

THE CLEARING CORPORATION OF INDIA LIMITED

FOREX FORWARD SEGMENT REGULATIONS

CHAPTERS

| NO. | DESCRIPTION | PAGE NO |
|-------|----------------------------------------|---------|
| I. | Introduction | 1-3 |
| II. | Membership | 4-7 |
| III. | Settlement Guarantee Fund | 8-10 |
| IV. | Processing of Forward Trades | 11-13 |
| V. | Margins | 14-16 |
| VI. | Defaults | 17-22 |
| VII. | Default Fund | 23-32 |
| VIII. | Risk Management | 33-36 |
| IX. | Notices | 37 |
| X. | Fees and Charges | 38 |
| XI. | Holiday Handling | 39 |
| XII. | Portfolio Compression | 40-41 |
| XIII. | Default Management Committee | 42-49 |
| | GLOSSARY OF CHANGES TO THE REGULATIONS | 50-72 |

Updated in September 2019

CHAPTER I : INTRODUCTION

The Regulations framed hereunder shall be called as “The Forex Forward Regulation, 2004 (*as amended in September 2019*)” of the Clearing Corporation of India Ltd.

APPLICABILITY

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

DEFINITIONS

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

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. Default Management Committees (DMC)

Default Management Committees (DMC) shall mean committees established by the Clearing Corporation for the purpose 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 XIII of Regulations of this segment.

6. 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.

7. 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(4) of Chapter VI of these Regulations has been restored 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;

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. Single-unit Auction

Single-unit Auction shall mean an Auction where an Auction Pool will be available as a single unit.

15. Tearing-Up of trades

Tearing-up of trades shall mean the process of closing out of Trades before the Trade's value date where such close-out is initiated by the Clearing Corporation as part of its Default Management Process.

CHAPTER II : MEMBERSHIP

A) APPLICATION FOR MEMBERSHIP

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

It is required that the applicant should be a member of the Securities Settlement Segment of Clearing Corporation. The applicant on admission as a member shall be granted permission to avail of the facility of guaranteed settlement of Forex Forward trades upon due compliance with necessary formalities in this regard.

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

C) RESIGNATION FROM MEMBERSHIP:

1. A member who:

- i. is not a Defaulter
- ii. has met all margin calls; and
- iii. has replenished their Default Fund contributions in respect of calls made on or before the Resignation Request Date (*as defined later*);

shall have the right to resign from Forex Forward segment if it satisfies either of the following conditions:

- a. If the member has no outstanding as accepted by Clearing Corporation (*hereinafter referred to as “Outstanding Trades”*) for 2 previous months; or
- b. If the member has incurred a loss through replenishment of its contribution to Forex Forward Segment 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 C(1)(a) may be granted exemption from the requirement of not having any outstanding trades trade 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 Clearing Corporation in this segment and the merged/amalgamated or acquiring entity has given an undertaking to Clearing Corporation 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 VII, 'Default Fund' of these Regulations.

2. A member resigning under clause C1 (a) shall have to give notice in writing to the Clearing Corporation clearly indicating its decision to resign from the Forex Forward 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 delivered to Clearing Corporation 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 clause C1 (a) shall be approved or rejected by the Managing Director of Clearing Corporation or by an official so authorised by the Managing Director within 2 business days from the Resignation Request Date. The resignation shall come into effect from such date of approval by the Managing Director of Clearing Corporation or by an official so authorised by the Managing Director or in the absence of such approval or rejection, it shall be deemed approved at the end of 2 business days from the Resignation Request Date.

The resigning member shall then 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 C1(b) above shall have to give notice of 30 calendar days to the Clearing Corporation in writing clearly indicating its decision to resign from the Forex Forward 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 is 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 square off the positions 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 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.

Provided that the rate at which the bilateral counterparty has covered the position is identified as an 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 request for resignation under clause C1(b) shall be approved by the Managing Director of Clearing Corporation or by an official so authorised by the Managing Director after the member has closed-out all its Outstanding Trades of the within the specified 30 days notice period or within the extended period and upon the fulfillment of all the requirements under clause C(3). 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 C(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 C(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 C of this Chapter.

CHAPTER III : SETTLEMENT GUARANTEE FUND

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

SGF may be utilized for such purposes as provided in the Bye- Laws, Rules and Regulations including towards meeting default obligations/deficiencies and/or any other dues arising out of normal Clearing and Settlement operations in respect of transactions of this segment undertaken by Clearing Corporation.

Notwithstanding anything contained in these Regulations, Clearing Corporation shall be entitled to close out the transactions of a Member in Forex Forward Segment after due notification and utilize collateral so collected as margins towards SGF under Forex Forward Segment in closing out transactions. Close-out netting is determination of payment obligations before the date of settlement in the event of occurrence of any or all circumstances as set out below.

1. Insolvency or dissolution or winding up of the Members.
2. Moratorium imposed on any bank which is a Member.
3. Any circumstances set out in the Regulations, including margin shortfall.
4. Any circumstances which in the opinion of Clearing Corporation warrant close out in the interest of the market.

The methodologies for such close-out shall be notified by Clearing Corporation from time to time and the same shall be binding on the members.

B) COMPOSITION

1. SGF in this Segment shall be formed with contributions from Members in the form of cash and eligible Government securities.
2. Clearing Corporation may require every member to contribute a minimum specified percentage of its contribution to SGF in the form of cash as may be notified by Clearing Corporation from time to time. The proportion of the cash to securities to be maintained by the member may be changed by Clearing Corporation from time to time after giving due notice to the members.
3. Notwithstanding anything contained in Regulation B(2) above, Clearing Corporation may through notification require members to deposit their entire MTM margin contribution(s) to SGF in the form of cash.

4. The list of securities eligible for such contribution shall be duly notified by Clearing Corporation from time to time, Clearing Corporation may also notify from time to time the maximum amount of a single security or group of securities that a Member may contribute to SGF-
5.
 - a. A Member shall upon admission be required to contribute to SGF and Clearing Corporation shall accept Trades from the Member and/or on its behalf for Clearing and Settlement only after the receipt of the required contribution to the SGF.
 - b. Clearing Corporation may require every member to contribute a minimum specified amount as Initial Margin and such other Margin as specified from time to time by Clearing Corporation to commence trading on Forex Dealing System.
 - c. Clearing Corporation may on obtaining due and proper authority from a member consider the unutilized portion of the SGF tendered by a member for Securities Segment, towards SGF for Forex Forward Segment. The SGF so utilized for the Forex Forward Segment will be to the extent of margin requirement separately identified and blocked out of the unencumbered SGF available at that point, in accordance-with the procedure notified in this behalf-from time to time.
6. A Member's SGF contribution shall cover its margin obligations towards Initial Margin, Mark to Market Margin and/or any other margin that may be prescribed by Clearing Corporation time to time.
7. A Member shall at all times ensure that its SGF contributions are adequate to cover the margin requirement on the outstanding Trades accepted by Clearing Corporation on behalf of the Member as specified by Clearing Corporation time to time.

C) ADMINISTRATION

1. The provisions or rules set out in Chapter III of the Regulations relating to the Securities Settlement Segment governing the administration of the SGF, including receipt and withdrawal of securities and cash contributions, investment of the fund and corporate actions thereon shall mutatis mutandis apply to SGF maintained under these Regulations except to the extent specified herein.
2. Clearing Corporation shall have absolute control over the administration, manner and mode of investment / utilization of cash / securities contributed by a Member towards margins;
3. A Member shall be entitled to receive interest at quarterly *rests (at the end of every calendar quarter)* on daily end of day utilization of cash margins during the

relative period maintained by it in excess of the minimum prescribed cash margin as notified by Clearing Corporation time to time-

4. Interest on utilization of cash margin shall be paid at a rate not exceeding 100 basis points lower than the weighted average of 91 days Treasury Bills cut-off yields at the last three auctions held before the relevant interest payment date. The benchmark instrument to which such cash compensation would be pegged as well as spread between the yield on the benchmark instrument and the interest rate paid by Clearing Corporation from time to time may be changed by Clearing Corporation after due notification to the members.

D) TRANSFER OF SGF.

The Clearing Corporation shall, on transfer of Member's positions to the Forex Settlement Segment, be entitled to use that portion of the SGF contributed in the form of Mark-to-Market margin for such positions to meet any settlement shortfall as outlined in Chapter VIII (C) (2.8) of these Regulations.

CHAPTER IV : PROCESSING OF FORWARD TRADES

A. Eligible Trades

All Forward trades between the Members of Forex Forward Segment received directly and that have the status as matched and residual maturity up to 13 months are eligible for guaranteed settlement. The matched trades with maturity of more than 13 months shall become eligible for guaranteed settlement when the residual maturity is 13 months or below.

Trades received from the Forex Dealing system shall be eligible for guarantee from the point of matching of the trade on the platform.

B. Acceptance of Trades

Clearing Corporation shall receive details of Trades reported directly from the Members of Forex Forward Segment, and from Forex Dealing system. Clearing Corporation shall accept such Trades directly reported by the Members for Clearing and Settlement after subjecting these trades to checks for adequacy of margin for both counterparties in terms of Chapter VIII titled "Risk Management" of these Regulations;

Forward trades received from the Forex Dealing System shall be eligible for guaranteed settlement. The trades shall be subject to checks for adequacy of margin for both counterparties to the trade online on a post trade basis. Trades once accepted shall be governed by the Rules set out in Chapter (IV) and (V) of these Regulations.

C. Validation and matching of trades

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

D. Amend and Rescind of instructions

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

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

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

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

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

1

- a) All eligible forward trades received directly from Members shall be subject to checks for adequacy of margin for both counterparties to the trade on a trade by trade basis. This process is henceforth referred to as 'Exposure Check'. Exposure check shall be carried out online during the business hours as notified by Clearing Corporation. Trades which pass through exposure check shall be accepted for guaranteed settlement by the Clearing Corporation. Novation shall take effect as and when Clearing Corporation accepts trade for settlement.

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

Trades accepted for settlement shall be subject to risk exposure controls as set out in Chapter VIII of these regulations.

- b) The exposure check of the forward trades received from Forex Dealing System shall be on an on-line basis. The margin amount as contributed by the member before commencement of trading on Forex 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 Forex Dealing System or on the trades reported directly by members to Clearing Corporation in the order of time at which such trades are received.

If the margin amount contributed is inadequate, the SGF value made available for this segment, if any, shall be blocked towards the balance margin requirement.

2. Trades accepted for settlement shall be subject to risk exposure controls as set out in Chapter VIII of these regulations.
3. The process of checking adequacy of margin shall be on an online basis or shall be run at such frequency as may be decided and notified by Clearing Corporation from time to time and Clearing Corporation shall indicate acceptance of such trades for guaranteed settlement only after this check.
4. Outstanding forward trades accepted for settlement for a settlement day (S day) in the Forex Forward segment shall be netted member-wise two business days before the settlement day (i.e. S-2 day). The netted positions arising out of such forward trades shall be subjected to exposure check on S-2 day in the Forex Settlement segment. All forward trades once accepted for settlement will be deemed to be transferred to the Forex Settlement Segment for settlement. The settlement of netted positions arising out of such forward trades shall be governed by the Forex Settlement Regulations for the settlement and defaults, if any, and such Forex Settlement Regulations shall be deemed to have been incorporated in these Regulations to that extent.

A. Margin Requirements

1. Clearing Corporation shall prescribe requirements of margins for the Forex Forward trades to be settled through Clearing Corporation and the Members shall furnish such margins as a condition precedent to acceptance of such trades by Clearing Corporation for guaranteed settlement.
2. Clearing Corporation may in addition to margin, prescribe contributions towards the Default Fund as per the details set out in Chapter VII (C) of these Regulations.
3. Clearing Corporation shall 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.
4. Clearing Corporation shall 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 shall 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 the member even after the margin availability for this segment has breached the rejection level, if such acceptance is necessitated due to post trade exposure check of trades concluded on Forex Dealing system.
5. 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 or Rejection level.
6. 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 within the Replenishment Level as described in Clause A(3) above).

B. MARGIN COMPONENTS

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

1. Initial Margin

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

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

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

2. Mark to Market Margin

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

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

3. Volatility Margin

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

4 Concentration Margin

Concentration margin constitutes the margin obligation required to be fulfilled by a member in relation to its outstanding exposure for a settlement date or for a number

of settlement dates, beyond pre-determined limit(s). Clearing Corporation shall have the right to stipulate such margin from any future date after due notification to its Members.

C. SUSPENSION ON FAILURE TO PAY MARGIN

Notwithstanding anything contained elsewhere in these Regulations:-

1.
 - a) If a Member fails to replenish its margin obligation after it reaches the Rejection level as stipulated under Chapter V(A)(4), Clearing Corporation shall be entitled to temporarily suspend the Membership rights of such a Member and its constituents as per the provisions set out in the chapter VIII (7) of the Bye-Laws;
 - b) If a member fails to fulfill its margin obligation before the time notified for the purpose, Clearing Corporation shall be entitled to suspend the rights of the member from trading on the Forward Instruments on the Forex Dealing System. The trading rights shall be restored on the members meeting the margin obligation to the satisfaction of Clearing Corporation.
2. A Member shall be liable to pay penalty on the Margin shortfall, for the period of delay in fulfilling its margin obligations, as per the rates notified by Clearing Corporation from time to time. Clearing Corporation may vary, from time to time, the rate of penalty applicable for a Margin default, subject to issuance of advance notice. While computing such penalty, only business days maybe reckoned provided such penalty and margin shortfall is replenished by the defaulting member on the next business day. However, in the event of failure by a member to honour its obligation on the next business day, as above, the actual number of days including intervening holidays, Sunday and non-business days shall be reckoned for calculation of penalty amount.
3. The Membership of a Member who has been subjected to temporary suspension due to non-fulfillment of Margin obligation shall automatically come up for review; Clearing Corporation may reinstate a suspended Member upon a review of its action in fulfillment of its Margin obligations and interest/other charges due to Clearing Corporation.

A. DECLARATION OF DEFAULT

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

- a. 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.
- b. 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.
- c. 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.
- d. If it fails to replenish the Default Fund contribution in terms of Paras J(i) and J(ii) of Chapter VII;
- e. Due to any other circumstances as set out in the Bye -laws, Rules and Regulations.

B. 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. The role of DMC shall be to 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; and
 - 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, rights and obligations, meetings and proceedings of the DMC have been prescribed in Chapter XIII of these Regulations.

C. 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.

D. DEFAULT HANDLING PROCEDURE

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 D 4(e) below.
2. **Risk neutralisation 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.
 - 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 D(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 the 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 Clearing 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 or 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 restoration of the Matched Book :
 - 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 VII 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.
- 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 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 VII 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 VII 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 VII 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 D(4)(b) and D(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, the Clearing Corporation 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 in terms of D(4)(b) and D(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. DEFAULT OF CLEARING CORPORATION

1. In the event the Clearing Corporation fails to fulfill 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 the 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 07 (seven) business days from such event, seek the termination and close-out of its Outstanding Trades in this segment.

2. The Clearing Corporation shall, not later than 02 (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, the 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 VI Default & Chapter VII Default Fund of these Regulations.

4. Before paying out any amount under this clause, the Clearing Corporation shall have the right to recover there from any amount payable by the Member to the Clearing Corporation.

5. The close-out transactions shall be final and binding upon the Members.

CHAPTER VII : DEFAULT FUND

A. PURPOSE

- i. Clearing Corporation shall maintain a dedicated Default Fund in respect of its Forex Forwards Segment with a view to meeting losses arising out of any default by its Members as set out in this Chapter.
- 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.
- iii. 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 Para "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 Para 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 securities concentration thresholds beyond which hair cut rates of securities deposited 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 Para “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 any of the securities contributed to Default Fund by any Member and held in the CSGL Account referred to in Sub-Para (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 Para ‘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 Chapter II Paras C(2) &C(4) 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 Chapter II Paras C(2) &C(4) 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 Corporations;
- 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 that is notified by Clearing Corporation from time to time.

I. UTILISATION

- i. Where a Member is declared as defaulter in terms of Chapter VI the losses as a result of such default shall be met by Clearing Corporation by recourse to funds in the following order:
 - a. first, by appropriation of the margin contribution of the defaulting Member including surplus margin contributed in any segment;
 - b. next, by applying set-off from defaulter's own contribution to Default Fund. 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 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 of their required contributions to the Default Fund 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 Para D(6) of Chapter VI.

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 Default Fund under advice to them. The price at which such security/securities is/are sold will be binding on the 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 Default Fund in terms of Para B of this Chapter;
- f. and then by allocation of the residual loss to Default Fund account of non-defaulting Members after replenishment of the balances in these accounts in proportion of their required contributions to the Default Fund 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 i(d) and i(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' Default Fund account 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' Default Fund account 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 Para '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 and bring the balance in its Default Fund account at par with its required contribution to the Default 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 VI of these Regulations and the Member shall be liable for the consequential action thereon as specified in Chapter VI of these Regulations.
- vi. The maximum contribution of a Member towards replenishment of its contribution to Default Fund for the Forex Forward segment in the 30 days' period immediately after the loss threshold as referred in Chapter II Para C1(iii) (b) 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 Para 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 (vi) above as maximum contribution for a Member and the threshold as referred in Chapter II Para C1(b) 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 charges/ penalties/ and any other incidental or consequential expenses shall be accounted for 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 Para D(6) of Chapter VI. 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 dues and claims, if any from such defaulter.

- i. The return of resources to the non-defaulting Members as per the provisions of sub-Para 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.
- ii. If a Member ceases to be a Member of the segment by its resignation or expulsion, Clearing Corporation shall have paramount lien to appropriate the contributions made by the Member to 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 other Bye-laws, Rules, and Regulations of such segments of Clearing Corporation in which the Member has been admitted.

CHAPTER VIII : RISK MANAGEMENT

A. SCOPE

1. This Chapter outlines the risk management policy of Clearing Corporation for its Forex Forward Segment. Clearing Corporation may after due notification, modify its practices relating to risk containment measures from time to time.
2. Clearing Corporation shall cover its risk through prescription of initial margin (including spread margin), mark to market margin, volatility margin and Concentration margin;
3. The risk exposure on the outstanding trades of the Members shall be computed based on Portfolio Value at Risk supplemented by recovery of additional amount as spread margin. Marking to market of outstanding trades shall also be carried out to capture risks from notional loss in the outstanding trade portfolios of the Members;
4. Clearing Corporation, after due notification, may set different margins for different Members, based on the ratings/gradings assigned to the Members on the basis of certain financial parameters including Net Worth, asset quality etc. as considered necessary by Clearing Corporation from time to time.

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 prudential limit for each member in terms of its aggregate outstanding trade exposure of the member (in terms of total volume of outstanding trades or otherwise, as may be decided by Clearing Corporation from time to time). Such limit may be set by Clearing Corporation based on the member's nature of business, net worth or such other factors as may be considered appropriate by Clearing Corporation. In the event of any member exceeding such limit Clearing Corporation may set higher margin in the form of concentration margin for the member in respect of trades which are in excess of such limits.
6. Mark to market margins shall be collected based on settlement date-wise net USD buy or sale positions of the Members. Such margin shall be computed using the INR/USD forward exchange rates, as applicable, prevailing at the time of such computation and Clearing Corporation shall be entitled to use such rates for mark to

market margin computation as it considers reasonable.

B. MARK-TO-MARKET Exchange Rates

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

C. PROCESS

1. Initial Margin

- 1.1. The initial margin obligation of each Member in respect of its outstanding Trades shall be computed based on the Portfolio Value at Risk (VaR) for settlement date-wise net USD buy or sale positions arising out of such trades, using such model as Clearing Corporation deems appropriate. The details of the model proposed to be used, will be notified by the Clearing Corporation from time to time. Clearing Corporation may periodically re-evaluate the model used and if required, after due notification, may alter it or replace it with a different model.
Clearing Corporation's decision in this regard shall be final and binding on the member.
- 1.2. Clearing Corporation may, however, set a minimum initial margin requirement as notified by it from time to time
- 1.3. Spread Margin shall be taken at a specified percentage of the difference between:
 - a) Higher of VaR for only US Dollar net buy positions or VaR for only US Dollar net sale positions, and;
 - b) Portfolio VaR for settlement date-wise Net USD Buy or Sale Positions.

2. Mark to Market Margin

- 2.1. Members shall be liable to maintain mark to market margin in respect of adverse positions on its outstanding forward Trades;
- 2.2. Settlement date-wise net USD positions of the Members shall be revalued at the end of the day using the Mark to Market exchange rates as described in Clause (B) above to arrive at the Settlement date wise profits and losses.
- 2.3. Settlement date-wise net profits /losses shall be discounted to the date of computation and aggregated member-wise (sovereign rupee interest rates shall be used for discounting);

- 2.4. If the above computation shows net MTM loss at an aggregate level, such amount shall be collected as MTM margin from such member. Any MTM profit, subject to such conditions as notified by Clearing Corporation from time to time, shall be treated as Margin Credit made available to the member.
- 2.5. A Member's mark to market margin obligation shall be computed as at the end of each business day and shall be valid till its computation as at the end of the subsequent business day. In case of high volatility, Clearing Corporation shall also collect MTM margin on intra-day basis from the Members based on a process as notified by Clearing Corporation from time to time. Provided that, if a trade is not reported by either of the counter-party Members on the day of the trade or even if reported on the day of the trade, if acceptance of such a trade by Clearing Corporation is delayed to a subsequent day due to inadequacy of margin in the account of any of the counter-party Members, Clearing Corporation shall be entitled to recover Mark to Market margin for such trade before acceptance for guaranteed settlement.

Provided further that if a trade has been done by a member at a rate which in the opinion of Clearing Corporation is not in line with the market rate prevailing at the time of acceptance, Clearing Corporation shall be entitled to recover the notional loss computed based on such difference in rates between traded rate and market rate, from the member, as MTM margin, before acceptance of such trade.

- 2.6. For the trades entering into the spot window, the mark to market margin would be retained by Clearing Corporation till completion of settlement. This amount shall be available to take care of the risk arising out of the change in exchange rate between the date of forward trade and the date of entry of the trades in the INR / USD settlement segment.
- 2.7. In the event of failure by a member to discharge its obligations for a settlement date in the INR / USD settlement segment, the MTM margin, of this segment, of such member for such settlement date would be used to meet any shortfall, in the INR / USD Settlement Segment, for such settlement date.

D. VALUATION OF SECURITIES IN SGF

1. The securities contributed by Members to SGF shall be subjected to a valuation exercise on a daily basis or at such frequencies as may be notified by Clearing Corporation from time to time.
2. The valuation of SGF securities shall be carried out using Clearing Corporation's mark to market price for such securities.

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, 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. For net positions arising out of forward trades transferred to the Forex Settlement Segment for settlement purposes, any Margin Credit available there against shall be withdrawn on the day of settlement after the Final Net Position Report for the day is generated.
3. After withdrawal of such Margin Credit, if it is observed at the time of settlement in the Forex Settlement segment that there is margin shortfall on account of such settlement, Clearing Corporation shall have the right to hold back settlement proceeds of the member to the extent of such shortfall.
4. If any settlement proceeds is 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. If the withheld proceeds are in US Dollars, Clearing Corporation shall have the right to dispose of such amount as per process outlined in clause (D) (2) (f) of Chapter VI relating to Defaults in the Regulations of the Forex Settlement segment. The proceeds of such sale shall be credited to the SGF account of the member in the Securities Settlement segment.

CHAPTER IX : NOTICES

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

CHAPTER X : FEES AND CHARGES

A. SCHEDULE OF FEES AND CHARGES

1. The Board or any other Committee appointed by the Board or Official(s) of Clearing Corporation authorized 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 authorized 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 Members for the immediately preceding month.
3. The Members shall verify their monthly billings and notify Clearing Corporation of discrepancies, if any, with all necessary details latest within two days from the date of notification of relative bill.

C. RECOVERY OF CHARGES

1. The Members shall effect payment of the Transaction charges payable by them to Clearing Corporation in terms of their monthly bills (as per B above) in the manner specified by Clearing Corporation from time to time by the 10th calendar day of every business month failing which Members shall be liable to pay penalty on delayed payment of charges as per the notification issued by Clearing Corporation from time to time.
2. The payment of fines, penalties and/or other levies shall be payable by the Members separately as and when such a demand has been made on those Members by Clearing Corporation.

CHAPTER XI: HOLIDAY HANDLING

Due to the declaration of holidays (in India or in United States of America), it may be required to alter the value dates of trades reported by Members to the Clearing Corporation.

For trades which have settlement date as holiday, the settlement date shall be shifted to the next business date.

Provided that, if the holiday is known at least 3 business days before the holiday and it is a month-end day, the settlement date shall be shifted to the preceding business day.

In the event holiday is declared after the netted position has been transferred to the Forex settlement segment, in terms of Chapter (IV)(E)(4) of these Regulations, i.e., on S-2 day, the shifting of the settlement date shall be governed by the Forex Settlement Regulations for holiday handling.

CHAPTER XII: PORTFOLIO COMPRESSION

1. Clearing Corporation may, after due notification to members, run at periodic intervals a Portfolio Compression exercise, for forward Foreign Exchange (rupee/US Dollar) trades of Forex Forward 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 Forex Forwards Segment who is desirous of availing the Portfolio Compression services for its outstanding Forward rupee/US Dollar trades 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 CCIL.
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 Forward Rupee / US Dollar trades of the participants' portfolios and/or the US Dollar 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 will be as notified from time to time by Clearing Corporation.
8. Clearing Corporation may specify the time schedule for the reporting of Trades 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 Rupee settlement carried out by Clearing Corporation in the Forex segment or through separate settlement process as notified by clearing corporation. If settlement is carried out as part of daily Rupee settlement carried out by Clearing Corporation, members with net rupee 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 with the amount payable after which the settlement will be carried out in the normal course by combining the net rupee 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 forward Foreign Exchange (rupee/US Dollar) 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 CCIL 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 CCIL 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 it so warrants at any time if, in its sole opinion, no feasible solution is possible or if any one or more of the other 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 XIII: 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 9 clearing Members who will be invited by the Clearing Corporation to form the DMC. Of the Members so identified, 5 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 5 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 5th

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 4 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 2 public sector banks and 2 foreign / private banks. 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). 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 misdemeanor;

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

CHAPTER I: INTRODUCTION

The Regulations framed hereunder shall be called as “The Forex Forward Regulation, 2004 (*as amended in ~~September 2018~~ September 2019*)” of the Clearing Corporation of India Ltd.

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. Default Management Committees (DMC)

Default Management Committees (DMC) shall mean committees established by the Clearing Corporation for the purpose 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 XIII of Regulations of this segment.

6. 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.

7. Default Management Period End Date

The Default Management Period End Date shall mean the Business Day following the declaration by the Clearing Corporation that:

- c. a Matched Book as provided for in para D(4) of Chapter VI of these Regulations has been restored 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
- d. 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;

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. Single-unit Auction

Single-unit Auction shall mean an Auction where an Auction Pool will be available as a single unit.

15. Tearing-Up of trades

Tearing-up of trades shall mean the process of closing out of Trades before the Trade's value date where such close-out is initiated by the Clearing Corporation as part of its Default Management Process.

CHAPTER VI: DEFAULTS

A. DECLARATION OF DEFAULT

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

- a. 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.
- b. 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.
- c. 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.
- d. If it fails to replenish the Default Fund contribution ~~within the time stipulated in terms of Paras J(i) and J(ii) of Chapter VII;~~
- e. Due to any other circumstances as set out in the Bye -laws, Rules and Regulations.

B. 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. The role of DMC shall be to 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; and
- 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, rights and obligations, meetings and proceedings of the DMC have been prescribed in Chapter XIII of these Regulations.

C. 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.

D. DEFAULT HANDLING PROCEDURE

- ~~1. On the member's margin requirement exceeding the 100% of its SGF balance. Clearing Corporation shall be entitled to close out such settlement date wise net positions as it considers necessary, to bring the margin liability of the member within the required level.~~
- ~~2. Clearing Corporation shall decide the settlement date(s) for which the positions are to be closed out and the amount of respective positions to be closed out. Clearing Corporation shall also identify the bilateral counter parties having net positions in the opposite direction with such member for the said settlement date(s). The net positions to be closed out shall be allocated at MTM rates of Clearing Corporation for the respective tenors as at the end of the day previous to the date of allocation to the bilateral counter parties, in proportion of their net positions vis-a-vis such member, for the respective settlement dates.~~
- ~~3. Any mark to market shortfall arising out of such allocation of positions shall be recovered from the SGF(s) of the defaulter member or the allocatee member as the case may be. In case the balance in SGF account of the member is found inadequate to meet the shortfall amount, the difference is required to be met by the concerned member before the cut off time of the next business day.~~

- ~~4. If Clearing Corporation resorts to the provisions of the sub Regulation 1 above, the defaulter shall also be liable to pay charges and penalties as notified by Clearing Corporation from time to time.~~
- ~~5. The surplus / shortfall from such allocation shall be arrived at separately in respect of each allocatee member, and the weighted average price at which the USD have been bought / sold by the respective allocatee member from the defaulter member for respective settlement dates shall be used as basis for such computation.~~
- ~~6. Bilateral counterparties with whom trades are closed out in terms of this clause may cover the positions resulting from such close out in the market and report the same to Clearing Corporation. Such intimation shall be received by 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 and passed on to the relevant bilateral counterparty. In case such recovery from the defaulter 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 VII 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.~~

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 D 4(e) below.
2. Risk neutralisation 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.

- 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 D(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 the 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 Clearing 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 or 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 restoration of the Matched Book :

- 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

- In terms of para J(iii) of Chapter VII 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.
- 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.
- The Assessment Calls shall be made to non-defaulting Members in proportion to their respective default fund contribution requirements at the time of handling such default and the same have to be met only in cash.
- 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 VII 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 VII 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 VII 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 D(4)(b) and D(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, the Clearing Corporation 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 in terms of D(4)(b) and D(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.

~~C) SUSPENSION FROM FOREX SETTLEMENT SEGMENT~~

~~In the event the Member is suspended from the Forex Settlement Segment, all the settlement date wise outstanding netted positions of the Member in Forex Forward Segment shall be closed-out by allocating the positions to the Members bilateral counterparties. The outstanding netted positions to be closed-out shall be allocated at MTM rates of Clearing Corporation for the respective tenors as at the end of the day previous to the date of allocation to the bilateral counter parties, in proportion of their net positions vis-a-vis such member, for the respective settlement dates. The process as described in clause (B) above shall be followed for such close-out. The netted USD or INR sale positions, if any, which have already been forwarded to the Forex Settlement Segment (i.e. within the Spot Window) and which are in breach of the Exposure Limit, shall be cash settled in terms of Chapter VII(c)(5)(h) of the Forex settlement Regulations. Clearing Corporation however, shall be entitled to settle the netted USD or INR Sale position which has passed the exposure check, as per the Forex Settlement Segment Regulations. Clearing Corporation shall also be entitled to retain available margin on such netted positions, till its settlement for meeting shortfall from any possible default by such member.~~

E. DEFAULT OF CLEARING CORPORATION

1. In the event the Clearing Corporation fails to fulfill 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 the 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 07 (seven) business days from such event, seek the termination and close-out of its Outstanding Trades in this segment.
2. The Clearing Corporation shall, not later than 02 (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, the 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 VI Default & Chapter VII Default Fund of these Regulations.
4. Before paying out any amount under this clause, the Clearing Corporation shall have the right to recover there from any amount payable by the Member to the Clearing Corporation.
5. The close-out transactions shall be final and binding upon the Members.

CHAPTER VII: 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 Para 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 securities concentration thresholds beyond which hair cut rates of securities deposited 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 VI the losses as a result of such default shall be met by Clearing Corporation by recourse to funds in the following order:
 - a. first, by appropriation of the margin contribution of the defaulting Member including surplus margin contributed in any segment;
 - b. next, by applying set-off from defaulter's own contribution to Default Fund. 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 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 of their required contributions to the Default Fund 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 Para D(6) of Chapter VI.

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 Default Fund under advice to them. The price at which such security/securities is/are sold will be binding on the 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 Default Fund in terms of Para B of this Chapter;
 - f. and then by allocation of the residual loss to 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 Default Fund 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 i(d) and i(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' Default Fund account 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' Default Fund account 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 Para '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, In the event, that the 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, 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 Para I (i)(d) and I (i)(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 Para 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 and bring the balance in its Default Fund account at par with its required contribution to the Default 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 VI of these Regulations and the Member shall be liable for the consequential action thereon as specified in Chapter VI of these Regulations.
- vi. The maximum contribution of a Member towards replenishment of its contribution to Default Fund for the Forex Forward segment in the 30 days' period immediately after the loss threshold as referred in Chapter II Para C1(iii) (b) 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 Para 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 (vi) above as maximum contribution for a Member and the threshold as referred in Chapter II Para C1(b) 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 charges/ penalties/ and any other incidental or consequential expenses shall be accounted for by Clearing Corporation in the ~~reverse order of utilization of its resources as described in Regulation I (i) of this Chapter~~ following order ~~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:~~
 - 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 Para D(6) of Chapter VI. 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 dues and claims, if any from such defaulter.
- ii. The return of resources to the non-defaulting Members as per the provisions of sub-Para 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 ~~as per Para I (i) (b)~~ and the balance towards recovery of monies towards dues and claims before accepting claims for refund of the contribution to the concerned Member. The refund will also be subject to other Bye-laws, Rules, and Regulations of such segments of Clearing Corporation in which the Member has been admitted.

CHAPTER XIII: 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 9 clearing Members who will be invited by the Clearing Corporation to form the DMC. Of the Members so identified, 5 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 5 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 5th 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 4 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 2 public sector banks and 2 foreign / private banks. 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). 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 misdemeanor;
 - 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.