



**Consultation Paper on Members Collateral Contribution
Proposed Changes in Collateral Contribution Process**

1. Introduction :

- 1.1. Clearing Corporation of India Limited (CCIL) acts as a Central Counterparty (CCP) for all secondary market transactions (outright, market repo and triparty repo) in Government Securities, Foreign exchange and Derivatives markets. As a central counterparty, it mitigates the counterparty risk in the system through robust margining processes. Reserve Bank of India granted CCIL the status of a Qualified Central Counterparty (QCCP) in January 2014. As a Financial Market Infrastructure (FMI), CCIL adheres to the Principles for Financial Market Infrastructures (PFMIs) issued by the Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO). CCIL is also assessed by RBI based on compliance with the PFMI guidelines for Central counterparty.
- 1.2. CCIL commenced CCP Clearing in Securities Settlement and Forex (Rupee / USD) settlement with separate Settlement Guarantee Funds (SGF) for each segment. Members are required to contribute INR cash, government securities, and USD cash in the Settlement Guarantee Fund (SGF) separately for Securities and Forex segment respectively towards their margin requirements.
- 1.3. As CCIL subsequently introduced additional settlement segments viz; CLS, Derivatives and Forex Forward, the unutilized margin available in member's Securities Segment SGF is used towards its margin requirements for the above Segments instead of creating separate SGF for each segment. This approach was implemented to achieve optimized and efficient utilization of member's SGF instead of creating separate SGF for each segment.
- 1.4. CCIL has introduced Clearing Member structure in Securities Segment for Outright and Repo trades and Tri party Repo trades separately, wherein members are required to make collateral contributions for each individual constituent or for Group of constituents (LSOC). Such Collaterals are maintained by CCIL in a constituent wise segregated manner under its Clearing Member separately for Outright and Repo trades and Tri party Repo trades. This



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approach was implemented to ensure the collateral deposited by the constituents are protected in the event of a default by any Clearing Member. The Clearing Member structure has now been extended to Derivatives and Forex Forward segments also.

2. PROPOSAL

2.1 Currently, management of all the collateral in various segments such as G-Sec (Outright and REPO), Forex and Derivatives is operated from the Securities Segment SGF as historically any entity desirous of becoming a member in any segment is required to take membership of Securities Segment as a condition precedent to operate in other segments.

In this context, firstly, it may be noted that in the initial stages of operation of CCIL, such an arrangement was required to ensure ease of operations to the member community who were not required to deposit and withdraw collateral from each segment. However, with the growth of activities resulting in creation of various segments over a period, a need has arisen to delink the Collateral Management from the Securities Segment and make it a common structure across segments.

Secondly, with the recently created Clearing Member structure in all the segments, entities which desire to operate in any of the Payment Systems can come through any Clearing Member seamlessly without the need to become a Member/Constituent in Securities Segment which is currently required, if Collaterals are centrally managed by CCIL.

Further, current Members of Securities Segment who desire to join as a Constituent of a Clearing Member in other segments such as Derivatives or Forex Forward may do so if the Collaterals are maintained in a separate Common Pool. The Clearing Member shall contribute collateral for its Constituent in that segment.

2.2 There are two alternate ways of managing the collateral. The first one is to have a separate Collateral structure for each segment. Under this model, members may deposit and withdraw the collateral for each segment separately. This may put the members to a lot of hardship. The other option of having a Common Collateral structure may enable ease of operations with least inconvenience to the members. The Segment Agnostic SGF need not be tagged to any specific segment and can be managed in a common collateral pool for the member and its constituents. Such Segment Agnostic SGF contribution by the Clearing Member for a Constituent could be utilised for the constituent in any of the segments in which it has been registered as a constituent under the Clearing Member.



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- 2.3 Keeping in view the optimum use of common collateral in multiple segments, it is now proposed to make collateral contribution **Segment Agnostic** wherein the collateral contributions shall be to a common pool. The Member of any of the segment(s) would contribute the collateral to such a common pool for itself and its constituents. The margin requirement for all Segments would be drawn from such a common pool similar to the extant SGF. The common pool proposed shall be identified as “**Member Common Collateral**” (**MCC**). The operational process flow for cash/ security deposit as well as for withdrawal shall remain the same as is hitherto followed for SGF. The required cash component, interest payable on eligible cash component and basis for interest payment shall be as per the segment specific Regulations from time to time. .
- 2.4 The MCC model being proposed above will enable entities to avail CCP services provided by CCIL as Member in one or more Segment. This structure will also facilitate constituents to be admitted under Clearing Members in any segment. Further, at CCIL end, the constituent under Clearing Member would be registered only under the related segment. Relevant Reports/Queries related to Collateral available to Members shall undergo requisite changes/tagging to reflect the Members contribution to MCC. Similarly, reports related to margin utilization from MCC are also proposed to reflect relevant changes.
- 2.5 Segments i.e., Tripartite Repo and Forex USD/INR segments at present requires specific Collateral contribution by Member as per respective segment requirement, which shall continue unchanged as specified by CCIL in terms of its Bye-laws, Rules and Regulations.
3. Members are requested to peruse the proposal. Comments and feedback, if any, on the proposed MCC may be sent to us latest by 15th September 2022 at “irs@ccilindia.co.in”, “cfm@ccilindia.co.in”, OR “mcm@ccilindia.co.in” with Subject: “Change in Collateral Contribution Process of SGF”.
4. If any clarification is required on any aspect of this paper, please feel free to contact us on 022-6154 6348 / 6490 / 6481 / 6470 / 6589
