

Guidelines for Interoperability among Clearing Corporations: Metropolitan Clearing Corporation of India Ltd. (MCCIL)

Products for interoperability:

All products under the Equity Cash Market Segment, Equity Derivatives Segment and Currency Derivatives Segment (including Interest Rate derivatives) will be covered under Interoperability of Clearing Corporations. The interoperability arrangement will be applicable for exchange traded products only. The Order collection mechanisms/schemes such as Offer for Sale, Mutual Funds Service Scheme, Buy-back/Tender Offer schemes, Non-competitive bidding, and primary bidding of SGB etc. are not covered under interoperability. Securities lending and borrowing scheme (SLBM) is not included under interoperability since the scheme is operated by Clearing Corporation as an Approved Intermediary.

Initially, the choice of interoperability will be at a Clearing Member – Segment level. In other words, each clearing member will be required to designate a clearing corporation for every segment for clearing and settlement of trades executed in any of the stock exchanges under interoperability. Clearing members may continue to maintain clearing membership of multiple clearing corporations at their choice and will be permitted to change the designated clearing corporation following the process set out by the Clearing Corporations.

The Custodians in the cash market segment will have a facility to specify the designated clearing corporation separately for each of their clients.

Registration Process

Clearing Members desirous of choosing MCCIL as their designated clearing corporation shall be required to furnish a letter in accordance with the format specified in Annexure-2.

Custodians desirous of designating MCCIL as their designated clearing corporation for all or specified CP codes, shall be required to furnish a letter in accordance with the format specified in Annexure-3. Subsequently, custodians shall obtain CP codes from MCCIL only for those clients for whom they wish to clear and settle trades through MCCIL.

Definition of products/contracts

MCCIL will provide a segment-wise report containing the security mapping referring to products traded across exchanges with the unique identifier to be used by MCCIL in its systems and reports.

Trading member codes

MCCIL will identify trading members with a unique code (given that same trading member may be identified using separate codes in individual exchanges).

- For trading members who are members on multiple exchanges including MSE, the existing trading member code at MSE shall be used as a unique code.

- For trading members who are not registered at MSE but are clearing through MCCIL, MCCIL will intimate each trading member with such identifier, before implementation of interoperability.

Custodial participant codes

In accordance with the joint draft operating guidelines issued by Clearing Corporations, the Clearing Corporation shall ensure that the CP codes issued by them are unique. In case of different Clearing Corporations have issued the same custodial participant code to different Custodians /Clearing Members which necessitates a modification to the existing CP codes, MCCIL will intimate the respective clearing members/custodians before implementation of interoperability.

Client codes by trading members

Trading members shall use the same client code (UCC) at all exchanges for a client.

Risk Management

- Alerts regarding margin utilization

The alerts regarding margin utilization including entry/exit into risk reduction/close-out mode, shall be sent by MCCIL to all exchanges where the member is active.

- Risk reduction mode

In accordance with the SEBI guidelines, the thresholds for entry into the risk reduction mode for high margin utilization for all segments shall be amended to margin utilization of 85% and exit from risk reduction mode will be amended to 80% respectively.

- Source of prices for computation of risk parameters

Given that certain securities may be trading on multiple exchanges, MCCIL shall use the data pertaining to the most liquid exchange for computation of various risk parameters. The most liquid exchange will be reviewed and published on a monthly basis.

- Margins

There shall be no change in the margin models or risk parameters. The margin files provided by MCCIL will contain data for securities/contracts available on all exchanges.

- Client margin reporting

The clearing and trading members associated with MCCIL will continue to report margin reporting for their clients calculated based on the overall trading activity across exchanges as per the existing mechanism to MCCIL.

- Close out Facility by Clearing Member on Behalf of Trading Member

The close out facility provided by MCCIL to clearing members to close out the positions of their trading members shall be available in respect of all exchanges.

Clearing

- Client and Custodian Participant (CP) code modification process

The client code modification facility shall only be available to the trading members at exchanges and will not be available at the clearing corporations. MCCIL shall provide a facility to the trading members executing the trade for modification of CP codes.

The facility shall be available for the trades executed on all exchanges, to the trading members whose clearing members have designated MCCIL as their clearing corporation under interoperability. The CP code modification facility shall be available at order level. CP code modification shall not be permitted if any of the trades for the specified order have been confirmed by the respective clearing member or custodian.

The existing CP code modification facility in the equity cash segment shall be continued. The CP code modification may be done using a screen-based facility or file upload. The data available on the screen based facility shall include exchange code.

- Obligation Transfer Request (OTR) Allocation and confirmation process in the equity cash market (ECM) segment

The process for OTR allocation and confirmation in ECM shall be in accordance with the process defined in Annexure 4.

The trades executed on exchanges will be available for allocation and confirmation on the respective CCs currently providing clearing and settlement as per the interim model until further notice (i.e. on NSE Clearing Ltd., Indian Clearing Corporation Ltd, and Metropolitan Clearing Corporation of India Ltd. for the trades executed on National Stock Exchange Ltd., BSE Ltd. and Metropolitan Stock Exchange of India Ltd. respectively). Regardless of the exchange and consequently the local CC where allocation/confirmation is taking place, in case of the CP codes associated with MCCIL, the CP codes issued by MCCIL will have to be used by the trading members in allocation.

- Confirmation of custodial participant trades in derivatives segment

MCCIL shall provide a screen based interface and a file upload facility for confirmation of trades in the derivatives segment. The file upload facility shall be continued in the file formats detailed in Annexure 6 & 7 respectively.

- Settlement prices

Daily and final settlement prices in derivatives, MCCIL shall compute the settlement prices based on the last 30 minutes volume weighted average price across exchanges. Theoretical prices shall be used in case of illiquid derivatives contracts for daily settlement.

Settlement

- Settlement schedule and timings

There shall be no changes to the settlement schedule.

- **Settlement mechanism**

MCCIL's current settlement mechanism will continue. The clearing members can continue to use their existing bank and depository accounts for settlement regardless of the exchange on which the trade has been executed, the settlement type and numbers issued by MCCIL will be used in depository instructions, reports etc.

Reports

Some of the reports currently provided by MCCIL will undergo changes as detailed in Annexure 5, 6 & 7 respectively.

Violation and penalties

There shall be no changes in the applicable penalties on account of interoperability.

Formats of agreements, undertakings, letters, etc.

The applicability for the existing agreements, undertakings, letters, etc. shall be as follows:

1. The following letters/deeds already issued to MCCIL will continue to be functional. After implementation of interoperability, there shall be a change in the formats which will be applicable only for those letters/deeds issued after implementation, without any impact on the letters/deeds already issued, in respect of all segments:
 - Format of letter by member for submission of Fixed Deposit Receipt (FDR) / Bank Guarantee (BG) to MCCIL
 - Format of deed of pledge
 - Format of agreement for providing G-sec/T-bill as collaterals
2. In respect of the following agreements, if agreements have been executed in respect of other exchanges/CCs (in respective formats) in addition to current agreements for trades executed on MSE in respect of all segments; no additional documentation shall be required. Clearing members shall provide agreements in respect of trades on other exchanges if required by MCCIL
 - CM-TM Agreement
 - Clearing Member – Constituent (Custodial Participant) Agreement
3. The Existing Clearing Members and Custodial Clearing members are eligible to participate in the facility of Interoperability among clearing corporations on the basis of their existing documentation i.e. Clearing Members undertaking/Custodian Clearing Member undertaking without any modification and the CC shall consider the existing documents applicable for all specified exchanges.
4. The agreements for availing cross margin benefit in respect of client/entity settling through different clearing member in Capital Market and F&O segment will be published subsequently.
5. There shall be no change in the formats of any other agreements, undertakings, letters etc.

Other provisions

All other provisions issued from time to time will continue to be applicable mutatis mutandis after introduction on interoperability among clearing corporations.