



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This has been superseded by Notification No. RMD/SEC/23/32 dated 30-Oct-2023 on Risk Management Processes and Margining Methodology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/WI /MF/07/22

30th June 2007

FOR INFORMATION OF ALL MEMBERS

Securities Settlement Segment

Settlement of trades done in 'When Issued' market – Revised Margining Process

The RBI, in its mid-term review of Annual Policy for 2006-07, had announced that it will now permit trades in When Issued market against new issuance of dated securities also.

2. As the trading on such securities will be based on yield (YTM), the price at which final exchange will happen in respect of such trades will get crystallised only after the coupon for the newly issued security is decided by RBI based on the auction results (usually a day prior to the date of issue). The price of the security therefore will not be available in respect of any trade in such security during the period of trading in When Issued market.

3. In the circumstances, for When Issued trades in dated securities, exposure check process will be run with a minor modification of our existing margining model for the Securities Segment. The process followed will be as under:

- a) For the purpose of computation of Initial Margin, any trade in such security will be notionally taken at face value during the period of the trading in When Issued market.
- b) Basis Point Value (BPV) will be arrived at for each such security a day prior to the first trading day in the When Issued market. For the first day, BPV will be computed on the basis of notional yield for the tenor of the security, estimated out of the yield curve, On subsequent days, BPV will be computed on the basis of MTM yield arrived out of the trades on such days.



- c) MTM yield will be arrived at by following a process similar to the process used for computation of MTM price for Government Securities except that the traded yields will be used as references as against traded prices. In case there is no trade in the security in When Issued Market on a day, the MTM Yield of the previous day will be repeated.
 - d) In case of trades by a member in opposite direction (i.e. for a member having both buy and sale trades in same security), offset will be allowed as in case of other trades in the Securities Segment. Loss, if any, for such group of trades will be computed using latest BPV for the security [Computation of loss explained in the annexure].
 - e) MTM Margin on the outstanding trades will be computed using the MTM yield and BPV applicable for the day. [Computation of MTM margin explained in the annexure]
 - f) Such yield based trades will be converted to price after the auction results are known. Thereafter, at the time of day end re-computation of margin, these trades will be subjected to margining process based on such crystalised prices, using the usual margining process for the Securities Segment.
4. Margining on When Issued trades against new issuance of T bills however will continue to be as per the existing process.

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Computation of Loss on Offsetting trades:

Basis Point Value (BPV) = 0.136655 Notional coupon = 6.00%

(Rs. in crores)

SR. NO	BUY (FV)	SALE (FV)	TRADED YIELD	WEIGHTED YIELD	PROFIT/ (LOSS) ON OFFSETTING TRADES
1	1,000.00	-	5.750%	57.5000	
2	-	500.00	5.760%	(28.8000)	
3	-	500.00	5.750%	(28.7500)	
4	250.00	-	5.750%	14.3750	
5	250.00	-	5.760%	14.4000	
6 (PART)	-	500.00	5.760%	(28.8000)	
	1,500.00	1,500.00		-0.00500%	(1.02491) #
6 (REMAINING)	-	500.00	5.760%	(28.8000)	
7	-	500.00	5.765%	(28.8250)	

$1500/100 * (0.005\% / 0.01\%) * 0.136655$

Computation of MTM Margin on trades outstanding at EOD:

Basis Point Value (BPV) = 0.140386 MTM Yield = 5.745%

MTM Computation

(Rs. in crores)

SR. NO	BUY (FV)	SALE (FV)	TRADED YIELD	MTM YIELD	MTM (LOSS)/ PROFIT
1	1,000.00	-	5.750%	5.745%	0.70193
2	-	500.00	5.760%	5.745%	(1.05289)
3	-	500.00	5.750%	5.745%	(0.35097)
4	250.00	-	5.750%	5.745%	0.17548
5	250.00	-	5.760%	5.745%	0.52645
6	-	1,000.00	5.760%	5.745%	(2.10579)
7	-	500.00	5.765%	5.745%	(1.40386)
Net Profit / (Loss) to be collected as MTM Margin					(3.50965)