

RECOVERY AND WIND DOWN PLAN & STANDARD OPERATING PROCEDURE



NATIONAL COMMODITY CLEARING LIMITED

Recovery and Wind Down Plan

Glossary

BG	Bank Guarantee
CC	Clearing Corporation
CCP	Central Counterparty
CM	Clearing Member
FDR	Fixed Deposit Receipts
FMI	Financial Market Infrastructures
IBC	Insolvency and Bankruptcy Code
MTM	Mark-to-market
NCCL / the Clearing Corporation	National Commodity Clearing Limited
NCDEX	National Commodity and Derivatives Exchange Limited
PFMI	Principles of Financial Market Infrastructures
RWP	Recovery and Wind-Down Plan
SEBI	Securities and Exchange Board of India
SGF	Core Settlement Guarantee Fund
WSP	Warehouse Service Provider

1. Executive Summary

National Commodity Clearing Limited (NCCL / the Clearing Corporation) is a recognized Clearing Corporation by SEBI for performing the function of clearing and settlement of trade (s) executed on the Exchange platform.

NCCL has adopted a Recovery and Wind-Down Plan (RWP). This document provides on how the recovery and wind-down of operations will be executed based on guidelines provided by SEBI circular no SEBI/HO/MRD/MRD-PoD-3/2022/173 dated December 16, 2022.

The Principles of Financial Market Infrastructures outlines that all systemically important FMIs should have a comprehensive and effective recovery and orderly wind-down plan. PFMI Principle 3 on Framework for the comprehensive management of risks provides that an FMI should prepare appropriate plans for its recovery or orderly wind-down. Further Principle 15 on General business risk require an FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan.

2. Purpose

The purpose of the RWP is to maintain the continuity of critical services in times of extreme stress and to facilitate the recovery. Further, in case the recovery effort fails, then RWP aims to enable NCCL to cease its regulated activities and achieve cancellation of its permission with minimal adverse impact on its market participants, service providers and the wider markets. RWP includes scenarios where NCCL undertakes a strategic exit from its business as well as unexpected crisis and/or losses that makes NCCL unviable. The RWP seeks to identify:

- i. The risks faced by NCCL and the risk management framework to mitigate and manage those risks.
- ii. Recovery tools in case of mitigation tools prove to be inadequate.
- iii. Wind down plan in case the recovery efforts fail.
- iv. Wind down scenarios and strategies.
- v. Time, cost and resource estimation for winding down operations.
- vi. Governance structure to execute RWP.

3. Risk Management Framework

NCCL has put in place robust risk management framework in compliance with the regulatory requirements prescribed by SEBI to manage risks. NCCL risk management practices are also broadly in compliance with the Principles for Financial Market Infrastructures.

3.1. Major risk management measures to manage Clearing Member (CM)'s default:

- 3.1.1. NCCL has specific eligibility criterion for applicants, which they must fulfil to become its CM. NCCL also has specific criterion for termination of membership, the

provisions of which are covered under Rules & Bye-Laws of NCCL. Further, there are deposit requirement from the CM.

- 3.1.2. NCCL employs risk-based margins where CM are charged initial and other margins to cover the potential future exposure.
- 3.1.3. NCCL has other risk management measures like daily mark to market settlement, daily price limits, position limits, concentration limit etc.
- 3.1.4. NCCL maintains Core Settlement Guarantee Fund (SGF)
- 3.1.5. NCCL has defined alternative measures to liquidate the positions and regain a matched book

3.2. Settlement Bank Risk

NCCL typically manages the credit and liquidity risks arising from the failure of a settlement bank by using a number of settlement banks and strict criteria for selection of Banks to ensure high credit worthiness. Further, there is minimum time gap between pay-in and pay-out during which NCCL shall be exposed to the bank failure risk.

3.3. Investment Risks

Investments made by NCCL are based on the principles of safety, liquidity and reasonable return. NCCL has eligibility criteria for entities where investments can be made and also the instruments where investments can be made. Further, there are counter-party and instrument level limits.

3.4. Delivery Risk

Delivery risk is managed by

- 3.4.1. compliance of the Warehousing Norms,
- 3.4.2. entering into legal agreements with Warehouse Service Providers (WSP) to bind them to discharge their obligations,
- 3.4.3. audit mechanism

3.5. Operational Risk

NCCL has three lines of defence in place. Process and checks are in place to manage operational risk. Further NCCL has Business Continuity Plan and Disaster Recovery in place to ensure operations are not impacted in case of any untoward situations/incidents.

This document is segmented into following 4 categories

- a. Recovery tools
- b. Wind down strategies (Position shifting / close out / allow contracts to expire)
- c. Return of Assets

SEGMENT 1

4. Recovery Tools

In case risk measures prove to be inadequate resulting in a default by CM(s), NCCL shall use the recovery tools. These tools are in line with the SEBI directives issued vide circular dated 1st September 2016 and revised guidelines issued on 3rd March 2020 on Regaining Matched Book.

- 4.1. Liquidation of the open positions of the defaulting member: - Upon the occurrence of an Event of Default of a CM, the Clearing Corporation may, at its discretion, initiate a procedure to liquidate the Open Positions of the Defaulting CM. In case the positions of the defaulter are not very large and if it is felt that the positions or large part of the positions can be closed out through liquidation in the market without much disruption, then close out of such positions/trades through a liquidation in the market shall be initiated.
- 4.2. Auction of positions - When auction of positions is resorted to for closing out of defaulting CM(s) positions, the position may be split into smaller tranches thereafter bids could be invited from the Clearing members. Such bids will have to be submitted within a stipulated cut off time. Auction provides significant advantage to the hedgers and other physical market participants as hedges or netting sets can remain intact. Auction also allows those who have appetite for taking new positions to buy such positions through auction. It may also facilitate defaulter's outstanding trade portfolio to be split into separate tranches and then sold.
- 4.3. Voluntary Tear-up – In case auction does not result into close-out of the entire open position of the defaulting CM, the voluntary tear up shall be resorted to. Voluntary tear-up is a rule-based mechanism to invite participants to nominate contracts for tear-up to assist restoration of a matched book.. If voluntary tear-up is successful in fully restoring a matched book, it avoids the disruption of a partial or complete mandatory tear-up without compromising participants' control of their net positions vis-à-vis the Clearing Corporation. The compensation will be paid to participant as per the SEBI guidelines.
- 4.4. Partial Tear-up – In case all the defaulting CM's position could not be closed even after the voluntary tear-up, partial tear up shall be implemented. Partial tear-up is to selectively cash settle a sub-set of the contracts that will return the Clearing Corporation to a matched book. The subset could be the original opposing trades to the defaulter's or a matching set of trades drawn from across all CMs holding positions in the same class as those of the defaulter, whether or not their original trades were with the defaulter. The compensation will be paid to participant as per the SEBI guidelines.

Further, in case of potential default by CM, actions as enumerated in SEBI circular dated July 01, 2020 shall be taken. The actions inter alia include the following:

1. Issuance of instruction to the banks that the balance in all the bank accounts of the CM shall be frozen for debits by Banks.
2. Invoke the unencumbered collateral deposits including BGs / FDRs.
3. Secure the unencumbered collateral deposits of the CM, electronic balances in the depository account including invocation of the BGs / FDRs.

In case of a default or non-default risk event

Replenishment of funds - NCCL capital is contributed by its shareholders. Capital may be contributed by the shareholders in order to replenish funds utilised, in case the net worth falls below the regulatory requirement.

5. Governance of default handling :

Default Management Committee (DMC) of NCCL is entrusted with the oversight and management of default by the Governing Board.

SEGMENT 2

6. Wind-down:

When all the recovery and resolution tools fails and likelihood of NCCL continuing as going concern is challenged then, NCCL will have to consider winding-down its operations in a way that there is minimal adverse impact on its market participants, service providers and the wider markets.

7. Wind-down scenarios:

7.1. Voluntary wind down

- 7.1.1. Profitability - Substantial accumulated losses
- 7.1.2. Wind down of NCDEX - If NCDEX wind down its operations
- 7.1.3. No exchange business - If no exchange is willing to perform clearing through NCCL

7.2. Orderly wind-down necessitated by a default or liquidity shortfall

- 7.2.1. Default / Potential default by CM(s) - Non-meeting of obligations by CM(s).
- 7.2.2. Settlement Bank Risk - Default by largest or few settlement banks
- 7.2.3. Investment Risk - Default by banks or mutual funds or substantial reduction in value of investments made

7.3. Orderly wind-down necessitated by general business risk, operational risk and any other risk that threatens solvency of the CC

- 7.3.1. Operational Risk - Catastrophic situations, technology error, technology failure, cyber and information security breach, human error, fraud, etc.
- 7.3.2. Regulatory Risk - Adverse action by regulator - non-approval for new contracts of NCDEX, ban on contracts of NCDEX, substantial penalty, increased capital requirement in form of net-worth and SGF requirement impacting CC operations, unable to meet the minimum turnover criteria, direction from SEBI to wind down its critical operations and services in case of non-compliance of either the conditions of grant of recognition or renewal, wherever applicable; or any other condition under the applicable laws.
- 7.3.3. Legal risk -
 - Any adverse order by any court / authority impacting continuity of business of CC
- 7.3.4. Reputation risk - Adverse effect on reputation can impact the continuity of business
- 7.3.5. Capitalization risk - Company's shareholders are unwilling to recapitalise NCCL

8. Wind down decision

Consideration of the wind-down plan becomes relevant when despite management actions recovery efforts have not been or are unlikely to be successful in reviving NCCL as a going concern.

9. Wind Down Procedure:

9.1. Voluntary Winding Down:

- 9.1.1. Voluntary winding down shall be approved by the Governing Board & shareholders of NCCL and SEBI.
- 9.1.2. NCCL shall inform the CMs and the market regarding its decision to wind down voluntarily and shall also mention a sufficient notice period for such winding down, after prior approval of SEBI..
- 9.1.3. NCCL shall continue to provide at least the critical services during the notice period
- 9.1.4. Once the winding down process is initiated, any open positions of the CMs and/ or its constituents at NCCL may be transferred to the new CC where the CMs become member within the notice period, in case such transfer is feasible.
- 9.1.5. Any open positions within the notice period that could not be transferred shall be closed-out at the daily settlement price and in terms of the provisions of the Rules, Bye-laws and Regulations of NCCL

9.2. Involuntary Winding down due to default by CM(s) or due to other factors:

- 9.2.1. NCCL shall announce a termination date, with prior approval of SEBI.
- 9.2.2. The CMs who have open positions may change their designated CC, or close-out their open positions.
- 9.2.3. All open positions, if any, shall expire at the daily settlement prices of the termination date.

9.3. Involuntary Winding down due to regulatory action

Winding down in case of any regulatory action, shall in accordance with the directions, as may be issued by SEBI from time to time. .

10. Wind down strategy

NCCL may follow the following strategies

- 10.1. **Transfer of open positions to other clearing corporation** - The open positions if any, of the participants shall be transferred to other clearing corporation, if feasible.
- 10.2. **Allow contracts to expire** - In case transfer of positions to other clearing corporations is not feasible; NCCL shall allow derivative contracts to expire upon reaching contractual maturity. Further post physical settlement, necessary intimation shall be sent to CMs and/ or its

constituents having any open positions and NCCL will stand absolved of all the obligations related to commodities in warehouses.

10.3. Close out of all the positions - NCCL can also close-out all open positions in all the contracts and settle the outstanding positions. In such case, the MTM settlement will be completed. Further post physical settlement, necessary intimation shall be sent to CMs and/ or its constituents having any open positions and NCCL will stand absolved of all the obligations related to commodities in warehouses. .

11. Operational requirements

Requirements for different strategies discussed above would vary and shall in accordance with Standard Operating Procedure as in force from time to time. .

12. Wind-down capital

As required by SEBI circular no. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2022/173 dated December 16, 2022, while computing the capital requirement for winding down, NCCL shall hold liquid net assets equal to at least six months of gross operational expenses.

13. Communication plan

In the event of a wind-down, there will be a wide-range of different stakeholders who will be required to be notified at different points in time depending on the stage of winding down including but not limited to– regulators (other than SEBI), members, service providers including WSPs, shareholders, employees among others.

Except and to the extent as provided in this policy and subject to regulatory guidelines as in force, the provisions of the applicable legislation at that relevant time shall govern the wind down process.

SEGMENT 3

14. Return of Assets

NCCL shall distribute its assets subject to conditions as laid down in its framework, guidelines issued by SEBI from time to time, or any other direction issued by SEBI or any other statutory authority and shall be governed by the SEBI circular no. SEBI/HO/MRD/MRD-PoD-3/2022/173 dated December 16, 2022.

15. Governance

15.1. Board of Directors

15.1.1. The Board shall be responsible for taking a decision of wind-down, initiating the wind down plan, give such declarations and carry out all such actions as may be required for voluntary winding up.

15.1.2. The Board shall constitute a designated authority comprising of personnel from top management of NCCL to carry out the wind down in accordance with the SEBI circular no SEBI/HO/MRD/MRD-PoD-3/2022/173 dated December 16, 2022.

15.1.3. The Board shall delegate all the necessary powers to the designated authority to carry out winding down of operations

15.1.4. The Regulatory Oversight Committee (ROC) of NCCL shall oversee the implementation of steps or processes involved in orderly winding down of critical operations and services and shall submit a report to SEBI after approval from the governing board, in a manner as may be specified by SEBI, upon completion of necessary steps or processes.

15.2. The provisions of SECC Regulations, 2018 as in force and amended from time to time as well as the various circulars and guidelines issued thereunder, shall continue to apply during the entire period of winding down of critical operations and services of CCs.

STANDARD OPERATING PROCEDURE

Overview

The Standard Operating Procedure (SOP) forms part of the Recovery and Wind Down Plan (RWP) of NCCL. The SOP prescribes the manner in which the winding down of the critical operations and services of NCCL shall be carried out upon triggering of any of the scenarios as specified in the RWP.

The purpose of the RWP is to maintain the continuity of critical services in times of extreme stress and to facilitate the recovery. Further, in case of the failure in the said recovery effort, this RWP aims to enable NCCL to cease its regulated activities and achieve cancellation of its permission with minimal adverse impact on its market participants, service providers and the wider markets.

NCCL will issue notice to the market participants, Exchanges, WSPs, Repositories and Banks conveying the circumstances of wind-down, transfer or liquidation time, termination date etc upon approval of the winding down of the operations of NCCL by its Governing Board, its shareholders and SEBI

Orderly winding down of critical operations and services shall be as follows.

1.1. Transfer of positions, collateral and membership to another clearing corporation if feasible

- 1.1.1. The consent of CMs for transfer of positions and collaterals shall be sought
- 1.1.2. Operational procedure for transfer of positions and collaterals to other clearing corporation shall be specified through a circular at the time of winding down.
- 1.1.3. Confirmation from the other clearing corporation with respect to completion of transfer of positions and collateral and no further liability of NCCL, shall be sought by NCCL from other clearing corporation(s).
- 1.1.4. Confirmation from CM with respect to completion of transfer of positions and collateral and of no further liability shall be sought by NCCL from CM(s).

1.2. Liquidation of the positions and refund of the money to the participants

- 1.2.1. Positions shall be liquidated in the manner as prescribed by SEBI circular and as in force from time to time in case;
 - 1.2.1.1. CM is not interested to transfer the position to other clearing corporation
 - 1.2.1.2. All positions are being closed out
 - 1.2.1.3. At the expiry of the contract in case position is held till the contract expires
- 1.2.2. Price at which the positions shall be liquidated:
 - 1.2.2.1. In case where positions which are allowed to be closed at the expiry of the contracts , at the final settlement price (FSP)
 - 1.2.2.2. In case of all open positions, if any, shall expire at the daily settlement prices of the termination date
 - 1.2.2.3. or at such price as may be determined by the designated authority of NCCL
- 1.2.3. Balance collateral shall be refunded to the CMs after adjusting any claims and as per the membership terms.

1.3. De-empanelment of WSPs after removal of the commodities from the approved space

- 1.3.1. The WSP shall be instructed to give delivery of all the commodities stored in the warehouse as per the contract specifications to the respective holders of e-NWR. In case of any deviation in quantity or quality of commodities as per the contract specification, the WSPs shall be instructed to compensate the respective holders of e-NWR. .
- 1.3.2. Security deposits of the WSPs shall be released only after all the commodities stored in the warehouses has been delivered and all the dues towards beneficiaries,

Clearing Corporation and repository has been settled. A confirmation with respect to delivery out of all goods from the WSP shall be obtained from the Repository.

1.3.3.WSPs shall be de-empanelled and notice to the WSP and market participant to this effect shall be given

1.4. NCCL shall continue to operate from its registered office in Mumbai or any other place which shall be informed to the market participants

1.5. Technology:

1.5.1.NCCL shall keep its Risk Management and Clearing & Settlement systems operational till the completion of close out of all the positions.

1.5.2. Data back-up shall be taken for any future regulatory requirements at all the times till NCCL ceases to exist

1.5.3.Contracts with outsourced employees and vendors critical for maintenance of systems shall be continued till such time as the designated authority will require the said services.

1.6. Critical Resources:

NCCL has identified the below critical operations and services of the CC in case of an orderly wind down of the CC.

SN	Department	Roles & Responsibilities
1	Clearing & Settlement	Clearing & settlement of trades, maintenance of the collateral, return of the balance collaterals to the members, mark to market settlement, issuance of Daily Settlement Price and Final Settlement Price
2	Risk Management	Liquidation of the position, maintenance of adequate margins
3	Technology	Functioning of critical risk management, clearing & settlement systems, providing regular back office files to the members
4	Logistics	Ensuring deposits and deliveries from the approved warehouses, de-empanelment of WSPs after removal of the commodities from the approved space, refund of security deposits post settlement of all claims by WSP and confirmation from repository on complete withdrawal of all commodities against the e-NWRs issued.
5	Regulatory	Ensuring compliance with SEBI regulations, de-empanelment of membership, confirmation from CMs with respect to no further liability of NCCL

Retaining key employees, infrastructure, premises, technological systems including back-up, outsourcing activities / vendors /services providers, etc would depend on the time estimate for close out, transfer of position to other CC and contract allowed till expiry..

Number of key employees from various department who shall be retained and responsible for development, review, and ongoing monitoring etc. of the critical operations and services depends on whether the open position would be transferred, closed out or allowed till expire are given below:

Sr. no	Team	Close Out	Transfer to other CC	Allowed till expire
1	Clearing & Settlement	2	2	5
2	Risk Management	2	2	4
3	Logistics	2	2	5
4	Compliance	3	3	3
5	Legal and Membership	2	2	2
6	Technology	4	4	5
	Total	15	15	24