

Changes in the Default Fund Methodology and Calculation of Default Fund Contributions

Introduction

ECC plans to change the methodology to determine ECC's total Default Fund and the allocation of the Default Fund Contributions to Clearing Member. The change will become effective on 1 September 2023 based on the end-of-day values from 31 August 2023.

Details

The current allocation of Default Fund Contributions consider the Clearing Members initial margin history over a one year lookback period and the EMIR Netting Cap to consider the portfolio margin restrictions in Article 27 of the EMIR RTS 153/2013.

The new total Default Fund will be based on the average daily stress test results over the last month increased by a buffer of 30%. The total Default Fund will be capped at 10% of the average total initial margin (IM) over the last month.

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The Default Fund Contribution will be calculated as proportional share of the Total Default Fund based on the Clearing Member's equally weighted average IM and stress loss over initial margin (SLOIM) share. A minimum of 2% based on the average Clearing Member IM is applied. There is no change to the monthly update frequency of the Default Fund Contributions.

If the daily cover-2 stress test scenario result exceeds a share of the total Default Fund, the excess cover-2 exposure is mitigated via Supplementary Margin call. The Supplementary Margin process will remain unchanged.

The EMIR Netting Cap will be removed and will be directly integrated into the IM calculation. The applied margin credits will be capped at 80% for contracts that are considered to be different products according to the ESMA opinion.

For details regarding the Default Fund methodology and the Supplementary Margin process please refer to the "Default Fund and Supplementary Margin Methodology" documentation on the ECC website¹.

For details regarding the portfolio margining cap please refer to the "ECC Margining document" on the ECC website².

All parameters are subject to regular review. The applicable values will be published on ECCs website³.

¹ <https://www.ecc.de/en/risk-management/stress-testing>

² <https://www.ecc.de/en/risk-management/margining>

³ <https://www.ecc.de/en/risk-management/margining>

→ Default Fund

→ Derivative Market Margining Document

→ ECC Risk Parameters