



AMC Repo Clearing Limited

Default Waterfall

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Table of Contents

1	Background	3
2	SEBI Circulars.....	3
3	Default Waterfall Mechanism	3

1 Background

In order to enhance robustness of the risk management system in the clearing corporations, granular norms relating to core settlement guarantee fund, stress testing and default waterfall procedures have been prescribed by SEBI vide Circular no. CIR/MRD/DRMNP/25/2014 dated August 27, 2014.

2 SEBI Circulars

Date	SEBI Circular
December 21, 2020	SEBI Circular SEBI/HO/MRD2/DCAP/CIR/P/2020/245
June 19, 2024	SEBI Circular SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/83

3 Default Waterfall Mechanism

In case of a default by a borrower, the collateral placed by it will be liquidated through the sale or auction as stated above and any loss from such sale or auction will be met through haircut kept. Similarly, in case a lender defaultsthe initial margin collected should normally be adequate to meet the shortfall.

In case of any residual loss i.e. the realization of collateral value is less than the outstanding obligation of borroweretc. as stated above, such loss would be absorbed by the Core SGF as per the default waterfall structure defined by SEBI as under:

- a) monies of defaulting member/participant (including defaulting member's primary contribution to Core SGF)
- b) Insurance, if any.
- c) Issuers contribution to Core SGF.
- d) ARCL resources (equal to 5% of MRC).
- e) Core SGF in the following order:
 - I. Penalties.
 - II. Previous financial years profit of ARCL transferred to Core SGF.
 - III. Remaining Core SGF: ARCL contribution and non-defaulting members/participants primary contribution toCore SGF on pro-rata basis.
 - IV. Remaining profit of ARCL transferred to Core SGF.
 - V. Remaining ARCL resources (excluding higher of INR 100 Crore or capital requirement towards orderly Winding Down of Critical Operations and Services).*
- f) Remaining ARCL resources to the extent as approved by SEBI.
- g) Capped additional contribution by non-defaulting members/participants. **
- h) Any remaining loss to be covered by way of pro-rata haircut to payouts. ***

* INR higher of INR 100 Crore or capital requirement towards orderly Winding Down of Critical Operations and Services to be excluded only when remaining Clearing Corporation resources are more than INR 100 Crores.

**

- i. ARCL shall call for the capped additional contribution only once during a period of thirty calendar days regardless of the number of defaults during the period. The period of thirty calendar days shall commence from the date of notice of default by ARCL to market participants.
- ii. ARCL shall have relevant regulations/provisions for non-defaulting members to resign unconditionally within the abovementioned period of thirty calendar days, subject to member

closing out/settling any outstanding positions, paying the capped additional contribution and any outstanding dues to SEBI. No further contribution shall be called from such resigned members/participants.

- iii. The maximum capped additional contribution by non-defaulting members/participants shall be lower of 2 times of their primary contribution to Core SGF or 10% of the Core SGF on the date of default.
- iv. In case of shortfall in recovery of assessed amounts from non-defaulting members/participant, further loss can be allocated to layer 'VII' with approval of SEBI."

*** In case loss allocation is effected through haircut to payouts, any subsequent usage of funds shall be with prior SEBI approval. Further, any exit by ARCL post using this layer shall be as per the terms decided by SEBI in public interest.

The above provisions of default handling shall be applicable to the Participants as if they were the clearing members.