

## Risk Management Department

**This has been Superseded by Notification No. RMD/FX-FF/21/29 dated 01-Sept-2021 on FxFwd - Default Fund**

No. RMD/ FX-FF/10/26

31<sup>st</sup> Aug10

**FOR INFORMATION OF ALL MEMBERS**

### **Forex Forwards Segment Stress Test Methodology for Default Fund**

In terms of the provisions of Chapter VII of the Regulations of the Forex Forwards Segment, it has been decided that Clearing Corporation shall maintain a dedicated Default Fund in respect of its Forex Forwards Segment.

2. As stated in Clause B therein, the size of the fund will be determined by the Clearing Corporation on the basis of Stress Tests conducted by it. The methodology to be followed for carrying out such stress test will be as under:

- i. Plausible extreme movement in spot and forward exchange rate for each of the standard tenors will be arrived at. Currently, a shift of Rs. 2.50 per USD for Cash Rate and Rs. 4.50 per USD for 13 month forward rate will be considered (Rate shifts for intermediate tenors are taken through interpolation between Rs.2.50 and Rs. 4.50)
- ii. Impact of such a change (both upward & downward movement of such magnitude) on the outstanding INR/USD forward trade positions of the members (i.e. settlement date-wise net USD Buy or Sale Positions of the members out of trades accepted for guaranteed settlement by CCIL) as at the end of the day of Stress Testing will be computed by revaluing such positions with the stressed forward exchange rates. Margins available in the accounts of the members will be reduced from the estimated possible losses on their accounts.
- iii. Based on this analysis, impact of possible default by a member on whom CCIL would have highest exposure will be arrived at. This amount will be taken as a component for arriving at the corpus for the Default Fund.
- iv. It is also presumed that under such a stress event, if there is a default by a large market player, upto maximum of 5 entities having CPRA grading C+ or below

- (or equivalent short term ratings) may also fail to honour their obligations (termed as Knock out Effect). Hence, possible losses from 5 such entities of CPRA Grading C+ or below (or equivalent short term ratings) under such scenario will also be taken as another component of the required corpus of the Default Fund.
- v. Stress Test is to be carried out by taking outstanding forward INR/USD trade positions of the members as on two working days immediately prior to month-end dates in the previous quarter (i.e. when the month end date is the Spot Next date). Apart from this, the Clearing Corporation may also take cognizance of the Stress Test results as on the most volatile days in the previous quarter.

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