

## RISK NOTICE

**From:** Risk Department  
**Date:** 7<sup>th</sup> July 2011  
**Markets affected:** CASSIOPEIA

*Pursuant to Article 20 of Instruction IV.3-1 LCH.Clearnet SA hereby publishes the calculation method and parameters for the Default Fund for Markets cleared through Clearing System.*

**Changes will be enforceable on 11<sup>th</sup> July 2011 end of business day and are appearing in bold.**

### **Parameters of calculation of the Default Fund contribution for Cassiopeia**

This Notice aims at to provide information on:

- *the algorithms and parameters used.*
- *the date of calculation and of contribution calls.*

*For details related to (i) the principles of the methodology used for the calculation of the uncovered risks and (ii) to how the size of the Default Fund is set and how the individual contributions of the Clearing Members are calculated, please refer to Instruction IV.3-1.*

## **1. Algorithm and parameters used for uncovered risks calculations**

### **❖ Securities markets**

On Securities markets, the uncovered risk is given by the following formula:

$$\text{uncovered risk}_D = \text{stress liquidation risk}_D - (\text{regular liquidation risk}_{D-1} - \text{Min}(\text{negotiation risk}_{D-1}, 0)) - \text{negotiation risk}_D$$

The stress-test, providing stress liquidation risk is performed with the SPAN® Cash algorithm and a set of parameters as follows:

## 1. Specific stress risk and General Stress market risk

Duration Class	Maturities	x % <sup>1</sup>	y % <sup>2</sup>
CAP04	]0;1Y[	2,76 %	1,12 %
CAP05	[1Y;2Y[	3,10 %	1,25 %
CAP06	[2Y;7Y[	3,76 %	1,25 %
CAP07	From 7Y included	4,68 %	1,60 %
CAP00	All maturities*	4,68 %	1,60 %
CABWL	All maturities**	15,00 %	1,60 %

## 2. Intra-Class Charge

Duration Class	Maturities	Intra Coefficient <sup>3</sup>
CAP04	]0;1Y[	0,73 %
CAP05	[1Y;2Y[	1,22 %
CAP06	[2Y;7Y[	2,01 %
CAP07	From 7Y included	1,41 %
CAP00	All maturities*	2,01 %
CABWL	All maturities**	2,50 %

## 2. 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 4<sup>th</sup> Clearing Day of each month.

### Replenishment of the Default Fund in case of default of a clearing member:

In case of default with a replenishment required, the date of calculation is linked to the end of the liquidation process of the defaulting Clearing Member positions.

Both date of calculation and contribution calls will be communicated to the Clearing Members by LCH.Clearnet SA ad hoc notice.

\*CAP00 is a Duration Class by default used in case of no automatic allocation of bonds within the 5 other classes.

\*\* CABWL is a Duration Class to impose exceptionally highly conservative parameters on bonds under watch due to the deterioration of their creditworthiness.

<sup>1</sup> x = Specific risk applied to the overall gross position( BP + SP)

<sup>2</sup> y = General market risk applied to the overall net position (BP - SP)

<sup>3</sup> The intra coefficient is applied to the smallest common value between the net buying positions and the net selling positions of the concerned duration classes