THE CLEARING CORPORATION OF INDIA LTD

Risk Management Department

This has been Superseded by Notification No. RMD/SS/ VM/13/86 dated 25-Oct-2013 on Partial Withdrawal of Volatility Margin

No. RMD/SS/ VM/ 09/14 **28th August, 2009**

FOR INFORMATION OF ALL MEMBERS

Securities Segment
Imposition of Volatility Margin

In terms of Chapter VII (3) of Securities Settlement Regulations, Clearing Corporation is entitled to impose volatility margin in case of a sudden increase in volatility in interest rates and/or bond prices.

2. In consultation with the members, it has been decided that the processes as listed in the Annexure will be followed for identifying volatility in the securities market for imposition of volatility margin and for identifying absence of volatility in the securities market for withdrawal of volatility margin.

3. Volatility Margin may result in margin shortfall in the accounts of the members. Upon imposition of Volatility Margin, if it is observed that the SGF balance of a member is inadequate to cover the margin requirements on account of the member, it shall be the responsibility of the said member to replenish the shortfall at the earliest.

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Encl

Annexure to Notification no. RMD/SS/VM/09/14

dated 28th August, 2009

The Clearing Corporation of India Ltd.
Risk Management Dept
Securities Segment:
Imposition of Valuation Margin

The process to be followed for identification of Volatility in the Securities Market for imposition of Volatility Margin and for identification of absence of volatility for withdrawal of volatility margin will be as under:

i) For tracking volatility, three most liquid securities will be identified based on analysis of trades during the previous month for tracking volatility.

ii) At least one of the securities in the basket should be of long duration (at least of residual maturity of 20 years). If such a security is not in the list of 3 highest traded securities, the security having 3rd highest traded volume in the previous month will be replaced by the highest traded security with residual maturity of 20 years or more.

iii) In case of an Auction/Re-issuance of a security during a month, such security will be included in the basket, if trade volumes in such security for the 3rd to 5th day are such that it forms a part of the top 3 traded securities, by excluding the existing security in the 3rd position (other than the security indicated in terms of (ii) above)

iv) If a security included in the list is in ‘When Issued’ market, such security will be excluded during the period of “When Issued” trading.

v) This process of identification of securities is to be reviewed after month-end and the members will be kept advised of the securities selected for this purpose.

vi) Volatility margin to be imposed:

a) If trades in two out of three securities indicate volatility,

b) If only two securities in the basket are traded and trades in any one of the securities indicate volatility,

c) If only one security in the basket is traded and trades in such security indicate volatility.

vii) The estimator values for indication of volatility margin will be arrived at for each security as under:

a) Intra-day difference between high and low prices of the selected securities will be treated as Estimator I

b) Estimator II will be price fluctuation based on the higher of absolute of -

(MTM price of previous day - low price of current day)/low price of current day

and

(MTM price of previous day – high price of the day)/Low price of the day

Higher of Estimator I and Estimator II of a Security will be the reference Estimator.

viii) Trigger price will be set at one day VaR of the respective security (multiplied by illiquidity multiplicant if any).

ix) Trades in the identified securities received during the day will be monitored for deciding about imposition of volatility margin and also for withdrawal of such margin.

x) Volatility margin will be imposed if the estimator value reaches the trigger value and the quantum of volatility Margin will be as under:

a) If Estimator value reaches100 % of trigger value - 25% of margin factor

b) For every subsequent increase of 50% in estimator value over trigger value - additional 25% of margin factor.

Volatality margin will be due for imposition from the time the estimator values exceeds the trigger price.

xi) Volatility Margin will be withdrawn at the time of End of the Day Risk valuation if the values of the Estimators are at less than the 60% of the 1-day VaR(i.e. 60% of the trigger value) for one day for the securities which had earlier indicated increase in volatility and caused imposition of volatility margin.

xii) Members will be kept advised about the imposition and withdrawal of volatility margin at every such instance.

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