

Clearing Circular 38/2017

2017-10-30

Introduction of USD Margining

Summary

As already announced in ECC Clearing Circular 24/2017 ECC will enhance the clearing service and introduce USD margining.

In addition to a multicurrency SPAN file, which has been announced in ECC Clearing Circular 30/2017, ECC will offer a solution to calculate SPAN margin requirements in USD and to allow USD as cash collateral from 7 November 2017 onwards.

This Clearing Circular contains details on the planned enhancements.

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USD Margining

On 7 November ECC will enhance the risk calculation to offer an optional reporting of the SPAN initial margin requirement in USD instead of EUR. The calculation of SPAN initial margin is done on margin account level, e.g. PP, A1, A2... In general all margin accounts which are assigned to the same Collateral Pool are margined in the same currency.

In case a Clearing Member applies for the calculation of SPAN margin in USD for a list of accounts, those accounts are assigned to one technical Collateral Pool which will be flagged with the Pool Reporting Currency USD. Margin Requirements in the Margin Class SPAN are reported in the report CC050 Daily Margin available on the Common Report Engine. The report will then also contain the margin requirement that is calculated in USD.

As today Premium Margin and Variation Margin will remain to be calculated in the underlying product currency. Clearing Members should be aware that any other margin class, which may be available in the same margin account will remain in the current currency and will not be converted to USD.

Margin requirements are aggregated per currency for all margin accounts assigned to the technical Collateral Pool following the usual aggregation rules for margin requirements. The total margin requirement per currency and pool will be compared with the available collateral assigned to this pool per currency. If a surplus or shortfall is available this will be converted to USD, using an FX rate with cross currency haircut. By default any shortfall on the new technical collateral pool will be integrated into the Clearing Member's General Omnibus Segregated Account (GOS-Pool - e.g. ABCEXXSTANDARD), denoted in EUR. Any surplus will remain on this collateral pool unless a withdrawal is requested.

Optionally, Clearing Members can request that any surplus/shortfall on the technical Collateral Pool resulting from the overnight margin calculation will be settled in cash the next morning against the USD bank account of the Clearing Member at ECC.

Maintenance of USD Margining

Clearing Members can apply for USD margining by using the form "CM14 Setup of foreign currency margining" which is available at https://www.ecc.de/ecc-en/access-to-ecc/admission-forms/cm_forms.

As today, default currency for all Clearing Member will remain EUR. No action is required by NCMs.

USD as Cash Collateral

On 7 November 2017 ECC will allow Clearing Members to deposit USD as cash collateral which allows Clearing Members an efficient Collateral Management for USD denoted products. Clearing Members can request a deposit or withdrawal of USD Cash at ECC. Operationally deposit and withdrawal is done similar to the operations of cash collateral in EUR. ECC may apply limits on non-EUR cash collateral amounts posted by Clearing Member.

Clearing Members are advised that any cash collateral in USD posted in a EUR collateral pool will be withdrawn automatically in the Overnight Calculation unless a Permanent Cash Balance is set within the Clearing System for Collaterals. A shortfall would then be covered in EUR. If the Clearing Member applies for the USD margining described before, USD cash collateral will remain at the technical Collateral Pool as required by the margin requirement without using the Permanent Cash Balance functionality. The settlement of shortfalls depends on the requested settlement setup (via GOS or directly).

Operational cut-off times for deposit and withdrawal will be available at <https://www.ecc.de/ecc-en/risk-management/collateral-management/cash-collateral>.

Following ECC Price List, ECC will forward the interest generated through the investment of margin assets in the form of cash exclusively to its Clearing Members as interest based on the respective amount of margin assets in the form of cash while retaining a deduction from the capital gained of, at a maximum, 0.10% as an interest margin. Interest on cash margins shall only be paid as of a yield on capital of more than 0.10%. Interest is calculated on a daily basis.