

Circular C-GEN-05/2024

Cash Collateral in BME CLEARING

BME CLEARING

General Circular

Effective Date: 11 March 2024

Replaces: -GEN-08/2023

Establishes the minimum amount of cash margins posted at the CCP, according to Article 44 of Regulation (EU) 648/2012. It is modified to include non-euro cash collateral as eligible collateral.

1.- MINIMUM AMOUNT OF EURO CASH MARGINS

According to the Article regarding “General provisions applicable to margins required by BME CLEARING” of the Rule Book and the *Posting of Margins* Circular for each Segment, where the different forms of posting the various types of margins are defined, this Circular establishes minimum cash collateral levels (in Euro) to be posted at BME CLEARING.

1.1. Minimum amount at a Clearing Member level

The total amount of Default Fund contributions required by BME CLEARING to each Clearing Member, in all segments, must be posted in cash in Euro.

1.2. Minimum Ratio at a CCP level

At a CCP level, BME CLEARING will assess that, as a minimum, 30% of the total amount of margins required by BME CLEARING in respect of all concepts and in all Segments has been posted in cash, in Euros.

If this amount falls below 30%, Clearing Members whose cash collateral is not at least 30% in cash (Euro) in respect to their margins required by BME CLEARING for all concepts and in all Segments, will be given five business days to recalibrate their collateral to attain this threshold.

2.- INCREASE OF CASH COLLATERAL FOR COVERING EURO LIQUIDITY NEEDS

On a daily basis BME CLEARING quantifies, both intra-day and at the end-of-day, the status of its liquid resources and, consequently its potential liquidity needs in Euro under various scenarios which include: (a) normal circumstances; and (b) stressed circumstances.

2.a) Normal Market circumstances

BME CLEARING estimates the liquidity needs in Euro for the upcoming Multilateral TARGET – Banco de España Settlement.

For every Clearing Member the “liquidity need” for the next multilateral settlement is calculated based on the following:

Clearing Member Liquidity Needs:

- + *Estimated debit for variation margin and net premiums.*
- + *Cash movement due to the Price Alignment Interest (PAI) in the IRS segment.*
- + *Initial margin required*
- + *Reduction on the Initial Margin due to the existence of negative Initial Margin amounts within the Financial Derivatives segment (*).*
- *Collateral posted either in cash or by title transfer of Sovereign Debt by the Clearing Member.*

(*) It refers to the amount, in terms of Initial Margin, that can be offset within the Financial Derivatives segment whenever, in one margin account, one or more margin classes show a negative initial margin amount due to a position containing options that records a gain in the worst case scenario, exceeding the future risk component for such margin class, which offsets the initial margin of other margin classes within the same segment.

BME CLEARING shall assess the impact of the default of the two Clearing Members with the highest liquidity needs according to the previous formula.

The resulting liquidity needs after the two largest Clearing Members have been aggregated will be compared to BME CLEARING's liquid available resources, which will be calculated as follows:

BME CLEARING's Liquid Available Resources:

- + *Cash collateral posted in cash or by title transfer of Sovereign Debt by the other Members¹*
- *Cash amount differences between buy and sell settlement instructions which are settled at different prices, for both the Equities and the Fixed Income Securities segments.*
- *Estimates of the liquidity usage due to the release of held settlement instructions in the Equities segment and to the settlement of trades in the Fixed Income Securities segment.*
- *Double the amount of margins posted by BME CLEARING in the TSO for having a Balancing Portfolio for Natural Gas products within the Energy segment.*

As a result of the previous formulae, if the CCP's liquid available resources do not cover the aggregated liquidity needs of the two largest Clearing Members, an apportionment among the affected Members would be performed in order to see which part of the liquidity shortfall corresponds to each of them.

Members affected by the prorate must cover the liquidity shortfall on the business day following the notification.

¹ Two calculations are performed considering required and total collateral.

Members in such situation having equities or Sovereign Debt posted as collateral by means of pledge at the CCP shall replace them with cash in euro or by title transfer of the Sovereign Debt, within no more than 5 business days, until the liquidity shortfall disappears.

These calculations will also be done at a Payment Agent level.

Likewise, for those Clearing Members belonging to the same company group, their liquidity needs will be added together in order to measure the global liquidity risk of the CCP.

2.b) Stress Test Situation

At the end of each trading session, BME CLEARING calculates the potential liquidity needs in Euro arising from the default of the two Clearing Members to which the CCP has the greatest exposure under Stress Test conditions, according to Article 44.1 of Regulation (EU) 648/2012.

For each segment and for all the margin accounts cleared by a Clearing Member, the registered loss in value of the position under Stress Test circumstances for each scenario is calculated, according to Appendix I of the *Default Fund Stress Test* Circular. Losses are added by scenario.

The worst-case scenario is selected for each segment, which corresponds to the one generating the highest loss.

Losses are added for all segments, giving as a result the *Stress Test Debit Forecast*.

The CCP calculates the “potential liquidity need” for every Clearing Member if a stress test situation occurs, and according to the following formula:

Clearing Member Potential Liquidity Needs:

- + *Estimated debit under Stress Test conditions.*
- + *Potential liquidity needs in both the Equities and the Fixed Income Securities segments derived from a lack of cash in the Clearing Member's Proprietary Account.*
- *Collateral posted either in cash or by title transfer of Sovereign Debt by the Clearing Member.*

The two Clearing Members with the highest potential liquidity needs under stress test circumstances are selected.

The aggregated amount of the two largest Clearing Members' potential liquidity needs shall be compared to BME CLEARING's available liquid resources, which are exactly the same than those calculated under normal circumstances as per section a) above.

As a result of the previous formulae, if BME CLEARING's liquid available resources do not cover the aggregated potential liquidity needs of the two largest Clearing Members under stress test conditions, an apportionment among the affected Members would be performed by BME CLEARING in order to see which part of the liquidity shortfall corresponds to each of them.

Members affected by the prorate must cover the liquidity shortfall on the business day following the notification.

If any such Member with uncovered potential liquidity needs has collateral in the form of equities or pledged Sovereign Debt posted with the CCP, it shall replace them within 5 working days at the latest by cash in Euro or by title transfer of Sovereign Debt, until the liquidity shortfall is over.

As well as is stated under normal market circumstances, for those Clearing Members belonging to the same company group, their potential liquidity needs will be added together in order to measure the global liquidity risk of the CCP.

3.- EXTRAORDINARY MEASURES FOR LIQUIDITY SHORTFALLS

If, notwithstanding all the available resources described throughout this Circular, a liquidity shortfall remains, BME CLEARING can make use of its pre-funded liquid resources, except for regulatory capital and other own resources required at all times by the applicable regulations.

4.- ADDITIONAL RECOVERY MEASURES FOR LIQUIDITY SHORTFALLS

Should the recovery plan be activated due to a liquidity shortfall scenario, as described in the section "Activation of the recovery indicators" in the Circular on *Recovery plan procedures*, BME CLEARING may immediately request Clearing Members with Collateral posted in the form of electronic pledges in Sovereign Debt to modify this form of materialisation so that the securities are posted as collateral by title transfer until the recovery phase is deactivated.

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BME

Plaza de la Lealtad,1

Palacio de la Bolsa

28014 Madrid

www.bolsasymercados.es

