



**Risk Management Department**

**This has been Superseded by Notification No. RMD/SS/VM/18/69 dated 30-Jun-2018 on Volatility Margin methodology\_revised**

**No. RMD/SS/VM/13/86**

**25<sup>th</sup> Oct'2013**

**FOR INFORMATION OF ALL MEMBERS**

**Securities Segment**

**Volatility Margin – Partial Withdrawal**

This refers to our notification no.RMD/SS/VM/09/14 dated 28<sup>th</sup> August'09 on imposition of volatility margin in Securities 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 As per the process mentioned therein, once imposed, Volatility Margin is withdrawn when absence of volatility is observed.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 annexure to the above-mentioned notification. 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 25% of Initial Margin.
- c) Complete withdrawal of volatility will be effected following the process described in Para 'xi' of annexure to the above referred notification.

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

*Illustration: 1*

Day 1 - VM imposed @ 150%  
Day 2 - Notional VM applicable @ 100%  
Day 3 - Notional VM applicable @ 50%

At the end of Day 3, the higher of the values on day 2 and day 3, was 100%, Hence, Volatility Margin will be reduced to 100% of Initial Margin.



*Illustration: 2*

Day 1 - VM imposed @ 100%  
Day 2 - Notional VM applicable @ 50%  
Day 3 - Notional VM applicable @ 100%

At the end of Day 3, higher of values for Day 2 & Day 3 was 100%. It is same as the Volatility Margin in place. Hence, there will be no reduction in Volatility Margin.

*Illustration: 3*

Day 1 - VM imposed @ 100%  
Day 2 - Notional VM applicable @ 50%  
Day 3- Notional VM applicable @ 120%

At the end of Day 3, the higher of the values on day 2 & day 3 was 120%; it is higher than Volatility Margin in place. Hence, Volatility Margin will be increased to 120% 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 requirement. 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.

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