



Risk Management Department

**This has been Superseded by Notification No.
RMD_DRVT-20_77&78 dated 31-Dec-2020 on Default Handling
for MIBOR/MIOIS Benchmark and MIFOR Benchmark**

No. RMD/ DRV/14/07

12th Mar'14

FOR INFORMATION OF ALL MEMBERS

Rupee Derivatives Segment Default Handling

In terms of Chapter VII(B) of the Regulations of the Rupee Derivatives' Segment, in the event of a member's margin requirement exceeding 100% of the margin made available for this segment, Clearing Corporation may bring the margin liability of the member within the required level by closing out such IRS and/or FRA trades of the member as it considers necessary.

2. To achieve this, the under-mentioned process will be adopted:

- i) Identification of the trades to be reversed: The portfolio of outstanding trades of the defaulter member in this segment will be summarised into benchmark-wise, duration-wise groups and the contribution of each such group to the Initial Margin will be calculated. The trades to be closed out would be those which would bring down the total margin requirement of the defaulter member within / closer to the margin made available by it.
- ii) For identification purpose, as far as possible, priority is given to the duration-wise group of trades the close out of which will contribute higher amounts towards the reduction of Initial Margin of the defaulting member's portfolio.
- iii) Trades of the Defaulter Member will be closed out on a trade by trade basis with the original counter-parties to the trade.
- iv) While effecting the close out as above, CCIL will endeavour to avoid any margin shortfall post close out, in the accounts of the counter-parties to the defaulter member. For this purpose, CCIL may change the priority of such identification of trades to be closed out.



- v) The close out of the trades shall be effected at Clearing Corporation's MTM Swap rates for the respective benchmark as at the end of the day of close out. However, if the end of the MTM rates are not available at the time of default handling, the MTM rates as at the end of previous day or such other rates as may be considered appropriate by Clearing Corporation shall be the basis for such close out. Use of any such rate / rates will however be communicated by CCIL to its members in this segment with the reason for such deviation.
- vi) In case of insolvency of a member or declaration of a member as a Defaulter etc., a decision may be taken by the Clearing Corporation to close out all outstanding trades of the member in the Rupee Derivatives segment.

3. Margin held back for default:

- i) An amount equal to the negative Mark to Market value of each such trade that is closed out is identified as the amount to be paid (or received if MTM value is positive) by the defaulter member. MTM values of all trades which are closed out are summed up and the net amount, if payable, is treated as Margin Payable and shown as Margin held back for default. If the net amount is receivable, the amount will be shown as a credit to Margin held back for default (negative value).
- ii) This amount of 'Margin held back for default' will be reflected in the accounts of both the defaulter as well as its counter-parties. In terms of Clause (B) 6 of Chapter VII of the Clearing Corporation's Regulations for this segment, Members having payable amount will have to make SGF available in cash to enable CCIL to recover this amount. The cut off time for such deposit will be 12.30 P.M. of the next business day. In terms of Clause (B) 8, if the close out carried out results in a surplus (i.e. members have receivable amounts), such member will be entitled to receive the amount from Clearing Corporation. Till the amount is paid out, such amount will be treated as margin made available by the member for meeting margin requirements for this segment.



4. Impact on outstanding trade portfolios of the members:

In case of close-out in terms of para 2 above, the original as well as the reversal trades will be removed from the outstanding trades portfolio of both the defaulter member as well as its counter-parties. It may be taken note of that the mark to market value arrived at at the time of close-out remains unchanged till the amount is received or paid out i.e. there is no re-computation of MTM loss / gain which resulted in the margin blocked for default.

5. Reports to Members:

a) Reversal Trades Report: Both the defaulter member and their counterparties who become parties to the close out will be provided with the Reversal Trade Report giving detailed information on the amount payable / receivable for each such trade.

b) EOD Margin Report: The EOD Margin position Report of the affected members will be updated with values of all margins including margin held back for default.

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