Risk Management Department

No. RMD/MCC/23/61 **08th Dec'2023**

FOR INFORMATION OF ALL MEMBERS

Member Common Collateral (MCC)

In terms of Chapter VA "Member Common Collateral (MCC) / Collateral" of CCIL's Rules and Chapter IX of CCIL's Bye-laws, CCIL shall maintain a Member Common Collateral (MCC) pool for each member / constituent (or a group of constituents). Members can contribute margins to the MCC on their own account or on account of their constituents.

In this regard, we invite your attention to our Notification No. RMD/MCC/23/30 dated 30th Oct, 2023 which details the purpose, composition, administration and utilisation of Member Common Collateral. Members are advised to take note that the aforesaid Notification stands revised as below with the enhancements / modifications underlined and deletions presented in 'strike through' font. The changes pertain to an enhancement in the haircut computation methodology on account of revision in historical look-back period considered for arriving at the floor in the Value at Risk (VAR) computation, as mentioned in Annexure A below.

A. Purpose

1. In terms of the provisions of the afore-said Rules and the Regulations of the respective segments, any member desiring to avail clearing and settlement of trades in CCIL's Securities Segment (outright & market repo trades), Forex Forwards Segment and the Rupee Derivatives Segment shall be required to contribute eligible securities and INR cash as specified in para B below as margins, in the said entity's MCC pool as a pre-condition for the acceptance of its trades for clearing by CCIL. Members of the Forex settlement segment and the CLS segment have the option to deposit margins in the MCC account to meet some specific margin and other obligations as specified in para D below. The margin deposited in the MCC pool and the margin credit on account of MTM gains[1] shall be treated as margin made available by the entity and shall be used to meet the it's margin obligations in these

[1] In the Forex, Forex Forwards and the Rupee Derivatives segments, in case Mark to Market value of accepted trades of a Member/its Constituents is positive, the amount of such MTM gain, net of haircut, is treated as Margin Credit available to the Member/its Constituent(s). Such credit can be used to meet margin obligations from any segment that draws margins from the MCC.

segments. MCC contribution made by a Clearing Member on its own account shall be kept segregated by Clearing Corporation from the MCC contribution made by the Clearing Member on account of its Constituents.

B. Eligible margin deposits in MCC

1. Members may deposit INR cash, Treasury Bills and specified Government of India Securities as margin in the MCC. The Central Government Securities acceptable as deposit towards MCC are reviewed periodically and the list of eligible securities for contribution to MCC is notified to the members. On exclusion of a security from the list, a member having deposits in such security is expected to withdraw the said security from the MCC before the date of such exclusion, failing which the value of the holding in that security as margin in MCC is treated as nil.

C. Valuation

1. Securities deposited towards MCC shall be valued at the end of every day at CCIL's MTM prices arrived at in the Securities Segment. Security-wise haircuts will be deducted from the MTM value of each security to arrive at its net MTM value. The haircuts shall be computed as per the approach specified in Annexure A.

2. The securities deposited by members in their MCC account shall be re-valued at the latest MTM prices computed at the time of assessment of applicability of intra-day MTM margin in the Securities segment. The value of such securities as at intraday prices shall be compared with their last computed value (i.e. intra-day or previous EoD as the case may be) to arrive at the loss / gain if any in the value of the individual securities deposited as margin. If the sum of the losses / gains across all the securities deposited by the member results in a net MTM loss and such loss exceeds 30% of the haircut levied on the securities deposited in the MCC, then intra-day MTM margin shall be levied on the member by way of a debit to its MCC account.

3. Haircuts are revised on a monthly basis and the revised haircut values are notified to the members. Such hair cut rates shall be temporarily increased on imposition of volatility margin in Securities Segment and shall be restored back to their original values after withdrawal of the volatility margin.

D. Utilisation

1. The margins deposited by the Members of the Securities, Forex Forwards and the Rupee Derivatives segment in their MCC account can be used to meet their margin obligations under various heads such as Initial Margin, Mark to Market Margin, Volatility Margin, Concentration Margin (if applicable) and such other margins as may be stipulated from time to time.

2. The margins deposited by a Forex Segment member in the MCC account shall be used for meeting its margin obligation arising out of Additional Initial Margin (AIM), Mark to Market (MTM) Margin, Volatility Margin (VM) and such other margins as may be stipulated from time to time.

3. A CLS segment member may collateralise its Base Limit and Additional Limit by depositing collateral in its MCC account.

4. MCC may also be utilised under the head 'Margin Blocked for Default' in any of the above segments.

5. The provisions of para D1 to D4 above shall also apply to constituents availing clearing services through CCIL.

6. In case of members, the available balance in MCC may also be used to meet a shortfall, in the Default Fund of any of the above segments.

7. The MCC account of a Clearing Member shall be used to meet the margin shortfall if any, in the MCC accounts of its constituents.

E. Margin shortfall:

1. A margin shortfall arises when the member's total margin obligation exceeds the margin available by it. Such shortfall will have to be replenished immediately. In terms of CCIL's Bye-laws and Rules, Members shall be liable to pay penalty for any occurrence of margin shortfall on account of trades accepted for clearing if the shortfall is not replenished within one hour[2].

[2] In the Securities Segment (Outright and Market Repo) trades may be concluded bilaterally and reported on NDS OM / CROMs. <u>Any margin shortfall arising out of such reported trades will result in levy of penalty irrespective of the time within which it was replenished</u>. Members are therefore advised to monitor their margin utilisation levels prior to reporting of trades to avoid a margin shortfall.

2. In case a margin shortfall is triggered by re-valuation of the MCC at the end of the day in terms of para C (1) above, the members would be required to fund their MCC account by 9-00 AM on the next business day, failing which penal charges shall apply.

3. If the imposition of intra-day MTM margin or Volatility Margin in terms of para C above were to result in a shortfall in the concerned member's MCC account then, it shall be the responsibility of such member/s to replenish the shortfall within one hour from the time of imposition of intra-day MTM margin / Volatility Margin, failing which, penal charges shall apply.

4. The penal charges as applicable based on number of instances in a calendar quarter are as under:

- 5 basis point per Rs.100 per instance (each single day of shortfall till replenishment is counted as an instance) on the amount of shortfall for first three instances.
- 10 basis points per Rs.100 per instance on the amount of shortfall from 4th to 13th instance.
- 20 basis points per Rs.100 per instance on the amount of shortfall from 14th instance onwards.
- Minimum charges would be Rs. 100/- per instance.

The revised approach, as above shall be effective from 08th Jan'24. Yours faithfully,

For The Clearing Corporation of India Ltd.,

Sd/-

Managing Director

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Annexure A

Hair-cut Computation Process[3]

1) Haircuts on securities deposited as margins towards MCC are computed using a Historical Simulation based Value at Risk (VaR) model with a 5 day Margin Period of Risk (MPOR) confidence level of 99%.. Anti-procyclicality measures are incorporated in the model.

2) The detailed model is as under:

   i. The floor (minimum value) for 1 day VaR for securities in a tenor bucket shall be recalibrated to 95th percentile 1 day VaR values. If the VaR of the security is less than the floor value applicable for the security in particular tenor bucket then the floor value will be retained as the applicable VaR.

   ii. The process followed to arrive at the floor shall be as under:

      a) All eligible securities will be divided into tenor-wise buckets based on residual maturity.

      b) The tenor buckets will be 0-3 Months, 3M – 6M, 6M - 1 year, 1-3 years, 3-5 years, 5-10 years, 10-15 years, 15-20 years, 20-30 years and above 30 years.

      c) <u>Historical data starting from Dec'2006 shall be considered for arriving at the floor (minimum) values. To arrive at the floor, for a tenor bucket, the 95th percentile 1 day VAR value will be computed for rolling periods of 10 years length, with the latest such period being the period preceding the date of fortnightly revision of haircut rates. The highest value amongst all such 1 day VAR values, for the bucket shall be scaled as per the applicable margin period of risk (MPOR) to determine the floor for the haircut rates for all securities in that tenor bucket.</u>

      d) The floor (minimum value) as computed above will be applicable to both Central Government Securities and Treasury Bills falling in respective tenor buckets.

   iii. Hair-cuts are rounded up to the next integer.

[3] This approach was originally notified to members vide CCIL's Notification No RMD/SS/22/31 dated 22nd Nov'22

Annexure B

Member Common Collateral (MCC) - Encumbrance towards margin requirement of members[4]

Margins are made available by the members in the form of deposit of eligible Central Government Securities and Cash in their MCC accounts. Margin credit on account of MTM gains in Forex, Forex Forwards Segment and in the Rupee Derivatives Segment are also part of the margin made available.

2. At the end of every day, CCIL provides a report to its members which gives them details of their securities encumbered towards various margin requirements. The details of encumbered security are valid only at the end of the day and will change as the position changes the next day.

3. As there are various forms of margins, a pre-decided process of allocation of margins against margin requirements is required for arriving at particulars of margins under encumbrance. For such allocation, the following sequence is followed:

a. Minimum cash margin required to be deposited by the member towards its margin obligation.

b. Margin Credit if any, on account of MTM gain in the Forex, Forex Forwards Segment and Rupee Derivatives.

c. Cash margin over and above minimum cash margin requirement as in (a) above.

d. Margins made available in the form of securities. Securities with lower maturity are given priority.

[4] This approach was originally notified to members in the context of Securities Segment SGF, vide CCIL's Notification No RMD/SS/13/95 dated 10th Dec'13