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Explanations on SEBI circular regarding
Margin calculation applicable on
or after September 1

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Explanations on SEBI circular regarding Margin calculation applicable on or after September 1

As per a SEBI circular, the new margin rule was implemented from September 1 and is applicable to all, whomsoever is dealing in the equity market, be it brokers or be it traders/investors. This rule is applicable to trading in the cash segment of the market.

1. Prior to September 1, upfront margin was not needed to buy shares in the cash segment. Buyers had to honor the obligation on T+2 while taking the delivery of shares. But now upfront margin is needed to buy shares. Buyers have to maintain required margin, i.e., VaR + ELM (extreme loss margin).

For example: If a customer wants to buy Rs 10 lakhs worth of Reliance shares, the minimum upfront margin required is VaR + ELM (20% + 5%) is Rs. 2,50,000. Further, VaR and ELM both are dynamic, not static. So, margin percentage differs from stock to stock. Generally, front-line blue chip stocks require lower VaR and ELM compared to other stocks. And every company might have different margins depending on the grouping. So, there may be a high rate of VaR and ELM applicable to mid and small cap stocks.

Traders/investors can give either new money to create margin or they can pledge shares to create margin. **One good thing in the new margin system is traders are not required to sign POA in favor of brokers for pledging/unpledging for margin creation.** Now investors/traders can pledge/unpledge shares directly with the clearing corporation.

2. **Implication of the new rule within T+2 trading days.**

Prior to September 1, the trading of shares within T+2 was simple and no margin was required at the time of sale within T+2.

But now after September 1, selling of stock that are not in the Demat account is not allowed. That means one cannot sell shares in BTST. Traders can sell those shares only after getting delivery in their Demat account.

However, if someone wants to sell shares a day after buying it, fresh upfront margin, i.e., VaR+ELM (extreme loss margin), will be required.

For example: Suppose a trader wants to sell the above mentioned share of Reliance on the next day in BTST or within T+2 days, then in such a case, traders must have to provide margin against the sale value, which equals to VaR + ELM. As shares are not available in the Demat account, traders need to provide margin either via fresh money or shares pledge.

In short, **new regulations demand that investors need to bring upfront margin for both buying and selling of stocks within T+2 trades.**

3. **Utilization of shares sale proceeds.**

Now under the new rule, traders/investors cannot utilize sale proceeds of shares on the same day or the next day. One can use this sale proceeds only after T+2.

Suppose an investor wanted to sell Stock A and buy Stock B. Earlier, it was possible to sell a particular stock and use the proceeds to buy another stock. But now onwards from September 1, sale proceeds can be utilized only after T+2, once the seller honors the delivery. If someone wants to buy another stock in such a case, traders/ investors are liable to provide fresh margin either in the form of bringing cash or pledging of shares in the same account.

With the recent changes announced by SEBI regarding the pledge/unpledge of securities and new rules related to margins for buying/selling of securities, there seem to be instances where certain brokers have challenges in lieu of the said implementation. In consideration of the same, it shall be our earnest efforts to recommend trades from a T+2 perspective in the interim period till the systems stabilize and where issues from a BTST (Buy Today, Sell Tomorrow) perspective can be avoided in case delivery of securities does not happen leading to auction* issues, etc.

Albeit, we would request our patrons to check and confirm with their executing brokers on the trades expected to be undertaken by them as their brokers shall be in a better position to let them know the operational capabilities at the broker's end before undertaking such trades.

***What is Auction in the Stock Market?**

If someone sold shares, then he/she is liable to deliver such shares in T+2 time. Suppose a seller is not able to deliver shares, in such a case, it will lead to auction of shares. (The auction market is conducted every day between 2:00 pm and 2:45 pm. Only member brokers of the exchange can participate and sell shares, which are short delivered. Further, to avoid any conflict of interest the exchange does not allow members whose client has defaulted (short delivered) to take part in an auction).

Share auction always leads to a loss in a trader's account as auction price is always traded with a premium.

Do Let us know if you have any questions...

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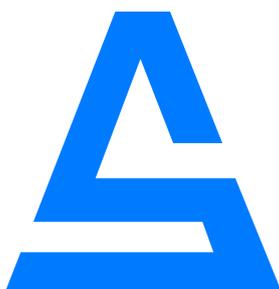
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