Composition and Contributions to Core Settlement Guarantee Fund

SEBI vide its circular no. CIR/MRD/DRMNP/25/2014 dated August 27, 2014 has issued norms related to Core Settlement Guarantee Fund (Core SGF), Stress Testing and Default Procedures.

I. Core Settlement Guarantee Fund

NSSCL shall have a fund called Core SGF for each segment of NSEIL to guarantee the settlement of trades executed in respective segment.

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.

II. Corpus of Core SGF

Cash market, futures and options and currency derivatives segment
NSCCL shall maintain core SGF based solely on the methodology prescribed by SEBI for determining the minimum required corpus of Core SGF for cash market, futures and options and currency derivatives segments.

Debt Segment
For the debt segment, NSCCL shall arrive at the required corpus of core SGF based on the following criteria:

The Minimum Required Corpus for Core SGF of Debt Segment shall be the higher of:

1. Aggregate of losses of top 2 members assuming close out of obligations at loss of 4% less required margins.

2. Rs. 4 crores

III. Minimum Required Corpus

NSCCL shall compute the Minimum Required Corpus (MRC) for cash market, futures and options, currency derivatives, and debt segment which shall be subject to the following;

1. The MRC shall be fixed for a month.

2. By 15th of every month, NSCCL shall review and determine the MRC for next month based on the results of daily stress tests of the preceding month. NSCCL 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 for the next month.

3. For every day of the preceding month, uncovered loss numbers shall be estimated by the various stress tests for credit risk conducted by the NSCCL for the segment and highest of such numbers shall be taken as worst case loss number for the day.

4. Average of all the daily worst case loss numbers determined in (3) shall be calculated.

5. The MRC for next month shall be higher of the average arrived in at step (4) and the segment MRC as per previous review.

IV. Contribution to Core SGF

The contribution to core SGF for Cash Market Segment, Futures & Options Segment and Currency Derivatives Segment from various contributors shall be as follows;

1. NSCCL contribution to core SGF will be minimum 50% of MRC of each segment. NSCCL shall make this contribution from its own funds. NSCCL contribution to core SGFs will be considered as part of its net worth.

2. NSEIL contribution to core SGF will be minimum 25% of MRC (can be against transfer of profits by NSEIL as per Regulation 33 of SECC Regulations).

3. The total contribution from members to core SGF for each segment will not be more than 25% of MRC of the respective segment. No exposure shall be available to CMs on their contribution to core SGF. The required contributions of individual CMs shall be assessed pro-rata based on the risk they bring to the system.

As per SEBI circular no SEBI/HO/MRD/DRM/NP/CIR/P/2016/54 dated May 04, 2016, the clearing member contribution to core SGF shall be met to the extent available from the amount received from NSEIL.

The contribution to core SGF for Debt Segment from various contributors shall be as follows;

1. NSCCL contribution to core SGF shall be 75% of MRC.

2. NSEIL contribution to core SGF shall be 25% of MRC.

3. NSCCL shall not seek contribution from its clearing members in Debt Segment.

V. Penalties levied by NSCCL

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

VI. Interest on Core SGF cash contribution

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.