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Sebi advances margins determination period for commodity derivatives

Effective April 1, 2020, cut off time shall be kept at 5 pm for the purpose of determining minimum threshold of margins to be collected by members from their clients

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In a major relief to [commodity derivatives](#) trading members, [markets](#) regulator the Securities and Exchange Board of India (Sebi) has advanced margins determination period by six hours.

Effective April 1, 2020, cut off time shall be kept at 5 pm for the purpose of determining minimum threshold of margins to be collected by members from their clients. Till then, the margins computation would continue to be done at 11.30 pm.

Sebi said in a circular that risk parameter file (RPF) to be generated at cut-off time shall be applied on clients end-of-day (EOD) portfolio for the purpose of determining minimum threshold of margins to be collected from clients by members.

"Similarly, for the purpose of determining minimum threshold of extreme loss margin (ELM) to be collected from clients, EOD client portfolio shall be valued at the half an hour weighted average trade price arrived at cut-off time," Sebi said.

"We had made a submission to Sebi which was accepted. Members were facing problems in computing margins for depositing in bank account the next day. Now, everyone in the trade is aware of the margins they would have to pay the next day for smooth transition of payment and trade system," said Narinder Wadhwa, president, Commodity Participants Association of India (CPAI).

As per the current practice, members compute margins at the end of the day i.e. at 11.30 pm based on the volatility in commodity prices. The margins payment is completed the following day. Thus, clients are unaware of the amount of margins to be paid the following day.

"Initial margins changes in case of sharp volatility in commodity prices after 5pm. Hence, margin recovery was a big problem. Now, with the Sebi's regulation forces members to impose a heavy penalty in clients for the shortfall in margins beyond banking hours, clients were facing huge problems due to closure of banking hours. With this, Sebi has addressed clients' problems for smoothening futures trade," said Sanjit Prasad, managing director and chief executive officer, Indian Commodity Exchange (ICEX).

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