AUDIT OF MEMBERS OF STOCK EXCHANGE

Margins and Type of Margins

Due to wide fluctuations in prices of securities over a period of time, the exchange levies margin on its members. This certain deposit is to be kept with exchange by its members. This mechanism is adopted, in order to restrict excessive speculations and safeguard the interest of the investors. The members are required to collect margins from their clients and deposit it with the Exchange.

The types of margins are –

1. **Volatility Margin:**
   (a) The volatility margin is imposed to curb excessive volatility in the securities.
   (b) It is also used to prevent building up of excessive outstanding positions.
   (c) This margin is calculated at the discretion of stock exchange to charge margin on any particular security because of its volatile nature, on specific percentage.
2. **Gross Exposure Margin:**
   (a) It is the percentage of net cumulative outstanding position in each security that the member should keep with the exchange at all times.
   (b) This margin is calculated on continuous basis.
   (c) This margin is to be kept with stock exchange in advance.
   (d) Gross exposure is calculated on all securities unlike volatility margin which is on any specific security.
3. **Mark to Market Margin (MTM):**
   (a) This margin is imposed to cover a loss that a member may incur in case the transaction is closed out at the closing price of the trading day, which is different from the price at which the transaction has been entered into.
   (b) It is the notional loss if net cumulative outstanding position in all the securities were closed out at closing price of relevant transaction date, for a specific member.

Regards,
CA Jatin Bansal