Policy on Composition and Contributions to Core Settlement Guarantee Fund

SEBI vide its circular no. SEBI/HO/CDMRD/DRMP/CIR/2018/111 dated July 11, 2018 has issued norms related to Core SGF and standardized stress testing for credit risk for commodity derivatives.

I. Core Settlement Guarantee Fund

MCXCCL shall have a Core SGF to guarantee the settlement of trades executed on MCX.

In the event of a clearing member failing to honor settlement commitments, the Core SGF shall be used to fulfill the obligations of that member and complete the settlement without affecting the normal settlement process.

II. Corpus of Core SGF

MCXCCL shall maintain core SGF based solely on the methodology prescribed by SEBI for determining the Minimum Required Corpus of Core SGF (MRC).

III. Minimum Required Corpus

MCXCCL shall compute the Minimum Required Corpus (MRC) which shall be subject to the following;

1. The MRC shall be fixed for a month.

2. By 15th of every month, MCXCCL shall review and determine the MRC for next month based on the results of daily stress tests of the preceding month. MCXCCL shall also review and determine by 15th of every month, the adequacy of contributions made by various contributors and any further contributions to the Core SGF required to be made by various contributors for the next month.

3. For every day of the preceding month, uncovered loss numbers shall be estimated by the various stress tests for credit risk conducted by the MCXCCL and highest of such numbers shall be taken as worst case loss number for the day.

4. Average of all the daily worst case loss numbers determined in (3) shall be calculated.

5. The MRC for next month shall be higher of the average arrived in at step (4) and the MRC as per previous review.

IV. Contribution to Core SGF

The contribution to core SGF from various contributors shall be as follows:

1. Clearing Corporation contribution:

MCXCCL contribution to the core SGF shall be at least 50% of the MRC.MCXCCL shall make this contribution from its own funds. MCXCCL contribution to core SGFs shall be considered as part of its net worth.

2. Stock Exchange contribution:

MCX contribution to core SGF shall be at least 25% of the MRC.

3. Clearing Member primary contribution:

If MCXCCL wishes, it can seek risk based contribution from Clearing Members of the segment (including custodial clearing member) to the Core SGF subject to the following conditions:

- that total contribution from CMs shall not be more than 25% of the MRC,
- that no exposure shall be available on Core SGF contribution of any CM (exposure-free collateral of CM available with MCXCCL can be considered towards Core SGF contribution of CM), and
- that required contributions of individual CMs shall be pro-rata based on the risk they bring to the system.

MCXCCL shall have the flexibility to collect CM primary contribution either upfront or staggered over a period of time. In case of staggered contribution, the remaining balance shall be met by MCXCCL to ensure adequacy of total Core SGF corpus at all times. Such MCXCCL contribution shall be available to MCXCCL for withdrawal as and when further contributions from CMs are received.

V. Penalties levied by MCXCCL

Any penalties levied by MCXCCL shall be credited to Core SGF corpus.

VI. Interest on Core SGF cash contribution

Interest on cash contribution to Core SGF shall also accrue to the Core SGF and pro-rata attributed to the contributors in proportion to their cash contribution.