Risk Management Department

This has been Superseded by Notification No. RMD FX USDINR-20-01 dated 22-Jan-2020 on Extension of Online Exposure Check Session

No. RMD/FX/USD-INR/15/18 **March 3, 2015**

FOR INFORMATION OF ALL MEMBERS

Forex Segment

Risk Management Processes

The process for exposure check and imposition of margins is detailed below:

A. Composition of Settlement Guarantee Fund
[Reference Chapter III of the Regulations]

i. In terms of clause A of Chapter III, there will be a separate Settlement Guarantee Fund (SGF) for the Forex Segment. The dedicated SGF will be formed with contributions from members in the form of US Dollar cash. In terms of sub-clause B (iv) of Chapter V, the SGF contribution made by the member to avail Exposure Limits in USD and in INR shall be considered as Initial Margin.

ii. In case the US Dollar funds deposited by the member in its SGF account are higher than the Initial Margin requirement, such additional amount shall be treated as additional margin made available by the member to meet other margin requirements.

iii. In terms of sub clause I(1) of Chapter III of the Regulations, a member of this segment shall authorize Clearing Corporation to consider the unutilized portion of the balances in Securities Segment SGF of such member for meeting its margin obligation other than towards Initial Margin.

iv. Where the surplus balance in Securities Segment SGF is used to meet the Additional Initial Margin (which is denominated in USD), USD/Rupee Reference Rate announced by RBI will be the basis for computing the USD equivalent value of the securities (after application of appropriate haircut).

B. Net Debit Cap and Exposure Limits

[Reference Chapter V, Clauses A&B of the Regulations]

i. Net Debit Caps (NDC) will be set in US Dollar and in INR terms. NDC will be applicable for each settlement date.

ii. Operating limits will be expressed as Exposure Limits (EL) and EL will also be set in both currencies. EL in USD will be based on the balance of the member in its dedicated USD denominated Settlement Guarantee Fund (SGF) and the Initial Margin Factor applicable for the member as described in para C below. The EL in INR will be similarly arrived at but after notionally converting the US Dollar balance in SGF into its Rupee equivalent at the applicable exchange rate. This exchange rate will be revised by Clearing Corporation at six monthly intervals at the time of review of NDC of the members. Members will be allowed to select lower EL than those set by CCIL for both US Dollar and for INR

iii. A member with higher credit rating may choose to avail higher limits up to specified ceilings for days other than the cash date in the Spot Window. The permissible higher limits will be derived as under:

Category of Members	On S -2 Day	On S- 1 Day	On S Day
For Members with CCIL 1 & 2 ratings	3 times EL	2 times EL	EL
For Members with CCIL 3 & 4 ratings	2 times EL	2 times EL	EL
For Members with CCIL 5 & 6 ratings	2 times EL	EL	EL
For Members with CCIL 7 & 8 ratings	EL	EL	EL

A member desirous of availing such higher limit will be required to request Clearing Corporation to permit utilisation of such higher limit. Clearing Corporation may approve such request subject to the member agreeing to adhere to the requirements stipulated in the Regulations.

C. Initial Margin Factor

[Reference Chapter V Clause (C) of the Regulations]

i. Initial Margin Factor will be set based on 3 day VaR at 99% confidence interval and will be collected for 3 settlement dates in the spot window.

ii. Initial Margin will be set at higher levels for entities having ratings below CCIL4.

iii. Initial Margin factor will be reviewed by Clearing Corporation at the end of every month.

D. Additional Initial Margin

[Reference Chapter V(D)(ii)(a) of the Regulations]

i. Members who seek higher Exposure Limits as per para B above shall be able to avail such higher limits on providing additional initial margin over and above the initial margin made available by them to avail Exposure Limits as mentioned in para A(i) above.

ii. Members having positions in excess of the Exposure Limits in any currency on account of trades done in FX-Clear and/or FX-SWAP Dealing Systems shall also be required to deposit Additional Initial Margin.

iii. Initial margin obligation for members who have limit utilisations in excess of the EL shall be computed by multiplying the applicable net exposure of the member in the spot window by 1/3rd of the margin factor applicable for the member for the spot date as per the process described in Clause E of Chapter VII. The applicable net exposure for this purpose shall be higher of:

a. the net USD exposure for all the days in the Spot Window and

b. the net USD exposure in the Spot Window after excluding such exposure on Cash Date.

The margin obligation as above in excess of the Initial Margin for the exposure limits availed by the member in terms of Para A(i) above will be treated as Additional Initial Margin.

E. Mark to Market Margin

[Reference Chapter V(D)(ii)(b) of the Regulations]

i. The closing spot rate of USD/INR, published by FEDAI on its website or on Reuters page “FXIR” will be used as the MTM SPOT rate for margining in the Forex segment. In case the FEDAI closing spot rate is not available on aforesaid sources by 5.10 PM, the rate available on Reuter’s page “INR1F” at 5.00 PM will be taken as applicable closing spot rate under intimation to the members of this segment. MTM Cash and Tom rates will be arrived at by subtracting Forward Premia of respective tenors available on Reuters page "INR 1F" at 5.00 PM to spot rate derived as above.

ii. If rates from above sources are unavailable or there is a valid reason to believe that any such rate as available does not represent the rate prevailing in the market, Clearing Corporation may use any or all rate (/s) from any other source. Use of any such rate (/s) will however be informed by Clearing Corporation to its members in this segment with the reason for such deviation.

iii. MTM margin computation will be on net settlement date-wise positions for all accepted trades of the members. Full offsets will be permitted between MTM gains and losses on different settlement dates.

iv. Intra-day trading loss will also be collected as Mark to Market margin.

v. If the date of acceptance of the trade is not the same as the trade date then such acceptance would be subject to the member meeting its MTM margin obligation on such trade at the point of acceptance.

vi. MTM Margin will be collected in the form of US Dollar cash, INR cash and Central Government Securities eligible for deposits into Settlement Guarantee Fund (SGF) in the Securities Segment. MTM margin so collected will be released on successful completion of settlement.

vii. In terms of sub clause 7.8 of para C of Chapter VII of the Regulations, MTM margin on forward positions accepted for guaranteed settlement in the Forex Forwards segment will be transferred to the Forex Settlement segment when such position enters spot window.

F. MTM Credits

[Reference Chapter VII(C)(8) of the Regulations]

i. If the aggregate MTM value of all settlement date-wise positions shows MTM gain, then the member's margin account will be credited with the MTM gain amount and the same will be allowed to be treated as Margin Made Available by the member. Such margin made available can be used against margin requirements in any other segment which draws margins from Securities Segment SGF.

ii. Such margin credit mentioned will be withdrawn on the day of settlement of the particular position having MTM gain. If there is a margin shortfall as a result of such withdrawal of margin credit on account of settlement, CCIL would hold back settlement proceeds to the extent of such shortfall in margin. Such withheld settlement proceeds will be released on replenishment of the margin shortfall.

iii. If the member fails to replenish the shortfall by the end of the day of such withholding, such withheld settlement proceeds may be credited by CCIL to the SGF account of the member in the Securities Settlement Segment without any further notice to the member.

iv. If the withheld proceeds are in the form of US Dollars and the shortfall remains un-replenished, by the end of the day of such withholding, CCIL may dispose of such amount of withheld US dollars as per the process outlined in Clause D (2) (f) of Chapter VI relating to defaults in the Regulations of the Forex Settlement segment. The proceeds of such sale, if any will then be credited to the SGF account of the member in the Securities Settlement Segment.

v. In case any positions are cash settled after entering in spot window in terms of para C(5) of Chapter VII of the Regulations, Mark to Market loss if any in respect of such positions will be computed with reference to the rate used for cash settlement and will be collected as margin from the member whose positions are cash settled

G. **Replenishment Level and Rejection Level**

[Reference Chapter V(D)(i) of the Regulations]

If Additional Initial Margin (AIM) is payable in terms of para D above and the AIM requirement has reached 90% of the available margin net of the obligation towards MTM margin, then Clearing Corporation shall make a margin call to the member. Moreover, Clearing Corporation will stop acceptance of further trades if such trades will cause the total margin utilisation to exceed 95% of the margin made available for this segment. (i.e. if the available margin is lower than the amount of Total Margin x 100 / 95)

For example,

Particulars		Rupees in Crores
Margin Made available	A	110
Margin obligation on account of Additional Initial Margin	B	90
MTM margin obligation	C	9.5
Margin blocked towards MTM obligation	D = Cx10/9.5	10
Available margin net of margin blocked towards MTM	E = A - D	100
AIM as a percentage of Margin Made available	(B / E)%	90%

This will result in the margin obligation on account of AIM (Rs. 90 Crores) being 90% of the net margin made available resulting in a margin call to the member requiring him to bring in additional margin.

In the above example, if the AIM reaches Rs. 95 Crores and MTM remains at 9.5, then the total margin obligation will be 104.5 which as a percentage of margin made available would be 104.5/110 i.e. 95%.

H. **Frequency of exposure check**

[Reference Chapter VII(C)(5) of the Regulations].

Exposure check in this segment will be carried out on an online basis for trades reported by the members up to a cut-off time (ordinarily up to 6-00 PM). Any trade remaining un-accepted during on-line exposure check will be taken up for re-evaluation for exposure check on the next working day.

I. **Incremental MTM Margin**
[Reference Chapter V(D)(ii)(b)(iii) of the Regulations]

i. Increase in MTM margin obligation over the MTM margin obligation for the previous day is treated as incremental MTM margin. However, if the increase in MTM margin is on account of any of the following reasons, then such increase is not treated as incremental MTM margin and the corresponding MTM margin will be debited immediately.

   a. MTM margin on account of trades at rates that are off market.

   b. MTM margin on account of trades accepted on a date other than the date of trade.

   c. Trading loss if any, on offsetting trades.

ii. The amount of Incremental MTM margin will become payable at 11-00 A.M. of the next business day (by 10-30 A.M. if the next business day happens to be a Saturday). Hence members may be required to deposit additional amount as margin by this time so as to ensure that the balance in the margin account is adequate to cover the margin obligation. Upon debit of incremental MTM margin, if there is margin inadequacy, penal charges will be levied for such margin shortfall.

J. Volatility Margin

[Reference Chapter V(D)(ii)(c) of the Regulations]

1. In case of sudden increase in volatility in exchange and/or interest rates, Volatility Margin will be imposed by Clearing Corporation at a rate notified by Clearing Corporation at the time of its imposition in terms of our Notification No. RMD/FX/VM/4/1 dated 11th May’04.

2. Volatility Margin, if applicable, will be imposed immediately after notifying to the members. Imposition of volatility margin would effectively amount to a corresponding increase in the Margin Factor and would result in reduction of Exposure Limit. If it is observed that the reduced exposure limit of the member is inadequate to cover the trades already accepted for settlement in the spot window or there is a margin shortfall to meet any other form of margin requirement for the segment due to such imposition, it would be the responsibility of the member to replenish the shortfall at the earliest. Penal charges will be levied if shortfall is not replenished within one hour from the time of imposition.
3. Withdrawal of VM would be in terms of our Notification No. **RMD/FX/VM/13/87** dated 25th Oct'13.

K. Intra-day MTM margin

[Reference Chapter V(D)(ii) (b) of the Regulations]

1. Irrespective of whether Volatility Margin is imposed or not, on any day of high volatility, if loss in portfolio value of a member is higher than 50% of Initial Margin (including additional initial margin and volatility margin) already collected, such loss may also be collected by Clearing Corporation as MTM margin on intraday basis
2. Applicability of intra-day MTM margin will be first assessed at 12.00 noon using the rates available on Reuters page "INR 1F". Additionally, the applicability of intra-day MTM margin will be re-assessed at 3.00 PM taking exchange rates prevailing at that time.
3. Moreover, Clearing Corporation may, on volatile days collect intra day MTM margin at such other time of the day as required
4. If applicable, the Intra-day MTM margin will be collected after one hour from the time of notifying the members. Upon imposition of intra-day MTM

margin, if there is margin inadequacy, penal charges will be levied for such margin shortfall. It shall also be the responsibility of the members to replenish the shortfall at the earliest

5. In case the intra-day MTM margin payable by a member at 3.00 PM is lower than the intra-day MTM margin already collected from the members based on rates at 12.00 noon, such excess intra-day MTM margin will be released by CCIL

This notification shall be effective from **06th April, 2015 onwards**.

Yours faithfully,

For The Clearing Corporation of India Ltd.,

Sd/-

Managing Director