



**Risk Management Department**

**30/Oct/2023**

**No. RMD/ DRVT/23/39**

**FOR INFORMATION OF ALL MEMBERS**

**Rupee Derivatives Segment**

**Default Handling**

**Close-out of trades referenced to MIFOR & MMFOR benchmark**

In terms of the provisions of Chapter VII (Settlement Shortage & Defaults) of the Regulations of the Rupee Derivatives Segment, the default handling process for trades referenced to MIFOR & MMFOR benchmark was notified to members vide CCIL's Notification No. RMD/DRVT/23/05, dated 14<sup>th</sup> Feb 2023.

We invite your attention to CCIL's Notification No. CCIL/Legal/23/29 dated 27/Oct/2023. As stated therein, the Regulations of the Rupee Derivatives segment have been amended with effect from 27/Nov/2023. As part of this amendment, a new Chapter III titled 'Member Common Collateral' has been introduced in these Regulations. Consequent to this, Members are advised to take note that Notification No. RMD/DRVT/23/05, dated 14<sup>th</sup> Feb 2023 stands revised as below with the enhancements / modifications underlined and deletions presented in 'strike through' font. The changes pertain to replacement of the text 'Securities Segment SGF' by the text 'Member Common Collateral (MCC)'.

1. Close-out of Trades:

- i) In the event of a member being declared as a defaulter in accordance with the provisions of para II(A) of Chapter VII of the Regulations of this Segment, Clearing Corporation shall Close-out such member's outstanding IRS and FRA trades referenced to the MIFOR & MMFOR benchmark in terms of the provisions of para II(E)(2) of Chapter VII of the Regulations of this Segment.



ii) Trades of the Defaulter Member will be closed out on a trade by trade basis with the original counter-parties to the trade.

iii) The close out of the trades shall be effected at Clearing Corporation's MTM Swap rates for MIFOR/MMFOR (as applicable) as at the end of the day of close out. However, if the end of the day MTM rates are not available at the time of default handling, the MTM rates as at the end of previous day or such other rates as may be considered appropriate by Clearing Corporation shall be the basis for such close out. Use of any such rate / rates will however be communicated by CCIL to its members in this segment with the reason for such deviation.

iv) Constituents of the defaulter Member:

- a) Clearing Corporation will merge the portfolio of the constituents with the Clearing Member's portfolio as per para II.(F) (b) upon intimation by the Clearing Member under provisions of para II (F) (a) of Chapter VII of the Regulations of the segment. Clearing Corporation will establish a matched book by closing out the merged portfolio of the Clearing member. The steps stated in clauses (i) to (iii) above will be followed with respect to such trades.
- b) The trades and associated margins of the Constituents of the defaulting Clearing Member which are not covered by the provisions of para II (F) (a) of Chapter VII of the Regulations of the segment will be transferred, where feasible, to another Clearing Member.
- c) Clearing Corporation will establish a matched book by closing out the non-ported trades of the constituents, if one or more constituents of the Clearing Member are not successful in porting all the trades and associated margins to another Clearing Member. The steps stated in clauses (i) to (iii) above will be followed with respect to such trades.



**2. Margin held back for default:**

- i) An amount equal to the negative Mark to Market value of each such trade that is closed out is identified as the amount to be paid (or received if MTM value is positive) by the defaulter member and / or its constituent. MTM values of all trades which are closed out are summed up and the net amount, if payable, is treated as Margin Payable and shown as Margin held back for default. If the net amount is receivable, the amount will be shown as a credit to Margin held back for default (negative value).
  
- ii) This amount of 'Margin held back for default' will be reflected in the accounts of both the defaulter and / or its constituents as well as their counter-parties. In terms of Clause II(E)(2) 5 of Chapter VII of the Clearing Corporation's Regulations for this segment, Members having payable amount on their own account or account of their constituents will have to make ~~SGF~~ MCC available in cash to enable CCIL to recover this amount. The cut off time for such deposit will be 9:00 A.M. of the next business day. In terms of Clause II(E)(2) 7, if the close out carried out results in a surplus (i.e. members / constituents have receivable amounts), such members will be entitled to receive the amount from Clearing Corporation. Till the amount is paid out, such amount will be treated as margin made available by the member on its own account or on account of its constituents for meeting margin requirements for this segment or in any other segment.

**3. Impact on outstanding trade portfolios of the members:**

In case of close-out in terms of para 1 above, the original as well as the reversal trades will be removed from the outstanding trades portfolio of both the defaulter member and / or its constituents as well as its counter-parties. It may be taken note of that the mark to market value arrived at the time of close-out remains unchanged till the amount is received or paid out i.e. there is no re-computation of MTM loss / gain which resulted in the margin blocked for default.



**4. Reports to Members:**

**a) Reversal Trades Report:** Both the defaulter member (and their constituents where applicable) and their counterparties who become parties to the close out will be provided with the Reversal Trade Report giving detailed information on the amount payable / receivable for each such trade.

**b) EOD Margin Report:** The EOD Margin position Report of the affected members / constituents will be updated with values of all margins including margin held back for default.

This notification comes into effect from **27<sup>th</sup> Nov' 2023** and supersedes our Notification No. RMD/DRV/23/05 dated 14<sup>th</sup> Feb'23 in this regard.

**For The Clearing Corporation of India Ltd**

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**Managing Director**

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