

**CURRENCY DERIVATIVES SEGMENT**

December 03, 2018

**Circular No.** : MSE/C&S/CDS/7066/2018**Ref. No.** : MCCIL/CDS/1177/2018**Sub: Introduction of Cross Currency contracts on EUR-USD, GBP-USD and USD-JPY**

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:

This is further to Exchange Circular no. MSE/TRD/7064/2018 dated December 3, 2018 and our circular no MSE/C&S/5625/2017 dated October 4, 2017; members are requested to please take a note of Clearing, Settlement and Risk Management for Exchange Traded Cross Currency Futures & Options contracts on EUR-USD, GBP-USD and USD-JPY currency pairs.

**1. Settlement****1.1 Settlement Period**

The pay-in and pay-out of daily mark to market settlements, premium settlement, final settlement of futures contracts and final exercise settlement of options 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.

**1.2 Daily Mark to Market Settlement Of Futures Contract-**

All positions at the end of the day shall be marked to market at the daily settlement price and would be settled in cash in Indian Rupee (INR). To arrive at the settlement value of cross currency positions in INR for EUR-USD and GBP-USD contracts, the latest available FBIL reference rate for USD-INR shall be used. For USD-JPY contracts, the settlement value in INR shall be arrived at using the latest available exchange rate published by FBIL for JPY-INR. Clearing members may refer to the additional 'Daily Settlement price' file which shall be available on exchange website for the daily settlement prices of cross currency contracts in INR.

**1.3 Daily Premium Settlement****Metropolitan Clearing Corporation of India Limited****Regd. Office:** 4th Floor, Vibgyor Towers, Opp. Trident Hotel, Plot No. C62, Bandra Kurla Complex, Bandra (East), Mumbai - 400 098

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Premium would be settled in INR. Premium settlement shall be netted with premium obligation on currency options, daily mark to mark settlement of currency futures and cash settled Interest Rate Futures on G-Sec. To arrive at the settlement value in INR for EUR-USD and GBP-USD contracts, the latest available FBIL reference rate for USD-INR shall be used. For USD-JPY contracts, the settlement value in INR shall be arrived at using the latest available exchange rate published by FBIL for JPY-INR.

#### 1.4 Final Settlement Of Currency Futures Contract

All positions (brought forward, created during the day, closed out during the day) of a clearing member in currency futures contracts, at the close of trading hours on the last trading day, shall be marked to market at final settlement price (for final settlement) and settled in cash on T+2 day by debit/ credit of the clearing accounts of clearing members with the respective clearing bank.

The final settlement price of the cross-currency derivatives contracts shall be computed using the FBIL reference rate for USD-INR and the corresponding exchange rate published by FBIL for EUR-INR, GBP-INR and JPY-INR, as applicable, on the last trading day of the contract.

For arriving at the final settlement value in INR for EUR-USD and GBP-USD contracts, the FBIL reference rate for USD-INR on the last trading day of the contract shall be used. For USD-JPY contracts, the final settlement value in INR shall be arrived at using the exchange rate published by FBIL for JPY-INR on the last trading day of the contract.

#### 1.5 Final Exercised Settlement

On expiry date, all open long in-the-money contracts shall be automatically exercised at the final settlement price (as mentioned in 1.4 above) and assigned on random basis to the open short position of the same strike and series. 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.

All exercise positions shall be settled in INR. For arriving at the exercise settlement value in INR for EUR-USD and GBP-USD contracts, the FBIL reference rate for USD-INR on the last trading day of the contract shall be used. For USD-JPY contracts, the final settlement value in INR shall be arrived at using the exchange rate published by FBIL for JPY-INR on the last trading day of the contract.

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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 last working day (excluding Saturdays) of the contract month. Option contracts, which have been exercised, shall be assigned and allocated to clearing members at the client level.

Open positions in an option contracts shall cease to exist after its expiration day.

## **2. MARGINS**

### 2.1 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 the Clearing Corporation from time to time.

Initial Margin shall include Standard Portfolio Analysis of Risk (SPAN<sup>®</sup>) margins, premium margin, assignment margin, futures final settlement margin and such other additional margins, that may be specified by the Clearing Corporation from time to time.

### 2.2 Price Scan Range and Volatility Scan Range

- a. The Price Scan Range shall be taken as three and half standard deviations (3.5 sigma) or such other price scan range as may be specified by the relevant authority from time to time.
- b. For first two days of trading, the initial margin shall be computed using a sigma of 1.15% for EUR-USD contracts, 0.95% for GBP-USD contracts and 0.60% for USD-JPY contracts. Subsequently, the standard deviation (volatility estimate) shall be computed using the Exponentially Weighted Moving Average method (EWMA) as currently done for other currency pairs.
- c. The initial margins for cross currency derivatives shall be collected in INR. For this purpose, FBIL reference rate of previous day for USD-INR or JPY-INR, as applicable, shall be used till 02:00 p.m. The latest available FBIL reference rate for USD-INR and the corresponding exchange rate published by FBIL for JPY-INR, as applicable, shall be used post 02:00 p.m. Since the margins shall be collected in INR, the price scanning range shall be scaled up by the total futures margin rate of the contract involving the quoted currency in cross-currency pair and INR.

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- d. For the purpose of calculation of option values, the Black-Scholes option pricing model would be used.
- e. The volatility scan range for generating the scenarios for SPAN margins would be 3% or such other percentage as may be specified by the Clearing Corporation from time to time.

### 2.3 Net Option Value

Net Option Value is computed as the difference between the long option positions and the short option positions, valued at the last available closing price and shall be updated intraday at the current market value of the relevant option contracts at the time of generation of risk parameters. 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 currency options positions.

### 2.4 Premium Margins

Premium Margin shall mean and include net premium amount due to be paid to the Clearing Corporation 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% of net 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.

### 2.5 Calendar Spread Margins

A currency futures position in one expiry month which is hedged by an offsetting position in a different expiry month would be treated as a calendar spread. The following calendar spread margins shall be levied:

<b>Contract</b>	<b>EURUSD</b>	<b>GBPUSD</b>	<b>USDJPY</b>
Applicable calendar spread margins shall be	Rs.1500 for a spread of 1 month; Rs.1800 for a spread of 2 months, Rs.2000 for a spread of 3 months and Rs.2100 for a spread of 4 months or more.	Rs.1500 for a spread of 1 month; Rs.1800 for a spread of 2 months, Rs.2000 for a spread of 3 months and Rs.2100 for a spread of 4 months or more.	Rs.1500 for a spread of 1 month; Rs.1800 for a spread of 2 months, Rs.2000 for a spread of 3 months and Rs.2100 for a spread of 4 months or more.

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A long currency option position at one maturity and a short option position at a different maturity in the same underlying would be treated as a calendar spread.

The margins for options calendar spread shall be same as specified for 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.

The benefit for a calendar spread would continue till expiry of the near month contract.

### 2.5 Extreme Loss margins

Clearing members shall be subject to extreme loss margins in addition to initial margins. The Extreme loss margin % shall be as follows:

<b>Contract</b>	<b>EURUSD</b>	<b>GBPUSD</b>	<b>USDJPY</b>
For Futures	1.00%	1.00%	1.00%
For Options	1.00%	1.00%	1.00%

The applicable extreme loss margin for futures shall be calculated on the mark to market value of the gross open positions or as may be specified by the relevant authority from time to time. In case of options, extreme loss margin shall be calculated on the Notional Value of the open short option position. Notional Value for this purpose shall be calculated on the basis of the latest available FBIL Reference Rate for respective pair. For EURUSD and GBPUSD the latest available USDINR FBIL Reference Rate shall be used. For USDJPY the latest available JPYINR FBIL Reference Rate shall be used.

The extreme loss margins for cross currency derivatives shall be collected in INR. For this purpose, FBIL reference rate of previous day for USD-INR and the corresponding exchange rate published by FBIL for JPY-INR, as applicable, shall be used till 02:00 p.m. The latest available FBIL reference rate for USD-INR and the corresponding exchange rate published by FBIL for JPY-INR, as applicable, shall be used post 02:00 p.m.

In case of calendar spread positions in currency futures contracts, extreme loss margin shall be levied on one third of the mark to market value of the open position of the far month contract.

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## 2.6 Minimum Margins:

The following minimum futures margins shall be levied:

<b>Contract</b>		<b>EURUSD</b>	<b>GBPUSD</b>	<b>USDJPY</b>
Minimum	Future	2.00%	2.00%	2.00%
Margin %				

The minimum margin percentage shall be scaled up by look-ahead period as may be specified by the Clearing Corporation from time to time. The initial margin shall be deducted from the liquid net worth of the clearing member on an online, real time basis.

## 2.7 Updation of risk parameters

The parameters for computation of span margin shall be updated as specified by the relevant authority from time to time. The parameters of cross currency derivatives shall be updated 9 times in the day at 11:00 a.m., 12:30 p.m., 2:00 p.m., 3:30 p.m., 5:00 p.m., 6:30 p.m. end of the day and begin of the day. Additionally a provisional end of day parameter file based on daily settlement prices of currency contracts based on FCY-INR pairs and Interest Rate Future contracts shall be provided.

The Risk parameters generated based on the updated parameters shall be provided on the exchange website at [www.msei.in](http://www.msei.in)

## 2.8 Futures Final Settlement Margin

Futures Final Settlement Margin shall be levied at the clearing member level in respect of the final settlement amount due. The final settlement margins shall be levied from the last trading day of the contract till the completion of pay-in towards the Final Settlement.

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

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Members are requested to take note of the above.

For clarifications, members may contact Clearing and Settlement Team on 022 – 61129000 (Extension 9074/9075/9990/9071) or send an email at [clearing@mclear.in](mailto:clearing@mclear.in)

For and on behalf of  
**Metropolitan Clearing Corporation of India Ltd.**

Authorised Signatory

**Metropolitan Clearing Corporation of India Limited**

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