

**THE CLEARING CORPORATION OF INDIA LTD**

**Forex Department – Forex Forward Segment**

**Consultation Paper**

**Clearing of Non-Deliverable Forex Forward (USDINR) Contract through  
CCIL**

**1.0 Introduction**

RBI, vide its Circular no. RBI/2019-20/193 A.P.(DIR Series) Circular No: 23 dated March 27,2020, have permitted banks in India having an Authorized Dealer Category-1 license under FEMA, 1999 and operating International Financial Services Centre (IFSC) Banking Units (IBUs) to offer Non-Deliverable Derivative Contracts (NDFs) involving Rupee, or otherwise, to persons not resident in India from 1st June 2020. Banks can undertake such transactions through their IBUs or through their branches in India or through their foreign branches (in case foreign banks operating in India, through any branch of the parent bank).

Non-Deliverable Forex Forward (USDINR) Contract (NDF) are basically the Outright Forward Contracts which are concluded over the counter (OTC) basis between the counterparties with an intention to square off before the maturity or close the transactions at an agreed reference rate.

CCIL currently offers CCP clearing services and guaranteed settlement for USD/INR forward contracts in its Forex Forward Segment (FFS) for residual maturity up to 13 months. These trades along with the spot trades are settled as a part of USD/INR segment once the trades enter the spot window.

**2.0 Proposal for Clearing of NDF contracts through CCIL**

Going forward, it is proposed to allow CCP clearing of Non-Deliverable Forex Forward Contracts (NDFs) using existing Forex Forward Segment capabilities to all existing members of the Forex Forward Segment. Additionally, IBUs can seek to clear their NDF contracts through CCIL. These IBU members would be admitted as new members. Trades concluded bilaterally upto a residual maturity of 13 months shall be eligible for Clearing and Settlement of NDF trades.

Currently, members are reporting these bilateral NDFF trades to CCIL's Trade Repository. Going forward members would be required to report these trades to CCIL's Clearing and Settlement module and a copy of these trades would flow to Trade Repository.

It is proposed to modify the existing Risk Management model to account for inclusion of non-deliverable forward trades in the outstanding portfolio of the members. While doing so, certain factors like settlement of NDFF trades in USD, restrictions on IBU member to contribute margins / default fund in USD only etc. will have to be accounted for.

Following are the key considerations for Clearing and Settlement of NDFF:

### **2.1 Membership criteria for IBU would be :-**

- a. IBU should have a distinct SWIFT BIC code.
- b. IBU should have a Nostro account in USD.
- c. IBU should adhere to the prescribed capital norms as laid down by the regulator.
- d. IBU should have adequate risk management systems and policies in place and qualified personnel under employment.

Post implementation of clearing member structure, it is also proposed to extend the clearing services for NDFF trades to customers, corporate, FPI etc.

### **2.2 Reporting**

- a. NDFF trades concluded between the member banks bilaterally on OTC basis shall be reported by the members to CCIL in the IFN300 format.
- b. Trades reported to CCIL System will be identified as NDFF Trades based on additional field incorporated in IFN 300.

### **2.3 Margin**

- a. NDFF trades done by the existing onshore members amongst themselves or with IBUs will be accepted by blocking margin from unutilized securities segment SGF (similar to Forex Forward Segment). Further for IBU members, it is proposed that USD cash margin would be accepted.
- b. These trades will continue to remain with Status as "*pending acceptance for CCP clearing*" if the margin made available is not sufficient to support the NDFF trades.

## 2.4 Risk Management

The existing framework of Risk Management process and policies for the Forex Forward Segment shall be suitably modified to account for inclusion of non-deliverable forward trades in the outstanding portfolio of members.

## 2.5 Clearing

- a. This would be offered as Guaranteed Clearing service for NDFF trades with benefit of Netting.
- b. This process would be similar to the current process of reporting of forward trades for settlement in the Forex Forward Segment.

## 2.6 Settlement

- a. For NDFF contract maturing on **S day**, fixing will be done on **S-2 day** with the declared FBIL USD/INR spot reference rate.
- b. On **S-2 day**, net obligation for NDFF trades (only the balance settlement amount in USD after square off) will be provided to the members.
- c. On **S day** the members shall pay or receive USD obligations arising out of NDFF trades in the nostro accounts as indicated for settlement.

### 2.6.1 FBIL reference rate for Fixing

- a. FBIL computes and provides the daily reference rate for USD/INR at 1:30 p.m. for all Mumbai business days.
- b. FBIL is the only standard reference rate available for USD/INR currency pair.
- c. Since the settlement of NDFF will conclude in USD terms, the cash flow shall be arrived as below:

$$\text{Cash Flow (in USD)} = \frac{(\text{NDFF Contracted Rate} - \text{FBIL Spot Rate}) \times \text{Notional amount}}{(\text{FBIL Spot Rate})}$$

*\*FBIL spot Rate of S-2 day.*

## 2.7 Reports

- a. On **S-2 day**, post fixing of the rate, a report with the details of NDFF Trades will be provided to members.
- b. Member will also be provided with the trade information and margins separately.

## 2.8 TR Reporting

Similar to the current arrangement for USD/INR and FFS, members can report the trades for settlement and the same shall be forwarded to the Trade Repository.

In case any clarification is required on the paper, please get in touch with Mr. Kamal Singhanian (Forex Department) on 022-6154 6311 or Mr. Kausick Saha (Risk Management Department) on 022-61546441 Feedback also be emailed to frx@ccilindia.co.in/rmd@ccilindia.co.in for attention of Senior Vice President (Forex Department)/Chief Risk Officer with the subject reading as “*Clearing of Non Deliverable Forex Forward (USDINR) Contract*” on or before **31<sup>st</sup> January, 2021**.

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