भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2021/586 **June 29, 2021**

To,

The Managing Directors / Chief Executive Officers,
All Clearing Corporations having Commodity Derivatives Segment

Sir / Madam,

Sub: Cross Margin in Commodity Index Futures and its underlying constituent futures or its variants

1. SEBI has prescribed norms, inter-alia, for providing margin benefit on spread positions in commodity futures contracts, vide various circulars. In order to improve the efficiency of the use of the margin capital by market participants, it has been decided to introduce cross margin benefit between Commodity Index futures and futures of its underlying constituents or its variants. This shall 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.

2. Therefore, based on the consultation with the stakeholders, the following provisions shall be applicable in this regard;

   2.1. **Computation of cross margin benefit:**

   2.1.1. 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 Extreme Loss Margin and Market to Market Margin shall continue to be levied.

   2.1.2. 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.

   2.2. **Separate Accounts**

   2.2.1. 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.

2.2.2. 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.

2.3. **Eligibility**

2.3.1. 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.

2.3.2. 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.

2.3.3. Clearing Corporations/Exchanges 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.

2.4. **Default**

2.4.1. 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:

2.4.1.1. Hold the positions in the cross margin account till expiry, in its own name.

2.4.1.2. Liquidate the positions / collateral and use the proceeds to meet the default obligation.

2.5. **Agreement**

2.5.1. The 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.

3. Clearing Corporations 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 2.3.3.

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

5. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

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