



CSDs: CDSL (India), NSDL (India)

Date: 16 Sep 2013

SMI Markets: India

CMIRR Markets: India

Risk Management Framework for Dedicated Debt Segment of Stock Exchanges

On 12 September 2013, the Securities and Exchange Board of India (SEBI) published the risk management framework for the dedicated debt segment of stock exchanges. The key points are as follows:

- **Institutional Market**
 - SEBI has clarified that the institutional market shall provide for trading in both publicly issued and non-publicly (privately) issued debt instruments with a market lot size of INR 10 million at a minimum. For trading in smaller lot sizes of a minimum of INR 1 million in respect of privately issued debt instruments in the institutional market, a separate odd lot window may be provided.
- **Settlement Cycle**
 - Debt segment trades that settle on a DVP-3 basis shall have a T+1 settlement cycle. For trades that settle on DVP-1, stock exchanges shall have the flexibility to settle these trades on T+0 or T+1.
- **Settlement Basis**
 - For the institutional market, stock exchanges may provide settlement on a DVP-3 basis for publicly-issued corporate bonds and for privately-placed corporate bonds that meet certain selection/eligibility criteria to be specified by the exchanges. In all other cases, privately issued corporate bonds shall continue to settle on a DVP-1 basis.
- **Risk Management**
 - The clearing corporation shall provide settlement guarantee for trades settled on a DVP-3 basis. For this purpose, the clearing corporation shall create a settlement guarantee fund on similar lines as in other segments.
 - For the purpose of risk management in respect of trades settled on a DVP-3 basis, the clearing corporation shall impose Initial Margin (IM) and Extreme Loss Margin (ELM).
 - Liquid assets under margin requirements may be deposited in the following forms:
 - At least 50% in cash or cash equivalents, i.e. government securities, bank guarantee, fixed deposits or units of liquid mutual funds or government securities mutual funds.
 - Not more than 50% in the form of corporate bonds / liquid equity shares / mutual fund units other than units of liquid mutual funds or government securities mutual funds.
- **Auction / Financial Close-out**
 - In case of shortages, stock exchanges may conduct auction and/or financial close-out with a mark-up of 4% on traded price of such corporate bonds.
- **Reporting**
 - The reporting platform made available by stock exchanges under the earlier SEBI circulars shall be merged with the negotiated window or facility of request for quotation (RFQ) or other such similar facility provided by the debt segment of exchanges to enable the reporting of OTC trades or to facilitate OTC trades. This platform shall be available for reporting of trades by both members and non-members.

The SEBI circular can be accessed here: [Risk Management Framework for Dedicated Debt Segment of Stock Exchanges](#).

CSD Risk Impact

CDSL (India)

CSD Rating: A+

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = A+

Flash Impact = Positive

DVP settlement arrangements as well as risk management framework (i.e. guarantee fund, margin requirements and liquid assets under margin requirements) will mitigate counterparty risk exposures in respect trades executed in the dedicated debt segment of stock exchanges. The auction/financial close-out arrangements will also help to reduce liquidity risk exposures for market participants in the event of shortage of securities/cash.

NSDL (India)

CSD Rating: A+

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = A+

Flash Impact = Positive

DVP settlement arrangements as well as risk management framework (i.e. guarantee fund, margin requirements and liquid assets under margin requirements) will mitigate counterparty risk exposures in respect trades executed in the dedicated debt segment of stock exchanges. The auction/financial close-out arrangements will also help to reduce liquidity risk exposures for market participants in the event of shortage of securities/cash.

Market Information Impact

India

This information affects the data contained in the Settlement and Stock Market sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

India

Market Rating: A

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A-

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = A

Flash Impact = Positive

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Related Flash: [NSE Revises Price Step for Institutional Debt Segment, 02/09/2013 \(click to view\)](#)

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