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SEBI has revised the norms for calculating the margins for Exchange Traded Funds

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The Securities and Exchange Board of India (SEBI) has revised the norms for calculating the margins for Exchange Traded Funds. In order to bring efficiency in margining of index Exchange Traded Funds (ETFs) and facilitate efficient use of margin capital by market participants, SEBI vide its circular CIR/MRD/DP/26/2012 dated September 26, 2012 reviewed the margining framework of Exchange Traded Funds on the following lines:

i) Value at Risk (VaR) margin computation for ETFs that track an index shall be computed as higher of 5% or three times sigma (Standard Deviation) of the ETF. The revised margin framework is applicable to ETFs that track broad based market indices and does not include ETFs which track sectoral indices,
ii) The facility of cross margining is extended to ETFs based on equity index and its constituent stocks for following off-setting positions in cash market segment as follows: a) EFTs and constituent stocks (in the proportion specified for the ETF) to the extent they offset each other, b) ETFs and constituent stocks futures (in the proportion specified for the ETF) to the extent they offset each other, and c) ETFs and relevant Index Futures to the extent they offset each other. iii) In the event of a suspension on creation/redemption of the ETF units, the cross-margining benefit shall be withdrawn. This was stated by the Minister of State for Finance, Shri Namo Narain Meena.

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