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Market Regulation Department-Division of Policy
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MRD/DoP/SE/Cir-13/2008

May 05, 2008

The Executive Directors/Managing Directors
of all Stock Exchanges

Dear Sir / Madam,

Sub: Comprehensive Risk Management Framework for the cash market

1. This is in continuation to circulars MRD/DoP/SE/Cir-07/2005 dated February 23, 2005, MRD/DoP/SE/Cir-06/2008 dated March 19, 2008 and MRD/DoP/SE/Cir-10/2008 dated April 17, 2008 on the comprehensive risk management for the cash market and margining of institutional trades in the cash market.
2. In order to improve the efficiency of the use of the margin capital by market participants and as an initial step towards cross margining across cash and derivatives markets, margins shall be levied on cash market positions which have off-setting stock futures positions in the derivatives market as given below:
 - a. Cross margin facility will be available initially for institutional trades.
 - b. Cross margin facility will be available to positions in cash market having corresponding off-setting positions in the stock futures market.
 - c. For positions in the cash market which have corresponding off-setting positions in the stock futures, VaR margin shall not be levied on the cash market position to the extent of the off-setting stock futures market position.
 - d. Extreme Loss Margin and Market to Market Margin shall continue to be levied on the entire cash market position
 - e. Near month stock futures positions shall not be considered for cross margin benefit three days prior to expiry (as currently being done in the case of calendar spread.)
 - f. There will be no change in the margins on the F&O positions.

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3. The Stock Exchanges are advised to:
 - a. put in place the adequate systems and issue the necessary guidelines for implementing the above decision.
 - b. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.
 - c. bring the provisions of this circular to the notice of the member brokers/clearing members of the Exchange and also to disseminate the same on the website.
 - d. communicate to SEBI the status of the implementation of the provisions of this circular in the Monthly Development Report.
4. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

S V MURALI DHAR RAO