# Press Release Archives

**January 1, 2002**

## NSEIL launches 'NSE-VaR' system for Government Securities

Value-at-Risk (VaR) has been widely promoted by regulatory authorities as a way of monitoring and managing market risk and as a basis for setting regulatory minimum capital standards. The revised Basle Accord, implemented in January 1998, makes it mandatory for banks to use VaR as a basis for determining the amount of regulatory capital adequate for covering market risk beyond that required for credit risk. Within the realm of the fixed income portfolios of financial sector players, market related risk has become more relevant and important on account of their trading activities and market positions. For players in the Indian financial sector, the need to develop risk measurement models would prove critical as regulation progressively moves from uniform prudential standards to entity-specific risk coverage requirements. Specifically, the guidelines call for linking of each entity's market risk capital charge to the riskiness of its assets as measured by the chosen VaR model.

Accuracy of measurement would prove critical as regulation would not specify 'a' single model for measurement of risk; - the choice of model would be left to market participants who would also be required to furnish details of backtesting for the chosen VaR model. While a conservative estimate of risk would lead to very large capital holdings, a liberal estimate would result in inadequate coverage of loss and excessive number of model failures historically, which would in turn attract penalties from the regulator. It would therefore be in the interest of market participants to develop models that accurately measure the riskiness of their portfolios and furnish estimates of capital charge that would provide adequate cover. An important consideration in this context is that setting up of risk measurement systems by each individual participant for estimating portfolio risk under alternative models and scenarios would involve significant costs.

In line with its endeavour to develop market infrastructure, NSE has taken initiative in developing a VaR system for measuring the market risk inherent in Government of India (GoI) securities. The NSE-VaR system builds on the NSE database of daily yield curves - the NSE-ZCYC is now well accepted in terms of its conceptual soundness and empirical performance, and is increasingly being used by market participants as a basis for valuation of fixed income instruments. The NSE-VaR system provides measures of VaR using 5 alternative methods - variance-covariance (normal) and historical simulation methods, together with weighted normal, weighted historical simulation and the recently developed extreme value method. The technical paper explaining these methods is available on the NSE website (http://www.nseindia.com/debt/debtprodindex.htm). While the first set of methods are easier to implement and therefore more popular, they may not provide accurate assessment of risk in volatile market conditions. To this end, we provide estimates based on the latter set of methods that are specifically suited for this purpose. Together, the 5 methods would provide a range of options for market participants to choose from.

The NSE-VaR system would provide daily estimates of security-wise VaR at the 1-day and multi-day horizons for securities traded on the NSE-WDM and all outstanding GoI securities (the 1-day estimates are attached alongwith; the comprehensive list is available on the NSE website). Participants can compute their portfolio risk as a weighted average of the security-wise VaRs, the weights being the proportions of the market value of a given security in their portfolio. Portfolio risk calculated in this manner, however, would over-estimate the risk of the portfolio as it neglects the correlations among the values of the portfolio constituents. The system for computation of portfolio VaRs is currently under development and would be made available shortly.

1-day Value-at-Risk as on December 31, 2001 for Government of India Securities

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## Expulsion of trading member - Popular Stock & Share Services Limited

The National Stock Exchange of India Limited has expelled the trading member Popular Stock & Share Services Limited, with effect from January 1, 2002, due to failure of the trading/clearing member in meeting the capital requirements for continued admittance to the trading/clearing membership of the Exchange/Clearing Corporation.

The trading facility of the member was withdrawn since February 4, 2000 and was suspended since February 4, 2000.

Consequently, National Securities Clearing Corporation Ltd. has also expelled the said clearing member, Popular Stock & Share Services Limited with effect from January 1, 2002

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### Suspension of trading member - GCM Securities Limited

The National Stock Exchange of India Limited has suspended the trading member GCM Securities Limited, with effect from January 1, 2002, due to failure of the trading member in meeting the capital requirements for continued admittance to the trading/clearing membership of the Exchange/Clearing Corporation.

The trading facility of the member was withdrawn since December 13, 2000.

Consequently, National Securities Clearing Corporation Ltd. has also suspended the said clearing member, GCM Securities Limited with effect from January 1, 2002.

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### The Exchange has successfully completed its 464th Normal Settlement

The Exchange has successfully completed its 464th Normal Settlement (Rolling T+5 following SEBI directive) since inception i.e., Settlement Number N – 2001144 on January 1, 2002. The settlement statistics are as follows:

| Particulars | Values |
|---|---|
| | N-2001144 |
| Total traded quantity (lakhs) | 3701.11* |
| Total traded value (Rs. In Crores) | 4595.22* |
| Total value of the settlement (Securities) (Rs. In Crores) | 287.05 |
| Total value of the settlement (Funds) (Rs. In Crores) | 132.34 |
| Shortages for the settlement | 0.63% |
| % of Delivery ( No. of shares delivered / No. of shares traded ) | 6.38% |

* All time high at NSE (since July 2001) in Normal Segment.

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