Canara Bank Securities Limited, Mumbai
Kind attention all Clients!!!!
Concept of Peak Margin (Margin Rules)-Dec 2020

With reference to SEBI circular: reference number SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated 20th July 2020, Peak Margin would be introduced in Equity, Commodity & Currency segment from 01.12.2020.

Until now, the reporting for margin requirements happened on the basis of end-of-day positions. Based on these positions, the exchange was imposing a margin on the customer. Under peak margin reporting, Clearing Corporation shall send 4 Snapshot in a day on scheduled time (In a random, system driven process). At the end of the day, Exchange will consider the maximum margin across that 4 snapshots/Margin files for any client which will be considered as Peak Margin.

We, Canara Bank Securities Limited (CBSL), required reporting the margin collected from each client as at EOD and the peak margin collected during the day.

- EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.
- Peak margin obligation of the client/TM/Custodial Participant, across the snapshots, shall be compared with respective client/TM/Custodial Participant peak margin available with the TM/CM during the day

Higher of the shortfall in collection of the margin obligations above, shall be considered for levying of penalty as per the extant framework.

Important Changes at CBSL:

 # 80% credit from selling holdings can be used on the same day

If Client sells stocks from demat or T1 (BITSOT) going forward only 80% credit against the sale value will be available for subsequent trades in the same segment on the selling day. Currently Clients were getting 100% credit (margin).

The reason for this is on account of revised guidelines, wherein we are required to block 20% of selling credit as margin until we can debit the shares from your Demat and make it available to the Clearing Corporation (Early payin or EPI), which typically will happen only after the market closes on a trading day.

So what this also means is that say If you've sold 100 shares of BAJFINANCE that you hold in your Demat account, you will only be able to buyback 80 shares of BAJFINANCE (value) during the day if you don't have any other funds/margin in your account. The reason being on selling 100 shares you will now get 80% credit, so you will have enough funds to only buyback 80% of shares. Of course, you can buy back the entire 100% if you have additional funds/margin in your account.

 # No change in intraday leverage offered by us

Currently, there is no change in intraday leverage offered by us.

Currently you get 8X leverage for intraday in cash segment for the eligible scrips.

Intraday leverages

Peak margin reporting has been brought about to restrict brokers from providing additional leverage over and above what VAR+ELM (with minimum 20% for stocks) and SPAN + Exposure (F&O – Equity, Commodity, Currency). Beginning 01.12.2020, the maximum intraday leverage that can be offered by a us will be restricted and this maximum leverage will keep reducing until 01.09.2021, post which a we can give maximum leverage = VAR+ELM (min 20%) or SPAN+Exposure. Going forward, we furnish here below the leverages proposed:

- 01.12.2020 to 28.02.2021 — penalty if margin blocked/collected is less than 25% of the minimum 20% of trade value (VAR+ELM) i.e., 5% for stocks or SPAN+Exposure for F&O.
- 01.03.2021 to 31.05.2021 — penalty if margin blocked less than 50% of the minimum margin required.
- 01.06.2021 to 31.08.2021— penalty if margin blocked less than 75% of the minimum margin required.
- 01.09.2021 — penalty if margin blocked less than 100% of the minimum margin required.

The reason for this is because we are now required to block 20% of selling credit as margin until we can debit the shares from your Demat and make it available to the CC(Early payin or EPI), which typically will happen only after the market closes on a trading day.

So what this also means is that say If you've sold 100 shares of BAJFINANCE that you hold in your Demat account, you will only be able to buyback 80 shares of BAJFINANCE during the day if you don't have any other funds/margin in your account. The reason being on selling 100 shares you will now get 80% credit, so you will have enough funds to only buyback 80% of shares. Of course, you can buy back the entire 100% if you have additional funds/margin in your account.

***Note: In view of the system restrictions, the entire lien marked in bank for all trades done during the day will be debited on Trade day and credited before EOD, to avoid Intraday peak margin penalty.**

Suggested:

Always first exit the high risk(margin) leg of a portfolio of F&O positions

Assume you have bought 1 lot of Nifty futures and bought 1 lot of Nifty puts. The margin required for naked Nifty futures is Rs 1.90 lakhs, but since you also have bought the puts which cover the risk completely, the margin required drops to Rs.60,000/-. Assume you have Rs 1.90 lakhs in your account and that you bought some stocks with the remaining Rs 1.30 lakhs in your account and the only margin remaining is Rs.60,000/- against which you hold 1 Nifty long future and 1 Nifty long put.

If you now exit the Nifty long put position first, the margin requirement for 1 lot Nifty future will go back up to Rs 1.90 lakhs as the position isn't hedged anymore. While you might exit the Long Nifty future immediately, but the margin in your account until you exit is only Rs.60,000/- against which you hold 1 Nifty future, which means that there potentially can be a peak margin penalty on the Rs.1.30 lakhs that you will be short at this time if the CC took a snapshot of your total position + margin available.

So going forward, if you don't have any additional margin, it is always best to exit the higher risk/margin position first before exiting the lower risk positions. So, in the above example, exit the long Nifty future first and then the long puts to avoid any potential peak margin penalty.

Don't use holding sell credit for intraday trades if you plan to buyback the holdings

Assume you have 100 shares of BAJFINANCE in your Demat and no other margin. Today, you can sell the 100 shares at say Rs 5000 and use the entire credit of Rs 5 lakhs to take intraday trades in stocks. Firstly, as I explained earlier, you will now be able to use only Rs 4 lakhs and not Rs 5 lakhs. But there is another issue. Assuming you used this Rs 4 lakhs to intraday trade (Buy & Sell) and also bought back Rs 4 lakhs worth of BAJFINANCE shares that you had earlier sold on the same trading day. Going forward, there can potentially be a peak margin penalty for the intraday trade, here is why.

As we have explained in this post, the reason we can allow you to use the credit from selling stocks to buy other stocks on the same day is that we debit the shares from your Demat and give it to the clearing corporation(CC) on the same trading day (Early payin or EPI). These stocks transferred as EPI can be then considered as margins, both for upfront and peak margin requirements. But in the above example, if you bought back 80% of stocks sold, there will be only 20 shares or Rs 1,00,000 worth of BAJFINANCE that will be transferred to the CC. This means that when you traded on INTRADAY, you were short Rs 3 lakhs (Rs 4 lakhs – Rs 1 lakhs) on which there can potentially be a peak margin penalty.

So, if you exit your holdings and buyback the sold holdings on the same day, and if you had used the proceeds of the holdings sold to take another intraday trade, there could be a peak margin penalty on the intraday trade if you didn't have sufficient funds available other than the credit from selling your holdings. So you make sure to add sufficient funds to avoid margin penalty if you didn't have any other margins for the intraday trade.

So in gist, starting 01.12.2020, there is going to be a restriction on maximum intraday leverages offered by brokerage firms. 80% of credit from selling holdings will be available for further trades on the same day. Always exit the higher risk/margin position first if you hold a portfolio of F&O positions. If you sell your holdings and used the proceeds for intraday trading, avoid buying back the stock sold if you don’t have sufficient funds for the intraday trade.

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