Annexure-3

Monitoring of risk reduction mode

Suppose the total collateral available against various entities, along with their margin obligations, are as given below.

CM	TM	Client	Collateral	Margin	CliMrgn>90%
CM-1	-	Prop	1200	800	-
CM-1	TM-1	Prop	500	400	-
CM-1	TM-1	Client-1	800	780	60
CM-1	TM-1	Client-2	500	450	0
CM-1	TM-1	Client-3	400	380	20
CM-1	TM-2	Prop	500	200	-
CM-1	TM-2	Client-4	1000	920	20
CM-1	TM-2	Client-5	1000	880	0

TM level monitoring

In the above table, "CliMrgn>90%", or client margin in excess of 90%, has been calculated as margin for the client less 90% of the client collateral. Risk reduction mode monitoring for TM shall be based on assessment of [TM Prop Margin + CliMrgn>90%] against the [TM Prop collateral]. Accordingly, margin utilization percentage of TM1 and TM2 would be as under:

- Margin utilization percentage of TM1 = [400 + (60 + 0 + 20)] /500 = 96%
- Margin utilization percentage of TM2 = [200 + (20 + 0)] /500 = 44%

In other words, for TM1 margin of $ 30 is in excess of 90% of its prop collateral, while there is no excess margin for TM2 against its prop collateral. The same have been tabulated below:

TM	Total CliMrgn>90%	Prop Margin	90% of TM prop collateral	TMMrgn>90%
TM-1	80	400	450	30
TM-2	20	200	450	0

CM level monitoring

In the above table, "TMMrgn>90%", or TM Margin in excess of 90%, has been calculated as [CliMrgn>90% + TM Prop margin] in excess of 90% of TM prop collateral. Risk reduction mode monitoring for CM shall be based on assessment of [CM Prop Margin + TMMrgn>90%] against the [CM Prop Collateral]. Accordingly, margin utilization percentage of CM1 would be as under:

- Margin utilization percentage of CM1 = [800 + (30 + 0)]/1200 = 69.1%