Thomas Murray Market Flash

Countries: India

Markets: India

Date: 22 Mar 2008

SEBI Requires Payment of Margin for all Institutional Trades

The Securities and Exchange Board of India (SEBI) has issued a circular which advises that all Institutional Investors will be required to pay margins with effect from 21 April 2008. Currently a variety of margins (Value at Risk Margin, Extreme Loss Margin and Mark to Market Margin) are paid to the stock exchanges by non-institutional clients via the broker at the time of execution of the trade.

As a result, all institutional trades (including sub-accounts) in the cash segment will be subject to margins on a T+1 basis and the margin will have to be collected from the custodian at the time of trade confirmation. (Deadline for trade confirmation is currently 1pm on T+1.)

Furthermore, SEBI has clarified that with effect from 16 June 2008, the collection of margin would move to an upfront basis which means that margins will be payable at the time of executing the trade.

At this stage the exchanges have not issued any operational guidelines in relation to operating the margin system for the foreign institutional investors.

Market Information Impact

India

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

India

Market Rating: A

Market Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = A-

Flash Impact = On Watch

Impacted Risk Type: Counterparty Risk

Current Rating = A

Flash Impact = Positive

The payment of margins required by SEBI will act as a guarantee for the party in case the other party defaults, hence this is normally positive for counterparty risk and also places different investor types on an equal footing. However, this could mean that foreign institutional investors have an exposure to brokers in respect of the margins. Also, the collection of margins will require the foreign institutional investors to fund the margin at an early stage and this could cause them timing and funding difficulties and thereby reduce liquidity in the market. This will become even more severe once the margins are required to be funded on Trade Date. As a consequence this could have a negative impact on liquidity and therefore, at this stage, we have put the outlook of the change 'on watch'.

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