

**Frequently Asked Questions – Spread Margin Benefit**

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**1. Which open positions qualify for the spread benefit on initial margin?**

Spread benefit on initial margin shall be permitted in the following cases:

- a. Different expiry date contracts of the same underlying
- b. Two contracts variants having the same underlying commodity
- c. Futures contracts in a commodity complex provided the eligibility criteria are met
- d. Cross margin (offsetting position between Index and its constituents / variants)

**2. What is the eligibility criteria for providing spread benefit in a commodity complex?**

NCCL may provide spread benefit in initial margin across futures contracts in a commodity complex provided the following conditions are met:

- a. Minimum coefficient of correlation ( $r$ ) between futures prices of the two commodities is 0.90.
- b. Back testing for adequacy of spread margin to cover MTM has been carried out for a minimum period of one year (back testing for at least 250 days wherein daily settlement price of futures used for back testing have been determined from traded futures prices).
- c. Initial margin after spread benefit has been able to cover MTM on at least 99% of the days as per back testing.

**3. What is the eligibility criteria for providing cross margin benefit?**

To be eligible for cross margin benefit, contracts belonging to Index futures and its underlying constituents or its variants shall belong to same expiry month or to the nearest expiry month and should be from amongst the first three expiring contracts only

**4. How many contract expiries are eligible for spread margin benefits?**

- a) For spread position in different expiry date contracts of the same underlying and for spread position in two contracts variants having the same underlying commodity, each individual contract in the spread shall be from amongst the first six expiring contracts

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- b) For spread position in cross margin and for spread position in commodity complex, each individual contract in the spread shall be from amongst the first three expiring contracts

**5. What is the spread margin benefit on initial margins?**

- a) Maximum benefit in initial margin on spread positions in different expiry date contracts of the same underlying and in two contracts variants having the same underlying commodity is restricted to 75%.
- b) Maximum benefit in initial margin on spread positions in commodity complex is restricted to 50%.
- c) Maximum benefit in initial margin for eligible offsetting positions of index futures and futures of its underlying constituents or its variants is restricted to 75%

**6. How are the other margins levied on spread positions?**

In case of spread positions:

- a) Extreme loss margin (ELM) and mark to market margin (MTM) shall continue to be levied
- b) Additional margins shall not be levied

NCCL shall be free to charge margins higher than the minimum specified depending upon its risk perception.

**7. When will the spread margin benefit be withdrawn?**

Spread Margin benefit on the eligible positions shall be withdrawn equally in three days prior to the start of tender / staggered period or start of expiry day (whichever is earlier), including start date of tender / staggered period or expiry date.