



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

CIR/MRD/DRMNP/CIR/P/2018/145

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To

All recognised Stock Exchanges and Clearing Corporations except Stock Exchanges and Clearing Corporations in International Financial Services Centre

Dear Sir / Madam

Interoperability among Clearing Corporations

1. Interoperability among Clearing Corporations (CCPs) necessitates linking of multiple Clearing Corporations. It allows market participants to consolidate their clearing and settlement functions at a single CCP, irrespective of the stock exchange on which the trade is executed. It is expected that the interoperability among CCPs would lead to efficient allocation of capital for the market participants, thereby saving on costs as well as provide better execution of trades.
2. An expert Committee constituted by SEBI, under the Chairmanship of Shri K V Kamath, had, inter alia, examined the '*Viability of Interoperability between different Clearing Corporations*'. Thereafter, proposals on Interoperability, received from CCPs, were placed before the Secondary Market Advisory Committee (SMAC) of SEBI. As recommended by SMAC, three working sub-groups pertaining to relevant subjects viz. Risk Management, Technology, and Finance and Taxation were constituted comprising academicians, market participants and relevant stakeholders to examine the related issues and provide their recommendations. The reports of these sub-groups were placed before SMAC and their recommendations were deliberated upon.
3. Thereafter, SEBI Board approved suitable amendments to the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations to, inter alia, enable interoperability among clearing corporations.

4. The Committee on Payments and Settlement Systems (CPSS) and the Technical Committee of International Organization of Securities Commissions (IOSCO) have prescribed the Principles for Financial Market Infrastructures (PFMIs) with a view to enhance safety and efficiency in payment, clearing, settlement, and recording arrangements as well as to limit systemic risk, and foster transparency and financial stability. Principle 20 of PFMIs, which is relevant to the proposed interoperability among clearing corporations, prescribes that *“An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.”*
5. Keeping the aforementioned in view, the broad guidelines for operationalizing the interoperable framework among CCPs are prescribed for compliance hereunder :-

5.1. Scope of Interoperability among CCPs

- (1) The interoperability framework shall be applicable to all the recognised clearing corporations excluding those operating in International Financial Services Centre.
- (2) All the products available for trading on the stock exchanges (except commodity derivatives) shall be made available under the interoperability framework.

5.2. Interoperable links among CCPs

- (1) The recognised clearing corporations shall establish peer-to-peer link for ensuring interoperability. A CCP shall maintain special arrangements with another CCP and shall not be subjected to normal participant (membership) rules. Risk management between the CCPs shall be based on a bilaterally approved framework and shall ensure coverage of inter-CCP exposures. CCPs shall exchange margins and other financial resources on a reciprocal basis based on mutually agreed margining models.
- (2) However, SEBI, in certain cases, may require a CCP to establish participant link for interoperability. In such cases the CCP concerned shall become participant of another CCP (the host CCP) and shall be subjected to the host CCP's normal participant rules. Since the participant CCP would be posting margins with the host CCP, but would not be collecting margins from the host CCP, it shall be

required to hold additional financial resources to protect itself against default of the host CCP.

5.3. **Inter CCP Collateral**

- (1) To manage the inter-CCP exposure in the peer-to-peer link, CCPs shall maintain sufficient collateral with each other so that any default by one CCP, in an interoperable arrangement, would be covered without financial loss to the other non-defaulting CCP. The inter-CCP collateral shall comprise two components, viz.
 - (a) Margins as per the existing Risk Management Framework (initial margin, extreme loss margin, calendar spread margin, etc.) prescribed by SEBI; and
 - (b) Additional capital, to be determined by each CCP, based on the credit risk from the linked CCP, on which no exposure shall be granted to the linked CCP.
- (2) The collateral posted by one CCP with another CCP shall be maintained in a separate account which can be clearly identified in the name of such linked CCP which is providing collateral and shall not be included in the Core SGF of the CCP receiving them.
- (3) The liquid assets as well as hair-cuts as prescribed vide SEBI Circular MRD/DoP/SE/Cir-07/2005 dated February 23, 2005 on "*Comprehensive Risk Management Framework for the cash market*" and SEBI Circular CIR/MRD/DRMNP/9/2013 dated March 20, 2013 on "*Corporate bonds and Government securities as collateral*" shall be applicable for inter-CCP transactions.

5.4. **Inter CCP Settlement**

The CCPs shall undertake multilateral netting to create inter-CCP net obligations and exchange funds and securities on a net basis. The pay-in and pay-out shall be completed as per the settlement schedule prescribed vide SEBI Circular MRD/DoP/SE/Dep/Cir-18/2005 dated September 02, 2005 on "*Revised Activity schedule for T+2 rolling settlement*".

5.5. CCP-Trading Venue Link

- (1) In an interoperable arrangement, the stock exchange and the CCP may not be located at same venue. Accordingly, to ensure real time flow of information between the stock exchange (trading venue) and the CCP, so as to facilitate effective real-time risk monitoring and mitigation, each interoperable CCP shall put in place appropriate infrastructure including deployment of adequate servers at each of the linked trading venues.
- (2) In order to mitigate any risk arising out of latency, in partial modification of para-7 of the SEBI Circular CIR/MRD/DP/34/2012 dated December 13, 2012 on "*Pre-trade Risk Controls*", Stock Exchanges shall ensure that stock brokers are mandatorily subjected to risk reduction mode on utilization of 85% of the stock broker's collateral available for adjustment against margins.
- (3) Other provisions with regard to risk reduction mode, prescribed vide the above-mentioned SEBI Circular dated December 13, 2012 shall continue to be applicable.

5.6. Default Handling Process

In case of default by a CCP, in the interoperable arrangement, the collateral provided by such CCP shall be utilized by the non-defaulting CCP to cover losses arising from such default, as per the default waterfall prescribed vide SEBI Circular CIR/MRD/DRMNP/25/2014 dated August 27, 2014 on "*Core Settlement Guarantee Fund, Default Waterfall and Stress Test*".

5.7. Charges by Stock Exchanges/Clearing Corporations

- (1) In order to promote transparency in terms of charges levied by the Stock Exchanges/ Clearing Corporations, the transaction charges levied shall be clearly identified and made known to the participants upfront.

- (2) The Stock Exchanges and Clearing Corporations shall comply with the provisions under Para-2 of SEBI Circular MRD/DoP/SE/Cir-14/2009 dated October 14, 2009 on *“Revision of transaction charges by the stock exchanges”*.

5.8. Dispute Resolution

The Conflict Resolution Committee, as prescribed vide SEBI Circular SEBI/HO/MRD/DSA/CIR/P/2017/9 dated January 27, 2017 on *“Procedures for Exchange Listing Control Mechanism”* shall address disputes, among CCPs and Stock Exchanges, arising out of interoperability.

5.9. Inter-CCP Agreement

- (1) Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 prescribes that *“...in case a recognised stock exchange enters into an arrangement with more than one recognised Clearing Corporation, it shall enter into a multipartite agreement in writing with such recognised clearing corporations to ensure interoperability among the clearing corporations”*.
 - (2) The agreements entered into by the Stock Exchanges/ Clearing Corporations shall, inter alia, include system capability, inter-CCP links and CCP-trading venue link, risk management framework, monitoring of client margin/position limits, obligation system, settlement process, surveillance systems, sharing of client data, sharing of product information, default handling process and dispute resolution process.
6. Stock Exchanges and Clearing Corporations shall adhere to aforesaid guidelines and accordingly, take all necessary steps to operationalize interoperability at the earliest but not later than June 01, 2019.
 7. The Stock Exchange and Clearing Corporations are directed to:
 - (1) take necessary steps to put in place requisite infrastructure and systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;

(2) bring the provisions of this circular to the notice of their members and also disseminate the same on its website; and

(3) communicate to SEBI, the status of implementation of the provisions of this circular.

8. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully

(Sanjay Purao)

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