

NOTIFICATION

28th September, 2018

Notification No.: CCIL/FX/USD-INR/18/95

**Member Banks
Forex Settlement Segment**

Dear Sir/Madam,

Re: Loss Mutualisation on US Dollar Settlement Bank Failure – Forex Segment.

CCIL has initiated a number of measures to limit the accumulation of US Dollar balances in its account with Settlement Bank including settlement using multiple Settlement Banks. However, there is still a possibility, though remote, of a Settlement Bank failing or becoming ineligible to effect settlement for reasons like financial deficiency, legal incapacity, regulatory actions etc immediately after transfer of balances to CCIL's Settlement Account.

2. In terms of Chapter VI(H) of the Forex Settlement Regulations, in the event of failure of a Settlement Bank, the loss, if any, shall be allocated to those members who have opted to settle through that Settlement Bank.
3. An amount of Rs.50 crores has been earmarked towards absorption of loss (*Skin in the Game*) on account of Settlement Bank failure for Forex Settlement Segment by Clearing Corporation.
4. The losses shall be allocated to the Member Banks as per the following methodology:

A. Scenario I

- i. The Settlement Bank fails before INR Pay-ins from members are completed, loss will be allocated in the following manner:**
 - a. To the full extent to members who have pre-funded in USD in the failed Settlement Bank.
 - b. Balance to be allocated to those entities from whom the USD funds have been received in the failed Settlement Bank prior to the failure of Settlement Bank (*in proportion of pay-in*) after adjusting for CCIL's Skin in the Game.
- ii.** In case CCIL fails to raise the necessary USD funds for the amount lost, USD pay-outs to the receiving members will be reduced and the available INR amount will be paid to these members. The INR amount paid to these members would be capped to their obligation amount in USD terms at the prevailing exchange rate.

iii. Illustration

Settlement of INR pay-ins is not complete.

Member (A) Pre-funding received	USD 10 million
Member (B) Early pay-in received	USD 5 million
Member (C) Pay-ins received from the member after netting	USD 20 million
Member (D) Pay-ins received from the member after netting	USD 30 million

Net USD Loss after allocating fully to A above = $(10+5+20+30) - (10) = 55$ million

Loss after adjusting for CCIL's Skin in the Game (SIG) = $(\text{USD } 55 \text{ million} * \text{Exchange Rate}) - 50$ crores = INR $(374 - 50)$ crores = 324 crores [Assuming exchange rate of 68 INR/USD]

Allocation to Member A = $\text{USD } 10 \text{ million} * 68 \text{ INR/USD} = \text{Rs } 68$ crores

Allocation to Member B = $\text{Rs. } 324 \text{ crores} * (\text{USD } 5 \text{ mio/USD } 55 \text{ mio}) = \text{Rs } 29.45$ crores

Allocation to Member C = $\text{Rs. } 324 \text{ crores} * (\text{USD } 20 \text{ mio/USD } 55 \text{ mio}) = \text{Rs. } 117.82$ crores

Allocation to Member D = $\text{Rs. } 324 \text{ crores} * (\text{USD } 30 \text{ mio/USD } 55 \text{ mio}) = \text{Rs. } 176.73$ crores.

The allocated amounts will be set off against CCIL's INR payout obligations to the banks.

B. Scenario II

i. **The Settlement Bank fails after INR pay-in is completed. The loss will be allocated in the following manner:**

- a. To the full extent to members who have pre-funded in USD in the failed Settlement Bank.
 - b. To the full extent of USD obligation payable to member banks from the failed Settlement Bank whose receivable obligation in USD was not released by CCIL due to members failure to pay the counter value INR funds. Such member banks would continue to be liable to honor their INR obligations.
 - c. Balance to be allocated to those entities from whom the USD funds have been received in the failed Settlement Bank (*in proportion of pay in*) prior to the failure of settlement bank, after adjusting for CCIL's skin in the game.
- ii. In case CCIL fails to raise the necessary USD funds for the amount lost, USD pay-outs to the receiving members will be reduced and the available INR amount will be paid to these members. The INR amount paid to these members would be capped to their obligation amount in USD terms at the prevailing exchange rate.

iii. Illustration

The settlement bank fails, INR pay-ins have been completed and USD payouts are in process.

Member (A) Pre-funding received	USD 10 million
Member (B) Early pay-in received	USD 5 million
Member (C) pay-in received from members after netting	USD 20 million

Member (D) pay-ins received from members after netting	USD 30 million
With-hold of Member (E) USD on account of INR Shortfall	USD 5 million

Assume further that a sum of USD 15 million has already been paid out and so the balance in the account at the time of failure is USD 50 million, i.e. a net loss of USD 50 million.

Amount that will be recovered from A, B, C and D will be USD (50-5) million =USD 45 million (i.e. USD 45 million*68 = Rs.306 crores) after apportioning USD 5 million payable to “E” because of its failure to pay INR at the time of settlement bank default.

Loss after allocating fully to A above = $(10+5+20+30) - (10+5+15) = 35$ million

Loss after adjusting for CCIL’s Skin in the Game (SIG) = $(USD 35 \text{ million} * \text{Exchange Rate}) - 50$ crores = INR $(238 - 50)$ crores = Rs.188 crores [Assuming exchange rate of 68 INR/USD]

Allocation to Member A= $USD 10 \text{ million} * 68 \text{ INR/USD} = \text{Rs } 68$ crores

Allocation to Member B= $\text{Rs. } 188 \text{ crores} * (USD 5 \text{ mio/ } USD 55 \text{ mio}) = \text{Rs } 17.09$ crores

Allocation to Member C = $\text{Rs. } 188 \text{ crores} * (USD 20 \text{ mio/ } USD 55 \text{ mio}) = \text{Rs.}68.36$ crores

Allocation to Member D = $\text{Rs. } 188 \text{ crores} * (USD 30 \text{ mio/ } USD 55 \text{ mio}) = \text{Rs.}102.55$ crores

Member E will bear the loss in full and will not be paid any USD. However, Member E would be liable to honour its INR obligation.

The allocated amounts will be set off against CCIL’s INR payout obligations to the banks.

5. A member shall be liable to share the losses on account of Settlement Bank failure upto a maximum of two hours from its USD pay-ins to CCIL’s identified Settlement Bank or upto two hours from making the Net Position Report available to members by CCIL, whichever is later except in the following circumstances:
 - a. The processing of INR Settlement file for Forex Settlement segment has been delayed beyond one hour in RTGS/Current account at RBI due to technical reasons.
 - b. Technical/system issues at CCIL or in SWIFT.

The notification shall be effective from **29th October, 2018**

Yours faithfully,

for The Clearing Corporation of India Ltd.,

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Managing Director