



This has been superseded by Notification No. RMD/SEC/23/32 dated 30-Oct-2023 on Risk Management Processes and Margining Methodology

Risk Management Department

No. RMD/SS/12//18

August 11, 2012

FOR INFORMATION OF ALL MEMBERS

Securities Settlement Segment

Risk Management Process

In terms of Chapter VII of The Clearing Corporation of India (Securities Segment) Regulations 2001, Clearing Corporation is authorised to improve upon its risk containment measures. The following changes will be brought in place in the risk management process in this segment with effect from 10th Sep' 12.

A. Margining of Repo trades:

- a. In terms of para C 1.6 of Chapter VII of the above mentioned Regulations, Initial Margin will be charged on first leg of Repo transactions till such first leg trades are netted by CCIL for settlement. After first leg trades are netted for settlement, the Initial Margin will be charged on the second leg of such Repo trades.
- b. MTM margin on second leg of repo trades will be computed at the time of netting of the first leg of such repo trades. The MTM margin so computed will be based on the latest available MTM prices. At the end of the day, such MTM margin will be re-computed based on day-end MTM prices.

B. Margining of outright trades:

In terms of para C 2.4 of Chapter VII of the above mentioned Regulations, offsets will now be allowed between Mark to Market gains and losses on trades in different securities as under:

- a) MTM gains on trades in liquid or semi-liquid Government of India securities and T-Bills will be allowed to be set off against MTM losses on trades in any securities. However, to qualify for offset, such MTM



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gains will have to be on trades settling on same day as the trades with MTM loss or on any subsequent day.

- b) The criteria for classification of Government of India securities into liquid, semi-liquid & illiquid securities will be as under:

Sr. No.	Category	Criteria
1.	Liquid-Securities	Securities having average of more than ten trades (face value \geq Rs.5 Cr) per day during previous Month.
2	Semi-liquid securities	Securities having average of 1-10 trades (of face value \geq Rs.5 crores) per day during previous Month.
3	Illiquid securities	Securities having average of less than 1 trade (of face value \geq Rs.5 crores) per day during previous Month.

- C. Release of Margins: After the netting for settlement is completed, the margins due for trades settling on that day will be arrived at by deducting margin obligations of the trades due for settlement on subsequent days from the total margin collected. Thereafter, as the settlement proceeds in stages, margins for trades settling on the day will be re-worked by taking outstanding settlement obligations into account. The process has been explained in the Annexure to this Notification.

For The Clearing Corporation of India Limited,

Sd/-

Managing Director



Annexure I

Process to be followed for release of margins due on trades settling on the day

Particulars:		Scenario 1 Rs.	Scenario 2 Rs.
Total Margin obligation including margin on trades settling on the day	A	100	200
Margin Obligation on residual trades (i.e excluding trades settling on the day but including 2 nd leg Repo trades where first leg has settled on the day)	B	110	85
Margin due for release on trades settling on the day (i.e. current day)	C = A – B	0 #	115 ##

In scenario 1, the margin on residual trades including 2nd leg Repo trades is higher than the total margin charged at present. Hence the margin eligible for release on trades settling today is Nil. Moreover, additional margin of Rs.10 will be blocked at this stage.

In scenario 2, the margin due for release on settlement of trades which are due for settlement on the current day is Rs. 115 Crores. At each stage in the settlement process, CCIL will evaluate the member's outstanding trades positions and release margins not required to be blocked.

The margin release process would be as under:

1) At the time of netting of trades for settlement for the day:

If at netting the member only has a resultant receivable and no payable obligation then the entire margin on trades settling on the day will be released immediately.

2) On completion of settlement of funds payable at settlement bank for members who had a funds payable and settling their funds leg at Settlement bank



- a. If such member has no securities payable then the entire margin on account of trades settling on the day will be released at this point.
- b. If such a member has any securities payable due then the outstanding trades position of the member will be notionally valued as under:
 - i. Securities payable will be valued at their MTM prices and adjusted upwards by an hair-cut value for such securities.
 - ii. Securities receivable will be valued at the MTM price and adjusted downwards by an hair-cut value for such securities.
 - iii. Hair-cut rates used will be same as the respective margin factors for the securities.
 - iv. (i) and (ii) above will be netted together to arrive at the net notional payable or receivable. If the resultant is a net notional receivable then the entire margin on account of trades settling on the day will be released.
 - v. If the resultant is a net notional payable then the corresponding portion of the margin on account of trades settling on the day remains blocked and the balance is released.
 1. For e.g. If the net notional payable is less than the margin on account of trades settling today, say it is Rs 100 crores then margin of Rs 15 crores will be released at this stage.
 2. For e.g. If the net notional payable is greater than the margin on account of trades settling today, say it is Rs 120. Crores then no margin is released on account of trades settling today.

3) On completion of securities payable at RBI

- a. If such member has no funds payable then the entire margin on account of trades settling today is released at this point
- b. If such a member has any funds payable due and if the amount of such funds payable is less than the margin on account of trades settling today, say it is Rs 100 crores then margin of Rs 15 crores will be released at this stage and the balance will be released on the completion of funds settlement at RBI.



- c. If such a member has any funds payable due and if the amount of such funds payable is greater than the margin on account of trades settling today, say it is Rs 120. Crores then no margin is released on account of trades settling today.
- d. If the member has a funds payable and also a Securities Receivable, then Securities receivables are valued at the MTM price and adjusted downwards by hair-cut value based on the applicable margin factor. The Securities Receivable and the funds payable above are netted together to arrive at the net notional payable or receivable. The margin is then released in the manner specified in para 2(iv) above.

4) On completion of funds payable at RBI

On successful completion of funds payable at RBI there is no other payable pending and all margin on account of trades settling on the current day will be released.
