Indian Clearing Corporation Limited

Reliability builds relationships

INDIAN CLEARING CORPORATION LIMITED
ICCL - USE CDX

Circular No: ICCL/USE/4/2010 October 28, 2010

Subject: Introduction of Currency Options on USD-INR spot rate

Clearing members of Currency Derivatives Segment are hereby informed that United Stock Exchange of India Ltd. (USE) has issued a Circular No. USE/MOPS/44/2010 dated October 27, 2010, regarding introduction of Currency Options on USD-INR Spot Rate. Accordingly, the norms pertaining to clearing settlement process, margins etc. pertaining to the said Currency Options on USD-INR Spot Rate are as follows:

- **Settlement Process - Annexure I**
- **Margins - Annexure II**

All other provisions/norms currently applicable to Currency Derivatives Segment shall also be applicable mutatis mutandis to Currency Options Contracts to the extent applicable.

For other details Clearing Members of ICCL-USE CDX may, inter alia, refer to USE and SEBI circulars.

For and on behalf of
Indian Clearing Corporation Ltd.

Chief Operating Officer

Annexure I

Settlement Process

- The settlement of Options Contracts would be settled in cash in Indian Rupees.
- The daily settlement of Premium would be on T+1 basis along with other settlement obligations of Currency Derivatives Segment of USE as per the timelines specified by ICCL. The premium would be paid in by the buyer in cash and paid out to the seller in cash. Until the buyer pays in the premium, the premium due shall be deducted from the available Liquid Net Worth on a real time basis
- The final settlement of Options contracts would be effected on T+2 day basis as per the timelines specified by ICCL. The final settlement date shall be T+2 day from the last trading day of the contract as may be specified by USE.
- (The pay-in and pay-out would be effected in accordance with the settlement schedule issued by ICCL periodically. The members should maintain clear balance of funds in their settlement accounts with their designated clearing bank towards their funds pay-in obligation at the scheduled pay-in time on the settlement day)
- Final settlement price for Options contract shall be the Reserve Bank of India Reference Rate on the date of expiry of the Options contract.

Annexure II

Margins

The margin norms for Currency Options on USD-INR would be as follows:

- **Initial Margin**

The Initial Margin requirement would be based on a worst scenario loss of a portfolio of an individual client comprising his positions in options and futures contracts on the same underlying across different maturities and across various scenarios of price and volatility changes. In order to achieve this, the price range for generating the scenarios would be 3.5 standard deviation and volatility range for generating the scenarios would be 3%. For the purpose of calculation of option values, the Black-Scholes pricing model would be used.

The Standard Portfolio Analysis of Risk (SPAN®) methodology shall be used to take an integrated view of the risk involved in the portfolio of each individual client

The initial margin shall be deducted upfront on an on-line real-time basis from the available liquid assets deposited by the Clearing Member with ICCL. Computation of Initial Margin would be as per the methodology prescribed by SEBI.

- **Calendar spread margins**

The margin for options calendar spread would be the same as specified for USD-INR currency futures calendar spread. The margin would be calculated on the basis of delta of the portfolio in each month. A portfolio consisting of a near month option with a delta of 100 and a far month option with a delta of –100 would bear a spread charge equal to the spread charge for a portfolio which is long 100 near month currency futures and short 100 far month currency futures.

- **Net Option Value**

The Net Option Value is the current market value of the option times the number of options (positive for long options and negative for short options) in the portfolio. The Net Option Value would be added to the Liquid Net Worth of the clearing member. Thus, mark to market gains and losses would not be settled in cash for options positions.

- **Extreme Loss margin**

Extreme loss margin equal to 1.5% of the Notional Value of the open short option position would be deducted from the liquid assets of the clearing member on an on line, real time basis. Notional Value would be calculated on the basis of the latest available Reserve Bank Reference Rate for USD-INR.

- **Additional margins**

As a risk containment measure, ICCL may require clearing members to pay additional margins as may be decided from time to time. This would be in addition to the above mentioned margins.

- **Collection of Margins**

Aforesaid margins would be computed at a client level and collected/adjusted upfront from the liquid assets of the Clearing Members on an on-line real time basis