



THE CLEARING CORPORATION OF INDIA LTD.

5th, 6th & 7th Floor, Trade World, C Wing , Kamala City,
Lower Parel (West), Mumbai – 400 013

NOTIFICATION

**This has been superseded by Notification No.CCIL/FX-FF/09/19
dated 05-Nov-2009 on Guaranteed settlement of Forex Forward
trades from the trade**

Date: September 25, 2008.

Notification No.: CCIL/FXS-FF/08/30

To

Member Banks

Dear Sir/Madam,

Re: Guaranteed settlement of Forex Forward trades from the trade date.

We propose to commence settlement of forex forward trades with guarantee from the trade date from 20th October, 2008. In this regard, we enclose herewith a process flow of the operations of the Forex Forward segment detailing the scope of the product. Mock simulations are being run from September 1, 2008 to enable banks to have a clear idea about the processes and the margining required.

Banks who are interested in joining the Forex Forward segment are requested to submit the Membership Application form for activation in this segment.

With the notification of the Payment and Settlement Systems Act, 2007, giving legal recognition to netting, we expect to soon receive clarification from RBI on exposure and capital requirements, with regard to positions arising out of forex forward transactions accepted by CCIL for guaranteed settlement. Pending clarification from RBI on exposure and capital provisioning, the charges for guaranteed settlement in the Forex Forward segment are being *waived*.

Thanking you,

Yours faithfully,
for The Clearing Corporation of India Ltd,

sd/-
Managing Director

Encl: a/a



Write up on the Fx Forwards Segment

Introduction:

Currently, CCIL settles INR/USD forward trades of its members by extending guarantee to these deals after they enter the spot window. Risk management of such trades involves ensuring that the net position of the member is within the exposure limit assigned after the trade enters the spot window.

With the introduction of the Forex Forwards Segment, CCIL will extend guarantee to eligible forward trades from the trade date.

Eligibility:

Membership: Members of the forex segment, desirous of availing the facility of guaranteed settlement from trade date, will need to take separate membership for this segment. The terms of guarantee and the processes would be governed by CCIL's By-laws, Rules, and Regulations governing the segment.

Trades: Forward trades with residual maturity up to 13 months would qualify for settlement under the segment. Trades with maturity of more than 13 months would be taken up for guaranteed settlement when the residual maturity comes down to 13 months. Members will have to indicate the effective date of commencement of settlement of forward trades through CCIL. The default Value date of CCIL system will be T+4.

Collateral: Collateral contributions for this segment will be sourced from member contributions to the Securities Segment, i.e., cash (INR) and/or eligible Government of India securities. Hence, members will have to necessarily be members of the Securities segment. Further members, will have to sign a Power of Attorney authorizing CCIL to access the SGF of the Securities segment.

Margins:

CCIL shall cover its risk through prescription of initial margin (including spread margin), mark to market margin and volatility margin.

Initial Margin: The initial margin obligation of each member in respect of its outstanding trades shall be computed based on the Portfolio Value at Risk (VaR) for settlement date-wise net USD buy or sale positions arising out of such trades.

Initial Margin shall also include as additional amount towards *Spread Margin* in order to effect a partial disallowance of the full offset between net USD Buy and net USD Sale positions provided through portfolio margining.

Mark to Market Margin: Settlement date-wise net USD positions of members shall be revalued at the end of the day using the Mark-to-Market exchange rates. Settlement date-wise net profits/losses shall be discounted to the date of computation and aggregated member-wise. If the above computation shows net MTM loss at an aggregate level, such amount shall be collected as MTM margin from such member. Any aggregate profit shall be ignored.

Volatility Margins: It would be imposed in case of sudden unusual volatility in the market and would be computed as percentage of initial margin.

Process:

- a) Trades in the form of IFN300 would continue to be reported through the FDR utility over the INFINET network and will be subjected to the existing system and business validation checks. On validation and matching, the eligible trades will be subject to exposure checks for the Forex Forward segment. Margin adequacy would be checked for both the counterparties and in case there are adequate margins in both accounts, the trade would be taken for guaranteed settlement. Trades once “accepted” by CCIL will not be rejected. Trades that do not pass the exposure check would be rejected in the Forex Forward Segment on S-3 day.
- b) On S-2, net position of each member will be computed for trades accepted for guaranteed settlement and will be forwarded to the USD-INR segment and would be subjected to exposure check as applicable for the segment. The netted position shall be accepted for settlement to the extent it passes the exposure check in USD-INR segment.
- c) Such portion of the net US Dollar sale position of a member that fails to pass the exposure check in the USD-INR segment on S-2 day will remain pending, in queue. Subsequent Buy trades (Spot, Tom & Cash Trades) reported by the member would help to reduce the pending exposure amount.

- d) If, after the Early morning batch on Settlement day, the Member that has breached its limit continues to have forward position pending acceptance, swap trades would be generated by CCIL for such pending amount. For initiating swap trades, CCIL will select as counterparties the top 10 bilateral counterparties of the member in breach of exposure limit and the value of trades will be determined in relation to the amount to be allocated and the bilateral gross positions. The first trade will have the member in breach as the buyer and the counterparty as the seller with the status of the deal as “passed exposure” and the second trade will have the former as the seller and the counterparty as the buyer with the trade status as “matched”. The exchange rate will be the current day’s CCIL polled cash rate.
- e) If there is still a residual position in excess of the Exposure Limit after undertaking a swap then the balance will be cash settled. For cash allocation, choice of allocate members would be based on their net US Dollar buy position on S-2 day from forward trades for the settlement day under consideration. Top 10 Members having the largest Buy position would be selected. On S-1 day, a notice of Cash Allocation to Member (s) whose limit has been breached and to those members to whom such Cash allocation may be made, if the member that has breached its exposure does not cover by S day Early Morning Batch, is issued . The amount allocated to each such member would be in relation to the amount to be allocated and the net buy position of such member.
- f) The trades created after Cash Allocation would have CCIL as the counterparty. The rate to be used for such cash settlement would be the CCIL polled cash rates plus 0.01 paise compensation for Cash Allocation. The members to whom such Cash Allocation has been done can report cover trades to CCIL before the Cut-off Batch on S day and inform CCIL of the rate at which the cover deal has been done . CCIL would change the exchange rate of the Cash allocated trade to the exchange rate as indicated by the member plus a compensation of 0.01 paise would be added to the above trade.

Additional Reports that would be available to members in pdf & csv format are as under :-

- 1) Net Position Entering Spot window:- Would indicate all trades that have been netted and have been taken into USD/INR segment on S-2 day
- 2) Batch Trades Report :- Indicates status of all forward trades reported by the member for that trade date.
- 3) EOD Trade Status report :- Indicates the trade status of the entire portfolio of the member as on that date.
- 4) Notice of Cash Allocation:- Both to the Allocator & Allocatee on S-1 day
- 5) Provisional SWAP/Cash Allocation Report:- Both to the Allocator & Allocatee on S day after IOSWAP /Cash Allocation.
- 6) Final Cash Allocation Report:- This report will be generated when members reports a cover trade.

We have commenced mock testing . Members interested in participating in the same, may please contact us at:

Phone nos: 66639301 to 314

Email address: frx@ccilindia.co.in