NOTIFICATION

7th November, 2023

Notification No.: CCIL/FX/USD-INR/23/55

To,
All Member Banks
(Forex – USD/INR Segment)

Government of India Securities for Volatility Margin – Forex Settlement (USD/INR Segment)

CCIL's Notification No. CCIL/FXS/USD-INR/09/22 dated 16th November, 2009 details the process and margining methodology towards Volatility margin in this segment. We invite your attention to CCIL's Notification No. CCIL/Legal/23/29 dated 27/Oct/23. As stated therein, the Regulations of the Forex Settlement segment have been amended with effect from 27/Nov/23.

Members are advised that Notification No. CCIL/FXS/USD-INR/09/22 dated 16th November, 2009 stands revised as below:

A) In terms of Ch. VII (D)(1.1) of regulations, Volatility Margin (VM) when imposed, the exposure limits set for the Members may get reduced. If the Exposure limit of any Member in a currency is inadequate to cover the outstanding trades accepted by Clearing Corporation on account of the Member, it shall be the responsibility of the said Member to replenish the shortage as directed by Clearing Corporation.

B) Contribution in INR Cash and GoI securities are permitted only towards Volatility Margin. The contributions towards credit and market risk factors shall continue to in the form of USD funds.

C) Members may exercise the option to contribute margins towards VM and to restore original EL, in one of the following ways:

1) ***One-time Request:***

A member may give a standing instruction to Clearing Corporation to block its ~~unutilized~~ available balance in the Member Common Collateral ~~Securities Segment SGF~~ towards VM when imposed.

2) ***Adhoc Request:***

A member may request temporary enhancement of limit, up to a maximum of original EL, by appropriating requisite value of margins towards VM from the ~~unutilized~~ available balance in the Member Common Collateral, for a settlement day.

3) A member can choose to contribute additional USD funds as margin contributions towards VM.

D) When none of the above options is exercised, the EL will stand reduced as per revised Margin Factor as at para ‘A’ above.

However, if upon imposition, pending contribution of margin, it is found that exposure limit utilisation arising out of trades accepted for settlement in the spot window is higher than the revised EL, margin requirement for such excess utilization shall be blocked out of ~~unutilized~~ available balance in the Member Common Collateral. If the balance in ~~SGF~~ Member Common Collateral is inadequate to meet such requirement, a margin call shall be made and the member shall arrange to deposit the required margin immediately.

A detailed process note on the above is enclosed.

This notification will be effective November 27, 2023.

Yours faithfully,
for Clearing Corporation of India Limited,

sd/-
Managing Director

Encl: a/a

Process note on Blocking of G-Sec on Imposition of Volatility Margin

<u>Process:</u>

Forex Settlement Segment Regulations provides for imposition of Volatility Margin (VM) to address situations of sudden increase in market volatility in the currency markets.

The imposition of VM results in an increase in Margin Factor and a consequent reduction in Exposure Limit (EL) of the members, pending receipt of additional margin contributions.

Members have the option of contributing margins towards VM in the form of Government of India Securities and INR funds. The unutilised balance from the ~~member's contribution to the SGF~~ Member Common Collateral (MCC) ~~of the Securities settlement segment~~ will be accessed to meet VM requirements. ~~Members may note that contribution in INR funds and GoI securities will be permitted only towards Volatility Margin. The contributions towards credit and market risk factors shall continue to in the form of USD funds.~~

The options available with the members are as follows:-

1) <u>One-time request:</u>

The member seeking to avail the facility gives a one time instruction to CCIL *(format enclosed as Annexure II)* to block the securities towards VM when imposed. The power of attorney already executed by the member for the forex segment gives authority to CCIL to block requisite available balance in MCC ~~SGF of Securities Segment~~ as collateral.

Accordingly, on imposition of VM, the required value of available ~~unutilised~~ balance in the Member Common Collateral ~~Securities Segment SGF~~ will be blocked towards VM, and EL enhanced to the extent of margin available.

The ~~securities~~ margins blocked towards VM would be released as and when the VM is withdrawn.

2) <u>Adhoc Request:</u>

Members have the option to request blocking of available balances in Member Common Collateral ~~Securities Segment SGF~~ towards VM for a settlement date *(format enclosed as Annexure III)*

The Margins blocked towards VM would be released on the next business day subject to the member being within its revised EL in the Spot window.

3) <u>Compulsory Blocking</u> :-

A member can choose to operate with the reduced exposure limit. However, in the event the utilised exposure limit of a member arising on account of trades already accepted (within Spot window) for any value date is greater than the revised exposure limit, ~~unutilised~~ available balance in the Member Common Collateral ~~Securities Segment SGF~~ will be blocked to meet the margin required to support the excess utilisation. If the ~~margin~~ available balance in the Member Common Collateral ~~Securities segment~~ is insufficient, a margin call shall be generated for that member.

<u>Deposit of Collateral:-</u>

Members have the options of contributing towards VM in U S Dollar funds to the FX Collateral ~~SGF~~ of the USD/INR segment and towards VM in INR funds/GOI Securities towards the Member Common Collateral ~~SGF in the Securities Segment~~ as and when required.

<u>Withdrawal of collateral:-</u>

Withdrawal of Collateral would be permitted only if the reduced margin cover is adequate to meet the exposure utilisation of the member.

<u>Shortage:-</u>

In the event of the failure by a member to fulfil its settlement obligation (USD or INR) on any day during the imposition of VM, the margin blocked towards VM for that particular settlement date would also continue to remain blocked till the member replenishes the shortfall.

<u>Reports:-</u>

The following reports shall be generated for the members:

1) Margin utilization and Shortfall for Volatility Margin Report: - This report gets generated as and when margins in Government of India Securities are blocked towards VM. This report further indicates if there is a margin shortfall or EL shortfall.
2) ~~SGF~~ MCC Margin utilization Report:- This is a consolidated report which indicates total collateral of the member in Government of India Securities and the amount of collateral blocked towards various segments like Securities Segment, Forex (USD/INR) segment, Forex Forward Segment, Derivatives Segment, CLS etc. This report would also indicate margin shortfall if any.

Annexure I

ILLUSTRATION

CCIL has imposed a Volatility Margin of 0.50% per settlement date i.e. 1.50% for 3 days.

(Amt. in USD mio)

Current NDC	Current Margin Factor	SGF Contribution	Current Exposure Limit	Margin Factor after VM	Revised Exposure Limit
175.00	**6.75%**	**5.00**	**74.07**	**8.25%**	**60.61**

Net-positions of Member A within the Spot window are as follows:

Value Cash - Sale USD 45.00 mio

Value Tom - Sale USD 65.00 mio

Value Spot - Sale USD 63.00 mio

1) <u>One-Time Request:</u>

If the member opts for One-time Request, CCIL shall upon imposition of VM, block the available ~~unutilised~~ balance in the Member Common Collateral ~~Securities Segment SGF~~, and limit shall be enhanced to the extent of original EL or margin available.

In the above example upon VM imposition the Exposure limit of the bank is reduced to USD 60.61 million. Hence, to restore the bank's limit to the original EL, CCIL shall block ~~Government of India Securities~~ INR collateral as below:

Difference between Original EL and Revised EL = USD 74.07 mio – USD 60.61 mio

= USD 13.46 mio

Margin required = USD 13.46 mio * 8.25% = USD 1.110 mio

GOI Securities for INR equivalent value of USD 1.110 mio shall be blocked towards VM.

In case, the margin available is only to the extent of USD 0.90 mio, then limit shall be enhanced accordingly, i.e. EL = USD 71.52 mio (USD 0.90/8.25% = USD 10.90 mio. Accordingly the EL will be, USD 60.61 + USD 10.90 = USD 71.52 mio)

2) <u>Adhoc Request</u>

Members opting for the Adhoc Request have the option to request blocking of available balances in the Member Common Collateral ~~Securities Segment SGF~~ towards VM for a settlement date.

Hence, in the above example if member wish to avail a limit of USD 70.00 million CCIL shall block ~~Government of India Securities~~ INR Collateral as below:

Difference between Required EL and Revised EL = USD 70.00 mio – USD 60.61 mio

= **USD 9.39 mio**

Margin required = USD 9.39 mio * 8.25% = USD 0.775 mio

GOI Securities for INR equivalent value of USD 0.775 mio shall be blocked towards VM.

3) <u>Compulsory Blocking:</u>

In the event the utilised exposure limit of a member arising on account of trades already accepted (within Spot window) for any value date is greater than the revised exposure limit, ~~unutilised~~ available balance in the Member Common Collateral ~~Securities Segment SGF~~ will first be blocked to meet the margin required to support the excess utilisation. (This would be even before processing Ad-hoc requests, if any).

Accordingly, in the above example, the maximum utilisation within Spot window is USD 65.00 million. Hence even if the member does not opt for enhancement of limit as per para 1 & 2 above, he additional Government of India Securities that would be blocked is as follows:

Difference between Maximum utilised

EL and Revised EL = USD 65.00 mio – USD 60.61 mio

= USD 4.39 mio

Margin required = USD 4.39 mio * 8.25% = USD 0.362 mio

GOI Securities for INR equivalent value of USD 0.362 mio shall be blocked towards VM.

If sufficient SGF is not available then margin call shall be generated for the member.

Annexure II

One-Time Request

(Undertaking for blocking securities on imposition of Volatility Margin)

To,
Sr. Vice President
~~Chief Forex Officer~~
Forex Dept.

Dear Sir,

We hereby authorize CCIL to use the available balances in the Member Common Collateral ~~unutilised balance in our SGF contribution to the Securities Segment~~ towards volatility margin when imposed in Forex Settlement Segment, without reference to us. We understand that the securities shall be released as and when the Volatility Margin is withdrawn.

2. If available balances in the Member Common Collateral are inadequate ~~adequate Securities are not available~~ to meet the margin requirements in full, CCIL may block the available balances under advice to us and limit may be increased proportionately.

3. This Mandate shall not be revoked by either party without prior intimation.

Thanking you,

Yours faithfully
For and on behalf of ________________

Authorised Signatory with name:

Place:
Date:

CC: 1) Operations - Fixed Income and Money Market
2) Risk Management Department

Annexure III

Adhoc Request

(Undertaking for blocking securities on imposition of Volatility Margin)

To,
Chief Forex Officer
Forex Dept.

Dear Sir,

We hereby authorize CCIL to use the available balances in the Member Common Collateral ~~unutilised balance in our SGF contribution to the Securities Segment~~ towards volatility margin when imposed in Forex Settlement Segment:

- ☐ **For Settlement Date ____________**
- ☐ **Till VM is withdrawn**

2. If available balances in the Member Common Collateral are inadequate ~~adequate Securities are not available~~ to meet the margin requirements in full, CCIL may block the available balances under advice to us and limit may be increased proportionately.

3. This Mandate shall not be revoked by either party without prior intimation.

Thanking you,

Yours faithfully
For and on behalf of _________________

Authorised Signatory with name:

Place:

Date:

CC: 1) Operations - Fixed Income and Money Market
2) Risk Management Department