

# **THE CLEARING CORPORATION OF INDIA LIMITED**

## **CBLO REGULATIONS**

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Updated as on January 5, 2011.

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## **CHAPTER I : INTRODUCTION**

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These regulations shall be known as The Clearing Corporation of India Limited (CBLO Segment) Regulations, 2003.

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## **CHAPTER II : APPLICABILITY**

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These Regulations shall be applicable to all Members including Associate Members admitted to the CBLO Segment of Clearing Corporation

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## CHAPTER III : MEMBERSHIP

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### 3.1. Application for Membership

3.1.1. Members of CBLO Segment of Clearing Corporation shall comprise of existing members of Securities Segment who are also members of the NDS and such other entities which are not members of NDS, but meet the membership criteria. Such non NDS members shall be hereinafter referred to as “Eligible Entity”

3.1.2. An existing member of Securities Segment of Clearing Corporation seeking membership of CBLO Segment may approach Clearing Corporation to be admitted as a Member of CBLO Segment;

3.1.3. An Eligible Entity seeking to become a member of CBLO Segment may approach Clearing Corporation to be admitted as an Associate Member of the CBLO Segment of Clearing Corporation;

3.1.4. Such entity as per sub-clause 3.1.2 above shall submit an application in the prescribed format to Clearing Corporation, which shall be complete in all respects together with all enclosures, as required to be submitted in terms of the application form;

3.1.5. The application form shall be submitted along with the fees prescribed by Clearing Corporation for Membership to CBLO Segment;

3.1.6. An Eligible Entity shall seek membership of CBLO Segment by submission of the application form, as stated in clauses 3.1.3 and 3.1.5, only through Settlement Bank in which case the Settlement

Bank shall be required by Clearing Corporation to ensure the completeness of the details furnished by such Eligible Entity as duly set out in the application form.

### **3.2 Processing of Applications**

3.2.1. Every such application received in terms of sub-clause 3.1.4 and 3.1.6 above shall be forwarded by Clearing Corporation to the Approving Authority for consideration;

3.2.2. Clarifications and/or additional information sought by the Approving Authority shall be conveyed to the concerned applicant. Such applications shall be processed further only upon receipt of complete particulars called for by the Approving Authority;

3.2.3. Mere submission of completed application forms and/or additional information sought by the Approving Authority does not by itself confer any right on any applicant to claim grant of such membership to the CBLO segment;

3.2.4. Upon receipt of approval from the Approving Authority, Clearing Corporation shall communicate such approval to the applicant with a request to complete other formalities as required for admission;

3.2.5. Every applicant upon receipt of approval for membership shall execute required documentation, in such form and manner as may be prescribed by Clearing Corporation and submit the same to Clearing Corporation;

3.2.6. A Member can commence operations in CBLO Segment of Clearing Corporation only upon activation of its membership, which shall be subject to completion of such formalities as may be stipulated

by Clearing Corporation in its various communications to the said Member as part of its admission process;

3.2.7. All advices/communications/notices from Clearing Corporation as stated in clauses 3.2.1 to 3.2.6 to an applicant seeking to become an Associate Member of CBLO Segment shall be routed through the Settlement Bank and such Settlement Bank shall arrange for transmission of such advices/communications/notices to the applicant and to collect such additional information and documentation as required by Clearing Corporation until activation of membership of such applicant.

### **3.3 Membership ID**

3.3.1. Every applicant, upon admission as a Member/Associate Member of CBLO Segment shall be allotted a Membership ID. Besides the Membership ID, every Member/Associate Member shall also be allotted a Member Number and User Number. The Member Number and the User Number allotted to the said Member/Associate Member are unique with their usage restricted to the CBLO Segment;

3.3.2. Every Member/Associate Member shall incorporate the Membership ID in all its communications to Clearing Corporation;

3.3.3. Non-incorporation of Membership ID as may be required by Clearing Corporation as part of its operations shall absolve Clearing Corporation of all liabilities or consequences of non-action by Clearing Corporation;

3.3.4. A Member/Associate Member shall ensure that use of its Membership ID, Member Number and User Number is restricted to its authorized personnel only;

3.3.5. Clearing Corporation and/or any of its officials shall not in any way be liable for any loss or consequences that may arise on account of unauthorized and/or wrongful use of Membership ID and/or Member Number and/or User Number.

3.4. **General**

3.4.1. An Associate Member shall designate only one Settlement Bank at any point of time for the purpose of Collateral/Margin transfer for transacting in CBLO Segment and/or for the purpose of funds settlement;

3.4.2 An Associate Member shall open a Current account with the designated Settlement Bank to facilitate settlement of funds in respect of transactions in the CBLO Segment for corporate actions on its collateral contributions, recovery of charges and for any other purpose as may be specified by Clearing Corporation from time to time.

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## **CHAPTER IV : COLLATERAL CONTRIBUTIONS**

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### **4.1 Requisite**

4.1.1 A Member/Associate Member of CBLO Segment shall open GILT Account with Clearing Corporation to deposit its security contributions which shall be used to secure its borrowing and/or margin requirement as the case may be in the CBLO Segment.

### **4.2. Collaterals / Margin Contribution**

4.2.1. A Member/Associate Member may contribute collaterals / margins for the CBLO Segment either in the form of cash and/or eligible Government securities, subject to specific minimum requirements of cash contribution for the margin purpose as may be stipulated by Clearing Corporation from time to time;

4.2.2. Clearing Corporation shall specify the list of eligible securities which shall qualify for collateral / margin contribution to the CBLO Segment and the residual maturity period of such eligible securities shall be specified by Clearing Corporation from time to time. The list of securities eligible for such contribution together with the hair-cuts applicable to them shall be notified by Clearing Corporation from time to time. Securities declared as ineligible for this purpose shall not be reckoned for collateral / margin contribution by the said Member/Associate Member from the effective date of such ineligibility;

4.2.3. Clearing Corporation may, at its absolute discretion, specify the

maximum amount of a single security or group of securities that a Member/Associate Member may deposit by way of collateral / margin contribution;

4.2.4. It shall be the responsibility of the Member/Associate Member to ensure that its exposures on the outstanding deals are fully secured by the value of the collaterals maintained by it with Clearing Corporation, as provided under the relevant Regulations.

4.2.5. Clearing Corporation may at its discretion, also consider the acceptance of Bank Guarantee from such Banks as notified by Clearing Corporation, from its Members/Associate Members, towards their margin contribution. The rules, terms, conditions and procedures relating to the acceptance of Bank Guarantee by Clearing Corporation shall be notified separately by Clearing Corporation.

### 4.3 **Interest**

4.3.1 A Member/Associate Member shall be entitled to the interest received on securities in its GILT Account maintained with Clearing Corporation as per coupon payable on the respective securities;

4.3.2 A Member/Associate Member shall be entitled to receive interest at quarterly rests (at the end of every calendar quarter) on its average cash margins during the relative period maintained by it in excess of the minimum prescribed cash margin as notified by Clearing Corporation from time to time.

### 4.4 **Administration**

- 4.4.1 Clearing Corporation shall have absolute discretion/control over the administration, manner and mode of investment / utilization of cash / securities contributed by a Member/Associate Member towards collaterals /margins;
- 4.4.2 The securities deposited by a Member/Associate Member shall be held in the Constituent SGL Account of Clearing Corporation with RBI. The RBI Rules and Regulations governing CSGL Accounts with such exceptions granted, if any, and such other instructions as are issued by RBI in this regard shall be applicable to the Constituent SGL Account;
- 4.4.3 Clearing Corporation shall have the absolute right to utilize, at its sole discretion, any/all of the securities contributed by a Member/Associate Member and held in the Constituent SGL Account of Clearing Corporation with RBI to meet shortages and/or deficiencies of funds arising out of defaults by the said Member/Associate Member in terms of its Bye-laws, Rules and Regulations;
- 4.4.4 Clearing Corporation shall be deemed to be irrevocably authorized to sell, assign, transfer, pledge, hypothecate, create any charge and/or encumber or dispose of securities deposited in GILT Account by a Member/Associate Member, for recovery of losses, charges, additional charges or any other amount due to Clearing Corporation, from the said Member/Associate Member in terms of its Bye -laws, Rules and Regulations;
- 4.4.5 Clearing Corporation shall have a paramount lien on collateral/margin contribution made by any of its Members/Associate Members

towards any amount due from such Members/Associate Members towards recovery of losses, charges, penalties or any other amount due to Clearing Corporation.

#### **4.5 Withdrawals**

4.5.1. A Member/Associate Member shall be entitled to withdraw its collateral / margin contributions in excess of its obligations to cover its outstanding borrowings / margin requirements and/or any other amount payable to Clearing Corporation, by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for this purpose;

4.5.2. A Member/Associate Member shall ensure at the time of lodging such requests for withdrawal of excess collateral / margin contributions in the form of cash that such reduced balance does not fall below the minimum cash margin prescribed after such withdrawal is effected.

#### **4.6 Receipts and Deliveries of Collaterals / Margins**

##### Cash

4.6.1 A Member/Associate Member shall effect cash margin contributions in relation to its respective margin obligations;

4.6.2 A Member/Associate Member shall arrange to deposit its cash margin contributions as per the Work Flow Process notified by Clearing Corporation from time to time;

4.6.3 Clearing Corporation shall not in any manner be liable for any consequences that may arise on account of non-receipt of deposits from

the Member/Associate Member towards its cash margin contributions;

4.6.4 A Member/Associate Member shall be entitled to receive credits for its cash margin deposits upon receipt of confirmation from RBI/Settlement Bank of credits into the Current Account of Clearing Corporation. The impact of such credits in the Member's/Associate Member's Margin Account shall be reckoned from the end of the business day when credit intimation is received from RBI/Settlement Bank as applicable;

4.6.5 Withdrawal of cash margin contributions by a Member/Associate Member shall be with prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose. Such withdrawal shall result in a corresponding reduction in the said Member's/Associate Member's Cash Margin balance as and when instructions to transfer such amounts to the said Member/Associate Member are issued to RBI/Settlement Bank by Clearing Corporation. Such withdrawal shall be allowed only if the collateral / margin requirement on account of the Member/Associate Member remains fully covered by the reduced balance;

4.6.6 Issuance of instructions to transfer funds from the Current Account of Clearing Corporation with RBI/Settlement Bank to the Current Account of the Member/Associate Member shall be construed as due and proper delivery of funds to the said Member/Associate Member by Clearing Corporation.

### Securities

- 4.6.7 A Member/Associate Member shall contribute securities (in multiples of Rs. One Lakh of face value) in relation to its respective collateral / margin obligations;
- 4.6.8 A Member/Associate Member shall arrange to deposit its collateral / margin contributions of eligible securities as per the Work Flow Process notified by Clearing Corporation from time to time. Clearing Corporation shall not in any manner be liable for any consequences that may arise on account of non-receipt of securities deposits from the Member/Associate Member towards its collateral / margin contributions;
- 4.6.9 A Member/Associate Member shall be entitled to receive credit for deposits of securities margins upon receipt of confirmation from RBI that the securities have been credited into the Constituent SGL account of Clearing Corporation. Such credit shall be reckoned for purpose of borrowing limit / margin computation in respect of such Member/Associate Member when such credit intimation is received from RBI;
- 4.6.10 A Member/Associate Member shall be entitled to withdraw securities from its collateral / margin contributions 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;

- 4.6.11 Withdrawal of securities by a Member/Associate Member shall result in a corresponding reduction in its Securities balances as and when instructions to transfer such securities are issued to RBI by Clearing Corporation. Such withdrawal shall be allowed only if the collateral / margin requirement of the said Member/Associate Member remains fully covered by the reduced balance;
- 4.6.12 Issuance of instructions to transfer securities from the CSGL Account of Clearing Corporation with RBI to the SGL account of the member or to the Constituent SGL Account of the Bank with RBI with whom the concerned Associate Member maintaining its GILT Account shall be construed as due and proper delivery of securities to a Member/Associate Member by Clearing Corporation;
- 4.6.13 A Member/Associate Member shall be entitled to substitute securities deposited as collateral / margin contribution 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 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. Such substitution shall be allowed only if the collateral / margin requirement of the Member/Associate Member remains fully covered with the substitution of securities;
- 4.6.14 At the time of making requests for substitution, a Member/Associate Member shall ensure that the security offered for replacement forms part of the securities eligible for collateral / margin contribution and also conforms to the residual maturity period as per

sub-clause 4.2.2.

#### **4.7 Corporate actions on securities**

4.7.1 Periodical interest receivable by a Member/Associate Member on their securities contributed shall be received by Clearing Corporation for and on behalf of such Member/Associate Member in the manner and mode prescribed by RBI in respect of Constituent SGL Accounts;

4.7.2 Interest received by Clearing Corporation shall be subsequently transmitted to Member/Associate Member at the earliest. Clearing Corporation shall not be responsible for any delay in receipt of interest by the Member/Associate Member and no claim shall lie against Clearing Corporation on this account;

4.7.3 Clearing Corporation shall not be responsible for servicing corporate actions on such securities held by Member/Associate Member in its GILT Account with Clearing Corporation which have been declared as ineligible for collateral / margin contribution;

4.7.4 A Member/Associate Member shall monitor its securities contributions to ensure that the securities falling due for redemption are withdrawn well in advance before the redemption date and substituted by eligible securities of equivalent value. In the event of its failing to do so, redemption proceeds receivable by the Member/Associate Member on such securities shall be received by Clearing Corporation for and on behalf of such Member/Associate Member in the manner and mode prescribed by RBI in respect of Constituent SGL Accounts;

4.7.5 Redemption proceeds received by Clearing Corporation shall be treated as cash collateral / margin contribution;

4.7.6 Issuance of instructions to transfer funds representing coupon payments from the Current Account of Clearing Corporation with RBI to the Current Account of a Member/Associate Member with RBI/Settlement Bank respectively shall be construed as due and proper delivery of funds to the said Member/Associate Member by Clearing Corporation.

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## CHAPTER V: LIMITS AND MARGINS

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### 5.1 **Borrowing Limits**

- 5.1 Clearing Corporation shall at the end of the day determine the borrowing limits for its Member/Associate Member after valuation of securities in their GILT account with Clearing Corporation, applying appropriate haircuts. The limit so worked out would be available for borrowing by the Member/Associate Member for the next business day.
- 5.2 The securities contributed by the Member/Associate Member shall be subjected to a valuation exercise at the end of each business day in order to ensure that the borrowings of the Member/Associate Member are fully collateralised at any point of time. The valuation is carried out using the mark-to-market price as described in clause 6.3 and the value of securities contributed by the Member/Associate Member, net of haircut as described in sub-clause 6.2.2 alongwith value of any cash margin contribution for the purpose shall be the basis for fixing borrowing limits as described above;
- 5.3 Clearing Corporation, after computing the borrowing limit for the Member/Associate Member at the end of each business day, shall communicate the same to the respective Member/Associate Member in such manner as may be decided by Clearing Corporation from time to time.
- 5.4 Clearing Corporation however may allow value of securities deposited during the day, net of appropriate hair-cut, to be added to the borrowing

limit of a member in respect of deposits of securities and/or cash received for this purpose from such member. Clearing Corporation may also allow withdrawal of securities and/or cash by the members during the day by reducing the value of securities and/or cash, as the case may be from the borrowing limit of the members.

5.5 Members will be allowed by Clearing Corporation to borrow in the CBLO market for face value of upto the borrowing limits set for such members.

5.6 Clearing Corporation may at its sole discretion appropriate

i. Unutilised balances in the Borrowing Limits of the Member towards its Initial Margin requirements.

ii. Unutilised balances made available by the Member for meeting its Initial Margin requirements towards any shortfall in the Borrowing Limits requirement of the said Member.

## **5.7 Margin**

### **5.7.1 Initial Margin**

5.7.1.1 Initial margin constitutes the margin obligation required to be fulfilled by a Member/Associate Member in relation to the risk exposures on the matched deals pertaining to its buying and selling CBLOs in the normal market and buying CBLOs in the auction market. A Member/Associate Member willing to buy and sell CBLOs as above shall deposit Cash or Securities or acceptable Bank Guarantee or all, as may be specified by Clearing Corporation from time to time, towards initial margin in advance before putting up any bid or accepting any offer.

5.7.1.2 If, at any time, a Member/Associate Member fails to fulfill its initial margin obligations, Clearing Corporation shall be entitled to suspend the rights flowing out of transactions to the concerned Member/Associate Member and/or to suspend the rights of the

Member/ Associate Member to operate in the CBLO Segment, till the shortage is fully met. Clearing Corporation shall also be entitled, without any notice, to remove any order received from the Member/Associate Member from the dealing system until the shortage is met;

#### **5.7.2 Mark-to-Market Margin**

5.7.2.1 Mark-to-Market Margin for CBLO segment constitutes the margin obligation to be fulfilled by a Member/Associate Member in the event of the value of securities offered by it as collateral, net of haircut and together with any cash margin contributed for this purpose, falling short of the face value of the CBLOs sold by the said Member/Associate Member representing its borrowings. Mark-to-Market Margin liability shall also arise if a Member/Associate Member has contributed initial margin in the form of securities and the value of securities, net of hair-cut and together with any cash margin contributed for this purpose, falls short of the initial margin liability of such Member/Associate Member at the end of the day. The Member/Associate Member having obligation to pay mark-to-market margin shall ensure deposit of mark-to-market margin in the form of Cash or Securities or both as may be specified by Clearing Corporation from time to time to meet the shortage latest by 12.30 p.m. on the next business day (11.00 a.m., if next business day is a Saturday);

5.7.2.2 In case the mark-to-market margin shortage as stated above is not deposited before the stipulated time on next business day, Clearing Corporation may, at its sole discretion, suspend the rights of the concerned Member/Associate Member to deal and/or operate in the CBLO

Segment.

5.7.2.3 A Member/Associate Member shall be liable to pay to Clearing Corporation additional charges as notified by Clearing Corporation from time to time for the period of delay in fulfilling its shortage in mark-to-market margin;

5.7.2.4 Clearing Corporation shall subject to notification have the sole discretion to revise, from time to time, the rate of additional charges payable for the shortage/default;

5.7.2.5 The temporary suspension of rights of Member/Associate Member to transact in CBLO and/or the Membership may be revoked by Clearing Corporation at its sole discretion on fulfillment of the margin obligation and on recovery of other additional charges.

### 5.7.3 Volatility Margin

5.7.3.1 Volatility Margin constitutes the margin obligation required to be fulfilled by a Member/Associate Member in relation to the sudden increase in volatility of interest rates and shall be applied, at the discretion of Clearing Corporation, on

- i. Outstanding matched deals in respect of a Member/Associate Member;
- ii. Securities provided as collaterals/margins.

5.7.3.2 Such Margin may be imposed by Clearing Corporation at any time during the day and as a result, the borrowing limit and deposits for initial margins of the Member/Associate Member and/or initial margin requirement on the outstanding trades may be recomputed. If such re-

computation indicates inadequacy of borrowing limit/initial margin in the account of any member beyond a level as notified by Clearing Corporation from time to time, Clearing Corporation shall be entitled to impose Additional Mark-to-Market margin equal to the shortfall in the account of the said member. Additional Mark-to-Market margin relating to the reduction in the value of securities shall be in force till the end of the day re-valuation of securities.

Difference between the borrowing limit and the value of outstanding CBLOs (borrowings) of any Member/Associate Member may however be adjusted by Clearing Corporation at its sole discretion against any surplus initial margin, if available, in the initial margin account of the concerned Member/Associate Member.

5.7.3.3 Member/Associate Member shall be notified by Clearing Corporation prior to the collection and/or maintenance of volatility margin.

5.7.3.4 In case of any shortage in the margin account of any Member/Associate Member on account of imposition of volatility margin, it shall be the responsibility of the said Member/Associate Member to replenish the shortage as directed by Clearing Corporation. In case the shortage in any of the margins as stated above is not replenished by the Member/Associate Member by the stipulated time the rights of the concerned Member/Associate Member to deal and/or operate in the CBLO Segment shall stand suspended.

5.7.3.5 For the purpose of valuation of the outstanding trade positions and SGF balances of the members in terms of clause 5.7.3.1, CCIL intra-day

MTM prices will be used. Such intra-day MTM prices will be generated by following a process as notified by CCIL from time to time.

#### **5.7.4 Lien on Margins**

5.7.4.1 A Member's/Associate Member's contribution by way of margins either in the form of Cash or Securities or acceptable Bank Guarantee shall be subject to a first and paramount lien for all sums due to Clearing Corporation;

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

#### **5.7.5 Suspension on failure to pay margin**

5.7.5.1 If a Member/Associate Member fails to fulfill its margin obligation, Clearing Corporation shall be entitled to temporarily suspend the membership rights of such a member/Associate Member.

5.7.5.2 A member/Associate member, in the event of its margin shortage shall be deactivated from the dealing system operated by Clearcorp. Clearcorp / Clearing Corporation may, at its sole discretion, reactivate such Member/Associate Member on the dealing system upon replenishment of such Margin shortage.

5.7.5.3 A Member /Associate Member having shortage in initial margin, intra-day or at the end of the day shall be liable to replenish such margin

shortage as determined by Clearing Corporation together with charges at the rate as notified by Clearing Corporation from time to time.

5.7.5.4 In the event of any form of margin shortage, Clearing Corporation shall have the absolute authority to dispose of the securities deposited with it as collateral/margins, by way of sale (including through private arrangement) or otherwise and hold the sale proceeds till the final repayment of the borrowings made by such Member/Associate Member. No interest shall be payable on such amount and the Member/Associate Member shall remain liable to make good any shortage in repayment of its borrowings or meeting any shortage related liability. Any surplus after adjusting repayment of borrowings and other charges shall become payable to the Member/Associate Member. In case the shortage in any of the margins as stated above is not replenished by the Member / Associate Member within the stipulated time Clearing Corporation may, at its sole discretion, suspend the rights of the concerned Member /Associate Member to deal and/or operate in the CBLO Segment.

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## CHAPTER VI: RISK MANAGEMENT

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### CHAPTER 6: RISK MANAGEMENT

- 6.1 This Section outlines the risk management policy of Clearing Corporation in respect of the transactions undertaken by its Member/Associate Member in the CBLO Segment. Notwithstanding anything contained herein, Clearing Corporation shall, however, have the sole discretion to effect changes in its policies relating to risk containment measures from time to time.
- 6.2 Clearing Corporation shall adopt the following risk management policies:
- 6.2.1 Clearing Corporation shall cover its risk through fixation of borrowing limits and through prescription of initial margin, mark-to-market margin and volatility margin. The securities in the GILT accounts of the Member/Associate Member offered as collateral for allocation of borrowing limit and/or towards initial margin shall be subjected to a valuation exercise at the end of each business day in order to ensure that the borrowings of the Member/Associate Member are fully collateralised at any point of time and its initial margin obligations stands fully met. The valuation is carried out using the Mark-to- Market price as described in clause 6.3 below;
- 6.2.2 Clearing Corporation may, at its absolute discretion, specify rates of haircut in percentage terms for all securities which would be acceptable to it as collateral or for deposit towards initial margin in terms of clause 4.2. Such haircut rates shall be applied on the mark-to- market price of

such securities. Clearing Corporation shall have the absolute authority to modify such rates at such periodicity as it may deem fit;

6.2.3 Clearing Corporation may, at its discretion and after due notification, set different set of Haircut rates for different class of members, based on their nature of business, net worth or such other factors as may be decided by the Clearing Corporation from time to time;

6.2.4 Clearing Corporation may, after due notification, set prudential limit for each Member in terms of its aggregate outstanding orders or trades. Such limit may be set based on their nature of business, net worth or such other factors as may be decided by the Clearing Corporation from time to time. In the event of Member/Associate Member exceeding such limit, Clearing Corporation shall be entitled to set higher Initial Margin rates for the member in respect of trades which are in excess of such limits.

### 6.3 **Mark-to-Market Price**

6.3.1 Mark-to-Market price shall be computed based on weighted average price of the last five deals reported through NDS for each security for any business day (excluding deals of face value less than Rs.5 crores and clear outliers as decided by Clearing Corporation, at its sole discretion based on the attending circumstances). Clearing Corporation shall also have the right to exclude any price out of a single trade in any security during the day, if in its opinion, such price does not reflect the market condition appropriately.

6.3.2 In case the number of deals reported through NDS in a particular security is less than five on any business day, the weighted average price of

available deals shall be the basis for computation;

6.3.3 In case no deal is reported through NDS in a particular security on any business day, the last available mark-to-market price for the security shall be taken as mark-to-market price of the security for the day. The mark-to-market price used for computation shall not be more than seven days old, provided that Clearing Corporation may, at its absolute discretion, be entitled to substitute such reference prices with the prices derived from its internal Valuation model even within such 7 days' time, if in its opinion, such last available mark-to-market prices do not adequately reflect the market conditions;

6.3.4 In case no deal is reported through NDS in a particular security for the previous six business days, mark-to-market price for such security shall be based on the Internal Valuation Model of Clearing Corporation which, in turn, may be based on relevant parameters such as yield, liquidity, duration, volatility and such other parameters as may be decided by Clearing Corporation from time to time. Provided that Clearing Corporation may in its absolute discretion arrive at mark-to-market price using such Internal Valuation Model in case the deals in such security in the opinion of Clearing Corporation do not reflect the true market price.

#### **6.4 Initial Margin**

6.4.1 The margin rates for initial margin for trades in CBLO in the normal market or for lending against CBLO in the auction market shall be arrived at based on Value at Risk or such other means as may be decided

by Clearing Corporation from time to time and such factors shall be expressed as a percentage of the face value of the respective CBLOs. Clearing Corporation may however set different Initial Margin rates for trades in CBLO having different maturity periods. Clearing Corporation may, however, at its discretion, set uniform margin factor for all CBLOs;

6.4.2 Clearing Corporation may, at its discretion and after due notification, set different initial margin rates for different members, based on their nature of business, net worth or such other factors as may be decided by the Clearing Corporation from time to time;

6.4.3 The initial margin obligations for CBLO deals of a Member/Associate Member shall be computed by multiplying the net position in terms of face value of a CBLO of each maturity with the corresponding CBLO specific initial margin rates or the uniform margin factor, as applicable for the Member/Associate Member and then aggregating the margin obligations. Provided that if a Member/ Associate Member has both bought and sold CBLOs of identical maturity, if such trades have resulted in a net loss for the Member/ Associate Member computed on a First In First Out basis such loss would also be added to the Initial Margin liability. Such margins shall be required to be maintained till the deals covered by such margin are settled.

## 6.5 **Mark-to-Market Margin**

6.5.1 The securities in the GILT account of the Member/Associate Member for allocation of borrowing limits or towards allocation of initial margin limits shall be subjected to mark- to-market valuation at the end of each

business day as described in sub-clause 5.2 above;

- 6.5.2 In the event of mark-to-market value of the securities along with cash margin, if any, deposited for the purpose of allocation of borrowing limit falling short of the face value of the CBLOs representing the borrowing of the Member/Associate Member or mark-to-market value of the securities together with cash margin, if any, deposited towards initial margin falling short of the initial margin liability of the Member/Associate Member at the end of the day, Clearing Corporation shall make a margin call on such Members/Associate Members in respect of whom such shortage occurs;
- 6.5.3 The mark-to-market valuation done by Clearing Corporation at the end of each business day shall be valid till its computation as at the end of the subsequent day and any deposit of collateral during the day shall be taken up for valuation at the end of the day of such deposit.
- 6.5.4 Clearing Corporation may set additional initial margin for trades conducted by a member at off market prices. Such margin shall be payable by the seller of the CBLO if the prices are set at lower than market price (or the yield at which the CBLO has been traded is higher than the market yield) or by the buyer if the prices are set at higher than the market price (or the yield at which the CBLO has been traded is lower than the market yield). Such margin shall be equal to the difference between the traded price and the market price. Clearing Corporation's decision in regard to identification of trades at off market prices shall be final and binding on all concerned.

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## CHAPTER VII: DEALING SYSTEM

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- 7.1 An automated dealing system for borrowing and lending of funds to the Members/Associates Member of CBLO Segment has been provided by Clearcorp Dealing Systems (India) Ltd
- 7.2 A Member who has NDS membership with RBI may access dealing system through RBI's INFINET;
- 7.3 Associate Member who does not maintain Current Account and / or NDS membership with RBI shall access the dealing system through INTERNET;
- 7.4 Each Member/Associate Member shall at all times maintain necessary Information Technology infrastructure, staff, communication facilities and records in order to have orderly participation in CBLO related activities on the dealing system and as per the requirements enumerated in the Bye -laws, Rules and Regulations of Clearing Corporation / Clearcorp;
- 7.5 A Member/Associate Member shall restrict its access to the dealing system from its office/s;
- 7.6 Each Member/Associate Member shall have a unique Member Number and User Number provided by Clearing Corporation / Clearcorp and the same shall be used to log on to the dealing system;
- 7.7 A Member/Associate Member shall be given access to the dealing system through the password provided by Clearing Corporation / Clearcorp and the Member/Associate Member shall ensure to change the password from time to time;
- 7.8 An Associate Member, besides password, shall use the digital signature to access the dealing system through internet;

- 7.9 A Member/Associate Member and/or its Users shall maintain complete secrecy of its password and the digital signature password;
- 7.10 Clearing Corporation / Clearcorp and/or any of its officials shall not in any way be liable for any loss or consequences that may arise on account of unauthorized and/or wrongful use of the password and/or digital signature;
- 7.11 A Member/Associate Member shall not have any right, title or interest with respect to the dealing system, its facilities, software and the information provided by Clearing Corporation / Clearcorp;
- 7.12 The permission to use the dealing system shall be subject to the payment of such charges to Clearing Corporation / Clearcorp as may be specified from time to time;
- 7.13 A Member/Associate Member shall not be permitted to
- 7.13.1 use the software provided by Clearing Corporation / Clearcorp for any purpose other than those approved and specified by Clearing Corporation / Clearcorp;
- 7.13.2 use the software provided by Clearing Corporation / Clearcorp on any equipment other than the office as per sub-clause 7.5;
- 7.13.3 copy, alter, modify or make available to any other entity or person, the software provided by Clearing Corporation / Clearcorp;
- 7.13.4 use the software in any manner other than as specified by Clearing Corporation / Clearcorp;
- 7.13.5 The intellectual property rights of such software shall be with Clearing Corporation / Clearcorp and any unauthorised use of the same shall be treated as infringement and dealt with accordingly;
- 7.14 A Member/Associate Member shall not publish, supply, show or make available to any other person/entity the facilities of the dealing system or the information provided by the dealing system except with the explicit approval of Clearing Corporation / Clearcorp;

7.15 Clearing Corporation / Clearcorp shall provide its services on a best effort basis.

However, Clearing Corporation shall not be liable under any circumstances for any failure of the system or otherwise or a consequence arising therefrom;

7.16 Without prejudice to anything contained in sub-clause 7.15, such failure shall not reduce, alter or affect the liability of a Member/Associate Member in respect of any deals to which the said Member/Associate Member is a party;

7.17 Each Member/Associate Member may have more than one user and in such cases, the Member/Associate Member shall request Clearing Corporation / Clearcorp for additional User Number furnishing the details of the user to Clearing Corporation / Clearcorp. However, allocation of multiple User Numbers shall be at the sole discretion of Clearing Corporation / Clearcorp.

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## CHAPTER VIII: DEALING SYSTEM OPERATIONS

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### 8.1 Dealing Parameters

- 8.1.1 A Member/Associate Member shall be liable for all the deals executed on the dealing system for orders entered into the system by it;
- 8.1.2 Clearing Corporation / Clearcorp may, from time to time, specify various dealing parameters which, inter alia, include:
- a) types of orders and order attributes (including Single Order Limit size);
  - b) fixation of market lots for order matching;
  - c) fixation of benchmark/reference rate for Auction Market;
  - d) limit of spread between bid and offer yields for different instruments, if required;
  - e) limit of variation within a day or between days in bid and offer yields;
  - f) fixation of yield variation on business day over the previous day's closing yields of the instruments;
  - g) determining functional details of the dealing system including system design, user infrastructure and system operation;
  - h) such other parameters as may be decided by Clearing Corporation / Clearcorp from time to time.
- 8.1.3 Clearing Corporation / Clearcorp may, from time to time, prescribe different forms of order books that shall be maintained on the dealing system and specify such conditions for the order to be eligible to find place in those books. Such conditions may include "ALL OR NONE", "DISCLOSED QUANTITY", "MINIMUM FILL", "DAY ORDER" and "IMMEDIATE" OR "CANCEL";

8.1.4 Clearing Corporation / Clearcorp may notify, from time to time, to its Member/Associate Member the minimum disclosed quantity for orders that will be allowed;

8.1.5 Clearing Corporation / Clearcorp may specify, from time to time, the lot size in which orders can be placed on the dealing system.

## **8.2 Instruments**

8.2.1 Clearing Corporation / Clearcorp shall decide on the number of CBLO instruments to be made available on the dealing system and also the tenure of such CBLO instruments;

8.2.2 Clearing Corporation / Clearcorp may make available on the Dealing System such CBLO instruments at any time during the day as may be decided from time to time; in case any CBLO instrument is made available during the dealing session, Clearing Corporation / Clearcorp shall notify the same to all the Members/Associate Members through the dealing system;

8.2.3 A Member/Associate Member shall be entitled to transact only in those CBLO instruments that are made available on the Dealing System by Clearing Corporation / Clearcorp;

8.2.4 Clearing Corporation / Clearcorp may at its discretion at any time suspend dealing in a particular CBLO instrument as it deems fit and such suspension shall take effect on such conditions and in such time and manner as Clearing Corporation / Clearcorp may prescribe in this regard. However member's obligation, if any, shall be honored by it on the respective settlement dates;

8.2.5 Clearing Corporation / Clearcorp may at its discretion at any time revoke the suspension of a particular CBLO instrument as it deems fit on such conditions and in such time and manner as may be prescribed in this regard;

### **8.3 Settlement Period**

8.3.1 Clearing Corporation may, from time to time, notify to its Members including Associate Members the settlement period for the deals concluded on the Clearcorp dealing system.

### **8.4 Types of Markets**

8.4.1 Auction Market: Clearing Corporation / Clearcorp shall provide Auction Market for borrowing / lending of funds against the collaterals maintained by the borrowing Member with Clearing Corporation. Unless otherwise notified Auction Market can be accessed only by those CBLO Members who are also Members of NDS

8.4.2 Normal Market: Clearing Corporation / Clearcorp shall provide access to Normal Market to all Members/Associate Members for purchase/sale of CBLOs.

### **8.5 Dealing Days**

8.5.1 Clearing Corporation / Clearcorp would normally function on all the days, excluding Sundays and those days that are declared as holidays under the Negotiable Instruments Act, 1881 in the State of Maharashtra and such other days on which transactions/settlement may not take place as declared by RBI and/or Clearing Corporation or such other authority.

### **8.6 Timings**

8.6.1 Clearing Corporation / Clearcorp shall have the absolute discretion to decide on the timings for dealing in CBLOs;

8.6.2 The cut-off timing for various activities relating to CBLO Segment shall be notified by Clearing Corporation / Clearcorp from time to time;

8.6.3 However Clearing Corporation / Clearcorp may extend or reduce timing for various activities by notifying Members/Associate Members as and when it deems fit and

necessary in this regard.

## **8.7 Order Lots**

8.7.1 Clearing Corporation / Clearcorp may, from time to time, prescribe the order lots for different markets for submission by Members/Associate Members. Without prejudice to the generality of the above, Clearing Corporation / Clearcorp has specified order lots as follows:

- a) The minimum lot for borrowing in the Auction Market shall be Rs.50 lakhs and in multiples of Rs.5 lakhs thereof;
- b) The minimum market lot for CBLOs in Normal Market shall be Rs.5 lakhs and in multiples of Rs.5 lakhs thereof.

8.7.2 Clearing Corporation / Clearcorp may, at its sole discretion, after due notification, set Single Order Limit for a bid or and offer. Such Single Order Limit for a bid or an offer could also be member specific or specific to different class of members.

## **8.8 Order Types**

8.8.1 Clearing Corporation / Clearcorp shall specify from time to time, the types of orders that a Member/ Associate Member can place on the Dealing System. The following types of orders are specified by Clearing Corporation /Clearcorp:

- i) Borrow Request: Borrow Request is an order submitted by a Member to Clearing Corporation / Clearcorp for borrowing funds in the Auction Market;
- ii) Offer: Offer is an order for selling CBLOs in the Normal Market and borrowing of funds in the Auction Market;
- iii) Bid: Bid is an order for buying CBLOs in Normal Market and lending funds in the Auction Market.

## **8.9 Order Validation**

8.9.1 Orders entered on the dealing system by a Member/Associate Member shall be subject to such validations as may be prescribed by Clearing Corporation / Clearcorp from time to time, including order conditions and other dealing parameters and such orders that do not meet the validation requirements will be rejected.

## **8.10 Borrowing**

### **8.10.1 Borrowing through Auction Market**

8.10.1.1 A Member may borrow funds in the Auction Market by submitting borrow requests to Clearing Corporation / Clearcorp indicating maturity, amount and the ceiling rate, and such other details as may be notified by Clearing Corporation / Clearcorp from time to time;

8.10.1.2 Clearing Corporation / Clearcorp shall have the right to decide and fix any benchmark/reference rate for determining the ceiling rate and the same shall be notified to the Members;

8.10.1.3 Clearing Corporation / Clearcorp shall notify to its Members, the timings for submission of borrowing requests; Clearing Corporation / Clearcorp shall have the right to permit such Members to modify/cancel their borrowing requests before the same have been taken up by Clearing Corporation / Clearcorp for authorisation;

8.10.1.4 Clearing Corporation / Clearcorp shall process the borrowing requests of the Members and authorise such requests which are within the borrowing limit available to said Members and reject those which exceed the borrowing limit;

8.10.1.5 Clearing Corporation / Clearcorp, after due authorisation, shall notify the same to the Members and shall place the offers on the concerned auction window of the Auction Market to enable lenders to submit their bids.

## **8.10.2 Borrowing through Normal Market**

8.10.2.1 A Member/Associate Member, desirous of borrowing through the Normal Market, may submit its offers directly on the Normal Market indicating amount, expected yield, settlement period and such other conditions as may be applicable to the Normal Market dealings.

## **8.11 Order Modification and Cancellation**

8.11.1 Clearing Corporation / Clearcorp shall have absolute right to allow the Member/Associate Member to modify or cancel their orders placed on the dealing system;

8.11.2 Borrowers in the Auction Market may be allowed to modify/cancel their borrow requests before the same are approved by Clearing Corporation / Clearcorp as mentioned under sub-clause 8.10.1.3 and no modification/cancellation is permitted after the same are authorised by Clearing Corporation / Clearcorp;

8.11.3 A borrowing member shall not be allowed to modify/cancel its offer orders in the Auction Market once notified by Clearing Corporation / Clearcorp as mentioned under sub-clause 8.10.1.5 whereas the lender shall be allowed to modify/cancel its bid order during the Auction Market session;

8.11.4 A Member/Associate Member may be permitted to modify or cancel its outstanding offer/bid orders before matching in the Normal Market;

8.11.5 The order shall be modified by effecting changes in the input parameters in the manner and on such conditions as specified by Clearing Corporation / Clearcorp;

8.11.6 The modified order shall lose or retain its time priority as per the dealing parameter set by Clearing Corporation / Clearcorp and such changes in the time priority on modification of order are enumerated in Annexure I;

8.11.7 In the event of failure of connectivity (not attributable to any act or omission of the Member) for a Member/Associate Member, Clearing Corporation / Clearcorp may at its discretion undertake on behalf of such Member/Associate Member to cancel all its outstanding orders subject to conditions stated as per above sub-clauses; provided such Member/Associate Member shall send a valid and clear written request to Clearing Corporation / Clearcorp in a manner as prescribed by Clearing Corporation / Clearcorp and the said Member/associate Member shall be accountable for the activity carried out by Clearing Corporation / Clearcorp on its behalf and shall indemnify Clearing Corporation / Clearcorp against any losses or costs arising out of the above situation.

## **8.12 Matching Rules**

8.12.1 Clearing Corporation / Clearcorp shall specify, from time to time, the order matching rules for different markets and the parameters for the same;

8.12.2 Clearing Corporation / Clearcorp may modify or change the manner and mode of matching relevant to any market or order books wherever necessary;

8.12.3 Clearing Corporation / Clearcorp, with a view to protect the interest of the market, and/or to meet any statutory obligations /order / directive, may withhold fully or partially, the information on the order quantity, yield, etc in a particular CBLO or of all CBLOs in respect of a particular Member/Associate Member;

8.12.4 Clearing Corporation / Clearcorp shall adopt the Best-Yield and Time Priority principle for order matching and the time recorded at the dealing system at Clearing Corporation / Clearcorp shall be the basis for determining the time priority.

### **8.12.4.1 Auction Dealing**

Offers and bids, for the relevant ceiling rate as specified by the borrowing Members in the Auction Market, will be matched on uniform cut-off yield basis and such uniform cut-off

yield decided by Clearing Corporation / Clearcorp shall be applicable to both borrowers and lenders of a particular CBLO for the relevant ceiling rate. The procedure to be followed by Clearing Corporation / Clearcorp in deciding the cut-off yield will be duly notified by Clearing Corporation / Clearcorp. Clearing Corporation / Clearcorp may at its discretion change the manner of matching and the procedure in deciding the cut-off yield after due notification.

#### **8.12.4.2 Normal Dealing**

- i) Clearing Corporation / Clearcorp shall carry out order matching by following “Best Yield – Time Priority” principle. The Best Bid Yield for an Offer Order shall be the Bid Yield equal to or less than the Offer Yield. The Best Offer Yield for a Bid Order shall be the Offer Yield equal to or more than the Bid Yield. In case there is more than one Bid/Offer Order with the same Bid/Offer Yield, then the system shall follow the “Time Priority” principle based on the time stamp given by the dealing system to the orders.
- ii) An order shall become an Active Order at the time of its entry into the system. If such an order, on entry into the system, does not find matching order, would become Passive Order and remain in the dealing system.
- iii) All the bids and offers remaining unmatched in the system at the end of the normal dealing session shall get cancelled automatically at the end of the day.

### **8.13 Rejection of Orders/Deals**

8.13.1 Clearing Corporation / Clearcorp shall have the absolute discretion to reject the deals for the following conditions:

8.13.1.1 When the orders / deals are not adequately covered by the borrowing limits / margins;

8.13.1.2 When orders/deals are not as per the terms and conditions as applicable to such orders/deals;

- 8.13.1.3 In the event of declaration of unscheduled holiday or sudden development whereby dealing, operations for a particular settlement date have been temporarily suspended;
- 8.13.1.4 In the event of Force Majeure.

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## CHAPTER IX: CLEARING AND SETTLEMENT OF DEALS

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### 9.1 General

- 9.1.1 Clearing Corporation may, at its discretion, decide on the cut-off time for taking up the matched deals in respect of different settlement periods for clearing and settlement;
- 9.1.2 Clearing Corporation shall take up the matched deals in both the Auction and Normal Markets for clearing and settlement depending on the settlement period;
- 9.1.3 Matched Deals in CBLOs in both the Auction and Normal Markets shall be taken up for processing after verification of Initial Margin availability in respect of the counter-party members with reference to such deals as enumerated in the Chapter 6 on Risk Management;
- 9.1.4 Deals for which adequate Initial Margin is available in the accounts of the counter-party members will be guaranteed by Clearing Corporation for settlement;
- 9.1.5 All the deals shall be settled on delivery versus payment basis i.e. the CBLOs will be credited to the Member's/Associate Member's accounts after the receipt of funds settlement confirmation from RBI/Settlement Bank on the date of settlement;
- 9.1.6 Settlement of deals shall be effected through a process of novation. Such settlement may be on a bilateral or multi-lateral netting basis or gross basis, or deal by deal basis or any other basis as may be specified by Clearing Corporation from time to time;

## 9.2 Settlement Process

### 9.2.1 Settlement of Funds

9.2.1.1 Without prejudice to the generality of the above, the settlement of funds shall be carried out on a multi-lateral netting basis across Auction and Normal Market trades;

9.2.1.2 Funds obligation of a Member/Associate Member shall comprise of the obligation in respect of deals concluded for a given settlement date and redemption obligation due on that date;

9.2.1.3 Unless and otherwise specified, the settlement of funds in respect of Members shall take place at RBI and the settlement of funds in respect of Associate Members shall take place at Settlement Bank(s) specified by the Associate Members as per sub-clause 3.4.1;

9.2.1.4 Settlement of funds shall be effected through Current accounts maintained by the Member/Associate Member at RBI/Settlement Bank. The RBI/Settlement Bank Regulations relating to Current account shall be deemed to form part of any settlement process so prescribed;

9.2.1.5 Clearing Corporation shall generate and provide to each Member/Associate Member funds obligation report which

- a. shall comprise of funds payable and/or receivable by the Member/Associate Member for deals matched and falling due for settlement on the settlement date;
- b. shall be deemed to be Member's/Associate Member's confirmation of different deals for which funds are to be received from and/or paid to the Member/Associate Member on settlement date;
- c. shall be deemed to be Member's/Associate Member's instructions to RBI/Settlement Bank for effecting settlement in its Current account.

9.2.1.6 A Member/Associate Member shall ensure availability of sufficient funds in their Current account with RBI/Settlement Bank. If a Member/Associate Member fails to provide the same on the settlement date to meet its fund obligations arising out of its deals, it shall be considered as funds shortage which shall be dealt with as provided in Chapter 11 relating to “Shortage Handling” in these Regulations;

## 9.2.2 Settlement of CBLO

9.2.2.1 Settlement of CBLO shall be carried out maturity wise on multilateral netting basis; however netting of CBLOs within the same maturity shall not be allowed between Auction and Normal markets;

9.2.2.2 CBLO obligation including redemption obligation of a Member/Associate Member shall be computed separately for different settlement periods;

9.2.2.3 Settlement of CBLOs shall be carried out in the CBLO account of Member/Associate Member maintained by Clearing Corporation;

9.2.2.4 Clearing Corporation shall generate and provide to each Member/Associate Member the CBLO obligation report which

- a. shall comprise of CBLOs payable and/or receivable by the Member/Associate Member for the deals matched and falling due for settlement on settlement date;
- b. shall be deemed to be Member’s/Associate Member’s confirmation of the different deals for which CBLOs are to be received from and/or delivered to the Member/Associate Member on settlement date;
- c. shall be deemed to be Member’s/Associate Member’s instructions to Clearing Corporation for effecting settlement in its CBLO account.

9.2.2.5 A Member/Associate Member shall ensure availability of sufficient CBLOs/borrowing limit in their accounts. If a Member/Associate Member does not have sufficient balance

on the settlement date to meet its CBLO obligations arising out of its deals, it shall be deemed as CBLO shortage which shall be dealt with as provided in Chapter 11 relating to “Shortage Handling” in these Regulations;

9.2.2.6 Clearing Corporation shall credit the CBLOs receivable by the Member/Associate Member in its respective CBLO accounts with it only upon receipt of fund settlement confirmation from RBI/Settlement Bank.

### **9.2.3 Redemption of CBLO**

9.2.3.1 Clearing Corporation shall ensure that, on the day of maturity of CBLOs, the funds obligation of the Member/Associate Member is computed after taking into account the funds payable towards redemption for such Member/Associate Member for that settlement day;

9.2.3.2 Clearing Corporation shall remove respective CBLOs on the dealing system and release the borrowing limit of such Member/Associate Member on the day of maturity of CBLOs.

9.2.3.3 Notwithstanding anything contained in these Regulations, the holders of CBLOs (lenders) shall be deemed to have interest in the underlying blocked securities relative to the CBLOs lying to their credit until these are fully redeemed and proceeds received by them.

Provided, however that the holders of CBLOs (lenders) shall be deemed to have ceded its said interest in the underlying securities to Clearing Corporation, upon Clearing Corporation disbursing the proceeds from redemption of the CBLO to it.

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## CHAPTER X: SETTLEMENT BANK

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- 10.1 Clearing Corporation may at its discretion appoint one or more banks as Settlement Bank for settlement of funds in respect of Associate Members. An Associate member desirous of dealing in CBLO Segment should elect one of such banks for settlement of its transactions;
- 10.2 Clearing Corporation shall notify from time to time the settlement process, time frame for carrying out instructions and other operations that the Settlement Banks shall be required to follow for funds settlement in CBLO operations in an orderly manner;
- 10.3 The Settlement Bank duly authorized shall ensure funds settlement, collection of margin money, charges, levies, additional charges, redemption proceeds, servicing of corporate action like payment interest etc., and any other funds movement between an Associate Member and Clearing Corporation as notified by Clearing Corporation from time to time;
- 10.4 The Settlement Bank shall take instruction from Clearing Corporation and act as per instructions received from Clearing Corporation in regard to those funds settlement;
- 10.5 Instructions of Clearing Corporation for debits and credits to Associate Member's Current accounts by the Settlement Bank shall be deemed to be irrevocable and final;
- 10.6 An Associate Member shall authorize Settlement Bank to access its Current account for debiting and crediting their Current accounts as per instructions received from Clearing Corporation;
- 10.7 Settlement Bank shall, based on the instructions of Clearing Corporation, carry out debits and credits to the Current account of such Associate Member and advise Clearing Corporation of the net difference payable or receivable;

- 10.8 The difference if any as per sub-clause 10.7 above shall be settled by Clearing Corporation by debit / credit to the Settlement Bank's Current account with RBI as per arrangement with Settlement Bank;
- 10.9 In the process of funds settlement at the Settlement Bank, if there is any funds shortage arising out of settlement instructions received from Clearing Corporation, the Settlement Bank shall inform the same to Clearing Corporation and act as per the instructions given by Clearing Corporation from time to time to meet such shortages;
- 10.10 Information relating to any change in the Settlement Bank by an Associate Member shall be advised to Clearing Corporation at least 15 days in advance.
- 10.11 The Settlement Bank shall put in place adequate controls and risk management systems to facilitate smooth and effective settlement of mutual obligations.
- 10.12 The Settlement Bank shall be obliged to provide all information regarding the Associate Member as and when required to do so by the Clearing Corporation.
- 10.13 The Settlement Bank shall indemnify and keep indemnified Clearing Corporation against any and all claims, demands, actions, proceedings, losses or damages, liabilities, costs, expenses and obligations that may be incurred / caused to Clearing Corporation on account of willful default or negligence, omission or commission on part of the Settlement Bank.

## CHAPTER XI: SHORTAGE HANDLING

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- 11.1 A shortage may arise on account of failure on the part of a Member/Associate Member to deliver funds and/or CBLOs due from it on the settlement date;
- 11.2 Clearing Corporation shall have the absolute discretion to decide on the mode of handling shortages and the decision of Clearing Corporation shall be binding on all the Members/Associate Members;
- 11.3 Clearing Corporation shall adopt the shortage handling procedure for both funds and CBLOs as under:

### 11.3.1 **Shortage of Funds**

- 11.3.1.1 Clearing Corporation shall initiate all measures that are prudent, practicable and necessary to meet the funds shortage in order to ensure that the deals are settled and all the non-defaulting Members/Associate Members receive funds and/or CBLOs due to them;
- 11.3.1.2 In case Clearing Corporation is not in a position to meet the funds shortage, the shortage shall be allocated to the Members/Associate Members, at the discretion of Clearing Corporation, in proportion to their funds receivable position as on the concerned settlement date;
- 11.3.1.3 The Members/Associated Members, who are allocated such funds shortage, shall be compensated at such rate as may be notified by Clearing Corporation, from time to time, on the shortage amount allocated to them.
- 11.3.1.4 In case of funds shortage, Clearing Corporation shall withhold the pay-out of CBLOs and the initial margin to the extent applicable for such trade (or such higher amount as may be determined by Clearing Corporation at its sole discretion) in respect of the

Member/Associate Member in whose account shortage has occurred;

11.3.1.5 In case of shortage in redemption of CBLOs, the Securities in the GILT account of the Member/Associate Member shall remain blocked. In addition, Clearing Corporation may, at its sole discretion, withhold the CBLOs receivable if any, and the initial margin in respect of the said Member/Associate Member;

11.3.1.6 The Members/Associate Member in whose account shortage has occurred shall be liable to pay to Clearing Corporation, the amount of shortage together with additional charges and any other incidental charges at such rate as may be notified by Clearing Corporation from time to time;

### 11.3.2 **Shortage of CBLOs**

11.3.2.1 The funds pay-out to the Member/Associate Member in whose account shortage has occurred and the initial margin to the extent applicable for such trade (or such higher amount as may be determined by Clearing Corporation at its sole discretion) shall be withheld by Clearing Corporation and in case the withheld funds are not sufficient to cover the value of shortage, Clearing Corporation shall have absolute right to withhold CBLOs receivable, and/or CBLOs outstanding in the CBLO account of that Member/Associate Member;

11.3.2.2 Clearing Corporation shall initiate such measures as are prudent, practicable and necessary to meet CBLO shortage to ensure that deals are settled and the Members/Associate Members to whom shortage has been allocated receive funds and/or CBLOs due to them. However, in the event of Clearing Corporation not being in a position to meet the CBLO shortage, Clearing Corporation shall have the right to exercise any of the following options either in isolation or in combination thereof and the concerned Member/Associate Member in whose account shortage has occurred shall be

deemed to have given consent to meet shortage in CBLOs in the manner as described below:

- a. Clearing Corporation shall create the relative CBLOs to meet the shortage by utilising the funds withheld and balance available in the margin account of the Member/Associate Member with Clearing Corporation;
- b. The Member/Associate Member in whose account shortage has occurred shall deposit additional Collateral with Clearing Corporation to enhance its borrowing limit or buy the relative CBLO from the Normal Market and deliver the same to Clearing Corporation on the next business day to replace such CBLOs created earlier for meeting shortages so as to obtain release of withheld funds due to it, after payment of additional charges to Clearing Corporation;
- c. In case the Member/Associate Member fails to deliver additional collaterals and / or deliver the relative CBLO on the next business day before 12.30 p.m., Clearing Corporation may buy the concerned CBLO from the market by utilising the withheld funds. In case the withheld funds are not sufficient to buy the concerned CBLO, the same shall be adjusted along with additional charges, if any, out of the said Member's/Associate Member's contribution to initial margin and/or by disposal of other CBLOs, and/or the funds available as margin and/or securities if any, available in the GILT account of the Member/Associate Member.

11.3.2.3 Where Clearing Corporation is not in a position to meet the shortage of CBLO, the same shall be allocated to Members/Associate Members who have got net receivable position in the said CBLO. The Method for such allocation shall be as may be determined by Clearing Corporation and duly notified;

11.3.2.4 If Clearing Corporation resorts to the provisions of Sub-regulation 11.3.2.3 above the defaulting Member shall be liable to pay as under:

- a) an amount equivalent to the difference between the consideration amount paid by the non-defaulting member and Clearing Corporation's consideration amount arrived at the lowest yield.
- b) Charges and any incidental charges for CBLO shortage as notified by Clearing Corporation, from time to time.
- c) The non-defaulting member shall be compensated at the rate as notified by Clearing Corporation, from time to time.

#### 11.4 Shortage Obligations

##### 11.4.1 Funds Shortage

11.4.1.1 Where Clearing Corporation is able to meet funds shortage:

11.4.1.1.1 The Member/Associate Member in whose account shortage has occurred shall be liable to make payment before 12.30 p.m on the next business day the amount of shortage together with charges, additional charges and levies as notified by Clearing Corporation from time to time;

11.4.1.1.2 Clearing Corporation shall, upon receipt of confirmation from RBI/Settlement Bank about replenishment of funds into its Current account with RBI/Settlement Bank, arrange to release the CBLOs withheld and/or borrowing limit and initial margin withheld;

11.4.1.1.3 In the event of the Member/Associate Member not making payment equivalent to shortage together with charges, additional charges and other levies within the time limit (as per para above) as described above, the same shall be deemed to be a default committed by the said Member/Associate Member. In such event, Clearing Corporation shall have the absolute right to sell and/or dispose off, in any manner it

may deem fit, the relative CBLOs, securities (in market lots and adequate to cover the default obligation) and use the proceeds towards discharge of the obligation of such Member/Associate Member. Excess amount, if any, realised from such sale/disposal shall be payable to the Member/Associate Member and the excess CBLOs, securities, if any, shall be released to concerned Member/Associate Member;

11.4.1.1.4 In case the sale proceeds of CBLOs, securities and initial margin withheld are not sufficient to cover the shortage obligation, Clearing Corporation shall be entitled to use the other CBLO holdings, securities and the balance available in the initial margin account of the Member/Associate Member;

11.4.1.1.5 Clearing Corporation shall initiate sale/disposal of withheld securities and/or CBLOs on the second business day including the day of shortage;

11.4.1.1.6 In case the withheld CBLOs are due for redemption on the day of sale/disposal, Clearing Corporation shall be entitled to receive redemption proceeds of the CBLOs and adjust the same against shortage obligation of the Member/Associate Member together with additional charges and incidental charges if any;

11.4.1.1.7 In case the withheld securities enter into shut period on the day of sale of securities, the sale of such securities shall be carried out immediately after the completion of the shut period. In the intervening period, the Member/Associate Member is liable to pay the additional charges / levies as prescribed by Clearing Corporation from time to time;

11.4.1.2 Where Clearing Corporation is unable to meet funds shortage:

In the event of Clearing Corporation not being able to meet the funds shortage, the same shall be allocated to Members/Associate Members who have got funds receivable position on the concerned settlement date in proportion to their individual funds receivable position. The method of such allocation shall be decided by Clearing Corporation and duly notified. All other actions outlined in paras 11.4.1(a) to (g) above (in regard to funds shortage) shall also be applicable in such cases;

## 11.4.2 **CBLO Shortage**

11.4.2.1 Clearing Corporation shall deal with the CBLO shortage as per the procedure mentioned in sub-clause 11.3.2 above;

11.4.2.2 Clearing Corporation shall recover additional charges from the defaulting Member/Associate Member as notified by Clearing Corporation from time to time;

11.4.2.3 Clearing Corporation shall, in the event of closing out of deals, compensate the Members/Associate Members to whom shortage quantity has been allocated and such compensation payable shall not exceed the rate as notified by Clearing Corporation from time to time.

11.4.3 Notwithstanding anything contained herein, upon the occurrence of a default, the authority of Clearing Corporation to dispose of and sell the securities of the defaulter shall extend to all such securities of the defaulter and shall not be limited to the blocked securities of CBLO in respect of which default has occurred.

11.4.4 All decisions of Clearing Corporation relating to shortage, default and adjustment shall be deemed conclusive and binding on all Members / Associate Members.

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## CHAPTER XII: SUDDEN EVENT HANDLING

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- 12.1 Due to the occurrence of any unforeseen event or circumstances beyond the control of Clearing Corporation, it may suspend the dealing, clearing and settlement of CBLOs by declaration of an unscheduled holiday;
- 12.2 In such an eventuality, the following procedures, which may be modified from time to time by Clearing Corporation, shall be adopted by Clearing Corporation:
- (i.) All the deals concluded by the Members/Associate Members on such days and/or all such deals due for settlement on such days shall be cancelled by Clearing Corporation and the decision of Clearing Corporation in this regard shall be final and binding on all the Members/Associate Members;
  - (ii.) The obligation for funds in respect of redemptions of CBLOs on such days shall be combined with the transactions due for settlement on the next business day and the funds obligation in respect of the said Members/Associate Members shall be arrived at accordingly.
  - (iii.) Any interest accruals on account of such delayed settlement shall be recovered by Clearing Corporation from the borrower of funds and the same shall be payable to the lender of funds at the notified rate.
  - (iv.) Clearing Corporation may adjust such interest accruals alongwith redemption obligations due on unscheduled holiday to next business day's obligation of the member.
- 12.3 Clearing Corporation shall in no way be held liable in the event of:
- Failure of the communication systems or failure of payments caused directly or indirectly by equipment or system failure;

- Failure of Settlement Bank to execute its obligations acting in its capacity as settlement bank;
- Failure of Settlement Bank to comply with the instructions sent by Clearing Corporation towards settlement obligations;
- Any other cause beyond the control of Clearing Corporation

12.4 Clearing Corporation shall not be held liable in the event of force majeure, strikes or any other unavoidable event that prevents Clearing Corporation from carrying out its duties pursuant to judicial orders, regulatory provisions, war (declared or undeclared), terrorist acts, general mobilization, earthquakes or any other natural disaster and strikes.

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## CHAPTER XIII: SURVEILLANCE

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- 13.1 Clearing Corporation shall monitor the functionality of the dealing system during dealing hours and compliance with all provisions of the terms and conditions. Clearing Corporation shall take all measures necessary for the smooth operation of functions and orderly dealing;
- 13.2 In order to ensure orderly system functionality, the commencement of dealing may, at the instance of Clearing Corporation, be postponed or dealing hours may be extended;
- 13.3 In the event of technical problems, Clearing Corporation shall temporarily suspend the access to system for a Member/Associate Member or all the Members/Associate Members;
- 13.4 In the event of respective measures which considerably affect the operation of the System, the Members/Associate Members affected thereby shall, to the extent possible, be promptly notified thereof via the System or, in the case of a system failure, by other suitable electronic means;

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## CHAPTER XIV: REPORTS

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- 14.1 Clearing Corporation shall, at its absolute discretion, decide the mode and manner of delivery/receipt of reports to/from its Members;
- 14.2 Clearing Corporation shall, at daily/monthly intervals, generate such reports as are required and place the same on its INFINET Report Server and/or web based report server to facilitate the Members/Associate Members to download the same;
- 14.3 Clearing Corporation shall have the absolute discretion to make changes in the Report formats as it may consider necessary from time to time;

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## CHAPTER XV: MISCELLANEOUS

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### **Suspension rights of Clearing Corporation / Clearcorp**

1. Clearing Corporation / Clearcorp may suspend its members as specified in the Regulations.
2. Managing Director of Clearing Corporation / Clearcorp or a Committee of not less than two officials nominated by the Managing Director (MD) may disable a Member from accessing the facilities of Clearing Corporation / Clearcorp if in the opinion of the MD or the Committee of officials circumstances exist warranting disablement pending suspension. Provided that, within 4 hours after such disablement, the MD or the Committee of officials as the case may be shall record in writing the reasons for such disablement provided however that the same shall be reported at the next Board or the Committee meeting whichever is earlier. After such disablement, Clearing Corporation / Clearcorp shall communicate the information to other members.

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## **CHAPTER XVI: FEES AND CHARGES**

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### **16.1 Schedule of Fees and Charges**

16.1.1 The Board or any other Committee appointed by the Board or Official(s) of Clearing Corporation authorised by the Board in that behalf may prescribe the scale of fees, charges and/or additional charges payable by Members/Associate Members from time to time;

16.1.2 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 and/or additional charges and effect such changes in the same as it considers necessary;

16.1.3 The revised fees and charges, as and when made effective, shall be payable by the Member/Associate Member;

16.1.4 Notwithstanding anything contained above, the charges payable by the Member/Associate Member shall be notified by Clearing Corporation from time to time.

### **16.2 Bills for Fees and Charges**

16.2.1 Clearing Corporation shall forward to its Member/Associate Member the monthly bills relating to usual fees and charges;

16.2.2 Clearing Corporation shall notify to its Member/Associate Member at monthly intervals on the first business day of every month, the fees and charges in respect of the transactions in CBLO Segment for the immediate preceding month;

16.2.3 The Member/Associate Member shall verify their monthly billings and notify Clearing Corporation of discrepancies, if any, with all necessary details, not later than two days from the date of notification of the relative bill.

**16.3 Recovery of Fees and Charges**

16.3.1 The Member/Associate Member shall effect payment of fees and charges payable by them to Clearing Corporation by the 10<sup>th</sup> day of the subsequent month in the manner notified by Clearing Corporation from time to time (or by the subsequent business day in the event of 10<sup>th</sup> being a non-business day).

16.3.2 Non-payment of fees by due date shall attract additional charges by the said Member/Associate Member at the rate notified from time to time in addition to any other disciplinary action as decided by Clearing Corporation;

16.3.3 The additional charges shall be payable by the Member/Associate Members in such manner as notified by Clearing Corporation from time to time.

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**CHANGES IN TIME PRIORITY ON MODIFICATION OF  
ORDER ATTRIBUTES**

**A. AUCTION DEALING (applicable for Bidders only)**

Sl.No.	Attributes	Modifiable (Yes/No)	Retains time priority
1	Instrument ID	No	Not Applicable
2	Order Type	No	Not Applicable
3	Amount	Yes	If amount increases, then time priority changes. Else, no change in time priority.
4	Yield	Yes	No

**B. NORMAL DEALING (Applicable for both Offerers and Bidders)**

Sl.No.	Order Conditions	Modifiable (Yes/No)	Retains Time Priority
1	Instrument ID	No	Not Applicable
2	Order Type	No	Not Applicable
3	Amount	Yes	If amount increases, then time priority changes. Else, no change in time priority.
4	Disclosed Amount	Yes	If amount increases, then time priority changes. Else, no change in time priority.
5	AON Condition	Yes	No
6	Minimum Fill	Yes	No
7	Yield	Yes	No
8	Time Condition	Yes	Yes (only “Day” to be modified to “IOC”)