Discussion Paper on Margin Requirements for non-Centrally Cleared Derivatives

MAY 2016

Reserve Bank of India

Margin requirements for non-centrally cleared derivatives

Derivatives are an integral risk management tool for most of the business entities and financial institutions. Most of the bigger and mid-size companies in India use derivatives to manage foreign currency, interest rate and commodity price risks. Derivatives foster financial innovation and contribute to the completeness of financial markets. However, if not regulated and supervised appropriately, derivatives markets can also be a source of systemic risk. One of the lessons of the recent global financial crisis has been that derivatives markets can facilitate excessive and opaque risk taking which may lead to systemic risk, especially so in context of Over the Counter (OTC) derivative markets which were globally subjected to lighter regulations during the pre-crisis era. Based on these concerns, G20 called on the international standard setting bodies to reform the derivatives markets to ensure that systemic risk concerns arising from derivatives markets are contained. Following were the major reform measures taken in this regard:

- All standardised OTC derivatives should be traded on exchanges or electronic platforms, where appropriate;
- All standardised OTC derivatives should be cleared through central counterparties (CCPs);
- Non-centrally cleared derivatives should be subjected to higher capital requirements and also these derivatives should attract margin requirements.

2. RBI has taken a number of initiatives to implement these global reforms measures. All inter-bank forex forward transactions are now being cleared through Clearing Corporation of India Limited (CCIL), a CCP which is regulated and supervised by RBI. With the implementation of Basel III, capital requirements applicable to banks for non-centrally cleared derivative transactions have become much higher in comparison to what is applicable to centrally cleared transactions through qualifying CCPs. However, in India, exchange of margins by the counterparties to a non-centrally cleared OTC derivative is not widely prevalent.

3. Basel Committee on Banking Supervision (BCBS) along with International Organisation of Securities Commissions (IOSCO), in March 2015, finalised policy

framework which establishes minimum standards for margin requirements for non-centrally cleared derivatives. This policy framework is contained in the document titled Margin Requirements for Non-centrally Cleared Derivatives. These requirements will be implemented in a phased manner over a period of four years (starting from September 1, 2016 and implementation fully effective September 1, 2020).

4. The First Bi-monthly Monetary Policy Statement, 2016-17 had mentioned that a consultative paper outlining the Reserve Bank's approach to implementation of margin requirements for non-centrally cleared derivatives will be issued by end-April 2016. This document discusses the introduction of margin requirements for non-centrally derivatives in India. Most proposals here are in line with above mentioned BCBS-IOSCO standards.

5. RBI invites feedback/comments on the policy proposals contained in this document, especially on the specific questions raised in the document. Feedback/Comments may be submitted to the following address by June 3, 2016 (electronic submission is encouraged):

The Principal Chief General Manager
Department of Banking Regulation
Reserve Bank of India, Central Office
Mumbai 400 001.
Please click here to send email.

Introduction

1. Counterparty credit risk is a major source of systemic risk in the OTC derivative market. The practice of bilateral margining can reduce contagion and spill over risks by ensuring that collateral is available to offset the losses caused by the default of a derivative counterparty. This way, margin requirements can also limit the build-up of high amount of uncollateralised exposures in the financial system.

2. Margin requirements on non-centrally cleared derivatives can also help in the promotion of central clearing. At present, centrally cleared derivatives attract significantly lower capital charge; however, they are subjected to margin requirements by CCPs. Introduction of margin requirements for non-centrally cleared derivatives will help in removing this disparity between these two segments of derivatives markets and would promote central clearing of derivatives markets.

3. At present, the practice of exchange of variation and initial margins for non-centrally cleared derivatives is not widely prevalent in India. Implementation of margin requirements will help in achieving the two objectives of reduction of systemic risk and promotion of central clearing. Major proposals with respect to introduction of margin requirement framework in India are discussed below.

Scope of coverage

Derivatives subject to margin requirements

4. Margin requirements (both initial margin and variation margin) will generally apply to all non-centrally cleared derivatives, where at least one of the parties to the transaction is a scheduled bank, or other agency falling under the regulatory purview of the RBI. *However, only variation margin requirements will be applicable to foreign exchange forward*[1] *and swaps which are physically settled.* These physically settled foreign exchange forwards and swaps will not attract initial margin requirements. Physically settled foreign exchange forwards and swaps have been excluded from initial margin requirements because these contracts are mostly used for hedging

[1] Incidentally, in India, inter-bank forex forwards are cleared through a CCP.

underlying exposures by corporate (such as exporters) and these do not give rise to a very high amount of potential future exposure.

5. The principle of exclusion of certain physically settled foreign exchange derivative transactions from initial margin requirements will also be applied in the fixed physically settled foreign exchange transactions associated with the exchange of principal of cross currency swaps.

Issue for feedback/comments:
What are the views on the proposal of excluding physically settled forex forward and swap contracts from initial margin requirements? Are there any other products which may be considered for exclusion from margin requirements?

Entities which would be covered under margin requirements

6. As has been discussed earlier, the objective of introducing margin requirements is twofold: reduction of systemic risk and promotion of central clearing. In line with these objectives, those counterparties which do not pose significant systemic risk or may not be in a position to access central clearing facilities would be exempt from margin requirements. Implementation of this principle will mean that small and medium enterprises, which are mostly end-users of OTC derivatives to hedge their underlying exposures, are not burdened with these margin requirements. However, as systemic risk posed by an institution and access to central clearing changes on a dynamic basis, the applicability of this principle will be reviewed periodically and margin requirements may be imposed for any category or all categories of the related entities, if it is considered desirable to do so. For the time being, *it is proposed to apply the margin requirements, in a phased manner, to all financial entities (like banks, insurance companies, mutual funds, etc.) and certain large non-financial entities.* Large non-financial entities will, for this purpose be entities having aggregate notional amount of outstanding non-centrally cleared derivatives at or more than INR 1000 billion, at a consolidated group wide basis.

Issue for feedback/comments: What are the views on the proposal of including large non-financial entities within the scope of margin requirements?

7. Margin requirements will not be applicable to a derivative transaction in which one of the counterparties is a sovereign, central bank, multilateral development bank and Bank for International Settlements. This exception is required in order to keep the rules consistent with the provisions of capital framework. These entities are considered risk free from the perspective of default risk and therefore do not require any capital charge for default risk.

Types of Margins required to be exchanged

8. An OTC derivative exposure gives rise to two kinds of exposure to a counterparty. The first is current exposure which is reflected in the mark-to-market value at a particular time. Variation Margin (VM) protects the transacting parties from the current exposure. As VM depends on the mark-to-market value of the derivatives at any point in time, it can change over time. The second exposure which arises in OTC derivative transactions is the potential future exposure. Potential future exposure reflects changes in the mark-to-market value of the contract during the time it takes to close out and replace the position in the event that one or more counterparties default. The amount of initial margin reflects the size of the potential future exposure. It depends on a variety of factors, including how often the contract is revalued and variation margin exchanged, the volatility of the underlying instrument, and the expected duration of the contract closeout and replacement period, and can change over time, particularly where it is calculated on a portfolio basis and whether transactions are added to or removed from the portfolio on a continuous basis.

9. All entities to which margin requirements will apply have to exchange the variation margin bilaterally on a regular basis. The frequency of computation of variation margin and its exchange should at least be on a daily basis. This requirement will ensure that full amount of variation margin is computed and exchanged on a frequent basis reducing the build-up of high exposures.

Issue for feedback/comments:

Are there any procedural or operational problems in requirement of exchange of variation margin on a daily basis?

10. The requirement of exchange of initial margin will be applied with a threshold of INR 350 crore. Suppose initial margin requirement computed based on standardised schedule given in this document is INR 500 crore. The requirement to exchange initial margin will then be INR 150 crore (500-350). This threshold will be made applicable on a consolidated group level which will consider all non-centrally cleared derivatives between the two consolidated groups. The requirement that the threshold be applied on a consolidated group basis is necessary to ensure that arbitraging of the requirements by way of affiliates and other legal entities is obviated. It is also proposed that all margin transfers between parties will be subject to a minimum transfer amount of INR 3.5 crore. An example showing how the threshold will be applied by an entity that is facing three distinct legal entities within a larger consolidated group has been given in the Annex. The requirement to apply the threshold on a fully consolidated basis is applied to both the counterparty to which the threshold is being extended and the counterparty that is extending the threshold.

11. Initial margin requirements will be implemented in a phased manner as described in paragraph 35. At the end of the phase-in period, all entities within the ambit of application of margin requirements must have at least INR 55,000 crore of notional amount of non-centrally cleared derivative transactions outstanding for initial margin requirements to be made applicable.

12. Initial margin would be exchanged on a bilateral basis by both the counterparties in a gross manner. This means that both the counterparties have to exchange initial margin for a particular transaction in a gross manner. Initial margin would be exchanged at the inception of the transaction, and the adequacy of the initial margin should be reassessed periodically by the bank based on the internal risk management policy and depending on the evolving macro-economic conditions.

Issue for feedback/comments: Is the threshold for application of initial margin and minimum transfer amount appropriate for Indian conditions?

Computation of margin requirements

13. There may be two approaches for computation of initial margin requirements. One approach may be a standardised method in which RBI given factors are multiplied by notional amount of the derivative transaction. The other approach may be use of quantitative risk models. RBI intends to mandate the use of the standardised method. Nevertheless, since use of risk models with appropriate governance structure have their utility in improving the risk measurement system of entities engaged in derivative transactions, RBI may allow certain entities to use a risk model for computation of initial margin in some cases provided conditions mentioned in this document is met.

14. The methodology applied to compute margin requirements should be able to capture any loss caused by default of a counterparty with a high degree of confidence. Due to lack of legal unambiguity on reckoning exposures based on net basis, the requirement of variation and initial margins have to be applied on a contract by contract basis. Portfolio margining models can be used only when RBI specifically permits computation of margins on a portfolio basis.

15. Computation of initial margin based on model based approaches has to follow requirement of para 16 and 17. Initial margin has to be computed by estimating potential future exposure of a non-centrally cleared derivative which should reflect an extreme but plausible estimate of an increase in the value of the instrument that is consistent with a one-tailed 99 per cent confidence interval over a 10-day horizon. This estimation has to be based on historical data that incorporates a period of significant financial stress. The initial margin amount has to be calibrated based on the data of financial stress period to ensure that sufficient margin is available when it is most needed and also to ensure that margin requirements do not work in a pro-cyclical manner. The period of significant financial stress may be separate for each broad asset class. For example, period of significant stress may be different for a forex forward transaction and an interest rate swap transaction.

16. The use of initial margin models would be subject to entities meeting certain conditions. Banks which want to use their own margin computation model can do so after it has been validated by the RBI. Initial margin models must be subject to an internal governance process that continuously assesses the value of the model's risk assessments, tests the model's assessments against realised data and experience, and validates the applicability of the model to the derivatives for which it is being used. The process must take into account the complexity of the products covered (e.g., barrier options and other more complex structures).

17. While use of margin models can be a good risk management tool if used appropriately, in order to reduce over-reliance on quantitative risk measurement methodologies, simple and standardised based approach for computation of initial margin is also required. Further, smaller market participants may not wish or may not be able to develop and maintain a quantitative model and also may be unwilling to rely on a counterparty's model. In addition, some market participants may value simplicity and transparency in initial margin calculations, without relying on complex calculations. From regulatory perspective, there is a need for a conservative alternative for calculating initial margin, in the event that no approved initial margin model exists to cover a specific transaction. A standardised method of computing the initial margin can also work as credible fall back for the computations done by the margin model. Due to these considerations, all entities would be required to compute initial margin based on following:

Asset class (derivatives)[2]	**Initial margin requirement (% of notional exposure)**
Credit: 0–2 year duration	2
Credit: 2–5 year duration	5
Credit 5+ year duration	10
Foreign exchange	6
Interest rate: 0–2 year duration	1
Interest rate: 2–5 year duration	2
Interest rate: 5+ year duration	4
Other	15

[2]Banks in India are not permitted to transact in equity and commodity derivatives.

18. Banks using model based approach would also be required to compute initial margin based on the above schedule and for these banks initial margin requirement cannot be less than 80% of the amount computed based on using above schedule. Model based approaches may enhance the capabilities of market participants to compute potential future exposure of a transaction, as also, may make the risk governance systems robust. Entities will not be permitted to switch between model- and schedule- based margin calculations in an effort to minimise the margin requirements. Entities will be required to choose between model or standardised based calculations and follow one method consistently over time. However, entities may be allowed to use a model based initial margin calculation for one class of derivatives in which it commonly deals and standardised approach in case of other derivatives.

19. Counterparties to derivative transactions should have rigorous and robust dispute resolution procedures in place before contracting the transactions. In the event that a margin dispute arises, both parties should make all necessary and appropriate efforts, including timely initiation of dispute resolution protocols, to resolve the dispute and exchange the required amount of initial margin in a timely fashion.

20. Derivative transactions which do not attract counterparty risk capital charge based on the capital framework for banks will be excluded from initial margin requirements.

Issue for feedback/comments: What are the views on the proposed floor on initial margin requirements computed based on approved risk models?

Variation Margin

21. The amount necessary to fully collateralise the mark to market exposure of the non-centrally cleared derivative must be exchanged as a variation margin, at least on a daily basis. Like initial margin, variation margin should also be collected on a transaction-by-transaction basis. The amount of variation margin to be collected is

dependent on the mark-to-market value of a derivative transaction. The valuation of a derivative's current exposure may be subject to question or dispute by one or both parties. Lack of agreement on current exposure for variation margin purposes may lead to delay in exchange of the required margin in some cases. It is, therefore, required that parties to the derivative contracts should have agreed dispute resolution process to handle such cases in a timely manner and continue exchanging required variation margin on at least daily basis.

Eligible collateral for margin

22. Assets collected as collateral for initial and variation margins should be able to be liquidated in a short span of time without significant loss of value so that margin collecting party is able to protect itself from counterparty default. It is, therefore, required that assets collected as margin should be highly liquid and should after accounting for haircut be able to hold their value in a time of financial market stress. In addition to having good liquidity, eligible collateral for margin purposes should not be exposed to credit, market and FX risk. To the extent that the value of the collateral is exposed to these risks, appropriate haircuts should be applied. The collateral collected should not be exposed to wrong way risks, i.e., the value of collateral should not decline when the counterparty defaults. Accordingly, securities issued by the counterparty or its related entities should not be accepted as collateral. Further entities should ensure that there is no excessive concentration of one kind of collateral collected.

23. Based on the considerations discussed in above para, it is proposed to lay following list of eligible collateral for exchange of initial and variation margins:

- Cash;
- Securities issued by Central Government and State Governments;
- Corporate bonds of rating BBB and above.

Issue for feedback/comments: Should certain other assets also be considered for inclusion in the list of eligible collaterals for margining purpose?

Haircuts for the collateral

24. To the extent that the value of the collateral is exposed to the risks outlined in paragraph 22, appropriate haircuts should be applied. As in the case of initial margin models, risk sensitive quantitative models may also be used to establish haircuts provided the risk model has been approved by RBI for the specific use of determining haircuts. Both internally developed models as well as those supplied by third party may be used. As in the case of initial margins, non-bank entities may use a model approved by RBI and being used by a bank. Quantitative and qualitative requirements applicable to initial margin models will be applicable to models used for computing haircuts. However, to begin with, all entities will have to apply the haircuts given in the table below. Entities using an approved model for haircuts must also compute haircuts based on this table and minimum haircuts for such entities would be 80 per cent of the haircuts computed using the table. The values of haircuts mentioned in the below mentioned table are based on Basel III capital regulations for credit risk mitigation.

Asset Class	Haircut (% of market value)
Cash in the currency of settlement of the derivative transaction	0
Central and State Government securities with residual maturity less than one year	0.5%
Central and State Government securities with residual maturity between one and five years	2%
Central and State Government securities with residual maturity greater than five years	4%
Corporate bond with residual maturity less than one years and having rating AA or better	1%
Corporate bond with residual maturity between one and five years and having rating AA or better	4%
Corporate bond with residual maturity more than five years and having rating AA or better	8%
Corporate bond with residual maturity less than one years and having rating between A and BBB	2%
Corporate bond with residual maturity between one and five years and having rating between A and BBB	6%
Corporate bond with residual maturity more than five years and having rating between A and BBB	12%
Additional (additive) haircut on asset in which currency of the derivatives obligation differs from that of collateral asset	8%

Treatment of provided/collected initial margin

25. Bilateral exchange of initial margin can protect the counterparties from risk of default only when margin is subject to arrangements that protect the posting party in the event that the collecting party enters bankruptcy. If assets posted as initial margin are commingled with other assets of the margin receiver, bilateral exchange of initial margin will not provide protection from default. Under bilateral exchange, one of the parties receives initial margin as collateral, and also bears the risk of additional loss on the initial margin that it has provided to its counterparty if the counterparty defaults. The risk would be exacerbated if the counterparty re-hypothecates, re-pledges or re-uses the provided margin which could result in third parties having legal or beneficial title over the margin. Due to these considerations, it has to be ensured that the initial margin collected should not be commingled with other assets of the collecting party and legal arrangements should authorise its use only for the specific purpose of meeting the losses arising from loss due to default of margin giver. The use of initial margin for any other purpose must not be possible.

26. Entities need to enter into clear legal arrangements with respect to use of initial margin collected. These arrangements should be consistent with the laws of the host country so as to ensure that collateral can be protected in the event of bankruptcy of collecting party. This can be achieved in a more robust manner by the use of third party custodial service providers. However, it has to be ensured that there are no legal challenges in accessing the assets held by these custodians in times of need. It has also to be ensured that all kinds of collateral arrangements are effective under the relevant laws and should be supported by periodically updated legal opinions.

Issue for feedback/comments:

What are the views on the proposed legal arrangement for treatment of assets received as initial margin?

Would Indian laws be able to provide mechanism to ensure legally enforceable arrangement which satisfy requirements of paragraph 25 and 26?

Is there a need for third party custodial service provider in India? If the answer is yes, then in what form should the third party custodial service provider be set up?

27. As mentioned above, if initial margin collecting party re-hypothecates, re-pledges or re-uses the provided margin, it could result in third parties having legal or beneficial title over the margin as a result of which claim to margin become entangled in legal complications, delaying or denying the return of re-hypothecated/re-used assets in the event the collecting party defaults. Due to these reasons, all kinds of collateral collected as initial margin should not be re-hypothecated, re-pledged or reused.

Issue for feedback/comments: What are the views on the proposal of not allowing re-hypothecation, re-pledge or re-use of assets received as initial margin?

Treatment of provided variation margin

28. Regular and timely exchange of variation margin represents the settlement of the running profit/loss of a derivative. Variation margin, thus, represents a transfer of resources from one party to another. As it is settlement of running profit/loss, there is no need to separate margin collected as variation margin from other assets of the collecting party. Further, all kinds of collateral collected as variation margin may be re-hypothecated, re-pledged or re-used without any limitation.

Treatment of transactions with group entities

29. Intra-group derivative transactions would be exempted from the scope of margin requirements if these transactions do not transfer risks in or out of a banking group. Group entities for this purpose are meant to be entities belonging to the same group where the financial statements of these entities are consolidated upon preparation of the group consolidated financial statements.

Treatment of cross border transactions

30. Margin requirements as established in this document will be applicable to legal entities established in India, locally incorporated subsidiaries of foreign entities, branches of foreign banks/entities in India. Many derivative market participants often engage in derivatives activity through a variety of legal entities in different jurisdictions and frequently deal with counterparties on a cross-border basis. Due to

global nature of derivatives market, it is likely that a transaction could be subject to margin requirements of two jurisdictions. RBI will cooperate with other regulators/supervisors of other jurisdictions with respect to appropriate treatment of cross border derivative transactions.

31. For derivative transactions booked in foreign jurisdictions by foreign branches/subsidiaries of entities incorporated in India, following requirements would be made applicable:

- If the concerned foreign jurisdiction has implemented margin requirements for non-centrally cleared derivatives which are consistent with global standards, these host requirements would be made applicable.

- If the concerned foreign jurisdiction has not implemented margin requirements for non-centrally cleared derivatives which are consistent with global standards, the requirements mentioned in this document would be made applicable.

<u>Implementation schedule</u>

32. Margin requirements introduced in this document will be a significant policy change for most market participants as initial and variation margins are currently not exchanged in OTC derivative transactions in India. These new requirements will call for operational enhancements and additional amounts of collateral for which liquidity planning will have to be done. Hence, the new requirements will be implemented in a phased manner in India. The implementation schedule of these requirements is given in below mentioned paragraphs.

<u>Implementation of variation margin</u>

33. From 1 September 2016, all entities within the scope of margin requirements and which belong to a group whose aggregate month-end average notional amount of non-centrally clear derivatives for March, April, and May of 2016 exceeds INR 200 trillion will be required to exchange variation margin when transacting with another entity within the scope of margin requirements (provided that it also meets that condition). The requirements to exchange variation margin between these covered

entities only applies to new contracts entered into after 1 September 2016. Exchange of variation margin on other contracts is subject to bilateral agreement.

34. From 1 March 2017, all entities within the scope of margin requirements will be required to exchange variation margin. Subject to paragraph 33 above, the requirement to exchange variation margin between entities only applies to new contracts entered into after 1 March 2017. Exchange of variation margin on other contracts is subject to bilateral agreement.

Implementation of initial margin

35. The requirement to exchange two-way initial margin with a threshold of up to INR 350 crore will be phased in follows.

- From 1 September 2016 to 31 August 2017, any entity within the scope of margin requirements and which belongs to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives for March, April, and May of 2016 exceeds INR 200 trillion will be subject to the requirements when transacting with another entity within the scope of margin requirements (provided that it also meets that condition).

- From 1 September 2017 to 31 August 2018, any entity within the scope of margin requirements and which belongs to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives for March, April, and May of 2017 exceeds INR 150 trillion will be subject to the requirements when transacting with another entity within the scope of margin requirements (provided that it also meets that condition).

- From 1 September 2018 to 31 August 2019, any entity within the scope of margin requirements and which belongs to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives for March, April, and May of 2018 exceeds INR 100 trillion will be subject to the requirements when transacting with another entity within the scope of margin requirements (provided that it also meets that condition).

- From 1 September 2019 to 31 August 2020, any entity within the scope of margin requirements and which belongs to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives for March, April, and May of 2019 exceeds INR 50 trillion will be subject to the requirements when transacting with another entity within the scope of margin requirements (provided that it also meets that condition).

- On a permanent basis (ie from 1 September 2020), any entity within the scope of margin requirements and which belongs to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives for March, April, and May of the year exceeds INR 550 billion will be subject to the requirements described in this paper during the one-year period from 1 September of that year to 31 August of the following year when transacting with another entity within the scope of margin requirement (provided that it also meets that condition). Any entity within the scope of margin requirements and which belongs to a group whose aggregate month-end average notional amount of non-centrally cleared derivatives for March, April, and May of the year is less than INR 550 billion will not be subject to the initial margin requirements described in this document.

36. For the purposes of calculating the group aggregate month-end average notional amount for determining whether or not an entity within the scope of margin requirements will be subject to the initial margin requirements described in this document, all of the group's non-centrally cleared derivatives, including physically settled FX forwards and swaps, should be included. Initial margin requirements will apply to all new contracts entered into during the periods described above. Applying the initial margin requirements to existing derivatives contracts is not required.

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Annex (cf para 10)

Illustration of application of threshold amount for calculation of initial margin amount

As mentioned in para 10, the threshold of INR 350 crore for exchange of initial margin has to be applied on a group wide basis and not at individual entity basis in order to ensure that there is no arbitraging of the requirements by way of affiliates and other legal entities. This example provides an illustration of how the threshold of INR 350 crore will be applied at group level and not at individual legal entity level within the group. Suppose that an entity within the scope of margin requirements engages in separate derivative transactions with three counterparties, A1, A2, and A3. All these three entities belong to larger consolidated banking group. Suppose further that initial margin requirement computed based on the requirements of this document is INR 700 crore each for derivative transactions engaged with A1, A2 and A3. Then the entity dealing with these three affiliates must collect at least INR 1750 crore (1750=700+700+700-350) from the consolidated banking group. How the threshold of INR 350 crore is allocated among three affiliates may be agreed upon by the entity and its counterparties. However, the threshold of INR 350 crore will not be applied for transactions with each affiliate counterparty separately so that total amount of initial margin collected is only INR 1050 crore (1050= 700-350+700-350+700-350). The application of threshold will be applied at the group level and not at the individual entity level.

The requirement to apply the threshold on a fully consolidated basis applies to both the counterparty to which threshold is being extended and the counterparty that is extending the threshold. As a specific example, suppose that in the example above, the entity is itself organised into, say, three subsidiaries F1, F2 and F3 and that each of these subsidiaries engages in non-centrally cleared derivative transactions with A1, A2 and A3. In this case, the extension of the INR 350 crore the entity to A1, A2 and A3 is considered across entirety of the entity, i.e. F1, F2 and F3, so that all subsidiaries of the entity extend in the aggregate no more than INR 350 crore in an initial margin threshold to all of A1, A2 and A3. This means that the threshold of INR 350 will be made applicable to the entire group and not to the individual entities.