



THE CLEARING CORPORATION OF INDIA LTD

This has been superseded by Notification No. RMD/SEC/23/32 dated 30-Oct-2023 on Risk Management Processes and Margining Methodology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/22/31

22nd Nov'22

FOR INFORMATION OF ALL MEMBERS

Securities Segment

Enhancements to the approach followed for computation of Margin Factor / HairCut 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. In this regard, we invite your attention to our Notification No. RMD/SS/21/37 dated 30-Nov-21 which details the approach followed for computation of Margin Factor / Hair Cut rates in this segment.

2. It has now been decided to withdraw the currently applicable step-up factor of 50% on margin factors of securities notified for “When Issued” trading. Accordingly, Para 3 of the aforementioned notification stands revised as Para 4 below with the changes underlined therein. Further, in terms of our notification No. RMD/SS/11/01 dated 01st March'11, trades in securities notified for ‘When-Issued’ trading are currently excluded for certain specific purposes. It has now been decided to include these trades for the purposes mentioned in Para 6 below (underlined).

3. The model followed for computation of Value at Risk (VaR) based margin factors and haircut rates so as to reduce the likelihood of pro-cyclicality are as under:

- i. 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.



- ii. 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 1 day VAR 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.

4. 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.

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



6. Further, trades in When Issued market i.e., trades in securities during their When Issued period would be included for processes mentioned below:

- a) Arriving at the illiquidity adjustment factors for valuation of securities
- b) Arriving at the illiquidity based multiplicands for:
 - i. Margin factors in Securities Segment
 - ii. Haircut rates on Securities deposited as collateral in Tri-party Repo.
- c) Trade Analysis for identification of securities to track volatility in securities segment.
- d) Selection of securities for tracking volatility in Securities Segment.
- e) Identification of eligible securities for contribution towards SGF in securities segment.

The above revisions shall be effective from 1st December, 2022.

Yours faithfully,

For The Clearing Corporation of India Ltd.

Sd/-

Managing Director