

The Clearing Corporation of India Ltd (CCIL) ([www.ccilindia.com](http://www.ccilindia.com)) is India's only inter-bank clearing and settlement guarantee agency. It is promoted by member banks and is regulated by the Reserve Bank of India.

CCIL clears and provides settlement guarantee for a variety of inter-bank transactions. The prominent ones are

- ⊕ Trades in government securities (about US \$500 million a day)
- ⊕ Forex spot transactions (about US \$5 billion a day) and
- ⊕ Collateralized over-night call money transactions (about US \$5 billion a day).

## The Business Problem

With globalization and a booming economy, Indian banks are now engaged in more diverse transactions than the above would indicate. In particular, the volume of transactions in the forex forward market and in the interest rate swap market, which are primarily transacted 'Over The Counter' (OTC), have witnessed dramatic growth. In parallel, the Indian government has diluted its stake in large Indian banks, encouraged privatization in a big way and has generally been reluctant to shore up weak public banks. These factors together have increased the settlement risk for all OTC transactions, and a need has been felt for CCIL to extend its guaranteed settlement to these markets.

In this scenario, CCIL will be the central counterparty for all transactions in these new markets, providing multilateral netting and settlement guarantee. By doing so, CCIL will absorb all risks of settlement, thereby protecting counterparties from the default of the other. CCIL realized the need for a sound risk management system since it will be its sole line of defense.

Currently, banks carrying out transactions 'Over The Counter' incur minimum transaction costs, limited to the contracting and legal costs. In the new scenario, where CCIL guarantees the trades, banks will have to deposit a margin amount (as performance bond) with CCIL. While CCIL's guarantee is a source of comfort to banks, they are lax to increase their transactions costs. CCIL, therefore will not have the luxury of over-margining in order to ensure its own safety. Margining efficiency is paramount to move OTC volumes to CCIL.

In effect, CCIL required a sound risk management system which has the capability to margin multiple asset classes, compute margins in an efficient manner and will form the basis for increasing its business mix, while at the same time ensuring its own safety.

## The Solution

CCIL commissioned Chella Software to develop a risk management system for the proposed markets that fully met both the safety and efficiency requirements. Chella Software's brief was to design, develop and implement a system that will help CCIL unify their risk management application across multiple asset classes including the markets where it was already active.