

Circular C-GEN-10/2024

Default Fund Stress Test

BME CLEARING

General Circular

Effective Date: 3 June 2024

Replaces: C-GEN-04/2023

This Circular establishes the contributions to the individual fund based on the results of the stress test applied to each Clearing Member. This modification is done according to Articles 42 and 43 of Regulation (EU) No. 648/2012.

This Circular is published in accordance to the provisions of Article 29 of the BME CLEARING Rule Book and following the provisions of Articles 42 and 43 of the Regulation (EU) No. 648/2012 and Articles 30 and 51 of the Delegated Regulation (EU) No. 153/2013.

The percentage used for the available balance of the Default Fund included in Annex II, detailing the individual fund for daily stress testing of the default fund under the default of the clearing member, is modified.

PERFORMANCE OF THE DEFAULT FUND STRESS TEST

Daily, when trading session is over, BME CLEARING calculates the Risk of each Clearing Member under stress test conditions for all Groups in which the Member has a position, using the model specified in Annex I to this Circular. Stress Test results will be provided in a daily clearing raw data file to every CCP Member.

For the Financial Derivatives segment, in particular, the Stress Test Risk is calculated in two different blocks of risk: one for FX Rolling Spot Futures Contracts and another for the other contracts in this segment, which is calculated jointly with the other segments.

The Risk under Stress Test conditions obtained for each Clearing Member is compared, in each block, to the Clearing Member's contribution to the Default Fund, with the total of both Individual and Extraordinary Funds that the Member has deposited and with the contributions to the Default Fund made by the other Clearing Members, using the directions described in Annex II.

For FX Rolling Spot Futures Contracts, the Risk under Stress Test conditions of each Clearing Member and the calculation of the additional Individual Fund for the daily stress test of the Default Fund are calculated separately from the other products and segments, as if they formed part of a stand-alone segment, at session end for these contracts. The results of the Stress Test are provided to each Member in a separate file.

The calculation of the additional Individual Fund for the daily stress test of the Default Fund of each Clearing Member, for the risk block corresponding to FX Rolling Spot Futures Contracts, is therefore only considered for the part of the Financial Derivatives segment Default Fund posted for the Risk under Stress Test conditions registered in this block.

The same applies for the additional Individual or Extraordinary Fund required to perform trades involving these contracts.

Equally, the calculations for the block comprising the other products do not take into account the risks deriving from the position in FX Rolling Spot Futures Contracts.

If the Clearing Member results to need to contribute a supplementary Individual Fund, this must be posted with a value date of the day after the calculation.

Finally, in compliance with Article 43 of the Regulation (EU) No 648/2012, the scenario for the default of the two Clearing Members with the highest risks under a Stress Test situation is considered in Annex III, and it is determined whether those Members need to make a higher contribution to the Individual Fund, concerning to results obtained in Annex II

The Posting of Margins Circular of each Segment, or the Circular which replaces it, describes the forms in which the Individual Fund can be posted and the form of remuneration, if margins have been posted in the form of cash.

In any situation during the session that, due to the general circumstances of the market or due to specific circumstances of one or more Clearing Members, BME CLEARING considers there is a high stress test risk not enough covered in accordance to the procedure described in the present circular, BME CLEARING can carry out the calculation before the end of the session and will require the collateral it deems necessary.

ANNEX I

DAILY CALCULATION OF THE CLEARING MEMBER'S RISK IN STRESS TEST SITUATION FOR EACH SEGMENT

The calculation of a Clearing Member's Risk under Stress Test conditions in each Segment will be explained at the corresponding Default Fund circular.

ANNEX II OBTAINING THE INDIVIDUAL FUND FOR DAILY STRESS TESTING OF THE DEFAULT FUND UNDER THE DEFAULT OF THE CLEARING MEMBER

Calculation of the preliminary balance for each Segment

The Clearing Member's contribution to the Default Fund for a particular Segment is subtracted from the Risk under Stress Test Conditions obtained for each Clearing Member of the Segment, from which the Initial Margin has also been deducted.

The result of this will be a preliminary credit or debit balance for each Group.

Consolidated balance of the Clearing Member

The preliminary balances for all Segments are added together to obtain the consolidated balance, which is then compared to the total amount of Individual and Extraordinary Funds that the Member has deposited.

If the consolidated balance is a credit balance, no individual fund in respect of the default fund stress test will be requested.

If the consolidated balance is a debit balance, the final balance for each Segment must be calculated.

Calculation of the final balance for each Segment

The balance for those Segments which had a preliminary balance in credit is zero.

The balance for those Segments which had a preliminary balance in debit is obtained as follows:

Consolidated balance of the Clearing Member x (Preliminary debit balance / Sum of the preliminary debit balances).

Then, for each Segment with a debit balance, and until the entire debit balance is offset, if possible, a 37.5% of the Default Fund size corresponding of said Segment, minus the amount that the Clearing Member has disposed to cover its debit balance, in accordance with the first step of this section.

For the FX Rolling Spot Futures Contracts there is a specific percentage of the contribution to the Default Fund of the rest of the Clearing Members corresponding to the Financial Derivatives Segment.

The resulting debit balance or zero balance is the final Segment balance.

Individual Fund to be posted

The sum of final debit balances is the amount of the supplementary Individual Fund that the Clearing Member must post.

FX Rolling Spot Futures Contracts

For these contracts, the Risk under Stress Test conditions of each Clearing Member and the calculation of the additional Individual Fund for the daily stress test of the Default Fund, as per Annex II, are calculated in a similar manner but separately from the other products in the Financial Derivatives segment and the other segments.

ANNEX III

OBTAINING THE INDIVIDUAL FUND FOR DAILY STRESS TEST OF THE DEFAULT FUND IN CASE OF A DEFAULT OF THE TWO LARGEST CLEARING MEMBERS

1. Risk in a stress test situation is calculated for every Segment and for every Clearing Member, once both the corresponding Default Fund contribution in the Segment and the proportion of the Individual Fund assigned to this Segment are deducted, as stated in section 3 of Annex II, applying the following formula:

$$\text{Clearing Member Risk} = \text{Risk in Stress Test situation} - \text{Contribution to the Default Fund} - \text{Proportion of the Individual Fund assigned to the Segment}$$

2. The resulting Risk from the previous formula, corresponding to the two Clearing Members with the highest risk, is added.
3. Following the provisions of Article 30.1 of the Delegated Regulation (EU) No 153/2013, other Clearing Members' risks, belonging to the same Segment of those Clearing Members, will be also considered as they would default if the those Clearing Members do so.
4. It is checked if the sum of the two largest Clearing Members' risk is covered by the 75% of Clearing Members' Default Fund contribution in said segment, minus the amount disposed by the 2 largest Clearing Members, in accordance with the first step of Annex II.

Otherwise, the required Individual Fund will be calculated, equal to the non-covered amount, which will be allocated based on each Clearing Member's risk.

5. This Individual Fund will be compared to the Individual Fund resulting in Annex II, and the greater amount will be required to each Member as a Stress Test Individual Fund.
6. For the FX Rolling Spot Futures Contracts, the Risk under Stress Test conditions of each Clearing Member and the calculation of the additional Individual Fund for the daily stress test of the Default Fund, as per Annex III, are calculated in a similar manner but separately from the other products in the Financial Derivatives segment and the other segments.

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