

Sebi okays cross-margining

Investors Dabbling In Cash & Derivatives Won't Have To Pay Margin Twice

Our Bureau

MUMBAI

IN a move that will help stock market investors and brokers use their margin funds efficiently, the Securities and Exchange Board of India (Sebi) on Monday gave approval to cross-margining across the cash and derivatives segments. This means, if an investor is buying a stock in which he already has a short position in the futures segment, he will not have to pay margin twice over.

In its circular, the capital market regulator has said for positions in the cash market that have corresponding offsetting positions in stock futures, value at risk (VaR) margin shall not be levied on the cash market position. However, it will be only to the extent of the offsetting stock futures market position.

For instance, assume that an investor wants to buy 1,200 shares of ACC. He is already holding a short position of 1,000 ACC shares in the futures segment. Any losses due an intra-day fall in the price of ACC shares will be neutralised by

gains on the corresponding short positions held by the investor in the ACC stock futures. Therefore, the value of the transaction facing potential volatility risk is of only 200 shares (1,200 shares minus 1,000 futures) that do not have a corresponding short position. Accordingly, the exchange will levy the VaR margin only on 200 shares. So far, the derivatives and cash market trades were treated as separate transactions.

The Sebi circular also said the near-month stock futures positions will not be considered for cross-margin benefit three days prior to expiry (the last Thursday of every month). Meanwhile, extreme loss margin (ELM) and mark-to-market margin (MTM) shall continue to be levied on the entire cash market position, said the circular. There will be no change in margins on F&O positions, it added.

"It is a good move and will help in efficient use of capital. Over time, the facility should be implemented for all market participants in order to ensure a level-playing field," said Kotak Securities managing director Narayan SA.



DRAWING THE LINE

Near-month stock futures positions will not be considered for cross-margin benefit three days prior to expiry