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**NATIONAL COMMODITY CLEARING LIMITED**

Circular to all Members of the Clearing Corporation

Circular No. : NCCL/CLEARING-006/2022

Date : February 23, 2022

Subject : Segregation and Monitoring of collateral at Client Level

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SEBI vide its circular no. SEBI/HO/MRD2\_DCAP/CIR/2021/0598 dated July 20, 2021 has put in place a framework for "Segregation and Monitoring of Collateral at Client Level". SEBI vide its circular no. SEBI/HO/MRD2/DCAP/P/CIR/2021/667 dated November 23, 2021 extended the timelines for implementation of certain provisions of the circular to February 28, 2022. This is in continuation to NCCL circular no. NCCL/RISK-024/2021 dated July 22, 2021 on Segregation and Monitoring of collateral at Client Level and circular no. NCCL/CLEARING-041/2021 dated November 16, 2021 on Format for Allocation of Collateral.

In terms of the provisions of the Bye-Laws, Rules and Regulations of NCCL and in terms of the above mentioned circular, the members are notified as under:

1. SEBI circular inter-alia, stipulates that for forms of collateral (other than securities placed through margin pledge / re-pledge mechanism) placed with the Clearing Corporation (CC), the CCs shall provide a facility to Clearing Members (CMs) for upfront allocation of collateral to a Trading Member (TM) / Custodial Participant (CP) / client or TM / CM 's own account.
2. Accordingly, the Clearing Members while depositing collateral in form of Cash, Fixed Deposits (FDs) and Bank Guarantees (BGs) with NCCL shall allocate these collaterals using the web extranet portal.
3. The members are advised to refer circular no. NCCL/CLEARING-041/2021 dated November 16, 2021 for file formats and process for allocation /re-allocation of collateral, non cash limit files and response files.
4. The web extranet link where the Clearing Members have to upload the allocation file and non-cash limit file is <https://webextranet.ncdex.com/Login.aspx>

The operational guidelines are provided as under:

1. Collateral Deposit and Allocation – Annexure 1
2. Changes in Risk Management - Annexure 2
3. Limit setting in Nextra and NCFE – Annexure 3
4. Member Reports – Annexure 4

Members are requested to take note of the same.

For and on behalf of  
**National Commodity Clearing Limited**

Sweedin Satav  
Vice President

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For further information / clarifications, please contact

1. Customer Service Group on toll free number: 1800 266 6007
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**Annexure 1**

**Collateral Deposit and Allocation**

1. There is no change in the process for depositing collaterals by Clearing Members (CMs) with NCCL.
2. The Cash, Bank Guarantees and Fixed Deposit Receipts deposited towards Base Capital and Additional Base Capital shall be accounted in the total Cash and Cash Equivalent collateral in the Clearing Members account.
3. The Clearing member shall be required to upload allocation file using the web extranet portal to allocate the cash and cash equivalent collaterals into the proprietary account of CM, and/or proprietary account of any TM clearing through the CM, and/or account of any of the clients (including Custodial Participants (CPs)) clearing through the CM, and/or of any of the clients trading through the TM who in turn is clearing through the CM.
4. In case of such collateral received by the CM from any TM, the CM shall not accept the same without the TM specifying break-up of such collateral into proprietary account of the TM and / or uniquely identified client account. The CM shall ensure that the sum of break-up of such collateral provided by TM is equal to the total value of such collateral provided by TM, and that the allocation of such collateral to any entity as reported to NCCL does not exceed the allocation of collateral reported by the TM for that entity.
5. Similarly, NCCL shall not give benefit of such collateral without the CM specifying appropriate break-up of such collateral into proprietary account of CM / proprietary account of TM / client account. The benefit of the collateral will be available only to the extent of allocated amount. Collateral amount not allocated by CMs as aforesaid will remain unallocated. Such unallocated amount will not be considered for trading exposure. If any additional cash or cash equivalent collateral is provided, it shall form part of the unallocated cash equivalent and the member can allocate this additional collateral by uploading allocation file.
6. For the purpose of monitoring of at least 50% cash or cash equivalent collateral at the level of CM, the excess cash-equivalent collateral of a client shall not be considered for other client or for proprietary account of TM/CM. However, the excess cash-equivalent collateral of proprietary account of TM/CM can be considered for clients trading/clearing through them, for the purpose of monitoring minimum 50% cash-equivalent requirement.
7. The CM's will have to upload the non-cash limit file using the web extranet portal. The limit provided by the CM in this file shall be used to determine the amount and order in which Clients/Custodial Participant will receive the benefit of the excess cash-equivalent collateral of proprietary account of TM/CM. In case file is not uploaded, no benefit of excess non-cash collateral i.e. securities shall be extended to any client.

8. The Clearing member shall allocate atleast Rs 50 lakhs (TCM & PCM) / Rs 70 lakhs (STCM) into the proprietary account towards Base capital requirement.
9. The Minimum Liquid Net worth (MLNW) requirement of Rs 50 lakhs shall be blocked from the amount allocated in the proprietary account of Clearing member.
10. Blocking of deposits on account of repeated shortfall in margin / pay-in, and any other adhoc blocking shall be blocked from the allocated amount in the proprietary account of Clearing Member.
11. The cash adhoc margin, if levied shall be collected on T+1 day. It shall not be blocked from the allocated collateral in the proprietary account of Clearing member.
12. In case of BGs, the TM/CM may consider the unfunded portion of the BG as proprietary collateral.
13. File Format for Allocation and Non-Cash Limit: The members can refer to NCCL circular NCCL/CLEARING-041/2021 dated November 16, 2021 on Format for Allocation of Collateral. Members are advised to refer the detailed notes in the specified circular. Members can access web extranet portal for Collateral Allocation and Non cash Limit using the following url - <https://webextranet.ncdex.com/Login.aspx>
14. The cut-off time for upload of Collateral Allocation file and Non Cash Limit file will be 11:30 PM.
15. Allocation of Collateral shall be for the total amount of cash collateral deposited with the CC. If additional cash or cash equivalent collateral is deposited, then the allocation will be required to the extent of revised total Cash collateral (including the additional collateral)

For example

Clearing member has given collateral on Day 1 as below

<b>Cash Equivalent Collateral</b>	<b>Rs in lakhs</b>
Cash	50
Fixed deposit	60
Bank Guarantee	80
<b>Total Cash equivalent Collateral</b>	<b>190</b>

Allocation done by Clearing Member is as under on Day 1

Entity	Rs in lakhs
CM Pro	80
Client 1	40
Client 2	10
Custodian Participant (CP)	60

If the clearing member provides an additional Fixed Deposit of Rs 70 lakhs on Day 2, then the revised cash equivalent collateral shall be as under

Cash Collateral	Rs in lakhs
Cash	50
Fixed deposit	130
Bank Guarantee	80
Total Cash Collateral	260

If the clearing member wants to allocate the additional Fixed deposit of Rs 70 lakhs to Client 1 only, then the allocation file shall be for Client 1 and the amount shall be Rs 110 lakhs (Rs 40lakhs existing plus additional Rs 70 lakhs)

Entity	Rs in lakhs
Client 1	110

16. Allocated values for the entities shall continue to remain allocated till such time the re-allocation file is uploaded.
17. The procedure for pledging commodities by Clearing Members through custodians shall remain same and shall form part of the non-cash proprietary collateral of Clearing member.
18. There shall be no change in the procedure pertaining to placing of securities as collateral through the margin pledge/re-pledge mechanism in the Depository system, and this collateral will be identified as belonging to a client or as being proprietary securities of the TM or CM, as the case may be, as per the existing procedures. However, the members will be required to upload non-cash limit file without which no benefit of excess non cash securities shall be provided to any client.
19. NCCL shall also provide notification of such change of allocation of collateral to the concerned client, in respect of whom the allocation has been changed, pursuant to the change of

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allocation. The information regarding the collateral allocated by the CM for the Clients, Trading Member and Custodian shall be sent to their respective email ids by NCCL.

20. The members can refer to the path *Collaterals > Member Cash Collateral Summary* in NCFE portal for below details
- a) Total Cash Equivalent: It would be aggregate of cash equivalent collateral deposits comprising of the cash deposits, bank guarantees and fixed deposit receipts deposited towards Base Capital and Additional Base Capital
  - b) Allocated Cash Equivalent: It would display the net amount of successful allocation by the Clearing Member into proprietary account of Trading member, proprietary account of Clearing member, clients and Custodial Participants from the Total Cash Equivalent.
  - c) Unallocated Cash Equivalent: It would display the balance in Cash equivalent collateral account of the member (Total Cash Equivalent – Allocated Cash Equivalent).
21. In case of withdrawal of cash and cash equivalent collateral, the existing process would continue i.e., the Clearing member would be required to go to screen Member Cash Collateral Summary under the collaterals tab in NCFE and select the Cash/FDR/BG to be withdrawn.
22. The collateral withdrawal request of cash & cash equivalent will, inter-alia, be processed against the unallocated cash equivalent collateral amount. In case the unallocated amount is not available, then the collateral withdrawal request will not be processed.
23. Accordingly, the Clearing Member desirous of withdrawing cash and cash equivalent collateral should ensure that an equivalent amount of unallocated collateral is available for withdrawal. In case sufficient unallocated cash equivalent collateral is not available, then the Clearing member should upload the allocation file for reducing CM/TM/CP/Client wise allocation amount before placing the collateral withdrawal request to avoid rejection of withdrawal request.
24. In case of withdrawal of securities collateral deposited by way of pledge / re-pledge mechanism by CMs, the screen "*Client Non Cash collateral*" provided in collateral module in NCFE would allow the CMs/TMs to view securities and place withdrawal request for the desired quantity of securities. The withdrawal will be processed success fully on availability of free collateral at the entity level.
25. In case of collateral provided by Clearing members to NCCL in the form of Bank Guarantees and Fixed Deposit Receipts; as per the current process, on maturity of such instruments, the value of the matured bank guarantee/ fixed deposit receipt shall be reduced as per the following priority;

- i. From the value available in the un-allocated amount
- ii. From the free collateral of proprietary account of clearing member.
- iii. From the value allocated to clients/Trading member proprietary account/Custodial Participants in descending order of margin utilisation (i.e. client with least margin utilisation) to the extent of free collateral. In case there are multiple clients / Trading member proprietary account/Custodial Participants with the same utilisation, such value shall be reduced in a random manner.
- iv. From the value allocated to proprietary account clearing member.

Due to this, the CMs and all TMs under such CMs may go into RRM mode/Square off because of reduction in the collateral limits.

26. Members are advised to renew the documents well in advance to avoid going into RRM / Square off mode due to maturity of collaterals.
27. The allocation thus provided by the CM to NCCL and by TM to CM shall be considered as final by the NCCL and CM respectively for the purpose of granting exposure and utilization during default.
28. CMs shall be permitted to change the allocation of collateral deposited with the NCCL, subject to the value allocated to any client not exceeding the value of actual collateral received from that client (excluding the securities collateral re-pledged to NCCL through margin pledge mechanism). However, such change of allocation shall be permitted subject to adequacy of available collateral with the NCCL after the change vis-à-vis the margin obligation.
29. There is no change in the client margin reporting process and settlement process.

## Annexure 2

### Changes in Risk Management - Blocking of Margins and Risk Reduction Mode Functionality

#### 1. Blocking of Margins

- i. The procedure for blocking of margins only specifies the order of blocking of margins against the collateral allocated at the Client / Custodial participant (CP), Trading Member (TM) and Clearing Member (CM) Level by CM plus the value of securities collateral provided through margin pledge/re-pledge by the respective client, CP and TM. The TM/CM shall be required to ensure that sufficient collateral is allocated to clients to cover their margin requirements.
- ii. In case TM/CM is not allocated proprietary collateral, TM/CM shall be put in square off mode by the system and clients under such TM/CM having eligible margin limit shall also not be allowed to trade.
- iii. On receipt of a trade from a client account, the margin shall first be blocked from the value of the client collateral. If the client collateral is not sufficient, the residual margin shall be blocked from the TM proprietary collateral of the TM of such client. If the TM proprietary collateral is also not sufficient, then the residual margin shall be blocked from the CM proprietary collateral of the CM of such TM.
- iv. In case of a trade from the proprietary account of a TM, the margin shall first be blocked from the TM proprietary collateral, and in case such collateral is not sufficient, then the residual margin shall be blocked from the CM proprietary collateral.
- v. Margins based on trades from proprietary account of the CM shall be blocked from the proprietary collateral of the CM only.
- vi. An illustration of blocking of margins at Client, TM and CM level and deemed allocation at TM and CM level is provided below

Suppose margin limit of CM Prop, TM Prop and Client Level is as per below table:

Entity	Collateral (Rs.)
CMTM Prop	1,000
TM-1 Prop	500
TM-1 Cli-1	300
TM-1 Cli-2	300

- **Trade-1:** TM-1 Cli-2 trades with margin requirement of Rs 100. Blocking of margin shall be as follows:

Entity	Collateral (Rs.)	Margin Utilized (Rs)	Blocking under (Rs)	Deemed Allocation (Rs)
CMTM Prop	1,000	0	0	0
TM-1 Prop	500	0	0	0
TM-1 Cli-1	300	0	0	-
TM-1 Cli-2	300	100	100	-

- **Trade-2:** TM-1 Cli-1 trades with margin requirement of Rs 600. Blocking of margin shall be as follows:

Entity	Collateral (Rs.)	Margin Utilized (Rs)	Blocking under (Rs)	Deemed Allocation (Rs)
CMTM Prop	1,000	0	0	0
TM-1 Prop	500	0	300	300
TM-1 Cli-1	300	600	300	-
TM-1 Cli-2	300	100	100	-

- **Trade-3:** TM-1 Cli-2 trades with revised margin requirement for Cli-2 of Rs 600. Blocking of margin shall be as follows:

Entity	Collateral (Rs.)	Margin Utilized (Rs)	Blocking under (Rs)	Deemed Allocation (Rs)
CMTM Prop	1,000	0	100	100
TM-1 Prop	500	0	500	600
TM-1 Cli-1	300	600	300	-
TM-1 Cli-2	300	600	300	-

- **Trade-4:** TM-1 Cli-2 trades with revised margin requirement for Cli-2 of Rs 900. Blocking of margin shall be as follows:

Entity	Collateral (Rs.)	Margin Utilized (Rs)	Blocking under (Rs)	Deemed Allocation (Rs)
CMTM Prop	1,000	0	400	400
TM-1 Prop	500	0	500	900
TM-1 Cli-1	300	600	300	-
TM-1 Cli-2	300	900	300	-

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## 2. Blocking of Margins for Custodial Participants (CP):

### i. Pre-confirmation of trades by CM

In case of CP trades executed by TMs, the margin shall be blocked in the following order:

- CP collateral through the executing TM, if any,
- residual margin from the proprietary collateral of the executing TM, and
- residual margin from the proprietary collateral of the CM of the executing TM.

### ii. Post confirmation of trades by CM

Upon confirmation of such trades by CM of the CP, the margin so blocked prior to the confirmation shall be released, and shall be blocked in the following order:

- CP collateral through the confirming CM, and
- residual margin from the proprietary collateral of the confirming CM

## 3. Monitoring of Risk Reduction mode (RRM)

### i. TM level risk reduction mode:

Client margin in excess of 90% of the client collateral shall be identified for each client under a TM. The total of such client margin in excess of 90% of the client collateral, plus the proprietary TM margin shall be assessed against the TM proprietary collateral for monitoring of TM level risk reduction mode.

### ii. CM level Risk Reduction mode:

Sum of client margin in excess of 90% of the client collateral for each client under a TM plus the proprietary TM margin, in excess of 90% of TM proprietary collateral shall be calculated as TM margin in excess of 90% of TM collateral. Sum of such margin for each TM clearing through a CM, plus sum of client margin in excess of 90% of the client collateral for each client clearing through such CM, plus the proprietary CM margin shall be assessed against the proprietary CM collateral for monitoring of CM level risk reduction mode.

iii. Once a CM is in RRM mode, all the TMs clearing through the CM shall be in RRM mode

### iv. An illustration for monitoring of risk reduction mode is provided

Suppose the total collateral (allocated collateral plus securities collateral placed through margin pledge/ re-pledge to CC) and margin obligation of CM Proprietary, TM Proprietary and Client level is as given below:

CM	TM	Client	Collateral (Rs)	Margin (Rs)	Client Margin > 90% (Rs)
CM-1	-	Prop	1,200	800	-
CM-1	TM-1	Prop	500	400	-
CM-1	TM-1	Client-1	800	780	60

CM-1	TM-1	Client-2	500	450	0
CM-1	TM-1	Client-3	400	380	20
CM-1	TM-2	Prop	500	200	0
CM-1	TM-2	Client-4	1,000	920	20
CM-1	TM-2	Client-5	1,000	880	0

### TM level monitoring

In the above table, “Client Margin>90%”, has been calculated as margin for the client less 90% of the client collateral. Risk reduction mode monitoring for TM shall be based on assessment of [TM Prop Margin + Client Margin>90%] against the [TM Prop collateral]. Accordingly, margin utilization percentage of TM1 and TM2 would be as under:

Margin utilization percentage of TM1 = [400 + (60 + 0 + 20)] /500 = 96%

Margin utilization percentage of TM2 = [200 + (20 + 0)] /500 = 44%

In other words, for TM1, margin of Rs 30 is in excess of 90% of its prop collateral, while there is no excess margin for TM2 against its prop collateral. The same has been tabulated below:

TM	Client Margin > 90% (Rs)	TM Prop Margin	90% of TM Prop Collateral	TM Margin > 90% (Rs)
TM-1	80	400	450	30
TM-2	20	200	450	0

### CM level monitoring

In the above table, “TM Margin>90%”, or TM Margin in excess of 90%, has been calculated as [Client Margin>90% + TM Prop margin] in excess of 90% of TM prop collateral. Risk reduction mode monitoring for CM shall be based on assessment of [CM Prop Margin + TM Margin>90%] against the [CM Prop Collateral]. Accordingly, margin utilization percentage of CM1 would be as under:

Margin utilization percentage of CM1 = [800 + (30 + 0)]/1200 = 69.17%

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### Annexure 3

#### Limit setting in Nextra and NCFE

The setting of limits for trading members will be done via upload of allocation and limit files, the Nextra Corporate Manager terminal and/or NCFE will no longer be considered for monitoring / settling limits for trading members.

### Annexure 4

#### 1. Client Net Effective Deposits Report for Clearing Member

- **Naming Convention:** CLIENT\_EFFECTIVE\_DEPOSITS\_<Primary TMID>\_<DDMMYYYY>.CSV
- This report is for clearing members and contains the collaterals, effective deposits and excess cash allocation of all entities for such Clearing Member.
- This file will be generated after midnight on each business date
- The file structure for the same is as given below:

S. No.	Column Name	Data Type
1	CMID	VARCHAR2(6)
2	Primary Mem Code/ TM / CP Code	VARCHAR2(12)
3	Primary Mem Code/ TM / Client Code / CP Code	VARCHAR2(12)
4	Cash Equivalent	NUMBER(20,2)
5	Securities Cash Component	NUMBER(20,2)
6	Total Cash Component (S. No. 4 + S. No. 5)	NUMBER(20,2)
7	Securities Non cash	NUMBER(20,2)
8	Commodities Non Cash	NUMBER(20,2)
9	Other Non Cash Component	NUMBER(20,2)
10	Total Non-Cash Component (S. No. 7 + S. No. 8 + S. No. 9)	NUMBER(20,2)
11	Total Collateral (Cash and Non Cash) (S. No. 6 + S. No. 10)	NUMBER(20,2)
12	Commodities Considered	NUMBER(15,2)
13	Total Non-Cash Considered	NUMBER(20,2)
14	Gross Effective Deposits (S. No. 6 + S. No. 13)	NUMBER(15,2)

15	Blocked Amount	NUMBER(20,2)
16	Net Effective Deposits before excess Cash Allocation (S. No. 14 – S. No. 15)	NUMBER(20,2)
17	Excess Cash Component (S. No. 6 – S. No. 13)	NUMBER(20,2)
18	Excess Non Cash Component (S. No. 10 – S. No. 13)	NUMBER(20,2)
19	Non Cash Limit Allocated by Member	NUMBER(20,2)
20	TM Excess Cash Allocation	NUMBER(20,2)
21	CM Excess Cash Allocation	NUMBER(20,2)
22	Net Effective Deposits After Excess Cash Allocation	NUMBER(20,2)
23	Margin	NUMBER(20,2)

## 2. Client Allocation Report for Clearing member.

- **Naming Convention:** CLIENT\_ALLOCATION\_REPORT\_<Primary TMID>\_<DDMMYYYY>.CSV
- This report is for clearing members and contains the allocation summary of all entities for such clearing member.
- This file will be generated after midnight on each business date.
- The file structure for the same is as given below:

S. No.	Column Name	Data Type
1	Current System Date DD-MON-YYYY	DATE
2	CM Code	VARCHAR2(6)
3	Primary Mem Code/ TM / CP Code	VARCHAR2(12)
4	Primary Mem Code/ TM / Client Code / CP Code	VARCHAR2(12)
5	Cash Equivalent Brought Forward	NUMBER(20,2)
6	Addition During the day	NUMBER(20,2)
7	Reduction During the day	NUMBER(20,2)
8	Cash Equivalent Carried Forward	NUMBER(20,2)

### 3. Client Net Effective Deposits Report for Trading member

- **Naming Convention:** CLIENT\_EFFECTIVE\_DEPOSITS\_<TMID >\_<DDMMYYYY>.CSV
- This report is for trading members and contains the collaterals, effective deposits and excess cash allocation of all entities for such Trading Member.
- This file will be generated after midnight on each business date
- The file structure for the same is as given below:

S. No.	Column Name	Data Type
1	TM Code	VARCHAR2(5)
2	TM Code/ Client Code	VARCHAR2(10)
3	Cash Equivalent	NUMBER(20,2)
4	Securities Cash Component	NUMBER(20,2)
5	Total Cash Component (S. No. 3 + S. No. 4)	NUMBER(20,2)
6	Securities Non cash	NUMBER(20,2)
7	Commodities Non Cash	NUMBER(15,2)
8	Other Non Cash Component	NUMBER(20,2)
9	Total Non-Cash Component (S. No. 6 + S. No. 7 + S. No. 8)	NUMBER(20,2)
10	Total Collateral (Cash and Non Cash) (S. No. 5 + S. No. 9)	NUMBER(20,2)
11	Commodities Considered	NUMBER(15,2)
12	Total Non-Cash Considered	NUMBER(20,2)
13	Gross Effective Deposits (S. No. 5 + S. No. 12)	NUMBER(15,2)
14	Blocked Amount	NUMBER(20,2)
15	Net Effective Deposits before excess Cash Allocation (S. No. 13 – S. No. 14)	NUMBER(20,2)
16	Excess Cash Component (S. No. 5 – S. No. 12)	NUMBER(20,2)
17	Excess Non Cash Component (S. No. 9 – S. No. 12)	NUMBER(20,2)
18	Non Cash Limit Allocated by Member	NUMBER(20,2)
19	TM Excess Cash Allocation	NUMBER(20,2)
20	CM Excess Cash Allocation	NUMBER(20,2)
21	Net Effective Deposits After Excess Cash Allocation	NUMBER(20,2)

22	Margin	NUMBER(20,2)
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#### 4. Client Allocation Reports for Trading Member

- **Naming Convention:** CLIENT\_ALLOCATION\_REPORT\_<TMID>\_<DDMMYYYY>.CSV
- This report is for trading members and contains the allocation summary of all entities for such trading member.
- This file will be generated after midnight on each business date
- The file structure for the same is as given below:

S. No.	Field Name	Data Type
1	Current System Date (DD-MON-YYYY)	DATE
2	TM Code	VARCHAR2(5)
3	TM Code / Client Code	VARCHAR2(10)
4	Cash Equivalent Brought Forward	NUMBER(20,2)
5	Addition During the day	NUMBER(20,2)
6	Reduction During the day	NUMBER(20,2)
7	Cash Equivalent Carried Forward	NUMBER(20,2)