

Risk Management Department

This has been Superseded by Notification No. RMD/SS/20/07 dated 04-Feb-2022 on Risk Management process for Tri-party Repo (TPR) trades

No. RMD/CBLO/12/06

February 15 , 2012

FOR INFORMATION OF ALL MEMBERS

CBLO Segment Imposition of MTM Margin

In terms of Clause, 5.7.3.2, Chapter V of Regulations for CBLO segment, in case of any sudden volatility in interest rates during the day, which can substantially erode the margins collected from the members, the Clearing Corporation may revalue all the outstanding CBLO trades of the members using latest available rates. If such revaluation indicates inadequacy of the margin in the account of any member, CCIL may impose Mark to Market (MTM) margin.

2. In order to contain the risk on account of volatility, it has been decided to introduce a process for imposition of MTM margins on the outstanding trade positions of members in CBLO segment both at intra-day as well as at End of the Day levels. The process to be followed is placed at Annexure.

3. The collection of Intra-day MTM margin will happen after one hour from the time of notifying the members. Upon imposition of intra-day MTM margin, if there is a shortfall in value of collateral/margin provided, it shall be the responsibility of the said member to replenish the shortfall at the earliest. Penal charges will be levied for such margin shortfall as applicable.

4. The process will come into effect from **19th March 2012**

For The Clearing Corporation of India Limited

Sd/-

Managing Director

Encl

Annexure to the Notification No.RMD/CBLO/12/06

Dated 15th February'12

The Clearing Corporation of India Limited
Risk Management Department: CBLO segment
Imposition of MTM Margin

The process to be followed for imposition of MTM margin (Intra-day/EoD) will be as under:

I. For intra-day MTM margin collection, the approach will be as under:

- (a) The process will be run on a daily basis at around 12.00 noon and only trades outstanding as at EoD of previous day will be considered for the purpose of intra-day MTM margin collection.
- (b) All the outstanding CBLO trades will be revalued using the MTM rates derived based on the trades concluded on the trading system till the time of intra-day valuation:
 - i. weighted average rate of last five or such lower number (if there are less than five trades) of T+0 trades (excluding outliers, if any) in the same CBLO.
 - ii. weighted average rate of same CBLO traded on T+1 basis in case there is no trade in the concerned CBLO on T+0 basis on the particular day
 - iii. rate interpolated or extrapolated from CBLOs of nearby maturities or interest rate in inter-bank market for corresponding tenor will be used.
- (c) Collaterals will be revalued using the intra-day MTM prices arrived at for computation of intra-day MTM margin in Securities segment.
- (d) Net MTM loss in the portfolio of a member will be sum of net MTM value depletion on outstanding trades of previous day and reduction in value of collateral under charge at previous EoD.

MTM loss on CBLO trades will be arrived after allowing full offset between positions in different CBLOs (i.e. MTM gain on position in one CBLO will be set off with loss on position in another CBLO). MTM margin will be the net loss amount (Net MTM gains will be ignored).

For the purpose of arriving at loss in the value of collateral, value of intra-day deposits and withdrawals made before computation of MTM margin will be ignored.

- (e) While arriving at MTM loss on trades in any CBLO, MTM margin collected or incremental MTM margin applied on such trades at previous EOD will be taken into account. Such MTM loss and the loss in value of collateral under charge (if any) will be compared with the sum of initial margin collected for the CBLO trades and haircut value of the collaterals under charge as at previous day EOD.
- (f) If the net MTM Loss arrived at as above exceeds **50% of the sum of the haircut value of collateral under charge as at previous day EOD and the initial margin collected**, such net MTM loss will be the Intra-day MTM margin payable by the member.
- (g) Members will be notified at least one hour in advance before imposition such margin. Initial margin account of the member will then be debited with such MTM margin amount.
- (h) Upon imposition of intra-day MTM margin, if there is a shortfall in value of collateral/margin provided, such margin will be recovered from the member. In such a case, the concerned member will be alerted of the shortfall through mail/report. Penal charges will be levied for such margin shortfall as applicable.
- (i) Intra-day MTM margin imposed on a member will get withdrawn at the time of day-end revaluation for margining in CBLO segment.

II. End of the Day MTM margining process:

- (a) All the outstanding trades (i.e. T+1 trades of the day) will be considered for End of the Day MTM margin computation.
- (b) End of the day MTM rates for CBLOs will be worked out as detailed below:
 - i. weighted average rate of last five or such lower number (if there are less than five trades) T+1 trades (excluding outliers, if any) in the same CBLO.
 - ii. weighted average rate of same CBLO traded on T+0 basis in case there is no trade in the concerned CBLO on T+1 basis on the particular day
 - iii. rate interpolated or extrapolated from CBLOs of nearby maturities or interest rate in inter-bank market for corresponding tenor will be used.
- (c) Collaterals placed by the members will be revalued using the MTM prices of Securities used for valuation in Securities Segment. Shortfall, if any, in the value of collaterals under charge will continue to be collected as per the process already in place.
- (d) MTM loss on CBLO trades will be arrived after allowing full offset between positions in different CBLOs (i.e. MTM gain on position in one CBLO will be set off with loss on position in another CBLO). MTM margin will be the net loss amount (Net MTM gains will be ignored).
- (e) MTM margin applicable on trades will be treated as incremental MTM margin at EOD and will be payable at 12:30 PM by the next working day (11 AM in case the next working day is a Saturday).
