

ECC Default Management

Summary

On 7 November 2018 ECC will perform its annual default simulation. The occasion will be used to practice close out and related risk-mitigation procedures in the event of a Clearing Member default. This simulation is also required under EU Regulation 648/2012 (EMIR). Additionally, during the month of October 2018, ECC will offer non-clearing members the opportunity to participate in a trial of the mandatory auction process.

This clearing circular contains information about the default simulation and the mandatory auction trial and is relevant for all ECC members. With this clearing circular ECC wants to invite its members to participate in both the simulation and the mandatory auction trial.

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Default Simulation 2018

On 7 November 2018 ECC will conduct a test of the default of a hypothetical Clearing Member in its simulation environment. The main purpose of this event is the simulation of ECC's procedures and systems for the management of the default of a Clearing Member.

How can members participate?

Clearing Members (CMs) and Non-Clearing Members (NCMs) admitted for trading futures products at EEX, POWERNEXT, PXE, HUPX, and NOREXECO 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 defaulttest@ecc.de until latest 27 October 2018.

Non-Clearing Members:

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

Procedure

The simulation 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 simulation. For

reasons of certainty and simplicity, 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 to the registered mail address.
#2	A deadline with valid response times is communicated within this mail.
#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 its 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 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 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.

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| 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 NCM that is assumed to be a known client. |
| C | Depending on the decisions in “B”. ECC will execute position transfer or not. |

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

Mandatory Auction Trial 2018

During the month of October 2018, ECC will provide members with the opportunity to participate in a trial of our mandatory auction process. The main purpose of the trial is to facilitate familiarity with ECC’s procedures, systems and tools which are requisite for participation in a mandatory auction.

How can members participate?

Clearing Members (CMs) and Non-Clearing Members (NCMs) admitted for trading futures products at EEX, POWERNEXT, PXE, HUPX, and NOREXECO that wish to take part in the trial are invited to send an e-mail including their contact details to your sales representative or to auction@ecc.de until latest 26th October 2018. A representative of ECC will then respond by contacting the member directly to describe the process and facilitate a test incorporating use of the mandatory auction bidding sheet.

Additionally, from the 1st to 31st October, inclusive, a sample of the mandatory auction sheet will be made available on the ECC website (<http://www.ecc.de/ecc-en/risk-management/default-management>). Any members who wish to see a sample of the mandatory auction bidding sheet are more than welcome to download and view a copy.

Procedure

The trial will consist of a member receiving the mandatory auction sheet which includes an indication of the minimum expected bid/offer size for a given product. Participation in the mandatory auction at a level insufficient with respect to the minimum expected bid/offer size may result in an allocation of some portion of positions remaining in the

(simulated) default portfolio and this information would then be communicated to the member.