ECC Clearing Circular 09/2016 | 2016-02-25

Improvement Intraday Risk Calculations

ECC is continuously working on optimizing its risk management systems and adapting to changing market conditions. Since the introduction of the Straight-Through-Processing (STP) the cleared volume of this registration channel and the proportion of automatically confirmed trades has increased significantly.

ECC will therefore also consider certain prices of the STP registered trades in its intraday risk valuation as of 17.03.2016. The technical implementation will be through the introduction of a new margin class “Intraday Variation Margin (IVM2) that will reflect updates of the intraday Variation Margin by considering certain trades registered through ECC’s trade import gateway, i.e. STP Broker trades and partner exchange transactions. At end-of-day the new margin class will always have a zero value.

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Current Situation

ECC calculates intraday exposures on derivative markets near-to-real-time and disseminates the information via Eurex Enhanced Risk Solution (ERS).

The intraday exposure is the sum of:

- Intraday Current exposure (Intraday Variation Margin) to cover changes in market value that have happened since the last valuation and Variation Margin payment (usually the last settlement price)
- Intraday Potential future exposure (Initial Margin) to cover expected changes in value over the liquidation period

The Intraday Current Exposure is calculated intraday by marking to market every open position and transaction to a reference price.

Planned Improvement

ECC will additionally consider the prices of certain trades registered via STP or the trade registration facility of the connected markets as relevant reference prices as of 17.03.2016.

In order to enable our clients to also use this new mechanism for their risk purposes ECC will publish the calculation results *additive* to the existing intraday variation margin in the new margin class (**IVM2**) which will be technically of the type premium margin.

The current intraday variation margin calculation remains unchanged. ECC will calculate an additional intraday margin considering the additional price signals. This additional margin will be shown intraday as the IVM2 margin requirement.

At the start and end of each ECC business day the value of the IVM2 will be zero. During the trading day the value of IVM2 will build up until the end of the trading day in which the margin will be reset to its initial value of zero. The IVM2 amount will therefore not lead to overnight margin calls.

The applicable values of IVM2 can be positive and negative. This means explicitly that also margin credits are possible through the new mechanism.

A detailed description of the calculation approach and the list of covered products can be found on http://www.ecc.de/ecc-en/risk-management/margining in the ECC margining documentation as well as the IVM2 product list.

Conclusion

This change will have no impact on existing end-of-day variation margin calculations. This method has been designed to increase the efficiency of the intraday risk calculation while using additional reference prices.