



THE CLEARING CORPORATION OF INDIA LTD

Risk Management Department

No. RMD/SS/21/37

30th Nov'21

FOR INFORMATION OF ALL MEMBERS

Securities Segment

Enhancements to the approach followed for computation of Margin Factor / Hair Cut rates

As per the provisions of Chapter VIII of Securities segment regulations, Clearing Corporation may from time to time take steps to improve upon its risk containment measures in place in this Segment. In this regard, we invite your attention to our Notification No. RMD/SS/21/22 dated 24-May-21 which details the approach followed for computation of Margin Factor / Hair Cut rates in this segment. Members are advised to take note of the change in the Margin Period of Risk (MPOR) which is one of the parameters used in the model for computation of Value at Risk (VaR) based margin factors and haircut rates. Accordingly, the afore-mentioned notification stands revised as below with the change **underlined** therein.

2. In terms of the above provision and further to our Notification No. RMD/SS/16/58 dated 1st Nov'16 and Notification No. RMD/SS/18/75 dated 21st Aug'18, it has been decided to bring about the under-noted changes and revision in the values of some of the parameters used in the model for computation of Value at Risk (VaR) based margin factors and haircut rates so as to reduce likelihood of pro-cyclicality.

- i. The volatility component introduced in the Value at Risk computations vide Notification No RMD/SS/16/58 stands withdrawn.
- ii. The floor (minimum value) for 1 day VaR for securities in a tenor bucket shall be recalibrated to 95th percentile 1 day VaR values. If the VaR of the security is less



than the floor value applicable for the security in particular tenor bucket then the floor value will be retained as the 'applicable VaR'.

- iii. The process followed to arrive at the floor shall be as under:
- a) All securities will be divided into tenor-wise buckets based on residual maturity. Each tenor bucket will be divided into two categories -
 - 1) Category I - GOI Securities & T-Bills (Excluding Special Bonds)
 - 2) Category II - STRIPS
 - b) The tenor buckets will be 0-3 Months, 3M – 6M, 6M - 1 year, 1-3 years, 3-5 years, 5-10 years, 10-15 years, 15-20 years, 20-30 years and above 30 years.
 - c) The floor (minimum value) for 1 day VAR for securities in a tenor bucket will be set at 95th percentile VaR for the bucket in the 10 years preceding the date of the fortnightly revision of margin factors.
 - d) The floor (minimum value) as computed above for category I will be applicable to *all* securities (Central Government Securities, Treasury Bills and State Government Securities) falling in respective tenor buckets, except STRIPS. The floor values for STRIPS will be calculated separately under Category II.

3. As per the existing practice, the applicable margin factors for semi-liquid and illiquid securities shall be arrived at after applying the specified step-up factors. Further, as per the extant process, the margin factors for liquid and semi-liquid securities in "When Issued" market will continue to be stepped up by specified factor(50% at present) during the period of When Issued" trading An addition of 0.25% towards coupon accrual for all securities would continue to be applied to the VaR figures.

4. The Margin Period of Risk (MPOR) for security wise margin factors applicable for outright & market repo trades *and* for hair cut rates applicable for the securities eligible for contribution towards Securities Segment SGF shall be 3 5 days. The MPOR for the hair cut rates applicable for the securities eligible for contribution towards Triparty Repo collaterals and securities eligible for contribution towards Default Funds shall continue to be 5 days (all haircut rates are rounded up to the next integers). Haircuts on collateral



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deposited towards borrowing under Triparty repo and securities contributed for Default Funds will continue to be stepped up by using illiquidity multiplicands.

The above revision shall be effective from 03rd Jan'22.

Yours faithfully,

For The Clearing Corporation of India Ltd.,

Sd/-

Managing Director