ace Commodity Exchange

MARGIN COLLECTION AND REPORTING

FREQUENTLY ASKED QUESTIONS (FAQs)

1. Whether collection of margins from clients is required in commodities future market?

It is mandatory for Members to collect initial margins from respective clients / constituents on an upfront basis. Members will have time till 'T+2' working days to collect other margins (except initial) from their clients.

2. Whether collection of margins from clients is required as per EOD margin rates or BOD margin rates as received from exchanges?

Exchange levies higher of VaR or minimum initial margin. VaR margins are computed multiple times during the day and levied real time. Members are required to ensure upfront collection of initial margins from the client as per EOD file.

3. Whether collection of margins from clients is acceptable in form of demat commodities / ware house receipts?

Yes. Member can collect margin in form of approved commodities which are traded on the Exchange platform after applying appropriate haircuts.

4. In what form should a member collect margin from its clients?

The Exchange through its circular No. ACE/L&C-009/2011/057 dated June 16, 2011 advised members that margins collected from clients should be in such forms which are highly liquid and are owned by the depositing client. The Exchange further advised members to not accept collaterals such as third party collaterals, immovable properties and other illiquid collaterals towards settlement/ margin requirements of their clients.

Members may collect margins from its respective client, in any of the following form, after taking into account their risk management policy and liquidity aspects.

1. Cash (by way of cheques, bank transfer, etc.)

2. Cash Equivalent:

   (a) Bank Guarantee (BG): Bank guarantee received towards margin issued by any approved bank and discharged in favor of the Member.
   (b) Fixed Deposit Receipt (FDR): Fixed deposit receipts (FDRs) received towards margin issued by any approved bank and lien marked in favor of the Member.
   (c) Government of India Securities (GOISEC) in electronic form with appropriate haircut.

3. Securities in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges with appropriate haircut.

4. Units of liquid mutual funds in dematerialized form, who's NAVs are available and which could be liquidated readily with appropriate haircut.

5. Commodities actively traded on the National Commodity Exchanges with appropriate haircut.

5. Which are the components which should not be considered and reported as margin collected from clients?

Margin collected in any form other than prescribed by the Exchange should not be considered for margin reporting.

The following is an indicative list of collaterals that shall not be considered towards margin collection:-

- Immovable properties
- Securities declared as illiquid by the National Exchanges
- Post dated cheques
- Cheques not cleared / bounced back / returned unpaid
- Cheques not banked till the margin date
- Value of BG created by the member against funds / FDR's / any other collaterals received from clients / constituents

6. Can securities other than those in the approved list of securities be considered while reporting margin collection to the Exchange?

No, the securities other than those in the approved list of securities cannot be considered while reporting margin collection to the Exchange

7. What is the procedure for valuation of Securities?

For the purpose of client Margin collection and reporting, the member shall compute the value of such securities as per the closing rate on T-1 day as reduced by the appropriate haircut as specified by Exchange.

8. What is the procedure for valuation of Commodities?

For the purpose of client Margin collection and reporting, the member shall compute the value of Commodities as per the Spot rate on T-1 day as reduced by the appropriate haircut specified by the Exchange.

9. What methodology should be adopted while reporting margin received in the form of liquid mutual funds?

Dematerialized units of liquid mutual funds whose NAVs are available and which could be liquidated readily may be considered while reporting margins collected from constituents. Such units should be available with the member or should be lien marked in favour of the member. The value of listed liquid mutual funds should be computed based on the NAV on T-1 day, reduced by a haircut equivalent to the VaR. In case of others (mutual funds not listed) the haircut should be equivalent to 10% of the NAV.

10. What methodology should be adopted while reporting margin received in the form of Government securities and Treasury bills?

- G-Sec/T-Bills available in electronic form or lien marked in favour of the trading member / clearing member may also be considered while reporting margin collection to the Exchange.
- The valuation of G-Sec/T-Bill shall be based on closing price of G-Sec/T-Bills on NDS on T-1 day reduced by a haircut of 10%.

11. What precautions are to be kept in mind in case of cheques received from Members?

- Cheques received / recorded in the books of Trading Member on or before T day and deposited by member by T+1 day (excluding bank holiday, if any) and cleared subsequently, can be considered.

- In case a cheque is received from a client and the same is recorded in the books on or before T day and deposited by T+1 day, Member shall report the margin collected from such client after considering the effect of such cheque, if the same is cleared within T+5 days.

- Only cheques which are cleared should be considered and cheques dishonored or not cleared up to T+5 working days should not be reported as margin collected.

- If subsequent to the margin reporting by the Member, the cheque deposited by the Member is dishonored or not cleared within T+5 working days, then revised margin file shall be uploaded after factoring into the effect of such dishonored or non-cleared cheques within the above mentioned five days.

12. What are the related entities for a client, whose balances/securities can be considered for collection and reporting margin?

Collaterals / Securities should be held in the name of entity who has traded on the platform.

13. What does short reporting of margin mean?

In case a Member fails to collect requisite margin from the respective client and reports to the Exchange that margin collected from client is less than the actual amount of margins required to be collected (as per the exchange file), it is termed as short reporting of margin collection and shall attract applicable penalty.
Non reporting of margin is also considered as short collection of margin and attracts applicable penalty

14. What does wrong reporting of margin (Non Compliance) mean?

Where the Margin has not been collected by the Member, however the same has been reported by the member as margins collected, it would be construed as wrong reporting to the Exchange and shall attract applicable penalty.

15. In case of short reporting of margin can member pass on the penalty to the clients?

If the penalty levied by the Exchange on the member for short reporting of client margin is attributable to failure on part of the client to pay margins as required, member may pass on the actual penalty to the client, provided he has evidences to demonstrate the same.

16. Whether collection of MTM is required if Client Closes its positions within two working days?

MTM losses has to be collected by the member from the client even if the client has squared off his position unless the member has sufficient cash available with him to adjust the MTM loss.

17. Can a member collect additional margins from their clients?

Members can collect additional amounts towards margins as per their system of risk management to protect themselves from client level default.

18. What methodology should be adopted while reporting margin collection in case margin is received in the form of funds?

In respect of funds received towards margin

Free Funds in the account of respective client can only be considered towards funds which means

(+) Credit balance in client ledger
(-) debit balance in client ledger should be first set off
(+) Value of margin deposits
(+) margin amount if debited in client ledger
(+) All open debit bills representing MTM loss or otherwise which are not due for settlement for which entries are passed in client ledger till T Day
(-) All open credit bills representing MTM profit or otherwise which are not due for settlement for which entries are passed in client ledger till T Day
(+) Funds received from client or settlement payout of Exchange only after ensuring that the same is received from/belongs to respective client
(+) cheque received from client only if deposited with bank for clearing/collection and entry is made in respective client ledger account till margin date
(-) cheque is returned unpaid
(-) debit balance in client ledgers in respective segment/margin obligation should be first set off

19. Clarifications regarding open bills and the treatment of the same while reporting margins to the Exchange?

Wherever members are following T day billing viz. debiting / crediting client ledgers with the value of MTM / settlement on the date of transaction and not the settlement day, in such a scenario, all the bills pertaining to MTM / settlement which are not yet due for settlement till the margin date are termed as open bills and should be reversed for arriving at the Free funds in ledgers of the client for the purpose of reporting margins to the Exchange

In case members are following settlement day billing system viz. debiting / crediting client ledgers on T+1 day, in such a scenario, members need not reverse the effect of any such bills while considering ledger balances for the purpose of reporting of margins.

20. What are the applicable penalties for shortfall in client margin collection?

Penalty shall be levied as per below details

For each member	
‘a’	**Per day penalty as % 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 day

- If short-collection/non-collection of margins for a client continues for more than 2 consecutive days after T+2 working days, then a penalty of 1% of the shortfall amount shall be levied on 3rd day of continued shortfall.

- In case of short-collection /non collection of initial margins, the above penalty structure would be applicable from T day

- With respect to repeated defaulters who default more than 3 times during a month, the penalty would be 5% of the shortfall in such instances.

21. Whether margin reporting is applicable for proprietary code?

The Exchange shall provide margin details of ‘OWN’ account in the file. However, margin reporting for ‘OWN’ account is optional for members and non-reporting shall not be taken into account for the purpose of levy of penalty

The reporting of short/ non collection of margins applies to collection of margins by members from their clients. In case of a trading member who trades on his own account and pays margins to the exchange, the requirement for margin reporting does not arise.