

ECC Default Management

Summary

On 9 October 2019 ECC will perform its annual default simulation. The occasion will be used to practice close out and related risk-mitigation procedures in the event of a Clearing Member default. This simulation is also required under EU Regulation 648/2012 (EMIR).

This clearing circular contains information about the default simulation and is relevant for all ECC members. With this clearing circular ECC would like to invite its members to actively take part in the simulation.

Contact

European Commodity Clearing AG
Clearing & Settlement
Phone: +49 341 24680-444
E-mail: clearing@ecc.de

Default Simulation 2019

On 9 October 2019 ECC will conduct a test of the default of a hypothetical Clearing Member in its simulation environment. The main purpose of this event is the simulation and practice of ECC's procedures and systems for the management of the default of a Clearing Member.

How can members participate?

All Clearing Members (CMs) and Non-Clearing Members (NCMs) admitted for trading futures products at EEX, POWERNEXT, HUDEX, NOREXECO and EEX Asia that wish to take part in the simulation are invited to send an e-mail including their contact details to your sales representative or to defaulttest@ecc.de until latest 27 September 2019.

Non-Clearing Members:

- NCMs that participate in the simulation ("simulation participants") will be invited to at least one and possibly more (simulated) default auctions in various ECC-cleared derivatives products on the day of the test.
- Participation is only possible in products the NCM is admitted to.
- NCMs are also welcome to participate in the "Clearer change" process whereby the NCM would move from a defaulted CM to a new CM at short notice.

Clearing Members:

- During the simulation ECC might ask CMs, hypothetically, to accept transferred NCMs as described by EMIR. If a CM agrees to this, ECC will move the positions of the NCM through a clearer change process in the simulation environment to the CM.
- CM's are expected to participate in the default auction as a trading participant for products in which they hold positions. In this case the same rules apply as for NCMs.
- According to ECC's clearing conditions a CM can restrict their NCMs from participating in the voluntary default auction. ECC will send a list of NCMs that are participating in the auction to the respective CM.

Procedure

The simulation will consist of different stages conducted throughout the day. After the default has been declared by ECC and the transfer period for NCMs has been completed

the auction stage will be carried out. ECC might execute multiple auctions during the simulation. For reasons of certainty and simplicity, ECC will restrict the number of auctions to a maximum of three consecutive auctions in a single day.

Sequence of actions for the default auction:

ECC will inform simulation participants about the start time of the default auction by e-mail.

Item	Action
#1	During the trading day simulation participants will receive a bidding sheet in the form of an excel document to the registered mail address.
#2	A deadline with valid response times is communicated within this mail.
#3	The simulation participant will return the completed bidding sheet back to ECC via return e-mail within the communicated time frame.
#4	ECC will simulate an order matching process based on its internal auction matching algorithm. Responses from the simulation participants after the deadline will not be considered.
#5	In case the auction was successful, ECC will book trades in the simulation environment.
#6	ECC may decide to start a successive auction simulation (→ Step #1). During the simulation only a limited amount of auctions will be executed.

ECC will contact all CMs concerned with a list of their NCMs participating in the auction. With respect to the voluntary auction, CMs can object to the participation of certain members in accordance with chapter 3.12.1 (2) of ECC's clearing conditions. If ECC does not receive feedback to the contrary, all listed members are able to participate in the auction.

Sequence of actions for the clearer change process:

As part of the simulation ECC will invite all participating CMs to assess their capabilities to accept positions of the NCMs of the defaulted CM. Among those we will assume to have companies that are already NCMs with the CM as Backup- or alternative CM as well as existing clients of the CM (e.g. banking services client) not yet admitted as NCM.

Item	Action
A	ECC will offer to transfer portfolios of hypothetical NCMs with consideration given to the products the respective CM is admitted to. For those NCMs where an already established

	backup (?) CM-NCM relation is known, ECC will request permission to transfer the positions. For all others ECC will simulate the admission request from the affected NCM.
B	CMs can accept or deny position transfers in line with their respective processes and can accept or deny the hypothetical admission request of a NCM that is assumed to be a known client.
C	Depending on the decisions in “B”. ECC will execute position transfer or not.

Details on the simulation implementation will be sent directly to the simulation participants in advance.

Please don't hesitate to contact us if you should further questions.