▸ ECC Clearing Circular 15/2017 | 2017-05-05

Introduction STP Risk Limits

Summary

ECC will extend its Trading Limit service for Clearing Members (CM) by introducing a new Risk Limit check for trades registered via STP starting on **31 May 2017**. This improvement will offer CMs the opportunity to manage the customer specific daily risk of trades to be registered at the respective market via STP.

From **16 May - 29 May 2017** ECC will offer a Shadow Run phase for CMs to get to know the new limit feature.

In this Clearing Circular, we would like to provide information regarding the new limit functionality, the limit maintenance procedure, and the prerequisites for participation.

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New Trading Limits for STP

Limit Functionality

The STP Risk Limits service will allow CMs to manage their financial exposure towards their Non-Clearing Member (NCM), its own agency business or client business by defining monetary pre-trade limits effective at the respective markets. Therefore ECC will introduce an optional risk check into the STP processing that acts as safeguard against uncontrolled exposure increases caused by trade registration. The limits will apply for all markets and products that are offered via STP independently of the STP provider chosen to transfer the trade.

The limit caps the maximum possible margin increase (limit exposure) caused by STP trades during a trading day. The limit exposure is computed for each contract individually, e.g. G3BM June 2017. The overall limit exposure represents the sum of the contract specific limit exposures. It is checked and re-calculated each time a trade is foreseen to be registered with ECC. ECC will proceed with trade entry and update the risk limits consumption if the expected limit exposure is compliant to all applicable risk limits.

Further details on the calculation of the STP Risk limits are contained within the latest Risk Management Document to be found here. In case a technical problem prevents ECC from checking the compliance of trades with trading limits, ECC will communicate this issue as soon as possible to the respective CMs. Nevertheless the NCMs will still be required to comply with their trading limit agreed with the CM.
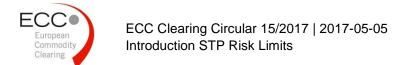
Limit Setup

ECC supports the CMs in setting up STP Risk Limits at the respective markets. Such STP Risk Limits have to be agreed between the CM and its NCM in advance. Thereafter the STP Risk Limit "ECC_TIG_EUR" can be setup by the CM via the ECC Self-Service Limit Solution (ECC Member Area). For each limit the following attributes can be specified:

Field Name	Description	Example 1	Example 2
Settlement Member	Affected Member (ECC Member ID)	NCMEX	CMEEX
Limit Value	Limit Value	500.000 €	12.000.000 €
Limit Begin	Earliest Date, when Limit comes into effect	03.05.2017	03.05.2017
Limit End	Last Date on which the Limit shall be valid	15.05.2017	
Trading Type	"empty" [1]	"PROPRIETARY" [2]	"AGENCY-CLIENT" [3]	"OTHER-AGENCY-CLIENTS" [4]		AGENCY-CLIENT
Agency Client Code	Only to be filled, if "AGENCY-CLIENT" was used in the column Trading Type.		ABC123*

mandatory setup required

The Agency Client Code specified by the CM within the limit definition will be checked against the Ref1/Customer field to be filled in by the individual counterparts of the STP trade.

Limit checks will take place according to the Trading Type setting:

1. "empty" – limit check, regardless of the Ref1/Customer field
2. "PROPRIETARY" – limit check, where the Ref1/Customer field is empty
3. "AGENCY-CLIENT" – limit check, where the Ref1/Customer field matches the „Agency Client Code" defined in the limit (wildcard "*" can be used)
4. "OTHER-AGENCY-CLIENTS" – limit check, where the Ref1/Customer field is filled, but no explicit limit is found. This limit can be treated as an "Omnibus-Limit" for Agency Clients.

Simulation | Shadow Run

ECC would like to invite all interested CMs to take part in the Shadow Run for STP Risk Limits that takes place from **16 May – 29 May 2017.** During that time the new limit feature for the STP process will be offered in production without causing trade rejections, if a limit was consumed.

During that time and upon request to limits@ecc.de CMs will receive an overview of the respective limit consumption. Hence the Shadow Run shall serve as a test to get to know the new limit functionality and to fine-tune the respective limits according to production conditions.

If you wish to participate in the Shadow Run, you can setup the STP Risk Limits (Limit Definition: "ECC_TIG_EUR") via the ECC Trading Limit Self-Service from now on. Limits setup until **15 May 2017** will be considered from **16 May 2017** onwards. Limits remaining in the system after the Shadow Run ends will be applied further. STP trades causing limit breaches will be rejected starting from **31 May 2017**.

Limit Update Process

Until further notice the limits will be updated once a day. Updates can be performed until 06.00 pm CET of ECC business days. All limits set or changes applied to existing limits until that time will become effective as of the start of the next ECC business day. In due course limit updates will be applied real-time. ECC will send out a separate circular to acknowledge about the improvement and about process details.

Prerequisites for Participation

Upon a request by its CM, NCMs are obliged to establish agreements regarding STP Risk Limits with its CM. Thereafter the CM may setup the STP Risk Limit via the ECC Member Area as pre-trade limit effective at the respective market. No further action is required by NCMs. For any limit changes, the NCM will have to contact its CM directly. The consequences of any non-compliance with the STP Risk Limit are described in the rules and regulations of the respective markets.

Fees

Starting on **01 June 2017** STP Risk Limits setup at ECC will be charged according to the ECC price list. For the utilization of the limit system as the originator of the limit, ECC charges a Basis fee of 550 €/month for CMs. This fee is already charged today in case CMs uses the ECC Self-Service Limit Solution. An administrative fee of 30 €/month will be applied for each STP Risk Limit.