

Annexure I

Clarifications

1. Debit Balances in Clients' Account

Rule 8(1)(f) and Rule 8(3)(f) of SCRR permits a trading member to fund in connection with or incidental to or consequential upon the securities business. Further, Regulation 3.11 of Part A of the Capital Market Regulations of the Exchange provides that "If a Constituent fails to make payment of consideration to the trading member in respect of any one or more securities purchased by him before the pay-in date notified by the Exchange from time to time, the Trading Member shall be at liberty to sell the securities received in pay-out, in proportion to the amount not received, after taking into account any amount lying to the credit of the Constituent, by selling equivalent securities at any time on the Exchange not later than the fifth trading day reckoned from the date of pay-in. If the trading member has not sold the securities for any reason whatsoever, such securities shall be deemed to have been closed out at the close out price declared by the Exchange for the fifth trading day. The loss, if any, on account of the close out shall be to the account of the Constituent".

Considering both of the above provisions, the following clarifications are issued on debit balances in Client's account:

- a) If debit balance arises out of client's failure to pay such amount for less than fifth trading day reckoned from date of pay-in, such debit balances would not be construed as violation relating to funding.
- b) If debit balance arises out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and no further exposure is granted to client from the sixth trading day reckoned from the date of pay-in, such debit balance would not be construed as violation relating to funding.
- c) If debit balances arise out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client it would be construed as a funding violation even if fully paid collaterals are available for margins.
- d) Delayed Payment Charges or interest charge for the funds deployed by the member may be charged at the rate/s consented by the client.

For the purpose of reckoning debit balance stated above, the debit balance in the client ledger consolidated across segments (not across Exchanges) after giving effect to the release of margin to be considered.

Further, if subsequently any complaint is received regarding selling of collaterals for recovery of debit balance, as per the Regulation 3.11 of Part A of the Capital Market Regulations of the Exchange quoted above, the securities shall be deemed to have been closed out at the closing price declared by the Exchange for fifth trading day reckoned from the date of pay-in.

Collaterals as Margin

In Equity Derivative Segment and Currency Derivative Segments Members are allowed to accept approved securities from clients for margin purposes. However, Members can lodge their own securities only to the Clearing Corporation and not the clients' securities. Where Member has accepted securities with appropriate hair cut for margin purpose, but has to deploy his funds for meeting margin requirements of the client at the Exchange, Members may levy interest or delayed payment charge on debit balance as per the terms consented by the client.