FAQs - LCH.Clearnet Ltd Treasury Default Loss Allocation Reporting

22 May 2014

Why has LCH.Clearnet Ltd (“LCH.Clearnet”) implemented a Treasury Default Loss Allocation regime?

- In response to UK legislation that revised UK CCP recognition requirements, was effective from 1st May 2014 and requires all UK based CCPs to:

    - *have a mechanism for allocating solvency threatening losses that* arise from *losses other than member default (i.e. non-default losses)*

What is a non-default loss?

- LCH.Clearnet has categorised Non-default losses into 2 types:
    - Event driven treasury losses e.g. losses arising from the default of a sovereign / issuer or investment counterparty (referred to as a “**Treasury Default Loss**”)
    - ‘Other’ non-default losses: e.g. losses arising from operational and business risks (e.g. employee fraud, poor controls) (**no impact upon members)**

What has been introduced?

- New rules have been included in the Rulebook to allow for the allocation of a solvency threatening Treasury Default Loss to all members, on the basis of their total margin requirements, in the unlikely event that a loss of this type is incurred.

- As part of the above, LCH.Clearnet is proposing to absorb the first tranche of any solvency threatening Treasury Default Loss to an amount of €15m

How will this impact clearing members?

- There are two main areas of impact for members:

1. Regulatory capital calculations
2. Large exposure reporting

- To assist members in meeting the above obligations, 2 new reports (Member Margin Weight and Treasury Default Loss Report) will be distributed via MemWeb (see below for location of reports)

Explain the Member Margin Weight Report

- This report will be distributed monthly and placed within each specific member mnemonic folder within MemWeb
- The report is constructed per clearing member mnemonic and shows what proportion of a Treasury Default Loss that specific mnemonic would allocated should such a loss occur

- This proportion is calculated as the member's share of all member's (across all Ltd services) average total margin requirements (i.e. all Initial Margin and Additional Margin) over the relevant service Calculation Period (e.g. 20 business days look back period for RepoClear)
- In addition to this, a split between the member's House and Client accounts is also provided
- An example of the content included in the report is shown below

Report as at:	30 April 2014
Member mnemonic:	XXX
Total Margin Weight:	0.2014%
% House Account:	100.0000%
% Client Account:	0.0000%

Explain the Treasury Default Loss Report

- This report will be distributed quarterly (or upon the actual values in LCH.Clearnet being greater than the advised amounts) and placed within the PUBLIC/BANKING member area within MemWeb
- The report is intended to provide enough information to allow members to meet their own regulatory capital (credit risk) and large exposure reporting regimes
- The Credit Risk element of the report explains the rules under which LCH.Clearnet calculates the regulatory capital requirement associated to the potential Treasury Default Loss and confirms that this amount is 'no more than' the advised value
- The Large Exposure element of the report provides the summary net exposures that are contained within the LCH.Clearnet Treasury Portfolio to assist in the completion of a member's quarterly Large Exposure report
- Members will then apply their Total Margin Weight % from the Margin Weight Report to the above numbers to understand their credit risk and large exposure

Who should you contact should you have any questions?

- If you require any further information or have any questions please email Collateral Services at collateral.services@lchclearnet.com