This has been superseded by Notification No. RMD/SEC/23/32 dated 30-Oct-2023 on Risk Management Processes and Margining Methodology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/VM/18/69 **30/June/2018**

FOR INFORMATION OF ALL MEMBERS

Securities Segment

Volatility Margin

Methodology for Imposition and Withdrawal

Further to our notification no RMD/SS/VM/09/14 dated 28th August, 2009 and RMD/SS/VM/13/86 dated 25th Oct'2013 it has been decided to modify the approach being followed for computation of estimator (II). The updated methodology for identification of Volatility in the Securities Market for imposition of Volatility Margin and for identification of absence of volatility for withdrawal of volatility margin is as under with changes **underlined:**

i. For tracking volatility, three most liquid securities will be identified based on analysis of trades during the previous month for tracking volatility.

ii. At least one of the securities in the basket should be of long duration (at least of residual maturity of 20 years). If such a security is not in the list of 3 highest traded securities, the security having 3rd highest traded volume in the previous month will be replaced by the highest traded security with residual maturity of 20 years or more.

iii. In case of an Auction/Re-issuance of a security during a month, such security will be included in the basket, if trade volumes in such security for the 3rd to 5th day are such that it forms a part of the top 3 traded securities, by excluding the existing security in the 3rd position (other than the security indicated in terms of (ii) above)

iv. If a security included in the list is in 'When Issued' market, such security will be excluded during the period of "When Issued" trading.

v. This process of identification of securities is to be reviewed after month-end and the members will be kept advised of the securities selected for this purpose.

vi. Volatility margin to be imposed:

   a. *If trades in two out of three securities indicate volatility,*
   b. *If only two securities in the basket are traded and trades in any one of the securities indicate volatility,*
   c. *If only one security in the basket is traded and trades in such security indicate volatility.*

vii. The estimator values for indication of volatility margin will be arrived at for each security as under:

   a. ***Estimator I*** *is taken as Intra-day difference between high and low price as a percentage of the low price of the day.*
   b. ***Estimator II*** *will be price fluctuation based on the higher of absolute of -*
      (MTM price of previous day - low price of current day)/ <u>MTM price of previous day</u>
      and
      (MTM price of previous day – high price of the day)/ <u>MTM price of previous day</u>

Higher of Estimator I and Estimator II of a Security will be the reference Estimator.

viii. Trigger price will be set at one day VaR of the respective security (multiplied by illiquidity multiplicand if any).

ix. Trades in the identified securities received during the day will be monitored for deciding about imposition of volatility margin and also for withdrawal of such margin.

x. Volatility margin **will be imposed** if the estimator value reaches the trigger value and the quantum of volatility Margin will be as under:

   a. *If Estimator value reaches100 % of trigger value - 25% of margin factor*

   b. *For every subsequent increase of 50% in estimator value over trigger value - additional 25% of margin factor.*

xi. Volatility margin will be due for imposition from the time the estimator values exceeds the trigger price.

xii. Volatility Margin will be **completely withdrawn** at the time of End of the Day Risk valuation if the values of the Estimators are at less than the 60% of the 1-day VaR (i.e. 60% of the trigger value) for one day for the securities which had earlier indicated increase in volatility and caused imposition of volatility margin.

xiii. **Partial withdrawal** of volatility margin may 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.

xiv. 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.

This notification shall be effective from 01/Aug/2018.

Yours faithfully,
For The Clearing Corporation of India Ltd.,
Sd/-
Managing Director

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