



CIRCULAR

SEBI/HO/MRD/DOP1/CIR/P/2019/128

November 08, 2019

To

All Recognized Stock Exchanges and Clearing Corporations

Dear Sir/ Madam

Introduction of Cross-Margining facility in respect of offsetting positions in co-related equity Indices

SEBI vide its circular SEBI/DNPD/Cir-44/2008 dated December 02, 2008 allowed cross margining across cash and exchange traded equity derivatives segments.

2. In order to facilitate efficient use of collateral by market participants, it has been decided to extend cross margining facility to off-setting positions in highly co-related equity indices.

3. Eligibility Criteria

- a. Cross margin benefit shall be provided on off-setting positions in futures on equity indices pairs which satisfy the below mentioned conditions:
 - i. A positive correlation of more than 0.90 for a period of six months between the values of the equity Indices *and*
 - ii. At least 80% of constituents of one of the index is present in the other index *and*
 - iii. The constituents of smaller index based on free float market capitalization shall have at least 80% weightage in the larger index based on free float market capitalization.
- b. For cross margining benefit to continue the abovementioned eligibility criteria shall be checked by Clearing Corporations as under:



- i. on a monthly basis on the 15th of every month
 - ii. on the day of change in the constituents of the equity indices
 - c. If the equity indices pairs fail to fulfil any of the abovementioned eligibility criteria, cross margining benefit shall not be given after the upcoming monthly expiry.
4. Computation of cross margin
- a. To begin with, a spread margin of 30% of the total applicable margin on the eligible off-setting positions, shall be levied.
 - b. Cross margining benefit shall be computed at client level on an online real time basis and provided to the trading member / clearing member, as the case may be, who, in turn, shall pass on the benefit to the client.
5. All other conditions as specified in circular SEBI/DNPD/Cir-44/2008 dated December 02, 2008 shall continue to be applicable on off-setting positions in futures on equity indices pairs.
6. Clearing Corporations shall apply to SEBI for approval for providing of cross margining benefit on co-related equity indices which fulfil the eligibility criteria. The application shall be accompanied with the data on eligibility criteria specified above.
7. Stock Exchanges and Clearing Corporations are directed to:
- a. put in place the adequate systems and issue the necessary guidelines for implementing the above decision.
 - b. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.
 - c. specify the legal agreements between the clearing entities for the purpose of margin utilisation in case of liquidation/default, etc.
 - d. bring the provisions of this circular to the notice of the trading members / clearing members / custodians and also to disseminate the same on the website.



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Securities and Exchange Board of India

- e. communicate to SEBI the status of implementation of the provisions of this circular through Monthly Development Report.
8. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
9. This circular is available on SEBI website at www.sebi.gov.in at “Legal Framework→Circulars”.

Yours faithfully,

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