

# Circular C-GEN-03/2024

Valuation of Collateral posted as Margins

**BME CLEARING**

4 March 2024

## General Circular

**Effective Date: 11 March 2024**

**Replaces: C-GEN-22/2022**

**This Circular establishes the haircuts applied to all collateral accepted by BME CLEARING. It is modified to include non-Euro cash collateral.**

### 1. Fixed Income Securities

For the purposes of this Circular, the valuation of Government Debt of Spain, Germany, France, The Netherlands, Belgium, Austria, Italy and Portugal, will be made by multiplying the market price of the security by a coefficient of:

$$\text{Coefficient} = 100\% - \text{haircut}$$

The haircuts are available on the BME CLEARING website, under the Resources/Circulars section, in the *Parameters for valuation of securities posted as margins.xlsx* Excel file, spreadsheet *Fixed Income Securities*.

Valuation of non-Euro securities, Government Debt of the United Kingdom and the United States will be made by multiplying the market price of the security by a coefficient and also by the exchange rate of the corresponding currency against the Euro.

The closing price and exchange rate of a relevant information vendor at the moment of collateral valuation are used.

The Bond valuation price will include the accrued interest.

If the security has not been quoted in the last 3 calendar days, haircuts will be double as indicated.

### 2. Haircut Adjustment for the different Government Debts eligible as collateral but not included in the Reference Basket. based on the differential in respect of the latter

If the return on any Government Debt (eligible as collateral but not included in the Reference Basket. according to the *Reference Basket* Circular or the one replacing it) in the secondary market, as based on information obtained from the Reuters or Bloomberg agencies is higher than the return of the Reference Basket over two consecutive days, and according to the levels set out below, the haircuts of that

particular Government Debt described in Section 1 of this Circular will be increased for bond buyer positions as follows:

- If the differential is greater than 350 points, the reaction period will be 3 days; the valuation interval will increase by 22% (e.g., if the standard interval is 2%, the new interval will be  $2\% * 1.22 = 2.44\%$ ).
- If the differential is greater than 400 points, the haircut will increase by 41% and rounded up (e.g., if the standard haircut is 2%. the new haircut will be  $2\% * 1.41 = 2.82\% \Rightarrow 3\%$ )
- If the differential is greater than 425 points, the haircut will increase by 58%.
- If the differential is greater than 450 points, the haircut will increase by 73%.
- If the differential is greater than 475 points, the haircut will increase by 87%.
- If the differential is greater than 500 points, the haircut will double.
- If the differential is greater than 525 points, the haircut will increase by 112%.
- If the differential is greater than 550 points, the haircut will increase by 124%.

In addition, if the return differential compared to the reference basket remains below the level shown above at the close of two trading sessions the haircut will be set at the corresponding level.

In general, the haircut for a given tranche cannot be less than the haircut for a lesser time period.

### **3. Increase to the Haircut based on the margin percentage or on the haircut required by other Clearing Houses**

In exceptional circumstances. BME CLEARING can decide to increase any of the haircuts set out in Section 1, in order to align them with the lowest requirements of margin percentages or haircuts of the Clearing Houses in the environment of trades on Spanish sovereign debt in the same tranche or period.

#### 4. Haircuts Adjustment for Sovereign Debt according to the Average Daily Volume

For those Clearing Members whose Sovereign Debt exposure on a particular issuer and within a specific residual maturity term exceeds the Average Daily Volume according to the *Average Daily Volume* General Circular haircuts stated in paragraph 1 above will be increased in the following percentages:

Nº of times of Average Daily Trading Volume	% Increase to the Required Initial Margin Interval
Between 100% and 150%	22%
Between 150% and 200%	41%
Between 200% and 250%	58%
Between 250% and 300%	73%
Between 300% and 350%	87%
Between 350% and 450%	100%
Greater than 450%	112%

The Clearing Members' Sovereign Debt exposure on a particular issuer and within a specific residual maturity term will be understood as the nominal volume, multiplied by the price with coupon, based on the sum of:

- Securities posted as margins
- The net long position on securities within the same residual maturity term, for those contracts belonging to BME CLEARING's Fixed Income Securities Segment.

#### 5. Shares

For those shares included in the IBEX 35 index and that are the underlying asset of Stock Futures and Stock Options in BME CLEARING, valuation will be the result of taking the Market Price of the share and applying a reduction of:

Maximum (25%, Daily fluctuation parameter<sup>1</sup>, Theoretical Haircut)

For those shares not fulfilling the previous condition and that are temporarily posted as collateral, the valuation will be the result of applying a discount to the market price that equals to:

Maximum (25%, Daily fluctuation parameter<sup>2</sup> x Ratio 1.1, Theoretical Haircut)

Therefore, the same formula as above will be considered but applying a 10% buffer to the daily fluctuation parameter.

The theoretical haircuts are established for some stocks according to back-test results. They are available on the BME CLEARING website, under the Resources/Circulars section, in the *Parameters for valuation of securities posted as margins.xlsx* Excel file, spreadsheet *Shares*.

The Market Price taken as the reference is the closing price at SIBE.

If there are no trades on that date or no prices are available for technical reasons, the closing price from the previous trading day will be taken; if there are no trades on this day, the lowest closing price during the previous 30 calendar days will be used. The reduction applied to the resulting price in this last case will be double that indicated.

If quoting of particular shares is **suspended**, BME CLEARING will determine whether or not these shares can still be used as margins and the price to apply to their valuation.

## 6. Non- Euro Cash Collateral

Valuation of cash collateral for non-euro currencies will be made by multiplying the exchange rate of the pair rate with respect to Euro by a coefficient of:

$$\text{Coefficient} = 100\% - \text{haircut}$$

The haircuts are available on the BME CLEARING website, under the Resources/Circulars section, in the *"Parameters-for-valuation-of-margins.xlsx"* Excel file, spreadsheet *Cash*.

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<sup>1</sup> As stipulated in the Excel file *"Parameters-for-valuation-of-margins.xlsx"*, that can be found in the following link: <https://www.bmeclearing.es/ing/Regulations/Circulars>

<sup>2</sup> As stipulated in the Excel file *"Parameters-for-valuation-of-margins.xlsx"*, that can be found in the following link: <https://www.bmeclearing.es/ing/Regulations/Circulars>

## 7. Extraordinary circumstances

Under extraordinary circumstances and after discussion with the Spanish Securities Commission (Comisión Nacional del Mercado de Valores), BME CLEARING can vary the conditions of valuation.

## 8. Consideration of procyclical effects

For any of the above points mentioned in this Circular, prior to increase any current haircut, BME CLEARING shall review that such measure does not entail any procyclical effect, according to Article 28.2 of Delegated Regulation (EU) 153/2013.

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