TO APPROVE REVISION TO PENALTY STRUCTURE AND ADDITIONAL MARGINS LEVIED FOR POSITION LIMIT VIOLATIONS IN FUTURES AND OPTIONS SEGMENT

The Risk Management Committee [RMC] had put in place a framework for additional margins to mitigate the risk of concentration from members on account of concentrated positions held by a trading member in underlying stocks/indices. The framework for penalty and additional margins in case of position limit violations by trading members in underlying stocks/indices was informed by way of NCL Circular Ref. No: 031/2023 (Download Ref No: NCL/CMPT/55724) dated February 22, 2023, and came into effect from March 01, 2023.

Review of Position Limit Violations:

It was observed as per the data analysed subsequent to the introduction of the above framework that the instances of violations by trading members in underlying stocks/indices initially reduced; however it has again increased. The below actions are therefore recommended by Risk Management Committee to the Board to mitigate risk of concentration on account of positions held by trading members in underlying stocks/indices in Futures and Options segment:

1. *Penalties:*

For levy of slab-wise instance based penalty, the count of position limit violation instances by a trading member across underlying stocks/indices in a calendar quarter shall be considered instead of calendar month. The slab-wise penalty may be revised as follows:

Instances of Position Limit violations	**Proposed Monetary Penalty to be levied (calendar quarter)**
1st instance	Rs.5,000/-
2nd to 5th instance	Rs.20,000/- per instance from 2nd to 5th instance
6th to 10th instance	Rs.50,000/- per instance from 6th to 10th instance
11th instance onwards	Rs.1,00,000/- per instance from 11th instance onwards Additionally, the member will be referred to the Disciplinary Action Committee for suitable action.

2. *Additional Margin:*

Additional margin shall be applicable from the first instance of position limit violation by a trading member in underlying stock/index. Further the count of violation instances in a calendar quarter shall be considered instead of calendar month. The levy of additional margin may be revised as follows:

Proposed Additional Margins to be levied (calendar quarter)

- Additional margin shall be based on slab-wise percentage breach of applicable position limits.

Breach as a % of Limit	% of Additional Margins
100% to less than 110%	5%
110% to less than 125%	10%
125% to less than 150%	15%
150% and above	20%

- The additional margin percentage shall be levied on (Value of underlying price x Position quantity in breach).
- Levy of additional margin shall be applicable from the first instance of violation in a calendar quarter.
- The additional margin applicable shall be computed only at end of day and blocked from the proprietary collateral of the Clearing member on T+1 day (before start of market hours). The additional margins levied shall be released only at end of day if the positions are below the applicable limits.

3. *Number of instances:*

The number of violation instances for the purpose of levy of penalties and additional margin shall be considered for a Trading member across all underlyings instead of each Trading Member-Underlying combination.