



THE CLEARING CORPORATION OF INDIA LTD.

**NOTIFICATION**

**This has been superseded by Notification No. CCIL/FX-FF/15/60 dated 13-Nov-2015 on Changes to the Forex Forward Regulations**

**Date: 26<sup>th</sup> March, 2014**

**Notification No.: CCIL/FX-FF/14/13**

**All Member Banks**

Dear Sir/Madam,

**Re: Changes to the Forex Forward Regulations.**

Members are hereby advised that the Forex Forward Segment Regulations have been modified to include clauses pertaining to Default of Clearing Corporation and Portfolio Compression along with minor changes to certain clauses of the said Regulations.

We append the changes to the Regulations of the Forex Forward Segment as **Annexure**. The updated Regulations are available on our website ([www.ccilindia.com](http://www.ccilindia.com)) under Membership section.

We advise that the changes to the Forex Forward Segment Regulations shall come into effect as on 28<sup>th</sup> April, 2014.

Yours faithfully,  
**for The Clearing Corporation of India Ltd.,**

**Sd/-**

**Managing Director**

*Encl: as above*

**Annexure to Notification No.CCIL/FX-FF/14/13**

**THE CLEARING CORPORATION OF INDIA  
LIMITED**

**CHANGES TO REGULATIONS  
(FOREX FORWARD SEGMENT)**

## **CHAPTER I: INTRODUCTION**

The Regulations framed hereunder shall be called as "The Forex Forward Regulation, 2004 (*as amended in March 2014*)" of the Clearing Corporation of India Ltd

## **CHAPTER II: MEMBERSHIP**

### **A) APPLICATION FOR MEMBERSHIP**

Every member of the Forex Settlement Segment of Clearing Corporation who is desirous of availing the facility of Central Counterparty clearing for ~~guaranteed settlement of~~ Forex Forward trades ~~from trade date~~ shall submit an application in the prescribed format to Clearing Corporation The application may be complete in all respects together with all requisite enclosures required to be submitted in terms of the Application Form and comply with the necessary formalities as prescribed for admission as member of the Forex Forward Settlement Segment.

It is required that the applicant should be a member of the Securities Settlement Segment of Clearing Corporation. The applicant on admission as a member shall be granted permission to avail of the facility of guaranteed settlement of Forex Forward trades upon from trade date due compliance fulfillment of with necessary formalities in this regard.

## **CHAPTER III: SETTLEMENT GUARANTEE FUND**

**A)** Clearing Corporation shall maintain a Settlement Guarantee Fund (hereinafter referred to as "SGF") in respect of the Forex Forwards Segment as a part of its risk management process to cover any risk arising out of any default by a Member of this segment. Such SGF will be constituted out of a basket of Members' margin contributions, for the specific purpose of meeting margin requirement or any default in meeting any settlement obligations.

SGF may be utilized for such purposes as provided in the Bye- Laws, Rules and Regulations including towards meeting default obligations/ deficiencies and/or any other dues arising out of normal Clearing and Settlement operations in respect of transactions of this segment undertaken by Clearing Corporation. Notwithstanding anything contained in these Regulations, Clearing Corporation shall be entitled to close out the transactions of a Member in Forex Forward Segment after due

notification and utilize collateral so collected as margins towards SGF under Forex Forward Segment in closing out transactions. Close-out netting is determination of payment obligations before the date of settlement in the event of occurrence of any or all circumstances as set out below.

1. Insolvency or dissolution or winding up of the Members.
2. Moratorium imposed on any bank which is a Member.
3. Any circumstances set out in the Regulations, including margin shortfall.
4. Any circumstances which in the opinion of Clearing Corporation warrant close out in the interest of the market.

~~3.— Acquisition or merger of a Member.~~

~~4.— Court order for attachment of Member's property.~~

The methodologies for such close-out shall be notified by Clearing Corporation from time to time and the same shall be binding on the members.

## **B) COMPOSITION**

1. SGF in this Segment shall be formed with contributions from Members in the form of cash and eligible Government securities.
2. Clearing Corporation may require every member to contribute a minimum specified percentage of its contribution to SGF in the form of cash as may be notified by Clearing Corporation from time to time. The proportion of the cash to securities to be maintained by the member may be changed by Clearing Corporation from time to time after giving due notice to the members.
3. Notwithstanding anything contained in Regulation B(2) above, Clearing Corporation may through notification require members to deposit their entire MTM margin contribution(s) to SGF in the form of cash.
4. ~~While~~The list of securities eligible for such contribution shall be duly notified by Clearing Corporation from time to time, Clearing Corporation may also notify from time to time ~~as also~~the maximum amount of a single security or group of securities that a Member may contribute deposit by way of contribution to SGF as may be notified.
5.
  - a) A Member shall upon admission be required to contribute to SGF and Clearing Corporation shall accept Trades from the Member and/or on its behalf for Clearing and Settlement only after the receipt of ~~such~~the required contribution to the SGF.

- b) Clearing Corporation may require every member to contribute a minimum specified amount as Initial Margin and such other Margin as specified from time to time by Clearing Corporation to commence trading on FX-SWAP Dealing System.
- c) Clearing Corporation ~~upon being so authorized may on obtaining due and proper authority from~~ by a member consider the unutilized portion of the SGF tendered by a member for Securities Segment, towards SGF for Forex Forward Segment. The SGF so utilized for the Forex Forward Segment will be to the extent of margin requirement separately identified and blocked out of the unencumbered SGF available at that point, ~~as per in accordance with the~~ procedure notified in this behalf from time to time.
6. A Member's SGF contribution shall cover its margin obligations towards Initial Margin, Mark to Market Margin and/or any other margin that may be prescribed by Clearing Corporation time to time.
7. A Member shall at all times ensure that its SGF contributions are adequate to cover the margin requirement on the outstanding Trades accepted by Clearing Corporation on behalf of the Member as specified by Clearing Corporation time to time.

#### **CHAPTER IV: PROCESSING OF FORWARD TRADES**

##### **D. Amend and Rescind of instructions**

Members shall submit amend and rescind instructions, if any, up to three business days before the settlement day (till S-3 day) prior to the cut-off time as notified in this regard by Clearing Corporation from time to time, failing which Clearing Corporation shall not be deemed liable for not having processed the said modifications or cancellation.

- I. Amendments or Cancellations, if any reported by the Members for all the unmatched deals shall be acted upon, provided they are received within the stipulated time limit ~~prescribed~~.
- II. Amendments or Cancellations, if any, reported by the Members, after the original Trade has been matched but not yet taken up for exposure check shall be acted upon only if the amended or rescinded ed confirmation is received from both the parties to the Trade within the stipulated time limit ~~prescribed~~ for the purpose of reporting such amendments or cancellations, failing which Clearing Corporation shall proceed with the original matched Trade.
- III. Clearing Corporation shall accept such amended Trades reported by the Members for fresh verification of Exposure Check in respect of each

individual Member as enumerated in the Chapter VIII titled "Risk Management" in these Regulations;

IV. Amendments or Cancellations, if any, reported by the Members shall be acted upon only if the resultant position also passes exposure check, failing which Clearing Corporation shall proceed with the original matched Trade.

**E) Exposure controls and Acceptance of Forward Trades for guaranteed Settlement**

1)

a) All eligible forward trades received directly from Members and/or Forex Dealing system shall be subject to checks for adequacy of margin for both counterparties to the trade on a trade by trade basis. This process is henceforth referred to as 'Exposure Check'. Trades which pass through exposure check shall be accepted for guaranteed settlement by the Clearing Corporation. Novation shall take effect as and when Clearing Corporation accepts trade for settlement.

Trades which fail to pass through exposure check shall remain in queue and be eligible for consideration on a FIFO basis. Exposure validation for such trades shall be performed on a continuous and ongoing basis until the end of S-3 day. If a trade fails to pass exposure check even at this stage, such a trade shall stand rejected.

Trades accepted for settlement shall be subject to risk exposure controls as set out in Chapter VIII of these regulations.

8) 'Inadequacy of Exposure Limit for Settlement through Forex settlement segment'

viii. Provided that if the rate at which the Allocatee member has bought US dollars as above is identified as an outlier by Clearing Corporation or the Allocatee Members do not notify any purchase of US dollars, INR/USD Cash rate as polled by Clearing Corporation at around 10:00 a.m. on S day shall be used as increased by an amount per USD as decided by Clearing Corporation in due consultation with the members and notified by Clearing Corporation from time to time ~~shall be used~~. The decision by Clearing Corporation in this regard would be final.

ix. The member whose USD sale positions are cash settled due to inadequacy of Exposure limits shall be liable to make good any amount as loss/shortfall arising out of cash settlement.

## **CHAPTER V: MARGINS**

### **A. MARGIN REQUIREMENTS**

6. Clearing Corporation shall also make margin call for possible margin shortfall towards Incremental MTM margin liability as described in clause (B) (2) below. On receipt of notice towards any such margin call, the member shall arrange to deposit additional amount in its SGF account not later than ~~12-30 PM of the next business day (by 11-30 AM if the next business day is a Saturday)~~, on the next working day before the time notified by Clearing Corporation, so that the balance in SGF account available as margin is adequate to cover its margin obligation in this segment (i.e. the margin requirement as percentage of margin available for this segment is below the Replenishment Level as described in Clause A(2) above).

### **C. SUSPENSION ON FAILURE TO PAY MARGIN**

Notwithstanding anything contained elsewhere in these Regulations:-

1.

- a) If a Member fails to replenish its margin obligation after it reaches the Rejection level as stipulated under Chapter V(A)(4), Clearing Corporation shall be entitled to temporarily suspend the Membership rights of such a Member as per the provisions set out in the chapter VIII (7) of the Bye-Laws;

## **CHAPTER VI: DEFAULTS**

### **A. DECLARATION OF DEFAULT**

A Member for the purpose of these regulations may be declared as a Defaulter in the event of:

- a) ~~If it fails~~ failure to replenish margin after its utilization has exceeded 100% of the balance in SGF and;
- b) the member's ~~is suspended~~ suspension in the Forex Settlement segment.
- c) The member's suspension in the Securities segment.

## B. DEFAULT HANDLING PROCEDURE

- 1 On the ~~defaulter~~ member's margin requirement exceeding the 100% of its SGF ~~the balance of a member in his SGF~~. Clearing Corporation shall be entitled to close-out such settlement date-wise net positions as it considers necessary, to bring the margin liability of the member within the required level.

### (D) DEFAULT OF CLEARING CORPORATION

1. In the event Clearing Corporation fails to fulfil any settlement related obligation to any non defaulting counterparty, even after the expiry of 30 (thirty) business days from the date of the payment / delivery falling due and an intimation being sent by the counterparty in this regard to Clearing Corporation or in the event of the license for Payment System having been cancelled and / or notice in relation to such cancellation being issued by the Reserve Bank of India, a non defaulting counterparty may, by notice in writing to the Clearing Corporation, seek the termination and close-out of its Outstanding Trades in this segment.
2. On receipt of a notice seeking termination and close-out in terms of clause D(1) above or as soon as reasonably practicable thereafter, Clearing Corporation shall, by notifying all members of this segment :(a) effect close-out of Outstanding Trades of such member or (b) close out all Outstanding Trades in the segment at its discretion.

Such close out shall be at a pre-determined price as may be notified by the Clearing Corporation from time to time and post such close out, Clearing Corporation shall determine the member-wise net mark-to-market loss or gain (as the case may be) in respect of the trades. The net mark to market loss or gain so arrived at shall constitute the termination amount for each member. The termination amount shall be settled by payment to the member, in case of member's gain, or by receipt from the member, in case of member's loss.

3. The termination amount shall be settled by the close of business on the business day following the day of termination or as soon as possible thereafter.
4. Before paying out any amount under this clause, Clearing Corporation shall have the right to recover therefrom any amount payable by the member to Clearing Corporation.
5. The close-out transactions shall be final and binding upon the members.



## **CHAPTER VII: DEFAULT FUND**

### **C. CONTRIBUTIONS**

- i) Each member shall deposit towards DF such sum as shall be notified by Clearing Corporation from time to time.
- ii) The member's contribution to the DF shall be determined with reference to the total size of the fund and shall be based on:
  - a. Gross value of positions across settlement dates
  - b. Initial Margin contribution by the member.

for the period since last re-computation of default fund contribution of the members with equal weight~~ages~~ assigned to each of (a) and (b).

Provided however that Clearing Corporation shall have the right to change the weight~~ages~~ assigned after due notification to the members.

- iii) The minimum contribution of a member shall be Rs.1 crore.

### **D. COMPOSITION**

- i) DF shall be formed with contributions from members in the form of cash and/or eligible Government Securities;  
Provided however that Clearing Corporation may specify ~~from time to time~~ after due notification minimum percentage of contribution in the form of cash;
- ii) Clearing Corporation shall ~~specify~~ notify the eligible securities which qualify for contribution to DF. ~~The list of securities eligible for such contribution shall be notified by Clearing Corporation from time to time.~~ Securities declared as ineligible for DF contribution shall not be reckoned as DF contribution of such member from the effective date of such ineligibility;
- iii) Clearing Corporation may notify from time to time the maximum amount of a single security or group of securities that a member may deposit by way of contribution to DF;
- iv) A member shall at all times ensure that its contributions to DF are adequate to cover its share as per Para C above;
- v) Cash contributions to DF shall be in multiples of Rs.25 lacs or such other amount as may be prescribed by Clearing Corporation;
- vi) Members shall arrange to deposit their contributions to DF as per the DF Work Flow Process notified by Clearing Corporation from time to time.

Unless otherwise notified to the contrary the work-flow for contribution to the Default Fund shall be the same as the SGF work flow process notified by

Clearing Corporation from time to time in terms of Chapter III (F) of the Securities Segment Regulations.

#### **F. RECEIPTS AND DELIVERIES OF MEMBERS CONTRIBUTION TO DF:**

- i) The contribution of members to the DF shall be recomputed at the end of each quarter or at such intervals as specified in Para 'B' above;
- ii) A member shall be required to contribute to DF upon demand notice received from Clearing Corporation. Such deposits shall be payable within a maximum period of seven working days or such other number of days as may be notified by Clearing Corporation from time to time from the date of such demand;
- iii) Members shall be entitled to receive credit for deposits of securities into DF upon receipt of confirmation from Reserve Bank of India (RBI) that the securities have been credited into the Constituent SGL account of Clearing Corporation;
- iv) Members shall be entitled to receive credits for their cash deposits into DF upon receipt of confirmation from RBI of credits into the Current account of Clearing Corporation. ~~The impact of such credits in the members' DF shall be reckoned when credit intimation is received from RBI;~~

#### **H. VALUATION OF SECURITIES IN DF**

- iii) Clearing Corporation shall notify, from time to time required haircuts on the respective market values as per rates prescribed for the eligible securities from time to time;
- iv) Member's contributions to DF shall be subjected to a valuation exercise at every instance of securities deposit and/or withdrawal from its DF or at the end of the business day at the relevant mark to market prices;
- v) Members shall be required to contribute such additional sums to the DF as may be necessary if the value of the securities net of haircuts falls below a threshold level that is notified by Clearing Corporation from time to time.

#### **I. UTILISATION**

- i) As per Chapter VI(B) relating to Defaults, when a member is declared defaulter upon failing to pay the required margins, Clearing Corporation may close out the net positions of the defaulting members. The loss if any, arising out of such close-out shall be met by Clearing Corporation by recourse to funds in the following order:
  - a) first, by appropriation of the margin contribution of the defaulting member;
  - b) next, by applying set-off from defaulter's own contribution to DF.

Provided if the contribution to DF has been made in the form of securities by the defaulter and the securities are required to be sold for appropriation, Clearing Corporation may offer such securities for sale first to the non-defaulting members of the segment. Based on the quotes received from such members, Clearing Corporation may offer the security to the highest bidder and such sale shall be binding on members. If no quotes are received, Clearing Corporation may sell such securities in the market through private arrangement. The price at which such security/securities is/are sold will be binding on the member.

- c) next, by payment from Clearing Corporation's Settlement Reserve Account, an amount upto a maximum of 25% of the balance available in the account at the time of such appropriation **and;**
- d) and last, by allocation of the residual loss to the DF accounts of other members in proportion to their required contributions to the DF at the time of handling such default.

The amount allocated to the non-defaulting members shall be recovered from such members in the form of cash contribution, or by sale of securities contributed by such members to the Default Fund after due notice. The price at which such security/securities is/are sold will be binding on the members.

- (iv) The action of Clearing Corporation as per the above process shall be final and binding on all members.

The above course of action shall be without prejudice to any other rights of Clearing Corporation against the defaulter.

## **J. REPLENISHMENT**

- iv) In the event of failure of a member to contribute to DF within the time period specified as per J(ii) above, Clearing Corporation shall be entitled to de-bar such member from participation in this segment and shall further be entitled to close-out the positions of the member following the process as laid out in Chapter VI (B) of these regulations

## **CHAPTER VIII: RISK MANAGEMENT**

### **A) SCOPE**

1. This Chapter outlines the risk management policy of Clearing Corporation for its Forex Forward Segment. Clearing Corporation may after due notification, modify its ~~policies~~ practices relating to risk containment measures from time to time.
2. Clearing Corporation shall cover its risk through prescription of initial margin (including spread margin), mark to market margin, volatility margin and Concentration margin;
3. The risk exposure on the outstanding trades of the Members shall be computed based on Portfolio Value at Risk supplemented by recovery of additional amount as spread margin. Marking to market of outstanding trades shall also be carried out to capture risks from notional loss in the outstanding trade portfolios of the Members;
4. Clearing Corporation, after due notification, may set different margins for different Members, based on the ratings/gradings assigned to the Members on the basis of certain financial parameters including Net Worth, asset quality etc. as considered necessary by Clearing Corporation from time to time.
5. Clearing Corporation may, after due notification, set prudential limit for each member in terms of its aggregate outstanding trade exposure of the member (in terms of total volume of outstanding trades or otherwise, as may be decided by Clearing Corporation from time to time). Such limit may be set by Clearing Corporation based on the member's nature of business, net worth or such other factors as may be considered appropriate by Clearing Corporation. In the event of any member exceeding such limit Clearing Corporation may set higher margin in the form of concentration margin for the member in respect of trades which are in excess of such limits.

## **CHAPTER IX: NOTICES**

- 3) Clearing Corporation shall, duly notify from time to time the mode and manner of delivery/receipt of notice to/from its Members.

## **CHAPTER XII: PORTFOLIO COMPRESSION**

- 1) Clearing Corporation may, after due notification to members, run portfolio compression exercise, referred hereinafter as PC Exercise, for forward Foreign Exchange (rupee/US Dollar) trades of Forex Forward Segment.
- 2) Portfolio Compression is a process that facilitates a reduction in outstanding trade count and outstanding gross notional amount by fully or partially terminating redundant trades.
- 3) Every member of Forex Forwards Segment who is desirous of availing the PC services for its outstanding Forward rupee/US Dollar trades shall submit an application in this regard in the prescribed format to Clearing Corporation and comply with all necessary formalities as prescribed from time to time for availing the service.
- 4) The applicant, on completion of all formalities will be granted permission to participate in this exercise whenever it is conducted by CCIL.
- 5) The outcome of the PC exercise will be a set of proposals for full or partial terminations of trades for each participant, which, if effected, would reduce the number of outstanding Forward Rupee / US Dollar trades of the participants' portfolios and/or the US Dollar value of the participants' portfolios while ensuring that their risk profiles remain within the defined tolerances provided by them. It involves the execution of a mathematical algorithm to arrive at the optimum solution.
- 6) The process to be followed for the PC Exercise will be as notified from time to time by Clearing Corporation.
- 7) Clearing Corporation may specify the time schedule for the reporting of Trades by Members to Clearing Corporation as also for various other activities incidental to the PC exercise.
- 8) The settlement of cash flows arising out of the portfolio compression exercise will be carried out either as part of the daily Rupee settlement carried out by Clearing Corporation in the Forex segment or through separate settlement process as notified by clearing

corporation. If settlement is carried out as part of daily Rupee settlement carried out by Clearing Corporation, members with net rupee payables on account of compression will be required to pre-fund the same i.e. they have to credit CCIL's Settlement Account at RBI with the amount payable after which the settlement will be carried out in the normal course by combining the net rupee receivable amount of the participating members from portfolio compression with the settlement of daily cash flows.

- 9) After it has received all amounts receivable from the participating members, Clearing Corporation shall declare the PC Exercise as completed and assume liability for the settlement of amounts arising out of early termination of these trades.
- 10) Clearing Corporation may, at its absolute discretion, decide to call off PC exercise if it so warrants at any time if, in its sole opinion, no feasible solution is possible or if any one or more of the other participating members seek to withdraw from the exercise or for any reason beyond the control of Clearing Corporation including regulatory or legal injunction or order or due to any Force Majeure event.
- 11) The charges applicable for this service will be as notified by Clearing Corporation from time to time.