Risk Management Department

This has been Superseded by Notification No. RMD DRV-21-40 dated 30-Dec-2021 on Margining and Risk Processes for Rupee IRS Segment

No. RMD/DRV/14/06 **12th Mar'14**

FOR INFORMATION OF ALL MEMBERS

Rupee Derivatives Segment
Risk Management Processes

Further to our Notification No RMD/DRVT/11/## dated 06th Mar'14 detailing the process to be adopted for computation of Initial Margin and Mark to Market Margin for this segment, the process for exposure check and imposition of margin is detailed below:

A. Composition of Settlement Guarantee Fund

[Reference Chapter III of the Regulations]

There will be no separate Settlement Guarantee Fund for the Rupee Derivatives Segment. Instead, as stated in Chapter III (A)(2) of the Regulations, a Member of this segment shall authorize Clearing Corporation to consider the unutilized portion of the SGF tendered by such Member for Securities Segment, towards SGF for the Rupee Derivatives Segment. The portion of unutilized SGF so identified shall be subject to such provisions of Securities Segment Regulations as notified by Clearing Corporation from time to time

B. **Frequency of exposure check**

[Reference Chapter IV(G)(1) of the Regulations].

Eligible Interest Rate Swap trades are subjected to check for adequacy of margins for both the counterparties to the trade on a trade by trade basis. Till further notification, the 'Exposure Check' process is proposed to be carried out once a day at the End of the Day.

C. Replenishment Level and Rejection Level

[Reference Chapter VI(A) para (2) and (3) of the Regulations].

Clearing Corporation shall make a margin call to the member when the margin utilisation exceeds 90% of the margin made available for this segment. (i.e. if the available SGF is lower than the amount of Total Margin x 100 / 90). Moreover, Clearing Corporation will stop acceptance of further trades if such trades will cause the margin utilisation to exceed 95% of the margin made available for this segment.

D. **Incremental MTM Margin**

[Reference Chapter VI (B)(2) of the Regulations]

The amount of Incremental MTM margin will become payable at 11-00 A.M. of the next business day (by 10-30 A.M. if the next business day happens to be a Saturday). Hence members may be required to deposit additional amount in their SGF by this time so as to ensure that the balance in SGF is adequate to cover the margin obligation.

E. Volatility Margin and Intra-day MTM Margin

[Reference Chapter VI(B)(3) of the Regulations]

1. In case of sudden increase in volatility in exchange and/or interest rates, Volatility Margin will be imposed by Clearing Corporation at a rate notified by Clearing Corporation at the time of its imposition.
2. Volatility Margin, if applicable, will be imposed immediately after notifying to the members. Imposition of Volatility Margin may result in margin shortfall in the accounts of the members if available SGF balance is inadequate to cover the increased margin requirements. It would be the responsibility of the member to

replenish the shortfall at the earliest. Penal charges will be levied if shortfall is not replenished within one hour from the time of imposition

3. Irrespective of whether Volatility Margin is imposed or not, on any day of high volatility, if loss in portfolio value of a member is higher than 50% of Initial Margin collected, such loss may also be collected by Clearing Corporation as MTM margin on intraday basis. Members will be notified one hour before such imposition of additional MTM margin.
4. If the additional MTM margin collected as above results in a margin shortfall, margin call will be made and the member will be required to deposit margin immediately. In case of such margin shortfall, penal charges will be levied as applicable.

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