

THE CLEARING CORPORATION OF INDIA LTD.

REGULATIONS

Rupee Derivatives Segment and Rupee Derivatives (Guaranteed Settlement) Segment

CHAPTERS

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Updated in September 2019

DEFINITIONS

The following terms used in these Regulations shall have the meanings therein specified for the purpose of these Regulations.

- 1) **Allocation of Defaulter's portfolio:** Allocation shall mean allocation of part/ whole of the Defaulter's Portfolio to non-defaulters at a price determined by Clearing Corporation.
- 2) **Assessment Calls:** Assessment calls shall mean resources called from non-defaulting Members to replenish the Default Fund when losses on default handling exceed Prefunded Default Handling Resources.
- 3) **Auction:** An auction shall mean an auction of the Defaulter's Portfolio.
- 4) **Auction Pool / Bucket:** Where the Defaulter's Portfolio has been split into multiple portfolios to enhance the efficiency of the auction process, each such portfolio shall be referred to as an Auction pool / bucket. Where the defaulter's entire portfolio is auctioned without any split, such portfolio will constitute a single Auction pool / bucket.
- 5) **Cash flow date:** Cash flow date is the date on which payment obligations of members are due for settlement.
- 6) **Close-out** is a process of determining payment obligations before the date of settlement of concerned trades as per the process set out in Chapter VII – Settlement Shortage & Defaults.
- 7) **Default Management Committees (DMC):** Default Management Committees (DMC) shall mean committees established by the Clearing Corporation for purposes of advising and assisting the Clearing Corporation in administration / management / handling of a default by a Member and in other related matters. Each DMC is governed by the provisions set forth in Chapter XVI of Regulations of this segment.

- 8) Default Management Period:** A Default Management Period shall mean the period commencing on the day that Clearing Corporation declares a Member as defaulter, and shall conclude on the Default Management Period End Date.
- 9) Default Management Period End Date:** The Default Management Period End Date shall mean the Business Day following the declaration by the Clearing Corporation that:
- (a) a matched book as provided for in para D E II) A) (4) of Chapter VII of these Regulations has been restored and close-out as provided for in para D E II) B) of Chapter VII of these Regulations has been completed and the obligations, losses or expenses incurred or sustained by the Clearing Corporation in connection with the default of Member(s) are known, or can reasonably be determined, and have been satisfied or settled; and
 - (b) any of the actions, rights or remedies available to the Clearing Corporation with respect to the default of any Member that were deemed necessary by the Clearing Corporation have been taken and duly completed;
- 10) Defaulter's portfolio:** Defaulter's portfolio shall mean and include the positions of the Defaulter accepted for clearing and settlement and may include hedge trades (if there be any) done to neutralize partially/ fully the market risk of such positions.
- 11) Effective Date:** Effective date is the date on which the parties to the Rupee Derivative contract begin calculating accrued obligations, such as fixed and floating interest payment obligations. The Effective Date shall be the first Mumbai Business Day (excluding Saturday) after the Trade Date for all the benchmarks except for the "INR-MIFOR" benchmark for which the Effective Date shall be the second Mumbai Business Day (excluding Saturday) after the Trade Date.
- 12) Exposure Check** shall have meaning ascribed to such term in Regulation G1 of the Chapter IV.
- 13) FIMMDA:** The Fixed Income Money Market and Derivatives Association of India.

- 14) Forward Rate Agreement:** A forward Rate Agreement is a financial contract between two parties to exchange interest payments for a notional principal amount on settlement date, for a specified period from start date to maturity date. Accordingly, on the settlement date, cash payments based on contract (fixed) and the settlement rate, are made by the parties to one another. The settlement rate is the agreed benchmark/reference rate prevailing on the settlement date.
- 15) INBMK Indian Benchmark Rate.**
- 16) Institutional Entity:** An entity regulated by Reserve Bank of India(RBI), the Securities Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI), the Pension Fund Regulatory and Development Authority (PFRDA) and the National Housing Bank (NHB) and belonging to the class of entities permitted by RBI to undertake transactions in Interest Rate Swaps.
- 17) An Interest Rate Swap** is a financial contract between two parties exchanging or swapping a stream of interest payments for a notional principal amount on multiple occasions during a specified period. Such contracts generally involve exchange of fixed to floating or floating to floating rates of interest. Accordingly, on each payment date-that occurs during the swap period-cash payments based on fixed/floating and floating rates, are made by the parties to one another.
- 18) Juniorisation:** Juniorisation is a process whereby for each auction pool, the Clearing Corporation shall rank non-defaulting Members based on their performance in auction such that the Default Fund contributions of some non- defaulting Members are appropriated prior to that of others.
- 19) Market-maker:** An entity permitted by the RBI to undertake market making activity by providing bid and offer prices to market participants. A market-maker need not have an underlying risk to be hedged.
- 20) Matched Book:** Clearing Corporation shall be said to have a matched book when its obligations to some Members arising out of trades cleared by it are matched by obligations of remaining Members to the Clearing Corporation on account of such trades.

- 21) **MIBOR:** Mumbai Inter Bank Offer Rate
- 22) **MIFOR:** Mumbai Inter Bank Forward Offer Rate
- 23) **MIOCS:** Mumbai Inter-Bank Offered Currency Swaps
- 24) **MIOIS:** Mumbai Inter-Bank overnight indexed Swap
- 25) **MITOR:** Mumbai Interbank Tom Offer Rate
- 26) **Multi-unit Discriminatory Price Auction:** Multi-unit Discriminatory Price Auction shall mean an Auction where multiple identical units of each Auction Pool are made available and considerations paid/ received by winning bidders are at prices at which the bidders have won their respective units fully/partially.
- 27) **Notional Principal:** Notional principal or notional amount, of a rupee derivative contract is a hypothetical underlying quantity upon which interest rate or other payment obligations are computed.
- 28) **Portfolio Compression:** Portfolio Compression is a way to i) reduce the number of outstanding contracts (and therefore gross notional amounts) in OTC derivative portfolios without significantly altering the risk profiles of the portfolios of individual participants and (ii) involves identification of economically redundant trades for early full or partial termination subject to the parameters defined by the individual participants of the exercise.
- 29) **Prefunded Default Handling Resources:** Prefunded Default Handling Resources shall mean and include Defaulter's resources with Clearing Corporation, Clearing Corporation's contribution earmarked for the segment from its Settlement Reserve Fund and non-defaulters' default fund contribution.
- 30) **Replenishment Level** shall have meaning ascribed to such term in Regulation A2 of Chapter VI- Margins.

- 31) Reserve Price:** Reserve price shall mean the lowest payment that the Clearing Corporation shall be willing to receive from a Member or the highest payment that it shall be willing to pay to a Member in case of a hedging transaction or to a winning member in an Auction.
- 32) Reset Date:** The reset date is the date on which floating interest rate for the next payment period is decided and fixed. Reset date is one Mumbai business day (excluding Saturday) before the cash flow date for all the benchmark trades except for MIFOR benchmark trades for which the reset date is two business days before the cash flow date.
- 33) Reversal i.e. Early Termination Date:** Reversal i.e. Early termination date is any date before the actual maturity date of the Rupee Derivative contract on which both the counterparties agree to terminate the relevant Rupee Derivative contract.
- 34) Rupee Derivatives Dealing System:** “Rupee Derivatives Dealing System” means the electronic system made available by Clearcorp to the members in respect of Rupee Derivative Transactions in terms of the provisions of its Bye-laws, Rules and Regulations of Clearcorp.
- 35) Single-unit Auction:** Single-unit Auction shall mean an Auction where an Auction Pool will be available as a single unit.
- 36) Tearing-Up of trades:** Tearing-up of trades shall mean the process of closing out of Trades before the termination date where such close-out is initiated by the Clearing Corporation as part of its Default Management Process.
- 37) Tenor:** The tenor indicates the life span of the Rupee Derivative contract.
- 38) Termination Date:** Termination date is the date on which the Rupee Derivative contract matures.
- 39) Trade Date:** Trade Date is the date on which the parties enter into or agree to the terms of the Rupee Derivative contract.

40) User: A user is an entity that participates in the derivatives market to manage an underlying risk. For the purposes of this arrangement, users shall mean Institutional Entities.

CHAPTER I : INTRODUCTION

The Regulations shall be known as The Clearing Corporation of India Ltd (Rupee Derivatives Segment) Regulations 2010 and as amended in September 2019.

APPLICABILITY

These Regulations shall be applicable to all Members admitted to the Rupee Derivatives Segment and the Rupee Derivatives (Guaranteed Settlement) Segment of The Clearing Corporation of India Ltd. The Rupee Derivatives Segment consists of Trade Processing Services and Non-Guaranteed Settlement Services.

CHAPTER II : MEMBERSHIP

A) APPLICATION FOR MEMBERSHIP

1. Entities permitted by Reserve Bank of India to enter into Rupee Derivatives Trades and satisfy the relevant membership eligibility criteria of Clearing Corporation shall be eligible to seek membership to Rupee Derivatives Segment of Clearing Corporation;
2. Entities which are Members of Rupee Derivatives Segment of Clearing Corporation and also Members of Securities Settlement Segment of Clearing Corporation shall be eligible to seek membership of Rupee Derivatives (Guaranteed Settlement) Segment of Clearing Corporation;
3. Eligible entities desirous of availing the facility of Central Counterparty Clearing of their trades in Rupee Derivatives shall submit an application in the prescribed format to Clearing Corporation complete in all respects together with all requisite enclosures as required to be submitted in terms of the Application Form;
4. Entities admitted in terms of A (1) above, shall unless otherwise notified, be eligible on application to avail the facility of Non-Guaranteed Settlement

B) PROCESSING OF APPLICATIONS

1. Every such application received, in terms of sub-Regulation A above, shall be submitted to the Approving Authority for consideration;
2. Clarifications and/or additional information sought by the Approving Authority shall be conveyed to the applicant. Such applications shall be processed only upon receipt of complete particulars called for by the Approving Authority;
3. Mere submission of completed application forms and/or additional information sought by the Approving Authority does not confer by itself automatic right for any applicant to claim grant of Membership to Clearing Corporation;
4. Upon receipt of approval of the Approving Authority, Clearing Corporation shall communicate such approval to the applicant with a request to complete the other formalities outlined in these Regulations;

5. Every applicant, upon receipt of approval of Membership, intending to avail the services of Non- Guaranteed and Guaranteed Settlement through Clearing Corporation shall execute a set of documents in such form and manner as may be prescribed by Clearing Corporation. Such execution shall be carried out by duly authorized signatory (ies).
6. By submitting the application, the applicant shall be deemed to have given consent to Clearing Corporation for disclosure of all or any information relating to derivative transactions that are concluded by the applicant with counterparties which are branches of banks in other jurisdictions, to any Swap or Trade data Repository or Regulators, in India or other jurisdictions, to whom disclosures are required to be made to the extent required or permitted by applicable laws.

C) MEMBERSHIP ID

1. Every applicant admitted as a Member of Clearing Corporation shall be allotted Membership ID or shall use the existing Membership Id as directed by Clearing Corporation;
2. Every Member shall incorporate the Membership ID in all trades reported to Clearing Corporation for Clearing and Settlement;
3. Every Member shall incorporate the Membership ID in all its communications to Clearing Corporation;
4. Non-incorporation of Membership ID by a Member in any trade or communication shall absolve Clearing Corporation of all liabilities or consequences of inaction by Clearing Corporation;
5. Every Member shall ensure that incorporation and/or use of its Membership ID is restricted to its authorized personnel only;
6. 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.

D) CLEARING MEMBER:

A Member may be admitted as a Clearing Member for Clearing and Settlement of the trades in this segment. Such Member would be entitled to clear and settle Rupee Derivatives trades of its constituents in terms of the policies and procedures to be notified by Clearing Corporation effective from a date notified by Clearing Corporation.

E) RESIGNATION FROM MEMBERSHIP:

1. A Member who:

- i) is not a Defaulter;
- ii) has met all margin calls; and
- iii) has replenished **its** Default Fund contribution in respect of calls made on or before the Resignation Request Date (as defined in Clause E2 below);

shall have the right to resign from Rupee Derivatives (Guaranteed Settlement) if it satisfies either of the following conditions:

- a) If a Member has no outstanding trade as accepted by Clearing Corporation (hereinafter referred to as “Outstanding Trades”) for two previous months; or
- b) If the Member has incurred a loss through replenishment of its contribution to the Rupee Derivatives Guaranteed Settlement Default Fund and the specified loss threshold as notified by Clearing Corporation from time to time in this respect has been reached.

Provided however that a member seeking to resign under clause **E (1) (a)** may be granted exemption from the requirement of not having any outstanding trades accepted for settlement in the previous two months if such resignation is on account of its merger / amalgamation with or its acquisition by another entity which is a member of CCIL in this segment and the merged/amalgamated or acquiring entity has given an undertaking to CCIL stating its intention to take over all obligations of the resigning member including its obligations towards the Default Fund arising out of the provisions of Chapter IX, ‘Default Fund’ of these Regulations.

2. A Member resigning under E1 (a) shall have to give prior notice in writing to the Clearing Corporation clearly indicating its decision to resign from the Rupee Derivatives Guaranteed Settlement Segment.

The notice shall be effective on the Resignation Request Date, which for the purpose of this segment shall be the date on which such written notice is received by Clearing Corporation when delivered by such Member in person or by courier, or by a registered mail (with a return receipt requested).

Clearing Corporation shall promptly notify other Members of this segment about the resignation request received. Such request for resignation under E1 (a) shall be approved or rejected by the Managing Director of Clearing Corporation or by an official so authorized by the Managing Director within 2 business days from the Resignation Request Date, based on the fulfillment or otherwise of the conditions for resignation by the member. The resignation shall come into effect from such date of approval by the Managing Director of Clearing Corporation or by an official so authorized by the Managing Director or in the absence of such approval or rejection, it shall be deemed to be approved at the end of 2 business days from the Resignation Request Date.

The resigning Member shall be entitled to also receive any amount lying as its contribution to the Default Fund Account for this segment after adjusting all dues owed by it to Clearing Corporation in terms of its Bye-laws, Rules & Regulations.

3. A Member desiring to resign under clause E1 (b) above shall have to give prior notice of 30 calendar days to the Clearing Corporation in writing clearly indicating its decision to resign from the Rupee Derivatives (Guaranteed Settlement) Segment.

Clearing Corporation shall promptly notify other Members of this segment about the resignation request received.

The resigning Member shall then be required to close-out all its Outstanding Trades as of Resignation Request Date within such notice period. The process of close-out for such trades shall be as notified from time to time by Clearing Corporation. If the Member has not been able to close-out all its Outstanding Trades within such notice period, the Member shall have the following options:

- a) it can seek extension of time by another 30 calendar days from Clearing Corporation and close-out its remaining Outstanding Trades within the extended period. However, if in the opinion of Clearing Corporation, such extension may be used by the Member to disrupt the settlement system, it shall be entitled to refuse any such extension.
- b) when at least 90% of its Outstanding Trades in value terms are closed-out, within the first 30 days or the extended period as the case may be, the member may request Clearing Corporation to close-out the remaining Outstanding Trades.

Clearing Corporation shall close-out these remaining Outstanding Trades with the original bilateral counterparties of the resigning member after notifying the counterparties at least one business day in advance. Such close-out shall be effected at a price to be notified in this behalf by Clearing Corporation from time to time.

- c) Bilateral counterparties with whom trades are closed-out in terms of sub-clause (b) may enter into new trades so to cover the open position resulting from such close-out in the market and report the same to Clearing Corporation. Such intimation shall be sent to Clearing Corporation in the prescribed format on the next business day after the close-out. The loss if any incurred by the bilateral counterparties shall be borne by the exiting Members, who shall within [one hour] of notice to them (exiting Member) by Clearing Corporation or within such extended time period as the Clearing Corporation may in its discretion upon request from the exiting Member agree, deposit the amount in cash with Clearing Corporation which shall then be passed to the bilateral counterparty which incurred the loss. Provided, however that if such claim is raised by Clearing Corporation in the last business hour of the day, the exiting Member shall be liable to pay during the first hour of the next business day. In case of any non-payment of the amount, the exiting Member will be declared as a defaulter and shall lose the option to exit.
 - d) Provided that the rate at which the bilateral counterparty has entered into any of the trades mentioned in (c) above is identified as the outlier by Clearing Corporation, the exiting Member shall not be liable for the loss. The decision of Clearing Corporation in regard to admissibility of loss in these circumstances shall be final and irrevocable.
4. All requests for resignation under clause E1 (b) shall be approved by the Managing Director of Clearing Corporation or by an official so authorised by the Managing Director, based on the fulfillment or otherwise of the conditions for resignation by the member after the Member has closed-out all its Outstanding Trades within the specified 30 days notice period or within the extended period and upon the fulfillment of all the requirements under clause E(3). Such request for resignation may be rejected by the Managing Director of Clearing Corporation or by an official so authorized by the Managing Director in case the Member has not fulfilled any obligations or liabilities arising out of or incidental to any Trades under the segment in terms of the Bye Laws,

Rules and Regulations of Clearing Corporation. In the event of such rejection, the reasons for such rejection shall also be communicated to the Member.

If said resignation is not rejected or if such approval is not given by the end of the day of the Member's closing out of all its outstanding trades (including the closing out in terms of sub-clause E(3)(b)), it shall be deemed approved at the end of such day. Such resignation shall however come into effect from the end of the day upon the acceptance by Clearing Corporation of the trades generated out of the close-out process. The resigning Member shall thereupon be entitled to receive any amount lying to the credit of its Default Fund account for this segment after adjusting for other dues to Clearing Corporation.

5. If the Member fails to close-out all its Outstanding Trades in accordance with clause E(3) above, the resignation notice shall automatically become null and void.
6. The procedure as specified in Chapter IV- Rule 7-Resignation of CCIL Rules, shall not apply to the Member resigning as per the clause E of this Chapter.

CHAPTER III : Settlement Guarantee Fund

The provisions of this chapter shall be applicable only to Members of Rupee Derivatives (Guaranteed Settlement) Segment.

A. PURPOSE

1. Clearing Corporation shall be entitled to call for and maintain a Settlement Guarantee Fund (hereinafter referred to as “SGF”) in respect of its Rupee Derivatives (Guaranteed Settlement) Segment as a part of its risk management process to cover risks arising out of any default by Members;
2. Clearing Corporation may, however, consider the unutilized portion of Securities Segment SGF towards margins for Rupee Derivatives (Guaranteed Settlement) Segment. In such an event, a Member shall be deemed to have authorized the Clearing Corporation to utilize the unutilized portion of Securities Segment SGF towards margins for Rupee Derivatives (Guaranteed Settlement) Segment. Such margins for the Rupee Derivatives (Guaranteed Settlement) shall be blocked out of the unencumbered SGF available as per procedure notified from time to time.
3. Such SGF shall be utilized for such purpose as provided in the Bye-Laws, Rules and Regulations of Clearing Corporation including towards meeting default obligations/deficiencies and/or any other dues arising out of Clearing and Settlement operations undertaken by Clearing Corporation as part of its day to day operations.

B. COMPOSITION

1. Contributions by Members to the SGF shall be in the form of cash and/or eligible Government securities or in any other form as may be specified by Clearing Corporation from time to time ;
2. Every Member shall contribute a minimum specified amount as Initial Margin and such other margin as prescribed from time to time by Clearing Corporation to trade on Rupee Derivatives Dealing System.
3. Clearing Corporation may require every Member to contribute the minimum specified margins in the form of cash and balance in the form of eligible securities. The proportion of the cash to eligible securities to be maintained by a Member shall be notified by Clearing Corporation from time to time. Clearing

Corporation may, however, permit its Members to deposit their entire contributions to SGF in the form of cash.

4. The proportion of Cash to Securities to be maintained by the Member may be changed after due notification by Clearing Corporation from time to time;
5. The unutilized portion of Securities Segment SGF utilized towards margin obligation of Rupee Derivatives (Guaranteed Settlement) Segment, in terms of sub-Regulation A2, above shall cover obligation towards Initial Margin, Mark to Market Margin and/or any other margin that may be prescribed as per the Risk Management Process for Rupee Derivatives (Guaranteed Settlement) Segment;
6. A Member shall at all times ensure that its contribution to Securities Segment SGF are adequate to cover risk exposure on its outstanding Rupee Derivative trades accepted by Clearing Corporation on behalf of the Member as specified in Chapter VIII relating to “Risk Management” in these Regulations;

C. ELIGIBLE SECURITIES

1. Clearing Corporation shall specify the list of eligible securities which shall qualify for contribution to SGF. The list of securities eligible for such contribution shall be notified by Clearing Corporation from time to time. Securities declared as ineligible for Securities Segment SGF contribution shall not be reckoned for margin of such Member towards Rupee Derivatives Segment from the effective date of such ineligibility;
2. Clearing Corporation may, through notification from time to time, specify the type of security(s) including the maximum contribution to be made available in the form of a single security or group of securities that a Member may contribute to SGF towards margin requirements.

D. CONTRIBUTION TO SGF

1. A Member shall be required to contribute to SGF before Clearing Corporation accepts Trades from the Member for Clearing and Settlement;

2. The SGF contribution of a Member shall cover its margin obligations towards initial margin, MTM margin and/or any other margin that may be prescribed in Chapter VIII relating to “Risk Management” in these Regulations;
3. The provisions governing the administration of the SGF, including receipt and withdrawal of securities and cash contributions, investment of the fund and corporate actions thereon shall be governed by the Regulations of Clearing Corporation, relating to the Securities Settlement segment, except to the extent specified herein.

E. INTEREST ON CASH MARGIN:

1. 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 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.
2. 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 from time to time after due notification to the Members.

CHAPTER IV : PROCESSING OF RUPEE DERIVATIVE TRADES

The provisions of this chapter are applicable for processing services for trades reported by all Members of the Rupee Derivatives Segment including Members opting for guaranteed settlement of Clearing Corporation, unless stated otherwise.

A.ELIGIBLE TRADES

- a) Clearing Corporation shall accept the following Rupee Derivatives Trades:
 - i) Interest Rate Swap
 - ii) Forward Rate Agreement

- b) Clearing Corporation may, from time to time, notify the type of trade eligible to be included under its Rupee Derivatives Segment;

- c) Clearing Corporation may, from time to time, notify the type of trades including the benchmarks eligible to be included under its Rupee Derivatives (Guaranteed Settlement) Segment;

- d) All trades as notified in Rupee Derivatives Instruments concluded between the Members of Rupee Derivatives Segment that have the status as matched shall be accepted for processing;

- e) Clearing Corporation shall, from time to time, notify the features like Minimum Notional Principal Amount, Tenor, Effective Date, Reset dates, Floating Benchmark Rates etc for each type of Rupee Derivatives trade.

B.ACCEPTANCE OF TRADES:

1. Clearing Corporation shall receive details of Trades reported by Members of Rupee Derivatives Segment in a prescribed format over INFINET or any other form/manner as deemed fit and notified by Clearing Corporation. Clearing Corporation may also accept eligible trades reported by the Members of Rupee Derivatives Segment to the CCIL Trade Repository (CCIL TR) and Members shall be deemed to have consented to such flow of trades for Clearing and Settlement. Clearing Corporation shall accept such Trades reported by the Members for processing;
2. The trades matched as per sub clause B(1) above shall hereinafter be called Trade For Processing (TFPR).Status of "TFPR" refers to trades that are not eligible for

Guarantee by Clearing Corporation. The Trades with status "TFPR" shall however be eligible for settlement through Clearing Corporation on a non-guaranteed basis if both the counterparties have availed the facility of non-guaranteed settlement.

3. Clearing Corporation shall receive details of trades reported by Members of Rupee Derivatives (Guaranteed Settlement) Segment in a prescribed format over INFINET or any other form as deemed fit and notified by Clearing Corporation. Clearing Corporation may also receive eligible trades reported by the Members of Rupee Derivatives Segment to the CCIL Trade Repository (CCIL TR) and Members shall be deemed to have consented to such flow of trades for Clearing and Settlement. Clearing Corporation shall accept eligible trades reported by the Members of Rupee Derivatives (Guaranteed Settlement) Segment for Clearing and Settlement;

4. Clearing Corporation shall directly receive trades concluded on the Rupee Derivatives Dealing system in the Rupee Derivatives (Guaranteed Settlement). Trades received from the Rupee Derivatives Dealing System shall be eligible for clearing and settlement by Clearing Corporation from the point of acceptance of the trade by Clearing Corporation;

5. Clearing Corporation shall subject all those trades accepted as per sub regulation B (3) and B (4) above to Exposure Check on an online basis in order to verify that margin available to the credit of the Members are adequate to provide risk cover for guaranteed settlement for such matched trades as per Chapter VIII on Risk Management.

C.TIMINGS

1. Members shall be governed by the prevalent RBI notification for reporting of deals / trades. However, for reporting of amendments, cancellations and reversals of deals / trades and for various other activities incidental to the processing, a separate time schedule will be notified by Clearing Corporation from time to time.
2. Clearing Corporation may modify time schedules for the various activities prescribed in sub-Regulation C (1) above, and notify the Members of such changes at least seven business days before such changes shall take effect; Provided however that Clearing Corporation may, if it is of the opinion that it is in interest of the market, reduce the notice period.

3. The Member shall adhere to the time schedules prescribed as above. Clearing Corporation shall not be bound to accept deals received after the cut-off times prescribed and shall not be responsible for any consequences arising as a result of non-acceptance of such deals.

D. NEW TRADES: VALIDATION AND MATCHING OF REPORTED DEALS

1. The deals reported by Members shall be validated to ensure that:
 - (i) Both the counterparties to the trade are Members of Rupee Derivatives Segment; Counterparties to trades undertaken with Institutional Entities, shall be market makers.
 - (ii) No information as required in the format prescribed is omitted;
 - (iii) The dates reported are valid business days as notified by Clearing Corporation.

These validations shall be applicable for both trades reported only for processing and to trades reported for settlement on a guaranteed and non-guaranteed basis.

2. Clearing Corporation shall, after successful validation of deals received from both the Members, match the deals to form a trade and generate a unique Trade ID for each such trade;
3. Clearing Corporation shall reject those deals which do not satisfy validation checks under advice to Members;

E. REJECTION OF REPORTED DEALS

Clearing Corporation shall be entitled to reject the deals reported to it by Members for any valid reason such as:

- a. Inaccurate information such as incorrect Membership ID, invalid dates etc.;
- b. If deal is reported beyond cut-off time as notified by Clearing Corporation;
- c. When an amendment, cancellation or reversal (i.e. early termination) is reported for an already rejected trade.
- d. Where at least, one of the parties to the trade is not a market maker.

- e. Any other reason as deemed fit by Clearing Corporation under advice to the Member.

F. AMENDMENT / REVERSAL (i.e. EARLY TERMINATION) / CANCELLATION OF TRADES

1. Amendment/reversal (i.e. early termination)/cancellation instruction, if any, reported by the Members, after the original Trade has been matched shall be acted upon only if the amendment/reversal (i.e. early termination)/cancellation instruction is received from both the counterparties to the trade within the time limit prescribed for the purpose of reporting such instructions, failing which Clearing Corporation shall proceed with the original matched Trade;
2. For Members of Rupee Derivatives (Guaranteed Settlement) Segment, Clearing Corporation shall subject to Exposure Check any amendment/reversal (i.e. early termination)/cancellation to trades already accepted for settlement in order to verify that the margin available to the credit of both the counter-party Members are adequate to meet the margin requirement on the resultant position. For reversals (i.e. early terminations), the cash flows due on such early terminations will also be taken into consideration for assessing margin adequacy on the resultant position;
3. Amendments/Cancellations/Reversals (i.e. early terminations)if any, reported by the Members of Rupee Derivatives (Guaranteed Settlement) Segment in respect of trades accepted for settlement, shall be acted upon only if the resultant position also passes Exposure Check, failing which Clearing Corporation shall proceed with the original matched Trade.

G. EXPOSURE CONTROL AND ACCEPTANCE OF TRADES IN RUPEE DERIVATIVES (GUARANTEED SETTLEMENT) SEGMENT

1) Clearing Corporation shall subject all eligible matched trades to verification of adequacy of margins for both Members to a trade on a trade by trade basis. This process is termed as 'Exposure Check'. Eligible matched trades shall include all trades that satisfy conditions in Chapter IV (A) of these Regulations whether reported and matched or concluded on the Rupee Derivatives Dealing System. Trades which pass through Exposure Check shall be novated for guaranteed settlement by the Clearing Corporation.

2) Trades which fail to pass through Exposure Check shall remain in queue as “Pending Exposure”. Exposure validation for such trades shall continue to be performed on an ongoing FIFO basis until a notified number of days before the Cash Flow Date. If a trade fails to pass Exposure Check even at that stage, such a trade shall be classified as “Trade For Processing” (TFPR);

3) Unless stated otherwise, TFPR trades shall also consist of the following:

- a) Trades (including amended trades) which do not pass through Exposure Check and remain as pending exposure for a notified number of days after matching;
- b) Trades which remain as pending exposure until a certain number of days before the Cash Flow Date as notified by Clearing Corporation;
- c) Either counterparty to a trade has not opted for guaranteed settlement of Clearing Corporation;
- d) Any other reason as notified by Clearing Corporation from time to time.

4) The Exposure Check of the reported trades and trades received from Rupee Derivatives Dealing System shall be carried out on an online basis, during the business hours as notified by Clearing Corporation.

5) The margin amount as contributed by the member before commencement of trading on Rupee Derivatives Dealing System shall be appropriated towards the margin obligation required to be fulfilled by a Member in relation to the risk exposures on the matched deals on the Rupee Derivatives Dealing System or on the deals reported directly by members to Clearing Corporation in the order in which such deals are matched.

6) If the margin amount contributed towards the Rupee Derivatives Dealing System is inadequate, the SGF value made available by the Member, if any, shall be blocked towards the balance margin requirement.

7) Void Trades

- a. The trades concluded on the Rupee Derivatives Dealing System are guaranteed by Clearing Corporation in accordance with the bye-laws,

rules and regulations of Clearing Corporation. The trades concluded on Rupee Derivatives Dealing System shall not be treated as cancelled and void under normal circumstances;

- b. Clearcorp, however, under exceptional situations, shall have the right to cancel the trades in case of any system failures at Clearing Corporation or Clearcorp leading to failure of trade acceptance process or where such action is necessary to protect the integrity of the market;
- c. Notwithstanding any other provisions, the Clearing Corporation shall be entitled to treat any trade as void if it believes that the trades are executed at the prices that could adversely affect market integrity or if any trade is cancelled by ClearCorp;
- d. Trades treated as void in such events set out in clause (a), (b) and (c) above shall be void ab initio. No liability whatsoever shall accrue to Clearcorp / Clearing Corporation and/or any of its officials for not clearing and settling such trades in terms of this provision;
- e. Clearing Corporation shall be entitled to recover any liability from any Member arising out of treating the trades as void for the purpose of Clearing and Settlement.

H.HOLIDAY RULES

1. Clearing Corporation shall normally function on all the days, excluding Sundays and those days that are declared as holidays under the Negotiable Instruments Act, 1881 and such other days on which transactions/settlement may not take place as declared by RBI or such other authority;
2. Unless otherwise specified, Saturday shall not be a Business Day for any purpose and regardless of the centre where the deal is transacted, the benchmark and the holiday calendar for the purposes of computation of interest streams shall be as that in Mumbai, except in case of Interest Rate Swap wherein the benchmark is based on the foreign exchange market, for which the holiday calendar of the relevant centre for that currency shall also be applicable;

3. Unless stated otherwise, Clearing Corporation may follow the guidelines issued by the Regulator or such other authority for giving effect to the terms of trade including the Trade Date, effective date, reset date, termination date etc. on such declaration of holidays.

CHAPTER V: SETTLEMENT OF CASHFLOWS OF TRADES

A. SETTLEMENT OF CASH FLOWS UNDER NON-GUARANTEED SETTLEMENT

The provisions of Clause A shall be applicable for the following types of trades, concluded between market makers that have status as matched, provided;

- a) Both the counterparties to the trade have opted for non-guaranteed settlement;
 - b) One of the counterparties to the trade has opted for non-guaranteed settlement and the other counterparty has opted for both non-guaranteed and guaranteed settlement
1. Clearing Corporation shall notify the changes, if any, to the methodology for computation of settlement obligation of trades as set out below;
 2. Cash flows in respect of those trades including payable/receivable amount on reversal (i.e. early terminated) trades which have been matched as TFPR shall be considered for non-guaranteed settlement;
 3. While computing settlement obligation for the Members, Clearing Corporation shall, include the consideration amount as reported by the Members for their reversal (i.e. early terminated) trades to be settled and shall not be responsible for any error on the part of the Member in reporting consideration amount for such trades;
 4. Cash flows in respect of those trades including payable/receivable amount on reversal (i.e. early terminated) trades which have been rejected in terms of Chapter IV (G) (2) of these Regulations shall be settled on a non-guaranteed basis by Clearing Corporation provided both the Members have opted for non-guaranteed settlement
 5. Clearing Corporation shall, at the time of arriving at the settlement obligation of each Member, carry out multi-lateral netting across all applicable trades of the Members;

6. Clearing Corporation shall, at the end of each day, generate Final Obligation Report for each Member for settlement on next business day. The final obligation shall include:
 - a. the settlement obligation arising out of normal trades of the Member;
 - b. the settlement obligation arising out of reversal (i.e. early termination) of trades as reported by Member/s;
7. The Obligations contained in the Final Obligation Report shall constitute binding and conclusive confirmation of the respective Member's settlement obligation for such settlement date position;
8. Settlement Obligation report generated by Clearing Corporation shall:
 - a. contain details of the net position of the Member for a settlement date and shall include all trades accepted for non-guaranteed settlement for arriving at such position;
 - b. deemed to be a Member's confirmation of the different trades for which funds are to be received from and/or paid to the Member on settlement date;
 - c. be Members' instructions to Clearing Corporation for effecting settlement in its RTGS Settlement / Current account at RBI;
9. Clearing Corporation shall, on the day of settlement, generate settlement obligation file which shall be sent to RBI for settlement within the cut-off time as notified by RBI for Rupee Derivatives settlement;
10. Unless otherwise specified, the settlement of funds in respect of Members shall take place through its RTGS Settlement / current account maintained with RBI;
11. Member shall ensure availability of sufficient funds in its RTGS Settlement / current account with RBI;
12. Members may pre fund the settlement obligations as notified by Clearing Corporation from time to time.

13. Shortfall in the account of a Member to meet its fund obligations arising out of its cashflows for a settlement date shall be considered as funds shortage;
14. Fund shortage as per the Sub-Regulation A (13) shall be handled as under:
- a) The shortfall amount shall be allocated to the Member(s) who have funds receivable position (hereinafter called “Allocatee”) on a bilaterally netted basis from the Member who has committed shortage;
 - b) The allocation shall be in the ratio of net amount receivable from the Member who has committed shortage;
 - c) Such allocation may result in revision of the obligation values for the Allocatees as under:
 - i. Reduction in existing payout (receivable by the Member) value or
 - ii. Increase in existing pay-in (payable by the Member) value or
 - iii. Conversion of existing payout to pay-in value.
 - d) Clearing Corporation shall communicate to all the Allocatees about the revised obligation values;
 - e) Allocatees whose receivable position is converted into payable position or allocatees whose payable position has increased as a result of such allocation, shall be required to fund their account with RBI before a specified time on the settlement date as notified from time to time.;
 - f) The revised settlement file shall be sent to RBI for settlement;
 - g) If all pay-ins (payable by the Members) are successfully processed, the payouts or the receivable obligations of the Members shall be paid out;
 - h) In the event of a shortage being encountered in the revised obligation, Clearing Corporation shall abandon the non-guaranteed settlement for the day and the same shall be communicated to concerned Members;
 - i) Clearing Corporation shall not be responsible for the settlement of trades under non-guaranteed settlement.

B. SETTLEMENT OF CASH FLOWS UNDER GUARANTEED SETTLEMENT

The provisions of this Clause B shall be applicable for the trades that are eligible for guaranteed settlement where both the counterparties to the trade have opted for Guaranteed Settlement.

1. Clearing Corporation shall accept for Clearing and Settlement only those matched trades including reversal trades which pass Exposure Checks as mentioned in Chapter IV (G) of these Regulations;
2. Clearing Corporation shall notify the benchmark rates and the methodology for computation of settlement obligation of trades;
3. While computing settlement obligation for the Members, Clearing Corporation shall, include the consideration amount as reported by the Members for their reversal (i.e. early terminated) trades to be settled and shall not be responsible for any error on the part of the Member in reporting consideration amount for such trades;
4. Funds obligation of a Member shall comprise of the obligation in respect of trades which have passed exposure and have cash flows due for settlement for a given settlement date;
5. Clearing Corporation shall, at the time of arriving at the settlement obligation of each Member, carry out multi-lateral netting across all counterparties of the Member;
6. Clearing Corporation shall, at the end of each day, generate Final Obligation Report for each Member for settlement on next business day. The final obligation shall include:
 - a) the settlement obligation arising out of normal trades of the Member;
 - b) the settlement obligation arising out of reversal (i.e. early termination) of trades as reported by Member/s;

7.The Obligations contained in the Final Obligation Report shall constitute binding and conclusive confirmation of the respective Member's obligations. The obligations of the respective Members so determined shall be deemed to be final and irrevocable.

8.Settlement Obligation Report generated by Clearing Corporation shall:

- a. Contain details of the net position of the Member for a settlement date and shall include all trades accepted for Guaranteed Settlement for arriving at such position;
- b. Be deemed to be a Member's confirmation of the different trades for which funds are to be received from and/or paid to the Member on settlement date;
- c. Be Members' instructions to Clearing Corporation for effecting settlement in its RTGS Settlement / current account at RBI/Account with Settlement Bank;
- d. Settlement shall be final and irrevocable when the net obligations are determined.

9.Clearing Corporation shall, on the day of settlement, generate settlement obligation file which shall be sent to RBI/Settlement Bank for settlement within the cut-off time as notified by Clearing Corporation for Rupee Derivatives Settlement;

10.Unless otherwise specified, the settlement of funds in respect of Members shall take place through its RTGS Settlement / current account maintained with RBI, or current account maintained with Settlement Bank as provided in Chapter XV relating to Settlement Bank.

11.Member shall ensure availability of sufficient funds in its RTGS Settlement/ current account with RBI/ Settlement Bank and if a 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 VII relating to "Defaults" in these Regulations;

12. Clearing Corporation shall, after receipt of settlement confirmation from RBI, release the margins which are blocked as described in Chapter VI (D) of these Regulations for the fund obligation of Members.

C. TRADES NOT SETTLED BY CLEARING CORPORATION

Clearing Corporation shall assume no responsibility for settlement of such trades which are not eligible to be settled on a non guaranteed basis in terms of Clause A above or on a guaranteed basis in terms of Clause B above.

CHAPTER VI : MARGINS

The provisions of this chapter shall be applicable only to Members of Rupee Derivatives (Guaranteed Settlement) Segment.

A Margin Requirements

1. Clearing Corporation shall prescribe the requirements of margins for the Rupee Derivative trades to be settled through Clearing Corporation and the Members shall furnish such margins as a condition precedent for acceptance of such trades by Clearing Corporation for guaranteed settlement.
2. Clearing Corporation shall be entitled to make a margin call if the margin obligation of a Member reaches a specified percentage of its SGF value made available as margin for this segment as notified by Clearing Corporation. Such specified percentage shall be termed as Replenishment Level. If a margin call is sent by Clearing Corporation, it shall be the responsibility of the Member to bring additional margin thereafter so that the margin requirements in the account of the Member as a percentage of margin availability for this segment is below the Replenishment Level.
3. Clearing Corporation may however continue to accept trades on account of such Member till the margin obligation reaches a higher percentage, termed as Rejection Level. After the margin obligation for a Member reaches Rejection Level, Clearing Corporation may ordinarily not accept any further trade of the Member till additional margin is deposited so as to bring the margin requirement as a percentage of margin availability for this segment on account of that Member to lower than the Replenishment Level as described above. Clearing Corporation however may accept trades for guaranteed settlement without any further reference to any Member, even after the margin liability for this segment has breached the Rejection level, if such acceptance is necessitated due to post trade Exposure Check of trades concluded on Rupee Derivatives Dealing System.
4. Clearing Corporation shall notify the percentages set as Replenishment Level and Rejection Level. It may also, after duly notifying the Members, alter the percentages set as Replenishment Level or Rejection Level.
5. Clearing Corporation shall make margin call for margin shortfall, if any, after re-computation of margins at end of the day. On receipt of notice towards any

such margin call, the member shall arrange to deposit additional amount in its SGF account not later than on the next working day before the time notified by Clearing Corporation, so that the balance in SGF account available as margin is adequate to cover its margin obligation in this segment (i.e. the margin requirement as percentage of margin available for this segment is below the Replenishment Level as described in Clause A(2) above)

B MARGIN COMPONENTS

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

1. Initial Margin

i) Initial Margin is the margin obligation required to be fulfilled by a Member as its contribution to SGF in relation to risk exposure on the outstanding Trades of the Members accepted for guaranteed settlement by Clearing Corporation. Such risk exposure shall be arrived at based on Value at Risk for the portfolio of outstanding trades or based on such other method as notified by the Clearing Corporation from time to time.

ii) Initial Margin shall also include an additional amount towards Spread Margin in order to effect a partial disallowance of the full offset between various IRS and FRA trades provided through portfolio margining. Spread margin shall be computed as per the process notified by Clearing Corporation from time to time.

iii). Clearing Corporation may, however, set a minimum margin requirement as notified by it from time to time.

2. Mark to Market Margin

i) Mark to Market margin is that margin contributed towards change in value of its trade portfolio arising out of adverse rate movements and required to be contributed by a Member. Such obligation shall be computed as part of daily marking to market exercise as outlined in Chapter relating to “Risk Management” in these Regulations, on outstanding Trades of the Members accepted for guaranteed settlement by Clearing Corporation.

ii) In case of high volatility in the market, Clearing Corporation shall also collect MTM margin on intra-day basis from the Members on their trades already accepted for settlement based on a process as notified by Clearing Corporation from time to time.

3. Volatility Margin

i) Volatility Margin comprises of the margin obligation imposed by Clearing Corporation due to sudden increase in volatility in swap rates, forward premia or interest rates and required to be fulfilled by a Member as its contribution towards SGF. Clearing Corporation shall be entitled to impose such margin whenever it is of the view that the volatility of rates in the market is at a higher than the normal level. The Members shall be notified by Clearing Corporation prior to the collection and/or maintenance of Volatility Margin. Members shall have the obligation to immediately meet any shortfall in margin arising out of imposition of volatility margin.

4. Concentration Margin

Concentration margin is that margin obligation required to be made by a Member in relation to its outstanding exposures in any particular benchmark and/or tenor or for a number of such benchmarks and tenors, beyond pre-determined limit(s) set by Clearing Corporation. Clearing Corporation shall have the right to stipulate such margin from any future date after due notification to its Members.

C) SUSPENSION ON FAILURE TO PAY MARGIN

Notwithstanding anything contained elsewhere in these Regulations:-

1) If a Member fails to comply with the margin call as stipulated under Chapter VI (A) of these regulations, Clearing Corporation shall be entitled to temporarily suspend the Membership rights of such a Member to the Rupee Derivatives (Guaranteed Settlement) Segment or to restrict the access rights of the Member to the Rupee Derivatives Dealing System including effecting a shift to access on Risk Reduction Mode and/or to collection of margins based on orders without

providing any offset between buy and sale. In Risk Reduction Mode, Clearing Corporation may accept for clearing only such trades as will have the effect of reducing exposure of Clearing Corporation on the member and / or may advise ClearCorp to admit for trading on the trading system only such orders which, if traded, will have the effect of reducing exposure of the Clearing Corporation;

- 2) If a Member fails to fulfill its margin obligations before the time notified for the purpose, Clearing Corporation shall advise Clearcorp to suspend the rights of the Member from trading on the Rupee Derivatives Dealing System . The trading rights shall be restored on the Member meeting the margin obligation to the satisfaction of Clearing Corporation;
- 3) 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 specified by Clearing Corporation. Clearing Corporation may after due notification, vary the rate of penalty applicable for a Margin shortfall. While computing penalty, only business day 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.
- 4) The Membership of a Member who has been subjected to temporary suspension due to non-fulfillment of margin obligation shall come up for review after the margin shortfall is met or the available margin in the account becomes adequate to cover the Member's margin obligation in this segment. 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.

D) CRYSTALLIZED SETTLEMENT OBLIGATIONS:

1. For an outstanding trade of a Member, the amount determined as payable or receivable by the Member either in relation to periodic cash flow exchange and/or due to early termination is termed as Crystallized Settlement Obligation.

2. All Crystallized Settlement Obligations on account of the trades of a Member are sub divided into the following two groups: a) amount due for settlement on the current business day and; (b) amount due for settlement arising on account of early termination of trades on any subsequent business day.
3. Discounted value of any net receivable amount by a Member on account of settlement dates subsequent to the current business day shall be reckoned as equivalent to additional margin deposit by the Member.
4. If the settlement for the day is not over till the processing for MTM margin calculation for the day, amounts payable by the members on account of their settlement obligations of the day together with possible interest costs in case of default, are transferred from MTM margin collected from such Members to their Crystallized Settlement Obligation Account. In case the MTM Margin collected from any Member is not sufficient to allow such transfer, the amount may be collected as additional margin from such Member at this stage.
5. After the day's settlement is over, Crystallized Settlement Obligation of the Members for the current business day, if any, shall be released. In the event of settlement shortage in the account of any Member, such amount shall however be transferred to Margin Held Back for Default account.
6. Detailed processes in respect of these appropriations shall be notified by Clearing Corporation from time to time. Clearing Corporation shall also be entitled to change processes in this regard after giving notice to the Members.

CHAPTER VII : SETTLEMENT SHORTAGE & DEFAULTS

The provisions of this chapter shall be applicable only to those Members of Rupee Derivatives (Guaranteed Settlement) Segment.

I. Settlement Shortage

Failure of a Member to discharge its obligation to pay funds due from the Member at the time of settlement shall be treated as a settlement shortage.

Subject to other provisions of these Regulations, Clearing Corporation shall make good the funds shortage, at the cost of the member in shortage, by availing Lines of Credit.

Effect of settlement shortage:

The Member-in shortage shall be liable to make good the payment equivalent to the shortfall together with the charges, penalties and other levies, as notified by Clearing Corporation from time to time, within the specified cut-off time.

II. Default Handling

A. DECLARATION OF DEFAULT

A Member shall be treated as a defaulter (“Defaulter”) in this segment:

- a) If it does not make good this amount of settlement shortage referred to above within the specified cut-off time.
- b) If it fails to replenish margin after its utilization has exceeded 100% of the margins made available for meeting margin requirements for this segment within the specified cut-off time.
- c) If it is declared Defaulter in another segment and/or has filed for insolvency under relevant laws and/or is declared insolvent by a competent authority.
- d) If it is unable to pay within the specified time, damages and the money difference due to a close-out effected against it under the Bye-laws, Rules and Regulations.
- e) If it fails to replenish the Default Fund contribution in terms of para J(i) and J(ii) of Chapter IX;
- f) Due to any other circumstances as set out in the Bye-laws, Rules and Regulations.

B. DEFAULT HANDLING PROCEDURE FOR SETTLEMENT SHORTAGE

- a) Any shortage in meeting daily settlement obligation in this segment shall, unless replenished by the Member by 11.00 A.M. on the next day (by **10.30 A.M.** if the next day is a Saturday), be treated as a Default by the Member. For meeting such shortage, Clearing Corporation shall have the authority to sell the securities placed by the Member as margin deposit. Such sale could be made either through NDS-OM or Over the Counter or sale through private arrangement as decided by Clearing Corporation.
- b) If Clearing Corporation resorts to the provisions of the sub-Regulation B a) above, the Defaulter Member shall be liable to pay charges and penalties as notified by Clearing Corporation from time to time.

C. DEFAULT MANAGEMENT COMMITTEE

1. CCIL may establish a Default Management Committee (DMC) comprising representatives nominated by selected members of the segment for advising / assisting the Clearing Corporation in administration / management/ handling of default by a member. Where the defaulter's portfolio of outstanding trades includes trades in multiple benchmarks, the role of the DMC shall be restricted to trades in MIBOR and MIOIS benchmarks only. For trades in these two benchmarks, the DMC shall advise and assist the Clearing Corporation on various aspects of default management process, primarily in the areas of:
 - a) Risk neutralization of Defaulter's Portfolio
 - b) Creating buckets out of the Defaulter's hedged/ un-hedged Portfolio, as the case may be
 - c) Setting reserve price for Auction of Portfolio Buckets
 - d) Assisting in carrying out market sale/ Auction of Portfolio Buckets as required
 - e) Assisting in allocation of position/ trades
 - f) Any other incidental matter(s) in connection with the above as may be brought before the DMC by the Clearing Corporation

2. Provisions pertaining to the constitution of the DMC, including rights and obligations of the DMC have been prescribed in Chapter XVI of these Regulations.

D. MULTIPLE DEFAULTS IN THE SAME DEFAULT MANAGEMENT PERIOD

If during an ongoing Default Management Period, the Clearing Corporation declares some other Member also as a defaulter, then such multiple Members' defaults shall be processed in the same Default Management Period.

E. DEFAULT HANDLING PROCEDURE FOR DEFAULT DECLARED IN TERMS OF CLAUSES II A) ABOVE EXCEPT FOR SETTLEMENT SHORTAGE

E. 1. Trades referenced to the MIBOR and MIOIS benchmark

1. The Clearing Corporation shall on declaration of default resort to transferring the defaulting Member's positions to one or more non-defaulting Members by way of a sale (including an auction) or through an allocation mechanism as mentioned in E. 1. 4(e) below.
2. Risk neutralization of the Defaulter's Portfolio
 - a) The Clearing Corporation with the assistance of the DMC may reduce as much as is possible and reasonable the market risk of the positions of the defaulting Member by executing hedge trades.
 - b) For this purpose, the Clearing Corporation may, with the assistance of the DMC enter into new transactions with non-defaulting Members in order to hedge the Defaulter's Portfolio. Such transactions may be concluded on trading platforms operated by Clearcorp or in accordance with separate arrangements between the Clearing Corporation and other Members of the segment availing clearing services for rupee derivative trades (including FRAs) referenced to the MIBOR and MIOIS benchmark.

- c) The hedge transactions shall be considered as part of the Defaulter's Portfolio with respect to the further processes undertaken in accordance with the default management process.
 - d) The Clearing Corporation may, in consultation with the DMC, in certain cases decide not to carry out such hedge transactions where it is reasonably felt that the cost and time involved may be detrimental to the successful conclusion of the Default Handling Process.
3. The Clearing Corporation may, in consultation with the DMC, decide to split the Defaulter's Portfolio which shall include the hedge trades done in terms of clause E. 1. (2)(b) above into Multiple Buckets with the aim of enhancing the efficiency of the Auction Process. The process of splitting the Defaulter's Portfolio may be done either before or along with or after the process of hedging of the Defaulter's Portfolio. Each such split portfolio shall be referred to as an Auction Pool/ Bucket.
4. Restoration of a 'matched book'
- a) On declaration of a default in terms of para A above, if the Clearing Corporation determines that in respect of the Trades cleared by the Corporation, it is exposed to the risk that its obligations to some Members will not be matched by corresponding obligations by remaining Members to it, then the Clearing Corporation shall be deemed to be having an unmatched book and shall be required to take any/all of the steps listed in paras (b) to (e) below.
 - b) The Clearing Corporation, in consultation with the DMC, may transfer the defaulter's positions including the hedge transactions to one / more non-defaulting Members at a price acceptable to the Clearing Corporation or / and at prices arrived by conducting one or more Auctions.
 - c) An Auction in terms of para (b) above shall be for the entire Defaulter's Portfolio or for various Auction Pools and may involve multiple Auction rounds. The Clearing Corporation in consultation with the DMC shall determine the Reserve Price, acceptable to it for the entire portfolio of the Defaulter or Reserve Price in respect of each Auction Pool.

- d) The Clearing Corporation shall conduct a Single unit Auction or Multi-unit Discriminatory Price Auction, in such mode as prescribed by the Clearing Corporation. The details of the auction scheme shall be as notified by the Clearing Corporation from time to time.
- e) In case, the Clearing Corporation is not able to restore a Matched Book by the above process, it may then, in consultation with the DMC, use one or both of the following measures for matched book restoration:
- Allocation of positions to any non-defaulting Member(s) regardless of whether such Member(s) has (have) positions opposite or related to those in the Auction Pool(s).
 - Tear-Up of trades of non-defaulting Members who hold positions opposite to those in the Auction Pool(s).

The price at which positions are torn up or allocated will be determined by CCIL in consultation with the DMC. The allocation of defaulter's position to non-defaulting Members or/ and tear up of non-defaulters' portfolio shall be carried out in accordance with the procedures as notified by the Clearing Corporation from time to time.

5. Assessment Calls

- a) In terms of para J(iii) of Chapter IX of these Regulations, if the losses incurred by the Clearing Corporation in restoration of the Matched Book following a Member Default exceed that of the total available Pre-Funded Default Handling Resources, the Clearing Corporation shall make Assessment Calls for replenishment of default fund, to the non-defaulting members of this segment availing clearing services for rupee derivative trades (including FRAs) referenced to the MIBOR and MIOIS benchmark.
- b) The Clearing Corporation shall make such Assessment Calls on one or more occasions during the default handling period based on its assessment of the resources required for default management.
- c) The Assessment Calls shall be made to non-defaulting Members in proportion to their respective default fund contribution requirements to the MIBOR & MIOIS-Default Fund at the time of handling such default and the same have to be met only in cash.

- d) Inability of a Member to meet the Assessment Calls shall be deemed to be an action preventing the Clearing Corporation from returning to the Matched Book and shall result in the Clearing Corporation initiating appropriate actions against such Member which could include allocation of portions of defaulter's portfolio, or tearing up its portfolio, partly or completely, and appropriating its margin resources.

6. Appropriation of Losses

Following the restoration of the Matched Book, the Clearing Corporation shall determine the total losses resulting from the Default Handling Process. In the event Defaulter's Portfolio was split into Multiple Auction Pools/Buckets, then the resources shall be allocated to each bucket in proportion to the losses in the Buckets. The losses corresponding to each Auction Pool/Bucket shall be appropriated in the order mentioned in Para I(i) of Chapter IX of these Regulations. Where losses are required to be appropriated from the default fund contributions of non-defaulting Members in terms of Para I(i)(d) of chapter IX of these regulations, then such appropriation will be in accordance with the Juniorisation scheme as notified by Clearing Corporation from time to time.

Provided, however, if losses are required to be appropriated from the default fund contribution of non-defaulting Members in terms of Para I(i)(f) of Chapter IX of these regulations, then such appropriation will be done in proportion of their required contributions to the default fund at the time of handling such default.

7. Settlement of obligations arising out of Auction(s) or allocation(s) in terms of E. 1. (4)(b) and E. 1. 4)(e)

- a) Non-defaulting Members who seek to bid for Auction Pool(s) shall be required to prefund their bidding value at the time of Auction commencement.
- b) Where the restoration of the Matched Book results in non-defaulting Members having a margin payable, such members shall be required to make available requisite margins before receiving the funds pay out. In the event of a shortfall in margin account, CCIL shall deduct such shortfall amount from the funds payable to the Member and credit the same to its margin account.
- c) Where the funds payable to a Member is less than the margin shortfall and the Member is unable to meet the margin shortfall within such time as may be notified by the

Clearing Corporation, the Clearing Corporation shall withhold the entire amount payable to such Member. In addition the Clearing Corporation shall also have the right to tear up such member's portfolio along with the allocated portion of Defaulter's Portfolio.

8. Booking of contracts in the non-defaulters' names

- a) The Clearing Corporation shall book in the name of the respective non defaulting Members the contracts won by them in the Auctions / allocated to them terms of E. 1. (4)(b) and E. 1. (4)(e) above with effect from a date which shall be intimated to such Members. Such new contracts shall also be immediately reflected in the trade repository run by the Clearing Corporation.
- b) The resultant increase in settlement, margin and Default Fund obligations shall be assumed by such non-defaulter Members from the date of the booking of these contracts.

E.2. Trades referenced to the MIFOR benchmark

1. Clearing Corporation shall be entitled to Close-out all the outstanding IRS and FRA transactions referenced to the MIFOR benchmark of the Member in the Rupee Derivatives Segment and utilize collaterals collected as margins of that Member set aside from SGF for the Rupee Derivatives Segment in closing out transactions.
2. Such Close-out of trades as mentioned above shall be between the Defaulter Member and its bilateral counter-parties.
3. The Close-out of the trades shall be effected at Clearing Corporation's MTM rates for the respective trades as at the end of the day of Close-out. However, if the Close-out is undertaken during the day, the MTM rate as at the end of previous day or the market price as considered appropriate by Clearing Corporation considering the state of the market at that material time shall be the basis for such Close-out.
4. The surplus/shortfall from such Close-out shall be arrived at separately in respect of the Defaulter Member and its each bilateral counterparty.

5. Any shortfall arising out of such Close-out of positions shall be recovered from the SGF balance made available as margin for this segment by the Defaulter Member or the respective counterparties, as the case may be. In case the balance in SGF account of the Member or any of its counter-parties made available as margin for this segment turns out to be inadequate to meet the shortfall amount, the said Member(s) shall be obligated to meet the shortfall in cash before the cut off time as applicable for deposit of Incremental MTM margin.
6. In case a Member fails to bring in cash as mentioned in sub Regulation B5 above to meet the shortfall, Clearing Corporation shall be entitled to sell any security in SGF account of the Member. Such sale could be by way of auction or through private arrangement as decided by Clearing Corporation. Provided however that before selling any security made available by a non-defaulter Member under this section, Clearing Corporation shall give a notice to such Member to replace the securities by cash equivalent to its MTM value within a pre-specified period.
7. If the Close-out of trades carried out results in a surplus in the account of any of the bilateral counterparty of the Defaulter Member, such amount shall be treated as margin made available by such Member in this segment till Clearing Corporation makes pay-outs for the amount to them. Clearing Corporation shall arrange for such pay-out as early as possible after the close out but shall not be responsible for any undue delay caused by non-recovery of amount from other entities involved in the close out. Any credit to margin account of any Member on this account can however be availed in any other segment.
8. Bilateral counterparties to whom trades are allocated may square off the position resulting from the Close-out in the market and report the same to Clearing Corporation. Such intimation shall be received at Clearing Corporation in the prescribed format on the next business day after the close-out. The loss, if any, accruing to the bilateral counterparties on account of such Close-out shall be recovered from the Defaulter Member

and made over to them. In case such recovery from the Defaulter Member is not possible or the recovered amount is less than the amount due for recovery for any reason whatsoever, the resultant loss shall be treated as loss arising out of default in terms of the provisions of para I of Chapter IX, Default Fund, of these Regulations.

Provided that the rate at which the bilateral counterparty has covered the position is identified as an outlier by Clearing Corporation, the defaulter shall not be liable for the loss. The decision of Clearing Corporation in regard to admissibility of loss in the circumstances shall be final and irrevocable.

F. DEFAULT OF CLEARING CORPORATION:

1. In the event Clearing Corporation fails to fulfil any settlement related obligation to any non-defaulting counterparty, even after the expiry of 30 (thirty) business days from the date of the payment / delivery falling due and an intimation being sent by the counterparty in this regard to Clearing Corporation or in the event RBI cancels CCIL's Payment System License or issues a notice for such cancellation thereto, a non defaulting counterparty may, by notice in writing to the Clearing Corporation not later than 7 (seven) business days from such event, seek the termination and close-out of its outstanding trades in this segment.
2. Clearing Corporation shall, not later than 2 (two) business days from the date of receipt of such notice and after due notification to all members of this segment: (a) effect close-out of outstanding trades of such member or (b) close out all outstanding trades in the segment.

Such Close-out shall be at a pre-determined price as may be notified by the Clearing Corporation from time to time and post such Close-out, Clearing Corporation shall determine the Member-wise net mark-to-market loss or gain (as the case may be) in respect of the trades. The net mark to market loss or gain so arrived at shall constitute the termination amount for each Member. The termination amount shall be settled by payment to the

Member, in case of Member's gain, or by receipt from the Member, in case of Member's loss.

3. The termination amount shall be settled by the close of business on the business day following the day of termination or as soon as possible thereafter. Any non-recovery of termination amount from any of the Member within this period will be considered as a Default by the Member and shall be handled in terms of provisions of Chapter VII Default & Chapter IX Default Fund of these Regulations.
4. Before paying out any amount under this clause, Clearing Corporation shall have the right to recover there from any amount payable by the Member to Clearing Corporation.
5. The close-out transactions shall be final and binding upon the Members.

CHAPTER VIII : RISK MANAGEMENT

The provisions of this chapter shall be applicable only to those Members of Rupee Derivatives (Guaranteed Settlement) Segment.

A) SCOPE

- 1) This Chapter outlines the risk management process of Clearing Corporation for its Rupee Derivatives Segment. Clearing Corporation may, after due notification, change its risk management processes relating to its 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 Initial Margin on the outstanding trades of the Members shall be computed based on Portfolio Value at Risk for such portfolios of outstanding trades comprising of trades accepted for guaranteed settlement. Such amount shall be supplemented by recovery of an additional amount as spread margin. Clearing Corporation may, however, after due notification, set certain pre-specified minimum level for Initial 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 are considered necessary by Clearing Corporation from time to time.

Clearing Corporation may take the assistance of any reputed Rating Agency for arriving at such ratings and the decision of Clearing Corporation in regard to the selection of agency or in regard to the ratings arrived at for the Members shall be final and binding on the Members.

Notwithstanding the credit rating/grading, Clearing Corporation may hike margins in case of any regulatory actions/deterioration in financial position/adverse market report etc.

- 5) Clearing Corporation may, after due notification, set limit for each Member in terms of its aggregate outstanding trade exposure of the Member and in terms of total volume of outstanding trades or otherwise, as may be notified 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 are considered appropriate by Clearing Corporation. In the event of any Member exceeding such limit, Clearing Corporation may set higher margin for such Member, for all trades or for all trades of the type in which limit has been excluded.
- 6) Mark to Market (MTM) margins shall be collected based on aggregate mark to market loss for the trades with each benchmark (e.g. MIBOR, MIFOR etc.) as reference rate for floating leg. Set offs may usually be allowed between profits and losses on trades in the same benchmark. The process of allowing set offs shall be notified by Clearing Corporation from time to time.
- 7) Such MTM margin shall be computed using the implied swap zero curves for the respective benchmarks, based on applicable Swap rates prevailing at the time of such computation. Clearing Corporation shall be entitled to use such swap rates for mark to market margin computation as it considers reasonable.

B) MARK-TO-MARKET RATES

- i) Benchmark and swap rates for pre-specified tenors from pre-specified sources shall be taken as basis. Swap rates for other tenors shall be arrived at through interpolation/ extrapolation.
- ii) Implied swap zero rates shall be arrived at for each benchmark. Zero rates so arrived shall be treated as mid-rates which may then be adjusted for bid-offer spreads. For adjusting bid-offer spreads, floating leg cash flows of the Members shall be valued using lower rates for the buyer of the swaps (i.e. fixed leg payer) and using higher rates for the seller of the swaps (i.e. float

leg payer). Clearing Corporation shall notify the rates to be used for adjusting bid-offer spread.

C) PROCESS

1. Initial Margin

1.1. The initial margin obligation of a Member in respect of its outstanding trades shall be computed based on the Portfolio Value at Risk (VaR) for all outstanding IRS and FRA contracts using such model as Clearing Corporation may deem appropriate. Trades settled on separate benchmark shall be grouped separately for arriving at such VaR and no set offs may normally be allowed between trades on separate benchmarks. No setoffs shall also be allowed between the types of trades which are likely to be very illiquid. The details of the model used may be notified by the Clearing Corporation from time to time.

1.2. Clearing Corporation may periodically re-evaluate the model 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 Members.

1.3 Initial margin shall also include an additional component known as Spread Margin in order to effect a partial disallowance of full offsets provided through computation of Portfolio VaR. The process of computation of spread margin may be notified by Clearing Corporation from time to time.

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 trades;

2.2. All accepted outstanding IRS and FRA trades shall be re-valued at the end of the day. Such revaluation shall be carried out by estimating future cash flows for each trade and then arriving at net cash flows for future payment dates using the implied zero rates for the respective benchmark for the contract.

- 2.3. Net cash flows for the IRS and FRA trades shall be discounted to the date of computation. The discounted value of cash flows for an IRS or FRA trade shall be taken as its MTM value.
- 2.4. MTM profits or losses for all trades of a Member based on a benchmark shall be aggregated. For any net loss, Member shall be required to provide MTM margin of such amount.
- 2.5. A Member's mark to market margin obligation shall be aggregate of MTM margins for all benchmarks arrived as above. Such margin amount shall be computed as at the end of each business day and shall be usually 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 of such trade 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.

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 in its Securities segment.

3) Clearing Corporation shall, notify from time to time haircuts on the respective market values as per rates prescribed for the eligible securities from time to time;

E) MARK TO MARKET GAINS

1. In case Mark to Market value of accepted trades of a member is positive, Clearing Corporation may, after due notification to members, allow such amount, net of haircut, if any, and subject to such conditions as notified by Clearing Corporation from time to time, to be treated as Margin Credit available to the member. If such credit is allowed, Clearing Corporation shall also have the right to adjust such Margin Credit due to any revaluation of outstanding trades carried out on intra-day basis.
2. When a trade goes for settlement, any Margin Credit available there against will be withdrawn.
3. After withdrawal of such Margin Credit, if it is observed at the time of settlement of daily obligations that there is margin shortfall on account of such settlement, Clearing Corporation shall have the right to hold back settlement proceeds to the extent of such shortfall.
4. If any settlement proceeds are held back as per sub clause E (3) above, the withheld amount would be released to the member on replenishment of the margin shortfall. If the Member fails to replenish the shortfall by the time specified by Clearing Corporation from time to time, Clearing Corporation may appropriate such settlement proceeds by credit to SGF account of the Member in Securities Settlement Segment.

CHAPTER IX : DEFAULT FUND

The provisions of this chapter shall be applicable only to the Members of Rupee Derivatives (Guaranteed Settlement) Segment

A. PURPOSE:

- i. Clearing Corporation shall maintain two separate Default Funds in respect of its Rupee Derivatives (Guaranteed Settlement) Segment. The first (hereinafter referred to as “MIBOR & MIOIS -Default Fund”) would be maintained with a view to meeting losses arising out of any default by its Members from trades referenced to the MIBOR OR MIOIS benchmarks. The other Default Fund (hereinafter referred to as “MIFOR-Default Fund”) would be maintained for meeting losses arising out of any default by its Members from trades referenced to the MIFOR benchmark. Losses if any on trades where both legs are referenced to the floating MIBOR or MIOIS benchmark would be met by the “MIBOR & MIOIS-Default Fund”. All subsequent provisions of this Chapter shall apply to both the afore-mentioned Default Funds
- ii. Default Fund 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 Default Fund shall 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 Default Fund shall be determined at such intervals as may be notified by Clearing Corporation from time to time. Clearing Corporation shall however also be entitled to re-size the Default Fund before its scheduled periodic re-sizing based on a process as notified by Clearing Corporation from time to time.

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. A Member's contribution to the Default Fund as in Regulation "B" above shall be determined in a manner as may be notified by Clearing Corporation from time to time.
- ii. Each Member shall deposit towards Default Fund such sum as shall be notified by Clearing Corporation from time to time.
- iii. The minimum contribution of a Member to the Default Fund shall be as notified by Clearing Corporation from time to time.
- iv. Where a Member has resigned on account of its merger/amalgamation with or its acquisition by another Member then, the Default Fund contribution of the merged/acquiring entity will stand increased by the amount of Default Fund contribution attributed to the Member that is being merged or acquired, till the next re-computation of the Default Fund.

D. COMPOSITION

- i. Default Fund shall be formed with contributions from members in the form of cash and/or eligible Government Securities.
- ii. Clearing Corporation shall specify the__minimum percentage of contribution in the form of cash from time to time after due notification;

Provided however that during a default management period, if any replenishment of the Default fund in terms of the provisions of para J(iv) of this Chapter is required, such replenishment shall be made only in cash;
- iii. Members will be permitted to maintain their Default Fund collateral composition ratio in terms of Clause D (ii) above, after the completion of Default Management Period has been advised to Members by the Clearing Corporation.
- iv. Clearing Corporation shall notify the eligible securities for contribution to Default Fund. Securities declared as ineligible for Default Fund contribution shall not be reckoned as Default Fund contribution of such member-
- v. Clearing Corporation may notify from time to time the maximum amount of a single security or group of securities that a member and/_or all

Members together may deposit by way of contribution to Default Fund and/ or have security concentration thresholds beyond which hair cut rates of securities as collateral may be increased.

- vi. A member shall at all times ensure that its contributions to Default Fund are adequate to cover its share as per Para (C) above.
- vii. Cash contributions to Default Fund shall be in multiples of Rs.1 lac or such other amount as may be prescribed by Clearing Corporation.

E. ADMINISTRATION

- i. Clearing Corporation shall administer investment and utilization of cash deposited by Members towards Default Fund as per Regulation “F” of this chapter;
- ii. Clearing Corporation shall be authorized to invest the cash contributions received from Members in accordance with the investment policy of Clearing Corporation.
- iii. The contributions made by Members to Default Fund in the form of securities shall be held in a CSGL Account of Clearing Corporation with RBI. The RBI Rules and Regulations governing CSGL 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 Default Fund in the form of securities shall accordingly be governed by the said RBI Rules and Regulations and instructions;
- iv. Clearing Corporation shall have the right to utilize either the cash and/or any of the securities contributed to Default Fund by any Member and held in the CSGL Account referred to in Sub-Regulation (iii) above and as per Para “F” of this chapter in such sequence of application as may be determined by Clearing Corporation to be appropriate.

Provided however, that a shortfall, if any, in the Default Fund account of a Member at the end of the day shall be covered by Clearing Corporation in the following order:

- a. First by blocking surplus balance, if any available in any other Default Fund account of the Member with Clearing Corporation.
- b. If surplus balance is not available in (a) above, then by blocking the surplus balances if any, in the SGF of such Member in the Securities

Segment. No interest shall however be paid for such cash utilization towards Default Fund.

- v. Such utilization of excess collateral blocked as in (v) above will be released as soon as the deficit in the Default Fund account is replenished by the Member by depositing additional collateral.

F. RECEIPTS AND DELIVERIES OF THE MEMBERS CONTRIBUTION TO DEFAULT FUND

- i. The contribution of Members to the Default Fund shall be recomputed at the end of each month or at such intervals as specified in Regulation 'C' above;
- ii. A Member shall be required to contribute to Default Fund upon notice received from Clearing Corporation within such time as may be notified by Clearing Corporation from time to time from the date of such notice.
- iii. Members shall arrange to deposit their contributions to Default Fund as per work flow process notified by Clearing Corporation from time to time for deposit of cash and securities.
- iv. Members shall submit their cash and securities withdrawal request from Default Fund contributions as per the work flow process notified by Clearing Corporation from time to time.
- v. Members shall be entitled to receive credit for deposits of securities into Default Fund upon receipt of confirmation from Reserve Bank of India (RBI) that the securities have been credited into the CSGL account of Clearing Corporation;
- vi. Members shall be entitled to receive credits for their cash deposits into Default Fund upon receipt of confirmation from RBI and/ or Settlement Bank of credits into the RTGS Settlement/ Current Account of Clearing Corporation
- vii. Members shall be entitled to withdraw securities from their contributions to Default Fund 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;

- viii. Withdrawal of securities by Members shall be permitted only if the Member continues to maintain the balance required after such withdrawal or upon resignation by a Member from the segment as set out in para E of Chapter II of this Regulation.
- ix. Members shall be entitled to substitute securities deposited as contribution to Default Fund 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. Such notice of substitution shall be through two independent processes, one for deposit of a security and the other for withdrawal of a security, as per the work flow process notified by Clearing Corporation from time to time for deposit and withdrawal of securities.

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.

- x. 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 Default Fund;
- xi. Withdrawal of cash contributions by Members shall be permitted only if the Member continues to maintain the balance required after such withdrawal or upon resignation by a Member from the segment as set out in clause E of Chapter II of these Regulations;
- xii. 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 DEFAULT FUND

- i. Periodical interest receivable by the Members on their securities contributed to Default Fund shall be received by Clearing Corporation for and on behalf of the Members in the manner and mode prescribed by RBI in respect of CSGL 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 Default Fund which have been declared through appropriate notification as ineligible for Default Fund contribution;
 - iv. Members shall monitor their securities contributions to Default Fund to ensure that the securities falling due for redemption are withdrawn from Default Fund 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 CSGL Accounts;
 - v. Redemption proceeds received by Clearing Corporation shall be treated as cash contribution to Default Fund;
 - vi. Clearing Corporation may compensate Members by offering them interest payments at quarterly rests (at the end of every 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 DEFAULT FUND

- i. The securities contributed by Members to Default Fund 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, to change the frequency of such valuation after due notification to the Members;
- ii. The valuation of Default Fund securities shall be carried out using the latest available mark to market price as applicable for such securities in Securities Segment of Clearing Corporation;
- iii. Clearing Corporation shall notify, from time to time haircuts on the respective market values as per rates prescribed for the eligible securities from time to time. Such hair cut rates may be temporarily increased on imposition of volatility margin in Securities Segment;

- iv. Member's contributions to Default Fund shall be subjected to a valuation exercise at every instance of securities deposit and/ or withdrawal from its Default Fund 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 Default Fund 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. Where a Member is declared as defaulter in terms of Chapter VII, the losses as a result of such default shall be computed separately for the defaulter's portfolio comprising of rupee derivative trades referenced to the MIFOR benchmark (referred to as "MIFOR losses") and that for the defaulter's portfolio comprising of rupee derivative trades referenced to the MIBOR and MIOIS benchmark (referred to as "MIBOR & MIOIS losses"). The respective losses shall be met by Clearing Corporation by recourse to funds in the following order:
 - a. first, by appropriation of the benchmark wise margin contribution of the defaulting Member including surplus margin contributed in any Segment;
 - b. next, by applying set-off from defaulter's own contribution to the respective Default Funds. Any residual loss after applying such set off shall be further set off against excess contribution of the defaulter entity in any other Default Fund account with the Clearing Corporation. Such set off will be subject to the Regulations of the Segment in which such excess contribution is identified.
 - c. next, by allocation from Clearing Corporation's Settlement Reserve Fund, an amount notified by Clearing Corporation as the first tranche for allocation at the time of arriving at the corpus of the respective Default Fund in terms of Para B of this Chapter .
 - d. next, by allocation of the residual loss to the Default Fund accounts of non-defaulting Members in proportion to their required contributions to the respective Default Funds at the time of handling such default or if an auction has been conducted, then

as per the Juniorisation scheme established for each Auction Pool in terms of the provisions of Regulation E.1.(6) of Chapter VII. The amount allocated to the non-defaulting Members shall be recovered from such Members in the form of cash contribution, or by sale of securities contributed by such Members to the respective Default Funds under advice to them. The price at which such security/securities is/are sold will be binding on the Members. The individual losses shall be allocated to the respective Default fund contributions of the non-defaulting members.

- e. and next by allocation from Clearing Corporation's Settlement Reserve Fund, an amount notified by Clearing Corporation as the second tranche for allocation, at the time of arriving at the corpus of respective Default Fund in terms of Para B of this Chapter.
 - f. and then by allocation of the residual loss to the respective Default Fund account of non-defaulting Members after replenishment of the balances in these accounts in proportion of their required contributions to the respective Default Funds at the time of handling such default.
- ii. If the contribution to Default Fund has been made in the form of securities by the defaulter and the securities are required to be sold for appropriation, Clearing Corporation may sell those securities through NDS-OM and / or offer such securities for sale first to the non-defaulting Members of the segment and / or in any manner determined by the Clearing Corporation. 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.
 - iii. If there is more than one default in a day, defaults shall, subject to Clearing Corporation not having commenced any action on any such defaults, be handled by Clearing Corporation in descending order of the estimated size of shortfall. In case Clearing Corporation has commenced any action on any such default, such default shall not be considered for the descending order priority.
 - iv. If there is any allocation of residual loss to the Default Fund account of other Members (i.e. non-defaulter Members) in terms of Para I (i) (d) and (f) above, Clearing Corporation shall notify the total amount of such allocation on each such occasion. Clearing Corporation shall also notify

the cumulative amount of such usage in the past one year period ending on such date.

- v. Clearing Corporation, may as per the process duly notified in this regard, treat the collateral available in Members' MIBOR & MIOIS-Default Fund or/and MIFOR-Default Fund account(s) in excess of its required contributions, as the collateral deemed to be made available by such Member towards meeting a deficit in the balance in any other Default Fund account. Such amount would continue to remain blocked towards the said Default Fund account till the Member has replenished the shortfall in the other Default Fund accounts with Clearing Corporation.
- vi. Moreover, if a Member is declared defaulter in another Segment and/ or has filed for insolvency under relevant laws and/ or is declared insolvent by a competent authority, Clearing Corporation shall be entitled to treat the collateral available in a Members' MIBOR & MIOIS-Default Fund or/and MIFOR-Default Fund account(s) in excess of its required contributions as being made available by the Member towards the Default Fund accounts of such other segments.
- vii. The action of Clearing Corporation as per the above process shall be final and binding on all Members.
- viii. The above course of action 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 Default Fund such sums as notified by Clearing Corporation on every revaluation / resizing of the Default Fund, in terms of Regulation 'B' above of this Chapter. Shortfall, if any, in the default fund contribution of a member after such revaluation / re-sizing shall have to be replenished within such time period as may be notified by Clearing Corporation from time to time.
- ii. During the Default Management Period, if a Member's contribution to the Default Fund has been utilized to meet the loss on account of default handling, the Member shall be required to replenish its contribution to the Default Fund, within such time period as may be notified by Clearing Corporation from time to time;

- iii. During the Default Management Period, if an additional contribution to the Default Fund is sought by Clearing Corporation in terms of Para I (i)(f) above, the Member shall be required to deposit such additional sums forthwith and bring the balance in its Default Fund account at par with its required contribution to the fund in terms of Para C(ii) above of this Chapter.
- iv. Default Fund replenishment calls made by the Clearing Corporation under the circumstances mentioned in para J(iii) above shall be termed as Assessment Calls and Default Fund replenishment in response to Assessment Calls shall be only in cash. Members shall be required to meet Assessment Calls within such time period as may be advised by Clearing Corporation during the particular Default Management Period;
- v. In the event of failure of a Member to contribute to Default Fund within the time period specified as per Para J(i), J(ii) and J(iv) above of this Chapter, Clearing Corporation shall treat such failure in terms of Chapter VII of these Regulations and the Member shall be liable for the consequential action thereon as specified in Chapter VII of these Regulations.
- vi. The maximum contribution of a Member towards replenishment of its contribution to Default Fund for the Derivatives (Guaranteed Settlement) Segment in the 30 days' period immediately after the loss threshold as referred in Clause E(1) of Chapter II of this Regulation having been reached, and the Member having resigned, shall not exceed 5 times of its contribution to Default Fund based on last re-computation of Default Fund contribution of the Members carried out as per the process described in Clause B(ii) above of this Chapter, subject to a monetary ceiling notified by Clearing Corporation . A Member shall not be obligated to contribute any amount in excess of the monetary ceiling during the aforementioned period of 30 days.
- vii. The amounts mentioned in sub clause (vi) above as maximum contribution for a Member and the threshold as referred in paras E(1) of Chapter II shall be reviewed periodically by the Clearing Corporation based on market size, volatility etc. Any change in any of the ceilings as above or in the threshold as stated above due to such review shall be effected after giving a notice of 90 days to the Members.

K. RECOVERIES FROM THE DEFAULTER

- i. Any recovery from the defaulting Member, after adjusting for meeting charges/ penalties/ and any other incidental or consequential expenses shall be split in proportion of the “MIFOR losses” and “MIBOR & MIOIS losses” and shall then be accounted for individually by Clearing Corporation in the following order:
 - a) First to non-defaulting Members’ Default Fund contributions utilised as part of the assessment calls in terms of para J(iii) above. If the amount recovered from the defaulter is less than that utilized from the Assessment Calls, then such amount shall be returned to the non-defaulting Members in proportion to the amount utilized.
 - b) Next, by apportioning to the second tranche of Clearing Corporation allocated from its Settlement Reserve Fund, but not exceeding the amount originally appropriated from this tranche.
 - c) Next, by apportioning to the pre-funded Default Fund contributions of the non-defaulting Members to the extent utilized. If the residual amount recovered is less than the total utilized pre-funded default fund contribution of the non-defaulting Members across all Auction Pools, such residual amount shall be apportioned among such Auction Pools in the same ratio as the total non-defaulting Members’ contributions were split between the pools at the time of the default handling. Within each Auction Pool, the recovered amounts will be returned to the non-defaulting Members in the reverse order of the Juniorisation scheme established for each such pool in accordance with the provisions of Regulation E.1.(6) of Chapter VII. However, in case of Pools where Auction was not conducted, the recovered amount shall be returned to the non-defaulting members in proportion to the amount utilized.
 - d) Next, by apportioning to the first tranche of Clearing Corporation allocated from its Settlement Reserve Fund, but not exceeding the amount originally appropriated from this tranche.
 - e) Finally, any residual amount shall be returned to the defaulting Member after adjusting for any other due and claims, if any from such defaulter.
- ii. The return of resources to the non-defaulting Members as per the provisions of sub-clause a) and c) above will be by way of credit in the

form of cash or eligible securities of equivalent market value to their Default Fund accounts.

- iii. 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 Default Fund first towards meeting any residual loss arising on squaring off the trades of such Member 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 Bye-laws, Rules, and Regulations of such segments of Clearing Corporation in which the Member has been admitted.

CHAPTER X : NOTICES

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

CHAPTER XI: 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 Regulation B above) in the manner specified by Clearing Corporation from time to time by the 10th calendar day of every business month failing which

Clearing Corporation shall be entitled to levy penalty on such Member for the delayed payment of charges if it deems fit and appropriate.

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 XII: SUDDEN EVENT HANDLING

1. Due to the occurrence of unforeseen events or circumstances leading to the declaration of an Unscheduled Holiday, Clearing Corporation shall notify the Members the procedure for processing of trades;
2. Due to the occurrence of unforeseen events or circumstances leading to the declaration of an Unscheduled Holiday, the settlement which is due to happen may be deferred and it may also be required to alter the schedules of Clearing and Settlement of Trades by the Clearing Corporation;
3. In such an eventuality, the procedures to be adopted for Clearing and Settlement of trades lying in Rupee Derivatives Segment shall be notified by Clearing Corporation;
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.

CHAPTER XIII: REPORTS

1. Clearing Corporation shall notify from time to time the type of report, mode and manner of delivery/receipt of reports to/from its Members;
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 to download the same;
3. Clearing Corporation shall notify from time to time, the changes, if any, in the Report formats as it may consider necessary from time to time.

CHAPTER XIV: PORTFOLIO COMPRESSION

1. Clearing Corporation may, with due notification to Members, run at periodic intervals portfolio compression exercise, referred hereinafter as Portfolio Compression Exercise, for IRS & FRA trades of Rupee Derivatives Segment.
2. The process flow for the Portfolio Compression exercise shall be as notified by Clearing Corporation from time to time.
3. Portfolio Compression is a process that facilitates a reduction in outstanding trade count and outstanding gross notional amount by fully or partially terminating redundant trades.
4. Every Member of Derivatives Segment which has opted for settlement of cash flows from its outstanding Interest Rate Swap (IRS) trades through Clearing Corporation, on a non-guaranteed basis and/or which has opted for Guaranteed Settlement and which is desirous of availing the Portfolio Compression services shall submit an application in this regard to Clearing Corporation and comply with all necessary formalities as prescribed from time to time for availing the service.
5. The applicant, on completion of all formalities will be granted permission to participate in this exercise whenever it is conducted by Clearing Corporation.
6. The outcome of the Portfolio Compression exercise will be a set of proposals for full or partial terminations of trades, for each participant which, if effected, would reduce the number of outstanding trades and/or the outstanding notional value of the participants' portfolios while ensuring that their risk profiles remain within the defined tolerances provided by them. It involves the execution of a mathematical algorithm to arrive at the optimum solution.
7. The process to be followed for the Portfolio Compression Exercise shall be as notified from time to time by Clearing Corporation.
8. Clearing Corporation may specify the time schedule for the submission of trades and tolerances by Members to Clearing Corporation as also for various other activities incidental to the Portfolio Compression exercise.
9. The settlement of cash flows arising out of the Portfolio Compression exercise will be carried out either as part of the daily settlement carried out by Clearing Corporation in this segment or through separate settlement process as notified. If settlement is carried out as part of daily Rupee settlement carried out by Clearing Corporation, Members with net payables on account of compression will be required to pre-fund the same i.e. they have to credit CCIL's Settlement Account at RBI before the specified cut off time, an amount equal to 100% of the value payable, after which the settlement will be carried out in the

normal course by combining the net receivable amount of the participating Members from portfolio compression with the settlement of daily cash flows.

10. Clearing Corporation shall act in the capacity of a facilitator for carrying out Portfolio Compression exercise of IRS/FRA trades of its Members and, therefore, shall assume no liability for the settlement of amounts arising out of early termination of these trades for the purpose of Portfolio Compression exercise or any obligations there under. Clearing Corporation shall however be responsible for declaring a Portfolio Compression Exercise as completed after it has received all amounts receivable from the participating Members.
11. As a result of the compression, if there is any shortfall or surplus at the aggregate level between the aggregate net sum payable by the participants and the aggregate net sum receivable from the participants, such difference will be allocated to each participant by Clearing Corporation in a manner as notified by Clearing Corporation from time to time
12. After it has received all amounts receivable from the participating members, Clearing Corporation shall declare the Portfolio Compression Exercise as completed and assume liability for the settlement of amounts arising out of early termination of these trades.
13. In case of an increase in the margin obligation as a result of the portfolio compression, the SGF made available by the member shall be blocked to meet such additional margin requirements in terms of the provisions of Chapter V, 'Margin' of these Regulations.
14. On completion of the Portfolio Compression Exercise, the trades identified for full termination by Clearing Corporation during the process would be treated as terminated. In case of partial termination, the notional value of trades will be reduced by such amount.
15. Clearing Corporation may, at its absolute discretion, decide to call off Portfolio Compression exercise if, in its sole opinion, no feasible solution is possible or if any one or more of the participating Members seek to withdraw from the exercise or for any reason beyond the control of Clearing Corporation including regulatory or legal injunction or order or due to any Force Majeure event.
16. The charges applicable for this service will be as notified by Clearing Corporation from time to time.

CHAPTER XV: SETTLEMENT BANK

1. Clearing Corporation facilitates clearing and settlement of Rupee Derivative trades of its Members maintaining their current account with Reserve Bank of India (RBI);
2. Clearing Corporation may at its discretion appoint one or more banks as Settlement Bank, under advice to Reserve Bank of India, for settlement of funds in respect of members not maintaining their current account at RBI for the purpose of funds settlement;
3. The Members shall maintain a Current account with RBI/ any of the Settlement Bank/s for the settlement of funds obligations in Rupee Derivative trades under these Regulations;
4. Such Member at the time of seeking Membership of the Rupee Derivatives (Guaranteed Settlement) segment shall communicate to the Clearing Corporation details of its Settlement Bank for the purpose of availing the funds settlement facility;
5. Clearing Corporation shall notify the members 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 an orderly manner of its Members;
6. The Clearing Corporation will have the right to seek information/ explanations/ clarifications on the settlements operations of the Settlement Bank in such manner and periodicity as it may deem fit and may issue guidelines, directions and orders in respect thereof and the Settlement Bank shall comply with the same;
7. The Settlement Bank undertakes to keep strictly confidential any and every technical and business information including, but not limited to that which may be disclosed or confided to it by the Clearing Corporation or which it may obtain from the Clearing Corporation and which it shall , not disclose to any third party ;

Provided, however, the Settlement Bank shall disclose any of such information upon the Clearing Corporation's consent to Regulatory or other Statutory authorities, if the authorities so require;

8. The Settlement Bank shall be duly authorized by Clearing Corporation to ensure funds settlement, collection of margin money, charges, levies, additional charges, servicing of

corporate action like payment of interest etc., and any other funds movement between the Member and Clearing Corporation as prescribed by Clearing Corporation;

9. Settlement Bank shall take instruction from Clearing Corporation and act in accordance with instructions received from Clearing Corporation in regard to funds settlement and debit/credit the Settlement Account of the Members and transmit confirmation to Clearing Corporation;
10. Instructions of Clearing Corporation for debits and credits to the Member's Settlement Current accounts by the Settlement Bank shall be irrevocable and final;
11. The Member shall authorize Settlement Bank to access its Current account for debiting and crediting its Settlement accounts in accordance with instructions received from Clearing Corporation;
12. Settlement Banks shall extend to Clearing Corporation the facility of on-line monitoring of the transactions in the Settlement Account of Clearing Corporation;
13. Settlement Banks shall enable Clearing Corporation to view the balances and/or transaction details in the Settlement accounts of the members maintained with the Settlement Banks on an on-line basis. Settlement Banks shall also allow similar access to the authorised representatives of the members;
14. Settlement Banks shall ensure that funds earmarked for Clearing Corporation settlement are not encumbered, utilized or transferred before completion of settlement cycle as set out by Clearing Corporation;
15. Settlement Bank shall, upon receipt of instructions from Clearing Corporation to that effect, transfer funds from settlement account of Members to settlement account maintained by Clearing Corporation with the Settlement Bank for pay-in instructions and vice versa for pay-out instructions. Similarly, Settlement Bank shall enable Clearing Corporation to transfer balances from such accounts of the Members to Clearing Corporation's Settlement account with them or vice versa as part of its Settlement or Default handling process;
16. Settlement Bank shall maintain record of the date and time stamp of all the payments and receipts executed by it in the Settlement account of Clearing Corporation and the Settlement Accounts of the Members. Members will have the responsibility to monitor transactions in

their accounts and to take up with their Settlement Bank any instances of unusual delay in effecting pay-ins and pay-outs. The transaction details along with time stamp must be submitted by the Bank as and when requested by the Regulator or Clearing Corporation. The Settlement Bank shall preserve such details for a period prescribed under the applicable laws or such other rules made there under;

17. 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 advise the same to Clearing Corporation and act in accordance with the instructions given by Clearing Corporation to meet such shortages;
18. The Settlement Bank shall meet the shortage by utilizing the balance available in Clearing Corporation's Proprietary account and/ or the Line of Credit extended by it to Clearing Corporation. Accordingly Settlement Bank would transmit confirmation advices to Clearing Corporation;
19. The Clearing Corporation may net Settlement Bank 's own funds obligations with the net funds obligations of all its members. If such netting results in funds pay-in, it shall be the responsibility of Settlement Bank to make available such netted amount at its Current Account with RBI to enable RBI to process funds settlement as per Clearing Corporation's instructions. If such netting results in pay-out of funds, Settlement Bank will receive such amount at its Current account with RBI & it will be Settlement Bank 's responsibility to make available such funds with Clearing Corporation's Settlement Account maintained with it to effect funds pay-out to members as per Clearing Corporation's instructions;
20. While processing Clearing Corporation Funds file at its current account with RBI, funds shortage, if any, in Settlement Bank's Current account maintained with RBI, shall be treated as funds shortage on account of Settlement Bank and Clearing Corporation will initiate action as per Chapter VII "Default" of this Regulations"; This shall be irrespective of failure to transfer, funds as mentioned in Regulation 19 above or otherwise;
21. Clearing Corporation may transfer the credit balances from its settlement account with the Settlement Bank to its current account with RBI under instruction to the Settlement Bank;

22. Settlement Bank shall immediately inform Clearing Corporation about action, if any, initiated by any of the authorities, or any irregularity observed in the members current/settlement account or any deviation from Know Your Customer (KYC) norms;
23. Information relating to any change of the Settlement Bank by the Member shall be advised at least 15 days in advance by the member along with the no objection letter from the existing Settlement Bank and the concurrence from the new Designated Settlement Bank to Clearing Corporation;
24. Settlement Bank shall put in place adequate controls and risk management systems to facilitate smooth and effective settlement of fund obligations;
25. In respect of settlement related transactions of the members including transactions relating to close out of trades or positions of such members which are routed through their Settlement Bank , members will be discharged of their liabilities in respect of their funds Pay-in obligations only after the monies paid by them has(/ve) been transferred by the concerned Settlement Bank to the Clearing Corporation's respective Settlement account(s) and/or Current Account with Reserve Bank of India. Members shall however get valid discharge if such funds are appropriated by the Settlement Bank to effect pay - out to other members of Clearing Corporation as part of settlement process in terms of instructions given by Clearing Corporation;
26. In respect of funds Pay-outs to the members by Clearing Corporation, Clearing Corporation shall have valid discharge, after it has transferred funds to the accounts of Settlement Bank , either from its settlement account at RBI or from any other Settlement Bank and issued instructions to the Settlement Bank to transfer such funds to the accounts of the concerned members.

CHAPTER XVI: DEFAULT MANAGEMENT COMMITTEE

1. General provisions for Default Management Committees (DMC)

a. Default Management Committee (DMC):

A Default Management Committee (hereinafter referred to as DMC) shall be a committee as defined in these Regulations. The Clearing Corporation shall establish a Default Management Committee for this segment.

b. Roles and Responsibilities of the DMC

The roles and responsibilities of the DMC shall be to advise and assist the Clearing Corporation in the following matters:

- i. Assisting in hedging defaulter's portfolio including facilitation of execution of the hedge trades;
- ii. Creating tranches out of the defaulter's hedged/un-hedged portfolio, as the case may be;
- iii. Setting reserve price for Auction of portfolio tranches;
- iv. Carrying out market sale of positions/ auction as required;
- v. Assisting in allocation of unsold position/trades; and
- vi. Any other incidental matter(s) in connection with the above as may be brought before the DMC by the Clearing Corporation

c. Constitution of DMC

- i. Clearing Corporation shall identify 7 clearing Members who will be invited by the Clearing Corporation to form the DMC. Of the Members so identified, 4 Members shall be classified as 'Core Members' of the segment. For the purpose of categorization of Members as core Members, the Clearing Corporation shall compute the average initial margin (IM) for all Members of the respective segment for the previous calendar quarter at the time of constitution of DMC and rank Members in descending order of their average IM.
- ii. **Core Members** - The top 4 ranked Members of the clearing segment by average IM shall be considered as the Core DMC Members subject to meeting eligibility criteria as mentioned in Clause 1(d) below. Joining the DMC will be mandatory for Members identified as Core Members. Clearing Corporation shall advise the Core Members of their appointment by way of a letter / email. In case of a tie for the 4th rank, Clearing

Corporation management / board shall reserve the right to appoint one of the tied Members to be a Core Member.

- iii. **Non-Core Members** – Clearing Corporation shall invite through e-mail / letter the next 3 top ranked Members depending on the category of such Members subject to meeting eligibility criteria as mentioned in Clause 1(d) below to join the DMC in the capacity of Non-Core Members. The Non-Core Members shall necessarily include 1 public sector banks and 2 foreign / private banks / Primary Dealers. Joining the DMC shall be voluntary for Members identified as Non-Core Members.
- iv. A Member so invited shall revert to Clearing Corporation within 7 business days about its acceptance / rejection of the invitation to join the DMC. If such Member does not respond by the 7th day, Clearing Corporation shall consider that the Member has accepted the invitation to join the DMC.
- v. If a Member invited to join the DMC as a Non-Core Member rejects the invitation, the invitation shall be extended to the next ranked Member in the same category (private sector / public sector / foreign banks / Primary Dealers). In case of non-availability of Members from the same category, the Clearing Corporation may extend the invitation to a Member belonging to any other category. If such newly identified Member also rejects the invitation to join the DMC, the position may be thrown open to any Member of the same category. Clearing Corporation shall inform all clearing Members of the segment belonging to the same Member category through an e-mail about such open position on the DMC. A Member wishing to join the DMC may send a request to Clearing Corporation for the same. If Multiple Members express their interest to join the DMC, Clearing Corporation shall choose the higher ranked Member to be a part of the DMC.
- vi. If the required number of Non-Core Members do not volunteer to join the DMC, Clearing Corporation may nominate Members as per a process deemed appropriate by it. It shall be mandatory for such nominated Members to join the DMC.
- vii. Members (Core and Non-Core) who are appointed to the DMC shall be required to serve the full term of the DMC.

d. Eligibility criteria for DMC membership:

- i. The Member institution shall not have been declared as defaulter in terms of Chapter XII, 'Defaults' of the Bye-Laws of the Clearing Corporation;

- ii. The Member institution should not be subject to any Regulatory actions of material nature in the three years prior to its nomination on the DMC;

Failure to comply with any of these conditions during the tenure of its membership shall result in the termination of the DMC membership of such Member institution.

e. Nomination of DMC Officials

- i. A Member institution which has accepted membership of the DMC shall be required to nominate representatives from their institution, who will be termed as **DMC officials**, within 15 business days from their selection to the DMC.
- ii. Each Member institution shall be required to nominate 2 representatives – one as a primary representative and other as a back-up representative who shall perform the responsibilities of the primary representative in his/her absence.
- iii. Clearing Corporation shall have the authority to confirm / reject the nominated officials as part of the DMC and in case of rejection; the Clearing Corporation shall cite the reasons for such rejection.
- iv. Upon rejection by Clearing Corporation, DMC Member institution shall have to provide an alternate nomination within 15 business days.
- v. DMC Member institutions shall be allowed to substitute their nominated representatives in the DMC by giving a minimum 30 calendar days' notice, subject to Clearing Corporation approving the candidature of the nominated substitute. It shall be the responsibility of the DMC Member to provide a substitute DMC official in case of termination or resignation of its current nominated representatives.
- vi. Clearing Corporation shall have right to terminate the appointment of a DMC official if at any point of time during its term, such official has failed to adhere to the rules of the DMC.

f. Qualifying criteria for an individual nominated to represent a Member entity on the DMC:

- i. He/she must be a serving employee in India of the Participating DMC Member institution;
- ii. He/she must be able to demonstrate relevant experience with respect to the products cleared by the Clearing Corporation and have appropriate expertise in the matters in which the DMC is expected to advise the Clearing Corporation;
- iii. He /she is not subject to any on-going regulatory disciplinary investigation / action

with regard to any fraud or misdemeanour;

- iv. He/she must not already be a Member of a default management committee or a similar committee of the Clearing Corporation or another central counterparty or exchange;

g. Term of DMC Members:

- i. A DMC Member institution shall serve a term of three years from the time the Agreement for the Participation in the Default Management Committee has been signed and has become effective. The Clearing Corporation may extend the relevant period if the DMC Matters for which a DMC Meeting has been convened is not likely to be finalised before the relevant term would have otherwise ended.
- ii. The DMC shall be re-constituted after the end of the term as per the rules laid out for the 'Appointment of DMC Members' and Members shall be eligible to get re-appointed for another term.
- iii. A Non-Core Member may resign from the DMC after giving a notice of 30 days. Such resignation shall be accepted by the competent authority of the Clearing Corporation subject to the resigning Member having complied with these rules and the procedures set out in this regard.

h. Removal of a Member institution from the DMC by the Clearing Corporation

A Member institution shall cease to be part of the DMC if it has been declared as a defaulter in one or more clearing segments of Clearing Corporation in terms of its Bye Laws, Rules and Regulations

- i. Removal of a DMC Member institution will lead to automatic removal of DMC officials nominated by such Member.
- ii. Clearing Corporation shall invite a clearing Member, who is not a DMC Member, subject to the appointment criteria cited in Para 1 above, to replace the outgoing DMC Member institution.
- iii. If two or more DMC Member institutions are subject to a merger and become affiliates, Clearing Corporation shall upon consultation with the Participating DMC Member Institution(s), remove all appointed DMC representatives and back up representatives of such original Participating DMC Member and seek fresh nominations from the merged entity.

i. Removal of a DMC representative by the Clearing Corporation

Clearing Corporation shall have the right to remove a representative (including the back-up representative) of a DMC Member institution from the DMC on which it serves by giving prior written notice of at least 5 calendar days to the DMC Member institution in the following instances:

- i. The DMC representative(s) fails to participate in two consecutive DMC Meetings due to reasons which in the opinion of the Clearing Corporation is not a valid reason, or
- ii. The DMC representative fails to comply with the DMC Rules; or
- iii. The DMC Member institution ceases to comply with DMC Member Eligibility Criteria as stated above.

j. DMC meetings

- A DMC meeting shall be convened by the Clearing Corporation through e-mail / telephone or any other suitable means for the following purpose:
 - i. GENERAL MEETING - Convened at regular intervals to deliberate, discuss and decide on default handling procedures.
 - ii. FIRE DRILL MEETING – For assessing the efficiency of default handling procedures during default fire drills and suggesting corrective measures thereon.
 - iii. DEFAULT MANAGEMENT MEETING – For assisting Clearing Corporation in managing participant defaults.
- In case of a Default Management Meeting, the DMC officials must be available for prompt participation in person within two hours after receipt of intimation for such meeting.
- Both, primary as well as back-up representatives shall be permitted to attend General meetings and Fire Drill meetings. In case of Default Management meeting, the back-up representative shall be permitted only if the corresponding primary representative is not available for the meeting.
- All DMC meetings shall be held in person at the premises of Clearing Corporation or any other venue as specified by the Clearing Corporation.

k. Quorum

- i. Quorum shall be achieved if overall 40% of Members of DMC are present, with at least 60% of Core Members being present.

- ii. If within half an hour after the time fixed for the DMC meeting, there is no quorum, the meeting, shall be adjourned to a later hour on the same day. At such adjourned meeting, the Members present shall be deemed to be the quorum and the Agenda of the original meeting shall be transacted as scheduled.

2. Chairperson and Deputy Chairperson

- a. Once a DMC has been established, the officials nominated to represent the DMC Member institution on the DMC shall elect from amongst themselves a Chairperson and a Deputy Chairperson.
- b. The Chairperson / Deputy Chairperson shall be elected by the DMC in consultation with the Clearing Corporation.
- c. Only primary representatives of a DMC Member can be elected as a Chairperson and Deputy Chairperson for a period of three years. Voting rights for election of Chairperson and Deputy Chairperson will be restricted to the primary representatives only.
- d. The Chairperson shall preside over the proceedings of DMC meetings. In his / her absence, the Deputy Chairperson shall perform the functions of the Chairperson at a DMC meeting.
- e. Removal of the DMC Chairperson and the Deputy Chairperson Member shall be in accordance with Rule h (“Removal of a DMC representative by the Clearing Corporation”) referred to above.
- f. The Chairperson and / or Deputy Chairperson may resign from the post after giving a notice of 30 days. However, he/ she may continue to be a part of the DMC as a Member.

3. Clearing Corporation’s Representation in DMC meetings

- The Clearing Corporation shall be represented in a DMC meeting by one or more of its officials appointed by a competent authority.

4. Voting procedures

- a. All decisions of DMC shall be made at a DMC meeting by the DMC officials present in person in the meeting on the basis of voting by show of hands and by means of a simple majority.
- b. Both Core Members as well as the other Members shall have equal weight in the voting process.

- c. Each participating DMC Member shall have only one vote. Back-up representatives shall be permitted to cast vote only if the corresponding primary representative is not available for the meeting.

5. Recommendations of DMC

- a. The DMC shall submit its recommendations to the Clearing Corporation for further action on the same.
- b. The Clearing Corporation shall have the right to accept or not to accept any of the recommendations of the DMC. In situations where the Clearing Corporation does not accept the DMC's recommendations, it shall record its views in writing and shall notify the same to the Regulator.
- c. In situations where the DMC is not able to arrive at a decision based on a simple majority, the Clearing Corporation shall have the right to proceed in a manner as it deems fit considering the market interest and the interest of the Payment System. In such case, the course of action so decided by the Clearing Corporation shall be final and binding.

6. External Experts

- a. Clearing Corporation may invite external experts or external counsels to attend whole or part of the DMC meetings if the attendance of such experts/ counsels is deemed appropriate by the Clearing Corporation.
- b. Such external experts, if invited to attend the DMC meeting shall have no right to vote in the meeting.

7. Confidentiality

- a. DMC Members and external experts shall be required to maintain confidentiality of DMC proceedings, discussions, decisions and such other information pertaining to the actions undertaken to which they were privy to. Such confidentiality shall be maintained even after their resignation or termination from the DMC.
- b. DMC Members shall not use any confidential information received as part of its appointment to the DMC for the benefit of itself, its organization or affiliates or any third party.
- c. Such information may however be disclosed by the DMC Members to regulatory or supervisory authorities.

8. Undertaking and Non-Disclosure Agreement (NDA)

- i. On appointment to the DMC, DMC Members shall be required to execute an Undertaking for participation in the Default Management Committee.
- ii. DMC Members are required to adhere to the rules and regulations of CCIL in this regard.
- iii. Each DMC Member institution shall instruct its nominated DMC Member officials to follow the instructions of the Clearing Corporation during a DMC Meeting held in connection with the DMC Matters in accordance with the DMC Rules and to always act in the best interest of a successful default management process of the Clearing Corporation.
- iv. DMC Officials shall remain an employee of the respective DMC Members and shall not qualify as an employee of the Clearing Corporation or its subsidiaries.
- v. DMC Members and DMC officials will be required to sign a Non-Disclosure agreement. Any external experts / counsels attending the DMC meetings at the behest of Clearing Corporation would also be required to sign the Non-Disclosure agreement.

GLOSSARY OF CHANGES TO THE REGULATIONS

DEFINITIONS

- 1) **Allocation of Defaulter's portfolio:** Allocation shall mean allocation of part/ whole of the Defaulter's Portfolio to non-defaulters at a price determined by Clearing Corporation.
- 2) **Assessment Calls:** Assessment calls shall mean resources called from non-defaulting Members to replenish the Default Fund when losses on default handling exceed Prefunded Default Handling Resources.
- 3) **Auction:** An auction shall mean an auction of the Defaulter's Portfolio.
- 4) **Auction Pool / Bucket:** Where the Defaulter's Portfolio has been split into multiple portfolios to enhance the efficiency of the auction process, each such portfolio shall be referred to as an Auction pool / bucket. Where the defaulter's entire portfolio is auctioned without any split, such portfolio will constitute a single Auction pool / bucket.
- 7) **Default Management Committees (DMC):** Default Management Committees (DMC) shall mean committees established by the Clearing Corporation for purposes of advising and assisting the Clearing Corporation in administration / management / handling of a default by a Member and in other related matters. Each DMC is governed by the provisions set forth in Chapter XVI of Regulations of this segment.
- 8) **Default Management Period:** A Default Management Period shall mean the period commencing on the day that Clearing Corporation declares a Member as defaulter, and shall conclude on the Default Management Period End Date.
- 9) **Default Management Period End Date:** The Default Management Period End Date shall mean the Business Day following the declaration by the Clearing Corporation that:
 - (a) a matched book as provided for in para D E II) A) (4) of Chapter VII of these Regulations has been restored and close-out as provided for in para D E II) B) of Chapter VII of these Regulations has been completed and the obligations, losses or

expenses incurred or sustained by the Clearing Corporation in connection with the default of Member(s) are known, or can reasonably be determined, and have been satisfied or settled; and

(b) any of the actions, rights or remedies available to the Clearing Corporation with respect to the default of any Member that were deemed necessary by the Clearing Corporation have been taken and duly completed;

- 10) **Defaulter's portfolio:** Defaulter's portfolio shall mean and include the positions of the Defaulter accepted for clearing and settlement and may include hedge trades (if there be any) done to neutralize partially/ fully the market risk of such positions.

- 18) **Juniorisation:** Juniorisation is a process whereby for each auction pool, the Clearing Corporation shall rank non-defaulting Members based on their performance in auction such that the Default Fund contributions of some non- defaulting Members are appropriated prior to that of others.

- 20) **Matched Book:** Clearing Corporation shall be said to have a matched book when its obligations to some Members arising out of trades cleared by it are matched by obligations of remaining Members to the Clearing Corporation on account of such trades.

- 26) **Multi-unit Discriminatory Price Auction:** Multi-unit Discriminatory Price Auction shall mean an Auction where multiple identical units of each Auction Pool are made available and considerations paid/ received by winning bidders are at prices at which the bidders have won their respective units fully/partially.

- 29) **Prefunded Default Handling Resources:** Prefunded Default Handling Resources shall mean and include Defaulter's resources with Clearing Corporation, Clearing Corporation's contribution earmarked for the segment from its Settlement Reserve Fund and non-defaulters' default fund contribution.

- 31) **Reserve Price:** Reserve price shall mean the lowest payment that the Clearing Corporation shall be willing to receive from a Member or the highest payment that it

shall be willing to pay to a Member in case of a hedging transaction or to a winning member in an Auction.

- 35) Single-unit Auction: Single-unit Auction shall mean an Auction where an Auction Pool will be available as a single unit.
- 36) Tearing-Up of trades: Tearing-up of trades shall mean the process of closing out of Trades before the termination date where such close-out is initiated by the Clearing Corporation as part of its Default Management Process.

CHAPTER I : INTRODUCTION

The Regulations shall be known as The Clearing Corporation of India Ltd (Rupee Derivatives Segment) Regulations 2010 and as amended in ~~2018~~ September 2019.

CHAPTER VII : SETTLEMENT SHORTAGE & DEFAULTS

The provisions of this chapter shall be applicable only to those Members of Rupee Derivatives (Guaranteed Settlement) Segment.

I. Settlement Shortage

Failure of a Member to discharge its obligation to pay funds due from the Member at the time of settlement shall be treated as a settlement shortage.

Subject to other provisions of these Regulations, Clearing Corporation shall make good the funds shortage, at the cost of the member in shortage, by availing Lines of Credit.

Effect of settlement shortage:

The Member-in shortage shall be liable to make good the payment equivalent to the shortfall together with the charges, penalties and other levies, as notified by Clearing Corporation from time to time, within the specified cut-off time.

II. Default Handling

A. DECLARATION OF DEFAULT

A Member shall be treated as a defaulter (“Defaulter”) in this segment:

- a) If it does not make good this amount of settlement shortage referred to above within the specified cut-off time.

- b) If it fails to replenish margin after its utilization has exceeded 100% of the margins made available for meeting margin requirements for this segment within the specified cut-off time.
- c) If it is declared Defaulter in another segment and/or has filed for insolvency under relevant laws and/or is declared insolvent by a competent authority.
- d) If it is unable to pay within the specified time, damages and the money difference due to a close-out effected against it under the Bye-laws, Rules and Regulations.
- e) If it fails to replenish the Default Fund contribution ~~within the time stipulated in terms of para J(i) and J(ii) of Chapter IX;~~
- f) Due to any other circumstances as set out in the Bye-laws, Rules and Regulations.

B. DEFAULT HANDLING PROCEDURE FOR SETTLEMENT SHORTAGE

- a) Any shortage in meeting daily settlement obligation in this segment shall, unless replenished by the Member by 11.00 A.M. on the next day (by **10.30 A.M.** if the next day is a Saturday), be treated as a Default by the Member. For meeting such shortage, Clearing Corporation shall have the authority to sell the securities placed by the Member as margin deposit. Such sale could be made either through NDS-OM or Over the Counter or sale through private arrangement as decided by Clearing Corporation.
- b) If Clearing Corporation resorts to the provisions of the sub-Regulation B a) above, the Defaulter Member shall be liable to pay charges and penalties as notified by Clearing Corporation from time to time.

~~2. If the margin shortfall obligation is not met including through sale of securities placed as margins as stated in sub-Regulation B1 above, Clearing Corporation shall be entitled to Close Out such outstanding IRS and /or FRA trades of the Member as it considers necessary, to bring the margin liability of the Member within the required level (i.e. margin requirement as percentage of margin available for the segment is to be lower than the Replenishment Level set for the Member.~~

~~Such Close-out of trades shall be between the Defaulter Member and its original bilateral counter-parties for the identified trades. In the case of trades concluded on the Rupee Derivatives Dealing System, the procedure for closing out of such trades shall be notified by Clearing Corporation from time to time. For effecting such Close-out, Clearing Corporation shall, as far as possible, follow the process for identification of such trades as notified by Clearing Corporation from time to time.~~

C. DEFAULT MANAGEMENT COMMITTEE

1. CCIL may establish a Default Management Committee (DMC) comprising representatives nominated by selected members of the segment for advising / assisting the Clearing Corporation in administration / management/ handling of default by a member. Where the defaulter's portfolio of outstanding trades includes trades in multiple benchmarks, the role of the DMC shall be restricted to trades in MIBOR and MIOIS benchmarks only. For trades in these two benchmarks, the DMC shall advise and assist the Clearing Corporation on various aspects of default management process, primarily in the areas of:
 - a) Risk neutralization of Defaulter's Portfolio
 - b) Creating buckets out of the Defaulter's hedged/ un-hedged Portfolio, as the case may be
 - c) Setting reserve price for Auction of Portfolio Buckets
 - d) Assisting in carrying out market sale/ Auction of Portfolio Buckets as required
 - e) Assisting in allocation of position/ trades
 - f) Any other incidental matter(s) in connection with the above as may be brought before the DMC by the Clearing Corporation
2. Provisions pertaining to the constitution of the DMC, including rights and obligations of the DMC have been prescribed in Chapter XVI of these Regulations.

D. MULTIPLE DEFAULTS IN THE SAME DEFAULT MANAGEMENT PERIOD

If during an ongoing Default Management Period, the Clearing Corporation declares some other Member also as a defaulter, then such multiple Members' defaults shall be processed in the same Default Management Period.

E. DEFAULT HANDLING PROCEDURE FOR DEFAULT DECLARED IN TERMS OF CLAUSES II A) ABOVE EXCEPT FOR SETTLEMENT SHORTAGE

E. 1. Trades referenced to the MIBOR and MIOIS benchmark

1. The Clearing Corporation shall on declaration of default resort to transferring the defaulting Member's positions to one or more non-defaulting Members by way of a sale (including an auction) or through an allocation mechanism as mentioned in E. 1. 4(e) below.
2. Risk neutralization of the Defaulter's Portfolio
 - a) The Clearing Corporation with the assistance of the DMC may reduce as much as is possible and reasonable the market risk of the positions of the defaulting Member by executing hedge trades.
 - b) For this purpose, the Clearing Corporation may, with the assistance of the DMC enter into new transactions with non-defaulting Members in order to hedge the Defaulter's Portfolio. Such transactions may be concluded on trading platforms operated by Clearcorp or in accordance with separate arrangements between the Clearing Corporation and other Members of the segment availing clearing services for rupee derivative trades (including FRAs) referenced to the MIBOR and MIOIS benchmark.
 - c) The hedge transactions shall be considered as part of the Defaulter's Portfolio with respect to the further processes undertaken in accordance with the default management process.
 - d) The Clearing Corporation may, in consultation with the DMC, in certain cases decide not to carry out such hedge transactions where it is reasonably felt that the cost and time

involved may be detrimental to the successful conclusion of the Default Handling Process.

3. The Clearing Corporation may, in consultation with the DMC, decide to split the Defaulter's Portfolio which shall include the hedge trades done in terms of clause E. 1. (2)(b) above into Multiple Buckets with the aim of enhancing the efficiency of the Auction Process. The process of splitting the Defaulter's Portfolio may be done either before or along with or after the process of hedging of the Defaulter's Portfolio. Each such split portfolio shall be referred to as an Auction Pool/ Bucket.

4. Restoration of a 'matched book'

a) On declaration of a default in terms of para A above, if the Clearing Corporation determines that in respect of the Trades cleared by the Corporation, it is exposed to the risk that its obligations to some Members will not be matched by corresponding obligations by remaining Members to it, then the Clearing Corporation shall be deemed to be having an unmatched book and shall be required to take any/all of the steps listed in paras (b) to (e) below.

b) The Clearing Corporation, in consultation with the DMC, may transfer the defaulter's positions including the hedge transactions to one / more non-defaulting Members at a price acceptable to the Clearing Corporation or / and at prices arrived by conducting one or more Auctions.

c) An Auction in terms of para (b) above shall be for the entire Defaulter's Portfolio or for various Auction Pools and may involve multiple Auction rounds. The Clearing Corporation in consultation with the DMC shall determine the Reserve Price, acceptable to it for the entire portfolio of the Defaulter or Reserve Price in respect of each Auction Pool.

d) The Clearing Corporation shall conduct a Single unit Auction or Multi-unit Discriminatory Price Auction, in such mode as prescribed by the Clearing Corporation. The details of the auction scheme shall be as notified by the Clearing Corporation from time to time.

e) In case, the Clearing Corporation is not able to restore a Matched Book by the above process, it may then, in consultation with the DMC, use one or both of the following measures for matched book restoration:

- Allocation of positions to any non-defaulting Member(s) regardless of whether such Member(s) has (have) positions opposite or related to those in the Auction Pool(s).
- Tear-Up of trades of non-defaulting Members who hold positions opposite to those in the Auction Pool(s).

The price at which positions are torn up or allocated will be determined by CCIL in consultation with the DMC. The allocation of defaulter's position to non-defaulting Members or/ and tear up of non-defaulters' portfolio shall be carried out in accordance with the procedures as notified by the Clearing Corporation from time to time.

5. Assessment Calls

- a) In terms of para J(iii) of Chapter IX of these Regulations, if the losses incurred by the Clearing Corporation in restoration of the Matched Book following a Member Default exceed that of the total available Pre-Funded Default Handling Resources, the Clearing Corporation shall make Assessment Calls for replenishment of default fund, to the non-defaulting members of this segment availing clearing services for rupee derivative trades (including FRAs) referenced to the MIBOR and MIOIS benchmark.
- b) The Clearing Corporation shall make such Assessment Calls on one or more occasions during the default handling period based on its assessment of the resources required for default management.
- c) The Assessment Calls shall be made to non-defaulting Members in proportion to their respective default fund contribution requirements to the MIBOR & MIOIS-Default Fund at the time of handling such default and the same have to be met only in cash.
- d) Inability of a Member to meet the Assessment Calls shall be deemed to be an action preventing the Clearing Corporation from returning to the Matched Book and shall result in the Clearing Corporation initiating appropriate actions against such Member which could include allocation of portions of defaulter's portfolio, or tearing up its portfolio, partly or completely, and appropriating its margin resources.

6. Appropriation of Losses

Following the restoration of the Matched Book, the Clearing Corporation shall determine the total losses resulting from the Default Handling Process. In the event Defaulter's Portfolio was split into Multiple Auction Pools/Buckets, then the resources shall be allocated to each bucket in proportion to the losses in the Buckets. The losses corresponding to each Auction Pool/ Bucket shall be appropriated in the order mentioned in Para I(i) of Chapter IX of these Regulations. Where losses are required to be appropriated from the default fund contributions of non-defaulting Members in terms of Para I(i)(d) of chapter IX of these regulations, then such appropriation will be in accordance with the Juniorisation scheme as notified by Clearing Corporation from time to time.

Provided, however, if losses are required to be appropriated from the default fund contribution of non-defaulting Members in terms of Para I(i)(f) of Chapter IX of these regulations, then such appropriation will be done in proportion of their required contributions to the default fund at the time of handling such default.

7. Settlement of obligations arising out of Auction(s) or allocation(s) in terms of E. 1. (4)(b) and E. 1. 4)(e)

- a) Non-defaulting Members who seek to bid for Auction Pool(s) shall be required to prefund their bidding value at the time of Auction commencement.
- b) Where the restoration of the Matched Book results in non-defaulting Members having a margin payable, such members shall be required to make available requisite margins before receiving the funds pay out. In the event of a shortfall in margin account, CCIL shall deduct such shortfall amount from the funds payable to the Member and credit the same to its margin account.
- c) Where the funds payable to a Member is less than the margin shortfall and the Member is unable to meet the margin shortfall within such time as may be notified by the Clearing Corporation, the Clearing Corporation shall withhold the entire amount payable to such Member. In addition the Clearing Corporation shall also have the right to tear up such member's portfolio along with the allocated portion of Defaulter's Portfolio.

8. Booking of contracts in the non-defaulters' names

- a) The Clearing Corporation shall book in the name of the respective non defaulting Members the contracts won by them in the Auctions / allocated to them terms of E. 1. (4)(b) and E. 1. (4)(e) above with effect from a date which shall be intimated to such Members. Such new contracts shall also be immediately reflected in the trade repository run by the Clearing Corporation.
- b) The resultant increase in settlement, margin and Default Fund obligations shall be assumed by such non-defaulter Members from the date of the booking of these contracts.

E.2. Trades referenced to the MIFOR benchmark

1. Clearing Corporation shall be entitled to Close-out all the outstanding IRS and FRA transactions referenced to the MIFOR benchmark of the Member in the Rupee Derivatives Segment and utilize collaterals collected as margins of that Member set aside from SGF for the Rupee Derivatives Segment in closing out transactions ~~under the following circumstances.~~
~~Insolvency or dissolution or winding up of the Member.~~
~~Moratorium imposed on any bank which is a Member.~~
~~Acquisition or merger of a Member.~~
~~Court order for attachment of a Member's property.~~
~~Any circumstances which in the opinion of Clearing Corporation warrant Close-out in the interest of the market.~~
2. Such Close-out of trades as mentioned above shall be between the Defaulter Member and its bilateral counter-parties.
3. The Close-out of the trades shall be effected at Clearing Corporation's MTM rates for the respective trades as at the end of the day of Close-out. However, if the Close-out is undertaken during the day, the MTM rate as at the end of previous day or the market price as considered appropriate by Clearing Corporation considering the state of the market at that material time shall be the basis for such Close-out.

4. The surplus/shortfall from such Close-out shall be arrived at separately in respect of the Defaulter Member and its each bilateral counterparty.
5. Any shortfall arising out of such Close-out of positions shall be recovered from the SGF balance made available as margin for this segment by the Defaulter Member or the respective counterparties, as the case may be. In case the balance in SGF account of the Member or any of its counter-parties made available as margin for this segment turns out to be inadequate to meet the shortfall amount, the said Member(s) shall be obligated to meet the shortfall in cash before the cut off time as applicable for deposit of Incremental MTM margin.
6. In case a Member fails to bring in cash as mentioned in sub Regulation B5 above to meet the shortfall, Clearing Corporation shall be entitled to sell any security in SGF account of the Member. Such sale could be by way of auction or through private arrangement as decided by Clearing Corporation. Provided however that before selling any security made available by a non-defaulter Member under this section, Clearing Corporation shall give a notice to such Member to replace the securities by cash equivalent to its MTM value within a pre-specified period.
7. If the Close-out of trades carried out results in a surplus in the account of any of the bilateral counterparty of the Defaulter Member, such amount shall be treated as margin made available by such Member in this segment till Clearing Corporation makes pay-outs for the amount to them. Clearing Corporation shall arrange for such pay-out as early as possible after the close out but shall not be responsible for any undue delay caused by non-recovery of amount from other entities involved in the close out. Any credit to margin account of any Member on this account ~~cannot~~ can however be availed in any other segment.
8. Bilateral counterparties to whom trades are allocated may square off the position resulting from the Close-out in the market and report the same to Clearing Corporation. Such intimation shall be received at Clearing Corporation in the prescribed format on the next business day after the

close-out. The loss, if any, accruing to the bilateral counterparties on account of such Close-out shall be recovered from the Defaulter Member and made over to them. In case such recovery from the Defaulter Member is not possible or the recovered amount is less than the amount due for recovery for any reason whatsoever, the resultant loss shall be treated as loss arising out of default in terms of the provisions of para I of Chapter IX, Default Fund, of these Regulations.

Provided that the rate at which the bilateral counterparty has covered the position is identified as an outlier by Clearing Corporation, the defaulter shall not be liable for the loss. The decision of Clearing Corporation in regard to admissibility of loss in the circumstances shall be final and irrevocable.

~~11. Auction of trades/positions of a Defaulter~~

~~11.1 Clearing Corporation may formulate a scheme for auction of trades/positions of a Defaulter. Such scheme will come into effect only after the same has been duly notified to the Members.~~

~~11.2 Auction of all trades or positions in aggregate or by splitting those into smaller groups will be resorted to as per the provisions of the scheme. If there is a loss from such close-out, the Defaulter Member shall be liable to make good such loss. Any loss including that may arise in future on unsold positions shall also accrue to the Defaulter.~~

~~11.3 If the loss is not met by the Defaulter within an hour's time from declaration by Clearing Corporation of the result of such auction, Clearing Corporation shall be entitled to, without any further reference to the Defaulter, sell collaterals placed by the Defaulter Member as margin and/or close-out remaining trades/positions of the Defaulter Member in this or any other segment to meet any shortfall/loss.~~

CHAPTER IX : DEFAULT FUND

D. COMPOSITION

- i. Default Fund shall be formed with contributions from members in the form of cash and/or eligible Government Securities.

- ii. Clearing Corporation shall specify the__minimum percentage of contribution in the form of cash from time to time after due notification;
Provided however that during a default management period, if any replenishment of the Default fund in terms of the provisions of para J(iv) of this Chapter is required, such replenishment shall be made only in cash;
- iii. Members will be permitted to maintain their Default Fund collateral composition ratio in terms of Clause D (ii) above, after the completion of Default Management Period has been advised to Members by the Clearing Corporation.
- iv. Clearing Corporation shall notify the eligible securities for contribution to Default Fund. Securities declared as ineligible for Default Fund contribution shall not be reckoned as Default Fund contribution of such member-
- v. Clearing Corporation may notify from time to time the maximum amount of a single security or group of securities that a member and/_or all Members together may deposit by way of contribution to Default Fund and/ or have security concentration thresholds beyond which hair cut rates of securities as collateral may be increased.
- vi. A member shall at all times ensure that its contributions to Default Fund are adequate to cover its share as per Para (C) above.
- vii. Cash contributions to Default Fund shall be in multiples of Rs.1 lac or such other amount as may be prescribed by Clearing Corporation.

I. UTILISATION

- i. Where a Member is declared as defaulter in terms of Chapter VII, the losses as a result of such default shall be computed separately for the defaulter's portfolio comprising of rupee derivative trades referenced to the MIFOR benchmark (referred to as "MIFOR losses") and that for the defaulter's portfolio comprising of rupee derivative trades referenced to the MIBOR and MIOIS benchmark (referred to as "MIBOR & MIOIS losses"). The respective losses shall be met by Clearing Corporation by recourse to funds in the following order:

- a. first, by appropriation of the benchmark wise margin contribution of the defaulting Member including surplus margin contributed in any Segment;
 - b. next, by applying set-off from defaulter's own contribution to the respective Default Funds. Any residual loss after applying such set off shall be further set off against excess contribution of the defaulter entity in any other Default Fund account with the Clearing Corporation. Such set off will be subject to the Regulations of the Segment in which such excess contribution is identified.
 - c. next, by allocation from Clearing Corporation's Settlement Reserve Fund, an amount notified by Clearing Corporation as the first tranche for allocation at the time of arriving at the corpus of the respective Default Fund in terms of Para B of this Chapter .
 - d. next, by allocation of the residual loss to the Default Fund accounts of non-defaulting Members in proportion to their required contributions to the respective Default Funds at the time of handling such default or if an auction has been conducted, then as per the Juniorisation scheme established for each Auction Pool in terms of the provisions of Regulation E.1.(6) of Chapter VII. The amount allocated to the non-defaulting Members shall be recovered from such Members in the form of cash contribution, or by sale of securities contributed by such Members to the respective Default Funds under advice to them. The price at which such security/securities is/are sold will be binding on the Members. The individual losses shall be allocated to the respective Default fund contributions of the non-defaulting members.
 - e. and next by allocation from Clearing Corporation's Settlement Reserve Fund, an amount notified by Clearing Corporation as the second tranche for allocation, at the time of arriving at the corpus of respective Default Fund in terms of Para B of this Chapter.
 - f. and then by allocation of the residual loss to the respective Default Fund account of non-defaulting Members after replenishment of the balances in these accounts ~~in terms of para J(iii) of this Chapter~~ in proportion of their required contributions to the respective Default Funds at the time of handling such default.
- ii. If the contribution to Default Fund has been made in the form of securities by the defaulter and the securities are required to be sold for

appropriation, Clearing Corporation may sell those securities through NDS-OM and / or offer such securities for sale first to the non-defaulting Members of the segment and / or in any manner determined by the Clearing Corporation. 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.

- iii. If there is more than one default in a day, defaults shall, subject to Clearing Corporation not having commenced any action on any such defaults, be handled by Clearing Corporation in descending order of the estimated size of shortfall. In case Clearing Corporation has commenced any action on any such default, such default shall not be considered for the descending order priority.
- iv. If there is any allocation of residual loss to the Default Fund account of other Members (i.e. non-defaulter Members) in terms of Para I (i) (d) and (f) above, Clearing Corporation shall notify the total amount of such allocation on each such occasion. Clearing Corporation shall also notify the cumulative amount of such usage in the past one year period ending on such date.
- v. Clearing Corporation, may as per the process duly notified in this regard, treat the collateral available in Members' MIBOR & MIOIS-Default Fund or/and MIFOR-Default Fund account(s) in excess of its required contributions, as the collateral deemed to be made available by such Member towards meeting a deficit in the balance in any other Default Fund account. Such amount would continue to remain blocked towards the said Default Fund account till the Member has replenished the shortfall in the other Default Fund accounts with Clearing Corporation.
- vi. Moreover, if a Member is declared defaulter in another Segment and/ or has filed for insolvency under relevant laws and/ or is declared insolvent by a competent authority, Clearing Corporation shall be entitled to treat the collateral available in a Members' MIBOR & MIOIS-Default Fund or/and MIFOR-Default Fund account(s) in excess of its required contributions as being made available by the Member towards the Default Fund accounts of such other segments.
- vii. The action of Clearing Corporation as per the above process shall be final and binding on all Members.

- viii. The above course of action 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 Default Fund such sums as notified by Clearing Corporation on every revaluation / resizing of the Default Fund, in terms of Regulation 'B' above of this Chapter.

Shortfall, if any, in the default fund contribution of a member after such revaluation / re-sizing shall have to be replenished within such time period as may be notified by Clearing Corporation from time to time.

- ii. During the Default Management Period, if a Member's contribution to the Default Fund has been utilized to meet the ~~shortfall of a defaulter loss on account of default handling~~, the Member shall be required to replenish ~~the balance required to fulfill its contribution to the Default Fund~~ its contribution to the Default Fund, within ~~a maximum period of one business day from such utilization or such other number of days~~ such time period as may be notified by Clearing Corporation from time to time;
- iii. ~~In the event that the member's contribution to the Default Fund is found to be inadequate to meet the shortfall of a defaulter after allocation of shortfall in terms of Regulation I (i)(d)(f) above of this Chapter, 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 Regulation C(ii) above of this Chapter;~~ During the Default Management Period, if an additional contribution to the Default Fund is sought by Clearing Corporation in terms of Para I (i)(f) above, the Member shall be required to deposit such additional sums forthwith and bring the balance in its Default Fund account at par with its required contribution to the fund in terms of Para C(ii) above of this Chapter.
- iv. Default Fund replenishment calls made by the Clearing Corporation under the circumstances mentioned in para J(iii) above shall be termed as Assessment Calls and Default Fund replenishment in response to Assessment Calls shall be only in cash. Members shall be required to meet Assessment Calls within such time period as may be advised by Clearing Corporation during the particular Default Management Period;
- v. In the event of failure of a Member to contribute to Default Fund within the time period specified as per Para J(i), J(ii) and J(iv) above of this

Chapter, Clearing Corporation shall treat such failure in terms of Chapter VII of these Regulations and the Member shall be liable for the consequential action thereon as specified in Chapter VII of these Regulations.

- vi. The maximum contribution of a Member towards replenishment of its contribution to Default Fund for the Derivatives (Guaranteed Settlement) Segment in the 30 days' period immediately after the loss threshold as referred in Clause E(1) of Chapter II of this Regulation having been reached, and the Member having resigned, shall not exceed 5 times of its contribution to Default Fund based on last re-computation of Default Fund contribution of the Members carried out as per the process described in Clause B(ii) above of this Chapter, subject to a monetary ceiling notified by Clearing Corporation . A Member shall not be obligated to contribute any amount in excess of the monetary ceiling during the aforementioned period of 30 days.
- vii. The amounts mentioned in sub clause (vi) above as maximum contribution for a Member and the threshold as referred in paras E(1) of Chapter II shall be reviewed periodically by the Clearing Corporation based on market size, volatility etc. Any change in any of the ceilings as above or in the threshold as stated above due to such review shall be effected after giving a notice of 90 days to the Members.

K. RECOVERIES FROM THE DEFAULTER

- i. Any recovery from the defaulting Member, after adjusting for meeting charges/ penalties/ and any other incidental or consequential expenses shall be split in proportion of the “MIFOR losses” and “MIBOR & MIOIS losses” and shall then be accounted for individually by Clearing Corporation ~~in the reverse order of utilization of its resources as described in Regulation I (i) of this Chapter in the following order:~~
 - a) First to non-defaulting Members' Default Fund contributions utilised as part of the assessment calls in terms of para J(iii) above. If the amount recovered from the defaulter is less than that utilized from the Assessment Calls, then such amount shall be returned to the non-defaulting Members in proportion to the amount utilized.

- b) Next, by apportioning to the second tranche of Clearing Corporation allocated from its Settlement Reserve Fund, but not exceeding the amount originally appropriated from this tranche.
 - c) Next, by apportioning to the pre-funded Default Fund contributions of the non-defaulting Members to the extent utilized. If the residual amount recovered is less than the total utilized pre-funded default fund contribution of the non-defaulting Members across all Auction Pools, such residual amount shall be apportioned among such Auction Pools in the same ratio as the total non-defaulting Members' contributions were split between the pools at the time of the default handling. Within each Auction Pool, the recovered amounts will be returned to the non-defaulting Members in the reverse order of the Juniorisation scheme established for each such pool in accordance with the provisions of Regulation E.1.(6) of Chapter VII. However, in case of Pools where Auction was not conducted, the recovered amount shall be returned to the non-defaulting members in proportion to the amount utilized.
 - d) Next, by apportioning to the first tranche of Clearing Corporation allocated from its Settlement Reserve Fund, but not exceeding the amount originally appropriated from this tranche.
 - e) Finally, any residual amount shall be returned to the defaulting Member after adjusting for any other due and claims, if any from such defaulter.
~~If any such amount recovered is to be apportioned to the non-defaulting Members, then Clearing Corporation shall return the same (by credit to its Default Fund account, in the form of cash or eligible securities of equivalent market value pro rata to the respective amounts appropriated and not exceeding the amount of contribution so appropriated.~~
- ii. The return of resources to the non-defaulting Members as per the provisions of sub-clause a) and c) above will be by way of credit in the form of cash or eligible securities of equivalent market value to their Default Fund accounts.
 - iii. 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 Default Fund first towards meeting any residual loss arising on squaring off the trades of such Member 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 Bye-laws, Rules, and Regulations of such segments of Clearing Corporation in which the Member has been admitted.

CHAPTER XVI: DEFAULT MANAGEMENT COMMITTEE

1. General provisions for Default Management Committees (DMC)

a. Default Management Committee (DMC) :

A Default Management Committee (hereinafter referred to as DMC) shall be a committee as defined in these Regulations. The Clearing Corporation shall establish a Default Management Committee for this segment.

b. Roles and Responsibilities of the DMC

The roles and responsibilities of the DMC shall be to advise and assist the Clearing Corporation in the following matters:

- i. Assisting in hedging defaulter's portfolio including facilitation of execution of the hedge trades;
- ii. Creating tranches out of the defaulter's hedged/un-hedged portfolio, as the case may be;
- iii. Setting reserve price for Auction of portfolio tranches;
- iv. Carrying out market sale of positions/ auction as required;
- v. Assisting in allocation of unsold position/trades; and
- vi. Any other incidental matter(s) in connection with the above as may be brought before the DMC by the Clearing Corporation

c. Constitution of DMC

- i. Clearing Corporation shall identify 7 clearing Members who will be invited by the Clearing Corporation to form the DMC. Of the Members so identified, 4 Members shall be classified as 'Core Members' of the segment. For the purpose of categorization of Members as core Members, the Clearing Corporation shall compute the average initial margin (IM) for all Members of the respective segment for the previous calendar quarter at the time of constitution of DMC and rank Members in descending order of their average IM.
- ii. **Core Members** - The top 4 ranked Members of the clearing segment by average IM shall be considered as the Core DMC Members subject to meeting eligibility criteria

as mentioned in Clause 1(d) below. Joining the DMC will be mandatory for Members identified as Core Members. Clearing Corporation shall advise the Core Members of their appointment by way of a letter / email. In case of a tie for the 4th rank, Clearing Corporation management / board shall reserve the right to appoint one of the tied Members to be a Core Member.

- iii. **Non-Core Members** – Clearing Corporation shall invite through e-mail / letter the next 3 top ranked Members depending on the category of such Members subject to meeting eligibility criteria as mentioned in Clause 1(d) below to join the DMC in the capacity of Non-Core Members. The Non-Core Members shall necessarily include 1public sector banks and 2 foreign / private banks / Primary Dealers. Joining the DMC shall be voluntary for Members identified as Non-Core Members.
- iv. A Member so invited shall revert to Clearing Corporation within 7 business days about its acceptance / rejection of the invitation to join the DMC. If such Member does not respond by the 7th day, Clearing Corporation shall consider that the Member has accepted the invitation to join the DMC.
- v. If a Member invited to join the DMC as a Non-Core Member rejects the invitation, the invitation shall be extended to the next ranked Member in the same category (private sector / public sector / foreign banks / Primary Dealers). In case of non-availability of Members from the same category, the Clearing Corporation may extend the invitation to a Member belonging to any other category. If such newly identified Member also rejects the invitation to join the DMC, the position may be thrown open to any Member of the same category. Clearing Corporation shall inform all clearing Members of the segment belonging to the same Member category through an e-mail about such open position on the DMC. A Member wishing to join the DMC may send a request to Clearing Corporation for the same. If Multiple Members express their interest to join the DMC, Clearing Corporation shall choose the higher ranked Member to be a part of the DMC.
- vi. If the required number of Non-Core Members do not volunteer to join the DMC, Clearing Corporation may nominate Members as per a process deemed appropriate by it. It shall be mandatory for such nominated Members to join the DMC.
- vii. Members (Core and Non-Core) who are appointed to the DMC shall be required to serve the full term of the DMC.

d. Eligibility criteria for DMC membership:

- i. The Member institution shall not have been declared as defaulter in terms of Chapter XII, 'Defaults' of the Bye-Laws of the Clearing Corporation;
- ii. The Member institution should not be subject to any Regulatory actions of material nature in the three years prior to its nomination on the DMC;

Failure to comply with any of these conditions during the tenure of its membership shall result in the termination of the DMC membership of such Member institution.

e. Nomination of DMC Officials

- i. A Member institution which has accepted membership of the DMC shall be required to nominate representatives from their institution, who will be termed as **DMC officials**, within 15 business days from their selection to the DMC.
- ii. Each Member institution shall be required to nominate 2 representatives – one as a primary representative and other as a back-up representative who shall perform the responsibilities of the primary representative in his/her absence.
- iii. Clearing Corporation shall have the authority to confirm / reject the nominated officials as part of the DMC and in case of rejection; the Clearing Corporation shall cite the reasons for such rejection.
- iv. Upon rejection by Clearing Corporation, DMC Member institution shall have to provide an alternate nomination within 15 business days.
- v. DMC Member institutions shall be allowed to substitute their nominated representatives in the DMC by giving a minimum 30 calendar days' notice, subject to Clearing Corporation approving the candidature of the nominated substitute. It shall be the responsibility of the DMC Member to provide a substitute DMC official in case of termination or resignation of its current nominated representatives.
- vi. Clearing Corporation shall have right to terminate the appointment of a DMC official if at any point of time during its term, such official has failed to adhere to the rules of the DMC.

f. Qualifying criteria for an individual nominated to represent a Member entity on the DMC:

- i. He/she must be a serving employee in India of the Participating DMC Member institution;

- ii. He/she must be able to demonstrate relevant experience with respect to the products cleared by the Clearing Corporation and have appropriate expertise in the matters in which the DMC is expected to advise the Clearing Corporation;
- iii. He /she is not subject to any on-going regulatory disciplinary investigation / action with regard to any fraud or misdemeanour;
- iv. He/she must not already be a Member of a default management committee or a similar committee of the Clearing Corporation or another central counterparty or exchange;

g. Term of DMC Members:

- i. A DMC Member institution shall serve a term of three years from the time the Agreement for the Participation in the Default Management Committee has been signed and has become effective. The Clearing Corporation may extend the relevant period if the DMC Matters for which a DMC Meeting has been convened is not likely to be finalised before the relevant term would have otherwise ended.
 - ii. The DMC shall be re-constituted after the end of the term as per the rules laid out for the 'Appointment of DMC Members' and Members shall be eligible to get re-appointed for another term.
 - iii. A Non-Core Member may resign from the DMC after giving a notice of 30 days. Such resignation shall be accepted by the competent authority of the Clearing Corporation subject to the resigning Member having complied with these rules and the procedures set out in this regard.
- h. Removal of a Member institution from the DMC by the Clearing Corporation
A Member institution shall cease to be part of the DMC if it has been declared as a defaulter in one or more clearing segments of Clearing Corporation in terms of its Bye Laws, Rules and Regulations
- i. Removal of a DMC Member institution will lead to automatic removal of DMC officials nominated by such Member.
 - ii. Clearing Corporation shall invite a clearing Member, who is not a DMC Member, subject to the appointment criteria cited in Para 1 above, to replace the outgoing DMC Member institution.
 - iii. If two or more DMC Member institutions are subject to a merger and become affiliates, Clearing Corporation shall upon consultation with the Participating DMC Member Institution(s), remove all appointed DMC representatives and back up

representatives of such original Participating DMC Member and seek fresh nominations from the merged entity.

i. Removal of a DMC representative by the Clearing Corporation

Clearing Corporation shall have the right to remove a representative (including the back-up representative) of a DMC Member institution from the DMC on which it serves by giving prior written notice of at least 5 calendar days to the DMC Member institution in the following instances:

- i. The DMC representative(s) fails to participate in two consecutive DMC Meetings due to reasons which in the opinion of the Clearing Corporation is not a valid reason, or
- ii. The DMC representative fails to comply with the DMC Rules; or
- iii. The DMC Member institution ceases to comply with DMC Member Eligibility Criteria as stated above.

j. DMC meetings

- A DMC meeting shall be convened by the Clearing Corporation through e-mail / telephone or any other suitable means for the following purpose:
 - i. GENERAL MEETING - Convened at regular intervals to deliberate, discuss and decide on default handling procedures.
 - ii. FIRE DRILL MEETING – For assessing the efficiency of default handling procedures during default fire drills and suggesting corrective measures thereon.
 - iii. DEFAULT MANAGEMENT MEETING – For assisting Clearing Corporation in managing participant defaults.
- In case of a Default Management Meeting, the DMC officials must be available for prompt participation in person within two hours after receipt of intimation for such meeting.
- Both, primary as well as back-up representatives shall be permitted to attend General meetings and Fire Drill meetings. In case of Default Management meeting, the back-up representative shall be permitted only if the corresponding primary representative is not available for the meeting.
- All DMC meetings shall be held in person at the premises of Clearing Corporation or any other venue as specified by the Clearing Corporation.

k. Quorum

- i. Quorum shall be achieved if overall 40% of Members of DMC are present, with at least 60% of Core Members being present.
- ii. If within half an hour after the time fixed for the DMC meeting, there is no quorum, the meeting, shall be adjourned to a later hour on the same day. At such adjourned meeting, the Members present shall be deemed to be the quorum and the Agenda of the original meeting shall be transacted as scheduled.

2. **Chairperson and Deputy Chairperson**

- a. Once a DMC has been established, the officials nominated to represent the DMC Member institution on the DMC shall elect from amongst themselves a Chairperson and a Deputy Chairperson.
- b. The Chairperson / Deputy Chairperson shall be elected by the DMC in consultation with the Clearing Corporation.
- c. Only primary representatives of a DMC Member can be elected as a Chairperson and Deputy Chairperson for a period of three years. Voting rights for election of Chairperson and Deputy Chairperson will be restricted to the primary representatives only.
- d. The Chairperson shall preside over the proceedings of DMC meetings. In his / her absence, the Deputy Chairperson shall perform the functions of the Chairperson at a DMC meeting.
- e. Removal of the DMC Chairperson and the Deputy Chairperson Member shall be in accordance with Rule h (“Removal of a DMC representative by the Clearing Corporation”) referred to above.
- f. The Chairperson and / or Deputy Chairperson may resign from the post after giving a notice of 30 days. However, he/ she may continue to be a part of the DMC as a Member.

3. **Clearing Corporation’s Representation in DMC meetings**

- The Clearing Corporation shall be represented in a DMC meeting by one or more of its officials appointed by a competent authority.

4. Voting procedures

- a. All decisions of DMC shall be made at a DMC meeting by the DMC officials present in person in the meeting on the basis of voting by show of hands and by means of a simple majority.
- b. Both Core Members as well as the other Members shall have equal weight in the voting process.
- c. Each participating DMC Member shall have only one vote. Back-up representatives shall be permitted to cast vote only if the corresponding primary representative is not available for the meeting.

5. Recommendations of DMC

- a. The DMC shall submit its recommendations to the Clearing Corporation for further action on the same.
- b. The Clearing Corporation shall have the right to accept or not to accept any of the recommendations of the DMC. In situations where the Clearing Corporation does not accept the DMC's recommendations, it shall record its views in writing and shall notify the same to the Regulator.
- c. In situations where the DMC is not able to arrive at a decision based on a simple majority, the Clearing Corporation shall have the right to proceed in a manner as it deems fit considering the market interest and the interest of the Payment System. In such case, the course of action so decided by the Clearing Corporation shall be final and binding.

6. External Experts

- a. Clearing Corporation may invite external experts or external counsels to attend whole or part of the DMC meetings if the attendance of such experts/ counsels is deemed appropriate by the Clearing Corporation.
- b. Such external experts, if invited to attend the DMC meeting shall have no right to vote in the meeting.

7. Confidentiality

- a. DMC Members and external experts shall be required to maintain confidentiality of DMC proceedings, discussions, decisions and such other information pertaining to the actions undertaken to which they were privy to. Such

confidentiality shall be maintained even after their resignation or termination from the DMC.

- b. DMC Members shall not use any confidential information received as part of its appointment to the DMC for the benefit of itself, its organization or affiliates or any third party.
- c. Such information may however be disclosed by the DMC Members to regulatory or supervisory authorities.

8. **Undertaking and Non-Disclosure Agreement (NDA)**

- i. On appointment to the DMC, DMC Members shall be required to execute an Undertaking for participation in the Default Management Committee.
- ii. DMC Members are required to adhere to the rules and regulations of CCIL in this regard.
- iii. Each DMC Member institution shall instruct its nominated DMC Member officials to follow the instructions of the Clearing Corporation during a DMC Meeting held in connection with the DMC Matters in accordance with the DMC Rules and to always act in the best interest of a successful default management process of the Clearing Corporation.
- iv. DMC Officials shall remain an employee of the respective DMC Members and shall not qualify as an employee of the Clearing Corporation or its subsidiaries.
- v. DMC Members and DMC officials will be required to sign a Non-Disclosure agreement. Any external experts / counsels attending the DMC meetings at the behest of Clearing Corporation would also be required to sign the Non-Disclosure agreement.