annexure 3l

<table>
<tr><th colspan="8">Rating Framework for performance evaluation of Statutory Committee of CCs</th></tr>
<tr><th rowspan="2">Sample Rating Score</th><th>Scale/</th><th colspan="5">Assessment criteria</th><th rowspan="2">Overall final Rating Score of Statutory Committee of CC</th></tr>
<tr><th>Level of Governance</th><th>Level of Compliance</th><th>Level of Comprehensiveness</th><th>Degree of improvement/ maintenance of score</th><th>Timelines/ TAT and comprehensiveness</th><th>Number of non-compliances, replies submitted, and corrective actions taken</th></tr>
<tr><td rowspan="3">4</td><td rowspan="3">Substantially Observed</td><td colspan="5">Statutory Committee of CC substantially observes the criterion. Any identified gaps and shortcomings are not issues of concern and are minor or are self-identified and appropriately mitigated by the Statutory Committee of CC, and therefore manageable.</td><td rowspan="3">3.51 to 4.00</td></tr>
<tr><td colspan="5"></td></tr>
<tr><td colspan="5">The Statutory Committee of CC is governing well.</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">Broadly Observed</td><td colspan="5">The Statutory Committee of CC broadly observes the criterion. One or more issues of concern have been identified, which the Statutory Committee of CC is encouraged to address and follow up to better manage its risks or improve operations.</td><td rowspan="2">2.01 to 3.50</td></tr>
<tr><td colspan="5"></td></tr>
</table>

		The Statutory Committee of CC should pursue further improvements in a defined and time-bound manner.	
2	Partly Observed	The Statutory Committee of CC partly observes the criterion. One or more issues of concern have been identified, which will become serious if not addressed in a timely manner.	0.51 to 2.00
		Intervention is desirable by the Chairman of the Statutory Committee by undertaking reforms, to address the issues.	
1	Not Observed	The Statutory Committee of CC does not observe the principle. One or more issues of concern have been identified that warrant immediate action.	0.00 to 0.50
		Intervention is desirable by Governing Board to address the issues.	

Annexure 3m
Format for Report on Complaints
(Norms for Scheme of arrangement by unlisted MIIs)

Part A

Sr. No.	Particulars	Number
1	Number of complaints received directly	
2	Number of complaints forwarded by SEBI	
3	Total number of complaints received (1+2)	
4	Total number of complaints resolved	
5	Total number of complaints pending (3-4)	

Part B

Sr. No.	Name of the Complainant	Date of Complaint	Status (Resolved/Pending)
1			
2			
3			

Annexure 3n

Format of the Compliance Report to be submitted along with the draft Scheme

It is hereby certified that the draft Scheme involving (Name of the entities) does not, in any way violate, override or limit the provisions of securities laws and the same is in compliance with the applicable provisions of this circular.

Company Secretary **Managing Director**

Certified that the transactions / accounting treatment provided in the draft Scheme involving (Name of the entities) are in compliance with all the Accounting Standards applicable to an unlisted entity.

Chief Financial Officer **Managing Director**

Annexure 3o
Format for Report on Unpaid Dues

Sr. No.	Particulars	Details of dues/fine/penalty	Amount (INR)	Reason for non-payment
1.	Pending Dues of SEBI			
2.	Pending Dues of Depositories			

REFERENCE - List of Circulars

S. No.	Circular/Communication Details
1	Circular Nos. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005
2	Circular No. CIR/MRD/DRMNP/9/2013 dated March 20, 2013
3	Modified vide Circular no. CIR/MRD/DRMNP/65/2016 dated July 15, 2016
4	Circular no. SEBI/HO/MRD/DRMNP/CIR/P/2019/33 dated February 21, 2019
5	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
6	Circular No. MRD/DoP/SE/Cir- 6/2006 dated June 16, 2006
7	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
8	Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated Nov 19, 2019
9	Circular No. MRD/DoP/SE/Cir-07/2005 dated February 23, 2005
10	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020
11	Circular No SEBI/HO/MRD2/DCAP/P/CIR/2022/60 dated May 10,2022
12	Circulars SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021
13	Circular Nos. CIR/DNPD/7/2011 dated August 10, 2011
14	Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020
15	Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/173 dated September 15, 2020
16	Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019
17	Circular No. MRD/DoP/SE/Cir- 06/2008 dated March 19, 2008
18	Included vide letter dated May 27, 2009 to Stock Exchanges
19	Circular No. CIR/MRD/DP/26/2012 dated September 26, 2012
20	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
21	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
22	Circular No. CIR/MRD/DP/ 26 /2012 dated September 26, 2012
23	Circular No. MRD/DRMNP/36/2012 dated December 19, 2012

24	Circular No. CIR/MRD/DRMNP/37/2013 dated December 19, 2013
25	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
26	Circular No. MRD/DoP/SE/Cir-10/2008 dated April 17, 2008
27	Circular No. CIR/MRD/DRMNP/008/2018 dated January 08, 2018
28	Circular No. SEBI/MRD/DP/27/2013 dated September 12, 2013
29	Circular No. Modified vide Circular no. SEBI/HO/MRD/DP/CIR/P/2017/11 dated February 10, 2017
30	Circular No. MRD/DRMNP/37/2013 dated December 19, 2013
31	Circular No. CIR/MRD/DP/15/2014 dated May 15, 2014
32	Circular No. MRD/DoP/SE/Cir-08/2009 dated July 27, 2009
33	Circular No. MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008
34	Circular No. CIR/MRD/DP/04/2014 dated February 06, 2014
35	Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020
36	Circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25,2020
37	Circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019
38	Circular no. SEBI/HO/MRD2/DCAP/P/CIR/2022/0022 dated February 24, 2022
39	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/016 dated February 01, 2023
40	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
41	Circular No. SEBI/HO/MRD/POD-III/CIR/2023/165 dated October 06, 2023
42	Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/58 dated May 24, 2024
43	Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/65 dated May 29, 2024

Circular No. SMD-II/11615/92 dated November 20, 1992.
Circular No. SMD/SED/6919/93 dated April 20, 1993.
Circular No. Ref.SMD-I/22532 dated October 19, 1993.

Circular No. SMD-II(N)/24456/93 dated December 7, 1993
Circular No. SMD/536/95 dated March 28, 1995
Circular No. Ref. SMD-II/52 dated January 10, 1996
Letter No. SMD/RCG/3737/96 dated August 13, 1996.
Circular No. SMD/POLICY/IECG/5694/96 dated December 20, 1996.
Circular No. SMD/POLICY/IECG/2-97 dated February 25, 1997.
Circular No. SMD/POLICY/CIRCULAR/3-97, dated March 31, 1997
Circular No. SMD/POLICY/CIRCULAR-27/97 dated November 05, 1997.
Circular No. SMD/POLICY/CIRCULAR-09/98 dated February 24, 1998.
Circular No. SMDRP/Policy/Cir-33/98 dated November 12, 1998.
Circular No. SMD/POLICY/CIR (DBA-II)-37/98 dated December 04, 1998.
Circular No. SMDRP/Policy/Cir - 25 /99 dated August 12, 1999
Circular No. SMD-II/POLICY/CIR-37/99 dated November 26, 1999.
Circular No. SMD-I/POLICY/CIR-40/99 dated December 16, 1999.
Circular No. SMD-II/ALLSE/CIR-02/2000 dated January 10, 2000
Circular No. SMDRPD/Policy/Cir-8/2001dated February 07, 2001
Letter No. LKS/229/2001 dated May 18, 2001
Circular No. SMDRP/Policy/Cir-41/2001 dated August 09, 2001.
Circular No. SMD/POLICY/CIR-2/2002 dated January 10, 2002.
Letter dated September 02, 2002.
Circular No. SMD/POLICY/CIR-4/2003 dated February 11, 2003.
Circular No. SMD/Policy/Cir-8/2003 dated March 4, 2003
Letter No. SMD/SEAD/9971/03 dated May 21, 2003.
Circular No. SEBI/SMD/SE/Cir- 19/2003/02/06 dated June 02, 2003
Circular No. SEBI/MRD/SE/15958/2003 dated August 22, 2003
Letter No. MRD/DSA/6899/2004 dated April 07, 2004
Circular No. MRD/POLICY/CIR-33/2004 dated September 30, 2004.
Circular No. MRD/DOP/SE/Cir-5/2005 dated February 9, 2005.
Letters dated August 31, 2005 / September 21, 2005.
Letter no. MRD/DSA/C&D/72675/06 dated July 27, 2006.
Circular No. MRD/DSA/SE/CIR- 28 /2008 dated October 17, 2008.
Letter dated November 6, 2008.
Letters dated February 20, 2009
Circular No. MRD/DoP/SE/Cir-10/2009 dated September 03, 2009
Circular No. MRD/DSA/SE/Cir-8/2010 dated April 1, 2010.
Circular No. SEBI/MRD/DSA-OIAE/Cir.09/2010 dated April 1, 2010
Circular No. MRD/DSA/17/2010 dated May 18, 2010

Circular No. SMD/MRD/DSA/24/2010 dated August 11, 2010
Circular No. CIR/MRD/DSA/29/2010 dated August 31, 2010
Master circular no. CIR/MRD/DSA/SE/43/2010 dated December 31, 2010
Circular No. CIR/MRD/DSA/29/2010 dated August 31, 2010
Circular No. CIR/MRD/DSA/2/2011 dated February 09, 2011
Circular No. CIR/MRD/DSA/03/2012 dated January 20, 2012
Circular No. CIR/MRD/DSA/04/2012 dated January 20, 2012
Circular No. MRD/DSA/06/2012 dated February 21, 2012
Circular No. MRD/DSA/14/2012 dated May 30, 2012
Circular No. CIR/MRD/ICC/29/2012 date November 7, 2012
Circular No. MRD/DSA/31/2012 dated November 27, 2012
Circular No. CIR/MRD/DSA/33/2012 dated December 13, 2012
Circular No. CIR/MRD/ICC/8/2013 dated March 18, 2013
Circular No. CIR/MRD/ICC/20/2013 dated July 05, 2013
Circular No. CIR/MRD/ICC/21/2013 dated July 05, 2013
Circular No. CIR/MRD/ICC/29/2013 dated September 26, 2013
Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013
Circular No. MRD/DSA/31/2013 dated September 30, 2013
Circular No. MRD/DSA/33/2013 dated October 24, 2013
Circular No. MRD/DSA/18/2014 dated May 22, 2014
Circular No. MRD/DSA/33/2014 dated December 09, 2014
Circular No. MRD/DSA/05/2015 dated April 17, 2015
Circular No. MRD/DSA/01/2016 dated January 01, 2016
Circular No. MRD/DSA/CIR/P/2016/30 dated January 22, 2016
Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2016/54 dated May 04, 2016
Circular No. MRD/DSA/CIR/P/2016/110 dated October 10, 2016
Circular No. SEBI/HO/MRD/DSA/CIR/P/2016/113 dated October 19, 2016
Circular No. MRD/DSA/CIR/P/2017/5 dated January 05, 2017
Circular No. MRD/DSA/CIR/P/2017/9 dated January 27, 2017
Circular No. SEBI/HO/DMS/CIR/P/2017/15 dated February 23, 2017
Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/24 dated March 16, 2017
Circular No. MRD/DSA/CIR/P/2017/27 dated March 27, 2017
SEBI email dated May 30, 2017
Circular No. MRD/DSA/CIR/P/2017/92 dated August 01, 2017
Circular No. SEBI/HO/MRD/DP/CIR/P/2017/101 dated September 13, 2017
Circular No. SEBI/HO/MRD/DSA/CIR/P/2018/14 dated January 29, 2018
Circular No. CIR/MRD/DRMNP/CIR/P/2018/145 dated November 27, 2018

Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/13 dated January 10, 2019
Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/26 dated February 05, 2019
Circular No. SEBI/HO/MRD/DOP2DSA2/CIR/P/2019/31 dated February 15, 2019
Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2019/55 dated April 10, 2019
SEBI email dated April 25, 2019 regarding clarifications on interoperability
Letter dated May 29, 2019
Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2019/145 dated November 28, 2019
Letter dated December 04, 2019
Circular No. SEBI/HO/MRD/DDAP/CIR/P/2020/16 dated January 28, 2020
SEBI email dated February 06, 2020
Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/45 dated March 23, 2020
Letter dated November 13, 2020
Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/245 dated December 21, 2020
Circular No. SEBI/HO/MRD/DCAP/CIR/P/2021/23 dated March 03, 2021
Circular no. SEBI/HO/MIRSD/DPIEA/P/CIR/2022/72 dated May 27, 2022
Circular no SEBI/HO/MIRSD/DOS3/P/CIR/2022/78 dated June 3, 2022
Circular no. SEBI/HO/MRD1/ICC1/CIR/P/2022/94 dated July 04, 2022
Circular no. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2022/173 dated December 16, 2022
SEBI letter dated January 5, 2023.
Circular No. SEBI/HO/MRD-PoD-3/P/CIR/2023/81 dated May 30, 2023
Circular no. SEBI/HO/MRD/MRD-POD-3/CIR/P/2023/104 dated June 26, 2023
Circular no. SEBI/HO/OIAE_IAD-1/P/CIR/2023/131 dated July 31, 2023
SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/190 December 19, 2023
SEBI Letter No. SEBI/HO/MRD/MRD-PoD-3/P/OW2024/14792/ 1-7 dated April 19, 2024 to MIIs
Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/65 dated May 29, 2024
Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/63 dated May 29, 2024
SEBI Letter No. SEBI/HO/MRD/MRD-PoD-3/P/OW/2024/26682/1 dated August 22, 2024 issued to MIIs
Circular No. SEBI/HO/MRD/POD-III/CIR/P/2024/127 dated September 24, 2024
Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/139 dated October 14, 2024

S. No.	Circular/Communication Details
1	Circular No. SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018
2	Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/155 dated December 17, 2018

S. No.	Circular/Communication Details
3	CIR/MRD/DoP-1/P/00108/2018 July 05, 2018
4	SEBI/HO/MRD/DRMNP/CIR/78 May 04, 2018
5	SEBI/HO/MRD/DRMNP/CIR/P/2018/75 May 02, 2018
6	SEBI/HO/MRD/DP/CIR/P/2018/67 April 11, 2018
7	SEBI/HO/MRD/DP/CIR/P/2018/50 March 15, 2018
8	SEBI/HO/MRD/DRMNP/CIR/P/2018/27 dated February 20, 2018
9	CIR/MRD/DRMNP/008/2018 January 08, 2018
10	SEBI/HO/MRD/DP/CIR/P/2017/102 dated September 13, 2017
11	Circular No. SEBI/HO/MRD/DP/CIR/P/2017 /98 dated August 31, 2017
12	Circular No. SEBI/HO/MRD/DP/CIR/P/2017/63 dated June 28, 2017
13	SEBI/HO/MRD/DRMNP/CIR/P/2017/32 April 18, 2017
14	SEBI/HO/MRD/DP/CIR/P/2016/143 dated December 27, 2016
15	CIR/MRD/DRMNP/65/2016 dated July 15, 2016
16	SEBI/HO/MRD/DP/CIR/P/2016/60 June 22, 2016
17	March 09, 2016 - Introduction of Exchange Traded Cross Currency Derivatives contracts on EUR-USD, GBP-USD and USD-JPY currency pairs and Exchange Traded Option contracts on EUR-INR, GBP-INR and JPY-INR currency pairs.
18	January 15, 2016 - Revised Position Limits for Currency Derivatives Contracts.
19	July 13, 2015 - Review of minimum contract size in equity derivatives segment.
20	June 12, 2015 - Exchange Traded Cash Settled Interest Rate Futures (IRF) on 6 year, 10 year and 13 year Government of India (GoI) Security.
21	April 08, 2015 - Revision of limits relating to requirement of underlying exposure for currency derivatives contracts
22	October 21, 2014 - Modification of client codes of non-institutional trades executed on stock exchanges (All Segments)
23	September 15, 2014 - Position Limits for Mutual Funds in 10-year Interest Rate Futures (IRF)
24	January 20, 2014 - FII Position Limits in Exchange Traded Interest Rate Futures (IRF)
25	December 05, 2013 - Exchange Traded Cash Settled Interest Rate Futures (IRF) on 10-Year Government of India Security.
26	July 08, 2013 - Revised Position Limits for Exchange Traded Currency Derivatives.
27	March 20, 2013 - Acceptance of Corporate bonds and Government securities as collateral from FIIs
28	Dec 19, 2012 - Requirement of Base Minimum Capital for Stock Broker and Trading Member
29	Nov 20, 2012 - Mini derivative (Futures & Options) contract on Index (Sensex & Nifty)
30	Jul 23, 2012 - Revision of Eligibility Criteria for Stocks in Derivatives Segment
31	May 23, 2012- Revised Position Limits for Trading Member (Banks) in Exchange Traded USD:INR derivative contracts

S. No.	Circular/Communication Details
32	December 30, 2011–Interest Rate Futures on 2-year and 5-year Government of India Security
33	Aug 10, 2011-Short-collection/Non-collection of client margins (Derivatives Segments)
34	Jul 05, 2011-Modification of Client Codes of Non-institutional Trades Executed on Stock Exchanges (All Segments)
35	Jun 02, 2011-Liquidity enhancement schemes for illiquid securities in equity derivatives segment
36	May 13, 2011-Self Clearing Member in the Currency Derivatives Segment
37	March 7, 2011-Futures on 91-day Government of India Treasury-Bill (T- Bill)
38	Jan 11, 2011-Introduction of Derivative Contracts on Foreign Stock Indices
39	Oct 27, 2010- European Style Stock Options
40	Jul 30, 2010- Options on USD-INR Spot Rate
41	Jul 15, 2010- Physical Settlement of Stock Derivatives
42	Jul 07, 2010- Revised Exposure Margin for Exchange Traded Equity Derivatives
43	May 04, 2010- Introduction of Index options with tenure up to 5 years
44	Apr 27, 2010- Introduction of derivative contracts on Volatility Index
45	Jan 19, 2010- Currency Futures on Additional Currency pairs
46	Jan 11, 2010- Market Wide Position Limits across Stock Exchanges
47	Jan 08, 2010- Standardized lot size for derivative contracts on individual securities
48	Dec 22, 2009- Delivery Period for Interest Rate Futures
49	Nov 13, 2009- Expiry Date for Equity Derivative Contracts
50	Oct 23, 2009- Trading Hours on Stock Exchanges
51	Aug 28, 2009- Exchange traded Interest Rate Futures
52	Mar 24, 2009- Revised Position Limits for Exchange Traded Currency Derivatives
53	Dec 02, 2008- Cross Margining across Exchange traded Equity (Cash) and Exchange traded Equity Derivatives (Derivatives) segments
54	Nov 06, 2008- Issuance of Electronic Contract Notes in Equity Derivatives Segment
55	Oct 20, 2008- Revised Exposure Margin for Exchange Traded Equity Derivatives
56	Oct 15, 2008- Revised Exposure Margin for Exchange Traded Equity Derivatives
57	Oct 06, 2008 -Eligibility criteria for introduction of derivatives on shares
58	Aug 08, 2008- Extending calendar spread treatment till expiry of the near month contract
59	Aug 06, 2008- Exchange Traded Currency Derivatives
60	Jan 15, 2008- Introduction of Volatility Index
61	Jan 11, 2008- Introduction of Index options with longer tenure
62	Dec 27, 2007- Introduction of mini derivative (Futures and Options) contract on Index - Sensex and Nifty

S. No.	Circular/Communication Details
63	Sep 11, 2007- Circular on acceptance of Foreign Sovereign Securities as collateral from Foreign Institutional Investors (FIIs) for Exchange Traded Derivative Transactions
64	Feb 15, 2006- Clarification to Circular No. DNPD/Cir-31/2006 dated January 20, 2006
65	Jan 20, 2006- Modification of the Trading Member/FII/Mutual Fund position limits for stock based exchange traded derivative contracts
66	Jan 20, 2006- Review of the eligibility criteria of stocks for derivatives trading especially on account of corporate restructuring
67	Sep 14, 2005- Trading by Mutual Funds in Exchange Traded Derivative Contracts
68	Nov 22, 2004- Clarification on the definition of institutional trades and use of physical contract note
69	Sep 28, 2004- Modifications in the STP messaging formats on account of implementation of the Securities Transaction Tax STT
70	Jul 16, 2004- Risk containment measures, position limits and the broad eligibility criteria of Stocks and Index on which futures and options could be introduced
71	Jul 08, 2004- Clarification for circular no. DNPD/Cir-25/04 dated June 10, 2004
72	Jun 10, 2004- Transaction work flow for the system of Straight Through Processing in the Indian Securities Market and standardisation of the messaging formats
73	May 26, 2004- Straight Through Processing Service in the Indian Securities Market
74	Apr 01, 2004- Mandatory use of STP system for all institutional trades executed on the stock exchanges
75	Mar 09, 2004- Trading by FIIs and NRIs in Exchange Traded Interest Rate Derivative Contracts
76	Feb 25, 2004- Issuance of Electronic Contract Notes - Debt Market
77	Feb 23, 2004- Minimum contract size for Exchange traded derivative contracts
78	Feb 06, 2004- Recognition of credit ratings given by reputed foreign credit rating agencies
79	Feb 03, 2004- Issuance of Electronic Contract Notes
80	Jan 05, 2004- Scheme for introduction of Exchange Traded Interest Rate Derivative Contracts on a basket of Government Securities
81	Oct 29, 2003- Trading by FIIs and NRIs in Exchange Traded Derivative Contracts
82	Apr 29, 2003- Issuance of Contract Notes in electronic form
83	Apr 19, 2003 -Circular-Scheme for introduction of Exchange Traded Interest Rate Derivative Contracts
84	Mar 13, 2003- Monthly Reporting Format-Circular
85	Dec 18, 2002- Adjustment in stock option contracts and single stock future contracts at the time of corporate actions
86	Dec 18, 2002- Review of recommendations of Dr. L. C. Gupta Committee on Derivatives.
87	Dec 18, 2002- Risk containment measures and broad eligibility criteria of stocks on which stock options and single stock futures could be introduced
88	Oct 03, 2002- Introduction of Straight Through Processing

S. No.	Circular/Communication Details
89	May 13, 2002- Format of the Monthly Reporting Format
90	Feb 12, 2002- Scheme of FII Trading in all Exchange Traded Derivative Contracts
91	Nov 02, 200-1 Scheme for introduction of Single Stock Futures and the Risk Containment Measures
92	Aug 24, 2001- Reporting of derivative transactions to the media and the newspapers
93	Jun 21, 2001- Adjustment of Corporate Actions for Stock Option
94	Jun 20, 2001 -Reporting of option contracts to SEBI
95	Jun 20, 2001 -Risk containment measures for Stock Option
96	Feb 13, 2001 -SMDRP/Policy/Cir-10/2001
97	Dec 15, 2000 -Use of Digital Signature on Contract Notes
98	Dec 11, 2000- Risk containment measures for Option on Indices
99	Jun 20, 2000- Daily reports for trading and settlement of derivative trades
100	May 31, 2000- Circular No.8726
101	Jul 28, 1999 -Risk Containment Measures for the Index Futures Market
102	Dec 03, 1998- Client Registration Form, Client Agreement, Clearing Member - Trading Member Agreement and Risk Disclosure Document for Derivatives Segment
103	Jun 29, 1998- Circular No.1847- Guidelines on Conduct of Certification Examination
104	Jun 16, 1998- Derivatives trading in India
105	Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/88 dated August 01, 2019
106	Circular No. SEBI/HO/MRD/CIR/P/2019/103 dated September 26, 2019
107	Circular No. IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019
108	Circular No. SEBI/HO/MRD/DOP1/CIR/P/2019/128 dated November 08, 2019
109	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/27 dated February 24, 2020
110	Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020
111	SEBI Email dated May 4, 2020 on Rationalisation of Strikes on Long dated options
112	Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated Jul 20, 2020
113	Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021
114	Circular No. SEBI/HO/MRD2_DCAP/P/CIR/2021/626 dated September 07, 2021
115	Circular No. SEBI/HO/MRD2/DCAP/P/CIR/2022/0022 dated February 24, 2022
116	Circular No. SEBI/HO/MRD2/MRD2_DCAP/P/CIR/2022/90 dated June 28, 2022
117	Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors dated December 19, 2022.
118	Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/11 dated January 10, 2023
119	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/016 dated February 01, 2023
120	Press Release No. 18/2020 dated March 20, 2020
121	Press Release No. 59/2020 dated November 25, 2020

S. No.	Circular/Communication Details
122	SEBI letter SEBI/HO/MRD2/2021/11510/01 dated June 03, 2021
123	SEBI letter SEBI/HO/MRD/11350 dated April 12, 2018
124	MIRSD/ON/114/2013 dated April 05, 2013
125	SEBI Email dated May 4, 2020 on Rationalisation of Strikes on Long dated options
126	Circular No. CIR/MRD/DP/12/2014 dated April 07, 2014
127	Circular No. CIR/MRD/DP/20/2014 dated June 20, 2014
128	Circular No. CIR/MRD/DP/17/2015 dated October 08, 2015
129	Circular No. SEBI/ HO/MRD/DOPI/CIR/P/2019/28 dated February 08, 2019
130	Circular No. SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021
131	Circular No. SEBI/HO/MRD2_DCAP/P/CIR/2021/626 dated September 07, 2021
132	Circular No. SEBI/HO/MRD2/DCAP/P/CIR/2022/0022 dated February 24, 2022
133	Circular No. SEBI/HO/MRD2/MRD2_DCAP/P/CIR/2022/90 dated June 28, 2022
134	Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors dated December 19, 2022.
135	Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/11 dated January 10, 2023
136	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2023/016 dated February 01, 2023
137	Press Release No. 18/2020 dated March 20, 2020
138	Press Release No. 59/2020 dated November 25, 2020
139	SEBI letter SEBI/HO/MRD2/2021/11510/01 dated June 03, 2021
140	SEBI letter SEBI/HO/MRD/11350 dated April 12, 2018
141	MIRSD/ON/114/2013 dated April 05, 2013
142	SEBI Email dated May 4, 2020 on Rationalisation of Strikes on Long dated options
143	Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/24 dated April 23, 2024
144	Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/65 dated May 29 2024
145	SEBI Letter SEBI/HO/MRD/MRD-POD-2/P/OW/2024/ 6845/1 dated February 21, 2024
146	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/116 dated August 30, 2024
147	Circular No. SEBI/HO/MRD/TPD-1/P/CIR/2024/132 dated October 01, 2024
148	Circular No. SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/140 dated October 15, 2024

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