

**This has been superseded by Notification No. CCIL/DRV/IRS/1123/ 53
dated 1st Nov 2023.**

Derivatives Department -Rupee Derivatives (Guaranteed Settlement)

Date: 18th March, 2014

Notification No.: CCIL/DRV/IRS/14/11

To

All Members

Rupee Derivatives Segment

Dear Sir/Madam,

We are pleased to advise that Reserve Bank of India (RBI) has accorded its approval for commencement of clearing and settlement of OTC trades in Interest Rate Swaps (IRS) and Forward Rate Agreement (FRA) on guaranteed basis. Accordingly, CCIL proposes to commence shortly the guaranteed settlement of trades in IRS and FRA referenced to MIBOR and MIOIS benchmarks. The date of commencement of guaranteed settlement will be communicated to members separately.

Members who are interested in joining the Rupee Derivatives - Guaranteed Settlement are requested to contact our Membership Department at 6154 6552/3 for completing the documentation formalities. The Regulations are placed on CCIL's website (under the Membership Directory) for information to members. A brief write-up on the features and process flow for guaranteed settlement in terms of the Regulations is enclosed herewith for your ready reference. Members may please note that Clearing Corporation of India Ltd (CCIL) has been granted QCCP status by the Reserve Bank of India and members are requested to refer to RBI Notification DBOD.No.BP.BC.28 /21.06.201/2013-14 dated July 02, 2013 for capital requirement in respect of trade exposure and collaterals on QCCP and such other notifications issued by RBI from time to time.

Yours faithfully,

for The Clearing Corporation of India Ltd

sd/-

Managing Director.

Encl: a/a

Guaranteed Settlement for Rupee Interest Rate Swaps
and Forward Rate Agreements

1. Introduction:

CCIL has been facilitating reporting of Rupee denominated Interbank Interest Rate Swaps (IRS) and Forward Rate Agreements (FRA) since August 2007. Thereafter, as announced by RBI on 24th October, 2008 in its Mid-term Review of Annual Policy for the year 2008-09, CCIL commenced non-guaranteed settlement of OTC trades in Rupee Derivatives Segment from 27th November, 2008.

CCIL now proposes to extend guaranteed settlement to IRS and FRA trades which would require exposure monitoring of the trades and only trades that pass the exposure check will be taken up for guaranteed settlement. The trades will be multilaterally netted and settled.

2. Membership:

All Market Makers i.e. Banks and Primary Dealers admitted as Members of Rupee Derivatives Trade Reporting Platform who are also Members of Securities Settlement Segment of CCIL are eligible to participate in the guaranteed settlement subject to completion of documentation formalities. The terms of guarantee and the processes would be governed by CCIL's Bye-laws, Rules and Regulations of the segment.

3. Eligible Trades:

All trades referenced to the MIBOR and MIOIS benchmarks shall be eligible for guaranteed settlement. The product features shall be as per guidelines issued by FIMMDA from time to time. The parameters for such trades are as follows:

- a) Tenor: Trades with original maturities ranging from 1 month to 10 years
- b) Benchmark Rate: MIBOR and MIOIS

4. Trade Reporting/Acceptance/Rejection Criteria:

- a) A trade should be reported by at least 1 day before the cash flow date;
- b) A trade will be rejected if :
 - it is lying unmatched for 10 days from the date of reporting;
 - it remains pending acceptance for 180 days from the date of matching;
 - it has not passed exposure for 2 days before the forthcoming coupon payment date of the

concerned trade;

- the trade is cancelled but the cancelled trade remains pending exposure till two working days before the forthcoming coupon payment date of the concerned trade;
- the trade is reversed but the reversal trade is pending exposure till one day before the cash flow date / reversal settlement date whichever is earlier;
- the difference between current business date and Reversal trade date is more than 10 days; • the difference between current business date and Reversal settlement date is more than 2 days.

5. Reports:

The following reports shall be made available to members availing services of guaranteed settlement :

- a) Funds Settlement Obligation Report
- b) EOD Trade Status Report for Derivatives
- c) Matched Deals Report d) Alleged Deals Report
- e) Dates Mismatch Report f) Unmatched and Rejected Deals Report for Derivatives
- g) Interest Reset Report
- h) Report on change in cash flow dates
- i) Status updation of deals/trades csv (IRS) j) Status updation of deals/trades csv (FRA)
- k) Alleged Deals pending till previous day csv (IRS)
- l) Alleged Deals pending till previous day csv (FRA)
- m) Alleged deals for the day csv (IRS)
- n) Alleged deals for the day csv (FRA)
- o) Unmatched deals pending till previous day csv (IRS)
- p) Unmatched deals pending till previous day csv (FRA)
- q) Funds Settlement Status Report for the day
- r) Derivatives Reversal Trade Report
- s) Derivatives Funds Shortage Report (if applicable)
- t) Derivatives Replenishment of Funds Shortage Report (if applicable)
- u) Derivatives Batch Trade Status Report

- v) Intra day Funds Shortage and Replenishment Report for the day (if applicable)
- w) Margin Call Report
- x) Obligation withhold Report on account of Margin
- y) Release of INR withhold after replenishment of Margin Shortfall
- z) Intra-day MTM report
- aa) Batch Margin Position Report
- bb) EOD Margin Position Report
- cc) Margin Shortfall after debit of Incremental MTM Margin

6. Time Schedule for Settlement of CashFlows:

CCIL will carry out the guaranteed settlement of cashflows in respect of IRS and FRA trades between 11.00 a.m and 12 noon (Monday to Friday) through Core Banking System (eKuber).

7. Collateral:

Collateral contributions for this segment will be sourced from member contributions to the Securities Segment (Cash in INR and eligible Government of India Securities in the ratio of 5:95). Accordingly, the member will have to execute a Power of Attorney authorizing CCIL to access the SGF of the Securities Segment.

8. Margins:

a. Initial Margin:

The initial margin obligation of a member in respect of its outstanding Trades shall be computed based on the Portfolio Value at Risk (VaR) for all outstanding IRS and FRA contracts.

Initial Margin shall also include an additional component known as Spread Margin in order to effect a partial disallowance of full offsets provided through computation of Portfolio VaR.

b. Mark to Market Margin:

Members shall be liable to maintain mark to market margin on a daily basis in respect of adverse positions on its outstanding trades. MTM profits or losses for all trades of a Member based on a benchmark shall be aggregated. For any net loss, member shall be required to provide MTM margin of such amount. Apart from at end of day, MTM margins will also be computed on intra-day basis. If

aggregate MTM value of a member shows MTM gain, then the member's margin account will be credited with the MTM gain amount.

In addition to the Initial Margin and Mark-to-Market Margin, there would be Volatility Margin and Concentration Margin applicable for guaranteed settlement.

c. Default Fund:

A Default Fund shall be constituted to meet the likely consequence of default in a stress test. The size of the default fund shall be determined at the end of each month. The minimum contribution of a Member shall be Rs 1 crore. Cash contributions to the default fund shall be in multiples of Rs 25 lakhs.

The securities contributions and withdrawals to and from Default Fund shall be processed through our CSGL Account No.52609200001 (SG020044) which has been used for SGF of Securities Segment and the Default Fund of Forex Forwards Segment.

The details of margin and default methodology and implementation of the same will be communicated separately by Risk Management Department.
