

## Changes to Default Fund Calibration

In the following ECC describes the planned changes<sup>1</sup> to the default fund calibration. The changes implement a new target maximum to the total default fund size of currently 13,5% of the total initial margin as recommended by the ECC Risk Committee.

### 1.1 Current Procedure

ECC calculates the default fund contribution for a month on the first ECC business day of this month (calibration day). The default fund contribution will be called until the ECC business day following the calibration day.

ECC adjusts this default fund contribution during the month in cases that the daily stress test exceeds the current default fund contribution or in cases where the individual default fund contribution of a Clearing Member changes by more than 500.000.

ECC calls an intraday margin from the clearing members that produce the largest combined stress test result in cases where the existing financial resources in the default fund and ECCs Dedicated own Resources are not sufficient to cover the daily stress test result. The called intraday margin will be released at the end of the business day unless

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<sup>1</sup> The planned changes have been communicated to the appropriate regulatory bodies and will be implemented depending on regulatory non-objection

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these are needed for coverage of stress test results also on the following days. This procedure follows section 3.5.3. of ECC's Clearing Conditions.

## 1.2 Changes

ECC will determine the total default fund on the first ECC business day of this month (calibration day) based on the stress test results of the previous month. Using this value for the total default fund ECC calculates and communicates the default fund contribution for each Clearing Member. The default fund contribution will be called until the ECC business day following the calibration day.

The total default fund will have a target maximum of 13,5% of the initial margin (SPAN and IMSM) requirement of the last business day of the month preceding the calibration day<sup>2</sup>. ECC aims to cover default fund requirements exceeding this target maximum with collateral according to section 3.5.3. of ECC's Clearing Conditions (see above). This collateral will be denoted as supplementary margin in the following. It should be noted that this does not constitute variation, premium or initial margin but is collateral covering the additional risk perception of the CCP

To calculate the supplementary margin ECC calculates the potential combined shortfalls (i.e. the value by which the stress test profit & loss exceeds the margin) for all combinations of simulated simultaneous defaults of two Clearing Members. The combined shortfall that exceeds the target maximum default fund is allocated to the two Clearing Members according to their share of the combined shortfall. This share will be covered by supplementary margin. As there might be various market and default scenarios that produce a combined shortfall the maximum allocation across all market and default scenarios is then used to determine the supplementary margin for each Clearing Member. This might involve more than two Clearing Members.

Increases in supplementary margin are regularly called on the next ECC business day in the regular settlement run under the margin class SSMB in the Clearing Members PP

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<sup>2</sup> In cases the minimum default fund contribution is higher than the target maximum the effective ratio for a member might be higher; for details see <https://www.ecc.de/ecc-en/risk-management/stress-testing/default-fund>

account. Releases of supplementary margin are completed monthly in the context of the determination of the default fund on the first ECC business day following the calibration day. ECC can release supplementary margin during the month in cases where the daily stress test result not considering the supplementary margin significantly falls below the total default fund and the ratio between the total default fund and initial margin (SPAN and IMSM) falls below 12.5%. Should the supplementary margin be called from more than 25% of all Clearing Members the methodology to calculate the default fund contribution or the initial margin will be reviewed. In such cases ECC might decide to temporarily adjust the total default fund above the target maximum until the review is completed.

In case the daily stress test exceeds the total default fund collateral plus ECCs dedicated own resources the same mechanism as described in the section above (current procedure) is applied i.e. calling intraday margins to cover the deficit remains in place. The calls will be performed into the margin class SSMA.

ECC monitors on daily basis the development of the total default fund and can perform an ad hoc adjustment in case of major changes<sup>3</sup>.

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<sup>3</sup> Always considering the maximum target