

THE CLEARING CORPORATION OF INDIA LIMITED
SECURITIES SEGMENT

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Amended in November 2018

CHAPTER I: INTRODUCTION, APPLICABILITY & DEFINITIONS

1. Introduction

These Regulations shall be known as The Clearing Corporation of India Limited (Securities Segment) Regulations, 2009 as amended in November 2018.

2. APPLICABILITY

These Regulations shall be applicable to all Members admitted to the Securities Segment of The Clearing Corporation of India Limited.

3. DEFINITIONS

APPROVING AUTHORITY: "Approving Authority" shall have the same meaning as defined in Bye-Laws of Clearing Corporation;

Associate Member: "Associate Member" is a Member who is a GILT Account Holder and eligible to undertake Triparty Repo trades. Associate Members shall maintain a Current Account with the Designated Settlement Bank (DSB) for the purpose of funds settlement of their Triparty Repo trades.

"Clearcorp" means Clearcorp Dealing Systems (India) Limited.

DEMAT ACCOUNT: "Demat Account" is a bond ledger account of the entity or a person with the Depository for the purpose of maintaining securities in dematerialized form. Dematerialisation is the process by which the securities in physical form are converted into an equivalent number of securities in electronic form.

DEPOSITORY: "Depository" shall have the same meaning as in the Depositories Act, 1996.

DEPOSITORY PARTICIPANT: "Depository Participant" (DP) shall have the same meaning as the term "participant" in the Depositories Act, 1996.

GILT ACCOUNTS: A "Gilt Account" means an account for holding Government Securities opened and maintained by an entity or a person with an entity permitted by the Reserve Bank of India (RBI) to operate Constituents Subsidiary General Ledger Account with the Public Debt Office of RBI.

GILT ACCOUNT HOLDERS (GAH) "GILT Account Holder" means an entity or a person holding a GILT Account.

Member: Member including Associate Member is an entity admitted as Member of Clearing Corporation under its Bye-Laws, Rules and Regulations to transact business under any of its Segments and does not denote shareholders of Clearing Corporation. Provided shareholders of Clearing Corporation may also be admitted as Members of Clearing Corporation.

TRIPARTY REPO: "Triparty Repo" shall have the same meaning as assigned to it under Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 and as amended by Reserve Bank of India from time to time.

TRIPARTY AGENT: A "Triparty Agent" shall have the same meaning as assigned to it under Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 and as amended by Reserve Bank of India from time to time.

Capitalized terms used herein but not defined shall have the meaning ascribed to it under the CCIL Bye-Laws and Rules.

CHAPTER II: MEMBERSHIP

A. APPLICATION FOR MEMBERSHIP

1. Every entity desirous of seeking membership shall submit an application in the prescribed format to Clearing Corporation complete in all respects together with all requisite enclosures, as required to be submitted in terms of the application form;
2. The application shall clearly specify that the applicant desires to seek membership to the Securities Segment of Clearing Corporation; The application form shall be submitted along with the fees prescribed therefor.

B. PROCESSING OF APPLICATIONS

1. Every such application received in terms of Regulation (A) above shall be submitted to the Approving Authority for consideration;
2. Clarifications and/or additional information sought by the Approving Authority shall be conveyed to the concerned applicant. Such applications shall be processed further only upon receipt of complete particulars called for by the Approving Authority;
3. Mere submission of completed application forms and/or additional information sought by the Approving Authority does not by itself constitute any privilege for any applicant to claim grant of membership to Clearing Corporation;
4. Upon receipt of approval of the Approving Authority, Clearing Corporation shall communicate such approval to the applicant with a request to complete the other formalities outlined in these Regulations;
5. Every applicant upon receipt of approval for membership shall execute a power of attorney in favour of the Clearing Corporation in

such form and manner as may be prescribed by Clearing Corporation. Such execution shall be carried out by duly authorized signatory (ies) and shall bear the official seal of the Member Company.

C. MEMBER ID

1. Every applicant admitted as a Member including Associate Members of Clearing Corporation shall be allotted a unique Member ID which shall be for the identification purpose of the Member;
2. Every Member including Associate Member shall incorporate the Member ID in all its communications to Clearing Corporation;
3. Non-incorporation of Member ID by a Member in any trade or communication shall absolve Clearing Corporation of all liabilities or consequences of inaction by Clearing Corporation;
4. Every Member shall ensure that incorporation and/ or use of its Member ID is restricted to authorized personnel only;
5. Clearing Corporation and/or any of its officials shall not in any way be responsible for any loss or consequences that may arise on account of unauthorized and/or wrongful use of Member ID.

D. CONSTITUENT IDs:

1. An entity or a person that is not a Member of the Securities Segment of Clearing Corporation but settles its trades in Government Securities through such Member shall be termed as a Constituent;
2. Clearing Corporation shall allot each such Constituent a unique ID for the purpose of identification upon request received from Members providing requisite details and documents, as prescribed by Clearing Corporation;
3. Every Member shall incorporate the Constituent ID in all its Constituents' trades sent to Clearing Corporation;
4. A Member of Clearing Corporation may seek to settle trades of its

Constituents through its CSGL Account or through the Constituent's GILT account with RBI or through the CSGL Account of the Depository for trades received in demat;

5. Members shall be responsible for the settlement of all Constituent trades submitted by them;
6. All references to Member's trades, positions and obligations in these Regulations shall include both the proprietary and the Constituent trades of the Members.

E. RESIGNATION FROM MEMBERSHIP:

1) A Member who:

- I. is not a defaulter;
- II. has met all margin calls;
- 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 Securities Segment, provided:

(A) such Member is not a Member in any other segment(s) where margin obligations are drawn from Securities Segment SGF and satisfies either of the following conditions subject to such procedure as prescribed:

(a) there are no outstanding trades accepted in the Securities Segment for the preceding two months; or

(b) if the Member has incurred loss through replenishment of its contribution to Securities Segment Default fund(s)/ Triparty Repo Default Fund and the specified threshold as notified by Clearing Corporation from time to time in this respect has been reached.

(B) Such Member is also a Member in the other segment(s) where margin obligations are drawn from Securities Segment SGF and the application for resignation from the other segment(s) where margin obligations are drawn from Securities Segment SGF has

been accepted in terms of the regulations relating to the respective segment(s) and such Member satisfies either of the following conditions subject to such procedure as prescribed:

- (a) there are no outstanding trades accepted in the Securities Segment for the preceding two months; or
- (b) if the Member has taken the loss through replenishment of its contribution to Securities segment Default fund(s)/Triparty Repo Default Fund and the specified 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 clauses E(1)(A)(a) and E(1)(B)(a) may be granted exemption from the requirement of not having any outstanding trades accepted for settlement in the preceding 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 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 XVI, 'Default Fund' of these Regulations.

- 2) A Member resigning under Regulation E(1)(A)(a) and Regulation E(1)(B)(a) above:
 - a. shall give prior notice in writing to the Clearing Corporation clearly indicating its decision to resign from the Securities Segment.
 - b. The notice shall be effective on the resignation request date, which for the purpose of this segment shall be the date on which such written notice is received by Clearing Corporation when delivered in person or by courier, or by a registered mail (with a return receipt requested).
 - c. Clearing Corporation shall promptly notify other Members of this Segment about the resignation request received. Such

request for resignation under E (1)(A)(a) and E (1)(B)(a) above shall be approved or rejected by the managing director of Clearing Corporation or by an official so authorized by the managing director within 2 Business Days from the resignation request date based on fulfillment, or otherwise, of the conditions for resignation by the Member. The resignation shall come into effect from such date of approval by the managing director of Clearing Corporation or by an official so authorized by the managing director or in the absence of such approval or rejection, it shall be deemed to be approved at the end of 2 business days from the resignation request date.

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

3) A Member desiring to resign under Regulation E (1)(A)(b) and Regulation E (1)(B)(b) above:

- i. shall give prior notice of 7 calendar days to the Clearing Corporation in writing clearly indicating its decision to resign from the Securities Segment.
- ii. Clearing Corporation shall promptly notify other Members of this segment about the resignation request received.
- iii. The resigning Member who is only a Member in the Securities Segment shall cancel all the outstanding trades in the Securities Segment.
- iv. All requests for resignation under Regulation E (3) shall be approved or rejected by the managing director of Clearing Corporation or by an official so authorized by the managing director after the Member has cancelled all its outstanding trades in the Securities Segment within the specified 07 days' notice period based on fulfillment or otherwise of all the conditions for resignation by the Member. If the said resignation

is not rejected or if such approval is not given by the end of the day of the resigning Member's cancelling all its outstanding trades, it shall be deemed to have been approved at the end of such day. The resigning Member shall upon approval of resignation by Clearing Corporation be entitled to receive any amount lying to the credit of its Default Fund account for this segment upon adjustment of other dues to Clearing Corporation.

- v. If the Member fails to cancel all its outstanding trades within the period set out in 3(iv) above, the resignation notice shall be deemed to be withdrawn by the Member.
- vi. The procedure as specified in CCIL Rules, Chapter IV- Rule 7- Resignation, shall not apply to the Member resigning as per the Regulation E of this Chapter.

CHAPTER III: SETTLEMENT GUARANTEE FUND

A) PURPOSE

1. Clearing Corporation shall maintain a Settlement Guarantee Fund (hereinafter referred to as "SGF") in respect of the Securities Segment with a view to meet any risk arising out of any settlement shortage by its Members in discharging the obligation of an individual Member either for itself, or for its Constituents or for any other Member;
2. SGF shall be utilized for such purposes as may be provided for in the Clearing Corporation's Bye-Laws, Rules and Regulations including those that deal with the meeting of default obligations /shortfalls /deficiencies and/ or any other dues arising out of normal Clearing And Settlement operations undertaken by Clearing Corporation as part of its normal day-to-day operations.
3. SGF may be utilized for the margin obligations of the member in other segments as provided in the regulations of the respective segment.

B) COMPOSITION

1. SGF shall be formed with contributions from Members in the form of cash and eligible Government Securities;
2. Every Member shall contribute to SGF at least ten percent (10%) of its total amount of margin requirement at any point of time in the form of cash and the balance shall be contributed in the form of eligible Government Securities. The proportion of the cash to Government Securities to be maintained by the Member may be changed at the sole discretion of Clearing Corporation from time to time;

Provided that Clearing Corporation may permit Members to deposit their entire contributions to SGF in the form of cash;

3. If SGF is utilized towards the margin obligations of the member in other business segments in terms of paraA – 3 of this chapter the proportion of the cash to securities to be maintained by the

Member shall be as provided in the regulations of the respective business segment.

4. Clearing Corporation shall specify the list of eligible securities which shall qualify for contribution to SGF. The list of securities eligible for such contribution shall be notified by Clearing Corporation from time to time. Securities declared as ineligible for SGF contribution shall not be reckoned for margin contribution of such Member;

Provided that Clearing Corporation may at its discretion specify 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 SGF and/ or have securities concentration thresholds beyond which hair cut rates of securities deposited as collateral may be stepped up;

5. A Member shall upon admission be required to contribute to SGF before Clearing Corporation accepts trades from the Member and/or on its behalf for clearing and settlement;
6. A Member's contribution to SGF shall cover its margin obligations towards initial margin, mark to market margin and/or any other margin that may be prescribed under Chapter VIII relating to "Risk Management" in these Regulations;
7. Member's margin contributions as in Regulation B(5) above shall cover the margin obligations towards both the proprietary and constituent trades received for settlement;
8. A Member shall at all times ensure that its contributions to SGF are adequate to cover risk exposures on the outstanding Trades accepted by Clearing Corporation on behalf of the Member as specified in Chapter VIII relating to "Risk Management" in these Regulations.

C) INTEREST ON CONTRIBUTIONS TO SGF

1. Members shall be entitled to receive interest on such Government Securities that are contributed to SGF as per coupon rate payable on the respective securities;
2. Members shall not be entitled to any interest on cash amounts contributed to SGF;

Provided that in the event of Members opting to make their entire contribution to SGF in the form of cash, Clearing Corporation may seek to compensate such Members by offering them interest payments at quarterly rests (at the end of every quarter) on 90% of their average cash balances during the relative period at a rate not exceeding 100 basis points lower than the weighted average of 91 days Treasury Bills' cut-off yields at the last three auctions held before the relevant interest payment date. The benchmark instrument to which such cash compensation would be pegged as well as spread between the yield on the benchmark instrument and the interest rate paid by Clearing Corporation may be changed at the sole discretion of Clearing Corporation from time to time.

4. If SGF is utilized towards the margin obligations of the member in other segments in terms of para A – 3 of this chapter the interest shall be paid as provided in the regulations of the respective segment.

D) ADMINISTRATION

1. Clearing Corporation shall have discretion/ control over the administration, and/or utilization of cash margins deposited by its Members. Clearing Corporation shall be authorized to invest the cash contributions received from Members, in Government Securities, bank deposits or such other instruments as may be decided by Clearing Corporation from time to time in accordance with its investment policy.
2. The contributions made by Members to SGF in the form of securities shall be held in a single dedicated CSGL Account of

Clearing Corporation and/ or Gilt Account of the Member under Clearing Corporation's CSGL Account 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 SGF in the form of securities shall accordingly be governed by the said RBI rules and regulations and instructions;

Clearing Corporation shall have the right to utilize any of the securities contributed to SGF by any Member and held in the CSGL Account and/ or Gilt Account referred to in this sub-Regulation to meet shortfalls and/ or deficiencies in the Clearing and Settlement process arising either out of a settlement shortage by the Member or any other Member in such sequence of application as may be determined at the sole discretion of Clearing Corporation to be appropriate.

3. Clearing Corporation shall also be authorized to pledge, hypothecate, create any charge and/ or encumbrance over securities deposited in SGF for availing of a line of credit/ repo facilities from RBI, banks, institutions and/ or other market participants including non-Members, for the purpose of Clearing and Settlement of the transactions reported to it.
4. In the event of the utilization of funds/securities contributed by a Member to SGF for the purpose of meeting the shortage of another Member, the Member who has committed the shortage shall be required to replenish the said funds/ security immediately on the next business day along with the coupon amount in case the security had an intervening coupon between the date of shortage and date of replenishment by such Member within the cut-off time prescribed for the purpose.

Provided that if the relative security enters a "shut period" for redemption during the interim period, replenishment shall be effected in the form of cash equivalent to the redemption proceeds including coupon payment due on such security by the Member who has committed the security shortage. Such utilization shall not have any bearing on the exposure limits enjoyed by the original holder of the relative security;

5. The original holder shall be entitled to receive coupon as if the security was still in its possession.
6. In the event of Clearing Corporation not being in a position to replenish the security to the original holder of the security at the end of two business days following the relative utilization, the original holder of the security shall be entitled to receive cash compensation on the third business day at the market price of second day subject to such refund being permissible in relation to the Member's utilization of its own Risk Exposure Limit failing which this amount shall be treated as additional Cash contribution to SGF.
7. In the event of Clearing Corporation resorting to payment of cash compensation in terms of Regulation (6) above by utilization of defaulting Member's SGF, such payment shall simultaneously result in an appropriate reduction in defaulting Member's SGF contribution. The Member shall be required to provide appropriate replenishment towards its contribution to SGF by depositing eligible securities and/or cash, as the case may be.
8. Clearing Corporation shall have a paramount lien on contributions made by any of its Members to SGF towards any amount due from such Members towards recovery of losses, charges, penalties or any other amount due to Clearing Corporation and Clearing Corporation shall be entitled to utilize the contributions or the proceeds arising out of the contribution, if in the form of securities, to appropriate towards recovery of losses, charges, penalties or any other amount due to Clearing Corporation and any default obligations/ shortfalls/ deficiencies and/ or any other dues of such Member arising out of normal clearing and settlement operations undertaken by Clearing Corporation as part of its normal day to day operations.

E) WITHDRAWAL FROM SGF

1. Members shall be entitled to withdraw their contributions to SGF in excess of their obligations to cover their margin requirements and/ or any other amount payable to Clearing Corporation, by giving prior advance notice as notified by Clearing Corporation from time to time in the format prescribed for this purpose;

Members shall ensure at the time of lodging such requests for withdrawal of excess contributions to SGF, either in the form of cash and/or securities that the cash component of their contributions to SGF does not fall below the prescribed ratio after such withdrawal is effected.

F) RECEIPTS AND DELIVERIES OF SECURITIES

1. Members shall contribute securities to SGF as notified by Clearing Corporation from time to time in multiples of market lots in relation to their respective margin obligations;
2. Members shall arrange to directly deposit their contributions of eligible securities to SGF as per the SGF work flow process notified by Clearing Corporation from time to time;
3. Members shall ensure that all relevant details as required by RBI to carry out such transactions in the relative GILT Accounts are furnished. Clearing Corporation shall not in any manner be responsible for any consequences that may arise on account of non-receipt of deposits from Members towards their contributions to SGF;
4. Members shall be entitled to receive credit for deposits of securities into SGF upon receipt of confirmation from RBI that the securities have been credited into the CSGL Account of Clearing Corporation. Such credit shall be reckoned for the purpose of margin computation in respect of a Member when such credit intimation is received from RBI;
5. Members shall be entitled to withdraw securities from their

contributions to SGF by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for such 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 or utilized for handling the security shortage and / or for availing liquidity for handling the funds shortage of any of the members and rendering such delivery as impossible, then such notice shall be considered to be invalid;

6. Withdrawal of securities by Members shall result in a corresponding reduction in their SGF balances as and when instructions to transfer such securities to the Members are issued by Clearing Corporation;

7. Members shall be entitled to substitute securities deposited as contribution to SGF by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose.

Provided that if such notice for substitution is received in respect of such securities as are falling into shut period or utilised for handling the security shortage and / or for availing liquidity for handling the funds shortage of any of the Members and rendering such substitution as impossible, then such notice shall be invalid;

8. 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 SGF.

G) CASH CONTRIBUTION TO SGF - PAYMENTS AND RECEIPTS

1. Members shall effect cash contributions to SGF as notified by Clearing Corporation from time to time in relation to their respective Margin obligations;

2. Members shall arrange to deposit their contributions to SGF as per the SGF work flow process notified by Clearing Corporation from time to time.

3. Clearing Corporation shall not in any manner be responsible for any consequences that may arise on account of non-receipt of deposits from Members towards their cash contributions to SGF;
4. Members shall be entitled to receive credit for their cash deposits into SGF upon receipt of confirmation from RBI/DSB of credits into the RTGS/ Current Account of Clearing Corporation. The impact of such credit in the Members' SGF shall be reckoned at the time when credit intimation is received from RBI / DSB;
5. 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. Such withdrawal shall result in a corresponding reduction in such Members SGF balances as and when instructions to transfer such amounts to the Members are issued to RBI/ DSB by Clearing Corporation.

H) CORPORATE ACTIONS ON SECURITIES CONTRIBUTED TO SGF

1. Periodical interest receivable by the Members on their securities contributed to SGF 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;
2. 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;
3. Clearing Corporation shall not be responsible for servicing corporate actions on such securities held by Members in its SGF which have been declared as ineligible for SGF contribution;

4. Members shall monitor their securities contributions to SGF to ensure that the securities falling due for redemption are withdrawn from SGF 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;
5. Redemption proceeds received by Clearing Corporation shall be treated as Members cash contribution to SGF.
 - 1) SGF Statement of Securities holdings and cash contributions shall be provided by Clearing Corporation to Members.

CHAPTER IV: TRIPARTY REPO COLLATERAL

A. PURPOSE:

1. Clearing Corporation shall maintain Collateral in respect of Triparty Repo (hereinafter referred to as “TPR Collateral”) Trades accepted for settlement.
2. TPR Collateral shall be utilized for such purposes as may be provided for in the Clearing Corporations’ Bye-Laws, Rules and Regulations including those that deal with the meeting of default obligations /shortfalls /deficiencies and/ or any other dues arising out of normal clearing and settlement operations undertaken by Clearing Corporation as part of its normal day-to-day operations.
3. Clearing Corporation shall act as a Triparty Agent for Members’ Triparty Repo trades received for settlement from Triparty Repo (Dealing) Segment of Clearcorp in accordance with the Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 as amended from time to time and as provided in Bye-Laws, Rules and Regulations of Clearing Corporation.

B. COMPOSITION

1. TPR Collateral shall be formed with contributions from Members in the form of cash and eligible Government Securities;
2. Every Member shall contribute to TPR Collateral, and the minimum of its total amount of margin requirement at any point of time in the form of cash and the balance shall be contributed in the form of eligible Government Securities. The minimum cash contribution to be maintained by the Members towards its margin requirement shall be as notified by Clearing Corporation from time to time. Every Member shall also contribute the eligible Government Securities to TPR Collateral towards borrowing limit under Triparty Repo.

3. Clearing Corporation shall specify the list of securities which shall be eligible for contribution to TPR Collateral. The list of securities eligible for such contribution shall be notified by Clearing Corporation from time to time. Securities declared as ineligible for TPR Collateral contribution shall not be reckoned for Margin contribution/ borrowing limit of such Member;
 - a. Provided that Clearing Corporation may at its discretion specify 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 TPR Collateral or/ and have securities concentration thresholds beyond which hair cut rates of securities deposited as collateral may be stepped up;
4. A Member shall upon admission be required to contribute to TPR Collateral before Clearing Corporation accepts Triparty Repo trades from the Member for clearing and settlement;
5. A Member's contribution to TPR Collateral shall cover its obligations towards borrowing limit, initial margin, mark to market margin, volatility margin for Triparty Repo trades and/ or any other Margin that may be prescribed in Chapter VIII relating to "Risk Management" in these Regulations.
6. Clearing Corporation may also consider accepting bank guarantees from its Members to cover its liquidity requirements, on such terms and conditions, as notified by Clearing Corporation from time to time;
7. It shall be the responsibility of the Member to ensure that its exposures on the outstanding borrowings under Triparty Repo trades accepted for settlement are fully secured by the value of the collateral maintained by it with Clearing Corporation from time to time, as provided under these Regulations.

C. INTEREST ON CONTRIBUTIONS TO TPR COLLATERAL

1. Periodical interest receivable by the Members on their securities contributed as TPR Collateral 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;
2. Clearing Corporation shall not be responsible for servicing corporate actions on such securities held by Members in its TPR Collateral which have been declared as ineligible for TPR Collateral contribution;
3. Members shall be entitled to receive interest on such Government Securities that are contributed to TPR Collateral as per coupon rate payable on the respective security.
4. Interest received by Clearing Corporation shall be subsequently transmitted to the Members at the earliest.
5. Members shall be entitled to receive interest (at the end of every quarter) on cash amounts contributed to TPR Collateral only to the extent of the cash utilized, in excess of minimum cash margin prescribed, towards initial margin requirement of Triparty Repo trades as notified by Clearing Corporation from time to time.

D. ADMINISTRATION

1. Clearing Corporation shall have discretion/ control over the administration, utilization of cash margins deposited by Members. Clearing Corporation shall be authorized to invest the cash contributions received from Members, in Government Securities, bank deposits or such other instruments as may be decided by Clearing Corporation from time to time in accordance with its investment policy;
2. The contributions made by Members to TPR Collateral in the form of securities shall be held in separate CSGL Accounts of

Clearing Corporation and/ or Gilt Account of the Member under Clearing Corporation's respective CSGL Account 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 TPR Collateral in the form of securities shall accordingly be governed by the said RBI Rules and Regulations and instructions;

3. Clearing Corporation shall at its sole discretion, identify the security to be debited among the security contributed in the Triparty Repo GILT Account by the borrower and borrower shall be deemed to have given consent for such security debits by Clearing Corporation. Clearing Corporation shall debit the securities equivalent to the value of amount borrowed under Triparty Repo to the GILT Account of the borrower for credit to Triparty Repo settlement account (TPR repo settlement account) maintained by Clearing Corporation.
4. Clearing Corporation shall at its sole discretion identify the security to be credited to Triparty Repo GILT Account of the lender and lender shall be deemed to have given concurrence for such security credits by Clearing Corporation. Clearing Corporation shall credit the GILT Account of the lender, with the securities equivalent to the value of amount lent under Triparty Repo by debiting TPR repo settlement account maintained by Clearing Corporation.
5. The securities debit for a borrower of funds and credit to lenders of funds for term Triparty Repo transactions shall be determined on a daily basis by Clearing Corporation and securities identified for debit and credit respectively to the borrower and lender may change during life cycle of the Triparty Repo transaction.
6. Securities credit to Members in their Gilt Account, on account of their lending in Triparty Repo, shall not be available for withdrawal by such Member.

7. Clearing Corporation shall have the right to utilize any of the securities contributed to TPR Collateral by the Member and held in the CSGL Account and/ or Gilt Account referred to in Regulation J(2) above to meet shortfalls and/ or deficiencies in the clearing and settlement process arising out of a settlement shortage by the Member in such sequence of application as may be determined at the sole discretion of Clearing Corporation to be appropriate;
8. Clearing Corporation shall also be entitled to and shall be deemed to be authorized by its Members, to seek pledge, hypothecate, create any charge and/ or encumbrance over securities deposited by the "Member in Shortage" and the securities debited/credited to its TPR GILT Account towards Triparty Repo borrowings and/ or lending , for availing a line of credit/ repo facilities from RBI, banks, institutions and/ or other market participants including non-Members, for the purpose of clearing and settlement of the Triparty Repo trades received & accepted for settlement. e.g. If borrower defaults in repayment of borrowed funds then such borrower's securities debited to its GILT Account shall be utilized for the above purpose. In case of lender's default in meeting funds obligations, the securities to be credited to GILT Account of the lender towards such lending shall be utilized for above purpose;
9. Clearing Corporation shall have a paramount lien on contributions made by any of its Members to TPR Collateral towards any amount due from such Members towards recovery of losses, charges, penalties or any other amount due to Clearing Corporation and Clearing Corporation shall be entitled to utilize the contributions or the proceeds arising out of the contributions, if in the form of securities, to appropriate towards recovery of losses, charges, penalties or any other amount due to Clearing Corporation and any default obligations/ shortfalls/ deficiencies and/ or any other dues of such Member arising out of normal clearing and settlement operations undertaken by Clearing Corporation as part of its normal day to day operations.

E. WITHDRAWAL FROM COLLATERAL

1. Members shall be entitled to withdraw their contributions to TPR Collateral in excess of their obligations to cover their margin/borrowing requirements and/ or any other amount payable to Clearing Corporation, by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for this purpose.
2. Members shall ensure at the time of lodging such requests for withdrawal of excess contributions from TPR Collateral, either in the form of cash and/ or securities, that the cash component of their contributions to TPR Collateral does not fall below the prescribed ratio/ minimum cash requirement after such withdrawal is effected.
3. Securities available to Members in their GILT Account, on account of their lending cannot be withdrawn.

F. RECEIPTS AND DELIVERIES OF SECURITIES

1. Members shall contribute securities to TPR Collateral as notified by Clearing Corporation from time to time in multiples of market lots in relation to their respective margin obligations.
2. Members shall arrange to directly deposit their contributions of eligible securities to the CSGL Account as per the work flow process notified by Clearing Corporation from time to time;
3. Members shall ensure that all relevant details as required by RBI to carry out such transactions in the relative GILT Accounts are furnished. Clearing Corporation shall not in any manner be responsible for any consequences that may arise on account of non-receipt of deposits from Members towards their contributions to TPR Collateral;
4. Members shall be entitled to receive credit for deposits of securities into the CSGL Account with RBI upon receipt of confirmation from RBI that the securities have been credited

into the respective CSGL Account of Clearing Corporation. Such credit shall be reckoned for the purpose of Margin/ borrowing limit computation in respect of a Member when such credit intimation is received from RBI;

5. Members shall be entitled to withdraw securities from their contributions to TPR Collateral by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose. Clearing Corporation may honor such withdrawal request, provided the member has no borrowing outstanding against such security.

Provided further that, if such notice for withdrawal is received in respect of a security at a time when it would be falling into shut period or utilized for availing liquidity for handling the funds shortage of any member and rendering such delivery as impossible, then such notice shall be considered to be invalid.

6. Withdrawal of securities by Members shall result in a corresponding reduction in their collateral balances as and when instructions to transfer such securities to the Members are issued by Clearing Corporation;

7. Members shall be entitled to substitute securities deposited as contribution to TPR CSGL Account at RBI by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose. 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 or utilized for availing liquidity for handling the funds shortage of any member and rendering such substitution as impossible, then such notice shall be invalid.

8. At the time of making requests for substitution, Members shall ensure that the security offered for substitution forms part of the securities eligible for contribution to TPR Collateral.

Borrowers may substitute securities among the eligible securities and lenders shall be deemed to have given consent for such a security substitution. The value of the securities deposited should be equal to or greater than the value of securities being withdrawn. Borrowers shall not be allowed after commencement of settlement process, as set out in Chapter V – Trade Settlement of these Regulations, to substitute securities being debited as part of the settlement process.

G. CASH CONTRIBUTION TO COLLATERAL - PAYMENTS AND RECEIPTS

1. Members shall effect cash contribution to TPR Collateral as notified by Clearing Corporation from time to time in relation to their respective Margin obligations.
2. Members shall arrange to deposit their contributions to TPR Collateral as per the work flow process notified by Clearing Corporation from time to time.
3. Clearing Corporation shall not, in any manner, be responsible for any consequences that may arise on account of non-receipt of deposits from Members towards their cash contributions to TPR Collateral.
4. Members shall be entitled to receive credit for their cash deposits into TPR Collateral upon receipt of confirmation from RBI / Settlement Bank of credits into the RTGS Account / Current Account of Clearing Corporation. The impact of such credits in the Members TPR Collateral shall be reckoned at the time when credit intimation is received from RBI / Settlement Bank;
5. 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. Such withdrawal shall result in a corresponding reduction in such Members Collateral balances as and when instructions to transfer such amounts to the Members are issued to RBI / Settlement Bank by

Clearing Corporation.

6. Members shall monitor their securities contributions to TPR CSGL Account at RBI to ensure that the securities falling due for redemption are withdrawn from TPR CSGL Account at RBI 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.
7. Redemption proceeds received by Clearing Corporation shall be treated as Member's cash contribution to TPR Collateral.
8. Collateral statement of securities holdings and cash contributions shall be provided by Clearing Corporation to Members.

CHAPTER V: TRADE SETTLEMENT

A) KINDS OF TRADES

1. Save as otherwise provided, trades are contracts relating to outright including when issued, repo and Triparty Repo_type with delivery and payments as under:
 - (a) For “T+ 0 ” i.e., for delivery and payment on the same day as the date of the Trade;
 - (b) For “T+ 1 ” i.e., for delivery and payment on the working day following the Trade date;
 - (c) For “T+ N i.e., for delivery and payment on any working day greater than “T+1” as specified by RBI from time to time ;
2. For “Repo” and Triparty Repo_Trades, the delivery and payment as above shall represent the delivery and payment relating to the first leg, which shall then qualify for reversal of actions on the repo reversal date.

B) TIMINGS

Unless otherwise specifically notified, timings for Clearing Corporation’s acceptance of trades for settlement shall be linked to the timings prescribed by RBI for the types of trades covered.

C) RECEIPT OF TRADES BY CLEARING CORPORATION

Clearing Corporation shall receive details of trades from various sources as detailed under:

- (a) Outright secondary market trades in Government Securities:-
 - i. Trades reported by Members on RBI’s Negotiated Dealing System (NDS)/NDS Order Matching System (NDS-OM reporting module);
 - ii. Trades concluded by members on RBI’s NDS Order Matching System (NDS-OM order matching module);

iii. From any other source as may be permitted by RBI from time to time.

(b) Repo Trades in Government Securities:–

- i. Trades reported by members on RBI's NDS;
- ii. Trades concluded by Members on Clearcorp's Repo Dealing System (CROMS order matching module);
- iii. Trades reported by Members on Clearcorp Repo Dealing System (CROMS reporting module);
- iv. From any other source as may be permitted by RBI from time to time.

(c) Triparty Repo Trades in Government Securities:-

- i. Trades concluded by Members on Clearcorp's Triparty Repo Dealing System;
- ii. Trades reported by Members on Clearcorp's Triparty Repo reporting module;
- iii. From any other source as may be permitted by RBI from time to time.

D) ACCEPTANCE OF TRADES

1. Upon receipt of trades for Clearing And Settlement, as detailed in para (C) above, Clearing Corporation shall accept such Trade/s after verification of Risk Exposure Limits in respect of each individual Member as enumerated in Chapter VIII titled "Risk Management" in these Regulations;
2. Trades accepted shall be classified as under:

2.1 Trades guaranteed for settlement

Trades that fall within Members' Risk Exposure Limits will be accepted and guaranteed for settlement by Clearing Corporation.

2.2 Trades exceeding Risk Exposure Limit

- a) Trades that fall beyond Member's Risk Exposure Limit;
- b) Such trades may be accepted (vis -a -vis such Members) for settlement without guarantee by Clearing Corporation. Trades once accepted without guarantee would qualify for guaranteed settlement only upon receipt of additional contributions to Member's SGF / TPR Collateral to cover the shortfall resulting from a breach of the exposure limit;
- c) Such trade(s) shall be accepted by Clearing Corporation at its discretion;
- d) Acceptance of such trade(s) by Clearing Corporation shall not constitute any obligation on its part to accept such trades on a future date nor will it bestow any right to the Member to insist on acceptance of such trades on a future date.

E) REJECTION OF TRADES

Clearing Corporation shall have the discretion to reject trades received by it for settlement under the following conditions:

1. When Trades reported by the Member have exceeded the Member's Risk Exposure Limits;
2. When one of the parties to the trade has been suspended or has been rendered ineligible to avail of Clearing Corporation's services whether temporarily or otherwise;
3. When one of the parties to the trade is no longer a Member;
4. When the trade has been received by Clearing Corporation after cut-off timing, as prescribed by RBI/ Clearing Corporation from time to time, rendering the clearing and settlement of the relative trade for that settlement date impossible for example,

if the trade(s) has been received after the clearing and settlement process for that settlement date has already commenced it shall not be possible to accept such a trade;

5. When there is any inaccuracy in the reporting of the trade viz., incorrect Member ID etc;
6. All trades in when issued instruments shall be rejected on cancellation of auction by RBI;
7. In the event of a disruption of any kind as provided for in Chapter IX of these Regulations.

F) STATUS OF TRADES

All trades received by Clearing Corporation from its Members through any of the sources enumerated in Regulation (C) of Chapter V above for clearing and settlement through Clearing Corporation have to be specifically accepted for settlement by Clearing Corporation. If at the end of a settlement cycle, a specific trade has not been accepted, such trade shall be deemed to have been rejected by Clearing Corporation.

G) SETTLEMENT REGULATIONS FORM PART OF CONTRACTS

The Regulation from time to time in force relating to any procedure for settlement of trades and the resolutions, notices, directions and decisions of the relevant authority for the time being in force shall form part of every contract for all accepted trades.

H) SETTLEMENT PROCESS

1. Settlement of Trades shall be effected through a process of novation, based on a multilateral netting basis or bilateral netting basis or gross basis or trade for trade basis or any other basis as may be permitted by the Reserve Bank of India from time to time;

2. Obligations of Members arising there from for effecting delivery and/ or receiving securities , and paying and/or receiving funds shall constitute the settlement obligations of Members;
3. Settlement shall be final and irrevocable when the net obligations are determined.

I) SETTLEMENT OBLIGATIONS OF MEMBERS

1. Settlement Obligations of all trades shall be met by delivery and/ or payment by the Members to the Clearing Corporation in the following manner:-
2. On the settlement date, all securities deliverable by members to the Clearing Corporation shall be received by credit into the Settlement SGL Account of Clearing Corporation with RBI. For Triparty Repo trades all securities deliverable by Members to Clearing Corporation shall be received by credit into the TPR Repo Settlement Account maintained by Clearing Corporation._
3. On the settlement date, all funds deliverable by Members to the Clearing Corporation shall be received by credit into the RTGS Settlement Account / Settlement Current Account of the Clearing Corporation with RBI and/ or the Settlement Bank (as applicable).

J) MODES OF DELIVERY

1. Clearing Corporation may from time to time prescribe different modes of deliveries and conditions relating thereto. Without prejudice to the generality of the above, modes of deliveries for all Trades are specified as under:
 - 1.1. Security deliveries towards outright and repo trades shall be carried out through SGL/ CSGL of the Member and / or through the GILT Accounts of the constituent / CSGL Account of the depository for Demat trades wherever applicable. Securities delivery towards Triparty Repo

trades shall be carried out through the Triparty Repo Gilt Account of the Member maintained by Clearing Corporation. The RBI Regulations/guidelines relating to SGL and CSGL / GILT Accounts shall be deemed to form part of any settlement process so prescribed;

- 1.2. Funds deliveries shall be effected through RTGS settlement account / Current Accounts maintained with RBI and/ or Settlement Bank. The RBI Regulations relating to RTGS Settlement Account / Current Accounts maintained with them as well as Regulations of the concerned Settlement Bank (where funds settlements are to be achieved through them) shall be deemed to form part of any settlement process so prescribed.

K) OBLIGATION REPORTS

1. Clearing Corporation shall generate and provide to each Member the following obligation reports:

1.1. Securities Obligation Report

- a). Shall comprise of security-wise position of a Member for its outright and repo trades for which deliveries are to be given and/ or received by it in its SGL and CSGL Account or GILT Account maintained with RBI or the demat accounts maintained with a Depository Participant on a settlement date. In respect of Triparty Repo, a report shall be provided to the Members, comprising of security delivered by and/ or received by the Member from/ to, their TPR Gilt Account maintained with Clearing Corporation, on account of its Triparty Repo trades;
- b). Shall be deemed to be Member's confirmation of security-wise position for which deliveries are to be given and/ or received by the Member on a settlement date;
- c). Shall be deemed to be the Member's instruction to RBI / Clearing Corporation, for effecting these transactions in its SGL Account/ CSGL and its constituent's Gilt Account with RBI / DEMAT Account with Depository Participant / TPR GILT

Account maintained with Clearing Corporation.

- d). In cases where the settlement is through multilateral netting, the security-wise position of a member would represent the net position in respect of that security at SGL and CSGL Account or GILT / DEMAT Accounts and/ or TPR GILT Account maintained with Clearing Corporation.

1.2. Funds Obligation Report

- a). Shall comprise of funds payable and/ or receivable by a Member for trades made by it falling due for settlement on settlement date as determined by Clearing Corporation;
- b). Shall be deemed to be a Member's confirmation of the different trades for which, funds are to be received from and/ or paid to the Member on settlement date;
- c). Shall be deemed to be a Member's instructions to RBI/ Settlement Bank for effecting these transactions in its RTGS/ Current Account.

L) DELIVERY IN PART

A Member with receivable position shall accept part delivery of the securities receivable by him. The undelivered portion of the security shall be dealt with in accordance with Chapter VII of these regulations relating to "Settlement Shortage and Defaults".

M) FAILURE IN DELIVERY

If a selling Member fails to deliver securities on settlement date, for itself or its constituent, it shall be considered as an act of Shortage by that Member. Such Shortage shall be dealt with as provided in Chapter VII of these Regulations relating to "Settlement Shortage & Defaults".

N) FAILURE IN PAYMENT

If a buying Member fails to pay funds on settlement date, it shall be considered as an act of shortage by that Member. Such shortage shall be dealt with as provided in Chapter VII in these Regulations relating to "Settlement Shortage & Defaults".

O) FAILURE TO RECEIVE DELIVERY OF SECURITIES/ FUNDS

If a Member fails to take up securities and/ or funds delivered to it by Clearing Corporation on the settlement date, the relative funds and/ or securities shall be retained by Clearing Corporation for and on behalf of that Member without any cost, risk and/ or responsibility to itself and / or any of its officials. In that case, Clearing Corporation shall be deemed to have delivered relative securities/ funds on the original settlement date.

CHAPTER VI: LIMITS AND MARGINS

A). MARGIN REQUIREMENTS

Clearing Corporation may, from time to time, prescribe requirements of margins for outright, repo and Triparty Repo trades and also borrowing Limit for Triparty Repo trades settled through Clearing Corporation and the Members shall furnish such margins and collateral for borrowing limit as a condition precedent.

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 / TPR Collateral in relation to risk exposure on outstanding trades accepted for clearing and settlement by Clearing Corporation in respect of that Member.

2. Mark to Market Margin

- i. Mark to Market margin constitutes the margin obligation required to be fulfilled by a Member as its contribution to SGF / TPR Collateral 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.

3. Volatility Margin

- i. Volatility margin constitutes the margin obligations required to be fulfilled by a Member as its contribution to SGF / TPR Collateral in relation to sudden increase in volatility in interest rates / bond prices and shall be applied, at the discretion of

Clearing Corporation, on

- I. outstanding trades in respect of a Member; and/or
- II. securities contribution to SGF/ TPR Collateral;

The Members shall be duly notified by Clearing Corporation prior to the collection and/or maintenance of volatility margin, as and when needed.

4. Concentration Margin

Concentration margin constitutes the margin obligation required to be fulfilled by a Member in relation to its outstanding exposure to a security or to a group of securities, for a settlement date or for a number of settlement dates, beyond pre-determined limit(s). Clearing Corporation shall, whenever required, stipulate such margin from any future date after due notification to its Members.

5. Borrowing Limit

Clearing Corporation shall determine the borrowing limit for its Members for their borrowings under Triparty Repo trades. The borrowing limit shall be determined after valuation of securities in Member's TPR GILT Account as notified by Clearing Corporation from time to time. The limit so determined shall be available for borrowing by the Member under Triparty Repo. Clearing Corporation may at its sole discretion appropriate unutilized balances in the borrowing limit of the Member towards its initial margin requirements for Triparty Repo trades.

C). LIEN ON MARGINS

A Member's contribution by way of margins either in the form of cash or securities shall be subject to a first and paramount lien for all sums due to Clearing Corporation.

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

D). SUSPENSION ON FAILURE TO PAY MARGIN

Notwithstanding anything contained elsewhere in these Regulations:-

1. If a Member fails to fulfill its margin obligation on more than six occasions in a financial half year, Clearing Corporation shall be entitled to temporarily suspend the membership rights of such a Member;
2. A Member, in the event of shortfall in its margin /borrowing limit shall be deactivated from the Triparty Repo Dealing System/ reporting module operated by Clearcorp, on receipt of such direction from Clearing Corporation. Clearing Corporation shall direct Clearcorp to reactivate such Member on its dealing system upon replenishment of the margin / borrowing limit.
3. A Member shall be liable to pay penalty when notified by Clearing Corporation on the Margin shortfall for the period of delay in fulfilling its margin obligations. While computing penalty, only business day may be reckoned provided such penalty and margin default is paid / replenished by the defaulting Member on the next business day. However, in the event of failure by a member to honor its obligation on the next business day, as above, the actual number of days including intervening holidays, Sunday and non-business days shall be reckoned for calculation of penalty amount;
4. Clearing Corporation shall be entitled to recover additional penalties/ charges from the Member as per rates notified by Clearing Corporation from time to time;
5. In case of margin shortfall by a member, Clearing Corporation, at its sole discretion, may withhold securities or funds pay- out to such member. Such withheld securities or funds would qualify for release only on the member's meeting the margin shortfall;
6. The membership of a Member who has been subjected to

temporary suspension due to non-fulfillment of Margin obligation on more than six occasions in a financial half year shall automatically come up for review;

7. 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 VII: SETTLEMENT SHORTAGE & DEFAULTS

A). SETTLEMENT SHORTAGE

Failure of a Member (hereinafter referred to as a “Member in shortage”) to discharge its obligation in full or in part to deliver funds and/ or securities due from it at the time of settlement shall be treated as a settlement shortage.

B). DECLARATION OF DEFAULT

A Member, for the purpose of these Regulations may be declared as a defaulter in the event of:

- A. Failure to replenish its settlement shortage within the stipulated cut off time;
- B. Failure to replenish its margin obligation within the stipulated cut off time;
- C. Inability to pay within specified time the damages and the price differences due on account of closing out effected as per Bye-Laws and Rules of Clearing Corporation;
- D. Failure of a Member to replenish the Default Fund contribution within the time stipulated;
- E. Insolvency or dissolution or winding up of the Members;
- F. Under any other circumstances as may be set out in the Bye-Laws and Rules of Clearing Corporation.

**C). DELIVERIES DUE TO THE MEMBER IN- SHORTAGE /
DEFAULTER**

1. Clearing Corporation shall have absolute and paramount rights/ lien over all securities and/ or funds due to the Member in shortage/ defaulter;
2. Securities/ funds held back by Clearing Corporation from a Member in shortage/ defaulter's settlement obligations and/ or SGF / TPR Collateral contributions shall be deemed to have been received by it and delivered by it to Clearing Corporation towards meeting its shortage/ default obligation without any cost to Clearing Corporation;
3. Clearing Corporation shall have the right to dispose of the securities and apply the relative sale proceeds and/ or funds withheld from the defaulter, to make good any non-payment of funds or non-delivery of securities by the defaulter.

D). PENALTY ON SETTLEMENT SHORTAGE /DEFAULT

Clearing Corporation shall impose on a Member in shortage / defaulter, penalty and such other charges as may be notified by Clearing Corporation from time to time. While computing number of days for levying penalty, only business days may be reckoned provided such penalty and shortage obligation is paid / replenished by the Member in shortage on the next business day after the day on which shortage occurs. However, in the event of failure by a Member to honor 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.

E). WITHHOLDING OF SECURITIES AND FUNDS

Notwithstanding anything contained in these Regulations, Clearing Corporation may withhold, for such period(s) as it may decide, pay-out of any securities and/ or funds including securities and/ or funds constituting Margins, without any cost to Clearing

Corporation, if a Member has not delivered the required securities obligation or failed to discharge its payment obligations on the settlement date; or

- (1) A Member fails to satisfy the Margin requirements; or
- (2) A Member fails to fulfill any obligations arising out of Bye-Laws, Rules and Regulations.

F). SHORTAGE HANDLING PROCEDURE

1. Shortage of Funds

1.1. Subject to other provisions of these Regulations, Clearing Corporation shall make good the funds shortage, at the cost of the Member in shortage, by availing the funds line of credit / liquidity available or by borrowing funds from the market. The securities deliverable to the Member in shortage shall be withheld to cover the value of shortfall together with such amount to cover interest on the funds outlay and any fluctuation in price of Security(ies), until final settlement. Such Security(ies) shall be valued at the lowest price of the outright trades received for settlement on the day of shortage (excluding trades below Rs. 5 crores (reckoned on the basis of face value) and trades at off - market price as identified by Clearing Corporation at its sole reasonable discretion) along with the proportionate accrued interest. If no trade in such security(ies) is received for settlement by Clearing Corporation on such day, then at its sole discretion, the Clearing Corporation may value such securities at either its mark to market price or a price considered fair by it and an additional amount will be provided to cover the price fluctuations till final settlement. Such securities withheld shall be the minimum face value of Rs.10,000/- and in multiples thereof. In case the value of the security deliverable is insufficient to cover the shortfall as above or the value of the shortfall is very small, Clearing Corporation shall be entitled, at its sole discretion, to block the margins contributions of the Member (i.e. free balances in his SGF account) to cover shortfall amount.

In case such funds shortage is on part of:

(1)a borrower on Triparty Repo trade reversal date, then securities equivalent in value to the extent of repayment amount along with other cost and charges towards utilization of lines of credit and price fluctuations of underlying collateral shall be withheld by Clearing Corporation

(2)a lender not paying funds on Triparty Repo 1st leg settlement date, then initial margin and corresponding credit of securities equivalent in value to the extent of lending along with other cost and charges towards utilization of lines of credit shall be withheld by Clearing Corporation.

1.2. Shortage allocation: Clearing Corporation shall initiate all measures as are prudent and necessary to meet funds shortage in order to ensure that trades are settled and all Members except the Member in shortage, receive funds and/or securities due to them. However, in the event of Clearing Corporation not being in a position to meet the funds shortfall, Clearing Corporation shall have the right to allocate such shortage among the other Members with net funds receivable positions (herein after referred to as 'Allocatee Members') and the Members shall be deemed to have given consent to such shortage allocation. The identification of the Members to whom the shortage to be allocated shall be as notified by Clearing Corporation from time to time;

1.3. The Member in shortage/ defaulter shall be liable to meet its obligations in terms of sub-Regulation (G) below relating to "Effects of Settlement Shortage / Default";

1.4. In cases of the shortage allocation as in 1.2 above the Member in shortage/ defaulter shall be liable to pay (a) amount equivalent to loss incurred by Allocatee Members due to fall in price, if any, of the relative securities; and (b) charges and penalties as notified by Clearing Corporation from time to time;

- 1.5. In cases of shortage allocation, the Allocatee Members shall be entitled to receive amount equivalent to loss incurred by it, if any, due to fall in, value of the relative security(ies) on the next Business Day;
- 1.6. The fall in value of relative securities shall be computed based on difference between the price (including proportionate accrued interest) at which the relative securities have been sold by the allocatee Member on the business day next to the date of such shortage allocation and the price (including accrued interest) at which shortage was valued as per para 1.2 above. However, when the allocatee member does the trade at a price, which in the opinion of Clearing Corporation is not in line with market price for the security at the material time, difference between the price at which shortage was valued on the day of shortage and either the mark to market price or a price considered fair by Clearing Corporation as decided at its sole discretion on the next business day shall be the basis for computation of the compensation;
- 1.7. Any loss suffered by the non-defaulting Member on account of the sale of the said securities due to fall in the price on the next business day is required to be claimed by the allocatee member(s) in writing within two business days from the date of shortage Allocation;
- 1.8. In case the security (ies) in terms of the provisions of sub-Regulation 1.2 above, enters into a shut period on the next Business Day, the processes outlined in Regulations 1.5, 1.6 and 1.7 above shall be carried out on the first date when Trades can be carried out in such securities.

2. Shortage of Securities

- 2.1. Subject to other provisions of these Regulations, Clearing Corporation shall make good the securities shortage, at the cost of the Member in shortage, from the Clearing Corporations' SGL account and/ or_SGF and / or the securities

line of credit available. The funds deliverable to the Member in shortage shall be withheld to cover the amount of shortfall. To arrive at the value of shortfall, the highest price of the outright trades received for settlement on the day of shortage (excluding trades below Rs.5 crores (face value) and off -market trades as identified by Clearing Corporation) along with proportionate accrued interest shall be considered. If no trade in such security(ies) is received for settlement by Clearing Corporation on such day, then at its sole discretion Clearing Corporation may value such securities at either its mark to market price or a price considered fair by it. In the event no funds are payable to the Member in shortage or funds payable are insufficient to cover the shortfall, securities deliverable to the Member in shortage shall be withheld to cover the value of shortfall. Such security(ies) shall be valued at the lowest price of the outright trades received for settlement on the day of default (excluding trades below Rs. 5 crores (face value) and off-market trades as identified by Clearing Corporation) along with the proportionate accrued interest. If no trade in such security(ies) is received for settlement by Clearing Corporation on such day, then at its sole discretion, Clearing Corporation may value the securities on the basis of the mark to market price or a price considered fair by it. An additional amount shall also be provided to cover the price fluctuations till final settlement and other charges as per para 2.5 below. Such securities withheld shall be the minimum face value of Rs.10,000/- and in multiples thereof. In case the value of the funds/ securities withheld is insufficient to cover the shortfall as above or the value of shortfall is very small, Clearing Corporation shall be entitled, at its sole discretion, to block the margins contributions of the member (i.e. free balances in his SGF account) to cover shortfall amount;

- 2.2.** Shortage allocation:- Clearing Corporation shall initiate all measures that are prudent and necessary to meet securities shortage to ensure that trades are settled and all Members except the Member in shortage, receive funds and/or securities as due to them. However, in the event of

Clearing Corporation not being in a position to meet the shortfall in a particular security, Clearing Corporation shall have the right to allocate such shortfall in market lot among the top five Members (Allocatee Members) having net receivable position in that security, by paying them cash compensation as described below. Such compensation will be paid based on the highest price of the outright Trades received for settlement on the day of shortage (excluding trades below Rs. 5 crores (face value) and off market trades as identified by Clearing Corporation) along with the proportionate accrued interest. If no trade in such security(ies) is received for settlement by Clearing Corporation on such day then at its sole discretion Clearing Corporation may value such securities at either its mark to market price or a price considered fair by it. Such Members to whom shortage has been allocated shall be deemed to have given consent to such allocation of the shortfall. Clearing Corporation in specific cases may be in a position to allocate such shortage to the counterparty(s) of the defaulting Member wherever feasible at its sole discretion at the traded price. If such shortage allocation is on account of a Member's Repo 1st leg of transaction, then Clearing Corporation may withdraw the 2nd leg for the equivalent face value of the security from its 2nd leg repo transaction due for settlement at future date;

- 2.3.** In the event of allocatee Member opting for securities substitution in lieu of the security in which there is a shortage, Clearing Corporation may provide another liquid security of equivalent value if the Member has indicated its willingness for such substitution in writing well in advance. Such mandate from the Member shall be in force till its revocation by such Member. For the purpose of valuation of securities under substitution, MTM prices of Clearing Corporation and the accrued interest will be taken into consideration. However, this procedure will be implemented after getting appropriate regulatory approval and with due notification;

- 2.4.** The Member in shortage/ defaulter shall be liable to meet its obligations in terms of sub-Regulation(G) below relating to “Effects of Settlement Shortage/Default”;
- 2.5.** If Clearing Corporation resorts to the provisions of sub - Regulation (2.2) above, the Member in shortage shall be liable to pay as under:
- (a).** An amount equivalent to the loss due to the increase in price on the next business day, if any, of the relative security(ies) claimed by Allocatee Member(s) and/ or in case of repo trades, if allocated at trade price, loss of repo interest on funds (total consideration) upto a maximum of repo interest of the trade on funds remained undeployed;
 - (b).** Charges, penalties and any incidental charges for security shortage as notified by Clearing Corporation from time to time.
- 2.6.** If Clearing Corporation resorts to action under the provisions of Regulation at (2.2) above, the allocatee Member shall be entitled to receive(a) amount(s) equivalent to loss due to rise in price, if any, of such securities; or (b) in case of Repo trades, if allocated at trade price, loss of interest up to a maximum of repo interest of the trade on funds remaining undeployed.
- 2.7.** The increase in value of the securities shall be computed as the differential between the price/ weighted average price at which such securities are bought by the allocatee Member(s) on the business day next to the shortage date and the price at which such security was valued for allocation on the date of shortage. However, when the non-defaulting Member does the trade at a price which in the opinion of Clearing Corporation is not in conformity with market price for the security at the time of trade, difference between the shortage valuation price on the date of default and either MTM price on the next business day or a price considered fair by Clearing Corporation at its sole discretion shall be the

basis for computation of the compensation;

2.8. Any loss suffered by the allocatee Member due to rise in the price of the security on the next business day is required to be claimed by such Member(s) in writing within two working days from the date of allocation;

2.9. In case the securities, in which the shortfall has been allocated, in terms of the provisions of sub-Regulation 2.2 above, enter into a shut period on the next business day, the processes outlined in Regulations 2.4, 2.5 and 2.6 above shall be carried out on the first date when trades can be carried out in such securities.

Provided that interest in such an eventuality, for the period from the date of last interest payment shall be payable by the Member in shortage and the allocatee Member and/ or Clearing Corporation shall be entitled to receive such amount;

2.10. To facilitate creation of marketable lots in case of a shortage allocation, Clearing Corporation shall have absolute and paramount right to utilize only a rounded off portion from the security balance lying in the SGL account of the Member in shortage/ defaulter, for settlement of his securities obligation.

G). EFFECT OF SETTLEMENT SHORTAGE / DEFAULT

The process outlined below shall be contingent upon the occurrence of a shortage / default;

1. Funds shortage / Default

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

- 1.2.** Clearing Corporation, upon confirmation about receipt of funds into its Current/ RTGS settlement account, shall arrange to return the securities/ SGF/ TPR Collateral withheld from the Member in shortage;
- 1.3.** In the event of the Member in shortage not making payment equivalent to the shortage together with charges, penalties and other levies as described above, Clearing Corporation shall have the right to declare the Member as a defaulter. Upon declaration of such Member as a defaulter, Clearing Corporation may sell and/ or dispose off, in any manner it may deem fit, the securities withheld from the defaulter adequate to cover the default obligation and apply the proceeds for discharge of the defaulter's obligation. Excess amounts, if any, realized from such sale/ disposal shall be payable to the defaulter together with excess unsold securities withheld, if any;
- 1.4.** In the event of the sale proceeds of the securities withheld from the defaulter not fully sufficient to cover the default obligation, Clearing Corporation shall appropriate the defaulter's cash contribution to SGF / TPR Collateral towards recovery of its default obligation;
- 1.5.** In the event of the sale proceeds of the securities withheld from the defaulter and its cash contribution to SGF / TPR Collateral not fully sufficient to cover the default obligation, Clearing Corporation shall sell and/or dispose off, in any manner as it may deem fit (adequate to cover the default obligation), the defaulter's securities contribution to SGF / TPR Collateral towards recovery of its default obligation;
- 1.6.** In the event of the sale proceeds of the securities withheld from the defaulter and its cash and securities contribution to SGF/ TPR Collateral not fully sufficient to cover the default obligation, the defaulter shall be liable to meet the shortfall in its default obligation to Clearing Corporation together with interest, charges, and penalties at the applicable rate as specified by Clearing Corporation;

- 1.7. In case the securities, withheld from the defaulter, enter into a shut period on the date when the sale/ disposal process falls due under these Regulations, disposal of such securities may be carried out on the first date when trades can be carried out in such securities;
- 1.8. In case the securities withheld from the defaulter enter into a shut period on the date when the sale/ disposal process falls due under these Regulations, the securities contributed by the defaulter to SGF/ TPR Collateral may be disposed off pending sale/ disposal of the withheld securities;
- 1.9. In case the securities contributed by defaulter to SGF/ TPR Collateral, enter into a shut period on the date when the sale/ disposal process falls due under these Regulations, disposal of such securities shall be carried out on the first date when trades can be carried out in such securities.

2. Securities Shortage / Default

- 2.1. The Member committing security shortage shall be liable to deliver the security in which shortage has been committed, together with charges, penalties and other levies within the specified cut off time as notified by Clearing Corporation from time to time. In case the security in which shortage has been committed enters into shut period, the Member in shortage shall be liable to deliver the security on the first business day immediately after expiry of the shut period. Provided that, interest for the period up to and including the date of default from the date of last interest payment shall be payable by the Member in shortage and Clearing Corporation shall be entitled to receive such amount. Clearing Corporation, upon confirmation about receipt of securities into its SGL Account, shall arrange to return the funds and/ or securities withheld from the Member in shortage;

- 2.2.** In case Clearing Corporation has delivered another security in substitution of the security under shortage as opted by the allocatee Member in terms of provisions of sub Regulation 2.3 of shortage handling procedure above, the Member in shortage shall deliver the substituted security to Clearing Corporation (security delivered by Clearing Corporation to the allocatee Member) together with charges, penalties and other levies as notified by Clearing Corporation from time to time. Clearing Corporation, upon receipt of confirmation about receipt of securities into its SGL Account, shall arrange to return the funds and/ or securities withheld from the Member in shortage;
- 2.3.** In the event of the Member in shortage not delivering the securities in which shortage has been committed or the substituted security as indicated in clause 2.2 above together with charges, penalties and other levies as described above, Clearing Corporation shall have the right to declare the Member as a defaulter. Upon declaration of such Member as a defaulter Clearing corporation may appropriate funds withheld and/ or sell and/ or dispose off the securities withheld from the defaulter (adequate to cover the default obligation) in any manner as it may deem fit and apply the proceeds thereof for purchase of the securities in which default has been committed or the security(ies) substituted.
Excess amounts, if any, realized out of such appropriation/ sale/ disposal shall be payable to the defaulter together with excess unsold securities withheld, if any, after adjustment of charges, penalty, fees as described above;
- 2.4.** In the event of the funds appropriated and sale proceeds of the securities withheld from the defaulter not fully sufficient to cover the default obligation, Clearing Corporation shall appropriate the defaulter's cash contribution to SGF/ TPR Collateral and apply the same towards discharge of default obligation;

- 2.5. In the event of the funds appropriated and the sale proceeds of the securities withheld from the defaulter and its cash contribution to SGF/ TPR Collateral not fully sufficient to cover the default obligation, Clearing Corporation shall sell and/or dispose off, the defaulter's securities contribution to SGF/ TPR Collateral towards recovery of default obligation in any manner as it may deem fit under the circumstances (in market lots, adequate to cover the default obligation);
- 2.6. In the event of the funds appropriated and the sale proceeds of the securities withheld from the defaulter and its cash and securities contribution to SGF/ TPR Collateral not fully sufficient to cover the default obligation, the defaulter shall be liable to meet the shortfall in his default obligation to Clearing Corporation together with interest, charges, penalties as notified by Clearing Corporation from time to time;
- 2.7. In case the securities withheld from the defaulter enter into a shut period on the date on which the sale/ disposal process falls due under these Regulations, disposal of such securities shall be carried out on the first date when trades can be carried out in such securities;
- 2.8. In case the securities withheld from the defaulter enter into a shut period on the date on which the sale/ disposal process falls due under these Regulations, the securities contributed by the defaulter to SGF/ TPR Collateral shall be disposed off pending sale/ disposal of the withheld securities;
- 2.9. In case the securities contributed by defaulter to SGF/ TPR Collateral enter into shut period on the date on which the sale/ disposal process falls due under these Regulations, disposal of such securities shall be carried out on the first date when trades can be carried out in such securities.

3. Reporting of shortages

All instances of funds and securities shortages of Members/ TPR

Collateral encountered by Clearing Corporation, whether settled or/ allocated, shall be promptly reported to the Reserve Bank as required, giving all the necessary details.

H). 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 payment/ delivery falling due and an intimation being sent by the counterparty in this regard to Clearing Corporation or in the event RBI cancels Clearing Corporation's Payment System license or issues a notice for such cancellation thereto, a non-defaulting counterparty may, by notice in writing to the Clearing Corporation not later than 7(seven) business days from such event, seek the termination and close-out of its outstanding trades in this segment.
2. Clearing Corporation shall, not later than 2 (two) business days from the date of receipt of such notice and after due notification to all Members of this segment: (a) effect close-out of outstanding trades of such Member or (b) close out all outstanding trades in the segment.

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

3. The termination amount shall be settled by the close of business on the business day following the day of termination or as soon as possible thereafter.

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

CHAPTER VIII: RISK MANAGEMENT

A). SCOPE OF RISK MANAGEMENT PRACTICES

I. Outright and market repo trades (other than Triparty Repo trades)

1. Clearing Corporation shall cover its risk through prescription of initial margin, mark-to-market margin, volatility margin and concentration margin;
2. Notwithstanding anything contained herein, Clearing Corporation shall have the sole discretion to improve upon and perfect its practices relating to risk containment measures from time to time;
3. The values of outstanding trades shall be converted into equivalent risk exposure numbers by using security specific risk exposure factors (expressed in terms of percentage based on "Value at Risk" or such other means as may be decided by Clearing Corporation) and each Member shall be required to provide for initial Margin to the extent of such amounts as corresponds to Member's value of outstanding trades. Clearing Corporation shall be entitled to modify the risk exposure factors at such periodicity as it may deem fit;
4. Clearing Corporation, after due notification, may be entitled to set higher margin factors for different Members, based on the credit assessment by Clearing Corporation.
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 consideration 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 considered appropriate by Clearing Corporation. In the event of Members exceeding such limit, Clearing Corporation may be entitled to set higher margin for the Member in respect of trades which are in excess of such limits;

6. Clearing Corporation may set additional initial margin for trades conducted by a Member at off-market prices. Such margin shall be payable by the seller of the security if the prices are set lower than market price, or by the buyer of the security if the prices set higher than the market price. Such margin shall be equal to the difference between the traded price and the market price;
Such margin shall be released after the concerned trade is mark to market margin and mark to market margin on such trade has been actually collected from the concerned counterparty;
7. The mark to market margin shall be worked out based on the price movements on the underlying securities corresponding to each trade. For computing price changes, mark to market price as described in sub -Regulation (B) below shall be compared against the trade price.

II. Triparty Repo trades

1. Clearing Corporation shall adopt the following risk management practices for Triparty Repo trades:
 - i. Clearing Corporation shall cover its risk by prescribing borrowing limit, initial margin, mark-to-market margin and volatility margin. The securities in the TPR GILT Accounts of the Member shall be subjected to a valuation exercise during the day and at the end of each business day to ensure that the borrowings of the Member are fully collateralised at any point of time and its initial margin obligations stands fully met. The valuation shall be carried out using the mark to market price computed by Clearing Corporation;
 - ii. Clearing Corporation may, at its discretion, specify rates of haircut in percentage terms for all eligible securities as collateral in terms of Regulation B (3) of Chapter IV. Such haircut rates shall be applied on the mark to market price of such securities. Clearing Corporation shall have the authority to modify such rates at such periodicity as it may deem fit;
 - iii. Clearing Corporation may, at its discretion and after due notification, set different set of haircut rates for different classes of Members, based on their nature of business, net worth or such other factors as

may be decided by the Clearing Corporation from time to time;

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

B). MARK -TO -MARKET PRICE

1. Mark to market price shall be computed as notified by Clearing Corporation from time to time.

C). PROCESS

1. Initial Margin

I. Outright and market repo trades (other than Triparty Repo trades)

1.1. The initial margin obligation of each Member in respect of each of its outstanding trades shall be computed by multiplying the value of the relative security(ies) with the corresponding risk exposure numbers (termed as Margin factors) as described in Regulation A 1 above; (value for this purpose shall mean total consideration of the trade. Clearing Corporation may, after due notification, consider the value of the trade at its Mark-to-Market price after the process of marking to market of the trade is over or after subjecting trades done at off-market prices to additional initial margin.);

1.2. The sum total of the initial margins of each individual outstanding trade for a Member, as computed in sub-Regulation C 1(1.1) above, shall form the initial margin obligation of that Member;

- 1.3.** A Member's initial margin obligation shall be computed as at the cut off time of each trading session of a business day on a trade by trade basis and shall form the basis for deciding whether that Member's trade(s) has exceeded its Risk Exposure Limit. Provided that the computation of such margin obligation may be carried out online on a trade by trade basis as and when adequate facilities to support the same are in place. The Members shall be notified by Clearing Corporation prior to such online computation being brought into operation;
- 1.4.** While aggregating initial margin on each outstanding trade as described above, offset may be allowed between initial margins on buy trades and sale trades in same security for same settlement date. For such trades, lower of the net buy quantity and net sale quantity in the particular security having same settlement date would be arrived at. Thereafter, difference in the amount payable for the buy quantity would be compared against amount receivable on the sale quantity, using first in first out principle. If the difference is positive i.e. payable amount is higher than receivable amount, such difference would be treated as initial margin for such group of trades. Any residual buy or sale amount shall be subjected to initial margin as if the trade is concluded by the Member only for such residual amount. This provision shall come into effect upon notification by Clearing Corporation;
- 1.5.** While computing the difference amount for initial margin as mentioned in Regulation C 1(1.4) above, the 1st leg of repo deals shall be excluded from such computation;
- 1.6.** The initial margin in respect of a repo and/ or reverse repo transaction(s) shall be computed based on the value of the first leg of the trade till its settlement. Thereafter, initial margin in respect of the transaction shall be computed based on the value of the settlement of second leg of the trade;
- 1.7.** If the first leg of a repo/ reverse repo trade is to trigger any offset against any other outstanding trade, as per Regulation C 1(1.4) above, the value of the first leg of the trade shall be ignored for computation of initial margin. If such trade has,

however, been done at off market price, the trade may be subjected to additional initial Margin requirement as described in Regulation A I (1.6) above;

- 1.8. In Regulation C1 (I-1.6) above, if the value of the first leg of the trade is higher than the net outstanding trade position in the security in relation to which it is to trigger offset, Initial Margin shall be computed for the amount of difference between the value of the first leg of the repo/ reverse repo trade and the net outstanding value of the trade positions in the said security. Such amount shall be treated as initial margin against the first leg of such Repo/ Reverse Repo trade.

II. Triparty Repo trades

- 1.1. The initial margin for Triparty Repo trades shall be arrived at based on Value at Risk or such other means as may be decided by Clearing Corporation from time to time and such factors shall be expressed as a percentage of the 2nd leg consideration. Clearing Corporation may however set different initial Margin rates for Triparty Repo trades having different maturity periods. Clearing Corporation may, however, at its discretion, set uniform initial margin factor for all Triparty Repo trades;
- 1.2. Clearing Corporation may, at its discretion and after due notification, set different initial margin rates for different Members, based on their nature of business, net worth or such other factors as may be decided by the Clearing Corporation from time to time;
- 1.3. The initial margin obligations for Triparty Repo deals of a Member shall be computed by multiplying the 2nd leg consideration of each trade with the corresponding specific initial Margin rates or the uniform margin factor, as applicable for the Member and then aggregating the margin obligations.
- 1.4. Provided that if a Member has both borrowing and lending in Triparty Repo of same 2nd leg maturity date, and if such trades have resulted in a net loss for the Member, computed on a first

In first out basis, then such loss would also be added to its initial Margin liability.

2. Mark to Market Margin

1. Outright and market repo trades (other than Triparty Repotrades)

- 2.1.** A Member shall be liable to maintain mark to market margin in respect of adverse positions on its outstanding trades, except for outright trades done by the Member for settlement on T+0 and T+1 basis and for overnight repo trades (i.e., for trades where the second leg would be settled on or before the T+1th day); However, Clearing Corporation may after due notification subject T+1 and Overnight Repo trades to MTM Margin;
- 2.2.** The mark to market margin obligation of each Member shall be computed in respect of each such trade(s) by multiplying the value of relative securities with the corresponding price movement as described in sub-Regulation A I (3) above;
- 2.3.** The sum total of mark to market margins of each individual outstanding trade as computed in sub-Regulation 2-1 (2.2) above shall form the mark to market margin obligation of the Member and such margin shall be maintained till the settlement of such trade;
- 2.4.** While aggregating trade-wise mark to market margin as described in Regulation 2-1 (2.3) above, Clearing Corporation may, after due notification permit offsetting between mark to market margins on buy trades and sale trades in same security for same settlement date (i.e. if mark to market Margin is recoverable from a member for his buy trades on a security for a settlement date, such margin amount shall be reduced by the notional mark to market gain on the sale trades of the same member in the same security for the same settlement date. Reverse would be the case if mark to market margin is recoverable from a member for its sale trades);

- 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;
- 2.6.** The first leg of a repo/ reverse repo shall not be subjected to any MTM margin requirement. If however, the trade has been conducted at an off -market prices so as to attract additional initial Margin in terms of clause A-I (6) above, mark to market loss, if any, will be collected from such members. However, no benefit for mark to market profit on such trades would be extended to the members;
- 2.7.** Mark to market margin shall be payable on the second leg of a repo/ reverse repo trade in the usual manner. Such margin, however, shall become payable at the end of the day prior to the settlement of first leg of the concerned Trade;
- 2.8.** A portion of the mark to market margin shall be payable by the Members within the stipulated time of the next working day. This portion, to be denoted as incremental mark to market margin will comprise of mark to market margin in respect of fresh deals received during the day and any increase in mark to market margin on trades outstanding as on previous working day. Provided that, any additional initial margin liability in terms of Regulation A-I (6), initial margin liability in respect of offsetting deals in terms of Regulation C-1(1.4) and additional mark to market Margin liability in terms of Regulation 3 (3.5) in so far it relates to the change in value of the outstanding trades will not be taken into consideration for the purpose of computation of incremental mark to market margin.

II. Triparty Repo trades

- 2.1.** The securities in the TPR GILT Account of the Member for determining borrowing limit shall be subjected to mark- to-market valuation during the day and at the end of each business day as described in sub-clause B1 above;

- 2.2.** In the event of mark to market value of the securities along with cash margin, if any, deposited for the purpose of allocation of borrowing limit falling short of the funds obligations for 2nd leg consideration of Triparty Repo trades, representing the borrowing of the Member or mark to market value of the securities together with cash margin, if any, deposited towards initial margin falling short of the initial margin liability of the Member at the end of the day, Clearing Corporation shall make a margin call on such Members in respect of whom such shortage occurs;
- 2.3.** The mark to market valuation done by Clearing Corporation at the end of each business day shall be valid till its next computation either intraday on next business day or at the end of the subsequent business day. However, Clearing Corporation may, value any security deposited during day, immediately after deposit, and provide the Members benefit of increase in borrowing limit during the business day;
- 2.4.** Clearing Corporation may set additional initial margin for Triparty Repo trades conducted by a Member at off market interest rates. Such margin shall be payable by the borrower if the interest rate of borrow trade is higher than the interest rate at which similar tenor is dealt in the market or by the lender if the interest rate of lend trade is lower than the interest rate at which similar tenor is dealt in the market. Such margin shall be equal to the difference between the interest rate at which borrow/ lend trade is done and the interest rate dealt in the market for similar tenor. Clearing Corporation's decision in regard to identification of trades at off market prices shall be final and binding on all concerned parties.

3. Volatility Margin

- 3.1** Volatility Margin constitutes the margin obligation required to be fulfilled by a Member as its contribution to SGF/ TPR Collateral in relation to a sudden increase in volatility of interest rates/ bond prices and shall be applied, at the discretion of Clearing Corporation, on:
- (i). Outstanding trades of a Member; and/ or

- (ii). Securities contribution to SGF;
- (iii). Securities contribution to TPR Collateral towards Triparty Repo trades;

- 3.2** Such Margin may be imposed by Clearing Corporation at any time during the day and as a result, the balance of the Members in their SGF/ TPR Collateral Accounts may be reduced on re-computation and the initial margin requirements in respect of their outstanding trades may be increased;
- 3.3** Members will be notified by Clearing Corporation prior to the collection and/ or maintenance of volatility margin;
- 3.4** Upon imposition of Volatility margin, if it is observed that the SGF/ TPR Collateral balance of a Member is inadequate to cover the margin requirements on account of the Members' outright, market repo and/ or Triparty Repo trades, it shall be the responsibility of the said Member to replenish the shortfall as directed by Clearing Corporation. In case the shortfall as stated above is not replenished by the Member by the stipulated time, Clearing Corporation, at its sole discretion, may stop accepting any further trade of the Member;
- 3.5** In case of any sudden increase in volatility of interest rates/ bond prices during the day which Clearing Corporation, in its sole opinion, consider adequate to substantially erode the margins collected from the Members, the Clearing Corporation may revalue all the outstanding trades and/ or SGF / TPR Collateral balances of the Members using the latest available prices. If such revaluation indicates inadequacy of margin in the account of any Member beyond a level, as notified by the Clearing Corporation from time to time, the Clearing Corporation shall be entitled to impose additional mark to market margin equal to the shortfall. Such additional mark to market margin shall be in force till the application of end of the day MTM margin for the day in the account of the Members;

3.6 For the purpose of valuation of the outstanding trade positions and SGF/ TPR Collateral balances of the Members in terms of Regulation C-3(3.5), Clearing Corporation intra-day MTM prices will be used. Such intra-day MTM prices will be generated by following a process as notified by Clearing Corporation from time to time.

D). VALUATION OF SECURITIES IN SGF/ TPR COLLATERAL

- 1.** The valuation of securities contributed by Members to SGF/ TPR Collateral shall be carried out daily using the latest available Mark-to-Market price described in Regulation B(1) of this Chapter. Such valuation can even be carried out at such increased frequency as notified by Clearing Corporation;
- 2.** Clearing Corporation shall, in its discretion, specify haircuts on the respective market values as per rates prescribed for the eligible securities from time to time;
- 3.** Member contributions to SGF/ TPR Collateral shall be subjected to a valuation exercise at every instance of securities deposit and/ or withdrawal from its SGF / TPR Collateral at the end of the business day at the relevant mark to market prices.

E). REPO WITH SECURITIES VALUED AT OFF – MARKET PRICES

If any Member enters in to a repo trade with another Member where the underlying security has been valued at an off-market price attracting the provision of A-I (6) above relating to initial margin and Clearing Corporation has accepted the trade for guaranteed settlement, it may, after due notification to such Member, hold back delivery of the underlying security (if the security has been undervalued) or that portion of the funds which represent the overvalued component (in case of overvaluation of the security) till additional initial margin as per provision of A-I (6), has been duly collected from such Member. Such securities, if held back, shall be transferred in the interim to the SGL account of Clearing Corporation.

CHAPTER IX: SUDDEN EVENT HANDLING

1. Due to the occurrence of any unforeseen event or circumstance beyond the control of Clearing Corporation, it may be required to abruptly suspend the Clearing and Settlement of Trades by declaring an unscheduled holiday;
2. An Unscheduled Holiday (USH) may be declared on the happening of events that lead to the total disruption of transactions coming to a halt, like due to general bandh / strike, disruption of public utility services due to heavy rains or any other factor beyond the control of Clearing Corporation which shall have impact on the overall system. It is expected that events occurred which affects one or few members participating in securities market would not adversely affect the settlement process at Clearing Corporation;
3. In the above cases, the following procedure shall be adopted:

A. **OUTRIGHT TRADES**

- (i). All outright including when issued trades due for settlement on such days shall be rolled over to the next Business Day i.e. modified settlement date (MSD) at the traded price of the security/ yield of the Treasury Bill. In case of trades in dated Securities, the coupon amount for USH and subsequent holiday(s), if any, shall be added by Clearing Corporation to the respective trade considerations. In case of trades in Treasury Bills, the price of the relative Treasury Bills shall be recomputed by Clearing Corporation on the MSD at the traded yield;
- (ii). In case of outright trade(s) involving a security which has entered a shut period for coupon payment on the MSD, such trade(s) shall be settled on the first business day after expiry of the relative shut period at the traded price only. However, if there is a gap of more than 1 day between the first business

day after the shut period and the shut period due to intervening holiday(s), the coupon accruals for such day(s) shall be added by Clearing Corporation to the respective trade considerations. Trades entering in to shut period for redemption shall be withdrawn from settlement by Clearing Corporation.

B. REPO TRADES – 1st leg

- (i). All overnight and Term repo trades due for settlement on USH shall be withdrawn from settlement by Clearing Corporation.

C. REPO TRADES – 2nd Leg

- (i). In respect of 2nd leg settlement date due for settlement on USH, the same shall be rolled over to the next business day. The additional repo interest amount for USH, computed at the repo rate of the relative trade, shall be added by Clearing Corporation to the respective trade considerations and the second leg price shall be recomputed by Clearing Corporation;
- (ii). If the second leg settlement date gets rolled over further due to holiday(s)/ shut period for coupon payment, repo interest for such extended period calculated at the relative repo rate net of the coupon amount received by the lender of money, if any, shall be adjusted to the respective trade consideration of the member and the second leg price shall be recomputed by Clearing Corporation;
- (iii). In the process of shifting second leg settlement dates to next business day as (ii) above, if such revised settlement date coincides with / falls after the shut period for redemption of the relative security, such trade(s) shall be allocated at par to the respective counterparty. Additional repo interest for such extended days calculated at the repo rate of the relative trade and redemption proceeds including coupon amount received by the lender of money shall be adjusted to the respective trade consideration of the Member.

D. TRIPARTY REPO TRADES– 1st leg

All overnight and term Triparty Repo trades due for settlement on USH shall be cancelled by Clearing Corporation.

E. TRIPARTY REPO TRADES– 2nd leg

- i. The obligation for funds in respect of repayment of borrowings under Triparty Repos falling due on such unscheduled holiday shall be combined with the transactions due for settlement on the next business day and the funds obligation in respect of the said Members shall be arrived at accordingly.
 - ii. Any interest accruals on account of such delayed settlement shall be recovered by Clearing Corporation from the borrower of funds and the same shall be payable to the lender of funds at the rate notified by Clearing Corporation.
 - iii. Clearing Corporation may adjust such interest accruals together with repayment obligations due on unscheduled holiday to next business day's obligation of the Member.
4. Difference in considerations adjusted by Clearing Corporation due to shifting of settlement dates as mentioned in A to E above shall be the part of the respective Members' net obligations to be settled at RBI/ Settlement Bank;
 5. In the event of settlement dates of the outstanding trades are altered on a declaration of an unscheduled holiday, the impact thereof on the margin requirements of the Members shall be accounted for only at the time of end of the day margin re-computation;
 6. Clearing Corporation shall not be held liable in the event of force majeure, strikes or any other unavoidable event that prevents Clearing Corporation from carrying out its duties pursuant to judicial orders, regulatory provisions, war (declared or undeclared) riots or civil commotion, terrorist acts, general mobilization, earthquakes or any other natural disaster.

CHAPTER X: REPORTS

- i) Clearing Corporation shall, at its discretion, decide the mode and manner of delivery/ receipt of reports to/from its Members;
- ii) Clearing Corporation shall have the discretion to make changes in the report formats as and when it may consider necessary from time to time;

CHAPTER XI: ACTIVITY TIME SCHEDULES

1. Clearing Corporation shall from time to time notify cut-off timings for normal acceptance of trades from Members for clearing and settlement;
2. Clearing Corporation shall be authorised to make changes to the cut-off timings, as considered necessary from time to time, depending upon changes in market practices and/ or requirements of RBI and/ or other regulatory bodies/agencies;

CHAPTER XII: NOTICES

1. Clearing Corporation shall specify formats for receiving notices from Members to facilitate its operations;
2. Clearing Corporation shall have the authority to make changes in the formats as it may consider necessary from time to time. Changes if any shall be notified to Members prior to being brought into operation;
3. Clearing Corporation shall, in its discretion, decide the mode and manner of delivery/ receipt of notice to/ from its Members;

CHAPTER XIII: MISCELLANEOUS

I. LIMITATION OF LIABILITY OF CLEARING CORPORATION

1. Clearing Corporation shall not be deemed to guarantee the title, ownership, genuineness, regularity or validity of any security or any document passing through Clearing Corporation and shall not in any manner whatsoever be and/ or deemed to be associated and/ or responsible for the underlying transactions of the relative Trades;

2. The only obligation of Clearing Corporation shall be to facilitate clearing, settlement, delivery and payment in respect of securities and/ or funds between Members in consideration of the Members fulfilling all the requirements of these Bye-Laws, Rules and Regulations and such other requirements prescribed by Clearing Corporation from time to time. Provided that no claim, liability and/ or responsibility shall rest with Clearing Corporation and/ or any of its officials in the event of such clearing, settlement, delivery and payment of securities and/ or funds not being facilitated for reasons beyond the scope and control of Clearing Corporation.

II. SUSPENSION RIGHTS OF CLEARING CORPORATION

1. Clearing Corporation may suspend its Members as specified in the Regulations;

2. Managing Director of Clearing Corporation or a Committee of not less than two officials nominated by the Managing Director (MD) may disable a Member from accessing the facilities of Clearing Corporation if in the opinion of the MD or the Committee of officials, circumstances exist warranting disablement pending suspension.

Provided that, within 4 hours after such disablement, the MD or the Committee of officials, as the case may be, shall record in writing the reasons for such disablement provided however that the same shall be reported at the next Board or the Committee meeting whichever is earlier. After such disablement, Clearing Corporation shall communicate the information to other Members.

III. Regulatory Limits:

It shall be sole responsibility of the Members to adhere to sell and / or purchase as well as borrowing and/ or lending limits, if any, stipulated by their respective regulator/s. Clearing Corporation shall not be responsible in any manner for the breach of such regulatory limits by the Member.

CHAPTER XIV: 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 notified to the members 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 XV: SETTLEMENT BANK

1. Clearing Corporation facilitates Clearing And Settlement of Government Securities outright and repo transactions including Triparty Repo transactions of its Members maintaining their SGL /CSGL Account with Reserve Bank of India (RBI) and / or TPR GILT Account with Clearing Corporation;
2. Clearing Corporation may at its discretion appoint one or more banks as Designated Settlement Bank (DSB), under advice to Reserve Bank of India, for settlement of funds in respect of Members not maintaining their Current Account at RBI for the purpose of funds settlement;
3. The Members shall maintain a Current account with RBI/ any of the Designated Settlement Bank/s for the settlement of funds obligations in Government Securities transactions under these Regulations;
4. Such Member at the time of seeking Membership of securities segment shall communicate to the Clearing Corporation regarding details of its Settlement Bank for the purpose of availing the funds settlement facility;
5. Clearing Corporation shall notify the Members the settlement process, time frame for carrying out instructions and other operations that the Settlement Banks shall be required to follow for funds settlement of Government Securities transactions in an orderly manner of its Members;
6. The Clearing Corporation will have the right to seek information/ explanations/ clarifications on the settlements operations of the DSB in such manner and periodicity as it may deem fit and may issue guidelines, directions and orders in respect thereof and the DSB shall comply with the same;
7. The DSB undertakes to keep strictly confidential any and every technical and business information including, but not limited to that which may be disclosed or confided to it by the Clearing Corporation

or which it may obtain from the Clearing Corporation and which it shall, by not disclose to any third party.

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

8. The DSB shall be duly authorized by Clearing Corporation to ensure funds settlement, collection of margin money, charges, levies, additional charges, servicing of corporate action like payment of interest etc., and any other funds movement between the Member and Clearing Corporation as prescribed by Clearing Corporation;
9. Settlement Bank shall take instruction from Clearing Corporation and act in accordance with instructions received from Clearing Corporation in regard to funds settlement and debit/ credit the Settlement Account of the Members and transmit confirmation to Clearing corporation;
10. Instructions of Clearing Corporation for debits and credits to the Member's Settlement Current Accounts by the Settlement Bank shall be irrevocable and final;
11. The Member shall authorize Settlement Bank to access its Current Account for debiting and crediting its settlement accounts in accordance with instructions received from Clearing Corporation;
12. DSBs shall extend to Clearing Corporation the facility of on-line monitoring of the transactions in the Settlement Account of Clearing Corporation;
13. DSBs shall enable Clearing Corporation to view the balances and/or transaction details in the settlement accounts of the Members maintained with the DSBs on an on-line basis. DSBs shall also allow similar access to the authorized representatives of the Members;
14. DSBs shall ensure that funds earmarked for Clearing Corporation settlement are not encumbered, utilized or transferred before completion of settlement cycle as set out by Clearing Corporation;

15. DSB shall, upon receipt of instructions from Clearing Corporation to that effect, transfer funds from settlement account of Members to settlement account maintained by Clearing Corporation with the Settlement Bank for pay-in instructions and vice versa for pay-out instructions. Similarly, DSB shall enable Clearing Corporation to transfer balances from such accounts of the Members to Clearing Corporation's Settlement account with them or vice versa as part of its Settlement or Default handling process;
16. DSB shall maintain record of the date and time stamp of all the payments and receipts executed by it in the Settlement account of Clearing Corporation and the Settlement Accounts of the Members. Members will have the responsibility to monitor transactions in their accounts and to take up with their Settlement Bank any instances of unusual delay in effecting pay-ins and pay-outs. The transaction details along with time stamp must be submitted by the Bank as and when requested by the Regulator or Clearing Corporation. The Settlement Bank shall preserve such details for a period prescribed under the applicable laws or such other rules made thereunder;
17. In the process of funds settlement at the DSB, if there is any funds shortage arising out of settlement instructions received from Clearing Corporation, the DSB shall advise the same to Clearing Corporation and act in accordance with the instructions given by Clearing Corporation to meet such shortages;
18. The DSB shall meet the shortage by utilizing the balance available in Clearing Corporation's Proprietary account and/ or the Line of Credit extended by it to Clearing Corporation. Accordingly, DSB would transmit confirmation advices to Clearing Corporation;
19. The Clearing Corporation may net DSB's own funds obligations with the net funds obligations of all its Members. If such netting results in funds pay-in, it shall be the responsibility of DSB to make available such netted amount at its Current Account with RBI to enable RBI to process funds settlement as per Clearing Corporation's instructions. If such netting results in pay-out of funds, DSB will receive such amount at its Current Account with RBI & it will be DSB's responsibility to make available such funds with Clearing

Corporation's Settlement Account maintained with it to effect funds pay-out to Members as per Clearing Corporation's instructions;

20. While processing Clearing Corporation Funds file at its current account with RBI, funds shortage, if any, in DSB's Current Account maintained with RBI, shall be treated as funds shortage on account of DSB and Clearing Corporation will initiate action as per Chapter VI "Settlement Shortage / Default" of this Regulations"; This shall be irrespective of failure to transfer, funds as mentioned in Regulation 19 of this chapter above or otherwise;
21. Clearing Corporation may transfer the credit balances from its settlement account with the DSB to its current account/RTGS Settlement with RBI under instruction to the DSB;
22. DSB shall immediately inform Clearing Corporation about action, if any, initiated by any of the authorities, or any irregularity observed in the Members current/settlement account or any deviation from Know Your Customer (KYC) norms;
23. Information relating to any change of the DSB by the Member shall be advised at least 15 days in advance by the Member along with the no objection letter from the existing DSB and the concurrence from the new DSB to Clearing Corporation;
24. DSB shall put in place adequate controls and risk management systems to facilitate smooth and effective settlement of fund obligations;
25. In respect of settlement related transactions of the Members including transactions relating to close out of trades or positions of such Members which are routed through their DSB, Members will be discharged of their liabilities in respect of their funds Pay-in obligations only after the monies paid by them has (/ve) been transferred by the concerned DSB to the Clearing Corporation's respective Settlement account(s) and/or Current Account with Reserve Bank of India. Members shall however get valid discharge if such funds are appropriated by the DSB to effect pay-out to other Members of Clearing Corporation as part of settlement process in terms of instructions given by Clearing Corporation;

26. In respect of funds Pay-outs to the Members by Clearing Corporation, Clearing Corporation shall have valid discharge, after it has transferred funds to the accounts of DSB, either from its settlement account at RBI or from any other DSB and issued instructions to the DSB to transfer such funds to the accounts of the concerned Members.

CHAPTER XVI: DEFAULT FUND

A. PURPOSE:

- i. Clearing Corporation shall maintain two separate Default Funds in respect of its Securities Segment, one (hereinafter referred to as "SEC-DF") with a view to meeting losses arising out of any default by its members from outright and repo trades and the other (hereinafter referred to as "TPR-DF") for meeting losses arising out of any default by its members from Triparty Repo trades, as set out in this Chapter. All subsequent provisions of this Chapter shall apply to both the aforementioned Default Funds
- ii. Default Fund shall be utilized for such purposes as may be provided for in its Bye-Laws, Rules and Regulations.

B. CORPUS:

- i. The size of such Default Fund shall be determined by the Clearing Corporation on the basis of stress tests which shall be conducted in a manner as notified by Clearing Corporation from time to time.
- ii. The size of the 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 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 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 margins 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 if deficit is in SEC-DF. No interest shall however be paid for such cash utilization towards Default Fund.
 - In the TPR Collateral of such Member in Securities Segment if the deficit is in the TPR-DF. 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 CSDL 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 Regulation E of Chapter II of this Regulation;
- ix. Members shall be entitled to substitute securities deposited as contribution to Default Fund by giving prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose. Substitution of securities shall be permitted only if the member continues to maintain the balance required after such substitution. Such notice of substitution shall be through two independent processes, one for deposit of a security and the other for withdrawal of a security, as per the work flow process notified by Clearing Corporation from time to time for deposit and withdrawal of securities.

Provided that if such notice for substitution is received in respect of such securities as are falling into shut period and rendering such substitution impossible, then such notice shall be invalid;

- x. At the time of making requests for substitution, members shall ensure that the security offered for replacement forms part of the securities eligible for contribution to Default Fund;
- xi. Withdrawal of cash contributions by members shall be permitted only if the member continues to maintain the balance required after such withdrawal or upon resignation by a member from the segment as set out in Regulation E of Chapter II of these Regulations;
- xii. Withdrawal of cash contributions by members shall be with prior notice as notified by Clearing Corporation from time to time in the format prescribed for the purpose.

G. INTEREST ON CONTRIBUTIONS TO DEFAULT FUND

- i. Periodical interest receivable by the members on their securities contributed to Default Fund shall be received by Clearing Corporation for and on behalf of the members in the manner and mode prescribed by RBI in respect of CSGL Accounts;
- ii. Interest received by Clearing Corporation shall be subsequently transmitted to the Members at the earliest. Clearing Corporation shall not be responsible for any delay in receipt of interest by Members and no claim shall rest with Clearing Corporation on this account;
- iii. Clearing Corporation shall not be responsible for servicing corporate actions on such securities held by members in its Default Fund which have been declared through appropriate notification as ineligible for Default Fund contribution;
- iv. Members shall monitor their securities contributions to Default Fund to ensure that the securities falling due for redemption are withdrawn from Default Fund well in advance before the redemption date and substituted by eligible securities of equivalent value. In the event of

their failing to do so, redemption proceeds receivable by the members on such securities shall be received by Clearing Corporation for and on behalf of the members in the manner and mode prescribed by RBI in respect of CSGL Accounts;

- v. Redemption proceeds received by Clearing Corporation shall be treated as cash contribution to Default Fund;
- vi. Clearing Corporation may compensate members by offering them interest payments at quarterly rests (at the end of every quarter) on their average cash contributions during the relative period at a rate notified by Clearing Corporation from time to time.

H. VALUATION OF SECURITIES IN DEFAULT FUND

- i. The securities contributed by members to Default Fund shall be subjected to a valuation exercise on each valuation day. Clearing Corporation shall carry out valuation daily or at such frequencies as may be notified by Clearing Corporation from time to time. Clearing Corporation shall be entitled, to change the frequency of such valuation after due notification to the members;
- ii. The valuation of Default Fund securities shall be carried out using the latest available mark to market price as applicable for such securities in Securities Segment of Clearing Corporation;
- iii. Clearing Corporation shall notify, from time to time haircuts on the respective market values as per rates prescribed for the eligible securities from time to time. Such hair cut rates may be temporarily increased on imposition of volatility margin in securities Segment;
- iv. Member's contributions to Default Fund shall be subjected to a valuation exercise at every instance of securities deposit and/ or withdrawal from its Default Fund or at the end of the business day at the relevant mark to market prices;

- v. Members shall be required to contribute such additional sums to the Default Fund as may be necessary if the value of the securities net of haircuts falls below a threshold level as notified by Clearing Corporation from time to time.

I. UTILISATION

- i. Where a member is declared as defaulter in terms of Regulation B of Chapter VII relating to “Settlement Shortage & Defaults”, 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 Regulation B of this Chapter;
 - d. next, by allocation of the residual loss to the Default Fund accounts of ~~other~~ 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 Regulation 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 Regulation 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 Regulation I (i) (d) 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' SEC-DF or/and TPR-DF account(s) in excess of its required contributions, as the collateral deemed to be made available by such Member towards meeting a deficit in the balance in any other Default Fund account. Such amount would continue to remain blocked towards the said Default Fund account till the Member has replenished the shortfall in the other Default Fund accounts with Clearing Corporation.
- vi. Moreover, if a Member is declared defaulter in another Segment and/ or has filed for insolvency under relevant laws and/ or is declared insolvent by a competent authority, Clearing Corporation shall be entitled to treat the collateral available in a Members' SEC-DF or/and TPR-DF account(s) in excess of its required contributions as being made available by the Member towards the Default Fund accounts of such other segments.
- vii. The action of Clearing Corporation as per the above process shall be final and binding on all members.
- viii. The above course of action shall be without prejudice to any other rights of Clearing Corporation against the defaulter.

J. REPLENISHMENT

- i. Members shall be required to contribute to the Default Fund such sums as notified by Clearing Corporation on every revaluation of the Default Fund, in terms of Regulation '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 Regulation I (i) – (d)) above of this Chapter, the member shall be required to deposit such additional sums forthwith to bring the balance in the account to the required quantum in terms of Regulation C(ii) above of this Chapter;
- iv. In the event of failure of a member to contribute to Default Fund within the time period specified as per Regulation J(ii) above of this Chapter, Clearing Corporation shall treat such failure as default in terms of Chapter VII of these Regulations and the Member shall be liable for the consequential action thereon as specified in Chapter VII of these Regulations.
- v. The maximum contribution of a member towards replenishment of its contribution to Default Fund for the Securities Segment in the 7 days' period immediately after the loss threshold as referred in Regulation E (1 (A) and (B)) of Chapter II of this Regulation having been reached, and the Member having resigned, shall not exceed 5 times of its contribution to Default Fund based on last re-computation of Default Fund contribution of the members carried out as per the process described in Regulation 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 7 days.
- vi. The amounts mentioned in Regulation (v) above as maximum contribution for a member and the threshold as referred in Regulation E (1 (A) and (B)) of Chapter II shall be reviewed periodically by the Clearing Corporation based on market size, volatility etc. Any change in any of the ceilings as above or in the threshold as stated above due to such review shall be effected after giving a notice of 90 days to the members.

K. RECOVERIES FROM THE DEFAULTER

- i. Any recovery from the defaulting Member 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 and the balance towards recovery of monies towards dues and claims before accepting claims for refund of the contribution to the concerned member. The refund will also be subject to Bye-laws, Rules, and Regulations of such segments of Clearing Corporation in which the member has been admitted.

CHAPTER XVII: SETTLEMENT OF DEMAT TRADES

1. Clearing Corporation may also settle demat trades received from its Members for their Constituents with due notification. Such trades may be settled through the CSGL Account of the Depository;
2. CCIL shall have no relationship with the demat account holders, however, the details of the demat account holders shall be captured through the Members by CCIL;
3. The constituent ID shall be allotted to each constituent (Demat account holder) of the member for the purpose of settlement of Demat trades;
4. Members shall ensure that request for Constituent ID is submitted to Clearing Corporation with details as prescribed. Member shall report Demat trades only after allotment of Constituent ID by Clearing Corporation;
5. The settlement process flow shall be as notified by Clearing Corporation from time to time;
6. Members shall ensure delivery of security in respect of sale in demat of each demat account holder;
7. Members shall be responsible for settlement of both securities and funds obligations in respect of Demat trades reported by them. ;
8. The security shortage, if any, shall be processed by Clearing corporation in terms of the Chapter VII "Settlement Shortage and Defaults" of these Regulations;
9. Members shall also be responsible for margin contribution, for all demat trades reported by them;
10. Members shall be responsible for replenishment of shortage in demat

settlements for trades reported through them and handled by Clearing Corporation as per the provisions of its Bye-Laws, Rules and Regulations;

11. Members shall credit the demat account holder, the security balances in respect of their purchases, immediately on receipt of credit from the Depository in its Demat Pool Account;

12. Clearing Corporation shall provide reports, giving details of trades received from the respective members for settlement in demat, the net deliverable/ receivable obligations for Constituent and net deliverable / receivable obligations for all constituents with a depository;

13. Members of Clearing Corporation shall be responsible to adhere to all provisions of the respective Regulators and provisions applicable under any other laws, rules or regulations including but not limited to compliance, reporting and other aspects, in respect of DEMAT trades received from members and settled by Clearing Corporation.

14. Suspension of Services

a. In case of any force majeure event, CCIL reserves the right to suspend the settlement of demat trades without notice. CCIL may also suspend services with prior notice to Members due to any other unavoidable circumstances including but not limited to termination or suspension of arrangement with depository.

15. CCIL shall have no liability whatsoever for any damage, liabilities, losses (including any loss of data or profits) or/ and any other consequences that may be a result of or arising out of the relationship between the Members and depository or the Members and their constituents. The Member shall be solely responsible for their compliances arising out of all applicable laws relating to demat transactions including but not limited to directions under the Payment and Settlement Systems Act, 2007 and Regulations thereunder.
