



Risk Management Department

This has been Superseded by Notification No. RMD/SS/21/37 dated 30-Nov-2021 on Enhancements to the approach followed for computation of Margin Factor/Hair Cut rates

No. RMD/SS/21/22

24th May'2021

FOR INFORMATION OF ALL MEMBERS

Securities Segment

Enhancements to the approach followed for computation of Margin Factor / Hair Cut rates

As per the provisions of Chapter VIII of Securities segment regulations, Clearing Corporation may from time to time take steps to improve upon its risk containment measures in place in this Segment.

2. In terms of the above provision and further to our Notification No. RMD/SS/16/58 dated 1st Nov'16 and Notification No. RMD/SS/18/75 dated 21st Aug'18, it has been decided to bring about the under-noted changes and revision in the values of some of the parameters used in the model for computation of Value at Risk (VaR) based margin factors and haircut rates so as to reduce likelihood of pro-cyclicality.

- i. The volatility component introduced in the Value at Risk computations vide Notification No RMD/SS/16/58 stands withdrawn.
- ii. The floor (minimum value) for 1 day VaR for securities in a tenor bucket shall be recalibrated to 95th percentile 1 day VaR values. If the VaR of the security is less than the floor value applicable for the security in particular tenor bucket then the floor value will be retained as the 'applicable VaR' for all future computations.
- iii. The process followed to arrive at the floor shall be as under:
 - a) All securities will be divided into tenor-wise buckets based on residual maturity. Each tenor bucket will be divided into two categories -
 - 1) Category I - GOI Securities & T-Bills (Excluding Special Bonds)
 - 2) Category II - STRIPS
 - b) The tenor buckets will be 0-3 Months, 3M – 6M, 6M - 1 year, 1-3 years, 3-5 years, 5-10 years, 10-15 years, 15-20 years, 20-30 years and above 30 years.



- c) The Floor (minimum value) for securities in a tenor bucket will be set at 95th percentile VaR for the bucket in the 10 years preceding the date of the fortnightly revision of margin factors
- d) The floor (minimum value) as computed above for category I will be applicable to *all* securities (Central Government Securities, Treasury Bills and State Government Securities) falling in respective tenor buckets, except STRIPS. The floor values for STRIPS will be calculated separately under Category II.

3. As per the existing practice, the applicable margin factors for semi-liquid and illiquid securities shall be arrived at after applying the specified step-up factors. An addition of 0.25% towards coupon accrual for all securities would continue to be applied to the VaR figures to.

4. The Margin Period of Risk (MPOR) for security wise margin factors applicable for outright and market repo trades shall remain unchanged at 3 days. Similarly, the MPOR for the hair cut rates applicable for the securities eligible for contribution towards Securities Segment SGF and Triparty Repo collaterals shall continue to be 3 days and 5 days respectively (all haircut rates are rounded up to the next integers). Haircuts on collateral deposited towards borrowing under Triparty repo will continue to be stepped up by using illiquidity multiplicands.

This notification shall be effective from end of the day on 02nd July'21.

Yours faithfully,

For The Clearing Corporation of India Ltd.,

**Sd/-
Managing Director**