RECOVERY AND WIND DOWN PLAN

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ABBREVIATIONS

Term	Description
BG	Bank Guarantee
CCP	Central Counterparty
CM	Clearing Member
FDR	Fixed Deposit Receipts
FMI	Financial Market Infrastructures
IBC	Insolvency and Bankruptcy Code
MTM	Mark-to-market
MCX	Multi Commodity Exchange of India Limited
MCXCCL	Multi Commodity Exchange Clearing Corporation Limited
PFMI	Principles of Financial Market Infrastructures
RWP	Recovery and Wind-Down Plan
SEBI	Securities and Exchange Board of India
SGF	Core Settlement Guarantee Fund
WSP	Warehouse Service Provider

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1. INTRODUCTION

Multi Commodity Exchange Clearing Corporation Ltd (MCXCCL) is a wholly owned subsidiary of Multi Commodity Exchange of India Ltd (MCX), recognised as India's first Clearing Corporation in the Commodity Derivatives Market by Securities and Exchange Board of India (SEBI).

MCXCCL has entered into an agreement with MCX to act as the central counter party to clear and settle trade executed on MCX platform, which offers trading in various commodity derivatives contracts including bullion, industrial metals, energy and agricultural commodities.

SEBI vide its circular dated December 16, 2022 has advised clearing corporations (CCs) to put in place a policy framework for orderly winding down of their critical operations and services and formulate a standard operating procedure (SOP) to ensure that in the event of winding down, such critical operations and services are continued so as to avoid any disruption. The SEBI requirements also advise CCs to maintain adequate capital so as to be able to continue providing its critical operations and services during the winding down period.

The Principles of Financial Market Infrastructures also outlines that CCs are systemically important FMIs and should have a detailed and effective recovery and orderly wind-down plan to minimize the systemic disruption in the interest of the market and the financial system as a whole.

In accordance with the above requirement, MCXCCL has designed a robust and comprehensive Recovery and Wind-Down Plan (RWP). A systematic approach towards recovery and wind down of operations is envisaged in this document. The Recovery and Wind-Down Plan seeks to articulate recovery and resolution plans on how to handle any form of financial distress, upon triggering of any of the potential scenarios, which may result in substantial erosion of MCXCCL resources.

2. Purpose

The purpose of the RWP is to maintain the continuity of critical services in times of extreme stress and to facilitate the recovery. The development of these plans is a critical element of Risk Management and contingency planning to address the extreme circumstances that could threaten the CC's viability and financial strength, thereby reducing the possibility of market disruptions and financial losses to clearing members and their clients.

Further in case recovery effort fails, then RWP aims to enable MCXCCL to cease its regulated activities and achieve cancellation of its permission with minimal adverse impact on its market participants, stakeholders, service providers and the wider markets.

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RWP includes scenarios where MCXCCL undertakes a strategic exit from its business as well as unexpected crisis and/or losses that makes MCXCCL unviable.

The RWP seeks to articulate recovery and resolution plans on how to handle any form of financial distress, which may erode MCXCCL existing resources.

Various points identified are captioned as below: -

i. Risk faced by MCXCCL that could threaten its viability and the risk management framework to mitigate and manage these risks.
ii. Recovery tools in case mitigation tools prove to be inadequate.
iii. Wind down plan in case recovery effort fails.
iv. Wind down scenarios and strategies.
v. Time, cost and resource estimation for winding down operations.
vi. Governance structure to execute RWP.

3. Risk Management Framework

MCXCCL has put in place a well-defined comprehensive risk management framework in compliance with the regulatory requirements prescribed by SEBI to ensure financial stability and timely settlement of trades. MCXCCL risk management practices are in compliance with the Principles for Financial Market Infrastructures.

3.1. Major risk management measures to manage member's default:

3.1.1. MCXCCL has specific eligibility criterion for applicants which they must fulfil to become members and also has specific criterion for termination / Surrender of membership.

The first level check is to ensure that all empanelled Clearing Members have sound financial background. Clearing Members are required to comply with the net worth requirement as stipulated by MCXCCL. Additionally, Clearing Members are required to place minimum deposits with MCXCCL failing which they are put in suspension mode. Clearing members are also required to place upfront margins in various forms of approved collateral. The collaterals are accepted from the participants, as stipulated by SEBI.

3.1.2. The collateral valuation is carried out on a daily basis. All forms of deposit, except cash and cash equivalents (BGs, FDRs, G-Sec, Sovereign Gold Bonds and T-Bills), are subject to their respective upper caps. The acceptance of the Bank Guarantees, Fixed Deposit Receipts and Securities by the MCXCCL shall be subject to the bank-wise and member-wise limits as are stipulated from time to time. Collaterals other than Cash, Bank Guarantees and Fixed Deposit Receipts are subject to haircuts. Margins are computed and levied at client-level without allowing netting across clients for offset positions. Clearing Members are restricted from taking

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further positions in the event of non-compliance of the stipulated requirements. Repetitive delays in MTM settlement are also closely monitored by MCXCCL and penal provisions are invoked to avoid recurrence. MCXCCL follows a comprehensive and stringent margining system for all derivative contracts traded on exchange platform. Span based Initial Margin is levied to cover worst –case loss scenario of portfolio at client level and in addition to SPAN margins, Extreme Loss Margin (ELM) is also imposed on the open positions. Additional margins, Concentration margins and Special margins are levied whenever deemed necessary considering the volatility and price movement in the commodities. Such margins are also levied as per the directions of SEBI. Tender period margins and delivery period margins are levied on contracts nearing expiry to ensure no default in commodity delivery. Incremental pre-expiry margin is levied before the expiry of the contract if the underlying commodity is deemed susceptible to possibility of near zero and / or negative prices and the mode of settlement is 'cash settlement'. MCXCCL also levies devolvement margins to safeguard against the risks arising from devolvement of option positions into futures.

3.1.3. MCXCCL has deployed additional risk management measures like real time monitoring of MTM loss, Margin Utilisation, crystallised losses, daily mark to market settlement, concentration limit etc.

3.1.4. MCXCCL maintains Core Settlement Guarantee Fund (SGF) and carries out Stress tests to ensure the adequacy of the SGF.

3.1.5. MCXCCL also carries out back testing on daily basis to ensure the adequacy of margins and the results for the same are placed before the Risk Management Committee of MCXCCL.

3.1.6. MCXCCL has defined alternative measures to liquidate the positions and regain a matched book.

3.1.7. MCXCCL has also adopted Alternate Risk Management Framework (ARMF) for identified commodities susceptible to the possibility of near zero and negative prices.

3.2. **Settlement Bank Risk**

MCXCCL has empanelled Clearing Banks for providing clearing and settlement services for trades executed on the MCX. The clearing banks empanelled are a mix of the top public & private sector banks and subject to supervision and regulation of Reserve Bank of India and have a high degree of technical capacity to provide such payment services. MCXCCL has put in place eligibility criteria to ensure that only the banks with highest creditworthiness and competence are empanelled as service providers. The criteria are related to creditworthiness, capitalization, for selection of a clearing bank that a commercial bank must fulfil before being permitted to operate as a clearing bank.

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Bank wise exposure limits are specified based on the net-worth of the banks. MCXCCL has also put in place various prudential limits on the collateral issued by banks. Further, MCXCCL has arrangements for overdraft facility from banks to meet its liquidity requirements.

3.3. **Investment Risks**

MCXCCL has laid down well-defined prudential norms for investment that governs investments in eligible assets and applicable exposure limits. The investment policy of MCXCCL thrives on the principle that there is minimal market and credit risk and the investments can be liquidated at a short notice with minimal adverse price impact. In the event of a member default, MCXCCL may be required to utilize its own funds as well as the credit lines availed with the banks to mitigate the liquidity requirements for timely settlement. Investments placed with the commercial banks against the credit lines availed are in the custody of the banks and rest of the investments is in the direct custody of MCXCCL.

3.4. **Delivery Risk**

Delivery risk of default by WSP is managed by

3.4.1. Compliance of the Warehousing Norms - MCXCCL does not hold the custody of the physical commodities, MCXCCL has appointed Warehouse Service Providers (WSP) in terms of the regulatory guidelines, who are entrusted to manage the risk associated with the storage of physical delivery.

3.4.2. Entered into legal agreements with Warehouse Service Providers (WSP) to bind them to discharge their obligations - The agreement with the WSPs covers the entire gamut of services in the commodity management space including weighment, quality testing, pest control, insurance, labour, etc.

3.4.3. Empanelment of WSP's after reviewing their financial soundness apart from other requirements specific to the warehousing activity.

3.4.4. WSPs are required to deposit a percentage of the value of goods stored in the warehouse as security deposit with MCXCCL against the performance of their quality and quantity guarantee for the goods stored in the warehouse.

3.4.5. Audit mechanism.

3.5. **Operational Risk**

MCXCCL has a defined process to assess operational risks. It has identified human error, system failure and internal and external factors as the sources of Operational risks. MCXCCL has well defined processes and has implemented stringent checks in place to manage operational risk. To address identified operational risks, MCXCCL has put in place various processes like Maker-checker for critical functions, process automation to avoid human

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intervention, control checks, standard operating procedures. Further, MCXCCL has implemented scalable system, robust data backup solution and operational DR site for critical functions of MCXCCL to take care of contingencies and business continuity requirements. Mock drills are conducted periodically to test the effectiveness of BCP/DR plans. Internal and external stakeholders are involved in mock drills.

This document is segmented into following 4 categories

a. Recovery tools
b. Wind down strategies (Position shifting / close out / allow contracts to expire)
c. SEBI requirement for voluntary surrender of recognition
d. Wind down as per Insolvency and Bankruptcy code

4. Recovery Tools

In the event of a member/client failing to honour pay-in/margin obligations, MCXCCL may employ the below given alternative recovery tools to liquidate the positions and regain a matched book based on the conditions of market liquidity, volatility, size of position to be liquidated etc. These tools are in line with the SEBI directives issued vide circular dated 1st September 2016 and revised guidelines issued on 3rd March 2020 on Regaining Matched Book**.**

4.1. **Liquidation of the open positions of the defaulting member**: - Upon the occurrence of an Event of Default of a Clearing Member, MCXCCL may, at its discretion, initiate a procedure to liquidate the Open Positions of the Defaulting Clearing Member. In case the positions of the defaulter are not very large and if it is felt that the positions or large part of the positions can be closed out through liquidation in the market without much disruption, then close out of such positions/trades through a liquidation in the market shall be initiated in orderly manner with relaxed price limits according to slabs specified by SEBI.

4.2. **Auction of positions** - In case the positions of the Clearing Member(s) is not liquidated in the normal market with relaxed price limit, auction proceedings may be initiated against the default Clearing Member's positions with a specified floor price. Floor price shall be computed based on the normal price range + relaxed price range + 2% of previous day's close price. When auction of positions is resorted to for closing out of defaulter's positions, the position of the defaulting member(s) may be split into smaller tranches, thereafter bids could be invited from the Clearing members. Such bids will have to be submitted within a stipulated cut off time. Auction provides significant advantage to the hedgers and other physical market participants as hedges or netting sets can remain intact. Auction also allows those who have appetite for taking new positions to

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buy such positions through auction. It may also facilitate defaulter's outstanding trade portfolio to be split into separate tranches and then sold.

4.3. **Voluntary Tear-up** – In case auction does not result into close-out of the entire open position of the defaulting members, the voluntary tear up shall be resorted to. Voluntary tear-up is a rules-based mechanism to invite other clearing members to nominate their contracts by providing quantity and clients details for voluntary tear-up to assist restoration of matched book. The member having positions that are opposite to the position of the defaulting clearing member can only participate in the voluntary tear-up. If voluntary tear-up is successful in fully restoring a matched book, it avoids the disruption of a partial or complete mandatory tear-up without compromising participants' control of their net positions vis-à-vis the Clearing Corporation. Voluntary tear-up at last mark-to-market price along with compensation equal to 10% of last mark-to-market price and penalty equal to 1% of last mark-to-market price (to be credited to SGF) as per the SEBI guidelines.

4.4. **Partial Tear-up** – In case all the defaulting member's position could not be liquidated even in voluntary tear-up, partial tear up shall be implemented. Partial tear-up is to selectively cash settle a sub-set of the contracts that will return the Clearing Corporation to a matched book. The subset could be the original opposing trades to the defaulter's or a matching set of trades drawn from across all CMs holding positions in the same class as those of the defaulter, whether or not their original trades were with the defaulter. The compensation will be paid to participant as per the SEBI guidelines. In partial tear-up, opposite position of the members along with their pro-rata basis allocation of partial tear-up position for regaining matched book is considered. Partial tear-up (pro-rata against members/clients having opposite positions) at last mark-to-market price along with compensation equal to 8% of last mark-to-market price and penalty equal to 1% of last mark-to-market price (to be credited to SGF) as per the SEBI guidelines.

Further, in case of potential default by member, actions as enumerated in SEBI circular dated July 01, 2020 shall be taken. The actions inter alia include the following:

1. Issuance of instruction to the banks that the balance in all the bank accounts of the member shall be frozen for debits by Banks.
2. Issuance of instruction to the depositories to freeze the demat account of the member including pool account.
3. Invoke the unencumbered collateral deposits including BGs / FDRs/ Mutual Fund Units / Approved Securities or Commodities.
4. Secure the unencumbered collateral deposits of the member, electronic balances in the depository account including invocation of the BGs / FDRs.

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Governance:

MCXCCL Bye-Laws have elaborate provisions with respect to default handling procedures and usage of Settlement Guarantee Fund in the event of Default. The Bye-Laws and Rules of the Clearing Corporation are published in the Gazette of India and in the Gazette of Maharashtra (State of Permanent Establishment) and are published on the website of MCXCCL. Further, non-compliances which may lead to declaration of member as defaulter are detailed in the Bye-Laws and Rules of MCXCCL. The procedure of declaration of defaulter and the methodology of appropriation of funds and other deposits is also specified in the Rules and Bye-Laws of MCXCCL.

Further, various provisions adopted in the event of a member's default are informed to market participants and are also reviewed in terms of the regulatory directives. MCXCCL follows the default waterfall mechanism as prescribed by SEBI. Further, with reference to SEBI Circular dated December 16, 2022 Clause V on "Default Waterfall" of CCs states as below:

"Proportion of remaining CC resources (excluding CC contribution to core SGFs of other segments and higher of INR 100 Crore or the capital requirement towards orderly winding down of critical operations and services) equal to ratio of segment Minimum Required Corpus (MRC) to sum of MRCs of all segments"

In case of a default or non-default risk event

Replenishment of Capital -

The methodology of replenishment of resources pursuant to declaration of default has been prescribed by SEBI which shall be followed by MCXCCL in the event of default or non-default risk event. MCXCCL has a detail provision stipulated in the Articles of Association to replenish any depletion in capital or even to raise additional resources if required.

5. Wind-down:

When all the recovery and resolution tools fail and likelihood of sustainability of MCXCCL will be challenged then, MCXCCL will have to consider winding-down its operations in a way that there is minimal adverse impact on its market participants, service providers and the wider markets.

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A. Business as Usual	B. Wind-Down		
	Start Point	**Wind-down period**	**End Point**
Consider wind-down scenarios, operational requirements, time, cost and resource estimation, Governance structure	Pursuant to approval by SEBI, the Board makes decision to wind-down as per process laid down under Insolvency and Bankruptcy Code (IBC)	• Close down business in an orderly fashion and needs sufficient financial and non-financial resources to do so. • Cancellation of Regulatory Permission • Ongoing Winding down process as per IBC.	Dissolution order by the designated authority (currently NCLT under IBC)
Still a going concern even in case of financial stress	Ceases to be a going concern once decision to wind-down is made.		

6. Wind-down scenarios:

6.1. Voluntary wind down MCXCCL

6.1.1. Profitability - Substantial accumulated losses resulting in reduction of Clearing Corporation's net worth below INR 100 crore.

6.1.2. Wind down of Exchange - If Exchange wind down its operations.

6.1.3. No exchange business - If no exchange/Members is willing to perform clearing through MCXCCL.

6.1.4. Strategic decision – to exit the business.

6.2. Orderly wind-down necessitated by a default or liquidity shortfall

6.2.1. Liquidity and Credit Risk. – Default / Non-meeting of obligations by participant(s).

6.2.2. Settlement Bank Risk - Default by largest or few large settlement banks.

6.2.3. Investment Risk - Default by banks or mutual funds in which significant value of investments were made or erosion of MCXCCL net-worth due to heavy investment losses.

6.3. Orderly wind-down necessitated by general business risk, operational risk and any other risk that threatens solvency of the CC.

6.3.1. Operational Risk - Catastrophic situations, system failure, human error, failure in control checks, intentional fraud, disastrous events etc.

6.3.2. Regulatory & Compliance Risk - Adverse action by regulator - levy of heavy fines and penalties, increased capital requirement in form of net-worth and SGF requirement impacting

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CC operations, receipt of directions from regulatory to implement the winding down procedures.

6.3.3. Technology Risk - technology error, technology failure, cyber and information security breach.

6.3.4. Legal risk -

- Legal case(s) involving amounts where the financial ability to meet such liability is inadequate.
- Any adverse order by any court / authority impacting continuity of business of CC.

6.3.5. Capitalization risk - Company's shareholders are unwilling to recapitalise.

6.4. Regulatory Actions - SEBI may direct a CC to wind down its critical operations and services including but not limited to the following scenarios:

6.4.1. MCXCCL shall be required to continuously meet the annual clearing turnover, aggregated across segments, including by way of interoperability, of at least INR 1,000 Cr. per annum or any other amount as may be specified by SEBI from time to time. In case MCXCCL fails to meet the aforesaid requirement for two consecutive years, it shall be liable to exit; and, accordingly, apply for orderly winding down of its critical operations and services.

In case where the CC does not apply for voluntary winding down of critical operations and services, pursuant to breaching the minimum turnover threshold as mentioned above, SEBI may proceed with compulsory de-recognition of such CC under applicable laws.

7. Wind down decision

Consideration of the wind-down plan becomes relevant when despite management actions, recovery efforts deployed by MCXCCL have not been or are unlikely to be successful from being able to provide its critical operation and services as a going concern.

8. Wind down strategy

MCXCCL may initiate following strategies:

8.1. **Transfer of open positions to other clearing corporation** - In this strategy, the open positions if any, of the participants shall be transferred to other clearing corporation. This would require arrangement with other clearing corporation subject to legal / regulatory enablers for doing the same. Further, existing clearing members of MCXCCL will have to become members of new CC before the end of the notice period. Provision needs to be made for consent from the participants for the transfer of positions as well as the collateral available with MCXCCL. Arrangements shall be required with the Electronic Registry for transfer of electronic balance of physical commodities. Further, similar arrangements with WSP for transfer of physical balances will be required.

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8.2. **Close out of all the open positions** - MCXCCL shall announce a termination date, with the approval of SEBI and may decide to close out all the outstanding open positions in all the contracts. The methodology is to expire all open positions at the daily settlement prices on the termination date, and to generate a single claim for each member. The operations will get halted from next day after the termination date, and MCXCCL will proceed with the liquidation.

8.3. Combination of any of the above options

9. Operational requirements

Requirements for different strategies discussed above would vary. MCXCCL has identified the following requirements:

9.1. Identification of critical and non-critical activity.

9.2. Identification of key employees who shall be responsible for development, review, approval, and ongoing monitoring and updating of winding down plan as well as performance of the critical services.

9.3. Provision in regulations and Bye-laws.

9.4. Notice to the market participants, Exchanges, WSPs, Repositories, Banks and Regulator with details about the reason of wind-down, transfer or liquidation time, last activity date, compensation in case of losses etc.

9.5. Transfer of positions, collateral and membership to another clearing corporation.

9.6. Liquidation of all the positions and refund of the money to the participants.

9.7. Refund of unutilized core SGF contributions made by Clearing member and Exchange.

9.8. Arrangement of Payments for any outstanding dues to regulator, the associated contracts, vendors, support services etc.

9.9. Surrender of clearing rights - Option will be given to members for surrender of clearing rights

9.10. De-empanelment of WSPs after removal of the commodities from the approved space.

9.11. Regulatory approvals for the above steps.

10. Time, cost and resource estimations

10.1. Analysis of possible sequencing and expected time to complete wind down for each of the above strategy has been made.

10.2. Resource required for implementation of wind-down plan - employees, infrastructure, support services, legal & other advisors to be identified

10.3. Based on the analysis of the expected time and resources, estimated cost of orderly wind down has been arrived.

10.4. A minimum time span of six months would be considered for ensuring an orderly winding down.

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11. Wind-down capital

As stipulated in Regulation 14(3) (b) of SECC Regulations and SEBI circular SEBI/HO/MRD/DRMNP/CIR/P/2019/55 dated April 10, 2019.

11.1. A CCP shall have in place a viable recovery or orderly wind-down plan and hold sufficient liquid net assets funded by equity to implement this plan.

11.2. While computing the capital requirement for winding down, a CCP shall consider a minimum time span of six months for ensuring an orderly winding down or restructuring of its activities and thus, hold liquid net assets equal to at least six months of gross operational expenses.

11.3. MCXCCL shall maintain the required capital requirement at all times and shall be used for carrying out critical operations and services of the CCs, once the process of orderly winding down of critical operations and services is initiated.

11.4. MCXCCL is sufficiently capitalized to ensure an orderly wind down. The winding down procedure shall be undertaken in accordance with the provisions of Insolvency and Bankruptcy Code, 2016, and applicable provisions of Companies Act, 2013 as amended from time to time.

12. Communication plan

In the event of a wind-down, there will be a wide-range of different stakeholders who will need to be notified at different points in time depending on the stage of winding down including but not limited to– regulators (other than SEBI), members, service providers including WSPs, shareholders, employees among others. MCXCCL uses commonly accepted communication procedures and standards to notify the stake holders, market participants, service providers including WSPs, regulators at various stages.

(* Wherever contractual agreements are there, the communication plan will also include specific requirements in line with contractual arrangement, if any.)

13. Regulatory requirement in case of voluntary surrender of recognition

SEBI vide circular dated January 11, 2016 and circular dated December 16, 2022 made applicable to Clearing Corporations prescribes the steps to be taken.

13.1. Seek approval for voluntary surrender of recognition

13.2. Not to alienate any assets without taking prior approval of SEBI

13.3. Treatment of assets

13.3.1. Distribute assets subject to certain conditions as laid down in its framework, guidelines that may be issued by SEBI, Government, or any other statutory authority, from time to time.

13.3.2. Valuation of assets shall be done by valuation agency appointed by SEBI. The valuation charges shall be paid by CC

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13.3.3. The quantum of assets available for distribution shall be arrived at after payment of statutory dues, including applicable taxes; contribution to SEBI as specified in para 13.3.4 & 13.4 below, return of refundable collateral and membership deposits of CMs, and the unutilized Core SGF contributions of CMs and Stock Exchanges, as the case may be, depending upon the scenario triggering winding down of critical operations and services.

13.3.4. Subsequent to exit, the CC shall also be required to contribute up to 20% of its assets (after applicable taxes) towards SEBI Investor Protection and Education Fund (IPEF) in order to provide for settlement of any claims pertaining to pending arbitration cases, unresolved complaints or grievances lying with the CC, etc. The contribution percentage may be decided by SEBI taking into account relevant factors such as the governance standards of the CC, estimation of future liabilities, etc.

13.4. Payment of following dues to SEBI:

13.4.1. The dues outstanding to SEBI and annual regulatory fee, if any

13.4.2. The outstanding registration fees of clearing members as specified in the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 till the date of such de-recognition.

13.4.2.1 Dues of the clearing members to SEBI shall be recovered by the CC out of the CMs' own deposits / capital / share of sale proceeds / winding down proceeds of CC, etc. available with the CC

13.4.2.2 The CC shall be liable to make good any shortfall in collection of dues of the clearing members to SEBI.

13.5. Other conditions

13.5.1. CC shall not use the expression clearing corporation or any variant in its name or in its subsidiaries name so as to avoid any representation of present or past affiliation with the CC.

13.5.2. The Sale / distribution / transfer of assets / winding up of such CCs / companies shall be subject to the applicable laws in force.

13.5.3. The CC shall set aside sufficient funds in order to provide for settlement of any claims, pertaining to pending arbitration cases, arbitration awards, not implemented, if any, liabilities/claims of contingent nature, if any, and unresolved investors complaints/ grievances lying with it.

13.6 Pursuant to the application for surrender of recognition / exit, SEBI shall pass an appropriate order.

Assumptions:

As SGF comprises of CC own contribution, Exchange contribution and penalties,

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- In the event of transfer of positions to another CC, the contribution of CC in the SGF shall be freed up for meeting CC liabilities, Exchange contribution shall be returned to the Exchange, and treatment of penalties, if any will be as per the directions of SEBI.
- In the event of close out of positions, the contribution of CC in the SGF shall be freed up for meeting CC liabilities, Exchange contribution shall be returned to the Exchange, and treatment of penalties, if any will be as per the directions of SEBI

14. Cease to exist

14.1. In case resources available are sufficient to meet liabilities after following the procedure as laid down in Segment 3 above, procedure as laid down in Section 59 of IBC shall be initiated for voluntary winding down and in case resources available are insufficient, insolvency proceeding under IBC as required under law in force at the relevant time, shall be initiated.

14.2. MCXCCL will cease to exist once NCLT passes an order for dissolution

15. Governance

15.1. Board of Directors

15.1.1. The Board shall be responsible for taking a decision of wind-down, initiating the wind down plan, give such declarations, appoint Insolvency Professional (IP) and carry out all such actions as required under IBC for voluntary winding up.

15.1.2. The Board shall constitute a designated authority comprising of personnel from top management of MCXCCL to carry out the wind down in coordination with the IP.

15.1.3. The Board shall delegate all the necessary powers to the designated authority to carry out winding down of operations.

15.1.4. The Board shall have oversight of the implementation of wind down plan.

15.2. The Designated Authority to be appointed by Board shall ensure completion of formalities as per wind down strategy mentioned above, SEBI circular, if any and to co-ordinate with the IP under IBC. The designated authority shall be responsible for securing necessary Regulatory approvals from time to time.

16. Review and Approval of the RWP

16.1. Approval for winding down plan.

16.1.1. The winding down plan shall be placed before the Governing board of the MCXCCL for approval prior to submission to Regulator.

16.1.2. The Governing Board of MCXCCL shall review the policy on an annual basis and the policy shall be published or disclosed on the website (excluding any confidential details)

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16.1.3. The winding down plans approved by the Governing board shall be submitted to Regulator.

16.1.4. The provisions of SECC Regulations, 2018 and various circulars and guidelines issued thereunder, shall continue to apply during the entire period of winding down of critical operations and services of MCXCCL.

17. Oversight

The Regulatory Oversight Committee (ROC) of the CC shall oversee the implementation of steps or processes involved in orderly winding down of critical operations and services of the CC and shall submit a report to SEBI after approval from the governing board, in a manner as may be specified by SEBI, upon completion of necessary steps or processes.

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STANDARD OPERATING PROCEDURE

Background

SEBI vide its circular dated December 16, 2022 has advised clearing corporations (CCs) to put in place a policy framework for orderly winding down of their critical operations and services, which shall contain the minimum provisions as outlined in the aforesaid circular.

The Standard Operating Procedure (SOP) forms part of the Recovery and Wind down Plan (RWP) and outlines the manner in which the critical operations and services of MCXCCL shall be carried out, to prevent any disruption to the financial system, upon triggering of any of the scenarios that may lead to wind down.

Purpose

The purpose of the RWP is to maintain the continuity of critical services in times of extreme stress and to facilitate the recovery. The Recovery and Wind-Down Plan seek to articulate recovery and resolution plans on how to handle any form of financial distress, upon triggering of any of the potential scenarios, which may result in substantial erosion of MCXCCL resources.

When all the recovery and resolution tools fail and likelihood of sustainability of MCXCCL is challenged then, MCXCCL will have to consider winding-down its operations in a way that there is minimal adverse impact on its market participants, service providers and the wider markets.

1. Identification of Potential Scenarios that could lead to Wind down

1.1. Voluntary wind down MCXCCL

- Profitability - Substantial accumulated losses resulting in reduction of Clearing Corporation's net worth below INR 100 crore.
- Wind down of Exchange - If Exchange wind down its operations.
- No exchange business - If no Exchange/Members is willing to perform clearing through MCXCCL.
- Strategic decision – to exit the business.
- Non-Compliance to Regulatory directions – Failure to meet the minimum annual clearing turnover as specified by SEBI from time to time.

1.2. Orderly wind down necessitated by a default or liquidity shortfall.

- Losses due to default by CM(s) - If MCXCCL fails to re-establish a matched book after a large default and/or when all the default handling funds get exhausted.
- Settlement Bank Risk - Default by largest or few large settlement banks.

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- Investment Risk - Default by banks or mutual funds in which significant value of investments were made or erosion of MCXCCL net-worth due to heavy investment losses.

1.3. Losses due to other factors

Orderly wind-down necessitated by general business risk, operational risk and any other risk that threatens solvency of the CC.

- Operational Risk - Catastrophic situations, system failure, human error, failure in control checks, intentional fraud, disastrous events etc.
- Regulatory & Compliance Risk - Adverse action by regulator - levy of heavy fines and penalties, increased capital requirement in form of net-worth and SGF requirement impacting CC operations, receipt of directions from regulatory to implement the winding down procedures.
- Technology Risk - technology error, technology failure, cyber and information security breach.
- Legal risk – Legal case(s) involving amounts where the financial ability to meet such liability is inadequate. Any adverse order by any court / authority impacting continuity of business of CC.
- Capitalization risk – Company's shareholders are unwilling to recapitalise

2. Wind down decision

Consideration of the wind-down plan becomes relevant when despite management actions; recovery efforts deployed by MCXCCL have not been or are unlikely to be successful from being able to provide its critical operation and services as a going concern.

Time, cost and resource estimations

2.1. Analysis of possible sequencing and expected time to complete wind down for each of the strategy shall be made.

2.2. Resource required for implementation of wind-down plan - employees, infrastructure, support services, legal & other advisors to be identified.

2.3. Based on the analysis of the expected time and resources, estimated cost of orderly wind down shall be arrived.

2.4. A minimum time span of six months would be considered for ensuring an orderly winding down.

2.5. MCXCCL shall hold liquid net assets equal to at least six months of gross operational expenses.

3. Operational requirements

MCXCCL has identified the following operational requirements in detail to carry out the winding activities in an orderly manner.

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3.1. Identification of Critical operations & Services of MCXCCL.

The core and critical functions as per Regulation 28 (3) of SECC Regulations, 2018

Vertical 1: Critical Operations	Vertical 2: Regulatory Departments	Vertical 3: Other Functions
Clearing & Settlement	Compliance	Finance & Accounts
Collaterals	Risk Management	Human Resources & Admin
Delivery	Membership & Default	
Warehousing Operations	Inspection	
Technology	Investor Grievances	
	Secretarial	
	Legal	

3.2. Identification of critical activities during the winding down period

Departments	Activities	Core
Risk Management	Risk Management Operations includes the following:	Y
	• Real time MTM loss & Margin monitoring. • Necessary actions in case of Margin overutilization • Computation of various margins including Concentration margin. • Daily computation of Margin Shortfall Block Amount (MSBA) • Daily computation of Stress Test for Core SGF	
	All other risk management operations related activities including review of margin framework, circular dissemination, providing regulatory reports/data to SEBI, internal Compliance, monthly computation of liquidity ratio of margin period, computation of risk based capital and net worth requirement etc.	Y
Clearing & Settlement	Operational activities of Clearing & Settlement are as below:	
	• Close out of open position • Fund settlement. • Client margin reporting • Blocking of pay in shortage. • DDR & closing price of illiquid contracts. • Generation of obligation	Y
	All other clearing-settlement operations related activities including circular dissemination, providing regulatory reports/data to SEBI, internal Compliance, etc.	Y

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Departments	Activities	Core
Collateral Management	Key activities handled by Collaterals team are as below:	
	• Financial compliance towards Initial Security Deposit (ISD), Minimum Liquid Net worth (MLNW), Additional Cash Margin • Collection of deficit margin • Refund of margin money • Acceptance & withdrawal of cash equivalent collaterals. • Acceptance and withdrawal of other collaterals for additional margin • Allocation / deallocation of collaterals • Invocation of collaterals • Blocking of collateral for various purposes • Penal Provision • Bank Exposure	Y
Delivery	• Monthly Settlement Calendar & Delivery marking • Delivery settlement through ComRIS / CCRL • Delivery margin exemption & Early Pay-in • Computation of Charges • Handling Close out and penalty in case of default	Y
Compliance	• SEBI Inspection compliances • Agenda to be placed before the Committee / Board • Compliances related to pre and post winding down process. • Compliance with the provision of SECC Regulations, 2018 and various circulars and guidelines issued thereunder.	Y
Warehouse Operations	• Cancellation of WSP/ VSP/ Assayer empanelment. • De-accreditation of Warehouse • Performance review of warehouses and assayers • Monitoring & releasing the financial security deposits from WSPs • Collection of invoices due from WSP and Clearing members, • Beneficiary owner to get his stock from warehouse / Vault without any issues.	Y

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Departments	Activities	Core
Membership & Grievances	• Process related to surrender of membership. • Collection of SEBI Annual Fees from the members and remittance to SEBI. • Process Half yearly net worth certificate and Annual Return submitted by members or any other applicable submission. • Issue status report / NOC to the clearing members. • Process – Change in Name / Director /Partner / Address / Shareholding (with/ without control) /Compliance Officer /Authorised Signatory /PO-FIU/DD-FIU / Statutory Auditor- PCM. • Handling default/ ceased as per the applicable SOP. • Handling grievances as per the applicable SOP.	Y
IT Operations (Systems & Network)	• Production Environment start of the day and end of the day activities • Providing support for Clearing & Settlement Operations. • Monitoring of applications, hardware, Network throughout the day. • Software/Hardware (production) Support from vendors • Change, Release, Patch and Incident Management • DR Drill and Mock Trading • Data centre Operations • Daily Network Health Check • Provisioning of Network Connectivity to end users • Backup	Y
IT- Security	• Security Operations Centre (SOC) Monitoring & Management • Firewall Policy / Rules Management • Management and maintenance of Information Security tools and technologies • MIS • Backup • DR live for Compliances • Privileged access management • VPN Access • Vulnerability Assessment & Penetration Testing • Governance & Compliance	Y

3.3. Identification of critical employees to be retained during orderly wind down

The Count of key employees along with their roles who shall be retained and responsible for development, review, and ongoing monitoring etc. of the critical operations and services, once the process of orderly winding down of critical operations and services is initiated is as below:

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Key Departments	Count of Critical Employees
Clearing and Settlement	**3**
Collateral Management	**2**
Delivery	**2**
Risk Management	**2**
Warehousing Operations	**2**
Compliance	**1**
Finance	**2**
Technology & Information security	**10**
Membership & Grievance	**1**
Secretarial & Legal	**2**
MD office & HR	**2**

3.4. Identification of Critical Contractual Obligations of MCXCCL

3.4.1 All contractual obligations of MCXCCL shall be identified as whether critical or not.

3.4.2 Contractual obligations with clearing members, exchanges and other MIIs arising out of clearing and settlement of trades done on exchanges shall necessarily be defined as essential. Any services provided to these parties (other than those arising out of trades done on exchanges) may be considered as non-critical.

3.4.3 Contracts with external service providers, vendors, outsourcing agreements, and other third parties shall be identified as critical and non-critical.

3.4.4 Every new contract entered by CC would be classified as being critical or non-critical.

Rule Engine proposed to determine Critical Agreements

- Agreements directly related with the Core business activity of MCXCCL mainly Clearing & Settlement of trades.
- Agreements generating financial lock in obligation for a period of more than 6 months.
- Agreement executed in pursuance of any Regulatory requirement.
- Agreements having significant impact from the perspective of Winding down.
- Contractual obligations with exchanges, clearing members and other MIIs related to clearing & settlement of trades.

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3.5. List of Critical Agreements / service providers to be continued during Wind down

3.6. Details of Infrastructure and Premises to be retained

MCXCCL is having a leave & license agreement with Multi Commodity Exchange of India Ltd (MCX) to use and occupy demised premises at 3rd floor of the building located at Exchange Square, Suren Road, Chakala, Andheri (East) Mumbai 400093 along with Furniture / Fixtures & Fittings etc. subject to terms and conditions of the Agreement.

The existing premise will continue to be in use and occupied during the orderly winding down phase.

3.7. Details of technological systems & vendors to be continued during orderly winding down.

3.8. Provision in regulations and Bye-laws

Powers to close out all the positions in all the contracts cleared by MCXCCL are incorporated in the regulations and Bye-laws. (Provision is stipulated in point no. a & b of 14.1.1.3 in Bye-laws).

3.9. Notice to the market participants

Notice to the market participants, Exchanges, WSPs, Repositories, Banks, stakeholders and Regulator with details about the reason of wind-down, transfer or liquidation time, last activity date, compensation in case of losses etc. shall be issued by MCXCCL by way of a circular as and when the scenarios get triggered with prior approval of SEBI.

MCXCCL shall also mention a sufficient notice period at least six months before winding down so as not to have a significant impact in financial system and shall continue to provide at least the critical services during the notice period.

4. Identification of Wind down strategy

MCXCCL may initiate following strategies:

4.1. Close out of all the open positions:

All positions shall be closed out in case if any of the open positions are not being transferred to other clearing corporation.

MCXCCL shall announce a termination date, with the approval of SEBI and may decide to close out all the outstanding open positions in all the contracts. The methodology is to expire all open positions at the daily settlement prices on the termination date, and to generate a single claim for

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each member. The operations will get halted from next day after the termination date, and MCXCCL will proceed with the liquidation.

Balance collateral shall be refunded to the members after adjusting any claims and as per the membership terms.

Price at which the positions shall be liquidated:

4.1.1. In case of availability of order book, at the price available in the market.

4.1.2. In case of no order book, at the price specified by MCXCCL at the time of liquidation.

4.1.3. In case at the time of expiry of the contract, at the final settlement price (FSP) or price specified by MCXCCL.

4.2. Close out mechanism for settlement of open positions (Methodology for Calculation of Closing Price/ Daily Settlement Price for closing out of open positions)

1. Closing Price is equal to weighted average price of all trades done during the last 30 minutes of a trading day.
2. If the number of trades during last 30 minutes are less than 10, then it is based on the weighted average price of the last 10 trades executed during the day.
3. If the number of trades done during the day are less than 10, then it is taken as the weighted average of all the trades executed during the day.
4. If no trades have been executed in a contract on a day, then the official closing price of the last day is taken as the official Closing Price. However, in such cases, MCXCCL shall have the right to modify the Closing Price for the purpose of marking to market and making the open positions closer to the market as under:

Method for change in Close Price in case of illiquid contracts' is as under:

5. The spread prevailing between the active contracts*, shall be used to determine the theoretical futures price for other contracts that do not meet the criteria for liquid contract as stated above in the same commodity.

   *contract is considered as active if the close price of such contract is determined by (1), (2) or (3) of above Clause.
6. Prices available for comparable commodity/ contracts in domestic/ internationally reference markets (converted to INR at the prevailing RBI reference rate).
7. In case of agricultural commodities, due to seasonal nature of the commodities, in order to make the contract available in tradable range, MCXCCL may also set the close price considering the prices prevailing in spot market (and duly adjusting the same for contango / backwardation market

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conditions) domestically / internationally or by using the prices prevailing in other Clearing Corporations/ Exchanges where the commodity contracts are liquid.

Note 1: In case of contracts, where the base asset is the same, MCXCCL may consider the price of nearest expiry of the liquid variant of the base asset in order to deduce the price of the illiquid contract, after carrying out such adjustments as may be deemed necessary.

8. Further, MCXCCL may arrive at the close price through any other method, which MCXCCL in its absolute discretion considers appropriate, in order to reflect a fair close price of the illiquid contract.
9. If there are no trades for a trading day in options contracts, the close price shall be changed based on the Black 76 options pricing model. However, in case the ARMF is enabled for the susceptible commodities, the close price shall be changed based on the Bachelier Options Pricing model.
10. In case of index futures contracts, in the scenario of no trades in the contract, settlement prices shall be computed theoretically as under:

$F = S * e^{rt}$

Where,

F = futures price,
S = underlying index,
r = 30 day MIBOR rate and
T = time remaining till maturity,
e = the exponential factor

On day of expiry (Final Settlement) of Index products

The exchange as part of contract specifications defined the methodology of final settlement in the absence of trading in any of the constituent of the underlying index between 4:00 p.m. and 5:00 p.m. on the expiry day of the index futures contract.

i. If there are no trades in the constituent during 4:00 p.m. and 5:00 p.m. on the expiry day of the Index futures contract, then it will be based on the weighted average price of the last 10 trades executed during the day.
ii. If the number of trades done during the day are less than 10, then it is taken as the weighted average of all the trades executed during the day.
iii. If no trades have been executed in a contract on a day, then the official Closing Price of the previous day will be considered.

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Further, in order to provide clarity on closing out of open positions in case of force majeure situation arising out of any system issue wherein it is not possible to restore the system, it was proposed to include the following provision in the Policy.

"Close out of open positions in case of Force Majeure

In case of trading platform is not restorable following an outage/ technical glitch/ cyber incident, the mechanism of Force Majeure Clause under section 5.8 of MCXCCL bye-laws will be invoked and open positions shall be closed as under:

a. The recent Daily Settlement Price (DSP) as applicable per MCXCCL circulars/Bye-laws shall be considered for final settlement of all (open) futures contracts.
b. In case of Options, the theoretical prices with defined parameters in the normal course of business shall be considered for closing of all open positions.

In case the halt occurs during devolvement day (i.e. on options' expiry day), all expiring options contracts shall be cash settled based on the corresponding futures price (DSP) instead of devolvement.

Tender/ Delivery Day

If the day happens to be a tender day and prior to the marking of delivery, then settlement shall happen in cash based on the above DSP. However, if marking is already done for delivery, then the settlement happens through the delivery mechanism."

4.3. Transfer of open positions, collateral and membership to other clearing corporation –

Note: "***The below strategy to transfer positions to other clearing corporation will be applicable only if Interoperability framework is implemented for commodity derivatives segment and similar products are cleared on other CCs".***

In this strategy, the open positions if any, of the participants shall be transferred to other clearing corporation. This would require arrangement with other clearing corporation subject to legal / regulatory enablers for doing the same. Further, existing clearing members of MCXCCL will have to become members of new CC before the end of the notice period. Provision needs to be made for consent from the participants for the transfer of positions as well as the collateral available with MCXCCL. Arrangements shall be required with the Electronic Registry for transfer of electronic balance of physical commodities. Further, similar arrangements with WSP for transfer of physical balances will be required.

4.3.1. A proper mechanism by which the consent of clients and members for transfer of positions and collaterals to another clearing corporation shall be sought.

4.3.2. Operational procedure for transfer of positions and collaterals to other clearing corporation shall be specified.

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4.3.3. Confirmation from the other clearing corporation regarding completion of transfer of positions and collateral such that there is no further liability of MCXCCL, shall be sought.

4.3.4. Confirmation from clients and members regarding completion of transfer of positions and collateral so that there is no further liability of MCXCCL, shall be sought.

5. Refund of unutilized core SGF contributions made by Clearing member and Exchange.

As SGF comprises CC own contribution, Exchange contribution and penalties,

5.1. In the event of transfer of positions to another CC, the contribution of CC in the SGF shall be freed up for meeting CC liabilities, Exchange contribution shall be returned to the Exchange, and treatment of penalties, if any will be as per the directions of SEBI.

5.2. In the event of close out of positions, the contribution of CC in the SGF shall be freed up for meeting CC liabilities, Exchange contribution shall be returned to the Exchange, and treatment of penalties, if any will be as per the directions of SEBI

6. De-empanelment of WSPs after removal of the commodities from the approved space.

6.1. It shall be ensured that the WSP gives delivery of all the commodities stored in the warehouse as per the contract specifications. WSPs shall be instructed to compensate the beneficiary of the commodities in case of any deviation.

6.2. Security deposits of the WSPs shall be released only after all the commodities stored in the warehouses has been delivered and all the dues towards beneficiaries, MCXCCL and repository has been settled.

6.3. WSPs shall be de-empanelled and notice to the WSP and market participant to this effect shall be given.

7. Regulatory approvals for the above steps shall include applying to SEBI for de-recognition and for following steps under IBC (Insolvency and Bankruptcy Code)

8. Liquidation of other fixed assets of MCXCCL

Detail list of Fixed assets owned by MCXCCL shall be maintained & reviewed periodically.

8.1. Valuation of assets shall be done by valuation agency appointed by SEBI.

8.2. Liquidation of the non-critical assets shall be initiated as soon as decision to wind-down operations are taken.

8.3. Liquidation of critical assets shall be done once all the contracts have been closed and settled.

8.4. Procedure to sell the assets shall be subject to necessary approvals.

Note: "***MCXCCL shall not alienate any assets without taking prior approval of SEBI".***

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9. Data back-up shall be taken for any future regulatory requirements at all the times till MCXCCL ceases to exist.

10. Payment of the statutory and contractual dues*

11. Advertisement in newspapers to invite any claims before wind-down*

12. Settlement of payments for the critical services and associated contracts, support services, employees etc. as identified during the winding down plan.

13. Subsequent to exit, MCXCCL shall also be required to contribute up to 20% of its assets (after applicable taxes) towards SEBI Investor Protection and Education Fund (IPEF) in order to provide for settlement of any claims pertaining to pending arbitration cases, unresolved complaints or grievances lying with the CC, etc. The contribution percentage may be decided by SEBI taking into account relevant factors such as the governance standards of the CC, estimation of future liabilities, etc.

14. Settlement of any claims, pertaining to pending arbitration cases, arbitration awards, not implemented, if any, liabilities/claims of contingent nature, if any, and unresolved investors complaints/grievances lying with MCXCCL.

15. Settle any other claim against MCXCCL thereby ensuring no outstanding obligations.

16. **MCXCCL shall pay following dues to SEBI:**

I. The dues outstanding to SEBI

II. The outstanding fees of CMs of such exiting CC till the date of such exit.

In this regard, MCXCCL shall recover the dues of the CMs to SEBI out of the CMs' own deposits/ capital/ share of sale proceeds/ winding down proceeds of CC, etc. available with the MCXCCL. MCXCCL shall be liable to make good any shortfall in collection of dues of CMs to SEBI.

17. Refund the residual funds to the shareholders. (The process and manner of the same shall be as per SEBI circular / IBC as applicable).

18. **Review and Approval**

The Governing Board of MCXCCL shall periodically review the SOP, at least on an annual basis and published or disclosed on the website (excluding any confidential details).

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