

LCH.Clearnet SA

23 April 2015

## Derivatives Initial Margin Enhancements

Dear Members,

LCH.Clearnet SA is pleased to announce the planned enhancements to its risk model on Initial Margin calculation for Financial Derivatives, effective as from **November 2015**, subject to regulatory approval.

These improvements will lead to portfolio margining efficiencies which will **optimise the Initial Margin requirements** for clearing members.

The dates of the test period as well as the functional and technical documentation on the SPAN® parameter files will be communicated in **May 2015**. Please find below more details.

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

Best regards,

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

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### INITIAL MARGIN

The current Initial Margin algorithm is based on the balance liquidation residual of a portfolio according to several scenarios representing changes in market conditions. LCH.Clearnet SA uses SPAN® method for these Initial Margin calculations.

### ENHANCEMENTS

LCH.Clearnet SA will improve Initial Margin accuracy and portfolio margining efficiency particularly for single stock derivatives.

Three main changes (Financial Derivatives):

- ✓ *Introduction of a one-factor model for inter-commodity spread credits*
- ✓ *Evolution of the Index pricing model*
- ✓ *Evolution of the Equity pricing model*

### IMPACTS

The above changes lead to minor impacts on parameter files:

- ✓ New values will be displayed in the existing fields of the SPAN® parameter file

- ✓ New additional parameter file with general risk factors will be provided to Members.

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