Centrum Finverse Limited

SECURITY SHORTAGE HANDLING – AUCTION – EXCHANGE & INTERNAL

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1.0	CFL Board Meeting			

Background:

We at CFL have opted for clearing by NCL under the interoperability settlement guidelines.
For security shortage positions of pay-in and pay-out of client/clearing member, auction and/or closeout is processed by clearing corporations.

The shortage position may arise for security pay-in / payout short towards exchange or internal security pay-in / payout positions.

The methodology for addressing shortages in scrips by NSE is as follows:

1. The auction price will be determined as the **higher** of:
    - The auction price notified by NSE for the respective settlement number, or
    - The highest price of the scrip recorded in NSE from the first day of the relevant trading period until the closing-out day (auction day).
2. If no auction price is available for the scrip in NSE for that settlement, the closeout price will be calculated as the **higher** of:
    - The highest price recorded in NSE from the first day of the relevant trading period until the closing-out day, or
    - 20% above the official closing price on the auction day.

A 5% auction penalty and other statutory charges will also be levied.

Auction Timing:

- The auction is typically conducted on **T+1 day** between **2:00 PM and 2:45 PM** for undelivered quantities.
- The pay-out for auction transactions is processed on **T+2 day**.

Please note that the above process is subject to modifications if NSE revises its auction procedures.

Brokerage on Auction

The Member shall levy an **auction brokerage of 0.5% of the transaction value** on all short sellers.

With respect to recent changes by the NSE, wherein Direct Security payouts are being made live by Clearing Corporations to client demat accounts, all securities shortage handling is being done directly by exchanges along with Broker-Level Internal Shortages (Refer to NSE Circular NCL/CMPT/67001, Dated March 6, 2025). Therefore, Brokers (Clearing Members) cannot have any separate policy/procedures for Handling Exchange or Internal Shortages.

The exchange process/guidelines for the Auction process i.e. handling of securities shortages is enclosed as Annexure - 1

IMPLEMENTATION AND REVIEW OF POLICY:

This policy shall come into effect from the date of approval of the company's Board of Directors for its implementation. The same will be reviewed on a periodic basis or as and when changes are introduced by any Regulatory Authority or as and when it is found necessary to change on account of Business needs.

ANNEXURE 1

Exchange guidelines/process for shortage handling are as follows (NSE Website).

Normal segment (M)

All trades concluded during a particular trading date are settled on a designated settlement day i.e. T+1/ T+0 day. In case of short deliveries on the T+1 day in the normal segment, NSE Clearing conducts a buy–in auction on the T+1 day itself, and the settlement for the same is completed on the T+2 day, whereas in case of Z/5 settlement type, there is a direct close-out.

Compulsory Close-out of Securities under Corporate Action

In cases of securities having corporate actions and no 'no-delivery period' for the corporate action, all cases of short delivery of cum transactions which cannot be auctioned on cum basis or where the cum basis auction pay out is after the book closure / record date, would be compulsory closed out at higher of 10% above the official closing price on the auction day or the highest traded price from first trading day of the settlement till the auction day.

Post Settlement: Auction T+1 working days
Auction settlement: T+2 working days

T+0 Rolling Settlement

In a T+0 rolling settlement, for all trades executed on the trading day. i.e. T day till 1:30 pm. Members are required to complete early-pay in of securities by 1:30 PM. The obligations are determined on the T day by 2:30 pm, and settlement is completed thereafter. There are no custodial trades currently in T+0. Any shortages in securities early pay-in are directly closed out.

The detailed process of exchange/clearing corporation shortage handling is as follows.

Shortages Handling

On the settlement day, NSE Clearing accepts pay-in of securities made by members through depositories and identifies the shortages. The members are debited by an amount equivalent to the securities not delivered and valued at the valuation price. This is known as valuation debit. For all such short deliveries, NSE Clearing conducts a buying-in auction on the T+1 day, after completion of the payout, through the NSE trading system.

If the buy-in auction price exceeds the valuation price, the CM must make the difference. All shortages not bought in are deemed closed out.

Valuation Prices

Valuation prices at which valuation debits are conducted are calculated as follows:

Valuation Price for failure to deliver

The valuation price for securities not delivered on the settlement day shall be the settlement price of such securities on the immediate trading day preceding the pay-in day for the securities, unless prescribed otherwise from time to time by the relevant authority. For this clause, the settlement price shall be based on the last 30 minutes' volume-weighted average price across Exchanges, and the day of valuation shall be the day as decided by the relevant authority of the Clearing Corporation from time to time.

Closing out in the case of failure to delivery for the Normal Market

Any shortages in the Normal Market that cannot be bought in the Auction Market shall be closed out as specified by SEBI vide Circ. Ref No. SMD/Policy/Cir-03/2002 dated January 30, 2002. Closeout shall be at the highest price prevailing across the Exchanges from the day of trading until the auction day or 20% above the settlement price on the auction day, whichever is higher.

Closing out in case of failure to give delivery for 'BL' Market Deals

Any shortages in the 'Block trades' – BL window shall be directly closed-out on the settlement at the highest price prevailing across the Exchanges from the day of trading till the T day or 20% above the settlement price on the T day, whichever is higher, or as declared from time to time.

Closing out in case of failure to give delivery for Trade-for-trade – Surveillance (TFT-S) deals

Any shortages in TFT-S shall be directly closed out on the settlement at the highest price prevailing across the Exchanges from the day of trading until the T day or 20% above the settlement price on the T day, whichever is higher, or as declared from time to time.

Closing out in case of failure to give delivery in the Auction Market

When the auction seller fails to deliver in part or full on auction pay-in day, the deal shall be closed out at the highest price prevailing across the Exchanges from the day on which the trade was originally executed till the day of auction or 20% over the settlement price on the auction day whichever is higher and will be charged to the auction seller unless otherwise specified.

Compulsory Close-out of Securities under Corporate Action

'No delivery' is abolished for all types of corporate actions for securities traded in the compulsory dematerialized mode.

In case a company announces any corporate action for securities in compulsory dematerialized mode then, as specified by SEBI vide Cir. Ref No MRD/DoP/SE/Cir-07/2009 dated July 21, 2009 short deliveries, if any, of the shares traded on cum basis shall be directly closed out. The Clearing Corporation shall announce an ex-date, and all cum-transactions shall go for auction if the auction payout happens on or before the Record date / Book closure – 1 business day.

Where auction pay-out cannot be done on or before Record Date/ Book closure – 1 business day, shortages shall be directly closed out at the highest price prevailing across the Exchanges from the day of trading till the day of auction or 10% above the settlement price on the auction day, whichever is higher, or as declared from time to time.

Close-out price for deleted security.

The security for which trading has been discontinued on the Exchange close out will be the last 26 weeks' average trade price on the exchange, with a close-out markup of 20%.

Close-out price for bonds.

In case of failure to give delivery, auction non-delivery, the closing out price will be the highest rate prevailing across the Exchanges from the first day of the relevant trading period till the day of auction, or a markup of 20% on the settlement price on the day of auction shall be applicable.