

NSE Clearing Limited

(Formerly known as National Securities Clearing Corporation Limited)

Department : CURRENCY DERIVATIVES SEGMENT

Download Ref No: NCL/CD/39454

Date : November 21, 2018

Circular Ref. No: 59/2018

All Members,

Sub- Clearing & Settlement – Futures contracts on overnight call rate (MIBOR)

This is further to Exchange Circular no. NSE/CD/39419 dated November 19, 2018 and in continuation to circular no NSCCL/CD/34654 dated April 17, 2017 members are requested to please take a note of Clearing, Settlement and Risk Management for Futures contracts on overnight call rate (MIBOR).

A. Clearing and Settlement

1. All trades executed will be cleared using multilateral netting system currently applicable for other derivatives contract in the Currency Derivatives Segment. Open positions for each contract will be subject to margins on a daily basis
2. The present funds settlement procedure in the Currency Derivatives segment shall be applicable for these contracts also. The clearing member level net settlement obligations settled in the currency derivatives segment shall also include obligations for overnight call rate (MIBOR) futures.
3. The procedure for settlement of the overnight call rate (MIBOR) futures contracts shall be in line with the existing settlement procedure adopted in Currency Derivatives Segment as under:

3.1. Daily Mark to Market settlement of futures on T+1 Day

All the open positions shall be marked to market on the daily settlement rate. The profit/ loss resulting there from shall be either paid to/ received from such member in accordance with the laid down settlement procedures as may be in place in the relevant segment.

3.2. Daily settlement rate

Daily settlement rate shall be Volume Weighted Average Rate of trades done

- In last 30 minutes of trading, subject to min 5 trades else
- In last 60 minutes of trading, subject to min 5 trades else

In the absence or non-fulfilment of the above, theoretical settlement rate shall be considered for computation of Daily Settlement Value.

Theoretical rate for the overnight MIBOR futures for near month contract shall be computed as follows:

Theoretical Daily Settlement rate =

$$\frac{\text{Realised Rate}^1 * \text{No. of days lapsed}}{\text{Tenor in days}} + \frac{\text{Expected Rate}^2 * \text{Residual No. of days}}{\text{Tenor in days}}$$

¹Realised rate shall be computed using daily simple average of Overnight Call Rate (MIBOR) for lapsed number of days.

²Expected rate shall be computed using interpolation method using the relevant MIBOR OIS rates.

Theoretical rate for the overnight MIBOR futures for other month contract shall be computed as forward rate using the relevant MIBOR OIS rates.

3.3. Final Settlement of futures contracts

All open positions on the last trading day of the futures contract shall be marked to the final settlement price for the relevant futures contract and shall be cash settled on T+1 day. The profit/ loss resulting there from shall be paid to / received from such members in accordance with the laid down settlement procedures in this regard. Upon completion of the final settlement, no positions in such futures contracts shall exist.

3.4. Final Settlement Rate

Final Settlement Rate shall be simple average of Overnight Call Rate (MIBOR) applicable for the expiry month (based on Overnight MIBOR rate published daily at 10:45 am by FBIL and rounded up to 4 decimals). In case there is a holiday, the rate will be considered for more than one day. For all computation purpose Saturday and Sunday will be considered as holiday. A sample computation methodology is given as **Annexure 1**.

4. The pay-in and pay-out of daily mark to market settlements and final settlement of futures contracts shall be effected in accordance with the settlement schedule issued by the Clearing Corporation periodically. The clearing members are required to have clear balance of funds in their clearing account towards their pay-in obligation by the declared pay-in time on the settlement day. The pay-out of funds shall be credited to the receiving members clearing account thereafter.

B. Margins

1. Initial margins

All open positions will be subject to initial margins. Initial margins will be based on portfolio approach to risk, in accordance with the requirements as may be prescribed by SEBI from time to time. The Initial Margin requirement shall be based on a worst case loss of a portfolio of an individual client across various scenarios of rate changes. The various scenarios of rate changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the price scan range may initially be fixed at 3.5 standard deviation. The initial margin so computed would be subject to a minimum of 5 % of the value of the contract. The initial margin shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

2. Extreme Loss Margins

Extreme loss margin shall be a percentage of the value of the contract for all gross open positions may be deducted from the liquid assets of the clearing member on an on line, real time basis. To begin with, extreme loss margin of 1% of the value of the contract shall be deducted from the liquid assets.

3. Calendar Spread Margin

Futures position at one maturity hedged by an offsetting futures position at a different maturity would be treated as a calendar spread. The calendar-spread margin shall be charged in addition to worst-scenario loss of the portfolio. The benefit for a calendar spread would continue till expiry of the near month contract. Calendar spread charges shall be Rs.6,500 for one month spread, Rs.7,000 for two months spread and Rs.7,500 for three months and above spreads

4. Additional margins

As a risk containment measure, the Clearing Corporation may require clearing members to make payment of additional margins as may be decided from time to time. This shall be in addition to the initial margin and extreme loss margin, which are or may have been imposed from time to time.

C. Position Limits

The position limits for futures on overnight call rate (MIBOR) shall be as given below:-

- Trading member and institutional client (including primary dealers) level position limit shall be higher of 15% of open interest or Rs.1000 Crores (200 contracts)
- Client level position limit shall be higher of 6% of open interest or Rs.300 Crores (60 contracts)

D. Additional Reports

An Additional report shall be downloaded on the day of expiry of Futures on overnight call rate (MIBOR). The file nomenclature and file format is given as **Annexure 2**.

All other rules, procedures and actions currently applicable in Currency Derivatives Segment shall also be applicable mutatis mutandis to Futures on Overnight call rate (MIBOR).

For and on behalf of
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