

THE CLEARING CORPORATION OF INDIA LTD.

REGULATIONS

(FOREX FORWARD SEGMENT)

CHAPTERS

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As on October 21, 2009

CHAPTER I : INTRODUCTION

The Regulations framed hereunder shall be called as “The Forex Forward Regulation, 2004” of the Clearing Corporation of India Ltd.

APPLICABILITY

These Regulations shall be applicable to all Members of the forex settlement segment that are allowed by Clearing Corporation to settle their forex forward transactions with guarantee from trade date.

DEFINITIONS

Unless explicitly stated otherwise, all words and expressions used herein but not defined, and defined in Forex Settlement Segment Regulation, 2001 of Clearing Corporation, shall have the meanings respectively assigned to them therein

CHAPTER II : MEMBERSHIP

A) APPLICATION FOR MEMBERSHIP

Every member of the Forex Settlement Segment of Clearing Corporation who is desirous of availing the facility of guaranteed settlement of Forex Forward trade from trade date shall submit an application in the prescribed format to Clearing Corporation complete in all respects together with all requisite enclosures required to be submitted in terms of the Application Form and comply with the necessary formalities as prescribed for admission as member of the Forex Forward Settlement Segment.

The applicant should be a member of the Securities Settlement Segment of Clearing Corporation. The applicant on admission as a member shall be granted permission to avail of the facility of guaranteed settlement of Forex Forward trades from trade date upon fulfillment of necessary formalities in this regard.

- B) All references to the expression “Member” or “Members” hereinafter shall mean only those Members who have been permitted to participate in this Segment as set out in ‘A’ above.

CHAPTER III : Settlement Guarantee Fund

A) Clearing Corporation shall maintain a Settlement Guarantee Fund (hereinafter referred to as “SGF”) in respect of the Forex Forwards Segment as a part of its risk management process to cover any risk arising out of any shortfall / default by a Member of this segment. Such SGF will be constituted out of a basket of Members’ margin/collateral contributions, for the specific purpose of meeting margin requirement or any shortage / default in meeting any settlement obligations.

SGF may be utilized for such purposes as provided in the Bye- Laws, Rules and Regulations including towards meeting default obligations/ shortfalls/ deficiencies and/or any other dues arising out of normal Clearing and Settlement operations in respect of transactions of this segment undertaken by Clearing Corporation. Notwithstanding anything contained in these Regulations, Clearing Corporation shall be entitled to close out the transactions in Forex Forward Segment and utilize collaterals/margins collected towards SGF under Forex Forward Segment in closing out transactions under the following circumstances:

1. Insolvency or dissolution or winding up of the Members.
2. Moratorium imposed on any bank which is a Member.
3. Acquisition or merger of a Member.
4. Court order for attachment of Member's property.
5. Any circumstances which in the opinion of Clearing Corporation warrant close out in the interest of the market.

B) COMPOSITION

1. SGF in this Segment shall be formed with contributions from Members in the form of cash and eligible Government securities.
2. Clearing Corporation may require every member to contribute a minimum specified percentage of its contribution to SGF in the form of cash as notified by Clearing Corporation from time to time. The proportion of the cash to securities to be maintained by the member may be changed at the sole discretion of Clearing Corporation from time to time.

3. Notwithstanding anything contained in Regulation B(2) above, Clearing Corporation may at its absolute discretion require Members to deposit their entire MTM margin contribution(s) to SGF in the form of cash.
4. While the list of securities eligible for such contribution shall be notified by Clearing Corporation from time to time, Clearing Corporation may at its absolute discretion specify the maximum amount of a single security or group of securities that a Member may deposit by way of contribution to SGF.
5. A Member shall upon admission be required to contribute to SGF and Clearing Corporation shall accept Trades from the Member and/or on its behalf for Clearing and Settlement only after the receipt of such contribution to the SGF.
6. Clearing Corporation may upon being so authorized by a member consider the unutilized portion of the SGF tendered by a member for Securities Segment, towards SGF for Forex Forward Segment. The portion of unutilized SGF so identified shall be subject to such provisions of Securities Segment Regulations identified by CCIL which shall be notified to the member from time to time
7. A Member's SGF contribution shall cover its margin obligations towards Initial Margin, Mark to Market Margin and/or any other margin that may be prescribed by Clearing Corporation from time to time.
8. A Member shall at all times ensure that its SGF contributions are adequate to cover the margin requirement on the outstanding Trades accepted by Clearing Corporation on behalf of the Member as specified by Clearing Corporation from time to time.

C) ADMINISTRATION

- 1) The provisions or rules set out in Chapter III of the Regulations relating to the Securities Settlement Segment governing the administration of the SGF, including receipt and withdrawal of securities and cash contributions, investment of the fund and corporate actions thereon shall mutatis mutandis apply to SGF maintained under these Regulations except to the extent specified herein.
- 2) Clearing Corporation shall have absolute discretion/control over the administration, manner and mode of investment / utilization of cash / securities contributed by a Member towards margins;

- 3) A Member shall be entitled to receive interest at quarterly rests (at the end of every calendar quarter) on daily end of day utilization of cash collaterals during the relative period maintained by it in excess of the minimum prescribed cash margin as notified by Clearing Corporation from time to time.
- 4) Interest on utilization of cash margin shall be paid at a rate not exceeding 100 basis points lower than the weighted average of 91 days Treasury Bills cut-off yields at the last three auctions held before the relevant interest payment date. The benchmark instrument to which such cash compensation would be pegged as well as spread between the yield on the benchmark instrument and the interest rate paid by Clearing Corporation may be changed at the sole discretion of Clearing Corporation from time to time.

D) TRANSFER OF SGF.

The Clearing Corporation shall, on transfer of Member's positions to the Forex Settlement Segment, be entitled to use that portion of the SGF contributed in the form of Mark-to-Market margin for such positions to meet any settlement shortfall as outlined in Chapter VIII (C) (2.7) of these Regulations

CHAPTER IV : PROCESSING OF FORWARD TRADES

A) Eligible Trades:

All Forward trades between the Members of Forex Forward Segment that have the status as matched and have residual maturity up to 13 months are eligible for guaranteed settlement. The matched trades with maturity of more than 13 months may be taken up for guaranteed settlement when the residual maturity falls down to 13 months or below

B) Acceptance of Trades:

Clearing Corporation shall receive details of Trades from the Members of Forex Forward Segment over INFINET and/or Forex Dealing System. Clearing Corporation shall accept such Trades reported by the Members for Clearing and Settlement after verification of Exposure Check in respect of each individual Member as enumerated in the Chapter VIII titled “Risk Management” in these Regulations;

C) Validation and matching of trades:

The system and business validation checks and criteria for matching of trades shall be the same as set out in the forex settlement segment regulations

D) Amend and Rescind of instructions:

Members shall submit amend and rescind instructions, if any, up to three business days before the settlement day (till S-3 day) prior to the cut-off time as notified in this regard by Clearing Corporation from time to time, failing which Clearing Corporation shall not be deemed liable for not having processed the said modifications or cancellation.

- I) Amendments or Cancellations, if any reported by the Members for all the unmatched deals shall be acted upon, provided they are received within the time limit prescribed.
- II) Amendments or Cancellations, if any, reported by the Members, after the original Trade has been matched but not yet taken up for exposure check shall

be acted upon only if the amended or rescind confirmation is received from both the parties to the Trade within the time limit prescribed for the purpose of reporting such amendments or cancellations, failing which Clearing Corporation shall proceed with the original matched Trade.

- III) Clearing Corporation shall accept such amended Trades reported by the Members for fresh verification of Exposure Check in respect of each individual Member as enumerated in the Chapter VIII titled “Risk Management” in these Regulations;
- IV) Amendments or Cancellations, if any, reported by the Members shall be acted upon only if the resultant position also passes exposure check, failing which Clearing Corporation shall proceed with the original matched Trade.

E) Exposure controls and Acceptance of Forward Trades for guaranteed Settlement

- 1) All eligible forward trades shall be subject to checks for adequacy of margin for both counterparties to the trade on a trade by trade basis. This process is henceforth referred to as ‘Exposure Check’. Trades which pass through exposure check shall be accepted for guaranteed settlement by the Clearing Corporation.

Trades which fail to pass through exposure check shall remain in queue and be eligible for consideration on a FIFO basis. Exposure validation for such trades shall be performed on a continuous and ongoing basis until the end of S-3 day. If a trade fails to pass exposure check even at this stage, such a trade shall stand rejected.

- 2) Trades accepted for settlement shall be subject to risk exposure controls as set out in Chapter VIII of these regulations.
- 3) The process of checking adequacy of margin shall be run at such frequency as may be decided and notified by Clearing Corporation from time to time and Clearing Corporation shall indicate acceptance of such trades for guaranteed settlement only after this check.
- 4) Outstanding forward trades accepted for settlement for a settlement day (S day) in the Forex Forward segment shall be netted member-wise two business days before the settlement day (i.e. S-2 day). The netted forward positions arising out of such forward trades shall be subjected to exposure check at the beginning of the day on S-2 day in the Forex Settlement segment. All forward

trades once accepted for settlement will be deemed to be transferred to the Forex Settlement Segment for settlement. The settlement of netted positions arising out of such forward trades shall be governed by the Forex Settlement Regulations for the settlement and defaults, if any, and such Forex Settlement Regulations shall be deemed to have been incorporated in these Regulations to that extent.

- 5) Netted position shall be accepted for settlement to the extent of the Exposure Limit of that bank. The balance in queue will be accepted to the extent the Exposure Limit becomes available till the first batch on the Settlement day (henceforth referred to as S day).

The amount of netted position which is in breach of the bank's Exposure Limit after processing of the batch at 10:00 a.m. on S day in the Forex Settlement Segment shall be Cash settled as set out in Para E (8) of Chapter IV of these regulations.

- 6) Netted positions of Forex Forward segment as mentioned in (5) above shall have the higher priority over other trades in exposure check for a settlement day in Forex Settlement segment.
- 7) A Member shall not be permitted to breach its Exposure Limit (i.e. allowed to get USD sale trades accepted by the Clearing Corporation for guaranteed settlement beyond the limit which may result in net USD sale amount for such member for a settlement date being in excess of the exposure limit under forex settlement segment), except with the specific approval of Clearing Corporation as outlined below either by temporary enhancement or such other procedure as set out in Forex Settlement Regulation and as notified from time to time.
- 8) 'Inadequacy of Exposure Limit for Settlement through Forex settlement segment'
 - i. Clearing Corporation may, at its discretion, decide to undertake cash settlement on S day for the position of a member which is in breach of its Exposure Limit in the Forex Settlement Segment.
 - ii. Clearing Corporation shall, upon identifying a member with position in breach of Exposure Limit in the Forex Settlement segment, issue a notice to such member one business day before the Settlement Day (i.e. on S-1 day) after the batch at 5:30 p.m. Such member who is in breach of the Exposure limit shall be referred to as Allocator.

- iii. The cash settlement shall be effected by way of allocation of such positions to the first ten Members having, at 9:30 a.m. on S-2 day, the highest net US Dollar buy position out of the forward trades accepted for guaranteed settlement in this segment. Allocation shall be in proportion to the net USD buy positions of such Members (in rounded lots of US Dollar 1 million - any fractional amount would accrue to a single member as part of the rounding off logic). The deals arising out of Cash settlement shall be with Clearing Corporation as counterparty. Such Members to whom allocations have been made shall be referred as Allocatee Members.
- iv. Clearing Corporation shall issue a Provisional Notice of Cash Allocation to the Allocatee Members after the batch at 5:30 p.m. on S-1 day.
- v. Provided that on morning of S day if, net USD sale position of any member, exceeds the Exposure limit for the member in the Forex Settlement Segment after allocation, Clearing Corporation shall have the right to reallocate at its sole discretion the excess amount to the remaining Members from amongst the top ten Members or to other Members having a net buy position in the Forex Forwards segment.
- vi. Allocation advice would be sent to the allocatee Members and to the member whose USD sale positions are cash settled, by Clearing Corporation after the allocation has been effected after the 10:00 a.m. batch on S day.
- vii. The allocatee member may buy US Dollars from the market for the same settlement date to the extent of allocation and if it has done so, it can upon intimation to Clearing Corporation, claim that the allocation of the USD sale position to it be effected using the rate at which it has purchased US Dollars as increased by an amount per USD as notified by Clearing Corporation from time to time. Such intimation must be received at the Clearing Corporation in the format specified before 12:30 p.m. on S day.
- viii. Provided that if the rate at which the Allocatee member has bought US dollars as above is identified as an outlier by Clearing Corporation or the Allocatee Members do not notify any purchase of US dollars, INR/USD Cash rate as polled by Clearing Corporation at around 10:00 a.m. on S day as increased by an amount per USD as notified by Clearing Corporation from time to time shall be used. The decision by Clearing Corporation in this regard would be final.

ix. The member whose USD sale positions are cash settled due to inadequacy of Exposure limits shall be liable to make good any as loss/shortfall arising out of cash settlement.

F) Penalty

Clearing Corporation reserves the right to levy the member on whose account cash settlement is resorted to as per sub-regulation E (8) above such charges and penalty as may be notified from time to time .

CHAPTER V : MARGINS

A) Margin Requirements

1. Clearing Corporation shall prescribe requirements of margins for the Forex Forward trades to be settled through Clearing Corporation and the Members shall furnish such margins as a condition precedent.
2. Clearing Corporation may in addition to margin, prescribe contributions towards the Default Fund as per the details set out in Chapter VII (C) of these Regulations.
3. Clearing Corporation may, at its discretion make a margin call if the margin obligation of a member reaches a specified percentage of its SGF value, as may be notified by Clearing Corporation from time to time. After a margin call is made, the member shall arrange to deposit additional amount in his SGF account latest by 12-30 PM of the next business day (by 11-30 AM if the next business day is a Saturday), so that the balance in SGF is adequate to cover the margin obligation.

B) MARGIN COMPONENTS

The margins to be provided by the Members shall comprise of:

1. Initial Margin

Initial Margin constitutes the margin obligation required to be fulfilled by a member as its contribution to SGF in relation to risk exposure on the outstanding Trades accepted for Clearing and Settlement by Clearing Corporation in respect of that Member; Such risk exposure shall be based on Value at Risk for the portfolio of outstanding trade positions as arrived at by The Clearing Corporation in terms of the process as notified from time to time.

Initial Margin shall also include as additional amount towards spread margin in order to effect a partial disallowance of the full offset between net USD Buy and net USD Sale positions provided through portfolio margining. Spread margin shall be computed as per the process notified by Clearing Corporation for time to time.

2. Mark to Market Margin

Mark to Market (“MTM”) margin constitutes the margin obligation required to be fulfilled by a Member as its contribution to SGF in relation to adverse price movements arising out of the daily marking to market exercise (outlined in Chapter relating to “Risk Management” in these Regulations) on outstanding Trades accepted for Clearing and Settlement by Clearing Corporation in respect of that Member.

Increase in MTM Margin obligation for the day over the MTM Margin obligation for the previous day would be termed as Incremental MTM Margin. This amount would be payable by the member on the next working day before the cut off time notified by Clearing Corporation.

MTM Margin recovered during the day on old trades or trades done at off market rates in terms of clause (C)(2.5) of Chapter VIII shall however not be qualified to be treated as incremental MTM Margin.

3. Volatility Margin

Volatility Margin comprises the margin obligation required to be fulfilled by a Member as its contribution towards SGF in relation to sudden increase in volatility in exchange or interest rates and shall be applied, at the discretion of Clearing Corporation. The Members shall be notified by Clearing Corporation prior to the collection and/or maintenance of Volatility Margin.

In case of high volatility, Clearing Corporation shall also be entitled to collect MTM margin on intra-day basis from the Members based on a process as notified by Clearing Corporation from time to time.

4. Concentration Margin

Concentration margin constitutes the margin obligation required to be fulfilled by a member in relation to its outstanding exposure for a settlement date or for a number of settlement dates, beyond pre-determined limit(s). Clearing Corporation shall have the right to stipulate such margin from any future date after due notification to its Members.

C) LIEN ON MARGINS

A Member's contribution by way of margins either in the form of cash or securities shall be subject to a first and paramount lien for all sums due to Clearing Corporation, in respect of all Segments.

Margin shall be available in preference to all other claims against the Member for the due fulfillment of its obligations and liabilities arising out of or incidental to any deals made subject to Bye-Laws, Rules and Regulations of Clearing Corporation or anything done in pursuance thereof.

D) SUSPENSION ON FAILURE TO PAY MARGIN

Notwithstanding anything contained elsewhere in these Regulations:-

1. If a Member fails to comply with margin call as stipulated under Chapter V(A)(2) of these regulations, on more than six occasions in a financial half year, Clearing Corporation shall be entitled to temporarily suspend the Membership rights of such a Member; provided that Clearing Corporation shall have the sole discretion to prescribe a lower number of events of margin shortfall that would trigger a suspension of membership.
2. A Member shall be liable to pay penalty on the Margin shortfall, for the period of delay in fulfilling its margin obligations, as per the rates notified by Clearing Corporation from time to time. Clearing Corporation shall have the sole discretion to vary, from time to time, the rate of penalty applicable for a Margin default, subject to issuance of advance notice. While computing such penalty, only business days may be reckoned provided such penalty and margin shortfall is replenished by the defaulting member on the next business day. However, in the event of failure by a member to honour its obligation on the next business day, as above, the actual number of days including intervening holidays, Sunday and non-business days shall be reckoned for calculation of penalty amount.

3. The Membership of a Member who has been subjected to temporary suspension due to non-fulfillment of Margin obligation shall automatically come up for review; Clearing Corporation may reinstate a suspended Member upon a review of its action in fulfillment of its Margin obligations and interest/other charges due to Clearing Corporation.

CHAPTER VI : DEFAULT

(A) DECLARATION OF DEFAULT

A Member shall be treated as a defaulter in the following cases:

- a) if it fails to replenish margin after its utilization has exceeded 100% of the balance in SGF.
- b) if the Member is suspended in the Forex Settlement Segment.

(B) DEFAULT HANDLING PROCEDURE

1. On the defaulter member's margin requirement exceeding the 100% of the balance of a member in his SGF. Clearing Corporation shall be entitled at its sole discretion, to square off such settlement date-wise net positions as it considers necessary, to bring the margin liability of the member within the required level.
2. Clearing Corporation shall decide the settlement date(s) for which the positions are to be squared off and the amount of respective positions to be squared off. Clearing Corporation shall also identify the bilateral counter parties having net positions in the opposite direction with such member for the said settlement date(s). The net positions to be squared off shall be allocated at MTM rates of Clearing Corporation for the respective tenors as at the end of the day previous to the date of allocation to the bilateral counter-parties, in proportion of their net positions vis-a-vis such member, for the respective settlement dates.
3. Any shortfall arising out of such allocation of positions shall be recovered from the SGF(s) of the defaulter member or the allocatee member as the case may be in case the balance in SGF account of the member is found inadequate to meet the shortfall amount, the difference is required to be met by the concerned member before the cut off time of the next business day.
4. If Clearing Corporation resorts to the provisions of the sub -Regulation 1 above, the defaulter shall also be liable to pay charges and penalties as notified by Clearing Corporation from time to time.
5. The surplus / shortfall from such allocation shall be arrived at separately in respect of each allocatee member, and the weighted average price at which the USD have been bought / sold by the respective allocatee member from the

defaulter member for respective settlement dates shall be used as basis for such computation.

(C) SUSPENSION FROM FOREX SETTLEMENT SEGMENT

In the event the Member is suspended from the Forex Settlement Segment, all the settlement date -wise outstanding netted positions of the Member in Forex Forward Segment shall be squared-off by allocating the positions to the Members bilateral counter-parties.

The outstanding netted positions to be squared off shall be allocated at MTM rates of Clearing Corporation for the respective tenors as at the end of the day previous to the date of allocation to the bilateral counter-parties, in proportion of their net positions vis-a-vis such member, for the respective settlement dates. The process as described in clause (B) above shall be followed for such square-off.

The netted USD sale positions, if any, which have already been forwarded to the Forex Settlement Segment (i.e. within the Spot Window) and which have not passed exposure check, shall be settled by allocation to the Members of the Forex Forward Segment as prescribed in Chapter IV E (8) of this Regulation. Clearing Corporation however, shall be entitled to settle the netted USD Sale position which has passed the exposure check, or the USD buy position, if any, as per the Forex Settlement Segment Regulations. Clearing Corporation shall also be entitled to retain available margin on such netted positions, till its settlement for meeting shortfall from any possible default by such member.

CHAPTER VII : DEFAULT FUND

A. PURPOSE:

- i) Clearing Corporation shall maintain a dedicated Default Fund (hereinafter referred to as “DF”) in respect of its Forex Forwards Segment with a view to meeting risks arising out of any default by its members in discharging their margin obligations as set out in this Chapter.
- ii) DF shall be utilized for such purposes as may be provided for in its Bye-Laws, Rules and Regulations.

B. CORPUS:

- i) The size of such DF will be determined by the Clearing Corporation on the basis of stress tests which shall be conducted in a manner as notified by Clearing Corporation from time to time.
- ii) The size of the fund shall initially be determined at the end of every calendar quarter (March, June, September and December).
Provided however that Clearing Corporation shall have the right to change the frequency of such stress tests as also the size of the corpus after due notification to the members.

C. CONTRIBUTIONS

- i) Each member shall deposit towards DF such sum as shall be notified by Clearing Corporation from time to time.
- ii) The member’s contribution to the DF shall be determined with reference to the total size of the fund and shall be based on:
 - a. Gross value of positions across settlement dates
 - b. Initial Margin contribution by the member.
with equal weights assigned to each.

Provided however that Clearing Corporation shall have the right to change the weights assigned after due notification to the members.

- iii) The minimum contribution of a member shall be Rs.1 crore.

D. COMPOSITION

- i) DF shall be formed with contributions from members in the form of cash and/or eligible Government Securities;

Provided however that Clearing Corporation shall have the discretion to specify a minimum percentage of margin contribution in the form of cash;

- ii) Clearing Corporation shall specify the eligible securities which qualify for contribution to DF. The list of securities eligible for such contribution shall be notified by Clearing Corporation from time to time. Securities declared as ineligible for DF contribution shall not be reckoned as DF contribution of such member from the effective date of such ineligibility;
- iii) Clearing Corporation may at its absolute discretion specify the maximum amount of a single security or group of securities that a member may deposit by way of contribution to DF;
- iv) A member shall at all times ensure that its contributions to DF are adequate to cover its share as per Para C above;
- v) Cash contributions to DF shall be in multiples of Rs.25 lacs or such other amount as may be prescribed by Clearing Corporation from time to time;
- vi) Members shall arrange to deposit their contributions to DF as per the DF Work Flow Process notified by Clearing Corporation from time to time.

Unless otherwise notified the work-flow for contribution to the Default Fund shall be the same as the SGF work flow process notified by Clearing Corporation from time to time in terms of Chapter III (F) of the Securities Segment Regulations.

E. ADMINISTRATION

- i) Clearing Corporation shall have absolute control over the administration, manner and mode of investment and utilization of cash margins deposited by members as per Para “F” of this chapter;
- ii) The contributions made by members to DF in the form of securities shall be held in a Constituent SGL Account of Clearing Corporation with RBI. The RBI Rules and Regulations governing Constituent SGL Accounts and such other instructions as are issued by RBI in this regard shall be applicable to this account and all contributions by members to DF in the form of securities shall accordingly be governed by the said RBI Rules and Regulations and instructions;
- iii) Clearing Corporation shall have the absolute right to utilize any of the securities contributed to DF by any member and held in the Constituent SGL Account referred to

in Sub-Regulation (ii) above as per Para “F” of this chapter in such sequence of application as may be determined at the sole discretion of Clearing Corporation to be appropriate.

F. RECEIPTS AND DELIVERIES OF MEMBERS CONTRIBUTION TO DF:

- i) The contribution of members to the DF shall be recomputed at the end of each quarter or at such intervals as specified in Para ‘B’ above;
- ii) A member shall be required to contribute to DF upon demand notice received from Clearing Corporation. Such deposits shall be payable within a maximum period of seven working days or such other number of days as may be notified by Clearing Corporation from time to time from the date of such demand;
- iii) Members shall be entitled to receive credit for deposits of securities into DF upon receipt of confirmation from Reserve Bank of India (RBI) that the securities have been credited into the Constituent SGL account of Clearing Corporation;
- iv) Members shall be entitled to receive credits for their cash deposits into DF upon receipt of confirmation from RBI of credits into the Current account of Clearing Corporation. The impact of such credits in the members’ DF shall be reckoned when credit intimation is received from RBI;
- v) Members shall be entitled to withdraw securities from their contributions to DF by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose. Provided that if such notice for withdrawal is received in respect of a security at a time when it would be falling into shut period and rendering such delivery impossible, then such notice shall be considered to be invalid;
- vi) Withdrawal of securities by members shall be permitted only if the member continues to maintain the balance required after such withdrawal;
- vii) Members shall be entitled to substitute securities deposited as contribution to DF by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose. Substitution of securities shall be permitted only if the member continues to maintain the balance required after such substitution. Provided that if such notice for substitution is received in respect of such securities as are falling into shut period and rendering such substitution impossible, then such notice shall be invalid;
- viii) At the time of making requests for substitution, members shall ensure that the security offered for replacement forms part of the securities eligible for contribution to DF;

- ix) Withdrawal of cash contributions by members shall be permitted only if the member continues to maintain the balance required after such withdrawal;
- x) Withdrawal of cash contributions by members shall be with prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose.

G. INTEREST ON CONTRIBUTIONS TO DF

- i) Periodical interest receivable by the members on their securities contributed to DF shall be received by Clearing Corporation for and on behalf of the members in the manner and mode prescribed by RBI in respect of Constituent SGL Accounts;
- ii) Interest received by Clearing Corporation shall be subsequently transmitted to the members at the earliest. Clearing Corporation shall not be responsible for any delay in receipt of interest by members and no claim shall rest with Clearing Corporation on this account;
- iii) Clearing Corporation shall not be responsible for servicing corporate actions on such securities held by members in its DF which have been declared as ineligible for DF contribution;
- iv) Members shall monitor their securities contributions to DF to ensure that the securities falling due for redemption are withdrawn from DF well in advance before the redemption date and substituted by eligible securities of equivalent value. In the event of their failing to do so, redemption proceeds receivable by the members on such securities shall be received by Clearing Corporation for and on behalf of the members in the manner and mode prescribed by RBI in respect of Constituent SGL Accounts;
- v) Redemption proceeds received by Clearing Corporation shall be treated as cash contribution to DF;
- vi) Clearing Corporation may seek to compensate members by offering them interest payments at quarterly rests (at the end of every calendar quarter) on their average cash contributions during the relative period at a rate notified by Clearing Corporation from time to time.

H. VALUATION OF SECURITIES IN DF

- i) The securities contributed by members to DF shall be subjected to a valuation exercise on each valuation day. Clearing Corporation shall carry out valuation daily or at such frequencies as may be notified by Clearing Corporation from time to time. Clearing Corporation shall be entitled, at its absolute discretion, to change the frequency of such valuation;

- ii) The valuation of DF securities shall be carried out using the latest available mark to market price as applicable for such securities in Securities Segment of Clearing Corporations;
- iii) Clearing Corporation shall, in its absolute discretion, specify haircuts on the respective market values as per rates prescribed for the eligible securities from time to time;
- iv) Member contributions to DF shall be subjected to a valuation exercise at every instance of securities deposit and/or withdrawal from its DF or at the end of the business day at the relevant mark to market prices;
- v) Members shall be required to contribute such additional sums to the DF as may be necessary if the value of the securities net of haircuts falls below a threshold level as notified by Clearing Corporation from time to time.

I. UTILISATION

- i) As per Chapter VI(B) relating to Defaults, when a member is declared defaulter upon failing to pay the required margins, Clearing Corporation may resort to squaring off the net positions of the defaulting members. The loss if any, arising out of such squaring off shall be met by Clearing Corporation by recourse to funds in the following order:
 - a) first, by appropriation of the margin contribution of the defaulting member;
 - b) next, by applying set-off from defaulter's own contribution to DF.

If the contribution to DF has been made in the form of securities by the defaulter and the securities are required to be sold for appropriation, Clearing Corporation may offer such securities for sale first to the non-defaulting members of the segment. Based on the quotes received from such members, Clearing Corporation may offer the security to the highest bidder and such sale shall be binding on members. If no quotes are received, Clearing Corporation may sell such securities in the market through private arrangement. The price at which such security/securities is/are sold will be binding on the member.

- c) next, by payment from Clearing Corporation's Settlement Reserve Account, an amount upto a maximum of 25% of the balance available in the account at the time of such appropriation.
- d) and last, by allocation of the residual loss to the DF accounts of other members in proportion to their required contributions to the DF.

The amount allocated to the non-defaulting member shall be recovered from such member in the form of cash contribution, or by sale of securities contributed by such member to the

Default Fund after due notice. The price at which such security/securities is/are sold will be binding on the member.

- ii) The action of Clearing Corporation as per the above process shall be final and binding on all members.

The above shall be without prejudice to any other rights of Clearing Corporation against the defaulter.

J. REPLENISHMENT

- i) Members shall be required to contribute to the DF such sums as notified by Clearing Corporation on every revaluation of the DF, in terms of Para 'B' above;
- ii) In the event, that the member's contribution to the DF has been utilized to meet the shortfall of a defaulter, the member shall be required to replenish the balance required to fulfill its contribution to the DF, within a maximum period of seven working days from such utilization or such other number of days as may be notified by Clearing Corporation from time to time;
- iii) In the event that the member's contribution to the DF is found to be inadequate to meet the shortfall of a defaulter after allocation of shortfall in terms of Para I (i)(d) above, the member shall be required to deposit such additional sums forthwith to bring the balance in the account to the required quantum in terms of Para C(ii) above;
- iv) In the event of failure of a member to contribute to DF within the time period specified as per J(ii) above, Clearing Corporation shall, at its discretion, bar such member from participation in this segment and shall further at its discretion square off the positions of the member following the process as laid out in Chapter VI (B) of these regulations

K. RECOVERIES FROM THE DEFAULTER

- i) If all or part of the contribution of the member to the DF has been appropriated in accordance with Para I(i)(d) above, Clearing Corporation shall return to each such member (by credit to its DF account, in the form of cash or eligible securities of equivalent market value) in respect of any net recovery from the defaulting member pro rata to the respective amounts appropriated and not exceeding the amount of contribution so appropriated;
- ii) If a member ceases to be a member of the segment by its resignation or expulsion, Clearing Corporation shall have paramount lien to appropriate the contributions made by the member to DF first towards meeting any residual loss arising on the squaring off

of the contracts of such member as per Para I (i) (b) and the balance towards recovery of monies towards dues and claims before accepting claims for refund of the contribution to the concerned member. The refund will also be subject to other Bye-laws, Rules, and Regulations of such segments of Clearing Corporation in which the member has been admitted.

CHAPTER VIII : RISK MANAGEMENT

A) SCOPE

- 1) This Chapter outlines the risk management policy of Clearing Corporation for its Forex Forward Segment. Clearing Corporation shall, after due notification, have the sole discretion to modify its policies relating to risk containment measures from time to time.
- 2) Clearing Corporation shall cover its risk through prescription of initial margin (including spread margin), mark to market margin, volatility margin and Concentration margin;
- 3) The risk exposure on the outstanding trades of the Members shall be computed based on Portfolio Value at Risk supplemented by recovery of additional amount as spread margin. Marking to market of outstanding trades shall also be carried out to capture risks from notional loss in the outstanding trade portfolios of the Members;
- 4) Clearing Corporation, after due notification, may set different margins for different Members, based on the ratings/gradings assigned to the Members on the basis of certain financial parameters including Net Worth, asset quality etc. as considered necessary by Clearing Corporation from time to time.
- 5) Clearing Corporation may, after due notification, set prudential limit for each member in terms of its aggregate outstanding trade exposure of the member (in terms of total volume of outstanding trades or otherwise, as may be decided by Clearing Corporation from time to time). Such limit may be set by Clearing Corporation based on the member's nature of business, net worth or such other factors as considered appropriate by Clearing Corporation. In the event of any member exceeding such limit Clearing Corporation may set higher margin in the form of concentration margin for the member in respect of trades which are in excess of such limits.

- 6) Mark to market margins shall be collected based on settlement date-wise net USD buy or sale positions of the Members. Such margin shall be computed using the INR/USD forward exchange rates, as applicable, prevailing at the time of such computation and Clearing Corporation shall be entitled to use such rates for mark to market margin computation as it considers reasonable.

B) MARK-TO-MARKET Exchange Rates

- 1) Forward Rates for pre-specified tenor points (calendar month ends and for other short tenors) shall be taken as basis. Forward Rates for other tenors shall be arrived at through interpolation/ extrapolation.
- 2) Rates arrived at as above shall be treated as mid-rates which shall then be adjusted for Bid-Offer spreads. Net sale positions of the Members would be valued using lower rates and net buy positions using higher rates.

C) PROCESS

1. Initial Margin

- 1.1. The initial margin obligation of each Member in respect of its outstanding Trades shall be computed based on the Portfolio Value at Risk (VaR) for settlement date-wise net USD buy or sale positions arising out of such trades, using such model as Clearing Corporation deems appropriate. The details of the model proposed to be used may be notified by the Clearing Corporation from time to time. Clearing Corporation may periodically re-evaluate the model used and if required, after due notification, may alter it or replace it with a different model.

Clearing Corporation's decision in this regard shall be final and binding on the member.

- 1.2. Outstanding forward trades of the Members shall be split into two groups viz. trades which are due for settlement within next seven working days from the date of computation and trades due for settlement beyond seven working days;

- 1.3. For the trades which are due for settlement within a period of seven working days, no offset between positions for separate settlement dates shall be allowed while computing the VaR. Aggregate of VaR for position of all such days would be taken as Initial margin for these trades;
- 1.4. The initial margin for the trades due for settlement beyond seven working days shall be equal to Portfolio VaR for all settlement date-wise net US Dollar positions comprising of such trades, as increased by a spread margin component as described in sub clause 1.5 below.
- 1.5. Spread Margin shall be taken at a specified percentage of the difference between :
 - a) Higher of VaR for only US Dollar net buy positions or VaR for only US Dollar net sale positions, and;
 - b) Portfolio VaR as in clause 1.4 above.
- 1.6. Initial margin on the trades guaranteed by Clearing Corporation which enter the spot window and are accordingly transferred to INR / USD settlement segment shall be released at the beginning of the S-2th day of its entry into the INR / USD settlement segment after recovery of Mark to Market margin shortfall, if any, at the end of the day previous to the day of transfer.

Provided that in case the exposure limit of a member is inadequate to absorb the entire USD position as described in Chapter IV clause 8, Initial Margin release shall be postponed till the beginning of the day next to settlement date. Any loss / shortfall on account of cash settlement of the trades of such member shall be recovered before release of such Initial Margin.

2. Mark to Market Margin

- 2.1. Members shall be liable to maintain mark to market margin in respect of adverse positions on its outstanding forward Trades;

- 2.2. Settlement date-wise net USD positions of the Members shall be revalued at the end of the day using the Mark to Market exchange rates as described in Clause (B) above to arrive at the Settlement date wise profits and losses. Profits accruing to the Members within first seven working days, if any, shall be partially disallowed based on a formula as notified by Clearing Corporation from time to time;
- 2.3. Settlement date-wise net profits / losses shall be discounted to the date of computation and aggregated member-wise (sovereign rupee interest rates shall be used for discounting) ;
- 2.4. If the above computation shows net MTM loss at an aggregate level, such amount shall be collected as MTM margin from such member. Any aggregate profit shall be ignored and no MTM margin is collected in such cases;
- 2.5. A Member's mark to market margin obligation shall be computed as at the end of each business day and shall be valid till its computation as at the end of the subsequent business day. Provided that if a trade is not reported by either of the counter-party Members on the day of the trade or even if reported on the day of the trade, if acceptance of such a trade by Clearing Corporation is delayed to a subsequent day due to inadequacy of margin in the account of any of the counter-party Members, Clearing Corporation shall be entitled to recover Mark to Market margin for such trade before acceptance for guaranteed settlement.
Provided further that if a trade has been done by a member at a rate which in the opinion of Clearing Corporation is not in line with the market rate prevailing at the time of acceptance, Clearing Corporation shall be entitled to recover the notional loss computed based on such difference in rates between traded rate and market rate, from the member, as MTM margin, before acceptance of such trade.
- 2.6. For the trades entering into the spot window, the mark to market margin would be retained by Clearing Corporation till completion of settlement. This amount shall be available to take care of the risk arising out of the

change in exchange rate between the date of forward trade and the date of entry of the trades in the INR / USD settlement segment.

- 2.7. In the event of failure by a member to discharge its obligations for a settlement date in the INR / USD settlement segment, the MTM margin, of this segment, of such member for such settlement date would be used to meet any shortfall, in the INR / USD Settlement Segment, for such settlement date.

D) VALUATION OF SECURITIES IN SGF

- 1) The securities contributed by Members to SGF shall be subjected to a valuation exercise on a daily basis or at such frequencies as may be notified by Clearing Corporation from time to time.
- 2) The valuation of SGF securities shall be carried out using Clearing Corporation's mark to market price for such securities.
- 3) Clearing Corporation shall, at its absolute discretion, specify haircuts on the respective market values as per rates prescribed for the eligible securities from time to time;

CHAPTER IX : NOTICES

1. Clearing Corporation shall specify formats for receiving Notices from Members to facilitate its operations ;
2. Clearing Corporation shall have the absolute authority to make changes in the formats as it may consider necessary from time to time. Changes if any shall be advised to Members prior to being brought into operations;
3. Clearing Corporation shall, in its absolute discretion, decide the mode and manner of delivery/receipt of notice to/from its Members.

CHAPTER X : FEES AND CHARGES

A) SCHEDULE OF FEES AND CHARGES

1. The Board or any other Committee appointed by the Board or Official(s) of Clearing Corporation authorised by the Board in that behalf shall prescribe the scale of fees, charges, levies, fines and/or penalties payable by Members for services provided by Clearing Corporation from time to time ;
2. The Board or any other Committee appointed by the Board or Official(s) of Clearing Corporation authorised by the Board in that behalf shall be empowered to review the various fees, charges, levies, fines and/or penalties and effect such changes in the same as it considers necessary.
3. The revised tariff, as and when made effective, shall be payable by Members;
4. The Schedule of such charges shall be as notified by Clearing Corporation from time to time.

B) BILLS FOR FEES AND CHARGES

1. Clearing Corporation shall render monthly bills relating to its usual fees and charges for services provided by Clearing Corporation from time to time;
2. The bills of Clearing Corporation shall be notified to the Members at monthly intervals on the first business day of every month in respect of Transaction charges in respect of the Member for the immediately preceding month.
3. The Members shall verify their monthly billings and notify Clearing Corporation of discrepancies, if any, with all necessary details latest within two days from the date of notification of relative bill.

C) RECOVERY OF CHARGES

1. The Members shall effect payment of the Transaction charges payable by them to Clearing Corporation in terms of their monthly bills (as per B above) in the manner specified by Clearing Corporation from time to time

by the 10th calendar day of every business month failing which Members shall be liable to pay penalty on delayed payment of charges as per the notification issued by Clearing Corporation from time to time.

2. The payment of fines, penalties and/or other levies shall be payable by the Members separately as and when such a demand has been made on those Members by Clearing Corporation.

CHAPTER XI : HOLIDAY HANDLING

Due to the declaration of holidays (in India or in United States of America), it may be required to alter the value dates of trades reported by Members to the Clearing Corporation. In such an eventuality the following procedures shall be adopted for forward trades reported by Members of the Forex Forward segment:

Modified Business Day (settlement date) arises in the following cases:

A. If the holiday is greater than 7 days from the current business date:

For trades which have as settlement date holidays which are known at least 7 days before the date, the settlement dates shall be shifted to the preceding business day. Provided that, if the holiday falls on the first business day of the month, the settlement date shall be shifted to the subsequent business day.

B. If the holiday is Less than or equal to 7 days from the current business date:

For trades which have as settlement date holidays which are known seven days or less before the date, the settlement dates shall be shifted to the next business day.

Provided that, if the holiday falls on the last business day of the month, the settlement date shall be shifted to the preceding business day.