

FAQ's: Interoperability among Clearing Corporations

Version No.: 1.0

Version Date: May 09, 2019

Contact Us on: mccil_interoperability@mcclar.in

Ques. 1: What is interoperability?

Ans. 1: Interoperability is a concept where exchanges allow multiple Clearing Corporations (CCs) to offer clearing services to members within their market segments. This in turn allows trading members (TMs) and clearing members (CMs) the choice of CC for a market segment.

Ques. 2: Who has the choice of interoperability in India?

Ans. 2: The choice of interoperability in India has to be provided by:

1. Clearing Member (CM) for a business segment for all their trading members (TMs) for that business segment. This means that the choice of interoperability is at CM-Segment level. The format for the consent letter is specified at <https://mcclar.in/documents/Interoperability/Format-of-letter-for-preferred-CC-for-Clearing-Members.pdf>
2. The Custodians will have a facility to specify a designated CC separately for each of their Custodial Participants (CP) for different market segments as the choice of interoperability for custodians is at CP-Custodian-Segment level. The format for the consent letter is specified at <https://mcclar.in/documents/Interoperability/Format-of-letter-for-preferred-CC-for-Custodians.pdf>

Ques. 3: Can a clearing member use multiple CCs?

Ans. 3: Yes. All trading, clearing and settlement information is collated segment-wise hence different CCs can be used across different segments.

Ques. 4: We are a Clearing Member registered at MCCIL only, are we required to provide the consent for choosing a CC?

Ans. 4: Yes, you will be required to provide a consent letter. The format for the consent letter is specified at <https://mcclar.in/documents/Interoperability/Format-of-letter-for-preferred-CC-for-Clearing-Members.pdf>

Ques. 5: Can a Clearing Member (CM) maintain membership with more than one CC for a business segment?

Ans. 5: Yes, a CM can maintain membership with more than one CC. However the CM can be active with only one CC per segment at any point of time.

Ques. 6: In case a TM is registered in more than one exchange, which TM code will be used for clearing through MCCIL?

Ans. 6: MCCIL will provide the TM with a TM identifier before implementation of interoperability.

Ques. 7: Will the CP codes and Client Codes be unique across exchanges after the introduction of interoperability?

Ans. 7: Yes, before implementation of interoperability all CCs shall ensure that the CP codes and client codes are unique. In case of any change in the CP codes, MCCIL will intimate the respective CMs/Custodians. Members shall approach their designated CC for issuance of new CP codes.

TMs shall ensure the use of the same client code (UCC) at all exchanges in order to get the netting benefit.

Ques. 8: Currently, margins are calculated on an individual client's portfolio level in a given segment for a particular exchange. What would constitute individual client's portfolio under the interoperability framework?

Ans. 8: An individual client's portfolio would comprise of his net positions in securities across exchanges in the case of the Equity Cash Segment. Similarly, the portfolio would include his net positions in all the futures and options contracts across exchanges in the case of Equity Derivatives and Currency Derivatives segments.

Ques. 9: If I buy a scrip in one exchange and sell it in another exchange, will my position be netted off?

Ans. 9: Yes. An investor trading through the same broker and clearing through same clearing member across exchanges will be eligible for netting benefits for his trades in a given security across exchanges. The Margin requirement shall be netted at level of individual client, for trades across exchanges, and it shall continue to be on gross basis at the level of Trading/Clearing Member. The margin requirement for the proprietary

position of Trading/Clearing member shall also be on net basis for trades across exchanges.

Ques. 10: Which futures will be eligible for netting across exchanges?

Ans. 10: The futures have to be the same underlying and same expiry.

Ques. 11: In the presence of multiple prices available in multiple exchanges for common securities, what will be the source of prices for computation of risk parameters?

Ans. 11: Prices from the most liquid exchange for a particular security will be considered for computation of risk parameters. The most liquid exchange per security shall be determined on a monthly based and published on our website.

Ques. 12: Are there any changes to the margin methodology after implementation of interoperability?

Ans. 12: No, there are no changes to the margin methodology after implementation of interoperability. MCCIL will compute the margins on the netted portfolio of a client/CP/Proprietary for all trades executed across exchanges.

Ques. 13: Currently a clearing member is able to monitor MTM losses of trading members on an online real-time basis and manage the risk based on MTM limits for trades done in MSE which are cleared through MCCIL. Will this facility be available for trades done in NSE & BSE cleared through MCCIL after interoperability?

Ans. 13: Yes. Clearing Members will be able to set MTM limits for trading members under them and their MTM losses will be monitored based on trades done across exchanges, MSE, NSE & BSE.

Ques. 14: What are the changes to the risk reduction mode after introduction of interoperability?

Ans. 14: The threshold for entry into risk reduction mode will be at 85% of the margin / MTM utilisation. Members will exit from the risk reduction mode at 80% of the margin / MTM utilisation. The members will continue to receive intraday and margin alerts as per the current practice.

Ques. 15: Will the margin methodology remain constant across interoperable CCs?

Ans. 15: The minimum requirement at all CCs will be the SEBI prescribed risk management framework.

Ques. 16: Will netting benefits in margining and settlement accrue for trades performed across exchanges and settled through a single CC under interoperability?

Ans. 16: Yes, netting benefits in margining and settlement will accrue to a Client/CP/Proprietary trading in different exchanges provided the member uses the same CM/TM/CP/UCC Code for trades executed across exchanges.

Ques. 17: Will there be any changes to the margin reporting file currently downloaded in SFTP?

Ans. 17: No, there shall be no changes to the margin reporting file. However, the margins provided in the margin reporting files shall be on the combined netted positions of a client/CP/Proprietary on a specific contract across the exchanges. Margin file shall be provided by the designated CC of the CM of the TM.

Ques. 18: Which options will be eligible for netting across exchanges?

Ans. 18: The options have to be the same underlying, same type (Call/Put), same expiry and same strike.

Ques. 19: Will there be a change in the margin collected from Members?

Ans. 19: There will be no change in the margin models or risk parameters. The Risk/Margin files provided by MCCIL will contain data for securities/contracts available on all Exchanges.

Ques. 20: Will CCs levy a new margin on the members under the new Interoperable framework

Ans. 20: No, there is no new margin being introduced specifically for Interoperability.

Ques. 21: Will the MCCIL SPAN File Format change?

Ans. 21: No. There will be no change in the SPAN file format.

Ques. 22: Will Value at Risk ("VaR")/ Extreme Loss Margin ("ELM") format change?

Ans. 22: No. There will be no change in the VaR/ ELM file format.

Ques. 23: Will there be a separate VaR/SPAN/ELM file for each exchange?

Ans. 23: No. MCCIL will continue to publish the same VaR/SPAN/ELM file, which would include eligible scrips/contracts across exchanges.

Ques. 24: Will a Clearing Member be required to earmark collateral deposited with MCCIL separately for each exchange with MCCIL?

Ans. 24: No, the Clearing Member won't be required to earmark collateral separately for each exchange. A Clearing member will have to deposit eligible collateral as a common pool with MCCIL for trades across exchanges. The Clearing Member will get exposure to the extent of eligible collateral deposited (subject to haircut and concentration limits) for carrying out trades on any exchange.

Ques. 25: Will MCCIL block margin from members for trades executed on NSE/BSE on a real time basis or end of day basis?

Ans. 25: MCCIL will continue to levy margins upfront on an on-line real-time basis at the time of trade for all exchanges by adjusting against available common collateral limits of Clearing Members and common notional limits of the Trading Members.

Ques. 26: Will a Clearing Member be required to provide separate Notional Limits for each exchange, to its Trading Members?

Ans. 26: No. The Clearing member will allocate on Notional Limit to each of its Trading Member for each segment. The Trading Member will get exposure to the extent of the Notional Limit for carrying out trades on any exchange.

Ques. 27: If I buy a near month contract of an underlying in one exchange and sell a far month contract of the same underlying in another exchange, will I get calendar spread margin benefit?

Ans. 27: Yes, the position will be eligible for calendar spread margin benefit.

Ques. 28: If I buy XYZ scrip in one exchange and then sell it in another exchange, will I be charged Crystallised Loss Margin?

Ans. 28: Yes, you will be charged Crystallised Loss Margin to the extent of the offsetting position. However, all the other applicable margins (Initial Margin, Exposure Margin) will be released.

Ques. 29: If I have an open sell position in ABC derivative contract in one exchange and then buy a certain quantity of the same derivative contract in another exchange, will I be charged Crystallised Loss Margin?

Ans. 29: Yes, you will be charged Crystallised Loss Margin to the extent of the offsetting position. However, all the other applicable margins (Initial Margin, ELM) will be released

Ques.30: Will I get Net option Value (NOV) benefit for buy open position in one exchange and sell open position in another exchange?

Ans. 30: Yes, NOV of a portfolio is calculated as the Long Option Value minus the Short Option Value (irrespective of which exchange the options trades have been executed). A positive NOV will continue to reduce your SPAN Margin Requirement while, a negative NOV will continue to increase your SPAN Margin Requirement.

Ques. 31: Will my Buy Premium for options traded on another exchange (not MSE) be blocked by MCCIL or the other exchange's clearing corporation?

Ans. 31: If you are an MCCIL member, all margins and buy premium shall be blocked by MCCIL irrespective of which exchange the trade has occurred on.

Ques. 32: How will Custodial Participants (CP) trades in the equity cash segment be dealt with in terms of confirmation, margining and settlement after implementation of interoperability?

Ans. 32: Interoperability allows CP clients to trade on the equity cash segment of MSE, NSE and BSE and settle through a single designated Clearing Corporation of their choice.

The OTR allocation/confirmation process will be facilitated by the respective CC as per the current practice (i.e. MCCIL for MSE, NCL for NSE & ICCL for BSE). Margining and settlement of confirmed trades/OTR will be done by the designated CC of the CP client. In case of rejected/unconfirmed trades/OTR, margining and settlements will be done by designated CC of the Clearing Member linked to the Trading Member executing the trade.

Further details are available at <https://www.mclear.in/documents/interoperability/Interim-model-for-allocation-in-Equity-Cash%20Market.pdf>

Ques. 33: Currently MTM margin is to be paid by CMs to CCs before start of the next trading day – will the timeline remain unchanged post interoperability?

Ans. 33: Yes. All processes that are currently applicable under the current scenario will continue to be applicable for trades executed on another exchange.

Ques. 34: Where can I find the file formats applicable for MCCIL?

Ans. 34: The file formats for MCCIL are available at:

1. Equity Segment: <https://mclear.in/documents/Interoperability/File-Format-for-Equity-Cash-Market.pdf>
2. Equity Derivatives Segment: <https://mclear.in/documents/Interoperability/File-Format-for-Equity-Derivatives-Market.pdf>
3. Currency Derivatives Segment: <https://mclear.in/documents/Interoperability/File-Format-for-Currency-Derivatives-Market.pdf>

Ques. 35: Will there be any changes in the collaterals accepted and haircuts currently applicable after implementation of interoperability?

Ans. 35: The collaterals accepted and the haircuts thereon shall be as per the current norms specified by MCCIL.

Ques. 36: What will be the procedure for arriving at the daily and final settlement price under interoperability across CCs?

Ans. 36: The daily and final settlement shall be common across Exchanges and CCs. MCCIL shall compute the daily and final settlement price based on the Volume Weighted Average (VWAP) for the last half hour of trade (30 minutes) across exchanges for all products. The final settlement price for currency derivatives segment will continue to be the RBI reference rate for the respective currency pair.

Ques. 37: Will there be any changes in the settlement schedule?

Ans. 37: No, the settlement schedule will continue as per the current practice.

Ques. 38: Will there be any changes in the existing procedure for Early Pay In (EPI) of Funds / Securities?

Ans. 38: The existing procedure for EPI will continue after implementation of interoperability. Members may perform EPI for any trade which is to be settled through MCCIL irrespective of the exchange where the trade was executed. The settlement type and settlement number will be as per the settlement schedule issued by MCCIL.

Ques. 39: How are the different securities and contracts mapped under interoperability?

Ans. 39: MCCIL will provide its members with a product mapping file containing the unique identifier of each security/contract for each exchange.

Ques. 40: In case of any settlement shortages which exchange will MCCIL select to conduct the auctions?

Ans. 40: MCCIL may conduct auctions on any exchange.