

RISK NOTICE 2015-025

31st March 2015

RISK NOTICE

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

The Cap of the Default Fund (defined in Articles 2) is changed.

**THE DEFAULT FUND
FOR DEBT SECURITIES EXECUTED ON TRADING AND MATCHING
PLATFORMS AND ON MTS ITALY MARKET**

Article 1

The date of calculation of 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 up to **1,200,000,000** Euros.

Article 3

The floor mentioned in Article 14 of Instruction IV.3-2 is set up to **500,000,000** Euros.

Article 4

The “Minimum Contribution” mentioned in Article 16 of Instruction IV.3-2 is set up to **2,500,000** Euros.

ANNEX

This annex aims at:

- Providing the method and parameters used for the calculation of the so-called “uncovered risk”
- Presenting how the size of the Default Fund is set and how the individual contributions of the Clearing Members are calculated.

1. Daily Uncovered Risks (UR)

For a Clearing Member and on a given day, the uncovered risk is defined as the difference between a stress-testing type calculation and Initial Margin and contingent Variation Margin required. The stress-type calculation is based on the Open Positions of the Clearing Member at the end of this day (D), whereas Initial Margin and Contingent Variation Margin (CVM) are based on the Open Positions of the Clearing Member the previous day (D-1) resulting from Transactions on MTS Italy Regulated Market and on all Trading & Matching Platforms.

In case a Intraday Margin call occurs, the uncovered risk is defined as the difference between a stress-testing type calculation and Intra-day Margin and Contingent Variation Margin. The stress-type calculation is based on the Open Positions of the Clearing Member at the end of this day (D), the Intra-day Margin is based upon the Open Positions of the Clearing Member of the day (D), whereas Contingent Variation Margin is based on the Open Positions of the Clearing Member the previous day (D-1) resulting from Transactions on MTS Italy Regulated Market and on all Trading and Matching Platforms.

The uncovered risk is calculated for each Clearing Member at the segregation type level: client and house and market maker accounts (if applicable). A total uncovered risk, taking into account all accounts (client, house and market makers accounts), is also calculated. The maximum of house and total uncovered risk is taken in consideration for each Clearing Member.

In the case there is no Intraday Margin, uncovered risk (UR)_D is calculated by the following formula:

$$UR_D = (\text{Initial Margin}^{\text{Stressed}}_D - CVM_D) - \text{Max}[(\text{Initial Margin}^{\text{Regular}}_{D-1} - CVM_{D-1}); 0]$$

In the case there is an Intra-day Margin, uncovered risk_D is calculated by the following formula:

$$UR_D = (\text{Initial Margin}^{\text{Stressed}}_D - CVM_D) - \text{Max}[(\text{Intra-day Margin}^{\text{Regular}}_D - CVM_{D-1}); 0]$$

2. Daily New Uncovered Risks (NUR)

For the purpose of Article 15 of Instruction IV.3-2, the new uncovered risk (NUR) is determined as follows:

$$NUR_D = (\text{Initial Margin}^{\text{Stressed}}_D - CVM_D) - \text{Max}[(\text{Initial Margin}^{\text{Regular}}_D - CVM_D); 0]$$

The New Uncovered Risk is used to calculate the potential additional Margins mentioned in Article 15 of Instruction IV.3-2

3. Daily Stress Test Loss Over Initial Margin (STLOIM)

$$STLOIM_D = \text{Stress Test Scenario}_D - \text{Initial Margin}^{\text{Regular}}_D$$

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

4. UR for the Period (URP)

The Uncovered Risk of the member for the Period of 60 Clearing Days (the “period”) is defined as the average plus three standard deviations on a period of 60 Clearing Days of the daily uncovered risk of the member.

$$URP_{\text{Member}} = \text{Average}(UR)_{60 \text{ days}} + 3 \times \text{Standard Deviation}(UR)_{60 \text{ days}}$$

In case of a negative uncovered risk, the minimum uncovered risk will be considered as nil, in order to estimate the standard deviation.

5. Size of the Default Fund

The theoretical size of the Default Fund is defined as the sum on the “Contribution Determination Date” of URP for the largest and second largest fixed income Clearing Members.

$$DF_{\text{Theoretical Size}} = \text{Max}_{\text{Members}} (URP_{1+2})$$

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

$$Default Fund_{\text{Size}} = \text{Max} \left[DF_{\text{Theoretical Size}}; \frac{\text{Max}_{60 \text{ days}} (STLOIM_{1+2})}{0.9} \right]$$

“STLOIM₁₊₂” means the sum on any given day, of the STLOIMs for the largest and second largest fixed income Clearing Members on that day.

Fixed Income Default Fund cap amount :

The Default Fund size will be capped at an amount set out in Article 2.

Fixed Income Default Fund floor amount :

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

6. Contribution calculation

Clearing Members contribute pro rata to their respective URP with the application of the Minimum Contribution set out in Article 4.

The contribution of each Clearing Member is calculated according to the following formula:

$$\text{Contribution } M_i = \text{Max} [(\text{Default Fund}_{Size} \times \text{uncovered risk for the period } M_i / \text{total uncovered risk}); \text{Minimum Contribution}]$$

Where Total uncovered risks are defined as follows:

$$\text{Total uncovered risk} = \Sigma (\text{uncovered risk on the period } M_i)_{\text{Clearing Members}}$$

Where: M_i stands for Clearing Member i .

The Minimum Contribution is defined in Article 4.

For further information please contact:

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