LCH.CLEARNET

Bulletin

LCH.Clearnet SA Listed Derivatives and Cash Equities 20 April 2015

Risk Update – Cash & Derivatives Default Fund Calibration Changes

Dear Members,

LCH.Clearnet SA is pleased to announce the introduction of both an optimization of the Cash & Derivatives Default Fund sizing and the move to a Default Fund contribution model in proportion to Initial Margins, effective **as from 6 July 2015,** subject to regulatory approval.

Please note that the Default Fund Pre-advise Report (AC0129) will be subject to some minor changes.

We advise members that a Default Fund Risk Notice will be issued in June 2015.

The dates of the test period as well as the documentation of the report change will be communicated later this month.

More information is provided below.

Should you need any further information, please contact your account manager.

Best regards,

Delphine Feyrit - Head of Listed Derivatives - **LCH.Clearnet SA**

Christelle Girard - Head of Cash Equity - **LCH.Clearnet SA**

DEFAULT FUND REMINDER

- The Cash & Derivatives Default Fund is designed to cover the tail risk exceeding the Initial Margin requirement
- EMIR requires any Default Fund to be sized by the stress risk of the two largest members based on a set of historical and theoretical stress scenarios

CHANGES & IMPACT

Three main changes that comply with the high risk standards of LCH.Clearnet are implemented:

- The legacy stress SPAN® approach will be decommissioned
- The set of stress scenarios (both historical and theoretical) for calculating the overall default fund requirement is revised

- The calculation of the individual member default contribution is based on a model in proportion of Initial Margin

The above changes lead to a minor impact related to the change of labels in the monthly report AC0129:

- Three new amounts will be displayed and will replace three existing amounts in the Default Fund contribution Pre-advise Report (AC0129): technically speaking, three existing labels will change

BENEFITS TO MEMBERS

- Revised stress scenarios allow us to review the inputs resulting in improved efficiencies of our risk practice
- Stress testing methodology with state-of-the-art risk practice and based upon Stress Test Loss Over Initial Margin (STLOIM) approach will enable us:
  - ✓ to work as per ICB sector (Industry Classification Benchmarks) classification (not only ISINs per ISINs) increasing our internal efficiency
  - ✓ to ensure our models continue to evolve with changing market dynamics
- Aligning default contributions to a methodology based on IM is more representative of individual member risks (and subsequently a more representative contribution requirement)

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