

NOTIFICATION

Date: 5th November, 2009

Notification No.: CCIL/FX-FF/09/19

To

**All Member Banks
Forex Segment**

Dear Sir/Madam,

Re: Guaranteed settlement of Forex Forward trades from the trade date.

We are pleased to advise that we shall commence settlement of forex forward trades with guarantee from the trade date from **1st December, 2009**.

Banks who are interested in joining the Forex Forward segment are requested to submit the Membership Application form for activation in this segment.

The Regulations of the Forex Forward Segment are placed on CCIL's website (under membership directory). A brief write-up on the process flow of the operations of the Forex Forward segment is enclosed for ready reference

As already advised, a dedicated Default Fund shall be constituted to meet the likely consequence of default in a stress event. Upon the constitution of the Fund, initial margin obligation of each member shall be computed based on the Portfolio Value at Risk (VaR) using a 1.5 day holding period. Pending the constitution of the Default Fund the Portfolio Value at Risk (VaR) would be computed using a 2 day holding period.

Banks may note that their exposure to CCIL in Forex Forward segment arising out of forward trades accepted for guaranteed settlement shall carry zero risk weight vide RBI circular no. RBI/2008 09/485DBOD.BP.BC.No.134/ 21.06.001/ 2008-09 dated

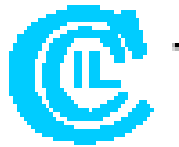
26th May, 2009. The notification provides that:

- a) The exposures on account of derivatives/securities financing transactions outstanding against all the CCPs, will be assigned zero exposure value as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the central counterparty's credit risk exposures.
- b) The margin amounts/collaterals maintained with CCIL will attract, however, a risk weight of 20%.

Yours faithfully,
For The Clearing Corporation of India Ltd.

sd/-
Managing Director

Encl: a/a



Process note on Forex Forwards
Guaranteed Settlement

Introduction:

Currently, CCIL settles INR/USD forward trades of its members by extending guarantee to these deals after they enter the spot window. Risk management of such trades involves ensuring that the net position of the member is within the exposure limit assigned after the trade enters the spot window.

With the introduction of the Forex Forwards Segment, CCIL will extend guarantee to eligible forward trades from the trade date.

Eligibility:

Membership: Members of the forex segment, desirous of availing the facility of guaranteed settlement from trade date, will need to take separate membership for this segment. The terms of guarantee and the processes would be governed by CCIL's By-laws, Rules, and Regulations governing the segment.

Trades: Forward trades with residual maturity up to 13 months would qualify for guaranteed settlement under the segment. Trades with maturity of more than 13 months would be taken up for guaranteed settlement when the residual maturity comes down to 13 months. All outstanding forward trades of the member with value Spot Next + 1 will be eligible unless otherwise indicated by the member. A member can also exercise the option to seek guarantee only on future trades i.e, forward trades concluded after the date of activation.

Collateral: Collateral contributions for this segment will be sourced from member contributions to the Securities Segment, i.e., cash (INR) (set at a minimum of 5% of the margin required) and eligible Government of India securities. Hence, a member will have to necessarily be a member of the Securities segment and further execute a Power of Attorney authorizing CCIL to access the SGF of the Securities segment.

Margins:

CCIL shall cover its risk through prescription of initial margin (including spread margin), mark to market margin and Default Fund. .

Initial Margin: The initial margin obligation of each member in respect of its outstanding trades shall be computed based on the Portfolio Value at Risk (VaR) for settlement date-wise net USD buy or sale positions arising out of such trades.

Initial Margin shall also include as additional amount towards *Spread Margin* in order to effect a partial disallowance of the full offset between net USD Buy and net USD Sale positions provided through portfolio margining.

Mark to Market Margin: Settlement date-wise net USD positions of members shall be revalued at the end of the day using the Mark-to-Market exchange rates. Settlement date-wise net profits/losses shall be discounted to the date of computation and aggregated member-wise. If the above computation shows net MTM loss at an aggregate level, such amount shall be collected as MTM margin from such member. Any aggregate profit shall be ignored.

Default Fund:- A separate Default Fund shall be constituted to meet the likely consequence of default in a stress event . Upon such constitution, the initial margin obligation of each member shall be computed based on the Portfolio Value at Risk (VaR) using a 1.5 day holding period . Pending the constitution of the Default Fund the Portfolio Value at Risk (VaR) would be computed using a 2 day holding period .

Process:

- a) Trades in the form of IFN300 would continue to be reported through the FDR utility over the INFINET network and will be subjected to the existing system and business validation checks- On validation and matching, the eligible trades will be subject to exposure checks for the Forex Forward segment. Margin adequacy would be checked for both the counterparties and in case there are adequate margins in both accounts, the trade would be taken for guaranteed settlement. Trades once “accepted” by CCIL will not be rejected. Trades that do not pass the exposure check would be rejected in the Forex Forward Segment on S-3 day.
- b) On S-2, net position of each member will be computed for trades accepted for guaranteed settlement and will be forwarded to the USD-INR segment and would be subjected to exposure check as applicable for the segment. The netted position shall

be accepted for settlement to the extent it passes the exposure check in USD-INR segment.

- c) Such portion of the net US Dollar sale position of a member that fails to pass the exposure check in the USD-INR segment on S-2 day will remain pending, in queue. Subsequent Buy trades (Spot, Tom & Cash Trades) reported by the member would help to reduce the pending exposure amount.
- d) The residual position arising out of the Forward Trades accepted for settlement that remain Pending Exposure on S day will be Cash Settled. For Cash Settlement, choice of allocatee members would be based on their net US Dollar buy position on S-2 day from forward trades for the settlement day under consideration. Top 10 Members having the largest Buy position would be selected. On S-1 day, a notice of Cash Allocation to Member (s) whose limit has been breached based on positions that remain pending on S-1 day, and to those members to whom such Cash allocation may be made, will be issued. The actual allocation on S day would be in relation to the amount that continues to remain Pending Exposure on S day after the Early Morning Batch is run (at 10.00 am on S day) and the amount allocated will be in proportion to the Net Buy position of the allocatee member in the Forex Forward Segment.
- e) The trades created after Cash Allocation would have CCIL as the counterparty. The rate to be used for such cash settlement would be the CCIL polled cash rates plus 0.01 paise compensation for Cash Allocation. The members to whom such Cash Allocation has been done can report cover trades to CCIL before the Cut-off Batch on S day and inform CCIL of the rate at which the cover deal has been done. CCIL would modify the Cash allocated rate to the exchange rate as indicated by the member including a compensation of 0.01 paise to the above rate.

Additional Reports that would be available to members in PDF & CSV format are as under:-

- 1) Net Position Entering Spot window:- Would indicate all trades that have been netted and have been taken into USD/INR segment on S-2 day
- 2) Batch Trades Report: - Indicates status of all forward trades reported by the member for that trade date.

- 3) EOD Trade Status report: - Indicates the trade status of the entire portfolio of the member as on that date.
- 4) Notice of Cash Allocation:- Both to the Allocator & Allocatee on S-1 day.
- 5) Provisional Cash Allocation Report: - Both to the Allocator & Allocatee on S day after Cash Allocation.
- 6) Final Cash Allocation Report: - This report will be generated when members reports a cover trade.