

26th May, 2022

THE CLEARING CORPORATION OF INDIA LTD
Forex Department

**Consultation Paper on introduction of Additional Batch for Cash Trades
in Forex (USD/INR) Segment**

1. Introduction

1.1 CCIL provides CCP clearing service for Forex inter-bank Cash, Tom, Spot and Forward USD/INR transactions. All inter-bank transactions done by its clearing participants (members) are reported to CCIL for clearing and settlement. Trades done on FX-Clear and Fx-Swap trading platforms run by CDSIL directly flow to CCIL's risk management and settlement systems.

Trades that pass through the exposure validation process are accepted for settlement and trades that fail such exposure check are covered by reporting an off-setting buy trade in the currency of breach, prefunding in currency of breach or by reporting an I/O swap deal. Trades which continue to be in breach of exposure limit are rejected at cut off. The cut-off for reporting Spot & Forward trades is up to 2:45 p.m. on S-1 day and for Cash & Tom is 2:45 p.m. on S day. The Final Net-position Report is made available to banks at 3:00 p.m. IST. The net positions of the members are settled on a Payment versus Payment (PVP) basis. The Rupee leg is settled through the members' current account with RBI and the USD leg through CCIL's accounts with its Settlement Banks at New York. The final cut off to receive all Pay-ins is 8.30 PM IST on settlement day.

2. Proposal for additional Batch for acceptance of Cash Trades

2.1. Background

Securities and Exchange Board of India (SEBI) has introduced (T+1) settlement for selected stocks since 25th Feb 2022 and plans to gradually move to (T+1) settlement for the entire market by end of the year replacing the existing T+2 days settlement period for equities. Market investors specifically Foreign Institutional Investors (FII) have made representations requesting flexibility in Fx Market timings for value cash trades as they may have to execute Fx trades late in the evening or early morning to ensure timely payment of INR towards settlement of equity trades executed on Exchange. The facility of online domestic wire

transfer under RTGS facility is now available round the clock and rupee settlement is possible anytime on all days.

In consideration of the above, members have requested FEDAI to alter the Rules to enable members to undertake Fx value cash trades outside normal market hours.

FEDAI Technical Advisory Committee (TAC) discussed Fx Market timings for value cash Fx trades in its meeting held on 11th January 2022 and have agreed to the extension of market timing beyond market hours.

2.2 Clearing Process

2.2.1 In view of the above, a detailed analysis of the Cash trades done beyond 3:00 p.m. in March, 2022 was carried out and it was observed that around 90% of the total cash deals are traded before 3.00 p.m. Thus, around 10% of the total Cash deals are traded after 3:00 p.m. and settled bilaterally, of which around 9% are traded between 3:00 to 4:30 p.m. and 1% are traded beyond 4:30 p.m.

2.2.2 With a view to accommodate the Cash trades concluded post the current cut-off batch at 2:45 p.m., it is proposed to introduce an additional batch for reporting cash trades undertaken in the market post 2:45 p.m. as under:

	Current Cut-off Batch	Additional Cut-off Batch
Type of trades to be accepted	Cash and Tom till 2:45 p.m. on S Day	Fresh Cash Trades till 5:00 p.m. on S Day.
	Spot and Forward till 2:45 p.m. S-1 Day	

2.2.3 A new additional Cash batch would be introduced wherein CCIL shall accept only **Cash trades** between 2:45 p.m. and 5:00 p.m. The cut-off time for acceptance of fresh cash trades would be set at 5:00 p.m. Final Net Position report will be made available to Banks by 5:15 p.m. However, trades which were in pending acceptance due to lack of limit or Cash trades which are in Pending Match status in the cut off batch at 2.45 pm shall also be considered/carried forward for processing in the Final cut off session.

2.2.4 Banks shall continue to receive a Net Position Report at 3:00 p.m. and settlement process would be carried out as per the extant process.

2.3 Risk Management Process

- 2.3.1 Matched Trades are currently checked against the Exposure Limit availed by a member on an ongoing basis up to the cut-off time of 2:45 p.m. Trades that do not pass such Exposure check are rejected at cut-off, if not covered.
- 2.3.2 Going forward, with the introduction of additional Cash batch, fresh trades shall be subjected to exposure check against the available Exposure Limit after 3:00 p.m. Thus, there is a possibility that the available Exposure limit may be insufficient for the cash trades reported after 3:00 p.m.
- 2.3.3 Thus, it is proposed that as and when the netted obligations arising out of current netting session is received and/or paid, the exposure limit will be restored to the extent of obligations received, thereby helping members to report and settle more cash trades in CCIL that are otherwise settled bilaterally.
- 2.3.4 In the event of breach in Exposure Limit, Same day Pre-funding, reporting of I/O swap trades and off-set buy trade will continue to remain an avenue for covering such breaches.

2.4 Settlement Process

- 2.4.1 There will be no change in the Settlement Procedure. However, CCIL shall send the MT 204 (Direct Debit message) for USD payins and INR debit file to RBI twice i.e. after Netting Batch and then after the Additional Cash Batch. The final cut off time to receive all Payins will continue to be 8.30 PM IST. Banks have the option to remit payout after the Additional Cash Batch is out or separate payment instructions for Netting Batch and Additional Cash batch. Payouts in USD and INR will be made by CCIL as and when counter currency payin is received by CCIL as per current practice.
- 2.4.2 By introduction of an Additional Cash Batch, following benefits would be made available to member banks:
- i. Will permit FII to execute late trades which the members can cover on the same day and report the same to CCIL.
 - ii. Increase in netting efficiency as more cash deals will be taken for net settlement.
 - iii. Optimum utilization of exposure limits assigned to Member banks
 - iv. Increase in Cash Cut off timing on FX-Swap Platform

3. All Members are requested to give their suggestions and feedback on the above proposal so as to take this proposal forward. The feedback may be sent to us latest by 30th June, 2022 at fx@ccilindia.co.in for the attention of Senior Vice President, Forex Department with subject “*Introduction of Additional Cash Batch in Forex (USD/INR) Segment*”.
4. For any clarification please contact Forex Department on 022-61546452/6453.
