

NATIONAL COMMODITY CLEARING LIMITED

Circular to all Members of the Clearing Corporation

Circular No. : NCCL/RISK-001/2018

Date : September 26, 2018

Subject : Risk Management Framework

In terms of the provisions of the Bye-Laws, Rules and Regulations of the National Commodity Clearing Limited (NCCL), circular no. NCCL/CLEARING-001/2018 dated September 24, 2018 of NCCL and circular no. NCDEX/COMPLIANCE-015/2018 dated September 24, 2018 of NCDEX.

Members are hereby notified of the provisions with respect to Risk Management Framework.

Members and their clients are requested to take note of the same.

For and on behalf of
National Commodity Clearing Limited

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Risk Management Framework

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I. LIQUID ASSETS

In pursuance of the regulations of SEBI, Rules, Bye- laws and Regulations of NCCL, NCCL has defined norms and procedures for acceptance of liquid assets haircuts, and limits applicable to Members and their clients.

Members may deposit liquid assets in the form of Cash, Bank Guarantees, Fixed Deposit Receipts and approved securities and any other form of collateral as prescribed by NCCL and / or SEBI from time to time and acceptable to NCCL. .

These liquid assets are classified as cash, cash equivalent and Non Cash Collaterals (Other Deposits).Cash equivalent shall mean Bank Guarantees, Fixed Deposit Receipts and any form of collateral as may be prescribed from time to time. Non Cash Collaterals (Other Deposits) shall mean all other form of collateral deposits like approved list of securities (equity shares), mutual fund units as per approved list, warehouse receipt(s) of approved commodities issued by designated warehouse/ vault and any other form of collateral as may be prescribed from time to time.

The types of liquid assets acceptable by NCCL from their Members and the applicable haircuts and concentration limits are listed below:

Liquid assets are classified into two components:

1. Cash Equivalents

Cash Equivalents consists of:

- Cash
- Bank fixed deposits
- Bank guarantees

2. Other Liquid Assets

Other liquid Assets consists of

- Liquid Equity Shares
- Mutual fund units
- Bullion
- Gold ETF
- Agricultural Commodities

Cash equivalents shall be at least 50% of liquid assets. This would imply that Other Liquid assets in excess of the total Cash Equivalents would not be regarded as part of Member's liquid assets as well as total liquid assets.

Sr No	Item	Minimum Haircut	Limits
Cash equivalents			
1	Cash	0	No Limit
2	Bank fixed deposits	0	Limit on exposure to a single bank as decided by NCCL from time to time.
3	Bank guarantees	0	
Other Liquid assets			
Sr No	Item	Minimum Haircut	Limits
4	Liquid (Group-I) Equity shares	For Nifty 50 VaR or 15% whichever is higher, for others of Nifty 500 2times VaR or 40% whichever is higher	Limit on NCCL's exposure to a single issuer is Rs 35 crores.
5	Mutual fund units	VaR or 40% whichever is higher.	Limit on NCCL's exposure to a single Asset management Company shall be Rs. 10 crores.
6	Bullion	20%	Total commodities collateral for any Clearing Member shall not exceed 30% of the total liquid assets of the Clearing Member, out of which non-bullion collateral shall not exceed 15% of the total liquid assets of the Clearing Member
7	Gold ETF	20%	
9	Agricultural Commodities	40%	

Notes:

The valuation of the liquid assets shall be done on a daily basis after applying applicable haircuts.

1. NCCL shall lay down exposure limits either in rupee terms or as percentage of the total Liquid Assets that can be exposed to a single Bank directly or indirectly. The total exposure towards any Bank would include Fixed Deposits, Bank Guarantees issued by the Bank as well as debt or equity securities of the Bank which have been deposited by Members towards total liquid assets.
2. Not more than 1% of the total liquid assets deposited with NCCL, shall be exposed to any single Bank which has a net worth of less than INR 500 crores and is not rated P1 (or P1+) or equivalent, by a recognized credit rating agency or by a reputed foreign

- credit rating agency, and not more than 10% of the total liquid assets deposited with NCCL shall be exposed to all such Banks put together.
3. Cash equivalents shall be at least 50% of liquid assets. This would imply that other Liquid Assets in excess of the total Cash Equivalents would not be regarded as part of member's liquid assets as well as total liquid assets.
 4. For the purpose of determination of which equity shares are falling in Group-I and what would be the appropriate VaR margin for these securities, data disseminated by Stock exchanges offering equity trading platform shall be referred.
 5. NCCL shall adequately diversify their collateral so as to avoid any concentration of exposure towards any single entity and the same shall be within the limits as may be prescribed by SEBI from time to time.
 6. Agricultural commodities to be accepted as collateral shall be of same quality which is deliverable under the contract specification of corresponding agricultural commodities derivatives being traded on the concerned Exchange platform.
 7. NCCL shall accept liquid assets as collateral only as per the list of liquid assets specified in the table above. However, NCCL may decide not to accept certain types of liquid assets specified in the above list based on their risk perception, capability to hold and arrangements for timely liquidation. NCCL may stipulate concentration limits at member level / across all members as may be necessary.
 8. NCCL shall make necessary arrangements to enable timely liquidation of collaterals accepted by them.
 9. NCCL does not accept Fixed Deposit Receipts (FDRs) from Trading/Clearing Members as collateral, which are issued by the trading/Clearing Member themselves or banks who are associate of trading/ Clearing Member.
 10. The approved agricultural commodities as collateral shall be permitted to a maximum of Rs. 7.50 Crore (after haircut) as part of Additional Base Capital for a member.
 11. A maximum value of Rs. 75 Crore (after haircut) of select approved agricultural commodities shall be permitted to be accepted as collateral across all members of NCCL.
 12. The total commodities collateral for any Clearing Member shall not exceed 15% of the total deposits (Liquid Assets) of the Clearing Member(except bullion)
 13. The total mutual funds, equity and commodity as collateral (including bullion) deposited towards the Additional Base Capital (ABC) shall not exceed 15% of the total effective deposits present with NCCL at any point of time.
 14. NCCL shall accept
 - i. Approved Equity Shares in Demat form with approved Custodian after appropriate haircuts as decided by NCCL from time to time.
 - ii. Approved Mutual Fund Units in Demat form with approved Custodian after appropriate haircuts as decided by NCCL from time to time.
 - iii. Bullion – Gold & Silver in Demat form with approved Custodian after appropriate haircuts as decided by NCCL from time to time.
 - iv. Gold ETF's in Demat form with approved Custodian after appropriate haircuts as decided by NCCL from time to time.
 - v. Select agri-commodities after appropriate haircuts as decided by NCCL from time to time.
 - vi. Agricultural commodities in electronic form after appropriate haircuts as decided by NCCL from time to time.

Note: The liquid assets acceptance, haircuts, limits are subject to periodic review from time to time. Members are required to refer to latest circulars issued in this regard.

II. MARGINS

Various forms of margins levied by NCCL are listed and detailed below.

1. Initial Margin

Initial margins are aimed so as to cover potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. This margin is based on the portfolio of individual client comprising of his positions in Futures and Options contracts on each commodity. Margins are charged so as to be adequate to cover 99% VaR (Value at Risk) and Margin Period of Risk (MPOR) of at least two days. Minimum value of initial margin would be subject to commodity specific floor value as may be specified by SEBI from time to time. Currently floor value of Initial Margin applicable shall be 4%. For buyer of the Options, buy premium is charged and appropriate Short Option Minimum Margin (SOMM) is charged for sellers/writers of the Options contracts.

The MPOR for Dhaniya, Jeera, Guargum, Turmeric, and Barley is 3 days and for other commodities it is 2 days. Members are advised to update themselves on the applicable MPOR in commodities as may be notified from time to time.

a. Spread margin benefit on initial margins

- i. Spread benefit in initial margin shall be permitted in the following cases:
 - a) Different expiry date contracts of the same underlying
 - b) Two contracts variants having the same underlying commodity
 - c) Futures contracts in a commodity complex provided the conditions in "para ii" below are met.
- ii. NCCL may provide spread benefit in initial margin across futures contracts in a commodity complex provided the following conditions are met:
 - a) Minimum coefficient of correlation (r) between futures prices of the two commodities is 0.90.
 - b) Back testing for adequacy of spread margin to cover MTM has been carried out for a minimum period of one year (back testing for at least 250 days wherein daily settlement price of futures used for back testing have been determined from traded futures prices).
 - c) Initial margin after spread benefit has been able to cover MTM on at least 99% of the days as per back testing.
- iii. Maximum benefit in initial margin on spread positions indicated in para [i – (a) and (b)] is restricted to 75%. Maximum benefit in initial margin on spread positions indicated in para [i – (c)] is restricted to 50%.

- iv. In case of spread positions, additional margins shall not be levied. No benefit in Extreme Loss Margin (ELM) would be provided for spread positions i.e. ELM shall be charged on both individual legs. NCCL shall be free to charge margins higher than the minimum specified depending upon its risk perception.
- v. Margin benefit on spread positions shall be entirely withdrawn latest by the start of tender period or start of expiry day, whichever is earlier.
- vi. To be eligible for initial margin benefit, each individual contract in the spread shall be from amongst the first three expiring contracts.
- vii. While providing spread benefit across futures contracts in a commodity complex, NCCL shall continuously monitor dynamics of the commodities and their correlation and if there are changes such that spread margin benefit is no longer appropriate to be given, shall take appropriate further course of action.

2. Extreme Loss Margin

The ELM Margin is a fixed percentage component to cover situations that lie outside the coverage of VaR based initial margins. ELM of minimum 1% on gross open positions shall be levied and shall be deducted from the liquid assets of the Clearing Member on an online, real time basis.

3. Special Margin

In case of high volatility, a margin at a percentage as deemed fit by the Regulator/NCCL/Concerned Exchange, is imposed on either the buy or the sell side.

4. Additional Margin

Margins imposed on both long and short sides over and above the other margins, would be called additional margins. The Regulator/NCCL may impose additional margins on both long and short side at such other percentage, as deemed fit. Removal of such Margins will be at the discretion of the Regulator/NCCL.

NOTE: As regards Special and Additional Margins referred above, the said margins may be collected in the form of cash. Cash for the purpose, includes Fixed Deposit Receipts also.

5. Pre-expiry Margin

Pre-expiry margins are levied on contracts on the last few days as they approach expiry. This margin keeps stepping-up on each of the days, the margin is to be charged. For illustration, a margin of 1.5% may be charged on the last 11 trading days

of a contract, leading to a margin of 1.5% on day 1, 3% on day 2, 4.5% on day 3 ... and 16.50% on day 11.

Members are advised to update themselves on the applicable Pre expiry margins in Contracts as may be notified from time to time

For managing increase in margins on expiry when options devolve into futures position, specifically for long option positions which are probable to be exercised, NCCL shall start sensitizing the option holders of the impending increase in margins (along with the estimated increase) at least few days in advance, and, based on their risk perception, also gradually collects pre-expiry margins during the last few days so as to have adequate margins to cover the risk of futures position that will be created on devolvement of options into futures.

As per the provisions given for Mechanism for regular monitoring of and penalty for short- collection/ non-collection of margins from clients, penalty is levied on members for short-collection/non-collection of the initial margins. Penalty for such short-collection/non-collection due to increase in initial margins resulting from devolvement of options into futures may not be levied by NCCL for the first day.

6. Delivery Margin

The Delivery Margin charged seeks to cover the price movement of the underlying commodity from the date of expiry to the date of settlement. The margin is computed as higher of 20% or 3%+VaR for a look ahead period of 5 days. For the VaR, the volatility input is based on spot price volatility. The Delivery Margin is collected on the day following the day of expiry of the contract. NCCL may impose higher delivery margins if deemed fit.

7. Concentration Margin

NCCL shall impose adequate concentration margins (only on concentrated positions) to cover the risk of longer period required for liquidation of concentrated positions in any commodity. The threshold value for imposing concentration margin may be determined taking into account factors including open interest, concentration and estimated time to liquidation based on prevailing liquidity and possible reduction in liquidity in times of market stress etc. The quantum of concentration margins imposed may vary based on the level of concentration. Concentration Margin is chargeable to specific Client and Clearing Member(s) whose positions are relatively large in a given commodity, leading to a concentration of Open Interest (OI) in that commodity for that Client and Member as a percentage of the overall market wide OI. The concentration margin is based on pre-specified levels of OI for client / member (i.e. the Slabs), applicable to all clients and members alike that reach the Slabs, and therefore does not discriminate between clients/members who become eligible for its imposition. Concentration margins come into being once the OI of a commodity crosses the pre-defined level.

The Concentration Margin will be levied on Clearing Member levels and client levels based on the following

- a. **Clearing Member:** The level of concentration at each Clearing Member level is a percentage share of a Clearing Member's open interest to the market wide open interest in a given commodity.

The Concentration Margin would be applicable in respect of all contracts in the commodity unless specified otherwise. The imposition of Concentration Margin would be at Clearing Member level and would be made applicable as follows:

Clearing Member OI as % of Market-wide OI in the commodity (slab)	Concentration Margin
up to 10%	NIL
10% - 15%	2.50%
15% - 25%	5.00%
25% - 35%	7.50%
35% and above	10.00%

- b. **Client:** The level of concentration at each Client level is a percentage share of client's open interest to the market wide open interest in a given commodity. The Concentration Margin would be applicable in respect of all contracts in the commodity unless specified otherwise.

The imposition of Concentration Margin at client level for broad commodities shall be as follows:

Client OI as % of Market-wide OI in the commodity (slab)	Concentration Margin
up to 3%	NIL
3% - 5%	1.50%
5% - 10%	2.50%
10% - 15%	3.50%
15% and above	5.00%

(Note: Broad Commodities for the purpose above shall have the same meaning as defined in SEBI guidelines.)

The applicable Concentration Margin percentage at client level in Narrow and Sensitive commodities have been revised as under:

Client OI as % of Market-wide OI in the commodity	Concentration Margin
(Slab)	
up to 3%	NIL
3% - 5%	3.00%
5% - 10%	5.00%
10% - 15%	7.00%
15% and above	10.00%

(Note: Narrow and Sensitive Commodities for the purpose above shall have the same meaning as defined in SEBI guidelines.)

Hedgers who hedge through a bonafide hedge code would be exempted from levy of Concentration Margin at the client level.

This margin shall be over and above all other margins as may be applicable.

The Concentration Margin corresponding to a slab would be applied only on the incremental open interest for that slab. Higher concentration margins, if necessary, shall be specified by NCCL.

Concentration margins would become applicable to a commodity only when the overall market OI of the commodity exceeds a specified Threshold Limit. Threshold Limits, where necessary, will be commodity wise and would be notified by the NCCL from time to time.

The Narrow and sensitive commodities are Barley, Chana, Coriander, Guargum, Jeera, Pepper, Sugar (M Grade), Turmeric, Wheat. Members are advised to update themselves on the applicable list of Narrow and sensitive commodities as may be notified from time to time

8. Real Time Computation

The margins shall be computed on real time basis. The computation of portfolio initial margin would have two components. The first is the computation of Initial Margin for each individual contract. At the second stage, these contract Initial Margins would be applied to the actual portfolio positions to compute the portfolio initial margin. NCCL shall update EWMA volatility estimates for contracts at discrete time points each day (with a gap of not more than 2 hours between any two consecutive updates and at the end of the trading session) and the latest available scaled up EWMA volatility estimates would be applied to member/client portfolios on a real time basis.

9. Margin Provisions for Intra-day crystallized losses

To mitigate the risk arising out of accumulation of crystallized obligations incurred on account of intra-day squaring off of positions, the following has been decided:

NCCL shall calculate and levy Intraday Crystallised Mark to Market Losses (ICMTM) from Trading and Clearing Members in the following manner:

- a. ICMTM shall be computed for all trades which are executed and result into closing out of open positions.
- b. ICMTM shall be calculated based on weighted average prices of trades.
- c. ICMTM shall be adjusted against the free collateral of Clearing Member on a real time basis.
- d. If crystallised losses exceed the free collateral available then the member shall be put into risk reduction mode / square off mode.
- e. Crystallised losses at a contract level for a client shall be adjusted against crystallised profits at that time, if any, from another contract for the same client to arrive at client level profit or loss.
- f. The crystallized losses of all clients shall be grossed up (crystallised gains of each client are ignored) to arrive Trading Member ("TM") level ICMTM and the crystallized losses of all the trading members shall be grossed up.
- g. All client level losses across all trading members including losses on proprietary positions of trading members, if any, shall be grossed up to arrive at Clearing Member level ICMTM
- h. ICMTM so blocked/ collected shall be released on completion of daily mark to market settlement pay-in
- i. Adjustment of intraday crystallized losses shall not be done from exposure free liquid net worth of the Clearing Member.
- j. The details of ICMTM shall be included in MG11, MG12, MG13 reports provided to the members
- k. Additional reports MG16, MG17 containing details of intraday crystallised MTM loss shall also be provided to the members at end of the day

10. Minimum Liquid Net Worth

Members of NCCL in commodity derivatives segment shall maintain a minimum Liquid Net-worth of at least INR 50 Lakhs at all points of time. An amount of Rs 50 lakhs shall be blocked from existing deposits towards minimum Liquid Net worth requirement. No exposure will be allowed on the amount blocked towards minimum Liquid Net worth. Clearing Member's liquid assets after adjusting for applicable margins shall be referred to as 'Liquid Net-worth' of the Clearing Member. Initial margins, ELM, additional margins or any other margins as may be specified by SEBI from time to time shall be deducted from the liquid assets of a Clearing Member to arrive at 'Liquid Net-worth' of member.

11. Risk Reduction Mode

Member shall be compulsorily placed in risk reduction mode when 90% of member's capital is utilized towards margins. When a member moves in to risk reduction mode –

- a) All unexecuted orders shall be cancelled once trading member himself or his Clearing Member breaches 90% collateral utilization level.



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- b) Only orders with Immediate or Cancel (IOC) attribute shall be permitted in this mode.
- c) All new orders shall be checked for sufficiency of margins and such potential margins shall be blocked while accepting the orders in the system.
- d) Members will be able to trade in normal mode as and when the margin utilization goes below 85%.
- e) Orders with Immediate or Cancel (IOC) attribute shall only be permitted when member is placed in square off mode.

III. DEFAULT MANAGEMENT

1. Regaining matched book

In the event of a Member/Client failing to honour pay-in/margin obligations, NCCL may employ the below given alternative tools to liquidate the positions and regain a matched book based on the conditions of market liquidity, volatility, size of position to be liquidated etc. Any tool lower in the list prescribed hereunder may be resorted to in extremely rare occasions when NCCL reasonably expects that it may not be able to restore a matched book by choosing the alternatives above it.

- a. Liquidation of positions in the normal market (with relaxed price limits, if required)
 - i. Upon the occurrence of a failure by a Clearing Member to honour its obligations, NCCL may, at its discretion, initiate a procedure to liquidate the Open Positions registered in the name of such defaulting Clearing Member.
 - ii. The implementation of liquidation of Open Positions shall be notified by NCCL to the defaulting Clearing Member within a reasonable time frame once the process for such liquidation is completed.
 - iii. NCCL shall not have any liability whatsoever to any Clearing Member or to any other person (including, without limitation, any Client or (Associated) Trading Member) in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a Clearing Member or any other person, as the case may be, as a result of the occurrence and management of an event of default/ failure as referred above.
 - iv. NCCL shall liquidate the following Open Positions:
 - Proprietary Open Positions registered in the name of the defaulting Clearing Member, and
 - All Client Open Positions registered in the name of the defaulting Clearing Member.

- b. Auction of the positions within a specified price band
 - i. Upon a default/failure by a Clearing Member, NCCL may, at its discretion, initiate a procedure to auction the open positions registered in the name of the defaulting Clearing Member.
 - ii. NCCL shall auction the following Open Positions:
 - Proprietary Open Positions registered in the name of the defaulting Clearing Member, and
 - All Client Open Positions registered in the name of the defaulting Clearing Member.
 - iii. A separate auction session shall be conducted by NCCL and the auction mechanism shall be notified to the Clearing Members.
 - iv. NCCL shall not have any liability whatsoever to any Clearing Member or to any other person (including, without limitation, any Client or (Associated) Trading Member) in respect of any damage, loss, cost or expense of

whatsoever nature suffered or incurred by a Clearing Member or any other person, as the case may be, as a result of the occurrence and management of an event of default.

- v. For each position, NCCL would declare a minimum price based on its Daily Settlement Price (DSP).
- vi. All the Clearing Members/Clients can bid in the auction market (except the defaulting member /clients).

c. Voluntary tear-up of positions

- i. Tear up (or 'termination ') refers to the cash settlement and cancellation of contracts. Tear up may be voluntary or partial, where the smallest subset of contracts that will return NCCL to a matched book is selected for termination.
- ii. The tear up of contracts shall be done for those positions that are opposite to the positions of the defaulting Clearing Member /clients.
- iii. NCCL shall invite non-defaulting Clearing Members to nominate their contracts for tear up to assist restoration of a matched book. The CMs/ Clients may voluntarily give their consent for tear up of their contracts.
- iv. NCCL shall select the nominated contracts for termination. NCCL may terminate some or all open consents received in order to return to a matched book and reduce further losses.
- v. The termination could be for only those contracts needed to offset the defaulted contracts.
- vi. The compensation will be paid to the non-defaulting Members whose contracts have been selected for tear up. The compensation shall be percentage of last mark-to-market price equal to twice the daily price limit applicable in that contract.
- vii. In case of breakup of netting arrangement of the contacts selected for tear up, NCCL shall not be responsible.
- viii. Over and above the compensation at percentage of last mark-to-market price equal to twice the daily price limit, a penalty of 5% of last mark to market price shall be levied on the defaulting Clearing Member and credited to SGF.
- ix. In case of voluntary tear up, if NCCL receives more nominations from the non-defaulting members for tear up than the allocation shall be done on pro rata basis or as decided by NCCL.

d. Partial Tear up of positions

- i. Upon the occurrence of an event of default by a Clearing Member, NCCL may, at its discretion, initiate a procedure to partially tear up the open positions registered in the name of the defaulting Clearing Member.
- ii. NCCL shall carry out partial tear-up the following Open Positions:
 - Proprietary Open Positions registered in the name of the defaulting Clearing Member, and
 - All Client Open Positions registered in the name of the defaulting Clearing Member.

- iii. The partial tear up of defaulting member's positions will be done on pro-rata basis against Members / Clients having opposite positions at last mark-to-market price.
- iv. NCCL will on its own select the contracts which are having opposite position of non-defaulting member to that of defaulting member and on a pro-rata basis allocate the positions for tear up.
- v. The compensation will be paid to the non-defaulting members whose contracts have been selected for tear up. The compensation shall be a percentage of last mark-to-market price, equal to thrice the daily price limit.
- vi. In case of breakup of netting arrangement because of partial tear up, NCCL shall not be responsible or liable in any manner.
- vii. Over and above the compensation at percentage of last mark-to-market price equal to thrice the daily price limit, a penalty of 5% of last mark to market price shall be levied on the defaulting Clearing Member and credited to SGF.

The process adopted by NCCL for liquidating the positions shall be final and binding on all the Members. All the charges/fees/losses incidental to the regaining matched book will be recovered from the defaulting Member. If the funds of the defaulting Member available with NCCL after liquidation of his positions are insufficient, the defaulting Clearing Member would be liable to pay the balance. NCCL in addition to the foregoing provisions, take such other risk containment measures as it deems fit and may further take such disciplinary action as it may deem fit and appropriate, in this regard.

2. Measures in case of repeated shortfall in margin/pay-in

Non-fulfilment of settlement obligation by scheduled date and time and Non-fulfilment of Margin Obligation is a violation of NCCL Rules, Bye-Laws and Regulations and attracts penal action as may be stipulated by NCCL from time to time. The following measures shall be initiated in case of repeated shortfall in margin / pay-in:

a. Measures in case of repeated shortfall in margin

In cases where margin utilization exceeds 100% of Clearing Member's capital/collateral resulting in margin shortages on three occasions in the previous 30 days, then:

- i. An amount equivalent to cumulative margin shortages of the past 30 days shall be blocked from the deposits of the Clearing Member. The margin shortage at the time of violating the trigger point of 100% on each of occasion shall be considered.
- ii. In case there are more than one instance of margin shortage in a day, the highest amount of margin shortage at the time of violating the trigger point of 100% shall be considered.
- iii. The amount shall be blocked for a period of 30 days and shall be released only if no further margin shortages are reported for the member during the said period.

iv. The amount blocked shall not be available towards any margin benefit.

b. Measures in case of repeated shortfall in pay-in

In case of a shortfall in meeting pay-in obligations by a Member (towards MTM including CTT) over Rs.3.00 Lakh is observed on three occasions in past 30 days, then:

- i. An amount equivalent to cumulative MTM (including CTT) funds shortage of the past 30 days shall be blocked from the deposits of the Clearing Member.
- ii. The amount shall be blocked for a period of 30 days and shall be released only if no further funds shortages are reported for the member during the said period.
- iii. The amount blocked shall not be available towards any margin benefit.

3. Margin collection and Enforcement

All applicable margins shall be deducted by NCCL from the Liquid Assets of the Clearing Members on an online, real time basis. Margins applicable on client positions have to be compulsorily collected from the clients and reported to NCCL by the members.

The members are required to collect Initial Margin and ELM upfront from their clients as applicable at the time of the trade. For other margins (MTM margin, Additional margin, delivery margin or any other margin as prescribed by NCCL/SEBI) members shall have time till 'T+2' working days to collect from their clients. The period of T+2 days has been allowed to members to collect margin from clients taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that clients have been allowed two days to pay margin due from them.

In terms of the Rules, Byelaws and Regulations of NCCL and as per the directives received from the SEBI, Members are advised not to accept collaterals such as third party collaterals, immovable properties and other illiquid collaterals towards settlement/ margin requirements of their clients.

Members are further advised that margins collected from clients should be in such forms which are highly liquid and are owned by the depositing client.

IV. SETTLEMENT GUARANTEE FUND & DEFAULT WATERFALL

The contribution to Core SGF, maintenance thereof and utilization of the SGF corpus shall be as prescribed by SEBI from time to time.

The provisions of the SEBI norms for Settlement Guarantee Fund and default waterfall are given below.

Core Settlement Guarantee Fund (Core SGF)

1. Objective of Core SGF

NCCL shall have a fund called Core SGF for each segment of each Recognized Stock Exchange to guarantee the settlement of trades executed in respective segment of the SE. In the event of a Clearing Member (member) failing to honour settlement commitments, the Core SGF shall be used to fulfill the obligations of that Member and complete the settlement without affecting the normal settlement process.

2. Corpus of Core SGF

The corpus of the fund should be adequate to meet out all the contingencies arising on account of failure of any Member(s). The risk or liability to the fund depends on various factors such as trade volume, delivery percentage, maximum settlement liability of the Members, the history of defaults, capital adequacy of the members, and the degree of safety measures employed by the NCCL/SE etc. A fixed formula, therefore, cannot be prescribed to estimate the risk or liability of the fund. However, in order to assess the fair quantum of the corpus of Core SGF, NCCL shall consider the following factors:

- Risk management system in force
- Current and projected volume/turnover to be cleared and settled by NCCL on guaranteed basis
- Track record of defaults of members (number of defaults, amount in default).

However, Minimum Required Corpus of Core SGF (MRC) for each segment of each stock exchange shall be subject to the following:

- a. The MRC shall be fixed for a month.
- b. By 15th of every month, NCCL shall review and determine the MRC for next month based on the results of daily stress tests of the preceding month. (For example, by 15th February, NCCL shall determine MRC for March based on results of various stress tests conducted in January). NCCL shall also review and determine by 15th of every month, the adequacy of contributions made by various contributors and any further contributions to the Core SGF required to be made by various contributors (as per clause 4) for the next month.

- c. For every day of the preceding month (i.e., January as per example in (b) above), uncovered loss numbers shall be estimated by the various stress tests for credit risk conducted by the NCCL for the segment (as per clause 14) and highest of such numbers shall be taken as worst case loss number for the day.
- d. Average of all the daily worst case loss numbers determined in (c) above shall be calculated.
- e. The MRC for next month (i.e., March as per example in (b) above) shall be higher of the average arrived in at step (d) above and the segment MRC as per previous review (i.e., review done on 15th January for the month of February).
- f. Minimum threshold value of MRC for commodity derivatives segment of any stock exchange shall be INR 10 Crores.

3. Contribution to Core SGF

At any point of time, the contributions of various contributors to Core SGF of any segment shall be as follows:

- a. Clearing Corporation contribution: NCCL contribution to Core SGF shall be at least 50% of the MRC. NCCL shall make this contribution from its own funds. NCCL contribution to core SGFs shall be considered as part of its net worth.
- b. Stock Exchange contribution: Stock Exchange contribution to Core SGF shall be at least 25% of the MRC.
- c. Clearing Member primary contribution: If the CC wishes, it can seek risk based contribution from Clearing Members (CMs) of the segment (including custodial Clearing Members) to the Core SGF subject to the following conditions:
 - i. that total contribution from CMs shall not be more than 25% of the MRC,
 - ii. that no exposure shall be available on Core SGF contribution of any CM (exposure free collateral of CM available with NCCL can be considered towards Core SGF contribution of CM), and
 - iii. that required contributions of individual CMs shall be pro-rata based on the risk they bring to the system.

NCCL shall have the flexibility to collect CM primary contribution either upfront or staggered over a period of time. In case of staggered contribution, the remaining balance shall be met by NCCL to ensure adequacy of total Core SGF corpus at all times. Such NCCL contribution shall be available to NCCL for withdrawal as and when further contributions from CMs are received.

The above prescribed limits of contribution by NCCL, SE and CMs may be reviewed from time to time considering the prevailing market conditions.

Any penalties levied by NCCL (as per Regulation 34 of SECC Regulations) shall be credited to Core SGF corpus.

Interest on cash contribution to Core SGF shall also accrue to the Core SGF and pro-rata attributed to the contributors in proportion to their cash contribution.

NCCL shall ordinarily accept cash collateral for Core SGF contribution. However, NCCL may accept CM contribution in the form of bank FDs too. NCCL shall adhere to specific guidance which may be issued by SEBI from time to time in this regard.

4. Default Waterfall

The default waterfall of NCCL for any segment shall generally follow the following order –

- a. Monies of defaulting member (including defaulting member's primary contribution to Core SGF(s) and excess monies of defaulter in other segments).
- b. Insurance, if any.
- c. NCCL resources (equal to 5% of the segment MRC).
- d. Core SGF of the segment in the following order:
 - i. Penalties
 - ii. NCCL contribution to the extent of at least 25% of the segment MRC
 - iii. Remaining Core SGF: NCCL contribution, Stock Exchange contribution and non-defaulting members' primary contribution to Core SGF on pro-rata basis.
- e. Proportion of remaining NCCL resources (excluding NCCL contribution to core SGFs of other segments and INR 100 Crore) equal to ratio of segment MRC to sum of MRCs of all segments.*
- f. NCCL/SE contribution to Core SGFs of other segments (after meeting obligations of those segments) and remaining NCCL resources to that extent as approved by SEBI.
- g. Capped additional contribution by non-defaulting members of the segment. **
- h. Any remaining loss to be covered by way of pro-rata haircut to payouts. ***

*INR 100 Crore to be excluded only when remaining NCCL resources (excluding NCCL contribution to core SGFs of other segments) are more than INR 100 Crore.

**NCCL shall limit the liability of non-defaulting members towards additional contribution to a multiple of their required primary contribution to Core SGF and the framework regarding the same should be disclosed. In case of shortfall in recovery of assessed amounts from non-defaulting members, further loss can be allocated to layer 'VI' with approval of SEBI.

***In case loss allocation is effected through haircut to payouts, any subsequent usage of funds shall be with prior SEBI approval. Further, any exit by NCCL post using this layer shall be as per the terms decided by SEBI in public interest.