

Risk Management Department

**This has been Superseded by Notification No. RMD/
DRV/21/30 dated 01-Sep-2021 on Default Fund & Stress test
Methodology (revised and updated)**

No. RMD/DRV/14/09

12th Mar'14

FOR INFORMATION OF ALL MEMBERS

Derivatives Segment Stress Test Methodology for Default Fund

In terms of the provisions of Chapter IX of the Regulations of the Derivatives Segment, it has been decided that Clearing Corporation shall maintain a dedicated Default Fund in respect of its Derivatives Segment.

2. As stated in Clause B therein, the size of the fund will be determined by the Clearing Corporation on the basis of Stress Tests conducted by it. The methodology to be followed for carrying out such stress test will be as under:

- i. Plausible extreme movement in the Swap rates for each of the standard tenors will be arrived at and will be inflated further by 50%. Swap rates of standard tenors for the period up to 10 years will be considered for this purpose.
- ii. Impact of such a change (both upward & downward movement of such magnitude) on the outstanding IRS/FRA trades portfolios of the as at the end of the day of Stress Testing will be computed by revaluing such positions with the stressed Swap rates. Margins available in the accounts of the members will be reduced from the estimated possible losses on their accounts.
- iii. Based on this analysis, impact of possible default by a member on whom CCIL would have highest exposure will be arrived at. This amount will be taken as a component for arriving at the corpus for the Default Fund.
- iv. It is also presumed that under such a stress event, if there is a default by a large market player, upto maximum of 5 entities having Short Term Credit Rating of 5 or below may also fail to honour their obligations (termed as Knock out Effect). Hence, possible losses from 5 such entities of Short Term Credit Rating of 5 or below under such scenario will also be taken as another component of the required corpus of the Default Fund.

- v. Stress Test will be carried out on a daily basis by taking outstanding IRS/FRA trade portfolios of the members. The monthly re-computation of the Default Fund will be based on the highest stress loss observed during the previous calendar month.

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