Short Margin Penalty in case of Carry Forward Position on Positive MTM

To understand why a penalty is levied, we will need to have an understanding about the Settlement cycle and the concept of Margin reporting. The settlement cycle which is followed for F&O is T+1. What this means MTM is settled on T+1.

Margin Reporting: Whenever you take a position in the F&O/CDS Segment, the Exchange requires all members (brokers) to report the funds available for such positions taken by client on a client to client basis..So if you buy Options for Rs 10,000/- , the Exchange would ask broker of the availability of funds in your account and report the same to the Exchange. While reporting the availability of funds, broker is required to consider only 'free' or 'your fund' balance. If client has any amount less than required it will attract penalty.

Short margins will be reported on initial margins in Futures segment.

Ex 1:- Let's assume you have transferred Rs 100,000/- to your account and you bought one lot of Nifty Futures on Monday Margin required for 1 Lot is Rs 90,000/-(for example) at the end of the day you had a loss of Rs 15,000/- so while reporting margin it would be reported as no shortage in your account as required initial margin of Rs 90,000/- is available in your account next day i,e Tuesday at the end of the day you had no profit or loss in your account so available balance would be Rs 85,000/-(15,000 of MTM is debited) and margin applicable in your account would be Rs 90,000/- in this case short reporting for Rs 5000/- would be done in your account by broker since initial margins which is required is not maintained. To avoid such penalty client needs to transfer required MTM on or before T+1

Ex 2:- In another case let's assume you have transferred Rs 100,000/- to your account and after few intraday trades you made a profit of Rs 25,000/-. Now total funds available for trading would be Rs 125,000/- ... suppose using this funds you have bought a futures whose initial margin is Rs 115,000/- . At the end of the day while reporting margins a short margin of Rs 15,000/- will be reported in your account as technically the profit of Rs 25,000/- is not a part of your free funds and will be credited by exchange only on next day (As per settlement cycle, T+1).

Penalty structure

The penalty levied in case of shortfall in Margin on the shortfall amount is as follows

Short collection for each client	Penalty percentage
(< Rs 1 lakh) And (< 10% of applicable margin)	0.5%
(=> Rs 1 lakh) Or (= >10% of applicable margin)	1.0%

Equity & Currency Derivatives

If short/non-collection of margins for a client continues for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall.
If short/non-collection of margins for a client takes place for more than 5 days in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.

Commodity derivatives (MCX)

With respect to repeated defaulters, who default 3 times or more during a month, the penalty would be 5% of the shortfall in such instances.Every short/non collection of margin is to be considered as one instance of default. In case margin shortage is reported for a client 3 times or more during a month, i.e., either in consecutive instances or in 3 different instances, the penalty would be 5% of the shortfall from 4th instance of shortfall. E.g. shortage is reported for a client on 1st and 2nd day of month consecutively; thereafter again on 10th day shortage is reported. So the number of instances are 3 and in case shortage is reported on any day later in the month, the penalty shall be 5% of the shortfall amount for all such instances beyond 3rd instance.