

Currency Derivatives Segment

November 30, 2018

Circular No. : MSE/C&S/CDS/7045/2018

Ref. No. : MCCIL/CDS/1171/2018

Sub: Introduction of Currency Options contracts on EUR-INR, GBP-INR and JPY-INR

In terms of the provisions of the Rules, Bye-Laws and Regulations of the Metropolitan Clearing Corporation of India Limited (MCCIL), Members are hereby notified as under:

In pursuance of the Regulations of the Currency Derivatives Segment, and with reference to circular no. MSE/TRD/7042/2018 dated November 29, 2018 on Introduction of Currency Options contracts on EUR-INR, GBP-INR and JPY-INR, members are hereby notified that all the existing clearing and settlement procedures along with the extant risk management measures adopted for present Currency Option Contracts such as initial margins, minimum margins, position limits, etc. including the right of Clearing Corporation to close out positions shall apply mutatis mutandis to these contracts also.

The Currency Options contracts traded on MSE will be cleared and settled on MCCIL.

Clearing and Settlement –Currency Options on EUR-INR, GBP-INR and JPY-INR

SETTLEMENT SCHEDULE

1. Settlement Period

The pay-in and pay-out of premium settlement and final exercise settlement of options contracts shall be effected in accordance with the settlement schedule issued by MCCIL periodically. The 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 clearing account of the receiving members thereafter.

Daily Premium settlement

The daily premium settlement shall be effected on T+1 day basis as per the timelines specified by MCCIL. Premium settlement shall be netted with daily mark to mark settlement of currency futures contracts.

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Final Exercise settlement

The final settlement of options contracts shall be effected on T+2 day basis as per the timelines specified by MCCIL. The final settlement date shall be T+2 day from the expiry / last trading day of the contract as specified by the Exchange. Final settlement of option contracts shall be netted with final settlement of currency futures contracts.

2. SETTLEMENT PROCEDURE

Premium settlement

Premium settlement in respect of admitted deals in options contracts shall be netted with Currency futures MTM settlement and shall be cash settled by debit/ credit of the clearing accounts of clearing members with the respective clearing bank on T+1 day basis. The premium payable or receivable value of clearing members shall be computed after netting the premium payable or receivable positions at trading member level, for each option contract, at the end of each trading day.

Final Exercise settlement

On Expiry date, all open long in-the-money contracts shall be automatically exercised at the final settlement price and assigned on random basis to the open short position of the same strike and series. Final exercise settlement price shall be the RBI reference rate on the contract expiry day or as may be specified by the relevant authority from time to time. Exercise settlement shall be effected on last working day (excluding Saturdays) of the contract month. The last working day shall be taken to be the same as that for Interbank Settlements in Mumbai. Exercise settlement in respect of admitted deals in option contracts shall be cash settled by debit/ credit of the clearing accounts of the relevant clearing members with the respective clearing bank on T+2 day basis. Option contracts, which have been exercised, shall be assigned and allocated to clearing members at the client level. Open positions in an option contract shall cease to exist after its expiration day.

Funds Settlement

The present funds settlement procedure in the currency derivatives segment shall be applicable for currency options contracts. Funds settlement shall take place through designated clearing banks. For the purpose of settlement, the current designated clearing bank account for Currency Derivatives segment shall be used.

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3. MARGINS

Initial Margins

Initial margin shall be payable on all open positions of Clearing Members, up to client level, and shall be payable upfront by Clearing Members in accordance with the margin computation mechanism and/ or system as may be adopted by MCCIL from time to time. Initial Margin shall include Standard Portfolio Analysis of Risk (SPAN®) margins, premium margin, assignment margin and such other additional margins, that may be specified by MCCIL from time to time. The SPAN methodology shall be adopted to take an integrated view of the risk involved in the portfolio of each individual client. Initial Margin requirement shall be based on a worst scenario loss of a portfolio of an individual client comprising his positions in options and futures contracts on the same underlying across different maturities and across various scenarios of price and volatility changes. For the purpose of computation of initial margins the existing methodology of computation of volatility for currency futures contracts shall continue. The price scan range for generating the scenarios shall be taken as 3.5 standard deviation and volatility range for generating the scenarios shall be taken as 3%. For the purpose of calculation of option values Black-Scholes pricing model shall be used.

Net Option Value

The Net Option Value shall be the current market value of the option times the number of options (positive for long options and negative for short options) in the portfolio. The Net Option Value shall be added to the Liquid Net Worth of the clearing member. Thus, mark to market gains and losses shall not be settled in cash for options positions.

Premium Margins

Premium Margin shall mean and include premium amount due to be paid to MCCIL towards premium settlement, at the client level. For option positions, the premium shall be paid in by the buyers in cash and paid out to the sellers in cash on T+1 day. Until the buyer pays in the premium, 100% premium due shall be levied as premium margins on an upfront basis. Premium margin shall be levied till the completion of pay-in towards the premium settlement

Assignment Margins

Assignment Margin shall be levied on assigned positions of the clearing members towards exercise settlement obligations for option contracts. For option positions exercised, the seller of the options shall be levied assignment margins which shall be 100% of the net exercise settlement value payable by a clearing member towards exercise settlement. Assignment

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margin shall be levied till the completion of pay-in towards the exercise settlement. Final settlement margins shall be computed as net of assignment settlement amount and futures final settlement amount.

Calendar Spread Margin

The margins for options calendar spread shall be same as specified for EUR-INR, GBP-INR and JPY-INR currency futures calendar spread. The margins for calendar spread shall be calculated on the basis of delta of the portfolio in each month. A portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of –100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month currency futures and short 100 far month currency futures. Portfolio would mean portfolio consisting of futures and /or options contract on a particular underlying.

Extreme Loss Margins

Extreme loss margin equal to 1.5% of the Notional Value of the open short option position shall be deducted from the liquid assets of the clearing member on an on line, real time basis. Notional Value for this purpose shall be calculated on the basis of the latest available Reserve Bank Reference Rate for the respective currency pair.

Client Margin Reporting

Clearing / Trading members are required to collect margins (initial margin, net buy premium, calendar spread margin, mark to market loss amount and extreme loss margin) from their clients / constituents on an upfront basis. It is mandatory for all clearing / trading members to report details of such margins collected to MCCIL. Members shall report the margin collection in accordance with the current procedure and formats specified for currency futures.

Clearing Members are requested to take note of the above and ensure compliance. Members are also advised to ensure compliance with the aforesaid SEBI Circulars.

For clarifications, members may contact Clearing and Settlement Team on 022 – 61129000 (Extension 9074/9075) or send an email at clearing@mclear.in

For and on behalf of

Metropolitan Clearing Corporation of India Ltd.

Authorized Signatory

Metropolitan Clearing Corporation of India Limited

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