THE CLEARING CORPORATION OF INDIA LTD

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This has been Superseded by Notification No. RMD FX USDINR-20-01 dated 22-Jan-2020 on Extension of Online Exposure Check Session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/VM/18/68 **30/June/2018**

FOR INFORMATION OF ALL MEMBERS

Forex Settlement Segment

Volatility Margin

Methodology for Imposition & Withdrawal

Further to our notification no RMD/FX/VM/13/87 dated 25th Oct'13, it has been decided to modify the approach followed for computation of Estimator (I) and Estimator (III). The updated methodology for assessment of Volatility Margin in Forex Segment is detailed below with changes **underlined**

A. Volatility margin is imposed under the following conditions:

(i) If the intra-day fluctuation in the USD/INR spot rate is observed to be equal to or in excess of the margin factor for one day; **OR/AND**

(ii) If the fluctuation in the USD/INR spot rates over the three (3) day assessment window (i.e. current day & two immediately preceding working days) is observed to be equal to or in excess of the margin factor for 3 days.

B. The estimator values for assessing intra-day fluctuation are arrived as under:

(i) Intraday-day fluctuation for one day impact as mentioned in para A (i) above:

a) **Estimator I** is taken as Intra-day difference between high and low rates as a percentage of the low rate.

b) **Estimator II** is taken as the exchange rate fluctuation based on the higher of:

i) The absolute of the difference between the closing Spot rate of the previous business day and the intraday high rate as a percentage of the closing Spot rate of the previous business day, and

ii) The absolute of the difference between the closing Spot rate of the previous business day and the intraday low rate as a percentage of the closing Spot rate of the previous business day.

Higher of Estimator I and Estimator II is taken as *Intra-day fluctuation to arrive at one day impact.*

(ii) For three day intraday-day fluctuation as mentioned in para A (ii) above.

Estimator III would be the maximum possible loss over the three (3) day assessment window (i.e. current day and two immediately preceding working days) and the same is arrived at as described below:

a) The higher of the following two ratios is determined for each day of the three day assessment window

- Difference of the highest spot rate of each day and the lowest spot rate of the current day, <u>divided by lower of the two rates under consideration</u>
- Difference of the lowest spot rate of each date and the highest spot rate of the current day, <u>divided by the lower of the two rates under consideration</u>

b) The sum of the three (3) ratios [as determined in ‘a’ above] is computed and is termed as **Estimator III**

C. ***Percentage of Volatility Margin to be imposed is arrived at as under:***

a) If VM is triggered on account of intra-day fluctuations in terms of para A (i) above, the applicable VM for each day will be one (1) day Exchange rate fluctuation (i.e. higher of Estimator I and II) minus corresponding margin factor for one day, rounded upward to next higher multiple of 0.25%.

b) If VM is triggered on account of exchange rate fluctuations over a three (3) day period in terms of para A (ii) above, the applicable VM for each day will be equal to (value of Estimator III minus the corresponding margin factor for three (3) days)/3 and rounded upward to next higher multiple of 0.25%.

If both conditions are satisfied then higher of ‘a’ and ‘b’ above would be the applicable VM for the day

D. Volatility Margin would be **completely withdrawn** if three (3) day impact in the spot window is 0.75% below the margin factor for three (3) days **AND** one (1) day impact is also 0.25% lower than the margin factor for one (1) day.

3. Partial withdrawal of volatility margin would also be considered based on the process listed as under:

a) Required Volatility Margin levels are re-assessed for the current date and immediately previous business date as per the process detailed in annexure to this notification. Higher of the two values is taken as reference level.

b) If the Volatility Margin already imposed is higher than the reference level as per (a) above, the Volatility Margin will be reduced to the reference level subject to a minimum of 0.25% per settlement date.

4. Volatility Margin, if applicable, is imposed immediately after notifying 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 are levied if shortfall is not replenished within one hour from the time of imposition.

This notification shall be effective from 01/Aug/2018

Yours faithfully,

For The Clearing Corporation of India Ltd.,

Sd/-

Managing Director

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