



Risk Management Department

This has been Superseded by Notification No. RMD-FX-FF-20-71 dated 30-Dec-2020 on Risk Management Process and Margin Methodology

No. RMD/FX-FF/13/88

25th Oct'2013

FOR INFORMATION OF ALL MEMBERS

Forex Forward Segment

Volatility Margin – Partial Withdrawal

This refers to notification no. RMD/FX-FF/13/13 dated 08th May'2013 on imposition of Volatility Margin in Forex Forward segment. As per the process mentioned therein, once imposed, volatility margin is withdrawn when absence of volatility is observed. There is however no process in place for reduction in volatility margin.

2. In this context, it has now been decided that partial withdrawal of volatility margin would also be considered based on the process listed as under:

- a) Required Volatility Margin levels will be re-assessed for the current date and immediately previous business date as per the process detailed in para 'A' of above-mentioned notification. (i.e on each day, the assessment will be done at 12.00 Noon, 2.00 PM and at 4.00 PM and highest value for the day will be taken into consideration). Higher of the two values will be taken as reference level.
- b) If the Volatility Margin already imposed is higher than the reference level as per (a) above, the Volatility Margin will be reduced to the reference level subject to a minimum of 2.5% of Initial Margin.
- c) Complete withdrawal of volatility margin will be effected following the process described in para 'C' of above referred notification.

3. Few illustrations have been added hereunder for more clarity:

Illustration: 1

Day 1 - VM imposed @ 15%

Day 2 - Notional VM applicable @ 10%

Day 3- Notional VM applicable @ 5%

At the end of Day 3, the higher of the values on day 2 & day 3 was 10%, Hence, Volatility Margin will be reduced to 10% of Initial Margin.



Illustration: 2

Day 1 - VM imposed @ 15%

Day 2 - Notional VM applicable @ 10%

Day 3- Notional VM applicable @ 15%

At the end of Day 3, the higher of the values on day 2 & day 3 was 15%; it is same as the Volatility Margin in place. Hence, there will be no reduction in Volatility Margin

Illustration: 3

Day 1 - VM imposed @ 15%

Day 2 - Notional VM applicable @ 10%

Day 3- Notional VM applicable @ 20%

At the end of Day 3, the higher of the values on day 2 & day 3 was 20%; it is higher than Volatility Margin in place. Hence, Volatility Margin will be increased to 20% of Initial margin.

4. Volatility Margin, if applicable, will be imposed immediately after notifying to the members. Imposition of Volatility Margin may result in margin shortfall in the accounts of the members if available SGF balance is inadequate to cover the increased margin requirements. It would be the responsibility of the member to replenish the shortfall at the earliest. Penal charges will be levied if shortfall is not replenished within one hour from the time of imposition.
