



## Risk Management Department

No. RMD/FX-FF/09/21

9<sup>th</sup> Nov'09

**FOR INFORMATION OF ALL MEMBERS**

### **Forex Forwards Segment Risk Management Processes**

Further to our Notification No RMD/FX-FF/09/20 dated 5<sup>th</sup> Nov'09 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 Forex Forwards Segment. Instead, as stated in Chapter III (B)(6) 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 Forex Forward 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(E)(3) of the Regulations].



Forward 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 V(A)(3) of the Regulations].

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

**D. Incremental MTM Margin**

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

The amount of Incremental MTM margin will become payable at 12-30 P.M. of the next business day (by 11-30 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 V(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. 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.



3. If on account of imposition of such Volatility Margin and/or intra-day MTM Margin, any shortfall in availability of SGF is encountered, the member shall be required to meet the shortfall within one hour from such imposition.

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