▶ **ECC Clearing Circular 32/2016 | 2016-07-07**

Margining:
Introduction of Tiering

Summary

On 1st August 2016 ECC will modify the margining methodology by introducing Tiering for Coal & Freight products.

This Clearing Circular contains information regarding the changes in Margining and the involved products.

Background Tiering

The basic concept of Tiering is that instead of treating every maturity of a specific product as a separate risk factor a number of different maturities are treated as one risk factor, which means they are forming a maturity bucket or tier. Basically Tiering is applicable for products with same underlying, similar contract sizes and different maturity.

The ECC will use up to 6 tiers for the related contracts by using the following scheme:

Tier 1:   All contracts expiring in the current month
Tier 2:   The following contracts with expiry in the current quarter
Tier 3:   The following contracts with expiry in the current / following calendar year
Tier 4:   The following contracts with expiry in the current / following calendar year +1
Tier 5:   The following contracts with expiry in the current / following calendar year +2 and +3
Tier 6:   All remaining contracts

Methodology Adjustments

With the introduction of Tiering ECC will introduce Intra Commodity Spread Charges for tiered products. An Intra Commodity Spread Charge will be used for opposing positions within a tier in order to grant the correct offset. Those spread charges will be applied before the Inter Commodity Credits are applied.

Changes in Single Margin Parameters

Currently different Single Margin Parameters are per product maturity. For tiered products the Single Margin Parameter per product will be the same for all maturities per tier.

Changes in Inter Commodity Credits

Instead of defining Inter Commodity Credits for all product maturities only one Inter Commodity Credit will be defined per tier. This Inter Commodity Credit is a weighted average of the Inter Commodity Credits of all product maturities in the tier. The ratio to form Inter Commodity Credits is defined out of the Single Margin Parameter per tier (currently Single Margin Parameter of the product maturities).

Product Set-Up

Tiering will be introduced for the following products:

Name	Product ID
C3 Capesize Freight Future	C3EM
C4 Capesize Freight Future	C4EM
C5 Capesize Freight Future	C5EM
C7 Capesize Freight Future	C7EM
Handysize TC Freight Future	HTCM
P1A Panamax Transatlantic Freight Future	P1AM
P2A Panamax Far East Freight Future	P2AM
P3A Panamax Pacific Freight Future	P3AM
Panamax TC Freight Future	PTCM
Supramax TC Freight Future	STCM
Capesize TC4 Freight Future	CTCM
Capesize TC5 Freight Future	CPTM
ARA Month	FT2M
RB Month	FT4M
Option on Capesize TC4 Freight Future	OCTM
Option on Capesize TC5 Freight Future	OCPM
Option on Panamax TC Freight Future	OPTM
Option on Supramax TC Freight Future	OTSM
Option on Handysize TC Freight Future	OHTM

SPAN File – technical changes

The SPAN file Structure will be amended by the following elements:
- Layer <intraTiers>
  The new Layer is needed for defining tiers. It contains values differing from zero for tiered products only.
- Intra-Spread Charge
  The Charge is needed for tiered products and occurs within the <ccdef> section.

The margin calculation will follow the SPAN standard methodology:
- Calculation within a tier (Intra-Commodity Spread Charge):
  The Intra-Commodity Spread Charge is defined for every tier by using the method "Flat" as Intra-Spread Charge.
- Calculation between tiered and not tiered products (Inter-Commodity Spread):
  Inter-Commodiy Spread will be applied for all other spread combinations by using the Method "WPR" is used for all Inter-Commodity Spreads

Definition of „intraTiers"

The new layer "intraTiers" will be introduced used for tiered products only alongside the existing non.tiered products. The intraTiers are defined in the <intraTiers> section of the SPAN file. The methodology will follow SPAN standard where each tier contains a tag for period start and period end as follows:

Tag	Explanation
<intraTiers>	Begin of definition of intraTiers
<tier> <tn>1</tn>	Definition of tier number (e.g. 1); numbers are integer starting with 0
<sPe>201512</sPe> <ePe>201512</ePe> </tier>	Definition of period start end period end of all maturities of a product that are allocated to a tier
</intraTiers>	

The existing definition of not tiered products will not change. They will continue to contain a tier definition which is left empty.

Tag	Explanation
<intraTiers>	Begin of definition of intraTiers
<tier> <tn>1</tn> </tier>	Definition of tier number (e.g. 1); numbers are integer starting with 0

Intra-Commododity Spread Charge

The new intra commodity spread charges are defined in the <ccdef> tag:

Tag	Explanation
<dSpread>	Begin of definition of intra commodity spread
<spread>3021</spread>	Definition of intra commodity spread number (e.g. 3021); numbers are integer starting with 0
<chargeMeth>F</chargeMeth>	Definition of charge method
<rate> <r>1</r> <val>124749.320313</val> </rate>	Definition of intra-spread charge in EUR (not rounded)
<tLeg> <cc>CTCM</cc> <tn>2</tn> <rs>B</rs> <i>1.000000</i> </tLeg> <tLeg> <cc>CTCM</cc> <tn>2</tn> <rs>A</rs> <i>1.000000</i>	Legs where the intra-spread charge is applied; uses the combined commodity and the tiers defined in 2.2
</tLeg> </dSpread>	

Inter-Commodity Spreads

The definition for inter commodity spreads will be modified for spreads **with** tiered products in both legs:

Tag	Explanation
<dSpread>	Begin of definition of intra commodity spread
<spread>4051</spread>	Definition of intra commodity spread number (e.g. 4051); numbers are integer starting with 0
<chargeMeth>W</chargeMeth>	Definition of charge method
<rate> <r>1</r> <val>0,5107407407</val> </rate>	Definition of credit in percent (not rounded)
<tLeg> <cc>CTCM</cc> <tn>2</tn> <rs>A</rs> <i>1631.7487923 </i> </tLeg>	Legs where the intra-spread charge is applied; uses the combined commodity and the tiers defined in 2.2 Spread Leg A Ratio <i> is not rounded
<tLeg> <cc>CTCM</cc> <tn>2</tn> <rs>B</rs> <i>1214.070722 </i> </tLeg> </dSpread>	Spread Leg B Ratio <i> is not rounded

The definition for inter commodity spreads will be modified for spreads **with** a tiered product in one leg:

Tag	Explanation
<dSpread>	Begin of definition of intra commodity spread
<spread>4051</spread>	Definition of intra commodity spread number (e.g. 4051); numbers are integer starting with 0
<chargeMeth>W</chargeMeth>	Definition of charge method
<rate> <r>1</r> <val>0,5107407407</val> </rate>	Definition of credit in percent (not rounded)
<tLeg> <cc>CTCM</cc> <tn>2</tn> <rs>A</rs> <i>1631.7487923 </i> </tLeg>	Legs where the intra-spread charge is applied; uses the combined commodity and the tiers defined in 2.2 Spread Leg A Ratio <i> is not rounded
<pLeg> <cc>F1BY</cc> <pe>201701</pe> <rs>B</rs> <i>0.6279990477</i> </pLeg>	Non tiered products use the period code (unchanged to current setup) Spread Leg B Ratio <i> is not rounded
</dSpread>	

The definition for inter commodity spreads for spreads **without** tiered products:

Tag	Explanation
<dSpread>	Begin of definition of intra commodity spread
<spread>9114</spread>	Definition of intra commodity spread number (e.g. 9114); numbers are integer starting with 0
<chargeMeth>W</chargeMeth>	Definition of charge method
<rate> <r>1</r> <val>0.310000</val> </rate>	Definition of credit in percent (not rounded)
<pLeg> <cc>F1BM</cc> <pe>201610</pe> <rs>A</rs> <i>1.016635</i> </pLeg>	Legs where the inter commodity is applied; uses the combined commodity and the tiers defined in 2.2 Spread Leg A Ratio <i> is not rounded
<pLeg> <cc>F1BQ</cc> <pe>201604</pe> <rs>B</rs> <i>3.291702</i> </pLeg>	Spread Leg B Ratio <i> is not rounded
</dSpread>	