



CIRCULAR

SEBI/HO/MRD/DRMNP/CIR/P/2019/55

April 10, 2019

**All Recognized Clearing Corporations (except those operating in International Financial Services Centre)**

Madam/Sir

**Risk-based capital and net worth requirements for Clearing Corporations under Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018**

1. SEBI constituted a Committee under the Chairmanship of Shri R Gandhi, Former Deputy Governor, Reserve Bank of India, to review the extant regulatory framework pertaining to Market Infrastructure Institutions ("MIs") viz. Stock Exchanges, Clearing Corporations ("CCP" or "CC") and Depositories. Based on the recommendations made by the Committee, SEBI notified the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 ("*SECC Regulations, 2018*").
2. In order to ensure that the net worth of a CCP adequately captures the risks faced by it, SEBI vide Regulation 14(3) of SECC Regulations, 2018 has adopted a risk-based approach towards computation of capital and net worth requirements for CCPs. The same is reproduced as under :

*14(3)(a) Every recognized clearing corporation, on commencement of operations, shall, on an ongoing basis, maintain capital including retained earnings and reserves, as may be specified by the Board from time to time, to adequately cover counterparty credit risk, business risk, legal and operational risk.*

*14(3)(b) Every recognized clearing corporation shall hold additional capital to cover costs required for orderly wind-down or recovery of operations.*

*14(3)(c) Every recognized clearing corporation shall maintain, at all times, a minimum net worth of one hundred crore rupees or capital as determined under regulation 14(3)(a) and 14(3)(b), whichever is higher.*

3. Accordingly, in consultation with the recognised Clearing Corporations, it has been decided to issue granular norms related to computation of risk-based capital and net worth requirements for CCPs as under:

### **3.1. For Credit Risk (“A”):**

- 3.1.1. The credit risk from default of clearing members is being captured through the Core SGF framework as prescribed vide SEBI circular CIR/MRD/DRMNP/25/2014 dated August 27, 2014 on “*Core Settlement Guarantee Fund, Default Waterfall and Stress Test*”. The CCP contribution to Core SGF shall be at least 50% of the Minimum Required Corpus (MRC).
- 3.1.2. The minimum contribution required to be made by the CCP towards Core SGF shall be considered for the purpose of computing capital requirements towards credit risk.

### **3.2. For Business Risk (“B”):**

- 3.2.1. The capital requirement for general business risk shall be based on a CCP’s own estimate as it is dependent on factors specific to each CCP such as execution of business strategy, market environment, response(s) to competition or technological progress etc.
- 3.2.2. A CCP shall identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern.
- 3.2.3. The capital requirement for business risk shall be subject to a minimum of 25% of annual gross operational expenses.

### **3.3. For Orderly Wind-down (“C”):**

- 3.3.1. 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.
- 3.3.2. These assets shall be determined by the general business risk profile of the CCP and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services.
- 3.3.3. 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.

### 3.4. For Operational and Legal Risks (“D”):

- 3.4.1. A CCP shall identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, and control measures. CCPs may be exposed to risk of litigations from participants/investors or other entities. It is, therefore, important that the CCP identifies such risks and maintains adequate financial resources to mitigate any losses in the foreseeable future.
- 3.4.2. The capital requirement for legal and operational risks shall at least be 20% of the aggregate of capital requirements for counterparty credit risk, business risk and orderly wind-down or recovery of operations, i.e. 20% of (A+B+C).
4. The total risk-based net worth requirement for CCPs shall be computed as the aggregate of capital requirements each for counterparty credit risk, business risk, orderly winding down or recovery of operations and legal and operational risks i.e. (A+B+C+D) or, 1.20 (A+B+C). Thus, the CCPs shall be required to maintain, at all times, in the form of liquid assets, a net worth of either INR 100 crore or as determined in the manner specified above, whichever is higher.
5. The CCPs shall use the most recent audited information from their annual financial statement for the purposes of calculation of gross operational expenses.
6. The CCPs shall regularly review their net worth requirement and ensure that the net worth does not fall below the prescribed threshold. A certificate to this effect, as signed by the Managing Director of the CCPs, shall be submitted to SEBI within 15 days from the end of every quarter. The first such submission shall be made applicable for the April 2019 – June 2019 quarter.
7. In exceptional cases where the net worth of a CCP falls below the prescribed threshold, the CCP shall forthwith inform SEBI *inter alia* mentioning the reason(s) behind the same and the measure(s) it intends to adopt in order to re-attain the prescribed net worth.
8. This circular is being issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the category "Circulars".

Yours faithfully

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