



## Risk Management Department

**This has been Superseded by Notification No. RMD/FX-  
FF/20/75 dated 30-Dec-2020 on Default Handling Auction  
Mechanism**

No. RMD/FX-FF/09/23

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

**FOR INFORMATION OF ALL MEMBERS**

### **Forex Forwards Segment Default Handling**

In terms of Chapter VI(B) of the Regulations of the Forex Forwards 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 trades or positions of the member as it considers necessary.

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

- i) Identification of the positions to be reversed: The portfolio of outstanding trades of the defaulter member in this segment will be summarised into settlement date-wise net positions in US Dollar. The positions to be closed out would be those which would bring down the total margin of the defaulter member within/closer to margin made available by it.
- ii) For identification purpose, as far as possible, priority will be given to the positions close out of which will contribute higher amounts towards the reduction of Initial Margin of the defaulting member's portfolio.
- iii) For a position that is closed out, the close-out will be with the counterparties of the defaulter member who have a bilateral net position that is opposite to that of the defaulter member's position for the same settlement date.
- iv) While effecting the close out as above, CCIL will endeavour to avoid any post close out margin shortfall in the accounts of the counter-parties to the defaulter member. For this purpose, the priority in identification of positions to be closed out may be required.
- v) USD amounts for Close out trades : The net USD position of the defaulter member will be closed out with its bilateral counterparties, in the ratio of their net



bilateral position vis-à-vis the defaulter member for the particular settlement date. For each such closed out position separate close out trade will be generated for each bilateral counter-party.

- vi) Exchange rate for the close out trades: The close out process as described above will be carried out by generating trades, termed as Reversal Trades, for the US Dollar amounts arrived at as per Para 2(v) above. The rupee equivalent will be arrived at using the exchange rate equal to the Weighted Average Rate derived out of all trades for that settlement date between the defaulter member and each of its counter-parties.

### **3. Close out in the event of insolvency / declaration of a member as a defaulter**

- i) 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 Forwards segment . Trades already in the spot window however will not be closed out.
- ii) Close out trades will then be generated by Clearing Corporation for all trades of such defaulter member on a trade by trade basis. The exchange rate used for the reversal trade will be the exchange rate at which the trades were done between the counter-parties.

### **4. Margin held back for default:**

- i) An amount equal to the negative Mark to Market value of each such trade/position that is closed out (i.e. USD amount multiplied by the excess of MTM rate over the traded rate for USD Sale trades and USD amount multiplied by the excess of the traded rate over MTM rate for USD Buy trades ) after discounting to the date of close-out is identified as the amount to be paid (or received if MTM value is positive) by the defaulter member to (or from) the respective counter-party. MTM values of all trades/positions 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. As per Regulations in Clause (B)3 Chapter VI of the Clearing Corporation regulations for this segment Members having payable amount will have to make SGF available 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. If the close out carried out results in a surplus (i.e. members having 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.

**5. Impact on outstanding trade portfolios of the members:**

In case of close-out in terms of para 3 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 (discounted) which constitutes the margin blocked for default.

**6. Reports to Members:**

**a) Reversal Trades Report:** Both the defaulter member and their counterparties who become parties to the close out are provided with the Reversal Trade Report giving detailed information on the USD amount reversed, the exchange rate at which the close out trade is executed and 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.

\*\*\*\*\* \*\*