CIRCULAR

SEBI/HO/CDMRD/CDMRD_DRM/P/CIR/2022/50 **April 11, 2022**

The Managing Directors / Chief Executive Officers
All Stock Exchanges and Clearing Corporations

Sir / Madam,

Subject: Comprehensive Risk Management Framework for Electronic Gold Receipts (EGR) segment

1. SEBI Board in its meeting held on September 28, 2021 approved the framework for Gold Exchange and SEBI (Vault Managers) Regulations, 2021.

2. Government of India vide Gazette notification S.O. 5401 (E) dated December 24, 2021, has notified "electronic gold receipts" as 'securities' under Section 2(h)(iia) of the Securities Contracts (Regulation) Act 1956, and vide Gazette notification dated December 31, 2021, SEBI (Vault Managers) Regulations, 2021, have been notified, paving the way for operationalization of Gold Exchange. Pursuant to the said notifications, various circulars were issued specifying the framework for operationalizing the Gold Exchange in India.

3. In continuation to the aforesaid circulars, the risk management framework applicable to the EGR segment on the recognized Stock Exchange/s is prescribed in **Annexure A** to this circular.

4. This circular shall come into force with immediate effect.

5. 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.

6. This circular is issued with the approval of competent authority.

7. This circular is available on SEBI website at www.sebi.gov.in under the category "**Circulars**" and "**Info for Electronic Gold Receipts**".

Yours faithfully,

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ANNEXURE A

COMPREHENSIVE RISK MANAGEMENT FRAMEWORK FOR EGR SEGMENT

MARGINS

1. Overview

The core of the risk management system is the liquid assets deposited by members with the Clearing Corporation (CC). These liquid assets shall cover the following requirements:

1.1. MTM (Mark to Market) Losses: Mark to market losses on outstanding settlement obligations of the member.
1.2. VaR Margins: Value at risk margins to cover potential losses for 99.9% of the days.
1.3. Extreme Loss Margins: Margins to cover the expected loss in situations that lie outside the coverage of the VaR margins.
1.4. Any other margins as may be prescribed.

The liquid assets of the member shall, at all times, be adequate to cover all the above requirements.

2. Liquid Assets

The type of liquid assets, applicable haircuts and concentration limits are listed below:

Item	***Minimum Haircut (Note 'a')***	***Limits***
Cash Equivalents		
Cash	0	No limit
Bank fixed deposits	0	No limit *(Note i)*
Bank guarantees	0	Limit on Stock Exchange's exposure to a single bank. *(Note 'b')*
Securities of the Central Government	2%/5%/10% *(Note 'k')*	No limit

Item	*Minimum Haircut (Note 'a')*	*Limits*
Units of liquid mutual funds or government securities mutual funds (by whatever name called which invest in government securities)	10%	No limit
Other Liquid Assets		
Liquid (Group-I) Equity Shares *(Note 'd')*	Same as the VaR margin for the respective shares *(Note 'd')*	Limit on Stock Exchange's exposure to a single issuer *(Note 'e')*
Mutual fund units other than those listed under cash equivalents	Same as the VaR margin for the units computed using the traded price on Stock Exchange, if available, or else, using the NAV of the unit treating it as a liquid security	
Corporate Bonds having rating of AA or above (or with similar rating nomenclature) by recognized credit rating agencies	Fixed percentage based or VaR based Haircut. A higher haircut may be considered to cover the expected time frame for liquidation. To begin with the haircut shall be a minimum of 10%	Not to exceed 10% of the total liquid assets of the clearing member. *(Note 'e')*
Gold ETF /Bullion *(Note 'j')*	20%	Gold ETF/Bullions as collateral for any clearing member shall not exceed 30% of the total liquid assets of the clearing member *(Note 'f')*
EGR	20%	No limit

Item	Minimum Haircut (Note 'a')	Limits

Notes:

a. *The valuation of the liquid assets shall be done on a daily basis after applying applicable haircuts.*
b. *The Stock Exchange shall lay down exposure limits either in rupee terms or as percentage of the total Liquid Assets that can be exposed to a single bank directly or indirectly. The total exposure towards any bank would include Bank Guarantees issued by the bank as well as debt or equity securities of the bank which have been deposited by members towards total liquid assets. Not more than 1% of the total liquid assets deposited with the Stock Exchange, shall be exposed to any single bank which has a net worth of less than INR 500 crores and is not rated P1 (or P1+) or equivalent, by a recognized credit rating agency or by a reputed foreign credit rating agency, and not more than 10% of the total liquid assets deposited with the Stock Exchange shall be exposed to all such banks put together.*
c. *Cash equivalents shall be at least 50% of liquid assets. This would imply that Other Liquid Assets in excess of the total Cash Equivalents would not be regarded as part of member's liquid assets as well as total liquid assets.*
d. *For determination of which equity shares are falling in Group-I and what would be the appropriate VaR margin for these securities, data disseminated by Stock Exchanges having equity platform shall be referred.*
e. *Stock Exchanges shall adequately diversify their collateral so as to avoid any concentration of exposure towards any single entity and the same shall be within the limits as may be prescribed by SEBI from time to time.*
f. *Bullion to be accepted as collateral should be of same quality specification which is deliverable under the contract specification of commodity derivatives being traded on the Stock Exchange.*
g. *Stock Exchanges shall accept liquid assets as collateral only as per the list of liquid assets specified in the table above. However, Stock Exchanges may decide not to accept certain type of liquid assets specified in the above list based on their risk perception, capability to hold and arrangements for timely liquidation. Stock Exchanges may stipulate concentration limits at member level / across all members as may be necessary.*
h. *Stock Exchanges shall make necessary arrangements to enable timely liquidation of collaterals accepted by them.*
i. *Stock Exchanges shall not accept Fixed Deposit Receipts (FDRs)/ Bank Guarantees (BGs) from trading/clearing members as collateral, which are*

Item	*Minimum Haircut (Note 'a')*	*Limits*
issued by the trading/clearing member themselves or banks who are associate of trading/ clearing member. *Explanation –for this purpose, 'associate' shall have the same meaning as defined under SECC Regulations.* *j. Gold on which EGR has not been issued* *k. Haircuts as per Circular No.: SEBI/HO/MRD/DRMNP/CIR/P/2019/33 Dated Feb 21, 2019*		

3. Mark to Market Losses

Mark to Market Losses shall be collected in the following manner:

3.1. The Stock Exchanges shall collect/adjust mark to market losses (MTM) from the member/broker before the start of the trading of the next day.
3.2. The MTM losses shall be collected/adjusted from/against the cash/cash equivalent component of the collateral deposited with the stock exchange.
3.3. The MTM losses shall be collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions for all the clients of a member including his proprietary position. For this purpose, the positions of all the clients of a broker would be grossed. Further, there would be no netting across two different settlements.
3.4. There would be no netting off the positions and setoff against MTM profits across 2 rolling settlements i.e. T day and T-1 day. However, for computation of MTM profits/losses for the day, netting or setoff against MTM profits would be permitted.
3.5. The MTM losses so collected shall be released along with the pay-in, including early pay-in of EGR.

4. VaR Margin

4.1. Computation of VaR Margin

The VaR Margin is a margin intended to cover the highest loss that can be encountered on 99.9% of the days (99.9% Value at Risk). The VaR Margin would be based on 6σ, subject to minimum initial margin of 9%.

4.2. Collection of VaR Margin

4.2.1. The VaR margin shall be collected on an upfront basis by adjusting against the total liquid assets of the member at the time of trade.
4.2.2. The VaR margin shall be collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including his proprietary position.
4.2.3. For this purpose, there would be no netting of positions across different settlements.
4.2.4. The value of λ, the parameter which determines how rapidly volatility estimation changes in the Exponentially Weighted Moving Average (EWMA) method shall be considered at 0.995.
4.2.5. The VaR margin so collected shall be released along with the pay-in, including early pay-in of EGR.

4.3. Updation of VaR Margin rate

The applicable VaR margin rate shall be updated at least at beginning of day, end of day and interval of not later than two hours, during the trading period.

5. Extreme Loss Margin

It covers the expected loss in situations that go beyond those envisaged in the 99.9% value at risk estimates used in the VaR margin.

5.1. The Extreme Loss Margin shall be minimum of 1 %.
5.2. The Extreme Loss Margin shall be collected/ adjusted against the total liquid assets of the member on a real time basis.
5.3. The Extreme Loss Margin shall be collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including his proprietary position.
5.4. For this purpose, there would be no netting of positions across different settlements.
5.5. The Extreme Loss Margin so collected shall be released along with the pay-in including early pay-in of EGR.

6. Any other Margins

Clearing Corporations will have the right to impose additional risk containment measures over and above the risk containment system mandated by SEBI. However, the Clearing Corporations should keep the following factors in mind while taking such action:

6.1. Additional risk management measures (like ad-hoc margins) would normally be required only to deal with circumstances that cannot be anticipated or were not anticipated while designing the risk management system. If ad-hoc margins are imposed with any degree of regularity, Clearing Corporations should examine whether the circumstances that give rise to such margins can be reasonably anticipated and can therefore be incorporated into the risk management system mandated by SEBI. Clearing Corporations are encouraged to analyse these situations and bring the matter to the attention of SEBI for further action.

6.2. Any additional margins that the Clearing Corporations may impose shall be based on objective criteria and shall not discriminate between members on the basis of subjective criteria.

7. Margin provisions for intra-day crystallised losses

7.1. The intra-day crystallised losses shall be monitored and blocked by Clearing Corporations from the free collateral on a real-time basis only for those transactions which are subject to upfront margining. For this purpose, crystallised losses can be offset against crystallised profits at a client level, if any.

7.2. If crystallised losses and applicable margins (as defined above) exceed 90% of the free collateral available with the Clearing Corporation, then the entity shall be put into risk reduction mode as given under para 17.

7.3. Crystallised losses shall be calculated based on weighted average prices of trades executed.

7.4. Adjustment of intraday crystallised losses shall not be done from exposure free deposit of the clearing member.

8. Provision of Early Pay-in

8.1. Necessary systems shall be put in place to enable early pay-in of funds/ EGR. In cases where early pay-in of funds/EGR is made by the members, the outstanding position to that extent of early pay-in shall not be considered for computing the margin obligations.

8.2. Necessary systems shall be put in place so as to enable adjustment of the pay-in obligations of the members from the cash component of the liquid assets deposited by them.

REPORTING AND VERIFICATION OF MARGINS

9. Collection and reporting of margins by Trading Member (TM) /Clearing Member (CM)

9.1. The 'margins' for this purpose shall mean VaR margin, Extreme Loss Margin (ELM), Mark to Market losses (MTM) or any other margin as prescribed by the Clearing Corporation/ SEBI to be collected by TM/CM from their clients.

9.2. The TMs/CMs are required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs/CMs will have time till 'T+1' working days to collect margins (except VaR margins and ELM) from their clients. (The clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by the TMs/CMs.

9.3. The TM/CM shall be exempted from collecting upfront margins from the institutional investors and in cases where early pay-in of securities is made by the clients.

9.4. The TMs/CMs shall report to the CC on T+5 day the actual short-collection/ non-collection of all margins from clients.

10. Framework to Enable Verification of Upfront Collection of Margins

10.1. The provisions related to framework to enable verification of upfront collection of margins shall be same as specified for equity cash segment in SEBI circular no. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 and its subsequent amendments if any, as carried out from time to time.

11. Short-collection/Non-collection of client margins

11.1. Clearing Corporations shall levy following penalty on TM/CM for short-collection/non-collection of margins:

For each member	
'a'	**Per day penalty as %age of 'a'**
(<Rs 1 lakh) And (< 10% of applicable margin)	0.5
(≥ Rs 1 lakh) Or (≥ 10% of applicable margin)	1.0

Where a = Short-collection/non-collection of margins per client per segment per day

11.2. If short/non-collection of margins for a client continues for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall.

11.3. If short/non-collection of margins for a client takes place for more than 5 days in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.

11.4. All instances of non-reporting shall amount to 100% short collection and the penalty as applicable shall be charged on these instances in respect of short collection.

11.5. The penalty shall be collected by the Clearing Corporation within five days of the last working day of the trading month and credited to its SGF.

11.6. The margin statement which is forwarded on a daily basis by the broker to the clients shall include a column stating the margin charged by the Stock Exchange/Clearing Corporation.

11.7. When penalty is being collected by a broker for short collection/ non-collection of other than upfront margins from a client, then the broker shall provide the relevant supporting documents to the client.

11.8. If TM/ CM collects minimum 10% upfront margin in lieu of VaR and ELM from the client, then penalty for short-collection/ non-collection of margin shall not be applicable. However, it is reiterated that CC shall continue to collect the upfront margin from the TM/ CM based on VaR and ELM.

11.9. In respect of penalty for non-collection of “other margins” (other than VaR and ELM) on or before T+1 days from clients by TM/ CM, following is clarified:

11.9.1. If pay-in (both funds and EGR) is made by T+1 working days, the other margins would have deemed to have been collected and penalty for short/ non collection of other margins shall not arise.

11.9.2. If Early Pay-In of EGR has been made to the Clearing Corporation (CC), then all margins would be deemed to have been collected and penalty or short/ non-collection of margin including other margins shall not arise.

11.9.3. If client fails to make pay-in by T+1 working days and TM/ CM do not collect other margins from the client by T+1 working days, the same shall also result in levy of penalty as applicable.

12. Rationalization of imposition of fines for false/incorrect reporting of margins by TM/CM

12.1. For instances where a member has reported falsely the margin collected from clients and the same is found out during inspections:

12.1.1. The Stock Exchanges and Clearing Corporations, in all segments, in consultation with one another, shall devise a standard framework for imposition of fine on the TM/CM for incorrect/false reporting of margin collected from the clients.

12.1.2. Considering the principle of 'proportionality', the fine shall be charged to the member based on the materiality of non-compliance done by the member which may include factors such as number of instances, repeated violations, etc. The amount of fine to be charged upon the member may extend to 100% of such false/incorrectly amount of margin and/or suspension of trading for appropriate number of days.

13. Margining of Institutional Trades in EGR segment

13.1. Margining of institutional trades shall be as per provisions of equity cash segment for stocks under T+1 settlement.

14. Shortfall of Margins/ Pay-in of funds by Members

14.1. <u>Margin shortfall:</u> In case of any shortfall in Margin, the terminals of the broker shall be immediately deactivated for fresh positions and will only be allowed to square-off existing positions.

14.2. <u>Pay-in shortfall:</u>

14.2.1. In cases where the amount of shortage in a settlement for a clearing member is in excess of the deposit prescribed as per SEBI (Stock Brokers) (Amendment) Regulations,2022, the clearing facility of the member shall be withdrawn and the EGR pay-out due to the member shall be withheld.

14.2.2. In cases where the amount of shortage exceeds 20% of the deposit but less than the deposit on six occasions within a period of three months, then also the clearing facility of the member shall be withdrawn and the EGR pay-out due to the member shall be withheld.

14.2.3. Upon recovery of the complete shortages, the member shall be permitted to provide clearing facility subject to his providing a deposit equivalent to his cumulative funds shortage as the 'funds shortage collateral'. Such deposit shall be kept with the Clearing Corporation for a period of ten rolling settlements and shall be released thereafter. Such deposit shall not be available for adjustment against margin liabilities and also not earn any interest. The deposit may be by way of cash, fixed deposit receipts or bank guarantee.

14.2.4. Clearing Corporations would have discretion to prescribe stricter criteria for these provisions.

15. Collateral deposited by Clients with brokers

15.1. Provisions related to deposit, segregation and monitoring of collaterals of clients by brokers shall be as per SEBI Circular No. MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008 and SEBI circular No SEBI/HO/MRD2 DCAP/CIR/2021/0598 dated July 20, 2021 and their subsequent amendments, if any, as carried out from time to time.

16. EGR as margin obligation to be given by way of pledge/re-pledge in the depositary system

16.1. Provisions related to use of EGR as margin obligation to be given by way of pledge/re-pledge in the depositary system shall be as per SEBI circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 and SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020 and their subsequent amendments, if any, as carried out from time to time.

17. Risk Reduction Mode

17.1. Clearing Corporation shall ensure that the stock brokers and clearing members are mandatorily put in risk-reduction mode when 90% of the member's collateral available for adjustment against margins gets utilized on account of trades that fall under a margin system including crystalized losses. Such risk reduction mode shall include the following:

17.1.1. All unexecuted orders shall be cancelled once stock broker/clearing member breaches 90% collateral utilization level.

17.1.2. Only orders with Immediate or Cancel attribute shall be permitted in this mode.

17.1.3. All new orders shall be checked for sufficiency of margins.

17.1.4. Non-margined orders shall not be accepted from the stock broker/clearing member in risk reduction mode.

17.1.5. The stock broker/clearing member shall be moved back to the normal risk management mode as and when the collateral of the stock broker/clearing member is lower than 85% utilization level.

17.2. Clearing Corporations may prescribe more stringent norms based on their assessment, if desired.

ACTIVITY SCHEDULE

18. Rolling settlement

Settlement of EGR shall be on T+1 rolling basis. Transactions shall be settled on gross basis at the clearing member level. Netting shall be done at client level. The funds shall be settled on gross basis at member level.

19. Activity Schedule for T+1 Rolling Settlement

The activity schedule is as under:

Sr. No.	Day	Time	Description of activity
1	T		Trade Day
		By 2.00 AM	Completion of process and download provisional obligation files to stock brokers/ custodians by the Clearing Corporation.
2	T+1	By 2.00 PM	Funds and EGR pay-in
		By 4.30 PM	Funds and EGR pay-out

Custodian confirmations shall happen before beginning of T+1.

20. Settlement of Funds

20.1. Clearing Corporation shall empanel clearing banks based on various financial and operational criteria. Clearing members shall open single settlement account with any of the clearing banks.

20.2. The paying member shall have clear funds in settlement account on settlement day. The Clearing Bank shall debit the paying members' account. in accordance with electronic instructions received from Clearing Corporation. The Clearing Bank shall credit the receiving members' settlement account in accordance with the pay-out instructions received electronically from the Clearing Corporation on the settlement day.

21. Settlement of EGR

21.1. Members shall be required to maintain account with depositories including a pool account.

21.2. Members shall provide specific delivery instructions in favour of the clearing corporation on the settlement day. The delivering member shall complete delivery instructions for transfer of EGR to Clearing Pool Account on settlement day by the specified pay-in time.

21.3. The depositories shall credit the receiving members' pool account/ clients beneficiary account in accordance with the pay-out instructions received electronically from Clearing Corporation on the settlement day by the specified pay-out time.

21.4. Depositories/Clearing Corporation shall provide following facilities as under:

21.4.1. Facility for early pay-in

21.4.2. Auto delivery out and

21.4.3. Client direct pay-out

22. Settlement of Transaction in case of Holidays

22.1. The Clearing Corporation shall clear and settle the trades on a sequential basis i.e., the pay-in and the pay-out of the first settlement shall be completed before the commencement of the pay-in and pay-out of the subsequent settlement(s).

22.2. The cash/EGR pay out from the first settlement shall be made available to the member for meeting his pay-in obligations for the subsequent settlement(s).

22.3. The Stock Exchanges/Clearing Corporations shall follow a strict time schedule to ensure that the settlements are completed on the same day.

22.4. The Clearing Corporation shall execute Auto DO facility for all the settlements together, so as to make the funds and the EGR available with the member on the same day for all the settlements, thereby enabling the availability of the funds/EGR at the client level by the end of the same day.

22.5. If the settlement holiday is unscheduled (on account of strike etc.) the clubbing of settlement at the last minute may not be possible and the provision of SEBI letter (ref. No. SMD/Policy/25249/2001 dated March 19, 2001 to Stock Exchanges) shall be applicable.

EGR PAY-IN SHORTAGES

23. Activity schedule for Auction Session

23.1. Rolling settlement for T day trade

Sr. No.	Day	Description of activity
1	T	Trade Day
2	T+1	Pay-in/Pay-out of EGR and funds

Auction settlement for T day trade

3	By T+1	Auction session
4	By T+2	Pay-in/pay-out and close-out of auction

23.2. In case of bank holidays, when multiple settlements (say S_1 and S_2) are conducted on the same day (say T_m), on the working day immediately following the day(s) of the closure, the auction session shall be as under:

23.2.1. The auction of first settlement (S_1) shall be conducted on the same day (T_m) and settled by next day (T_m+1).

23.2.2. The auction for the second settlement (S_2) shall be conducted on the next day (T_m+1) along with the shortages/auction of that day. The settlement of the same shall happen by the subsequent day (T_m+2).

24. Close-out Procedure

24.1. The Close-out Procedure shall be as below:

"The close out Price shall be the highest price recorded in that EGR on the Stock Exchange from the date of trading and up to the date of auction/close out

OR

3% above the latest available closing price at the exchange on the day on which auction offers are called for

WHICHEVER IS HIGHER

25. Proceeds from Auction/ Close-out

25.1. The proceeds from Auction/ Close-out shall be used to settle the claim of the aggrieved party. Any amount remaining thereof shall be credited to the Core

Settlement Guarantee Fund instead of crediting it to the defaulting party's account.

SETTLMENT GUARANTEE FUND

26. Settlement Guarantee Fund, Default Waterfall and Stress Testing

26.1. Clearing Corporations shall maintain a separate core settlement guarantee fund (Core SGF) for EGR segment. Clearing Corporations shall comply with SEBI circular No. CIR/MRD/DRMNP/25/2014 dated August 27, 2014 for norms related Core SGF, Stress Testing and Default Waterfall in EGR segment. (as applicable for equity cash segment) and their subsequent amendments, if any, as carried out from time to time. For computation of stress loss, loss on EGR pay-in failure, shall be calculated as minimum margin plus close out rate in EGR segment.

26.2. Clearing Corporations shall have a minimum corpus of SGF of INR 10 crores.