



**NOTIFICATION**

**CLS Segment**

Date: September 28, 2018

Notification No.: CCIL/FXS-CLS/18/96

To,

**Member Banks**

Dear Sir,

**Loss Mutualisation on Settlement Bank Failure -Methodology**

1. CCIL currently avails the services of UBS Switzerland AG as Settlement Bank for settlement of cross currency transactions in the CLS segment and CCIL maintains currency accounts in CLS eligible currencies with UBS Switzerland AG, Zurich.
2. There is a possibility, though remote, of a Settlement Bank failing or becoming ineligible to effect settlement for reasons like financial deficiency, legal incapacity, regulatory action etc. immediately after transfer of balances from the account of the member having pay in (pending receivable) obligation to (from) Clearing Corporation's Settlement Account.
3. In terms of Chapter VII (F) of the CLS Segment Regulations, in the event of failure of the Settlement Bank, losses if any shall be allocated to the participating members in the segment.
4. An amount of INR 10 crores has been earmarked toward absorption of loss (Skin in the Game) on account of Settlement Bank failure for CLS Segment by Clearing Corporation.
5. The losses shall be allocated to the members as per the following methodology:

**Scenario I - Settlement Bank fails before the start of CLS settlement window (7:00 to 12:00 CET) and there is Intraday accumulation of funds in CCIL's account with Settlement Bank**

- a. As the Settlement Bank fails, settlement of all trades with the Settlement Bank would be suspended and trades would not be settled in CLS. Members would have to settle these trades bilaterally outside CLS system for the settlement day.
- b. As some cash flows typically in Asia Pacific currencies may have already taken place, the actual loss would be the netted USD equivalent value of currency balances in the Settlement Bank account.
- c. The loss crystallized would be USD equivalent of sum of all positive and negative balances in CLS currencies, consequent upon Settlement Bank failure.
- d. The losses after adjustment of CCIL skin in the game would be allocated to all participating Members in ratio of gross volume (USD equivalent)\* for the settlement day.
- e. Allocation to a Member = Net loss (in USD terms) after adjusting for CCIL skin in the game \* [Gross volume of the member /Total Gross volume of all members]

**Scenario II- Settlement Bank fails after the start of CLS settlement window (7:00 to 12:00 CET) and there is Intraday accumulation of funds in CCIL's account with Settlement Bank**

- a. The loss crystallized would be USD equivalent of sum of all positive and negative balances in the Settlement Bank account in CLS currencies consequent upon Settlement Bank failure.
  - b. The losses would be allocated to members having pending receivable positions on the day of default in the ratio of pending receivable amounts to total pending receivable amount after adjusting for CCIL skin in the game.
  - c. Allocation to a Member = Net Loss (in USD terms) after adjusting for CCIL skin in the game \* [Receivable position of Member / Total pending receivable position of all Members]
6. Loss of any prefunded amount lying to the credit of Settlement Bank account due to Settlement Bank failure would be fully allocated to the Member from whom the prefunded amounts were received.
  7. Members would continue to be liable to pay in their pending payable obligations to CCIL in a mode and manner as prescribed by Clearing Corporation.

Thanking you,

Yours faithfully,

**for The Clearing Corporation of India Limited**

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**Managing Director**