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▶ **ECC Clearing Circular 04/2016 | 2016-01-25**

Introduction of bank guarantees as margin credit for Spot Market Margin Requirements

Summary

Starting from **7 March 2016** ECC will accept bank guarantees payable on first demand as margin credit for Spot Initial Market Margin Requirements for Non Clearing Members.

In this Clearing Circular, we would like to provide information regarding the details of this new offering.

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Overview

ECC will accept from 7 March 2016 onwards bank guarantees payable on first demand (henceforth referred to as “bank guarantee” or “guarantee”) issued in Euro as eligible margin credit to fulfill Spot Market Initial Margin requirements of Non-Clearing Members. The value of the guarantees will be booked into internal inventory accounts at ECC.

Bank guarantees will cover all payment obligations of a Non-Clearing Member for spot market transactions settled at ECC; in particular the fulfillment of all payment obligations by the Clearing Member as payment agent and guarantor of the Non-Clearing Member towards ECC and the fulfillment of recourse claims of the Clearing Member satisfying the Non-Clearing Member payment obligations towards him.

Accepted Guarantors

ECC accepts the guarantors as set out on its website under <https://www.ecc.de/ecc-en/risk-management/collateral-management/guarantee-collateral>. The list may be amended by ECC from time to time if required. An application to accept a guarantor not yet approved by ECC can be sent via an informal email to clearing@ecc.de. ECC will review the request and decide in its sole discretion based on its risk assessment.

Concentration limits will be set per guarantors on a Clearing Member and on ECC level. Provided bank guarantees will be allocated to those limits on a first-come-first serve basis.

Guarantee Template

The guarantee template published on the ECC website under <https://www.ecc.de/ecc-en/risk-management/collateral-management/guarantee-collateral> has to be used for any delivered bank guarantee.

Participation/Application

The use of bank guarantees as collaterals requires the approval of both ECC as well as the respective Clearing Member. Thus Non-Clearing Members shall contact their Clearing Member first to agree to use bank guarantees as collateral and to jointly select the guarantor(s) out of the Accepted Guarantors as published on ECC’s website. The Clearing Member has to sign the ECC form “O08 Application Form Bank Guarantee on First Demand as Margin Credit on Spot Margin” to accept the usage of bank guarantees.

Next the Non-Clearing Member has to approach the Accepted Guarantor to issue the bank guarantee using the template provided by ECC. The Guarantor then forwards the original of the bank guarantee to ECC. Only guarantees in Euro will be initially accepted by ECC. However, ECC intends to extend the Bank guarantee service to other currencies, e.g. GBP, to offer a wider range of collateral management services. Finally ECC will verify the guarantee provided, capture the delivery in SMSS and apply the margin credit if the guarantee is accepted.

The inventory record keeping of the provided bank guarantees are performed via ECCs Spot Market Clearing system SMSS. The current inventory of bank guarantees can be retrieved together with the respective inventory movements (in case of deliveries) via the respective Delivery Report Summary (DRS) report via the ECC Member Area. Non-Clearing Member as

well can request the return of the guarantee via the ECC Member Area - according to the Member Area user guide to be processed as Transfer Request.

Risk Management

Bank guarantees will be considered in ECC's margin calculation for Spot Market transactions as Margin Credit to reduce the Initial Margin Spot Market (IMSM) requirement accordingly. The Margin Credit is reported as Premium Margin in the EUREX Daily Margin Report (CC050) available via the Common Report Engine.

Updated ECC Clearing Conditions and ECC Pricelist

ECC will charge a management fee of 0.05 % p.a. on the nominal value of the guarantee provided and has updated its ECC Price List accordingly. The framework of the use of bank guarantees as collaterals is specified in ECCs Clearing Conditions v30a. The introduction of the respective terms has been published via the Clearing Circular 03/2016.