

NSE Clearing Limited

(Formerly known as National Securities Clearing Corporation Limited)

DEPARTMENT : CURRENCY DERIVATIVE SEGMENT

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All Members,

Sub: Guidelines on Interoperability among Clearing Corporations

The joint draft operating guidelines for interoperability among clearing corporations were jointly issued by Indian Clearing Corporation Ltd., Metropolitan Clearing Corporation Ltd. and NSE Clearing Ltd. on April 15, 2019. This circular describes in detail, the adoption of the joint draft operating guidelines by NSE Clearing Ltd.

1. Products and degree of choice for interoperability

All products under the Cash Market Segment, F&O Segment, Currency Derivatives Segment (including Interest Rate derivatives), and Debt Segment (except Tri-party Repo and Trade Reporting Platform) will be covered under CC Interoperability. 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, Primary bidding of SGB etc. are not covered under interoperability. Securities Lending and Borrowing Scheme is not included under interoperability since the scheme is operated by Clearing Corporation as an Approved Intermediary.

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.

2. Registration Process

To designate NSE Clearing Ltd. as the designated clearing corporations, the clearing members shall be required to furnish a letter in accordance with the format specified in Annexure-1.

To designate NSE Clearing Ltd. as the designated clearing corporation for all or specified CP codes, the custodians in the cash market segment shall be required to furnish a letter in accordance with the format specified in Annexure-2 one-time upon

implementation of interoperability for existing custodial participant clients. Subsequently, custodians shall obtain CP codes from NCL only for those clients for whom they wish to clear and settle trades through NCL.

3. Identifiers and codes

Definition of products/contracts

NSE Clearing Ltd. will provide a report containing the mapping of security/contract identifiers/symbols referring to products traded across exchanges with the identifiers to be used by NSE Clearing Ltd. in its systems and reports.

The report will contain mapping of securities in cash market segment/underlying symbols in equity derivatives across exchanges.

NSE Clearing Ltd. will continue to use its current contract descriptors [Instrument type, Symbol, Expiry Date, Strike Price, Option Type and CRA level] for derivatives and map the contract descriptor of contracts at various exchanges into this structure.

Trading member codes

NSE Clearing Ltd. 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 NSE, the existing trading member code at NSE shall be used as a unique code. For trading members who are not registered at NSE but are clearing through NSE Clearing Ltd, NSE Clearing Ltd. 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, NSE Clearing Ltd. 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.

4. Risk Management

Alerts regarding margin utilization

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

Risk reduction mode

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

Source of prices for computation of risk parameters

Given that certain securities may be trading on multiple exchanges, NSE Clearing Ltd. 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 NSE Clearing will contain data for securities/contracts available on all exchanges.

Client margin reporting

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

Close out Facility by Clearing Member on Behalf of Trading Member

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

5. ClearingClient and 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.

NCL 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 NCL 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.

Current CP code modification facility in the CM segment shall be continued and a similar new facility shall be provided for the F&O and CD segments in the NMASS application. 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.

There shall be no change in the file formats for CP code modifications in Cash Market segment. The format of file to be uploaded for CP code modification in case of F&O and CD segments is provided as Annexure-3.

OTR Allocation and confirmation process in the cash market segment

The process for OTR allocation and confirmation in the cash market segment 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 Custodial Participants associated with NCL, the CP codes issued by NCL will have to be used by the trading members in allocation.

Confirmation of custodial participant trades in derivatives segment

Currently, NCL provide a screen based interface and a file upload facility for confirmation of trades in the derivatives segment. The screen based facility shall be continued with the introduction of exchange code in the screen.

The file upload facility shall be continued without any change in the file format. However, the file nomenclature shall include exchange code as prefix i.e. NSE or BSE or MSEI.

Settlement prices

Daily and final settlement prices in derivatives, NCL shall compute the settlement price based on the last 30 minutes volume weighted average price across exchanges. The settlement prices shall continue to be published as per the existing mechanism.

6. Settlement

Settlement schedule and timings

There shall be no changes to the settlement schedule.

Settlement mechanism

NCL'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 NCL will be used in depository instructions, reports etc.

7. Reports

Some of the reports currently provided by NSE Clearing Ltd. will undergo a change. Further, some of the reports will be provided exchange-wise. In case of exchange-wise reports, the nomenclature of the report will be changed to <Report Name>_<Exchange Code>. (E.g. in case of TR01 report, the reports for NSE, BSE and MSEI will be provided in separate files with the nomenclature as TR01_NSE, TR01_BSE, TR01_MSEI respectively.) The full list of reports along with whether exchange-wise files will be provided is provided as Annexure-5. There are no changes in structure of any of the reports.

8. Violation and penalties

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

9. Formats for 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 NCL 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:
 - a. Format of letter by member for submission of FDR to Custodian
 - b. Format of letter by member for submission of FDR to Clearing Corporation
 - c. Format of Member Letter for submission of Fungible Bank Guarantee to Clearing Corporation
 - d. Format of deed of pledge
 - e. 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 NSE 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 NSE Clearing.
 - a. CM-TM Agreement
 - b. Clearing Member – Constituent (Custodial Participant) Agreement
3. The Existing Clearing Members and Custodial Clearing members are eligible to participate in the Facility of Interoperability amongst 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 existing agreements for availing cross margin benefit in respect of client/entity settling through different clearing member in Capital Market and F&O segment will have to be amended. The revised format will be published subsequently.
5. There shall be no change in the formats of any other agreements, undertakings, letters etc.

10. Other provisions

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

**For and on behalf of
NSE Clearing Limited
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