



THE CLEARING CORPORATION OF INDIA LTD.

NOTIFICATION

This has been superseded by Notification No. CCIL/DRV/IRS/59 dated 13-Nov-2015 on Changes to the Rupee Derivatives IRS Regulation

Date: 25th June, 2015

Notification No.: CCIL/DRV/IRS/15/34

**All Members
Rupee Derivatives Segment**

Dear Sir/Madam,

Re:Amendment to the Regulations in respect of Guaranteed Settlement of Rupee Interest Rate Swaps (IRS) and Forward Rate Agreement (FRA).

The Regulations of the Rupee Derivatives (Guaranteed Settlement) Segment have been revised to include:

- (a) Introduction of the Rupee Derivatives Dealing System, an anonymous Trading Platform for Rupee Interest Rate Swaps for trades referenced to Overnight MIBOR benchmark. Trades dealt on the Rupee Derivatives Dealing System shall be taken up for Guaranteed Settlement through CCIL;
- (b) Enabling clause for introduction of the Clearing Member Structure;
- (c) Change in the margin process from batch margining mode to online margining mode;
- (d) Enabling provision for introduction of the auction process to handle defaults in the Rupee Derivatives Guaranteed Settlement Segment;
- (e) Minor modifications as deemed necessary for processing of Trades dealt either through the Rupee Derivatives Dealing System or Trades dealt on a bilateral basis and reported to CCIL for settlement on a guaranteed basis.

The revised clauses are set out in the annexure and shall be applicable with effect from July 27, 2015.

for The Clearing Corporation of India Ltd.,

**-Sd-
Managing Director**

Annexure to Notification No.CCIL/DRV/IRS/15/34

**THE CLEARING CORPORATION OF INDIA
LIMITED**

CHANGES TO REGULATIONS

*(Rupee Derivatives Segment and Rupee Derivatives
(Guaranteed Settlement Segment)*

DEFINITIONS

Forward Rate Agreement: A forward Rate Agreement is a financial contract between two parties to exchange interest payments for a notional principal amount on settlement date, for a specified period from start date to maturity date. Accordingly, on the settlement date, cash payments based on contract (fixed) and the settlement rate, are made by the parties to one another. The settlement rate is the agreed benchmark/reference rate prevailing on the settlement date.

An Interest Rate Swap is a financial contract between two parties exchanging or swapping a stream of interest payments for a notional principal amount on multiple occasions during a specified period. Such contracts generally involve exchange of fixed to floating or floating to floating rates of interest. Accordingly, on each payment date-that occurs during the swap period-cash payments based on fixed/floating and floating rates, are made by the parties to one another.

Rupee Derivatives Dealing System: “Rupee Derivatives Dealing System” means the electronic system made available by Clearcorp to the members in respect of Rupee Derivative Transactions in terms of the provisions of its Bye-laws, Rules and Regulations of Clearcorp

Substitution of Trade: “Substitution of Trade” means substitution of set of trades with fewer number of new trades to achieve compression of trade portfolios of the clearing participants or in relation to default handling.

Chapter II: MEMBERSHIP:

B) Processing of Applications.

5. Every applicant, upon receipt of approval of Membership, **intending to avail the services of Non- Guaranteed and Guaranteed Settlement through Clearing Corporation** shall execute a set of documents in such form and manner as may be prescribed by Clearing Corporation. Such execution shall be carried out by duly authorized signatory (ies) after having obtained the necessary internal approvals for the purpose.

~~6. Members of Rupee Derivatives Segment desirous of availing the facility of Non-Guaranteed Settlement shall execute a set of documents in such form and manner as may be prescribed by Clearing Corporation.~~

6. By submitting the application, the applicant shall be deemed to have given consent to Clearing Corporation for disclosure of all or any information relating to derivative transactions that are concluded by the applicant with counterparties which are branches of banks in other jurisdictions, to any Swap or Trade data Repository or Regulators, in India or other jurisdictions, to whom disclosures are required to be made to the extent required or permitted by applicable laws.

D) CLEARING MEMBER:

A Member may be admitted as a Clearing Member for Clearing and Settlement of the trades in this segment. Such Member would be entitled to clear and settle Rupee Derivatives trades of its constituents in terms of the policies and procedures to be notified by Clearing Corporation effective from a date notified by Clearing Corporation.

E) RESIGNATION FROM MEMBERSHIP:

2.A Member resigning under **E1 (a)** shall have to give **prior** notice in writing to the Clearing Corporation clearly indicating its decision to resign from the Rupee Derivatives Guaranteed Settlement Segment.

The notice shall be effective on the Resignation Request Date, which for the purpose of this segment shall be the date on which such written notice is ~~delivered~~**received by** Clearing Corporation **when delivered by such Member** in person or by courier, or by a registered mail (with a return receipt requested).

Clearing Corporation shall promptly notify other Members of this segment about the resignation request received. Such request for resignation under **E1 (a)** 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 the 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.

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

3. A Member desiring to resign under clause **E1 (b)** above shall have to give **prior** notice of 30 calendar days to the Clearing Corporation in writing clearly indicating its decision to resign from the Rupee Derivatives (Guaranteed Settlement) Segment.

4. All requests for resignation under clause **E1 (b)** shall be approved **or rejected** by the Managing Director of Clearing Corporation or by an official so authorised by the Managing Director, **based on the fulfillment or otherwise of the conditions for resignation by the member** after the Member has closed-out all its Outstanding Trades within the specified 30 days notice period or within the extended period and upon the fulfillment of all the requirements under clause **E(3). If it is not rejected or** if such approval is not given by the end of the day of the Member's closing out of all its outstanding trades (including the closing out in terms of sub-clause **E(3)(b)**), it shall be deemed approved at the end of such day. Such resignation shall however come into effect from the end of the day upon the acceptance by Clearing Corporation of the trades generated out of the close-out process. The resigning Member shall thereupon be entitled to receive any amount lying to the credit of its Default Fund account for this segment after adjusting for other dues to Clearing Corporation.

Chapter III: SETTLEMENT GUARANTEE FUND.

A. PURPOSE:

2. Clearing Corporation may, however, consider the unutilized portion of Securities Segment SGF towards margins for Rupee Derivatives (Guaranteed Settlement) Segment. **In such an event**, a Member shall be deemed to have authorized the Clearing Corporation to utilize the unutilized portion of Securities Segment SGF towards margins for Rupee Derivatives (Guaranteed Settlement) Segment. ~~The SGF so utilized~~ **Such margins** for the Rupee Derivatives (Guaranteed Settlement) shall be ~~to the extent of margin requirement separately identified and shall be~~ blocked out of the unencumbered SGF available ~~at that point~~ as per procedure notified from time to time.

B.COMPOSITION:

2. Every Member shall contribute a minimum specified amount as Initial Margin and such other margin as prescribed from time to time by Clearing Corporation to trade on Rupee Derivatives Dealing System.

E. INTEREST ON CASH MARGIN:

1. A Member shall be entitled to receive interest at quarterly rests (at the end of every calendar quarter) on daily end of day utilization of cash margins during the relative period maintained by it in excess of the minimum prescribed cash margin as notified by Clearing Corporation from time to time.

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

Chapter IV: PROCESSING OF RUPEE DERIVATIVE TRADES

B.ACCEPTANCE OF TRADES:

1. Clearing Corporation shall receive details of Trades **reported by** Members of Rupee Derivatives Segment in a prescribed format over RBI's INFINET or any other form as deemed fit and notified by Clearing Corporation. Clearing Corporation shall accept such Trades reported by the Members for processing;

2. The trades matched **as per sub clause B(1)** above shall hereinafter be called Trade For Processing (TFPR). Status of "TFPR" refers to trades that are not eligible for Guarantee by Clearing Corporation. The Trades with status "TFPR" shall however be eligible for settlement through Clearing Corporation on a non-guaranteed basis if both the counterparties have availed the facility of non-guaranteed settlement.

~~3. Clearing Corporation shall accept eligible trades reported by the Members of Rupee Derivatives (Guaranteed Settlement) Segment for Clearing and Settlement;~~

3. Clearing Corporation shall receive details of trades reported by Members of Rupee Derivatives (Guaranteed Settlement) Segment in a prescribed format over RBI's INFINET or any other form as deemed fit and notified by Clearing Corporation. Clearing Corporation shall accept eligible trades reported by the Members of Rupee Derivatives (Guaranteed Settlement) Segment for Clearing and Settlement;

4. Clearing Corporation shall directly receive trades concluded on the Rupee Derivatives Dealing system in the Rupee Derivatives (Guaranteed Settlement). Trades received from the Rupee Derivatives Dealing System shall be eligible for clearing and settlement by Clearing Corporation from the point of acceptance of the trade by Clearing Corporation;

~~4. The trades accepted as per sub-Regulation B(3) above shall be subjected to Exposure Check in respect of each individual Member as enumerated in the Chapter VIII titled "Risk Management" in these Regulations.~~

5. Clearing Corporation shall subject all those trades accepted as per sub regulation B (3) and B (4) above to Exposure Check on an online basis in order to verify that margin available to the credit of the Members are adequate to provide risk cover for guaranteed settlement for such matched trades as per Chapter VIII on Risk Management.

D. NEW TRADES: VALIDATION AND MATCHING OF REPORTED DEALS.

~~4. Clearing Corporation shall subject all those trades matched between Members of Rupee Derivatives (Guaranteed Settlement) Segment to Exposure Check in order to verify that margin available to the credit of the Members are adequate to provide risk cover for guaranteed settlement for such matched trades as per Chapter VIII on Risk Management~~

E. REJECTION OF REPORTED DEALS.

F. AMENDMENT / REVERSAL (i.e. EARLY TERMINATION) / CANCELLATION OF AN EXISTING REPORTED TRADES.

G. EXPOSURE CONTROL AND ACCEPTANCE OF RUPEE DERIVATIVE TRADES OF MEMBERS OF IN RUPEE DERIVATIVES (GUARANTEED SETTLEMENT) SEGMENT

1. Clearing Corporation shall subject all eligible matched trades to verification of adequacy of margins for both Members to a trade on a trade by trade basis. This process is termed as 'Exposure Check'. Trades which pass through Exposure Check shall be accepted for guaranteed settlement by the Clearing Corporation.

~~The process of checking adequacy of margin shall be run at such frequency as may be notified by Clearing Corporation from time to time. Novation shall take effect as and when Clearing Corporation accepts trades for settlement under its Central Counterparty Clearing.~~

3.c. ~~One or both~~ Either counterparty to a trade has not opted for guaranteed settlement of Clearing Corporation;

4. ~~The Exposure Check of the trades received from Rupee Derivatives Dealing System shall be carried out on an online basis.~~

5. ~~If the margin amount contributed towards the Rupee Derivatives Dealing System is inadequate, the SGF value made available by the Member, if any, shall be blocked towards the balance margin requirement.~~

6. ~~The Exposure Check for the reported trades shall also be carried out on an online basis.~~

7. ~~Void Trades~~

a) ~~The trades concluded on the Rupee Derivatives Dealing System are guaranteed by Clearing Corporation in accordance with the bye-laws, rules and regulations of Clearing Corporation. The trades concluded on Rupee Derivatives Dealing System shall not be treated as cancelled and void under normal circumstances;~~

b) ~~Clearcorp, however, under exceptional situations, shall have the right to cancel the trades in case of any system failures at Clearing Corporation or Clearcorp leading to failure of trade acceptance process or where such action is necessary to protect the integrity of the market;~~

c) ~~Notwithstanding any other provisions, the Clearing Corporation shall be entitled to treat any trade as void if it believes that the trades are executed at the prices that could adversely affect market integrity or if any trade is cancelled by ClearCorp;~~

d) ~~Trades treated as void in such events set out in clause (a), (b) and (c) above shall be void ab initio. No liability whatsoever shall accrue to~~

- Clearcorp / Clearing Corporation and/or any of its officials for not clearing and settling such trades in terms of this provision;
- e) Clearing Corporation shall be entitled to recover any liability from any Member arising out of treating the trades as void for the purpose of Clearing and Settlement.

Chapter V: SETTLEMENT OF CASHFLOWS OF TRADES

A. SETTLEMENT OF CASH FLOWS UNDER NON-GUARANTEED SETTLEMENT

4. Cash flows in respect of those trades including payable/receivable amount on reversal (i.e. early terminated) trades which have been rejected in terms of Chapter IV (G) (2) of these Regulations shall be settled on a non-guaranteed basis by Clearing Corporation provided both the Members have opted for non-guaranteed settlement.

~~Clearing Corporation shall, generate Interim Obligation Report which contains details of the provisional settlement obligation for a Member for settlement on next business day;~~

12. Members may pre fund the settlement obligations as notified by Clearing Corporation from time to time.

14. Fund shortage as per the Sub-Regulation A (13) shall be handled as under:

c) Such allocation may result in revision of the obligation values for the Allocatees as under:

i) Reduction in existing payout (receivable **by the Member**) value or

ii) Increase in existing pay-in (payable **by the Member**) value or

iii) Conversion of existing payout to pay-in value.

d) Clearing Corporation shall communicate to all the Allocatees about the revised obligation values;

e) Allocatees whose receivable position is converted into payable position or allocatees whose payable position has increased as a result of such allocation, shall be required to fund their account with RBI before a specified time **on the settlement date as notified from time to time** ~~on the settlement date;~~

B.SETTLEMENT OF CASH FLOWS UNDER GUARANTEED SETTLEMENT.

The provisions of this Clause B shall be applicable for the trades **that are** eligible for guaranteed settlement where both the counterparties to the trade have opted for Guaranteed Settlement.

1.Clearing Corporation shall accept for **Clearing and** Settlement only those matched trades including reversal trades which pass Exposure Checks as mentioned in Chapter IV (G) of these Regulations;

~~3.Cash flows in respect of those trades including payable/receivable amount on reversal (i.e. early terminated) trades which have been rejected in terms of Chapter IV (G) (2) of these Regulations shall be settled on a non-guaranteed basis by Clearing Corporation provided both the members have opted for non-guaranteed settlement;~~

~~7.–The Obligations contained in the Final Obligation Report shall constitute binding and conclusive confirmation of the respective Member's positions obligations.The obligations of the respective Members so determined shall be deemed to be final and irrevocable.~~

~~Clearing Corporation shall generate Interim Obligation Report which contains details of the provisional settlement obligation for a Member for settlement on next business day;~~

8. Settlement Obligation Report generated by Clearing Corporation shall:

d.Settlement shall be final and irrevocable when the net obligations are determined.

~~Receipt of settlement confirmation file from RBI shall be deemed to be completion of settlement with finality and shall be irrevocable;~~

Chapter VI: MARGINS

A. MARGIN REQUIREMENTS.

3.Clearing Corporation may however continue to accept trades on account of such Member till the margin obligation reaches a higher percentage, termed as Rejection Level. After the margin obligation for a Member reaches Rejection Level, Clearing Corporation may ordinarily not accept any further trade of the Member till

additional margin is deposited so as to bring the margin requirement as a percentage of margin availability for this segment on account of that Member to lower than the Replenishment Level as described above. Clearing Corporation however may accept trades for guaranteed settlement without any further reference to any Member, even after the margin liability for this segment has breached the Rejection level, if such acceptance is necessitated due to post trade Exposure Check **of trades concluded on Rupee Derivatives Dealing System.**

C.SUSPENSION ON FAILURE TO PAY MARGIN

1)If a Member fails to comply with the margin call as stipulated under Chapter VI (A) of these regulations, Clearing Corporation shall be entitled to temporarily suspend the Membership rights of such a Member to the Rupee Derivatives (Guaranteed Settlement) Segment **or to restrict the access rights of the Member to the Rupee Derivatives Dealing System including effecting a shift to access on Risk Reduction Mode and/or to collection of margins based on orders without providing any offset between buy and sale. In Risk Reduction Mode, Clearing Corporation may accept for clearing only such trades as will have the effect of reducing exposure of Clearing Corporation on the member and / or may advise ClearCorp to admit for trading on the trading system only such orders which, if traded, will have the effect of reducing exposure of the Clearing Corporation;**

2)If a Member fails to fulfill its margin obligations before the time notified for the purpose, Clearing Corporation shall advise Clearcorp to suspend the rights of the Member from trading on the Rupee Derivatives Dealing System. The trading rights shall be restored on the Member meeting the margin obligation to the satisfaction of Clearing Corporation;

Chapter VII: DEFAULTS

A.DECLARATION OF DEFAULT

1. A **Member** shall be treated as a defaulter ("**Defaulter**") in this segment if it fails to replenish margin after its utilization has exceeded 100% of the ~~balance in~~ **SGF-margins** made available for meeting margin requirements for this segment

and/or fails to replenish the shortage in the daily settlement obligation, if any, in this segment.

B. DEFAULT HANDLING PROCEDURE

1. Any shortage in meeting daily settlement obligation in this segment shall, unless replenished by the Member by ~~12.30 P.M~~**11.00 A.M.** on the next day (by ~~11-10.30 A.M.~~ if the next day is a Saturday), be treated as a Default by the Member. For meeting such shortage, Clearing Corporation shall have the authority to sell the securities placed by the Member as margin deposit. Such sale could be made either through auction or sale through private arrangement as decided by Clearing Corporation

2. If the ~~On the Member's failure to meet margin shortfall obligation is not met including through sale of securities placed as margins as~~ stated in sub Regulation B1 above, Clearing Corporation shall be entitled to Close-Out such outstanding IRS and /or FRA trades of the Member as it considers necessary, to bring the margin liability of the Member within the required level (i.e. margin requirement as percentage of margin available for the segment is to be lower than the Replenishment Level set for the Member). ~~Close-out netting is determination of payment obligations before the date of settlement in the event of occurrence of circumstances as set out in Para 3 below.~~

Such Close-out of trades shall be between the Defaulter Member and its original bilateral counter-parties for the identified trades. **In the case of trades concluded on the Rupee Derivatives Dealing System, the procedure for closing out of such trades shall be notified by Clearing Corporation from time to time.** For effecting such Close-out, Clearing Corporation shall, as far as possible, follow the process for identification of such trades as notified by Clearing Corporation from time to time.

11. Auction of trades/positions of a Defaulter

11.1 Clearing Corporation may formulate a scheme for auction of trades/positions of a Defaulter. Such scheme will come into effect only after the same has been duly notified to the Members.

11.2 Auction of all trades or positions in aggregate or by splitting those into smaller groups will be resorted to as per the provisions of the scheme. If there is a loss from such close-out, the Defaulter Member shall be liable to

make good such loss. Any loss including that may arise in future on unsold positions shall also accrue to the Defaulter.

11.3 If the loss is not met by the Defaulter within an hour's time from declaration by Clearing Corporation of the result of such auction, Clearing Corporation shall be entitled to, without any further reference to the Defaulter, sell collaterals placed by the Defaulter Member as margin and/or close-out remaining trades/positions of the Defaulter Member in this or any other segment to meet any shortfall/loss.

Chapter XI: FEES AND CHARGES

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 Regulation B above) in the manner specified by Clearing Corporation from time to time by the 10th calendar day of every business month failing which ~~the Members shall be liable to pay~~ Clearing Corporation shall be entitled to levy penalty on such Member for the delayed payment of charges ~~as per notification issued by Clearing Corporation from time to time~~ if it deems fit and appropriate.