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SEBI SETS UP PANEL TO REVIEW MARGINS ON DERIVATIVES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

Lacking vigour:The current framework has not been able to manage risk in an efficient manner.Reuters

Based on the feedback that the existing margin requirements in the derivatives segment is pushing up cost of trading while not managing risk in the most efficient manner, the Securities and Exchange Board of India (SEBI) has decided to review the current framework of margins in the futures and options segment.

The capital markets regulator has set up a working group, headed by NSE Clearing Ltd., to look into the issue and submit its recommendations to the Secondary Market Advisory Committee.

This assumes significance as lower cost of trading was primarily the reason why institutional investors preferred to trade in Nifty contracts on SGX at Singapore rather than on the highly liquid derivatives segment of the National Stock Exchange (NSE). Incidentally, a recent study jointly conducted by Association of National Exchanges Members of India (ANMI) and consultancy firm Ernst & Young (EY) highlighted the fact that trading in derivatives in India costs much more when compared with most of the other leading markets due to a variety of margins that are imposed on the traders.

It further disclosed that unlike other markets where higher event-based margins are applied temporarily during instances of increased volatility, Indian bourses levy a variety of margins during the normal course thereby pushing up the overall cost of trading.

“Margin requirements in India are excessive and highest of any comparable market and there is an urgent need to rationalise this system,” said Rajesh Baheti, director, ANMI.

“We have been engaging with the SEBI for the past couple of years on the issue and have conveyed to the regulator that margining as a tool should address risk of a given portfolio but should not be used to control market volumes or exposures... We are glad that after relentless pursuit, SEBI has agreed to a review of margining practices,” added Mr. Baheti, who is also the managing director and chief executive officer of Crosseas Capital.

Meanwhile, as per ANMI-EY report, while every other market has a single margin system or SPAN margin, India levies exposure margin and excessive short option margin as part of the initial SPAN margin.

“In India, initial margin in equity F&O segment consists of SPAN margin, exposure margin and other additional margins... Across global exchanges considered under review, only SPAN margin is collected as the initial margin. Intermittent periods of higher volatility are covered by applying event-based margins,” stated the report.

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