

This document lays down the SOP for Orderly Winding Down of Critical Operations and Services of ICCL. Deviations from the laid down framework should be reported to risk.iccl@icclindia.com.

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1. Preamble

The Securities and Exchange Board of India (“SEBI”) a (“SEBI”) vide Gazette Notification No. SEBI/LAD-NRO/GN/2022/104 dated November 15, 2022, amended the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (SECC Regulations, 2018) mandating the Indian Clearing Corporations (“CCPs”) to devise and maintain a framework for orderly winding down of its critical operations and services covering both voluntary and involuntary scenarios.

SEBI vide circular dated December 16, 2022, on Framework for Orderly Winding Down of Critical Operations and Services of a Clearing Corporation (“CC”) outlined the minimum provisions that the policy framework should contain.

2. Scope and Applicability

After regulation 44, the following regulation has been inserted

“Orderly Winding Down

44A

- 1) *Every clearing corporation shall devise and maintain a framework for orderly winding down of its critical operations and services covering both voluntary and involuntary scenarios.*
- 2) *Every clearing corporation shall ensure that the framework provides for:- a. the timely and orderly settlement or cessation or transfer of position(s), and/ or b. the transfer of the collateral(s) or deposit(s) or margin(s) or any other asset(s) of the members to another recognized clearing corporation that would take over the operations of the clearing corporation, and/or c. such other related matter.*
- 3) *The framework referred to in sub-regulation (1) above, shall be in accordance with the guidelines specified by the Board in this regard from time to time.”*

3. Objective

ICCL, being a systemically important financial market intermediary (“FMI”), plays an essential role in the Indian financial system, and endeavors to provide sufficient time to all market participants in case of its decision to wind down its critical operations to minimize any impact and put in place a seamless process.

The disorderly failure of ICCL could lead to severe systemic disruptions if it causes markets to cease operating effectively. The SOP outlines the measures to provide continuity to ICCL’s critical operations during the process of winding down.

The objective of this SOP is to lay down a policy framework in the event of winding down or likely winding down of ICCL; to maintain critical operations and services, winding up the remaining activities through normal insolvency and liquidation proceedings, and to preserve financial stability and to avoid a significant adverse effect on the financial system.

4. Applicability of Prevailing SEBI Regulations

The provisions of SECC Regulations 2018, various circulars and guidelines issued thereunder, shall continue to apply during the entire period of winding down of critical operations and services of ICCL.

5. Policy Review

The framework shall be

- 5.1. periodically reviewed,
- 5.2. published or disclosed on the ICCL website (excluding any confidential details).

6. Oversight

- 6.1. The Regulatory Oversight Committee (“ROC”) of ICCL shall oversee the implementation of steps or processes involved in orderly winding down of critical operations and services of ICCL and shall submit a report to SEBI after approval from the Governing Board, in a manner as may be specified by SEBI, upon completion of necessary steps or processes.
- 6.2. The ROC at ICCL is comprised majorly of Public Interest Directors with the balance formed by an Independent External Person and is chaired by a Public Interest Director. The relevant details of the ROC are available publicly on the ICCL Website¹.

7. Notification to Stakeholders

- 7.1. In the event of either a voluntary or involuntary winding down of ICCL operations, appropriate directions shall be issued by SEBI to ICCL for orderly winding down of its critical operations and services.
- 7.2. A notice or intimation regarding winding down of critical operations and services shall in turn be duly issued by ICCL as and when the scenarios get triggered on receiving prior approval from SEBI. Such notices shall be issued along with detailed processes / forms / uploads etc.

¹ https://www.icclindia.com/downloads/Committees_of_ICCL.pdf

8. Obligations of Exchange(s)

For non-interoperable segments, if the exchange (whose trades are cleared by ICCL) intends to continue to offer trading in the concerned segment(s), then it shall engage with the other CCPs within the notice period.

9. Obligations of Clearing Member(s)

For both non-interoperable and interoperable segments, the Clearing Member (“CM”) of ICCL shall have to become members of a new or another existing CCP within the notice period. Alternatively, such CM(s) may close-out their open positions within the notice period. ICCL shall have a system in place to port these positions to the respective other CC.

10. Potential Scenarios Triggering Need To Wind Down

The scenarios which may potentially prevent ICCL from being able to provide its critical operations and services as a going concern and may lead to wind down of its critical operations and services, are identified as below:

10.1. Voluntary

ICCL though solvent and able to meet all its obligations towards CM(s) as well as other creditors, wishes to wind down its critical operations and services and exit as a strategic or business decision.

10.2. Involuntary

- 10.2.1. Losses due to default by CM(s) – The default waterfall is exhausted due to default by CM(s) and ICCL fails to fulfil its obligations to CM(s) and/or other constituents.
- Default of one or more members whose combined effect could consume a significant percentage of the ICCL’s default fund.
 - Start of default management process with portfolio(s) that have mark to market losses exceeding [defaulting member(s) margins + Skin in the game + a significant amount of the total default fund size].
- 10.2.2. Losses due to default by Interoperable CCP(s) – The default waterfall is exhausted due to default by Interoperable CCP(s) and ICCL fails to fulfil its obligations to the Interoperable CCP(s), CM(s) and/or other constituents.
- Interoperable CCP default under stressed market conditions when this type of entity represents one of the largest exposures of ICCL.
 - Combined default of a member and an interoperable CCP whose combined effect would represent a significant challenge to the ICCL’s funding.

- 10.2.3. Losses due to other factors – The solvency of ICCL may get adversely affected because of other factors, thereby rendering ICCL unable to fulfil its obligations to CM(s) and/or other constituents, or creditors, e.g. :
- large operational or legal expense,
 - deteriorating trend in the performance of either ICCL’s systems or of services from a third party
 - changes in the legal framework which would lead to material hinderance in ICCL’s service provision.
 - business or investment losses,
 - external disruption or shock,
 - fraud, cyber-related incident, etc.
 - investment losses with potential to create severe financial impact
- 10.2.4. Regulatory actions – directions from SEBI or any other regulatory authority or statutory body under applicable laws including but not limited to the below:
- Event(s) causing simultaneous default and non-default losses
 - Failure of an entity that has been identified as a potential source of simultaneous default and non- default losses.
- 10.2.5. ICCL shall be required to continuously meet the annual clearing turnover, aggregated across segments, including by way of interoperability, of at least INR 1,000 Crore per annum or any other amount as may be specified by SEBI from time to time.
In case ICCL fails to meet the aforesaid requirement for 2 consecutive years, it shall be liable to exit and accordingly, apply for orderly winding down of its critical operations and services.
In case where ICCL does not apply for voluntary winding down of critical operations and services, pursuant to breaching the minimum turnover threshold as mentioned above, SEBI may proceed with compulsory de-recognition of ICCL under applicable laws.
- 10.2.6. SEBI may also direct ICCL to wind down its critical operations and services in case of non-compliance of either the conditions of grant of recognition or renewal, wherever applicable, or any other condition under the applicable laws.

11. Identification of Critical Operation and Services

- 11.1. “Critical” refers to the importance of the activity, function, or service to the smooth functioning of the market(s) that the financial market utility serves (including both clearing members and other financial market utilities) and, in particular, the maintenance of financial stability.
- 11.2. Critical services are performed by “Critical Support Functions,” which are functions performed within ICCL (or outsourced to third parties) that, if they failed, would lead to the inability of ICCL to perform its critical services.
- 11.3. As timely clearing and settlement of trades is a core function of CCPs, the operations and services such as collateral management, treasury management, risk management, clearing and settlement, technology support, etc. shall be deemed to be critical.
- 11.4. Contractual obligations arising out of clearing and settlement of trades including but not limited to the following stakeholders, are classified as critical or essential:
- Members
 - Clearing Banks
 - Stock Exchanges
 - Depositories
 - Other CCPs
 - Warehouse Service Providers
 - Vaults
 - Vendors
- 11.5. Considering the risk profile, operations, organizational structure, financial resources, business practices, interconnectedness and interdependencies, and other relevant factors, the following operations and services are deemed to be critical:
- Clearing: Processing of trades through real-time connectivity with Exchange(s) to process trades and manage pre-trade risk controls
 - Risk management including Surveillance: Real-time risk management including margining and monitoring of collateral and position limits.
 - Collateral management: Continuous access of clearing members and, where applicable, their clients to securities or cash accounts provided by ICCL and collateral in the form of financial assets held by the ICCL
 - Settlement: The timely settlement of ICCL’s obligations to its clearing members which would require the continuity of links and connectivity with Depositories to ensure smooth securities settlement as well as the continuity of links and connectivity with Clearing Banks to ensure smooth funds settlement.

- Management of Interoperable Links: Continuity of the interoperable links and connectivity with other CCPs which, if disrupted, would have a material negative impact on financial stability as well as the timely completion of payment, clearing, settlement and record-keeping functions
- Investment & Liquidity Management: Managing and investing of ICCL's liquid resources in compliance with its internal Investment Policy to ensure capital preservation and availability of liquidity to meet stressed liquidity requirements.

12. Standard Operating Procedures (“SOP”)

In the event of winding down being triggered due to any of the voluntary or involuntary scenarios, the following action plan shall be exercised:

- 12.1. ICCL shall declare an ‘Effective Date’ of winding down, post which the activities related to orderly winding down shall commence and be completed in a period of six months from effective date. The termination date shall be announced only post receiving approval from SEBI.
- 12.2. In the event of a voluntary wind-down, ICCL shall be solvent, and hence, it shall have the choice of continuing full range of operations or providing only critical services during the notice period. However, ICCL shall continue to provide at least the critical services for the notice period during the voluntary and involuntary wind-down.
- 12.3. In the event of an involuntary wind down due to regulatory action, SEBI on case-to-case basis may issue appropriate directions for winding down.
- 12.4. Transfer of positions:
 - Any open positions of the CMs and/ or its constituents at ICCL shall have to be transferred to the other CCP where the CMs become member within the notice period.
 - Any open positions within the notice period that could not be transferred shall be closed-out at the daily settlement price and in terms of the provisions of the Rules, Byelaws and Regulations of ICCL.
 - Prior information shall be given to members for closure of open positions & non creation of fresh positions
 - Pursuant to regulatory/management permissions, foreclosure of member positions by ICCL.
- 12.5. In the event, positions are transferred to a the other CCP, the CMs collateral shall also be transferred. However, if the position is settled/foreclosed/expired at ICCL, then ICCL

shall release excess collateral across segments to the CMs post necessary validations & provisions, as outlined in the section “Return of Assets”.

13. Critical Infrastructure

- 13.1. Responsibility: The Head of Information Technology (“IT”) division and respective section head of network, security and other IT services will jointly ascertain and compile details of Critical Infrastructure.
- 13.2. Critical Infrastructure for the purpose of this regulation shall include
- Infrastructure such as Servers, network equipment, security equipment
 - Network connectivity
 - Critical resources/ people to run and monitor infrastructure
 - Software license requirements
 - Data backup storage requirements
- 13.3. Activity involving critical infrastructure in the event of winding down shall include
- Seeking date from business/ operations until which the infrastructure and associated logistics needs to be maintained and retained
 - Identify servers that are required to be retained until completion of winding up process and thereafter as may be required by ICCL’s business/ operations team
 - Cost to be ascertained to continue support as per above mentioned points
 - Internally publishing the list of these servers, their AMC details, etc.
 - Ascertaining network & security equipment required to be retained
 - Ascertaining number of people as per the skill sets required to support until the date of winding-down
 - Ascertaining in-house and outsourced services that will be required during the mentioned period
 - Ascertaining storage requirement to maintain data backup until the date of winding-down
- 13.4. Software Licenses: ICCL shall ascertain software licenses requirement until the period of support.
- 13.5. Liability/Outgo: ICCL shall ascertain any penalty, prior intimation to be provided to in-house or external entities that are involved in support activities of IT services. ICCL shall endeavor to procure a refund for any prepayments during the retention period.

- 13.6. Cost Estimates: ICCL shall ascertain cost estimates that will be incurred for all the above including legal services, third party services, consultants, etc. involved in the process of winding up activity.
- 13.7. Budgetary Approval: ICCL shall process the above payments post receiving the requisite approvals from ICCL EMC.
- 13.8. Agreements: ICCL shall identify the agreements which needs to be performed or extended until the wind-down date. Any non-critical agreement shall be closed in a systematic manner.
- 13.9. Decommissioning of Infrastructure/Software: ICCL shall identify non-critical infrastructure and follow the decommission process as set in IT Policies.
- 13.10. IPR: ICCL shall ascertain value of IPR, IT or software application trademark registered and set process either to retain or release them.

14. Return of Assets

- 14.1. ICCL will distribute its assets as laid out in this section subject to guidelines/directions issued by SEBI or any other statutory authority from time to time. ICCL shall not be permitted to alienate any assets without taking prior approval of SEBI.
- 14.2. For valuation of the assets of the ICCL, an independent valuation agency will be appointed in accordance with SEBI. The valuation of assets and liabilities of ICCL should be based on fair, prudent and realistic assumptions at the moment when the decision to wind down is taken. The value of liabilities should not be affected in the valuation by the financial state of the ICCL. It should be possible, for reasons of urgency, depending on the situation, to make a rapid valuation of the assets or the liabilities of ICCL by the independent valuation agency.
- 14.3. The quantum of assets available for distribution shall be arrived at after payment (not necessarily in this order) of the following components.
- 14.3.1 ICCL shall pay the following dues:
- The dues outstanding to SEBI.
 - The outstanding fees of CMs of such ICCL till the date of such exit - *In this regard, ICCL shall recover the dues of the CMs to SEBI out of the CMs' own deposits/ capital/ share of*

sale proceeds/ winding down proceeds of ICCL, etc. available with ICCL. ICCL shall be liable to make good any shortfall in collection of dues of CMs to SEBI.

- Outstanding dues of other statutory bodies, including applicable taxes
- Outstanding dues of Members including collateral of the members, membership deposit, warehouses deposit or any other deposit held in cash
- Unutilized Core SGF contributions of Clearing members
- Stock Exchanges: The Core Settlement Guarantee Fund contribution made by the Stock Exchanges shall be retained by the respective Stock Exchanges.
- Outstanding dues to creditors, including shareholders and employees of the company

14.3.2 Subsequent to exit, ICCL shall contribute up to 20% of its assets (after applicable taxes) towards SEBI Investor Protection and Education Fund (“IPEF”) to provide for settlement of any claims pertaining to pending arbitration cases, unresolved complaints or grievances lying with ICCL, etc. The contribution percentage may be decided by SEBI considering relevant factors such as the governance standards of the ICCL, estimation of future liabilities, etc.

14.3.3 The following funds may be used towards IPEF contribution as stated above or as specified by SEBI from time to time:

- Penalties collected from CM and interest on these components, forming part of Core SGF
- Any contribution forming part of Core SGF other than those mentioned above.

15. Financial Resources

15.1. SEBI Circular dated April 10, 2019, on Risk-based capital and net worth requirements for Clearing Corporations under Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018² adopted a risk-based approach towards the computation of capital and net worth requirements for CCPs.

15.2. ICCL is required to maintain capital including retained earnings & reserves, to adequately cover counterparty credit risk, business risk, legal & operational risk as well as the costs required for orderly wind-down or recovery of operations subject to an overall floor of INR 100 Crore.

² https://www.sebi.gov.in/legal/circulars/apr-2019/risk-based-capital-and-net-worth-requirements-for-clearing-corporations-under-securities-contracts-regulation-stock-exchanges-and-clearing-corporations-regulations-2018_42675.html

- 15.3. While computing the capital requirement for winding down, ICCL is required to consider a minimum time span of six months for ensuring an orderly winding down or restructuring of its activities. ICCL will require and set aside liquid net assets to run its business during the process of winding down of operation and services, which are at least equivalent to six-month gross operational expenditure of previous audited financial year and any additional expenditure planned during the year for the period of winding down. These funds will be utilized in the event of winding down.
- 15.4. ICCL shall devise appropriate loss allocation mechanisms to allocate outstanding losses, if any. ICCL shall also have a sale mechanism in place for assets, rights, obligations, liabilities, or the instruments of ownership, if required. ICCL shall have a system in place for certain features like storage servers for data, records for regulators and other authorities like tax or legal, which shall be required post winding down.
- 15.5. In case of requirement of funds to meet any exigencies in the event of defaults triggering involuntary winding down, or to allocate any uncovered losses and cover liquidity shortfalls therein, ICCL shall rely on its Default Waterfall as a plausible means of addressing unbalanced positions and replenishing financial resources, including ICCL's own capital if the need arises, to continue to provide critical services.
- 15.6. Prior to the 'Effective Date' of winding down, ICCL shall surrender its Counterparty Default Insurance cover of INR 4.50 Billion which served as the additional capital cushion to ICCLs net worth and will not be required once it ceases to exist.

16. Key Personnel

The details of the 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 are appended below.

16.1. ICCL Executive Management Committee ("EMC")

Sr. No.	Activity	Manpower	Roles & Obligations
1	Managing Director & Chief Executive Officer	1	Oversight of ICCL's overall Operations including Risk, Regulatory, Compliance and Finance.
2	Chief Operating Officer	1	
3	Chief Risk & Regulatory Officer	1	

4	Chief Financial Officer	1	
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16.2. Department: Operations

Sr. No.	Activity	Manpower	Roles & Obligations
1	Head of Department (Chief Operating Officer)	1	<ol style="list-style-type: none"> 1. Notice/communication to market participants/other stakeholders 2. Collateral release/transfer to CM 3. Daily settlement across various segments 4. Transfer of open positions to other CC prior proper due diligence 5. Ensure due closure of open positions & checks on non-creation of fresh positions along with close-out of positions 6. Adherence to regulatory and group policy framework
2	Collateral	6	
3	Clearing & Settlement	15	

16.3. Department: Risk

Sr. No.	Activity	Manpower	Roles & Obligations
1	Head of Department (Chief Risk & Regulatory Officer)	1	<ol style="list-style-type: none"> 1. Ensuring smooth processing of daily Risk Operations 2. Continued Monitoring of Collateral & Position Limits 3. Compliance with current/new Rules & Regulations
2	Risk Surveillance	3	
3	Risk Management	2	

16.4. Department: Finance

Sr. No.	Activity	Manpower	Roles & Obligations
1	Head of Department (Chief Financial Officer)	1	Oversee smooth functioning of the Team
2	Accounting	6	To handle accounting activity in the period of winding down

16.5. Department: Information Technology("IT") & Information Security("IS")

Sr. No.	Activity	Manpower	Roles & Obligations
1	Head of Department (Chief Technology Officer)	1	Oversee smooth functioning of IT services and co-ordinate with different teams/ vendors on infrastructure related activities
2	Information Technology	3	Facilitate day to day working of IT infrastructure
3	Head of Department (Chief Information Security Officer("CISO"))	1	To oversee the information security strategy and implementation, ensure IS related compliance and manage the IS program to protect against threats
4	Information Security	3	Support activities under CISO function

16.6. Department: Membership and Inspection

Sr. No.	Activity	Manpower	Roles & Obligations
1	Head of Department	1	Oversee smooth functioning of the Team
2	Membership	2	To ensure smooth surrender of members and transition in the event of winding down
3	Inspection	1	Inspection of members in the period prior to termination

16.7. Department: Regulatory & Compliance

Sr. No.	Activity	Manpower	Roles & Obligations
1	Legal	1	For legal work and other proceedings related to winding down
2	Regulatory	1	1. Filing of relevant forms under SEBI LODR, SECC and Insider Trading Regulations, Companies Act, 2013 and relevant Rules 2. Secretarial work related to winding down
3	Compliance	1	To ensure compliance as required by regulators - SEBI, RBI and other government bodies in the period of winding down

16.8. Department: Human Resources & Administration

Sr. No.	Activity	Manpower	Roles & Obligations
1	Human Resources	1	Exit formalities, severances, inter-departmental transfers (if any) and other HR related activities for employees retained for critical operations.
2	Administration	1	Administrative work

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