Annexure 'B'

MINUTES OF THE MEETING OF SUB-COMMITTEE OF USER GROUP FOR CCIL'S SECURITIES SEGMENT MEMBERS HELD ON 19TH JANUARY'09 AT 4-00 PM AT 7TH FLOOR, TRADE WORLD C-WING, KAMALA CITY, SENAPATI BAPAT MARG, LOWER PAREL (WEST), MUMBAI – 400013

The meeting was convened to evaluate the data made available by CCIL to the members based on the decisions taken in the meeting with the Securities Segment User Group on the 14th October'08 and also to discuss the process for implementation of the proposed changes.

The meeting was attended by the under mentioned four out of six members of the Committee

S No	Name of the Official	Organization
1.	Mr.R.Narayanan(represented Mr.Vinayak Tembhurne)	Union Bank of India
2.	Mr. P Umashankar	SBI DFHI
3.	Mr. Manish N Mehrothra	Bank of Baroda
4.	Mr.RamachandraSonawane (represented Mr.Harshal Satghare)	HDFC Bank

Mr.Paresh Gokhale of HSBC, member of the committee, sent his observation by mail and the same along with the response given CCIL was read out in the meeting. Mr.Rahul Narayan, another member, telephonically expressed his inability to attend the meeting.

CCIL was represented by Mr. Siddhartha Roy (Chief Risk Officer, CCIL), Mr.Pradip K Nair, (Senior Vice President, Securities settlement operations) and officials from the Risk Management Department.

2. Members reviewed in detail the data and results made available by CCIL for the period 08th Dec'08 to 31st Dec'08 based on the decisions taken in the user group meeting dated 14th October'08 in regard to the proposed changes to Valuation, Computation of Margin Factors, process of intra-day MTM margin computation in an extreme scenario and tracking of intra-day volatility etc.

3. A summary of the discussions and decisions taken were as under:

i) Using NSS Yield Curve:

Members concurred with the view that use of NSS based Yield Curve for valuation by CCIL instead of NS based Yield Curve as being used now will improve the quality of valuation in the Securities Market due to the ability of the former to track the observed yields in a better manner and hence can be implemented.

ii) Valuation of SDLs:

Yields spread model taken up for evaluation has shown excellent results and can be implemented. It was however agreed that prices from trades on the date of auction and for some time thereafter (may be for seven days) should not be considered for arriving at Yield spread.

iii) Valuation of GOI Special Securities.

In case of GOI Securities (like Oil Bonds, FCI Bonds etc.) also, the yield spread model taken up for evaluation was observed to have shown excellent results. It was therefore agreed that for GOI Special Securities, yield spread based valuation can be implemented.

iv) Valuation of GOI Securities:

It was observed that Yield Spread based model for valuation of illiquid Government of India Securities has reflected significant improvement in quality of model prices. It was therefore agreed that valuation of these securities where tenor-based spread is proposed can also be implemented. In regard to valuation of Semi-liquid securities, however, the improvement by using security-wise LAF (in terms of Rs/Ps) was not as good as in other cases (improvements were noticed in about 68% of cases). It was felt that excessive volatility in the market during the period of analysis might have created unusual noise and the evaluation of the usefulness of security-wise LAF in Rupee terms may continue for some more time. The results may be reviewed subsequently and appropriate decisions can then be taken.

v) Valuation of GOI FRBs

Members agreed that YTM based Yield spreads being polled by FIMMDA from the market participants can be used for valuation of Government of India Floating Rate Bonds.

vi) Intra-day MTM Computation:-

Members agreed that computation of MTM based on an intra-day ZCYC and use of yield spreads can be followed for intra-day MTM computation, if required.

vii) Computation of Margin Factors:

It was observed that the intra-day volatility component of @ 50% presently in use across all securities have provided cushion to a large extent during the highly volatile period of last 2/3 months. It was however observed from the data made available by CCIL that there were some highly traded securities where intra-day volatility continued to be so high that margin cover on some days came down to as low as 57%. Considering excessive volatility in highly traded securities, it was felt that a step up factor for such securities as happens when a security is in When Issued market would perhaps be in order. This, however being a change in approach, needs to be validated using data. It was therefore agreed that Step up factors may now only be used for Illiquid GOI Securities, GOI Special Securities and SDLs

Considering current level of volatility, it was agreed that the intra-day volatility component may be continued as long as volatility persists. CCIL agreed to provide data on security wise back testing of margining for about a month to the members of the Committee for further review of the step-up factors for margin factors etc.

viii) Imposition of Volatility Margin:

Members observed that the process for tracking of volatility in prices of 3 highest traded securities of the previous month was able to capture volatility. Members however felt that the process for withdrawal of volatility margin be modified so that if the trigger value of securities which indicated VM is below 60% for one day(instead of consecutive two days as proposed), VM should be withdrawn from the BOD of the next working day. This was found to be acceptable by CCIL.

4. The meeting ended with thanks to the members present. It was decided that CCIL will continue to provide data to the Committee as agreed from time to time for their evaluation and suggestion.

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