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May 12, 2006

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**All Registered Intermediaries of ISS  
Administrators/ Executive Director of Participating Exchanges, Co-ordination  
Officers at Participating Exchanges/Regional Administrative Offices**

Dear Sir / Madam,

**Sub: Squaring up of open positions not backed by margins in the F&O  
segment on T+3**

As a risk management measure and in order to safeguard the interests of all concerned, a comprehensive risk management system has been evolved in the F&O segment of ISS.

At the beginning of each trading day, ISS would determine the initial margin position of each client / Authorised Person in this segment. In case the initial margin amount for any client or the Authorised Person becomes negative based on the traded positions, the concerned client / Authorised Person would be put in squaring up mode until the margin deficit is replenished or the open position is squared up. If in case the margin deficit is not replenished by the concerned party by the end of T+2, ISS shall compulsorily close out the open position of the client / Authorised Person, as the case may be, on T+3, without any further reference to the Authorised Person or client. The account of the party would be appropriately closed after such squaring up.

In case there is any deficit in the case of a client after such squaring up, the deficit amount would be collected from any initial margin that may be available with the Authorised Person in the F&O segment or from the trading margin deposit of the concerned Sub-broker in the CM segments of NSE and BSE. In case the Authorised Person's account shows a deficit after such squaring up, then the deficit amount would be adjusted from his trading deposits in the CM segments of NSE and BSE.

While the compulsory squaring up would normally be carried out on T+3, however, at times of excessive market volatility or stress, ISS shall square up the open positions of the concerned parties which are not backed by sufficient initial margin amounts even on T+2 or T+1. This action would be taken to ensure that ISS does not carry any risk on account of an open position of the party. In cases where ISS

resorts to squaring up of open positions before T+3, ISS shall send a suitable message about the proposed action.

It is also informed that in case any client has a debit balance in the F&O segment, but has a credit balance in the CM segment which is sufficient to cover the deficit in the F&O segment, ISS shall not resort to compulsory squaring up of his open position.

Authorised Intermediaries may please take note of the above and also inform their clients accordingly.

Yours faithfully,  
For **ISE SECURITIES & SERVICES LIMITED**

**GOVIND S CHAVAN**  
**HEAD- OPERATIONS**