

NSE Clearing Limited

(Formerly known as National Securities Clearing Corporation Limited)

Department : FUTURES & OPTIONS

Download Ref No: NCL/CMPT/39766

Date : December 26, 2018

Circular Ref. No:160 /2018

All Members,

Sub: Review of Risk management framework for Equity Derivatives Segment

This is with reference to SEBI circular no: SEBI/HO/MRD/DRMNP/CIR/P/2018/155 dated December 17, 2018 and in partial modification to Item no. 3 on Settlement Schedule and Item no. 9 on Margins of the consolidated circular no. 032/2017 (Download Ref No: NSCCL/CMPT/34657) dated April 17, 2017.

1. Settlement Schedule

The pay-in and pay-out of daily mark to market settlement, final settlement of futures contracts which are cash settled, premium settlement and the final exercise settlements of options contracts which are cash settled shall be effected before start of market hours on the next day as per the settlement schedule specified by the Clearing Corporation.

The current facility to clearing members to opt to settle their funds pay in obligation on a T+0 shall be withdrawn and all settlement shall be effected before start of market hours on the next day.

2. Margins

- a. Margin Period of Risk (MPOR) - The MPOR for all products in equity derivatives segment shall be set as 2 days. Accordingly, the initial and exposure margins shall be scaled up by the MPOR. 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.
- b. Price Scan Range- The price scan range for various products shall be computed as under

Product	Price Scan Range
Index Futures	(Higher of 3 sigma or 5% of underlying value)*square root (2)
Index Options	(Higher of 3 sigma or 5% of underlying value)*square root (2)
Stock Futures	(Higher of 3.5 sigma or 7.5 % of underlying value)*square root (2)
Stock Options	(Higher of 3.5 sigma or 7.5% of underlying value)*square root (2)

- c. Short Option Minimum Charge - The short option minimum charge for index options shall be 5%

- d. Exposure Margin- The exposure margin percentage computed for index and stock products shall be scaled up by square root of 2 and shall be as under

Product	Exposure Margin %
Index Futures and Options	3%*square root (2)
Stock Futures and Options	(Higher of 5% or 1.5 sigma) *square root (2)

Exposure margins stipulated for long dated options (options with expiry date of more than 9 months) vide our circular no 20/2018 (Download Ref No: NSCCL/CMPT/37071) dated February 28, 2018 shall continue.

A summarised view of margins applicable after incorporating the above changes including MPOR of 2 (square root (2) = 1.41) is placed below

Product	Initial Margin (Price Scan Range)	Short Option Minimum Charge	Exposure Margin %
Index Futures	Higher of 3 sigma*1.41 or 7.07% of underlying value	NA	4.24%
Index Options (*Excluding long dated options)	Higher of 3 sigma*1.41 or 7.07% of underlying value	5%	4.24%*
Stock Futures	Higher of 3.5 sigma*1.41 or 10.61% of underlying value	NA	Higher of 7.07% or 1.5 sigma *1.41
Stock Options	Higher of 3.5 sigma*1.41 or 10.61% of underlying value	7.50% (No Change)	Higher of 7.07% or 1.5 sigma *1.41

All other provisions with respect to settlement and margins shall continue to be applicable

The provisions of the circular shall come into effect from **January 21, 2019**. Members are requested to take note of the above.

**For and on behalf of
 NSE Clearing Limited
 (Formerly known as National Securities Clearing Corporation Limited)**

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