
NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all trading and clearing members of the Exchange

Circular No : NCDEX/COMPLIANCE-003/2014/083

Date : March 28, 2014

Subject : Mechanism for regular monitoring of short-collection non-collection of margins

During the audit/inspection of books of accounts of the members and during enquiry and investigation, the Forward Markets Commission (FMC) has noticed several instances of non-collection/ short collection of margins by members from their clients. Hence, in order to regularly monitor the collection of margins by members and also provide a reasonable time to members for collection of margins from their clients, FMC has decided to revise the instructions on short-collection/ non-collection of margins which was earlier communicated to the market participants vide Exchange circular No. NCDEX/COMPLIANCE-001/2010/089 dated April 1, 2010.

A copy of revised guidelines dated March 14, 2014 of the FMC in this regard is enclosed with this circular. It may please be noted that these guidelines shall come into force with effect from **April 01, 2014.**

Members are advised to comply with the above guidelines and are further directed to implement suitable mechanism to monitor client trades and to intimate the clients as and when the margins are used up to an appropriate level as considered fit.

For and on behalf of

National Commodity & Derivatives Exchange Limited

Amit Mahesh Pujara

Vice President – Compliance, Inspection & Audit

For further information / clarifications, please contact

1. Customer Service Group on phone: 022 6640 6613 -15, 011 2334 4795
2. Customer Service Group by e-mail to : askus@ncdex.com

To,

(i) The Managing Director & CEO, Multi Commodity Exchange of India Ltd.,(MCX), Exchange Square, CTS No. 255, Suren Road, Andheri (East), Mumbai – 400093.

(ii) The Managing Director & CEO, National Commodity & Derivatives Exchange Ltd,(NCDEX), Akruti Corporate Park, LBS Road, Kanjur Marg (W), Mumbai – 400 078.

(iii) The Managing Director and CEO, National Multi Commodity Exchange of India Ltd.,(NMCE), 5, 4th Floor, H. K. House, B/h, Jivabhai Chambers, Ashram Road, Ahmedabad – 380 009.

(iv) The Chief Executive Officer, Indian Commodity Exchange Limited,(ICX) Romell Technology Park, 8th Floor, Nirlon Compound, Western Express Highway, Goregoan East, Mumbai – 400 063.

(v) The Chief Executive Officer, ACE Derivatives and Commodity Exchange Limited, 401 B, 4th Floor, Building No.4, Infiniti IT Park, Gen. AK Vaidya Marg, Dindoshi, Malad (E), Mumbai – 400 097.

(vi) The Managing Director and CEO, Universal Commodity Exchange, (UCX) Exchange House, Millennium Business Park, Mahape, Navi Mumbai-400710.

Sub: Mechanism for regular monitoring of short-collection/non-collection of margins.

Sir,

The Commission vide its letter No. 6/6/2007- MKT-I dated 5th March, 2010 had prescribed a penalty on members of National Commodity Exchanges for non-collection/short-collection of margins from their clients.

2. During the audit/inspection of books of accounts of the members and during enquiry and investigation, the Commission has noticed several instances of non-collection/short collection of margins by members from their clients. However, there is no mechanism at present to monitor on a regular basis the implementation of this directive.

3. It has also been brought to the notice of the Commission by the members of the Exchanges that since trading in commodity futures takes place till late evening, they need time to collect margins other than initial margins from their clients.

4. These issues have been discussed by the Commission with the Commodity Exchanges and their members. This issue has also been discussed by the Risk management Group of the Commission. The Risk management Group has also acknowledged the constraints faced by the members and clients and suggested that guidelines may be reviewed to provide a reasonable time to members to collect margins from their clients.

5. Hence, in order to regularly monitor the collection of margins by members and also

provide a reasonable time to members for collection of margins from their clients, the Commission has decided to revise the instructions on short-collection/ non- collection of margins issued vide earlier circular No.6/6/2007-MKT-II dated 5th March 2010 as under:-

(i) The 'margins' for this purpose shall mean mark to market margin, special / additional margin, delivery margin or any other margin as prescribed by the Exchange to be collected by member from their clients.

(ii) The members are required to collect upfront initial margins from their clients.

(iii) The members will have time till 'T+2' working days to collect margins (except initial margins) from their clients.

(iv) The Member shall report to the Exchange on T + 5 day the actual short collection/non collection of all margins from clients.

(v) Penalty shall be levied as per the details given below on the members for short / non-collection of margins from their clients beyond T + 2 working days:

| For each member | |
|---|---------------------------------|
| 'a' | Per day Penalty as % age of 'a' |
| (< Rs 1 lakh) And (< 10% of applicable margin) | 0.5 |
| (>= Rs1 lakh) Or(>= 10% of applicable margin) | 1.0 |

Where a = Short – collection/Non-collection of margins per client per day.

(vi) If short-collection/non-collection of margins of a client continue for more than three consecutive days after T+2 working days, then a penalty for 1% of the shortfall amount shall be levied for each day of continued short fall.

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

(viii) The Exchanges should 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 and to report short collection/non-collection of all margins on the T+5 day.

(ix) All instances of non-reporting shall amount to 100% non collection of margin and the penalty as prescribed above shall be charged on these instances in respect of non-collection.

(x) The penalty shall be collected by the Exchanges not later than five days of the last working day of the trading month.

(xi) 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.

(xii) All the penalties collected as prescribed above shall be credited to the Investor Protection Fund.

(xiii) Report on the penalties as collected by the Exchanges shall be submitted to the Commission by the 10th day of the following month.

(xiv) Exchanges shall examine implementation of these instructions during the inspection of its members. If during inspection or otherwise, incorrect reporting on collection of margin from client by member is found, the member shall be penalized up to 100% of such amount short collected.

(xv) The Exchange 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.

6. The above directives may be disseminated on the terminals of the Exchanges on receipt of this letter. A suitable circular may be issued to the members of the exchanges and compliance in this regard may be intimated to the Commission. This shall come into force with effect from 1st April, 2014. The Exchanges may also amend their Bye-laws/Rules/Regulations/Business Rules suitably to incorporate the above directives of the Commission.

Yours faithfully,

SD/-

(Supriya Devasthali)
Director