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1. What does regaining matched book refers?

As per SEBI Master circular SEBI/HO/CDMRD/DNPMP/CIR/P/2020/118 dated July 10, 2020 on Master circular for Commodity Derivatives Market, , in the event of a member/client failing to honour pay-in/margin obligations, the Clearing corporation 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 only in extremely rare occasions when the exchange reasonably expects that it may not be able to restore a matched book by choosing the alternatives above it:

- i) **Alternative 1:** Liquidation in normal market in orderly manner (with relaxed price limits, if required);
- ii) **Alternative 2:** Auction of the positions within a specified price band;
- iii) **Alternative 3:** Voluntary tear-up at last mark-to-market price along with compensation equal to 10% of last mark-to-market price and penalty equal to 1 % of last mark-to-market price (to be credited to SGF);
- iv) **Alternative 4:** Partial tear-up (pro-rata against members/clients having opposite positions) at last mark-to-market price along with compensation Equal to 8% of last mark-to-market price and penalty equal to 1% of last mark-to-market price (to be credited to SGF).

2. What does Auction of the positions refers?

The Clearing Corporation (CC) may offer outstanding position of the defaulting member to non-defaulting members with a minimum floor price.

3. What are the salient features of Auction session?

- All the clearing members/clients can bid in the auction market (except the defaulting member / clients)
- A circular informing market participants about Auction session to liquidate positions of the defaulting member shall be issued giving details of quantity offered under auction along with a floor price.
- Auction session shall be available for around 45 minutes or such duration as announced by the Clearing Corporation, during which members can submit their orders.
- Members shall submit orders through such mode as announced in the circular e.g. E-Mail / Fax/ NCFE.
- The orders submitted should have details of Price, Quantity and Client id.
- The orders shall be matched based on price and time priority and positions will be allocated to eligible participating member/ client by placing trades in their account.

4. What is 'Tear up'?

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 the Clearing Corporation to a matched book is select for termination.



5. What is Voluntary tear up and when will the Clearing Corporation initiate Voluntary tear up?

Voluntary tear up is a rules-based process where the clearing members/clients voluntarily give their consent for tear up of their contracts. The Clearing Corporation with/without exercising alternative 1 and 2 as mentioned above, shall invite non-defaulting clearing members to nominate their contracts for tear up to assist restoration of a matched book.

6. What are the salient features of Voluntary tear up?

- The members having positions that are opposite to the positions of the defaulting clearing member /clients can only participate.
- A circular informing market participants about voluntary tear up to liquidate positions of the defaulting member shall be issued giving details of quantity offered under voluntary tear-up.
- The session shall be available for around 45 minutes or such duration as announced by the Clearing Corporation, during which member can submit their requests for voluntary tear up.
- Members shall submit request through such mode as announced in the circular e.g. Email/Fax/NCFE.
- The requests shall have details of Quantity and Client id.
- In case the Clearing Corporation receives, more nominations from the non-defaulting members for tear up then the allocation shall be done on pro-rata basis or as decided by the Clearing Corporation.
- Compensation will be paid to the non-defaulting members whose contracts have been selected for tear up. The compensation shall be 10 percentage of last mark-to-market price. The positions shall be allocated to eligible participating member/client by placing trades in their account after which their existing open positions shall get squared off to that extent due to tear up.

7. What is Partial tear up and when will the Clearing Corporation initiate Partial tear-up?

In Partial tear up, the Clearing Corporation will on its own select the contracts of non-defaulting member having opposite position to that of defaulting member and on a pro-rata basis allocate the positions for tear up.

8. What are the salient features of Partial tear-up?

- 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.
- A circular informing market participants about partial tear up to liquidate positions of the defaulting member shall be issued giving details of quantity for tear-up.
- Member will not be required to submit any request.
- The pro-rata allocation shall be carried out at proprietary/client code level having opposite position at contract level.
- The compensation will be paid to the non-defaulting members whose contracts have been selected for tear up. The compensation shall be 8% percentage of last mark-to-market price. The partial tear up shall be carried out through trades in the defaulting and non-defaulting member / clients account.



9. What will happen to spread positions in case of tear-up?

The alternatives for regaining match book as mentioned above will be resorted to in extremely rare occasions when the Clearing Corporation reasonably expects that it may not be able to restore a matched book by choosing the alternatives above it. So in tear-up process there may be a situation wherein client having long position in one expiry month and short position in another expiry month of same commodity, may have breakup of netting arrangement of the contacts selected for tear up. The Clearing Corporation shall not be responsible in case of breakup of netting arrangement of the contacts selected for tear up.

10. What does ‘last mark-to-market price used for computing compensation under tear-up’ refers?

The last mark-to-market price used for deciding compensation under tear-up means the last daily settlement price of the respective contract as announced by the Clearing Corporation. The trade will be entered at last mark to market price and compensation shall be settled separately.

For example, CONTRACT20DEC2020
Last mark to market price - Rs 20,000

Particulars	Auction	Voluntary tear-up	Partial tear-up
Compensation to counter party	Difference between the auction price and last mark to market price	$20,000 * 10\% = 2000$	$20,000 * 8\% = 1600$

11. What is format for submitting orders through NCFE?

In case the Clearing Corporation announces submission of orders for ‘Auction session’ or submission of requests for ‘Voluntary Tear-up’ through NCFE, the members can submit the same through offline order entry facility of NCFE.

12. What is format for submitting orders for Auction and Voluntary Tear Up and The members shall submit the on behalf of its clients for bids for auction and consents nominating their contracts for voluntary tear up through the NCFE member login.

Also if there is any change for submitting orders , it shall be intimated when the circular is issued to the market participants.