



Risk Management Department

No. RMD/DS/PC/16/10

22nd Feb'17

FOR INFORMATION OF ALL MEMBERS

Derivatives Segment Portfolio Compression Exercise for Rupee Denominated IRS

We invite your attention to our Notification No. RMD/DS/PC/13/53 dated 29th Aug'13. As stated therein, CCIL offers Portfolio Compression services to the members of the Derivatives Segment in terms of approval received from the Reserve Bank of India. Portfolio Compression is carried out under the aegis of Chapter XIV, 'Portfolio Compression' of the Regulations of the Rupee Derivatives and Rupee Derivatives (Guaranteed Settlement) Segment. The comprehensive framework and the instructions issued by CCIL in this regard are compiled and presented below.

2. The process facilitates compression of members' portfolio of outstanding Rupee IRS trades by keeping the risk profile within the defined tolerances provided by the members and thus identifying economically redundant trades that can be early terminated. It involves execution of a mathematical algorithm to arrive at the optimum solution.
3. Members who desire to participate in the Portfolio Compression exercise have to indicate their willingness to do so.
4. Members with net payables on account of compression are required to pre-fund the same i.e. they have to credit CCIL's RTGS Settlement Account at RBI with the amount payable. After all the pay-ins have been so credited, CCIL will release the payouts to the members RTGS Settlement Account with net receivable on account of the compression exercise.



5. In order to ensure seamless and secure transfer of data between CCIL and the participating members, CCIL has provided a web based interface for the members to take part in the Portfolio Compression exercise. The reference point will be the outstanding trades as at the end of the designated day. The live cycle is preceded by a mandatory trial run and the entire exercise is spread over 4 to 5 business days. For the purpose of this PC Exercise, members will provide CCIL the details of trades sought to be terminated with the Mark to Market (MTM) values and the PV01 values for each trade etc. as required. To enable CCIL to achieve an optimum solution, members will have to provide certain tolerances subject to which the trades eligible for early termination would be identified by CCIL. Detailed Process flow with schedules will be made available to the participating members by Clearing Corporation.

6. It may please be noted that the trades are considered for compression if the difference in the mark to market values of a trade is up to 1% of the minimum of the MTM values reported by the counterparties. In addition, if the reported difference for a trade is less than or equal to 0.01% of the notional amount of the trade (Rs. 25,000 per Rs 25 Crores of notional or Rs. 1,000 per Rs Crore of notional), such trade is accepted provided such difference does not exceed 2% of the lower MTM value.

7. In respect of cleared trades, CCIL will take precautions to ensure that the applicable margins for outstanding trades will not increase beyond a threshold of 5% of the margin liability for trades in rupee derivatives guaranteed segment if such trades are terminated either fully or partially in the compression exercise. Members will be required to replenish any margin shortfall arising out of such early termination or partial termination of trades through Portfolio Compression.

8. CCIL will endeavour to arrive at the settlement amounts accurately for all members based on the MTM values of such trades provided by the respective members. As a result, if there is any shortfall or surplus at the aggregate level between the aggregate net sum payable by the participants and the aggregate net sum receivable from the participants, such difference will be allocated to each participant by CCIL in the



proportion that the amount payable or receivable by such participant bears with the sum of the absolute of the net values receivable and payable by all the participants of this exercise.

9. The results of PC Exercise carried out by CCIL will be treated as final upon CCIL's announcement of such completion based on confirmation from the participating members as per the process described in the Schedule I hereunder. On completion of the PC Exercise, the trades identified for full termination by CCIL during the process would be treated as terminated. In case of partial termination, the notional value of trades will be reduced by such amount.

10. On completion of the exercise, CCIL advices regarding early termination of trades will be treated by members as letter of confirmation in respect of those early terminations, confirming the cancellation of trades identified for full termination or of reduction in face value in case of partially terminated trades and of settlement of net amounts arising out of tear-up process through CCIL. CCIL will also record such cancellations / partial terminations in the trade warehouse run by CCIL.

11. The charges applicable for this service will be as notified by us in our Notification No. **RMD/DS/PC/12/08** dated 19th Mar'12.

12. This notification comes into effect immediately and supersedes our Notification No. RMD/DS/PC/13/53 dated 29th Aug'13 referred to in para 1 above.

For The Clearing Corporation of India Limited,

Sd/-

Managing Director



Schedule I

Portfolio compression is early termination of economically redundant outstanding trades before their designated maturity. The counter-parties are willing to terminate trades only if certain tolerance parameters related to their portfolio are satisfied. These tolerances are based on the amount payable / receivable on cancellation (derived from the MTM value of the trade) and change in the risk of their portfolio (as implied by the trade wise PV01). The process involves a mathematical algorithm which seeks to identify the trades that can be terminated on a multi-lateral basis and at the same time ensuring that the tolerances set by all the participants met.

Process Flow for CCIL's proposed PC Exercise:

1. Members to provide CCIL with details of trades to be considered for portfolio compression together with the MTM and the PV01 values of each such trade.
2. Such details will be provided in the format required by CCIL.
3. Members will also provide tolerances in respect of all or any of the following:
 - a. Total MTM Payable / Receivable for cancelled trades (at portfolio level).
 - b. Net PV01 change at portfolio level and / or tenor level (can also be provided at dealer level).
 - c. Change in bilateral Counterparty exposure (as indicated by MTM gains) in respect of non-guaranteed trades only.
 - d. Change in Counterparty exposure to CCIL in respect of guaranteed trades only.
4. CCIL will then carry out the PC Exercise and advise the members the list of trades to be terminated and the amount payable or receivable by the members.
5. Members to verify that the trades identified by CCIL satisfy the constraints defined by them
6. After such verification, members to confirm acceptance of the results to CCIL and make payment of the net amounts payable by them, if any.



7. CCIL will announce the completion of the exercise and make pay-outs to the members with net receivable position.
8. There may be a trial run preceding the final run.

CCIL reserves the right if it thinks fit to amend/change/alter the 'Process Flow' or any part thereof as set out hereinabove from time to time. However, in any such event CCIL shall communicate to members reasonably in advance any change made to the process.