



## 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**This has been Superseded by Notification No. RMD/  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/ 17/21

28-Jun-2017

FOR INFORMATION OF ALL MEMBERS

### **Rupee IRS Derivatives Segment Stress Test Methodology for Default Fund**

1. In terms of the provisions of chapter IX, “Default Fund” of the regulations of the Rupee Derivatives Segment, the Clearing Corporation maintains a dedicated default fund for Rupee Derivatives Segment. As stated in clause B therein, the size of this fund is determined by the Clearing Corporation on the basis of daily Stress Test results.
2. Stress Test methodology is detailed in our notification no. [RMD/DRV/14/09](#) dated 12<sup>th</sup> Mar 2014.
3. The Clearing Corporation has reviewed its Stress Test methodology and has made several revisions. Accordingly, the changes to be incorporated, mutatis mutandis, in the Stress Test methodology are summarized as follows:
  - Stress scenarios: Two sets of stress scenarios will be considered. These are scenarios based on -
    - a. Historically observed highest upward and downward movements (arithmetic shifts) in risk factors (without scaling).



- b. Statistically derived hypothetical scenarios based on extreme value distributions (Generalized Pareto Distributions) of historical movements (arithmetic shifts) in risk factors.
- Liquidation period (stress period of risk) is set equal to holding period assumed in margin model, which is equal to 3 days.
  - Hypothetical scenarios are based on extremely high confidence level of 99.9%.
  - Notionally encumbered collateral against margin requirements will also be valued under stress scenarios.
  - Residual loss, if any, on participant's portfolio after adjusting for revalued collateral value will be the credit exposure towards the participant under the given stress scenario.
4. Other provisions as detailed in the said notification dated 12<sup>th</sup> Mar 2014 and further in notification [RMD/DRV/16/63](#) dated 3<sup>rd</sup> Nov 2016 remain unchanged.
5. This notification shall be effective from 31-Jul-2017.

Yours faithfully,

**For The Clearing Corporation of India Ltd.**

**Sd/-**

**Managing Director**