

**LCH.Clearnet SA: Cash Equities and Listed Derivatives**

14 November 2013

### **EMIR update: Risk Management**

Dear Member,

As explained during the GMM, LCH.Clearnet SA is about to implement new margin components and enhancements on existing models in regards to Risk Management.

**Some of these enhancements are subject to regulatory approval and enforceable accordingly with the Rule Book, so the below dates are for information and members will be informed in due time of the actual launch.**

These implementations will have impacts on the following subjects:

#### **1. New Intra-day Margin Call on Cash Securities markets and on Commodities Derivatives market (MATIF)**

LCH.Clearnet SA is implementing a daily Intra-day margin call process on Cash Securities and on Derivatives Commodities markets.

With EMIR regulation, LCH Clearnet SA is required to be able to call Intra-day margin on Cash Securities and Commodities Derivatives. Intra-day margin calls are already in place for Index and Equity Derivatives (MONEP) and Fixed Income business.

The Intraday margin call will be triggered:

- when market thresholds (calibrated upon the major Equity indices for Cash Securities – CAC 40, AEX, BEL20, PSI20 – and prices variation for Future on commodities) are reached

**OR**

- if variation between the Intra-day Margin call requirements and the last margin call requirements exceeds 10%;

And as usual Intra-day margin call will be triggered, if the Clearing Member revaluated collateral is not sufficient to cover its revalued intraday risks and when Intra-day Margin call requirements – last margin call requirements exceed the threshold amount.

From the 29<sup>th</sup> of November, new Intra-day margin calls will be performed for active clearing members on Cash Securities and on Commodities Derivatives within the following timeframe:

| Timeframes                           | Snapshot of positions               | Information period     | Settlement period      | Treasury reports availability |
|--------------------------------------|-------------------------------------|------------------------|------------------------|-------------------------------|
| Intra-day margin call on Cash        | 01:20pm CET of current business day | 02:25pm to 02.50pm CET | 02:50pm to 02:55pm CET | From 02:25pm CET              |
| Intra-day margin call on Commodities | 01:45pm CET of current business day |                        |                        |                               |

*These new Intra-day calls will be in line with session 5 (with Call) of the Intra-day margin calls on Equity/Index derivatives and Fixed income.*

The Intra-day SPAN® parameter files will be available on your LCAP/ eCCW and LCH.Clearnet SA website from the 29<sup>th</sup> of November 2013.

There will be no impact on Treasury report; clearing members will receive the usual treasury report named 'Intra-day margin call'. As a reminder, there is no collateral restitution in intra-day.

## 2. Additional Margins

### ✓ Wrong Way Risk (WWR)

A Wrong Way Risk (WWR) arises when the counterparty's credit quality is co-dependent with the level of exposure, i.e. the risk exposure tends to increase when the counterparty credit quality gets worse. It can be direct or indirect; LCH.Clearnet SA will apply additional margin when direct WWR is effective.

The direct WWR consists in having, for a Clearing member, in its positions (either Client or House) Bonds/ Securities / Futures issued by himself.

The potential calls due to this risk will start from the 29<sup>th</sup> of November 2013.

### ✓ Liquidity & Concentration Risk (LCR)

The Liquidity & Concentration Risk margin protects LCH.Clearnet SA, its Members and the markets it clears from the risk of concentrated positions. A concentrated position is defined as a position that LCH.Clearnet SA could not close out within the standard holding period at a regular market price. Both market level and single security/product level concentrations are taken into account.

At first stage, this risk will be monitored on a daily basis and a margin will be called if deemed necessary.

➔ WWR and LCR margins will be visible on the Treasury report under the '**Additional Margins**' tab.

## 3. Cash & Derivatives Default Fund Re-strike

### ✓ Minimum Contribution

Each Clearing Member will be subjected to a minimum contribution to the Default Fund.

LCH.Clearnet SA will communicate on the amount in due time.

✓ Cover “2”

The total amount of the Default Fund on Cash and Derivatives has to be sufficiently calibrated to cover at least the risk of the 2 largest members' default (vs. only the largest one in current model).

Each member contribution will continue to be calculated by using members Uncovered Risk of the 60 previous business days, on prorata of the Default Fund size. New calculation will be performed on the 29<sup>th</sup> of November and the following Member Default Fund contributions will be called on the 5<sup>th</sup> of December 2013.

➔ 'Minimum contribution' and 'Cover 2' will be effective as from the Default Fund contribution call on the **5<sup>th</sup> of December 2013**.

✓ Default Fund Additional Margin

As currently, a Default Fund Additional Margin may be called in the event that any member's uncovered loss values breach the Default Fund amount.

➔ the treasury report was updated by adding: the 'Additional Margins (Default Fund)' line since the 4<sup>th</sup> of November 2013

➔ From the 29<sup>th</sup> of November 2013, this additional margins will be called in the Intra-day timeframe instead of in the initial morning call.

#### **4. Default Waterfall Process main changes**

The following process will be enforceable as of the 29<sup>th</sup> of November 2013 and will be confirmed by the publication of the Clearing rules.

✓ “Skin-in the game”:

A part of LCH.Clearnet SA capital shared across all services can be used before the non-defaulters Default Fund contributions.

✓ Assessment / Replenishment:

Following completion of the Default Management Process, there will be a 30-day cooling off period before clearing members are required to make a “Replenishment” to bring the Cash & Derivatives Default Fund back to the level required for business as usual operations. Unless the Default Fund falls below its floor amount during this period, in which case there will be a contribution call to bring back the Default Fund to the floor level within 2 business days.

The assessment is equal to one times the previous Default Fund contribution prior to the default event and can be called during the time when a DMP is being auctioned. An individual assessment may be called in several tranches, as determined by LCH.Clearnet, up to the total Assessment amount. A maximum of 3 assessments can be called within a 6 - month period, with a limit of 1 assessment per Member default. Clearing members will be obliged to pay LCH.Clearnet in cash within 1 business day from the requested call for 'Assessment'.

✓ Service continuity/closure:

In the unlikely event that the close out of a defaulting portfolio exhausts all of the available

Default Fund (including any assessment), the Cash Equities & Listed Derivatives services would move into Service Continuity/Service Closure phase. In this phase, losses which have been incurred in a default by LCH.Clearnet are allocated to the remaining non-defaulting Members of the service.

Should you need further information, please do not hesitate to contact your account manager.

Kind Regards,

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**For further information please contact:**

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