

## ***Annexure I***

### **Part A - Operational guidelines for Margin obligations to be given by way of Pledge/Re-pledge in the Depository System.**

Members of the ICCL are hereby informed that for depositing eligible demat securities (inclusive of Equity shares/MF Units/Corporate bonds, G-sec's etc.) by way of pledge/re-pledge in favour of ICCL towards collateral requirements by Clearing Members (CMs) through the Depositories system, the undermentioned new process will be followed as prescribed in the aforementioned [SEBI Circular dated February 25, 2020](#) w.e.f. August 01, 2020.

#### **➤ *Pledging-Repledging of Securities***

1. As per the process prescribed in the aforesaid SEBI Circular, the Depositories will provide the files pertaining to pledge/re-pledge to ICCL.
2. Clearing Members will be required to open separate designated demat account in the Depositories system for the purpose of providing securities as collateral. CMs need to provide the details of designated demat accounts from where the pledge/re-pledge of eligible securities will be created in favour of ICCL. The said demat account details are to be provided by email addressed to [bse.csd@bseindia.com](mailto:bse.csd@bseindia.com), latest by July 20 2020.
3. The details of ICCL's demat accounts in favour of which pledge/re-pledge of eligible securities are to be created by CMs will be provided through a separate circular. Details of such demat accounts of ICCL will also be available in the respective Depository system at the time of creation of pledge/re-pledge of eligible securities.
4. Custodians would be required to enter Custodial participant (CP) code in pledge/re-pledge instructions pertaining to their CP clients as per the procedure stipulated by the Depositories.
5. After creating pledge/re-pledge in the Depository system, on the basis of the details provided by the Depositories, the following fields will be provided to the respective CMs in the collateral holding report.
  - ✓ Client UCC
  - ✓ Trading Member (TM) Code/CP Code
  - ✓ CM Code
  - ✓ Segment Indicator
  - ✓ CM Demat account details
  - ✓ Description of Securities
  - ✓ Depository ISIN
  - ✓ Quantity
  - ✓ Depository Pledge/Re-pledge sequence No etc.

Such collateral holding report will be available in the existing ICCL Collateral Management Module( <https://class.bseindia.com>---> login credentials->Reports -> Holding Statement) provided to the CMs. In addition to this, along with the other End-of-Day (EOD files) of the respective segment, comprehensive report pertaining to the securities pledged by CMs in favour of ICCL will also be provided in CSV format. Refer **Annexure II** for the file format.

6. CMs may note that the Depository system will accept only eligible securities towards pledge/re-pledge by CMs in favour of ICCL.
7. As per SEBI circular no SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020 Members will be required to close all existing demat accounts tagged as 'Client Margin / Collateral' by August 31, 2020. Accordingly, CMs are requested to ensure that all existing securities pledged with ICCL are withdrawn by August 31, 2020. Such eligible securities can be re-deposited towards collateral by clients/TMs/CMs by following the aforesaid pledge/re-pledge process.
8. The evaluation of collateral will be subject to existing norms/criteria pertaining to hair-cut, composition of cash/cash equivalent & non-cash equivalent etc. as specified by SEBI/ICCL in this behalf from time to time.

#### ➤ **Release of Securities**

1. For release of pledged securities lying with ICCL, the CMs can place their online requests through ICCL Collateral Module as per existing process. For placing the security release requests through file upload, CMs are requested to refer **Annexure II** for file format.
2. Such pledge/re-pledge securities will be released only if the same are not utilised towards margin/obligations of the respective clients/TMs of the concerned CM or; there is sufficient unutilised collateral deposit of the concerned CM available with ICCL to meet such margin/obligation requirements.

For other details, Members are requested to refer the aforesaid SEBI Circular No SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 & SEBI circular no SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020 or any other circular issued by SEBI/Exchanges/ICCL/Depositories from time to time.

## **Part B - Framework for utilisation of client's pledged securities for exposure and margin**

1. The Clearing Corporation ("CC") maintains and monitor the collateral at the level of CM. The margin requirement is computed in real time at client level and is aggregated at the level of CMs to arrive at the total margin requirement. The CM is required to provide the collateral in various acceptable forms such as Cash, Bank Guarantee, Govt. Securities, pledge of acceptable shares, etc.
2. The TM and CM shall ensure that the client's securities re-pledged shall be available to give exposure limit to that client only. The day to day real time risk management with respect to client / TM exposure, and the margin requirement shall continue to be the responsibility of the CM, and CC will not monitor the client level exposure against the available client level collateral in real time. Dispute, if any, between the client, TM / CM with respect to pledge, re-pledge, invocation and release of pledge shall be settled inter-se amongst client and TM / CM through arbitration as per the bye-laws of the respective Depository. CC shall not be held liable for the same.
3. CM shall be allowed to re-pledge acceptable/approved client securities with the CC by furnishing the UCC wise client details. CC will not allow any exposure to the CM on re-pledged securities of the client / TM without a corresponding margin obligation of the client / TM. In case of a trade by a client / TM whose securities are re-pledged with CC, the CC will first block the available collateral provided by CM. However, at periodical interval (latest by end of day), CC will provide benefit of re-pledged client securities, to the extent of the margin obligation of the client / TM.
4. In the event of default by a client of TM, the TM shall make good the default to CM. In the event of default by a client or TM on its proprietary position, the CM shall make good the default to CC. However, in the event of default by client(s) leading to default of TM and also the CM, the following process would need to be followed by TM/CM/CC for invocation of pledged and re-pledged securities of client/TM/CM:
  - a. In case of default by a client of TM/CM or default of TM leading to the default of CM, CC will:
    - i. encash the available collateral including cash, cash equivalent collateral, CMs own pledged securities.
    - ii. After encashing the available collateral of CM, CC will directly invoke the re-pledged securities of client / TM who has any open position, in order to close out the open positions of that client.
    - iii. CC will not invoke re-pledged securities of those clients who did not have any open position to meet settlement obligation of the defaulting CM
  - b. In case of default by a client of TM or default of TM:
    - i. CM shall be entitled to liquidate available cash, cash equivalent collateral and TM's own pledged /or re-pledged securities with CM/ CC to meet settlement/margin obligations of defaulting TM or client(s) of that TM.

- ii. After encashing the available collateral of TM, CM shall be entitled to directly invoke re-pledged securities of the client of defaulting TM who has open position through CM, in order to close out his position.
- iii. CM shall not be entitled to invoke re-pledged securities of those clients of defaulting TM who did not have any open position,
- iv. CM shall ensure that the client securities of TM/ CM re-pledged with the CC are not utilized for meeting the margin requirement/ settlement obligation of a TM's/CM's own proprietary position or margin requirement/ settlement obligation of any other client of TM / CM.