

Notice

RISK NOTICE 2013-091

13rd December 2013

NOTICE on Cash & Derivatives Default Fund and the individual additional margin

LCH.Clearnet SA publishes this Notice on the Default Fund and the individual margin for Transactions registered in Cash & Derivatives Clearing System, pursuant to Instruction IV.3-1.

These changes will be applicable for January 2014 Default Fund's contributions:

- **The modification of the Cap and Floor of the Default Fund (see Article 2 and 3 of this notice);**
- **The introduction of a Minimum Contribution for all Cash and Derivatives Clearing Members (see article 4 of this notice);**
- **The enhancement of the Default Fund size calculation in order to fit with EMIR requirements (described in appendix).**

Article 1

The date of calculation of Default Fund size and Clearing Members contributions ("Contribution Determination Date") mentioned in Articles 2 and 16 of Instruction IV.3-1 is the latest Clearing Day of each month (position at end of day).

The contributions are called on the morning of the 4th Clearing Day of each month.

Article 2

The cap mentioned in Article 13 of Instruction IV.3-1 is set up to **1,750,000,000** Euros.

Article 3

The floor mentioned in Article 14 of Instruction IV.3-1 is set up to **750,000,000** Euros.

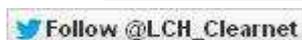
Article 4

The Minimum Contribution mentioned in Article 16 of Instruction IV.3-1 is set up to **100,000** Euros.

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APPENDIX

This appendix aims at:

- Providing the method and parameters used for the calculation of the so-called “Stress Test Loss Over Initial Margin (STLOIM)”
- Presenting how the size of the Default Fund is set and how the individual contributions of the Clearing Members are calculated.

1. Daily Uncovered Risks (UR)

For a Clearing Member and on a given day, the Uncovered Risk is defined as the difference between a SPAN® stress-test and the collateral deposited including Variation Margins paid and/or received on that given day. The SPAN® stress-test is based on the Open Positions of the Clearing Member at the end of the day (D), whereas Margin amounts deposited are based on the Open Positions of the Clearing Member the previous day (D-1).

❖ **Securities markets**

On Securities markets, the Uncovered Risk is given by the following formula:

$$\text{Uncovered Risk}_D = \text{SPAN}^\circ \text{ stress-test}_D - (\text{regular SPAN}^\circ \text{ risk}_{D-1}^* - \text{Min}(\text{Negotiation Risk}_{D-1}, 0)) - \text{Negotiation Risk}_D$$

* The regular SPAN® risk is the regular liquidation risk.

❖ **Derivatives markets**

The uncovered risk is given by the following formula:

$$\text{Uncovered Risk}_D = \text{SPAN}^\circ \text{ Stress Test}_D - \text{Initial Margin}_{D-1} - \text{Variation Margin}_D$$

2. Daily StressTest Loss Over Initial Margin (STLOIM)

$$\text{STLOIM}_D = \text{StressTest Scenario}_D - \text{Initial Margin}_D$$

STLOIM means in respect of each Clearing Member active on Cash and/or Derivatives markets and any day, the stress-test loss (calculated by LCH. Clearnet SA for a given scenario determined by LCH.Clearnet SA) in excess of initial margin, which could be incurred by LCH.Clearnet SA in respect of that Clearing Member's Cash and/or Derivatives markets if that Clearing Member became a Defaulting Member on that day.

STLOIM is computed using a set of both historical and theoretical scenarios, reviewed at least yearly.

3. Default Fund Size

The Cash & Derivatives Default Fund is sized monthly by using the methodology below:

- For each Clearing Day, consider the highest 2 Uncovered Risks among all Clearing Members

$$\text{UR}_{1+2, \text{ day } d} = \text{Max}_{\text{all members}} (\text{UR}_{\text{day } d}) + \text{2}^{\text{nd}} \text{Max}_{\text{all members}} (\text{UR}_{\text{day } d})$$

- Take the average amount over a 60 days lookback period

$$\text{DF}_{\text{Theoretical Size}} = \frac{1}{60} \sum_{\text{last 60 days}} \text{UR}_{1+2, \text{ day } d}$$

- Set the size so that the STLOIM over the 60 days look back period represent no more than 90% of the Default Fund Size

$$\text{Default Fund}_{\text{Size}} = \text{Max} \left[\text{DF}_{\text{Theoretical Size}}; \frac{\text{Max}_{60 \text{ days}} (\text{STLOIM}_{1+2})}{0.9} \right]$$

STLOM₁₊₂ means the sum on any given day or over any given period, of the STLOIMs which are the highest and second highest among the Clearing Members.

Note that the Default Fund size is floored and capped if necessary as explained in articles 2 and 3 of this Notice.

4. Member Contribution

Clearing Members contribute pro rata to their respective uncovered risk on the period with the application of the Minimum Contribution set out in Article 4.

The contribution of each Clearing Member is calculated according to the following formula:

$$\text{Contribution } M_i = \text{Max}[(\text{Default Fund}_{\text{Size}} \times \text{Uncovered Risk on the period } M_i / \text{total Uncovered Risk}); \text{Minimum Contribution}]$$

Where Total uncovered risks are defined as follows:

$$\text{Total uncovered risk} = \sum (\text{Uncovered Risk on the period } M_i) \text{ Clearing Members}$$

Where: M_i stands for Clearing Member i .

5. Date of calculation and date of Contribution call

❖ Monthly reviews of the Default Fund:

The date of calculation, i.e. the latest day of the 60 Clearing Days period used for monthly review of the contribution is:

- the latest clearing business day of each month (position at end of day)

❖ Date of contribution calls:

The contributions are called on the morning of the 4th Clearing Day of each month.

6. Timing of additional margin call and release

- An additional margin (Default Fund) can be called in intra-day, the day D of the observation of the 45% excess of the Default Fund size in reference to the Article 15 of the IV.3-1 Instruction.
- The additional margin (Default Fund) is released in the morning call process of the 2nd following day (D+2) if this excess is not anymore observed on the following day (D+1).