Flat 20% Upfront Margin to be collected in Cash Segment from Sep 1st 2020.

As per SEBI circular Dated Nov 19,2019 brokers are now required to collect and report margins in the cash segment just like is currently applicable in derivatives segment . Let's start by understanding SEBI's motive behind this move and further gather how this will affect your trading in cash segment with SAS Online

Traditionally brokers allow clients to buy/sell stocks for delivery without asking for upfront margins or delivery .Client is required to fund the account until T+2 after execution of trade or transfer the sold shares by providing DIS slip. This practice however increases the risk to the broker and the overall system as the client may not pay up or provide shares sold thus defaulting in case of adverse market movement

The new circular asks for a Minimum flat 20% of value of transaction needs to be collected upfront irrespective of VAR+ELM of the stock. **This greatly simplifies things as we at SAS already collect 100% upfront margin in CNC delivery. In case of a sell transaction we are doing EPI (Early Pay-in) in which case no margin on the sell transaction will be levied by exchange.** . However in special cases there might be margin shortage and levy of penalty. Please go through below case to understand

In case of **BTST** (Buy Today Sell Tomorrow) **minimum** 40% margin will be levied and there might be a shortage in case full funds (which are released from selling stocks) are utilized in the FO/CDS segment for taking new positions. Let us understand how

Generally exchanges in India follow T+2 settlement mechanism to explain If you buy a share on Monday (T Day), securities will be credited to your account on Wednesday (i,e T+2 Day, which is payout day of securities) similar will be the case in selling if you sell any stock on Monday(T day) it will be debited from your account on Wednesday (i,e T+2 Day, which is pay- in day) accordingly funds are also credited and debited.

Now in the case of BTST you Buy a stock on Monday for Rs 100/- a margin of Rs 20/- (20% of the transaction value) will be levied in your account until pay in of funds done to exchange on T+2 and when you sell the same stock on Tuesday (we generally do Early pay in so that no margin is levied) but since your stock will be credited on Wednesday to your account we do not have stocks for doing early pay in to avoid sell margin. In this case a sell margin of Rs 20 /- (20% of the transaction value) will be levied in your account so in total Rs 40 /- will be blocked as margin which is 40% of the transaction value.

Now on Tuesday once you sold the shares, 100% value is credited to your account and if you use more than Rs 60 to take any position in NFO/CDS segments in that case margin will be short and penalties will be levied in your account according on the amount excess to Rs 60/- used by you

Further please note apart from 20% transaction value exchange also does charge additional /adhoc margin and MTM

Lets us understand with examples of two stocks i,e Reliance and Adani gas

Example 1:- If you purchase Reliance at Rs 2000/- on Monday and it closes at 1998 Rs 402/- will be blocked as margin(Rs 400/- will be 20% transaction value and Rs 2/- will be blocked as MTM difference between Buy price and Closing price) and on Tuesday if you sell them at Rs 2000/- and it closes at Rs 2002/- Total Rs 804/- will be blocked as margin (Rs 402/- of Monday and Rs 402/- for Tuesday trade 20% transaction value and MTM i,e Rs 2/-) Now the available balance will be Rs 1196/- which can be used for taking positions in FO/CDS segments if any positions taken above Rs 1196/- will be applicable for short margin penalties.

Example 2:- If you purchase Adani Gas at Rs 200/- on Monday and it closes at Rs 200/-only then Rs 70/- will be blocked as margin(Rs 40 will be 20% of transaction value and Rs 30/- additional/adhoc margin) and on Tuesday if you sell them at Rs 200/- and it closes at Rs201/- then Rs 141/- will be blocked as margin(Rs 70/- of Monday and Rs 70/- for Tuesday trade along with Tuesday MTM of Rs 1/-) Now the available balance will be Rs 59/- which can be used for taking positions in FO/CDS segments if any positions taken above Rs 59/- will be applicable for short margin penalties .

For latest exchange cash margins VAR/ELM/Adhoc click here

Reference links

https://www.sebi.gov.in/legal/circulars/nov-2019/collection-and-reporting-of-margins-by-trading-member-tm-clearing-member-cm-in-cash-segment_45011.html

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