Member Notification

RISK NOTICE 2022-035   3rd June 2022

LCH SA publishes hereinafter a Notice informing of the Fixed Income Default Fund for Transactions executed on trading and matching platforms and on MTS Italy regulated market, pursuant to Instruction IV.3-2

The Fixed Income Default Fund

Article 1

The date of calculation of the Fixed Income Default Fund size and Clearing Members contributions ("Contribution Determination Date") mentioned in Articles 2,12 and 16 of Instruction IV.3-2 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.3-2 is set at **2,300,000,000** Euros.

Article 3

The floor mentioned in Article 14 of Instruction IV.3-2 is set at **600,000,000** Euros.

Article 4

The "Minimum Contribution" mentioned in Article 16 of Instruction IV.3-2 is set at **2,500,000** Euros.

Annex

This annex aims at:

- Presenting how the size of the Fixed Income Default Fund is set and how the individual contributions of the Clearing Members are calculated.

1. **Daily Stress Test Loss Over Initial Margin (STLOIM)**

$$STLOIM_D = Stress\ Test\ Scenario_D - Initial\ Margin_D$$

"STLOIM" means in respect of each fixed income Clearing Member and any day, the stress tested loss (calculated by LCH SA for a given scenario determined by LCH SA) in excess of Initial Margin, which could be incurred by LCH SA in respect of that fixed income Clearing Member's fixed income Transaction if that fixed income Clearing Member became a Defaulting Member on that day.

2. **Size of the Default Fund**

The size of the Fixed Income Default Fund will be determined monthly on the Contribution Determination Date using the following formula:

$$Default\ Fund_{Size} = \underset{60\ days}{Max}\ STLOIM_{1+2} \times 1.1$$

Where:

"$STLOIM_{1+2}$" means the sum on any given day, of the STLOIMs for the largest and second largest fixed income Clearing Members on that day using the same scenario.

On any day

$$STLOIM_{1+2} = \underset{scenario}{Max}\ (Largest\ STLOIM_{scenario\ i} + Second\ Largest\ STLOIM_{scenario\ i})$$

Fixed Income Default fund cap amount:

The Fixed Income Default fund size will be capped at an amount set out in Article 2.

Fixed Income Default fund floor amount:

The Fixed Income Default fund size will not fall below a floor amount set out in Article 3.

3. **Contribution Calculation**

Clearing Members contribute pro rata to their respective average Initial Margin over the last 60 days subject to application of the Minimum contribution set out in Article 4. The contribution of each Clearing Member is calculated according to the following formula:

$$Contribution_{Mi} = Max\left(Default\ Fund_{Size} \times \frac{Average\ IM_{Mi}}{\sum_i Average\ IM_{Mi}}\ ; Minimum\ Contribution\right)$$
$$\hspace{8cm}\scriptstyle 60\ days \hspace{0.5cm} \frac{}{60\ days}$$

Where

- M_i stands for Clearing Member I;

- IM stands for Initial Margin;

- the Minimum contribution is defined in Article 4.

For further information please contact:

LCH RepoClear Market Risk

LCH RepoClear Market Risk | LCH Tel +33 (0)1 70 37 65 45
Email: riskinfo@lch.com
Website: www.lch.com

@ LCH