

THE CLEARING CORPORATION OF INDIA LIMITED

FOREX FORWARD SEGMENT REGULATIONS

CHAPTERS

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Updated in September 2018

CHAPTER I : INTRODUCTION

The Regulations framed hereunder shall be called as “The Forex Forward Regulation, 2004 (*as amended in September 2018*)” 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.

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 trade as accepted by Clearing Corporation (hereinafter referred to as “Outstanding Trades”) for 2 previous months; or
 - b. If the member has taken 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 accepted for settlement in the previous two months if such resignation is on account of its merger/amalgamation with or its acquisition by another entity which is a member of CCIL in this segment and the merged/amalgamated or acquiring entity has given an undertaking to CCIL stating its intention to take over all obligations of the resigning member including its obligations towards the Default Fund arising out of the provisions of Chapter 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 CCIL 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 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 ~~by~~ 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 at the beginning of the day on S-2 day in the Forex Settlement segment. All forward trades once accepted for settlement will be deemed to be transferred to the Forex Settlement Segment for settlement. The settlement of netted positions arising out of such forward trades shall be governed by the Forex Settlement Regulations for the settlement and defaults, if any, and such Forex Settlement Regulations shall be deemed to have been incorporated in these Regulations to that extent.

CHAPTER V : MARGINS

A. Margin Requirements

1. Clearing Corporation shall prescribe requirements of margins for the Forex Forward trades to be settled through Clearing Corporation and the Members shall furnish such margins as a condition precedent 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 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 may be reckoned provided such penalty and margin shortfall is replenished by the defaulting member on the next business day. However, in the event of failure by a member to honour its obligation on the next business day, as above, the actual number of days including intervening holidays, Sunday and non-business days shall be reckoned for calculation of penalty amount.

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

CHAPTER VI : DEFAULTS

A. DECLARATION OF DEFAULT

Member may be declared 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;
- e. Due to any other circumstances as set out in the Bye-laws, Rules and Regulations.

B. 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.

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 counter-parties.

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.

(D) DEFAULT OF CLEARING CORPORATION

1. In the event 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 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. 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, 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.
4. Before paying out any amount under this clause, Clearing Corporation shall have the right to recover there from any amount payable by the member to Clearing Corporation.
5. The close-out transactions shall be final and binding upon the members.

CHAPTER 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 fund shall be determined at 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 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. Provided however that Clearing Corporation may specify the minimum percentage of contribution in the form of cash from time to time after due notification;
- iii. 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.
- iv. Clearing Corporation may notify from time to time the maximum amount of a single security or group of securities that a member and/or all Members together may deposit by way of contribution to Default Fund and/ or have security concentration thresholds beyond which hair cut rates of securities deposited as collateral may be stepped up;
- v. A member shall at all times ensure that its contributions to Default Fund are adequate to cover its share as per Para C above;
- vi. 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 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-Regulation (iii) above and as per Para “F” of this chapter in such sequence of application as may be determined by Clearing Corporation to be appropriate.

- v. 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.
- vi. 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 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. Such deposits shall be payable 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 Clauses 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 Clauses 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 to their required contributions to the Default Fund at the time of handling such default.

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.

- 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. 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 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 of the Default Fund, in terms of Para 'B' above of this Chapter;
- ii. In the event, that the member's contribution to the Default Fund has been utilized to meet the shortfall of a defaulter, the member shall be required to replenish the balance required to fulfill its contribution to the Default Fund, within a maximum period of one business day from such utilization or such other number of days as may be notified by Clearing Corporation from time to time;
- iii. In the event that the member's contribution to the 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;
- iv. In the event of failure of a member to contribute to Default Fund within the time period specified as per J(ii) above of this Chapter, Clearing Corporation

shall treat such failure as default 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.

- v. 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 Clause 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 Clause B(ii) above of this Chapter , subject to a monetary ceiling of 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.
- vi. The amounts mentioned in (v) above as maximum contribution for a member and the threshold as referred in Chapter II Clause 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 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. If any such amount recovered is to be apportioned to the non-defaulting Members, then Clearing Corporation shall return the same (by credit to its Default Fund account, in the form of cash or eligible securities of equivalent market value) pro rata to the respective amounts appropriated and not exceeding the amount of contribution so appropriated;
- ii. 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 the squaring off of 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 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.
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 Member for the immediately preceding month.
3. The Members shall verify their monthly billings and notify Clearing Corporation of discrepancies, if any, with all necessary details latest within two days from the date of notification of relative bill.

C. RECOVERY OF CHARGES

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

CHAPTER XI: HOLIDAY HANDLING

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

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.