

Update of ECC Default Management Rules

Central counterparties (CCPs) have an increasingly important role to play in providing financial market stability.

The Commission of the European Union has therefore adopted a legislative proposal on CCP recovery and resolution ([see here](#)) to ensure that both CCPs and national authorities in the EU have the means to act decisively in a crisis scenario, such as the default of a clearing member.

The main tool to manage such member defaults is the financial resources available to the CCP according to the default waterfall principle.

In addition, CCPs have the option to implement additional instruments to strengthen their capabilities of managing a clearing member default, increasing both the financial resources available to the CCP as well as its resilience.

ECC is now in the process of enhancing its default waterfall methodology to align with the latest CCP market standards:

- By giving ECC the right to access additional default fund contributions – a second call (power of assessment).
- By introducing the possibility to allocate positions that were neither liquidated in a default auction nor were closed out using market transactions (forced allocation).

Further details are included in this clearing circular and the attached documents.

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Description of Planned Rulebook Changes

The planned rule book changes are to prepare for the regulation of the European parliament and council framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365 from 28th November 2016.

ECC has analysed the impact of the above regulations and is planning to introduce measures that have already been implemented by most other CCPs:

ECC is planning to include a so-called power of assessment applicable to clearing members, where the clearing members default fund contribution may be called in the case of default of another clearing member for a second time (in case that losses exceed the available default fund collateral which has been calculated on a stress test basis covering the simultaneous default of the two largest Members).

Additionally, ECC is planning to include the possibility to allocate positions into the clearing conditions:

- The allocation is a tool that will be initiated only if positions remain after at least two default auctions had been conducted by ECC.
- One of the default auctions will be classified as mandatory for all trading participants active in a specific product (i.e. admitted to trading; this especially includes market maker) with minimum bids being expected pro rata according to a portion of the participants net position held at the time of the default.
- Remaining positions will be allocated to those mandatory participants that have not bid in a market conforming manner for the minimum bids. Any positions accepted during one of the default auctions will however be considered by ECC.
- There will be the possibility for trading participants to bailout of the allocation if there are regulatory or other reasons prohibiting them from taking positions in such a default auction, by paying a bailout fee or by appointing a proxy that takes part in the default auctions on their behalf.

This process has been designed to create incentives to participate in the default management process of ECC with the aim of reducing the financial impact of a default and thus ensuring that the impact on the CCP and individual members is minimized.

For any questions or comments please contact your sales representative or reply by mail to clearing@ecc.de.