Equity Research

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BSE Sensex: 44150

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Sector update

INDIA

Indian exchanges

New margin norms sets in from December

With effect from 1st Dec'20, SEBI has mandated collection of upfront margin from clients, which can be peak margin or EOD margin, whichever is higher, in intraday as well as delivery. Brokers will move away from using the end of the day position to calculate margin requirement to using intraday peak margins. Anecdotal evidence suggests that maximum number of trades undertaken in the system are largely intraday in nature and, with this regulation kicking in, there can be an impact on overall volumes traded on the exchanges (both cash and derivatives segment).

Peak margin regulation will be implemented in the phased manner mentioned below.

- Phase 1: 25% of the upfront margin to be available before the trade is being executed from 1st Dec'20 to 28th Feb'21.
- Phase 2: 50% of the upfront margin to be available before the trade is being executed from 1st Mar'21 to 31st May'21.
- Phase 3: 75% of the upfront margin to be available before the trade is being executed from 1st Jun'21 to 31st Aug'21.
- Phase 4: 100% of the upfront margin to be available before the trade is being executed from 1st Sep'21.

What happened in Sep'20? SEBI had relaxed penalty provision in the upfront margin requirement in Sep'20 on the condition that client provides at least 20% of VAR + ELM. However, this was applicable in the cash delivery segment, while brokers continued to provide leverage in the intraday segment. As such, depending upon the extent of margin collection in intraday segment, different brokers will experience varying levels of volume impact from Dec'20. Some brokers with technology prowess used to provide a higher leverage (5-10% of VAR + ELM) based on the strict stop loss mechanisms. However, the new regulation of peak margin requirement will neutralise any such technology prowess as all brokers will be required to ensure that peak margin requirements are fulfilled throughout.

Impact will increase gradually as we move to 100% of the upfront margin collection norm in Sep'21, but volumes can adjust gradually. This will be more pronounced in derivatives where the inherent lot size can make total margin requirement substantially higher. Assuming margin requirement for derivatives (buying and selling futures and writing options) is ~Rs150,000 (15% of a NIFTY lot value of Rs9,75,000). An option writer currently needs to provide only Rs37,500 as margin money (Rs1,50,000 x 25%), which will eventually turn to Rs1,50,000 post Sep'21. This can severely impact option volumes as there will be a direct impact on liquidity. It remains to be seen whether some volumes move from F&O to cash.

Anecdotal examples point to a likely impact on intraday volumes. As per Zerodha website (Link), percentage of intraday orders on cash/derivatives on its platform is 55%/40% respectively. In value terms, the same is 70%/40% respectively. As per media articles, 99% of retail trades in F&O is intraday and more than 40% of these trades are due to excess leverage provided by the brokers. This can have serious implications going forward. (Link)

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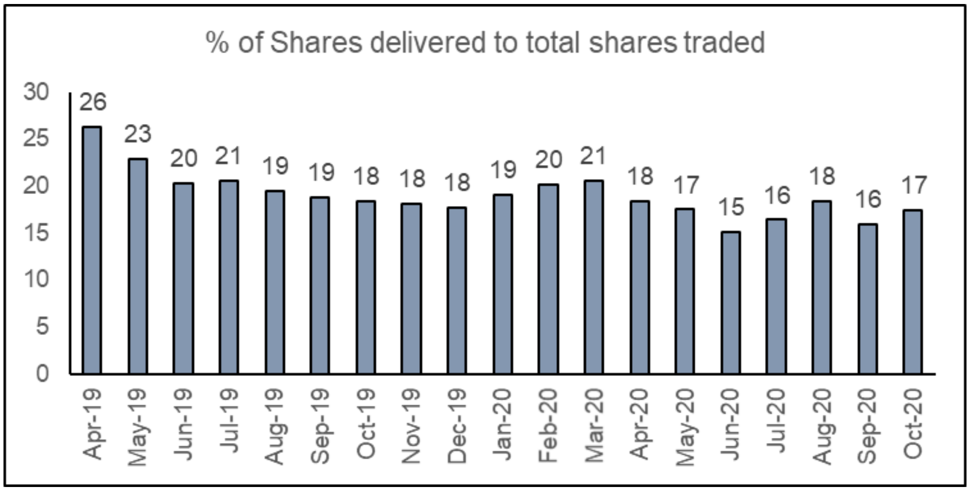
Intraday continues to be the bulk of volumes in cash segment

Chart 1: For NSE, percentage of shares delivered to total shares traded stood at less than 20% in FY21



Source:NSE

How does peak margin facility work and how it can impact overall trades

Clearing corporations shall send minimum four snapshots of client-wise margin requirement to TMs/CMs for them to know the intraday margin requirement per client in each segment. The snapshots would be randomly taken in pre-defined time windows.

The member must report margin collected at the EOD and peak margin snapshot across the day; higher of the two will be considered as margin requirement.

Brokers are required to keep special checks in place to ensure the *intraday 2* and *intraday 4* as illustrated do not enter the system. If they do, then penalty on the shortfall becomes applicable.

Table 1: How peak margins work

Cash at the start of the day (Rs)	**10,000**		
If client has taken four positions during the day			
which includes	Amount of position	Minimum Margin (Var + ELM)	Min Margin requirement (25% of VAR + ELM) between 1st Dec'20 to 28th Feb'21
Position - Intraday	1,50,000	37,500	9,375
Position - Intraday 2	1,75,000	43,750	10,938
Position - Intraday 3	3,50,000	87,500	21,875
Position - Intraday 4	50,000	12,500	3,125
Peak margin requirement during the day (A)			21,875
Profit in above mentioned trades	5000		
Cash at the start of the day	10000		
Balance of the client EOD	**15000**		
Margin payable by client at the end of the day (B)			-
Margin shortfall during the day (C) (A or B whichever is higher)			21,875
Actual margin collected (D)			10000
Margin shortfall (C – D)			**11,875**

Source: I-Sec Rese arch

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