



**CLEARCORN DEALING SYSTEMS (INDIA) LIMITED
(CLEARCORN)**

A wholly owned subsidiary of The Clearing Corporation of India Limited (CCIL)

A brief write-up on FX-Retail Platform

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BACKGROUND

The Reserve Bank of India, in its “Statement on Developmental and Regulatory Policies” dated October 04, 2017, had stated that a mechanism should be in place for improving the pricing outcome for the “Retail User” under which client pricing is directly determined in the market by providing customers with access to an inter-bank electronic trading platform where bid/offers from Retail clients and Authorized Dealer banks can be matched anonymously and automatically. According to RBI, a mechanism in the form of a trading platform will provide the much-needed transparency and at the same time enhance competition and lead to better pricing for the customers. Further, direct execution of orders by the customer would also bring down the risk that banks face in warehousing transactions until they can be aggregated to a market lot. In this mechanism, the banks may charge their customers a pre-agreed flat fee towards administrative expenses. However such fee should be disclosed to the customer by the bank. Overall, a trading platform shall bring down the total cost faced by the retail customer in the foreign exchange market. A discussion paper on the proposal was also issued by RBI in this regard.

Subsequently, extensive discussions were carried out with RBI and various market participants which included Banks and Corporates. Feedback and suggestions received from market participants were compiled and the approach towards the development of the new platform was finalized in consultation with RBI.

Clearcorp has developed a web based order matching trading platform for the Retail participants who can include Individuals, Corporates, SMEs etc. The web based platform shall provide for trading in Outright CASH, Outright TOM and Outright SPOT instruments in the USD/INR currency pair. The customers are required to register with the platform through a separate Registration module.

BRIEF FUNCTIONALITY OF FX-RETAIL PLATFORM

1. **Anonymous Order matching Platform:** The platform provides for an anonymous and order driven dealing for the Retail Customers wherein they can place orders and trade in the USD/INR currency pair.
2. **Internet** – The Customers can access the platform through the Internet network.
3. **Registration process:** The Customers have to go through a registration process for availing the Retail platform. A separate Registration portal shall be provided for this purpose. The customer shall provide the name of its Relationship Bank at the time of Registration. On successful registration, the customer's details would be forwarded to the Relationship bank provided at the time of registration for verification and approval. On approval, the customer will be provided with the user credentials which would include a login name and password.
4. **Instruments:** The Customers can trade in 3 instruments on the platform namely Outright Cash, Outright Tom and Outright Spot.
5. **Market watch:** The Customers would have dealing access only for the Retail market on the platform. The FX-CLEAR Inter-bank Spot rates would be available to the customers only for view purpose.
6. **Trading limits:** A Bank has to set the trading limits for their customers. The customer would be allowed to place an order based on the limits set by the Relationship Bank. These Limits for customer can be an Only Sell Limit or Only Buy limit or Both depending on the customer profile.
7. **Mark Up Settings:** The Bank can also set the mark up for their customers on the trading platform which would be adjusted with the traded rates.
8. **Swap Quote Settings:** The Member has to set the Cash and Tom Swap quotes on the platform. The orders placed by the Customers in Cash and Tom instruments are translated into Spot orders by adjusting with the Swap Quotes provided by the member.
9. **Admin system for Member:** The Members would also be provided with an internet based admin terminal for various administrative functions such as approval of customers, User creation, Trading branch registration, Customer limit management, Customer Mark up settings etc.

10. **Trading features of the FX-Retail Platform**
 - i. Orders shall be matched on the basis of Price time priority.
 - ii. A customer can place or hit, modify, cancel orders on the trading platform.
 - iii. **Counterparty:** On conclusion of a trade, the counterparty for the customer would be the Relationship Bank selected at the time of order placement on the platform
 - iv. **Session timings:** The trading session timings shall be as per existing dealing hours for Customers.
 - v. A facility has been provided to the customer to add multiple Relationship Banks on the platform
 - vi. **Aggregation feature:** Orders at the same price placed in the Retail market are aggregated to market lot size and in multiples of lot size of the Interbank Spot Instrument. These aggregated orders are available for matching with orders in the Interbank Spot instrument. At the same time, these orders are also available in the Retail market for matching.
 - vii. The spread/tick size of the Retail market would be same as the Interbank market of FX-CLEAR platform. Currently, the tick size is quarter paise (0.0025)
 - viii. **Deal ticket:** The customer would get a deal ticket with the Relationship Bank as the counterparty. Further, the deal ticket would also provide the mark up details as set by the Relationship Bank.
11. The existing FX-CLEAR platform has also been enhanced to accommodate trading on the Retail platform by customers.

RISK MANAGEMENT AND SETTLEMENT

1. The relationship bank will take on the credit risk of their customer and settlement of customer trade would be with the member. Each member bank will need to set trading limits for its customers.
2. The trades executed by the customer on the Retail platform would be settled bilaterally between the member and their customer.
3. Any interbank deal arising out of the Retail trades would be settled as per the current CCIL USD/INR settlement process.

BENEFITS TO THE FOREX MARKET PARTICIPANTS

- The platform would act as one of its kind electronic trading platform which would provide for anonymous trading for the customers.
- Retail customer can directly deal on the platform and have access to current rates, thus moving from phone based trading to electronic trading.
- The platform would provide for more transparency and better pricing to the customers.
- The Customers' orders on the proposed platform are expected to improve the overall liquidity in the system.
- The Customer would get a dealing platform which would facilitate automatic Price discovery in addition to other qualitative benefits.
- Currently, the Member Banks take merchant positions and cover the same in the market, thereby assuming the market risk for the position until covered. With the launch of FX-Retail Platform, the member banks shall allow the Customer to transact directly by assigning limits to them. This ensures that Member Banks do not run risk for merchant positions.
- Assigning limits and monitoring the same on the proposed electronic trading platform makes the cover operations of Customer transactions hassle free and easy for the Member Banks. Customer limits monitoring shall be done by the system.
- The platform would provide a market based solution which will help in eliminating the price risk faced by banks in warehousing customer orders until they are aggregated and covered in the Inter-bank market.
