GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3644
ANSWERED ON:14.12.2012
MARGINS FOR ETF
Annayyagari Shri Sai Prathap

Will the Minister of FINANCE be pleased to state:

(a) Whether Securities and Exchange Board of India (SEBI) the Union government has revised the norms for calculating the margins for Exchange Traded Funds; and

(b) If so, details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) Yes Sir.

(b) In order to bring efficiency in margining of index Exchange Traded Funds (ETFs) and facilitate efficient use of margin capital by market participants. Securities and Exchange Board of India (SEBI) vide its circular CIR/MRD/DP/26/2012 dated September 26, 2012 revised the margining framework of ETFs as follows:

1. 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 tracks broad based market indices and does not include ETFs which track sectoral indices.

2. 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:

i. ETFs and constituent stocks (in the proportion specified for the ETF) to the extent they offset each other,

ii. ETFs and constituent stocks futures (in the proportion specified `for the ETF) to the extent they offset each other and

iii. ETFs and relevant Index Futures to the extent they offset each other.

3. In the event of a suspension on creation / redemption of the ETF units, the cross- margining benefit shall be withdrawn.