



## **ANNEXURE 1**

### **ITEM 1- SETTLEMENT PROCEDURE**

1.1 The following positions in respect of contracts identified by Exchange shall be physically settled:

- All open futures positions after close of trading on expiry day
- All in-the-money contracts which are exercised and assigned

1.2 The current facility of do-not-exercise provided for Close to Money (CTM) option contracts shall continue to be applicable in respect of stocks which are identified for physical settlement. In respect of option contracts where buyer has opted for do-not-exercise such contracts shall not be exercised.

1.3 The settlement obligations shall be computed as under

a. Unexpired Futures

- Long futures shall result into a buy (security receivable) positions
- Short futures shall result into a sell (security deliverable) positions

b. In-the-money call options

- Long call exercised shall result into a buy (security receivable) positions
- Short call assigned shall result into a sell (security deliverable) positions

c. In-the-money put options

- Long put exercised shall result into a sell (security deliverable) positions
- Short put assigned shall result into a buy (security receivable) positions

The quantity to be delivered/ received shall be equivalent to the market lot \* number of contracts which result into physical settlement

1.4 The settlement obligation value shall be computed as under

- a. Futures – Settlement obligations shall be computed at futures final settlement price of the respective contract. (The difference between previous day settlement price/trade price and final settlement price on the expiry date shall be cash settled along with daily MTM on T+1 basis as currently being done)
- b. Options – Settlement obligation shall be computed at respective strike prices of the option contracts

1.5 The final deliverable/receivable positions at a clearing member shall be arrived after netting the obligations of all clients/constituent/trading members clearing through the respective clearing member.

1.6 Physical settlement of securities shall be done only in dematerialized mode through the depositories.



## **ITEM 2- SETTLEMENT SCHEDULE**

- 2.1 The physical settlement shall be effected on Expiry+2 days in accordance with the settlement schedule issued by the Clearing Corporation periodically.
- 2.2 The delivering clearing member shall complete delivery instructions for transfer of securities to Depository pool account on settlement day by 2.00 pm or such cut-off time as stipulated by the respective depositories. The depositories shall credit the receiving members' pool account / clients' beneficiary account in accordance with the pay-out instructions received electronically from Clearing Corporation on the settlement day. A new settlement type shall be introduced in consultation with depositories to facilitate separate identification.
- 2.3 The funds paying clearing member shall have clear funds in his settlement account on settlement day. The clearing bank shall debit the paying members' account by 2.00 pm. in accordance with electronic instructions received from Clearing Corporation. The Clearing Bank shall credit the receiving members' settlement account in accordance with the pay-out instructions received electronically from the Clearing Corporation on the settlement day.



### **ITEM 3- MAINTENANCE OF BANK AND DEPOSITORY ACCOUNTS**

- 3.1 The funds settlement for physical settlement shall be conducted through Clearing Member's current F&O primary settlement account.
- 3.2 Clearing member's depository account in Capital Market segment shall be used for settlement of securities. Clearing member who is not a member in Capital Market segment shall be required to maintain a depository account with both the depositories and intimate the same to Clearing Corporation.



## **ITEM 4- PROCEDURE FOR PAY-IN AND PAY-OUT OF SECURITIES**

### **4.1 Pay-in of securities**

Pay-in shall be conducted on the scheduled pay-in day, in accordance with the settlement calendar periodically issued by the Clearing Corporation in this regard. Clearing members shall maintain settlement accounts at both depositories viz NSDL and CDSL and provide specific pay-in instructions to depositories for effecting pay-in

### **4.2 Auto Delivery Out**

For pay-in through NSDL / CDSL a facility shall be provided to clearing members wherein delivery-out instructions will be generated automatically by the Clearing Corporation based on the net delivery obligations of the clearing members. These instructions will be released on the Expiry+1 day and the securities in the clearing members' pool accounts will be marked for pay-in. The facility shall be available to the clearing members if they have availed of this facility in the Capital Market Segment

### **4.3 Early pay-in of securities**

Clearing Corporation shall provide a facility to clearing members to make early pay-in of securities through NSDL and CDSL. The details for making early pay-in are provided in **Item 7**

### **4.4 Pay-out of Securities**

Pay-out shall be conducted on the scheduled payout day, in accordance with the settlement calendar issued periodically by the Clearing Corporation in this regard. Payout shall be made to the clearing member's pool account.

### **4.5 Direct pay-out to Beneficiary Account**

A facility shall be provided to the clearing members to directly credit the pay-out to client's beneficiary account. Clearing members shall provide a file to Clearing Corporation for effecting pay out to client's accounts for a particular settlement type and settlement number. Clearing members shall have to mention the beneficial owner's account number entitled to receive the payout of securities. The direct payout of securities can be credited to the client's account regardless of the depository in which the securities pay-in is received. In case of a shortage, the quantity credited to the client account will be to the extent of net payout received by the clearing member. The process for effecting pay out to client's accounts directly is detailed in **Annexure 2**.

### **4.6 Securities payout to preferred depository**

In addition to the direct delivery of securities to the client account, clearing members shall also have a facility to receive their payout in their preferred depository.



Clearing members have a facility of preferred depository wherein payout receivable by members can be credited to the specified pool account in either of the depositories viz. NSDL or CDSL. Clearing members are requested to take note of the following:

- The securities payout shall be after giving effect to any client direct payout instructions which may have been provided by clearing members for the respective security for the respective settlement. In the event of a failure of a client payout instruction at the depository, the payout shall be effected to the respective depository pool account.
- Clearing members shall ensure that they get their account details updated in case of shifting /change of account etc. to ensure that the payout happens to the preferred depository pool account.
- The preferred depository shall be the same as selected by the clearing member for the Capital Market segment.



## **ITEM 5- SHORTAGE HANDLING**

### **5.1 Funds settlement**

Non-fulfilment of funds obligation towards physical settlement shall be treated as a violation and action as currently applicable for non-fulfilment of settlement obligation shall be applicable. Additionally, securities pay-out due to such clearing members who have not fulfilled funds obligation shall be withheld by the Clearing Corporation.

### **5.2 Securities settlement**

- Failure of the seller to deliver securities shall result in buy-in auction for the shares by Clearing Corporation as per auction schedule declared periodically. Currently auction shall be conducted on Expiry+3 days and settled on Expiry+4 days. The auction amount shall be charged to the short delivering member. Failure to procure shares in auction shall be closed out. Auction for shortages shall be conducted in Capital Market Segment of the Exchange under a separate series. Pay-in and payout for auction settlement shall be as per the schedule declared by Clearing Corporation.
- Clearing member who fail to deliver shall be debited by an amount equivalent to the securities not delivered valued at valuation price. The valuation price shall be the closing price of such securities in Capital Market Segment of the Exchange, on the immediate trading day preceding the pay-in day for the securities.
- When the Clearing Corporation is satisfied that securities cannot be bought in auction, obligation in such security shall be deemed to be closed out. When the auction seller fails to deliver in part or full on auction pay-in day, the same shall be closed out
- Auction shall not be conducted for shortages in the securities which are under corporate actions. Such shortages shall be closed out directly.
- Close out shall be at the closeout price of the security as determined in Capital Market Segment.
- Clearing members failing to fulfil their securities deliverable obligations to Clearing Corporation shall be subjected to a penalty charge of 0.05% per day. Further, the valuation amount of the shortage shall be considered as funds shortages where shortage confirmation is not received from the bank and penal action as prescribed for Funds Settlement above shall be applicable



## ITEM 6- RISK MANAGEMENT

- 6.1 Current margining framework of F&O segment shall continue to be applicable till expiry of derivative contracts.
- 6.2 Post expiry, positions which are converted to physical settlement margins as applicable in Capital Market segment (i.e VAR, Extreme Loss Margins, Mark to Market margins) shall be applicable and levied as delivery margins.
- 6.3 Delivery margins shall be part of the initial margins of the clearing member.
- 6.4 Clearing/trading member shall be required to collect delivery margin and report the same through the existing client margin reporting mechanism. The revised file formats providing information of delivery margins in the existing margin reports have been provided in **Annexure 3**.
- 6.5 Delivery margins shall be computed at a client level settlement obligation for all physical deliverable positions.
- 6.6 VAR and Extreme Loss Margins: - The VAR and Extreme Loss percentage as computed in the Capital Market segment shall be applied on client level settlement obligations. The margins rate shall be updated for every change in margin rate in Capital Market segment
- 6.7 Mark to Market margins - End of day mark to market margins shall be computed on expiry day and expiry + 1 day as difference between settlement obligation and value of positions at closing price of the security in the Capital Market segment. Mark to market loss in one security shall be netted against profit of other security for same client. Net loss at client level shall be grossed to arrive at clearing member level mark to market margins.
- 6.8 Delivery margins blocked shall be released on completion of settlement.
- 6.9 Assignment margins shall not be computed on positions which shall be identified for physical settlement.



## ITEM 7- EARLY PAY-IN FACILITY

### 7.1 Early pay-in of securities

- In cases where early pay-in of securities is made, such positions for which early pay-in (EPI) of securities is made shall be exempt from delivery margins. The EPI shall be allocated to clients having net deliverable position, on a random basis. However, clearing members are required to ensure to pass on appropriate early pay-in benefit of margin to the relevant clients.
- Clearing members can make the early pay-in of securities through either of the depositories viz NSDL and CDSL. In NSDL, clearing members shall deliver the securities to their pool account and execute irreversible delivery out instructions through their Depository Participant for the particular settlement. In CDSL, clearing members can transfer the security to their early pay-in account with CDSL for Capital Market segment with Clearing Corporation.
- Clearing members may also provide the details of the clients to whom early pay-in benefit is to be provided through a file upload. Clearing members can upload client details file during the day through “Collateral Interface for Members (CIM)”. Clearing members shall receive return file providing details of successful and rejected records on the extranet server. Clearing members can modify the client and quantity details by uploading an incremental file. The format for Client level early pay-in files for securities is provided in **Annexure 3**.

### 7.2 Early Pay-in of Funds

- In case where early pay-in of funds is made, such positions for which early pay-in of funds is made shall be exempt from delivery margins.
- Clearing members shall make early pay-in funds through a screen-based request in the Collateral Interface for Members (CIM). The benefit for the same shall be provided on confirmation of funds from the respective Clearing Bank.
- Early pay in of funds may be allocated at client level or at client-security level. The allocation can be revised through a screen based request or through the file upload facility. The format for Client level early pay-in files for funds is provided in **Annexure 3**.
- Where the clearing member has provided client -security allocation, benefit for early pay-in of funds shall be allocated against the net buy position of the specified client-symbol combination and any residual amount after such allocation will not be utilized for other positions. In case of only client wise allocations, the early pay-in of funds will be allocated in the descending order of the security wise net buy value under the client and any residual amount after such allocation will not be utilized for other clients.
- Where the clearing members has provided early pay in of funds and no allocation request has been provided, the amount shall be allocated to the clients in descending order of net buy positions value.





## ITEM 8- REPORTS

The formats of the following existing reports shall be modified. The revised formats have been provided in **Annexure 3**

- Bank report for next day obligations (BK01)
- Margin statement for clearing member (MG09)
- Margin statement for trading member (MG10)
- Margin payable statement for clearing member (MG11)
- Detailed margin file for clearing member (MG12)
- Detailed margin file for trading member (MG13)
- Detailed margin file for clearing member (MG18)

The following additional reports shall be provided to members for physical settlement. The naming convention and formats of the same have been provided in **Annexure 3**

- Final obligation report for Clearing member – FOBG 01
- Final obligation report for Trading Members- FOBG02
- Security wise demat delivery statement (Clearing Member)- DFDS
- Security wise demat receipt statement (Clearing Member)- DFRS
- Client Allocation Details (Clearing Member)- CADT
- Deliveries Report (Clearing Member)- DLVR
- Security Shortages Report Clearing Member- SHRT
- Auctions Square off Debit/ Credit Report for Clearing Member- ASQR
- Auction Difference Report for Clearing Member- ADIF
- Delivery Margin Report for Clearing member – DLMG01
- Delivery Margin Report for Trading member – DLMG02