

1 INTRODUCTION

As per SEBI Circular No. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2022/173 dated December 16, 2022 on “Framework for Orderly Winding Down of Critical Operations and Services of a Clearing Corporation” SEBI has advised clearing corporations (CCs) to put in place a policy framework to identify scenarios which may potentially prevent the CC to provide its critical operations and services as a going concern; identify critical services whose disorderly discontinuation will have a disruptive impact on the financial system; and formulate a Standard operating Procedure (SOP) to ensure that in the event of winding down, such critical operations and services are continued for adequate period that will enable market participants to put in place alternative arrangements so as to avoid any disruption.

In accordance with the above requirement, CCs shall have a policy framework, which shall at least contain the following provisions:

- i. Identification of Potential Scenarios
- ii. Identification of Critical Operations and Services of CCs
- iii. Standard Operating Procedures (SOP)
- iv. Return of Assets
- v. Financial Resources
- vi. Oversight

Accordingly, the policy framework for winding down of critical operations and services of the clearing corporation is prepared and given in the following paragraphs.

2 APPLICABILITY

This policy is applicable to ARCL, its clearing members and all other stakeholders. Based on the board approved policy, ARCL will implement the winding down procedures.

3 DEFINITIONS

For the purpose of this Chapter XV, unless there is anything repugnant in the subject or context:

“Termination Date” shall mean the date, as may be determined and announced by the Clearing Corporation with the prior approval of SEBI, on which all outstanding positions shall expire at the daily settlement prices, and a single claim will be arrived at for each Clearing Member.

“Regulator” means SEBI and Reserve Bank of India established under the Reserve Bank of India Act, 1934, as the case may be.

4 IDENTIFICATION OF POTENTIAL SCENARIOS

4.1 *The Clearing Corporation may Wind Down its Critical Operations and Services voluntarily or involuntarily in the following scenarios:*

4.1.1.1 *Voluntary Winding Down of the Clearing Corporation*

The Clearing Corporation is solvent and meeting all its obligations to both Clearing Members as well as other creditors but chooses to Wind Down and exit as a strategic or business decision.

4.1.2 *Involuntary Winding Down*

The Clearing Corporation may Wind Down its Critical Operations and Services on involuntary basis due to various factors including but not limited to the following:

4.1.2.1 *Winding Down due to default losses*

The Clearing Corporation may Wind Down after default management resources maintained by the Clearing Corporation are exhausted due to default by Clearing Member(s), and consequently if the Clearing Corporation fails to fulfil its obligations towards Clearing Members and/or its Constituents.

4.1.2.2 *Winding Down due to non-default losses*

The Clearing Corporation may Wind Down even in absence of Clearing Member defaults, if its solvency gets adversely affected as a result of, including but not limited to large operational expenses, legal expenses, business or investment losses rendering the Clearing Corporation unable to fulfil its obligations to Clearing Member(s), its Constituents and/or other creditors.

4.1.3 *Winding Down consequent to regulatory actions*

The Clearing Corporation may Wind Down its Critical Operations and Services on the directions of SEBI or any other statutory authority under Applicable Laws.

5 IDENTIFICATION OF CRITICAL OPERATIONS AND SERVICES OF CCS

According to SEBI guidelines, CCs shall, inter alia, consider factors such as their risk profile, operations, organizational structure, financial resources, business practices, interconnectedness and interdependencies etc. to determine which of their activities are to be considered as critical.

SEBI guidelines also require operations and services such as collateral management, risk management, clearing and settlement, etc. to be classified as critical and also require the contractual obligations of CCs with outsourced clearing corporations, CMs, stock Exchange, Depositories, arising out of clearing and settlement of trades to be necessarily classified as critical.

All activities that ARCL is involved pertain to core clearing and settlement operations and incidental activities, and therefore all operation of ARCL are considered to be critical.

Identification of key infrastructure and key employees or staff members, along with their roles and obligations who shall be retained and responsible for development, review, running and ongoing monitoring etc. of the critical operations and services.

6 STANDARD OPERATING PROCEDURE FOR WINDING DOWN

The Standard Operating Procedure (SOP) outlines the manner in which the critical operations and services of ARCL shall be carried out, so as to not cause any disruption to the financial system, upon triggering of any of the scenarios that may lead to wind down.

The Standard operating procedure for winding down is specified separately for three broad scenarios: on account of voluntary winding down, involuntary winding down, whether due to default by CM(s) or due to other factors, and on account of regulatory actions.

6.1 Standard operating procedure for Voluntary Winding Down

- 6.1.1 Voluntary Winding Down of a Clearing Corporation shall be approved by the Board of Directors, shareholders of the Clearing Corporation and Regulators.
- 6.1.2 The Clearing Corporation shall, after receiving the prior approval of Regulators,, inform the Clearing Members, Outsourced Clearing Corporation/s, Stock Exchange/s and other stakeholders like clearing banks, depositories etc. regarding its decision to Wind Down voluntarily and shall also mention a sufficient notice period of six months for Winding Down so as not to have a significant impact in the financial system.
- 6.1.3 Since the Clearing Corporation is solvent, it will have the choice of continuing full range of operations or perform only Critical Operations and Services during the Winding Down period.
- 6.1.4 ARCL shall not admit any new clearing members after notifying the winding down of the clearing corporation.
- 6.1.5 In case ARCL is proposing to introduce a new segment, the same will not be undertaken. Any system or infrastructure development towards the new segment will be halted and any contracts with vendors will be sought to be terminated. Similarly ARCL will not undertake clearing for any new product if such product involves development of additional systems or technology/ physical infrastructure (eg., introduction of a new underlying security in) may be undertaken , in order to minimize the impact on market participants.
- 6.1.6 If any other Clearing Corporation (designated clearing corporation) agrees to take over ARCL's operations, ARCL will seek to transfer related system and infrastructure along with offer for employment of personnel involved. ARCL will advise its members to either obtain the membership of the new CC or close-out their open positions. Transfer of activities to the new CC can be done at any time even before the end of notice period, all CMs either obtain membership of new CC or close-out their open positions.
- 6.1.7 Clearing Members of the Clearing Corporation will have to become members of the designated clearing corporation before the end of the notice period to enable the transfer of any open positions of the Clearing Members and/or its Constituents to the new designated clearing corporation.
- 6.1.8 The Clearing Members who have open positions may change their designated clearing corporation or close out their open positions. The Clearing Corporation will transfer any open positions at the Clearing Corporation to the new designated clearing corporation at the end of notice period. Any open positions that could not be transferred to the new designated clearing corporation within notice period will be closed out at the daily settlement price of the Termination Date and in terms of the provisions of the Rules, Bye-laws and Regulations of the Clearing Corporation.
- 6.1.9 The provisions of various circulars, guidelines and regulations issued thereunder, shall continue to apply during the entire period of winding down of critical operations and services of ARCL.
- 6.1.10 The Clearing Corporation may deal or use the penalties collected from the Clearing Members, issuers contribution and interest on these components forming part of Core SGF in a manner specified by SEBI from time to time.

6.2 Standard operating procedure for Involuntary Winding Down

6.2.1 Winding Down due to default losses

The Clearing Corporation may Wind Down under a scenario in case of one or multiple large defaults leading to all of its own resources in the default waterfall being exhausted, and all recovery measures having failed.

6.2.2 Winding Down due to non-default losses

The Clearing Corporation may Wind Down due to large operational / non-operational expenses and /or business / investment losses leading to Clearing Corporation being unable to make payments to other creditors and erosion of Clearing Corporation net-worth.

Standard Operating procedure for Winding Down in case of the above scenarios under 6.2.1 and 6.2.2 shall be as follows:

- i. The Clearing Corporation shall propose a termination Date, with the approval of governing board, shareholder and regulators.
- ii. Winding down will be announced by way of a circular.
- iii. ARCL shall not admit any new clearing members.
- iv. ARCL will not undertake any new product for clearing. However, new contracts in existing products may be undertaken for clearing, in order to prevent disorderly impact on the market.
- v. All open positions shall expire at the settlement prices of the Termination Date as determined by the clearing corporation, and a single claim will be arrived at for each Clearing Member.
- vi. The close out transaction or claim amount shall be settled by payment to the Clearing Member, in case of member's gain, or by receipt from the member, in case of member's loss.
- vii. The close out transaction or claim amount shall be settled following the Termination Date but not later than two Days following the Termination Date.
- viii. Before paying out any amount under the above sub-clause, Clearing Corporation shall have the right to recover therefrom any amount payable by the member to Clearing Corporation.
- ix. The operations of the Clearing Corporation will be halted from next day after the Termination Date.
- x. The close-out transactions shall be final and binding upon the member.

6.2.3 Winding down on account of regulatory action

The SEBI circular on framework for orderly winding down of critical operations and services clearing corporations specifies that under the scenario of winding down on account of regulatory action, SEBI will issue appropriate directions on a case-to-case basis.

In the event such a scenario:

- i. Governing board, shareholders and Regulators will be intimated regarding winding down on account of regulatory actions.
- ii. Winding down will be announced by way of a circular.
- iii. NCL will follow the directions issued by SEBI for orderly winding down.

7 RETURN OF ASSETS

Subject to the guidelines issued by SEBI or any other directions issued by SEBI or any other statutory authority, the Clearing Corporation may return the Collateral and membership deposits of non-defaulting Clearing Members, Participants or Constituents and the unutilized Core SGF contributions of Clearing Members and Participants. The return of deposits, Collateral or any other money to the

Clearing Member shall be subject to the dues of the Clearing Member to Clearing Corporation/Exchange/ Regulators/and other statutory dues, if any.

8 FINANCIAL RESOURCES FOR WINDING DOWN

The minimum regulatory period of 6 months is considered to be adequate for exchanges/members to establish alternative arrangements. CCs are required to maintain capital to the extent of 6 months of operating expenses, which is also insulated from utilization in default waterfall. In accordance with the SEBI circular, this capital will be utilized during winding down period.

9 APPLICABILITY OF RELEVANT RULES, REGULATIONS, BYELAWS AND CIRCULARS THEREUNDER

The provisions of SECC Regulations, 2018 and various circulars and guidelines issued thereunder by SEBI, the provisions of PSS Act 2007, PSS Regulations and various circulars and guidelines issued by RBI as well as rules, regulations and byelaws of ARCL and circulars issued thereunder shall continue to apply during the entire period of winding down of critical operations and services.

10 REVIEW OF WINDING DOWN POLICY

The policy for winding down shall be reviewed once a year or as and when required.