part of eex group

Bond Collateral & Concentration Limits

10.02.2020

Version 1.0

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1. Accepted Types of Bond Collateral

Giving regard to RTS 153/2013 Annex I ECC only accepts bonds as collateral fulfilling the following conditions:

- ECB eligible
- admissible for Eurex
- remaining time to maturity > 14 calendar days
- fixed rate or zero rate bonds, floating rate bonds or reverse floating rate bonds with constant structure
- No optionalities and inflation-linked coupon structure

ECC does not accept own issues (wrong-way risk) as well as close link securities as eligible collateral.

1.1 Valuing Collateral

Collateral values are updated daily in the clearing system using the market price if available or the theoretical/model price, if market price is not available.

1.2 Haircuts

Haircuts are applied to account for potential fluctuations of the collateral value within the liquidation period. For the purpose of evaluating collateral securities ECC uses the EUREX methodology, including conservative haircuts. The applied haircuts are calculated with regard to stressed market conditions and an adequate liquidation period. They are conservatively calibrated to limit as far as possible procyclical effects.

2. Limits

According to Regulation EU/648/2012 (EMIR) Article 46 and the accompanying Regulatory Technical Standards (RTS) 153/2013 Article 42, a CCP shall establish and implement policies and procedures to ensure that the collateral remains sufficiently diversified to allow its liquidation within a defined holding period without a significant market impact.

For this, a CCP shall determine concentration limits at the level of individual issuers, types of issuers, types of assets, each clearing member, all clearing members. The concentration limits shall be set conservatively and include relevant criteria, e.g. economic sector, geographic region, the level of credit risk of a financial instrument / issuers, issuing country, liquidity of the instrument.

2.1 Total issue amount limit

ECC does not accept more than 25% of the total issue amount per security.

2.2 Concentration limits

Furthermore, concentration limits regarding bond collateral with a long term credit issuer rating[1] below AAA are applied on issuer, country and currency level.

Let CV_0 be the cash value and $CV_1, \dots, CV_n$ the collateral values (market value after haircut) of all bonds delivered as margin collateral of a clearing member.

Let I be the issuer of interest. $N_I = \{k \mid \text{bond } k \text{ issued by the issuer } I\}$ is the set of indices of all bonds of the issuer of interest. Then the sum of the collateral values of all issuer's bonds is limited as follows:

$$\sum_{i \in N_I} CV_i \leq \sum_{i=0}^{n} CV_i - 80\% \cdot \text{MarginRequirement}$$

Let C be the country of interest. $N_C = \{k \mid \text{bond } k\text{'s issuer domiciled in country } C\}$ is the set of indices of all bonds of the county of interest. Then the sum of the collateral values of all country's bonds is limited as follows:

$$\sum_{i \in N_C} CV_i \leq \sum_{i=0}^{n} CV_i - 80\% \cdot \text{MarginRequirement}$$

Let CCY be the currency[2] of interest. $N_{CCY} = \{k \mid \text{bond } k \text{ nominated in currency } CCY\}$ is the set of indices of all bonds of a special currency. Then the sum of the market values of all currency's bonds is limited as follows:

$$\sum_{i \in N_{CCY}} CV_i \leq \sum_{i=0}^{n} CV_i - 80\% \cdot \text{MarginRequirement}$$

3. Examples

Let the margin requirement of a clearing member be 100 mn. EUR.

3.1 Issuer limit

Let the collateral portfolio be as follows.

Type	Nr	Issuer	Rating issuer	Collateral Value
CASH	0	-	-	20
BOND	1	Company A	AAA	28
BOND	2	Company B	BBB	31
BOND	3	Company B	BBB	19
BOND	4	Company C	AA	30
				128

[1] Based on the median of the available long term issuer ratings by Moodys, Fitch and Standard & Poors
[2] Only non EUR currencies considered

Since company A has a rating of AAA, no issuer concentration limit applies. For company B the set $N_I = N_{Issuer\ B} = \{2,3\}$ and for company C $N_{Issuer\ C} = \{4\}$

$$\sum_{i \in N_{Issuer\ B}} CV_i = 31 + 19 = 50 > 48 = 128 - 80\% \cdot 100 = \sum_{i=0}^{n} CV_i - 80\% \cdot MarginRequirement$$

I.e. there is a breach of the concentration limit of issuer company B.

$$\sum_{i \in N_{Issuer\ C}} CV_i = 30 < 48 = 128 - 80\% \cdot 100 = \sum_{i=0}^{n} CV_i - 80\% \cdot MarginRequirement$$

I.e. the collateral values of company C are within ECC's concentration limit.

3.2 Country limit

Let the collateral portfolio be as follows.

Type	Nr	Issuer	Issuer's country	Rating country	Collateral Value
CASH	0		-	-	20
BOND	1	Company A	Country A	AAA	27
BOND	2	Company B	Country B	BBB	33
BOND	3	Company C	Country B	BBB	29
BOND	4	Company D	Country A	AAA	23
					132

Since the rating of country A is AAA, no country concentration limit applies. For country B the set $N_C = N_{Country\ B} = \{2,3\}$ and

$$\sum_{i \in N_{Country\ B}} CV_i = 33 + 29 = 62 > 52 = 132 - 80\% \cdot 100 = \sum_{i=0}^{n} CV_i - 80\% \cdot MarginRequirement$$

I.e. there is a breach of the concentration limit of country B.