

**CIRCULAR**

SEBI/HO/MRD/MRD-PoD-2/P/CIR/2024/83

June 19, 2024

To  
All recognised Clearing Corporations

Dear Sir/ Madam,

**Sub: Contribution to Core Settlement Guarantee Fund and Default Waterfall for Limited Purpose Clearing Corporation (LPCC)**

1. Para 6.5, 6.8 and Para 6.11 of Chapter 3 (Settlements) of the SEBI Master circular for Stock Exchanges and Clearing Corporations dated October 16, 2023 prescribe guidelines to the contributions by various contributors to Core SGF of Limited Purpose Clearing Corporation (“LPCC”) and Default waterfall of LPCC respectively.
2. Based on consultations with various stakeholders, SEBI notified the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Second Amendment) Regulations, 2023 (SECC Amendment Regulations, 2023) on July 24, 2023 to enable direct participation by participants in the LPCC for transacting in tri-party repo for corporate bonds. Accordingly, following Para (6.5.1.4) shall be included and Para 6.8.2 and 6.11.1 shall be revised and read as follows:

**6.5. Contribution to Core SGF of Limited Purpose Clearing Corporation**

**6.5.1.4. Participants contribution:**

Contribution of Participants who desire direct participation and not through a clearing member to Core SGF shall be risk based and equivalent to deficit in MRC post contribution by Issuers and Clearing Members. The said contribution by Participants shall be subject to the following conditions:

that no exposure shall be available on Core SGF contribution of any Participant (exposure-free collateral of participants available with CC can be considered towards Core SGF contribution of Participants), and that required contributions of individual Participants shall be pro-rata based on the risk they bring to the system.

LPCC shall have the flexibility to collect Participant primary contribution, including flexibility to either collect the Participant primary contribution upfront or staggered over a period of time. In case LPCC does not seek

contribution from Participants or seeks staggered contribution, the remaining balance shall be met by LPCC to ensure adequacy of total Core SGF corpus at all times. Such LPCC contribution shall be available to LPCC for withdrawal as and when further contributions from Participants are collected / received.

*The term 'Participant' would be construed as defined in the Regulation 10A (1) of the SEBI (Stock Broker) Regulations 1992.*

## **6.8. Timelines for contribution to and recoupment of Core SGF of LPCC**

6.8.2. In the event of usage of Core SGF during a calendar month, contributors shall, as per usage of their individual contribution, immediately replenish the Core SGF to MRC. However, such contribution towards replenishment of Core SGF by the members / [Participants] would be restricted to only once during a period of 30 calendar days regardless of the number of defaults during the period. The period of 30 calendar days shall commence from the date of notice of default by CC to market participants.

## **6.11. Default waterfall of LPCC**

- 6.11.1. The default waterfall of CC shall generally follow the following order:
- a. Monies of defaulting member / [Participants] (including defaulting member's/ [Participant's] primary contribution to Core SGF).
  - b. Insurance, if any.
  - c. Issuers contribution to Core SGF.
  - d. LPCC resources (equal to 5% of MRC).
  - e. Core SGF in the following order:
    - i. Penalties
    - ii. Previous financial years profit of LPCC transferred to Core SGF
    - iii. Remaining Core SGF: LPCC contribution and non-defaulting members' / [Participant's] primary contribution to Core SGF on pro-rata basis.
    - iv. Remaining profit of LPCC transferred to Core SGF
  - f. Remaining LPCC resources (excluding higher of INR 100 Crore or the capital requirement towards orderly winding down of critical operations and services).\*
  - g. Remaining LPCC resources to the extent as approved by SEBI

- h. Capped additional contribution by non-defaulting members/  
[Participants].\*\*
- i. Any remaining loss to be covered by way of pro-rata haircut to  
payouts. \*\*\*

*\* INR 100 Crore to be excluded only when remaining LPCC resources  
are more than INR 100 Crore.*

*\*\* (i) LPCC shall call for the capped additional contribution only once  
during a period of 30 calendar days regardless of the number of  
defaults during the period.*

*The period of 30 calendar days shall commence from the date of  
notice of default by LPCC to market participants.*

*(ii) LPCC shall have relevant regulations/provisions for non-defaulting  
members / [Participants] to resign un-conditionally within the  
abovementioned period of 30 calendar days, subject to member /  
[Participant] 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 and 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 / [Participants], 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 CC post using this layer shall be as per the terms decided  
by SEBI in public interest.*

3. The Clearing Corporations are accordingly advised to:

- a. make necessary amendments to the relevant bye-laws, rules and  
regulations for the implementation of the above decision immediately, as  
may be necessary/applicable.

- b. bring the provisions of this circular to the notice of the Participants/ CMs of the CC and to disseminate the same on their website.
- c. communicate to SEBI the status of implementation of the provisions of this circular in the Monthly Development Report.
  - i. 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 market.

Yours faithfully,

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