



one clear connection

▶ **ECC Clearing Circular 48/2016 | 2016-10-18**

ECC Default Management Test 2016

Summary

On **30 November 2016** ECC will perform its annual **default test**. The occasion will be used to practice close out and related risk-mitigation procedures in the event of a Clearing Member default. This test is also required under EU Regulation 648/2012 (EMIR).

This clearing circular contains initial information about the default test and is relevant for all ECC members. With this clearing circular ECC wants to invite its members to participate in the test.

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Contact

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On 30 November 2016 ECC will conduct a simulation of the default of a hypothetical Clearing Member in its simulation environment. The main purpose of this simulation is the test of ECC's procedures and systems for the management of the default of a Clearing Member. It is also a requirement under EMIR.

How can members participate?

Clearing Members (CMs) and Non-Clearing Members (NCMs) admitted for trading futures products at EEX, POWERNEXT and PXE 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 clearing@ecc.de until latest 15 November 2016.

Non-Clearing Members:

- NCMs that participate in the test ("simulation participants") will be invited to at least one and possibly more (simulated) default auctions in various ECC future clearing products on the simulation date.
- 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 test 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 also allowed to participate as a trading participant for products they are admitted to. In this case the same rules apply as for all other NCMs.
- According to ECC's clearing conditions a CM can restrict their NCMs from participating in the auction. ECC will send a list of NCMs that are participating to the respective CM.

Procedure

The test will consist of different stages conducted throughout the day. After the default is declared at ECC and the transfer period for NCMs is completed the auction stage will be carried out. ECC might execute multiple auctions during the test. For simplification purposes ECC will restrict the number of auctions to a maximum of three consecutive auctions.

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 selected simulation participants will receive a bidding sheet in the form of an excel document from the registered mail address from auction@ecc.de .
#2	A deadline with valid response times is communicated within this mail.

Item	Action
#3	The simulation participant will return the completed bidding sheet back to ECC via return e-mail within communicated the time frame.
#4	ECC will simulate an order matching process based on our 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. 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 select participating CMs and 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 CM-NCM relation is known, ECC will request permission to transfer the positions. For all others ECC will use the e-mail address defaulttest@ecc.de to simulate the admission request from the affected NCM. ECC will use the NCM-ID in the subject of the mail address as identifier of the hypothetical company.
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 new NCM that is assumed to be a client known to the CM.
C	Depending on the decisions in "B". ECC will execute position transfer or not.

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