

## CLEARING AND SETTLEMENTS - FAQ

### **What is clearing?**

Clearing can be defined as, the concept of multi-lateral netting for determining the obligations of counter parties. Trades in rolling segment are cleared and settled on a netted basis. Deals executed during a particular trading period are netted at the end of that trading period and settlement obligations for that settlement period are computed. A multilateral netting procedure is adopted to determine the net settlement obligations. Trading and settlement periods are specified by the Exchange / Clearing Corporation from time to time. In a rolling settlement, each trading day is considered as a trading period and trades executed during the day are netted to obtain the net obligations for the day.

### **What is Securities Settlement process?**

The securities obligations of members are downloaded to members by clearing corporation after the trading period is over. The current settlement cycle in India is T+2. The members make available the required securities in the pool accounts with the depository participants. Members are required to open accounts with depository participants of both the depositories, NSDL and CDSL

On pay out day the securities are delivered to the respective receiving members. Exceptions may arise because of short delivery of securities by CMs

### **What is Payin of securities?**

Payin is the process of delivering shares sold by the broker on behalf of their clients to the designated account of the clearing corporation. Clearing Corporations has stipulated a time frame for making the payin, ie, members should effect the payin of securities before 10.30 am on the payin day.

### **What is Payout of securities?**

Payout is the process by which the clearing corporation allocates the securities to be received by the member broker on behalf of their clients. Clearing Corporations made available the securities bought by the clients through the member to its CM Pool account with both depositories.

### **What is Payin Shortages?**

Any shortages arising out of payin of securities by member on the basis of their delivery obligations and actual delivery are settled through Auction. Member Broker is debited by an amount equivalent to the securities not delivered by him and valued at a valuation price. **This is called a valuation debit.** Clearing Corporations conducts a buy-in auction for security shortages on the day after the pay-in day. If the buy-in auction price is more than the valuation price, the member is required to make good the difference.

### **What is Payout Shortages?**

The Payin shortages of one member may bring payout shortage for the buying member. Thus the receiving member would get the securities bought by their clients after the Auction conducted by the exchanges.

### **What is Auctions?**

Clearing Corporation identifies short deliveries and conducts a buying-in auction on the day after the pay-in day through the Exchange trading system. The CM is debited by an amount equivalent to the securities not delivered and valued at a valuation price. If the buy-in auction price is more than the valuation price, the CM is required to make good the difference. The quantity thus bought by the Exchange is credited to the receiving member's account on the auction pay-out day.