

Circular C-VRF-02/2025

Default Fund

BME CLEARING

23 January 2025

Segment: Fixed Income Securities

Effective Date: 3 March 2025

Replaces: C-VRF-03/2023

The Default Fund, along with its amount, distribution and updating criteria are regulated.

It also regulates the utilization and replenishment of the posted contributions, the additional contributions, and their maximum limits in the event of a Default.

The text has been amended to clarify the wording in certain sections.

This Circular is published in accordance with the provisions outlined in the Default Fund section of the Article regarding “Margins required by BME CLEARING” of BME CLEARING’s Rule Book and following the provisions of Articles 39, 42 and 43 of the Regulation (EU) No 648/2012 and Article 30 of the Delegated Regulation (EU) No 153/2013.

1. DEFAULT FUND AMOUNT

The amount of the Default Fund for the Fixed Income Securities Segment must cover the largest Risk in the last calendar quarter, under Stress Test conditions, based on the maximum combined daily risk of the two Clearing Members with the largest risks from a same risk scenario, multiplied by an additional factor.

The Factor Parameter applied is available in BME CLEARING website, in the excel file Stress Test Parameters – VRF.xlsx, that can be found in the following link:

<https://www.bmeclearing.es/ing/Resources/Circulars>

For this purpose, a Clearing Member's Risk under Stress Test conditions is calculated for each day, using the model provided in the Appendix to this Circular.

The Default Fund amount is updated when required, in order to cover the risk mentioned in the first paragraph above, at a minimum, every calendar month within the first 4 business days of the month. Members are required to make their contributions with a value date on the business day following BME CLEARING’s update notice.

In any case, this amount may not be less than EUR 25 million.

2. DEFAULT FUND CONTRIBUTION FROM CLEARING MEMBERS

- 2.1. Independently of the other margins that are established, each Clearing Member is obliged to contribute to the Default Fund of each Segment in which the Member takes part as a Clearing Member.
- 2.2. The contribution that each Clearing Member makes to the Fixed Income Securities Segment Default Fund consists of a fixed minimum amount and, if applicable, an additional variable amount.

The fixed minimum amount depends on the Clearing Member's type and on whether the Member only clears a Proprietary Account or also clears Clients and Non-Clearing Members positions otherwise.

The following table shows these amounts:

MEMBER TYPE	Minimum fixed amount of the Default Fund Contribution
Individual Clearing Member (only clears its own Proprietary Account)	€1,000,000
General Clearing Member	€2,000,000

- 2.3. A Clearing Member's contribution to the Fixed Income Securities Segment Default Fund may exceed the fixed minimum amount specified in section 2.2., if the total fixed minimum contributions from all Clearing Members does not reach the overall minimum amount required for the Default Fund according to section 1 of this Circular.

To determine which Clearing Members must contribute an additional variable amount to the Default Fund in addition to the fixed minimum amount, the total minimum amount of the Default Fund specified in section 1 will be allocated among the different Clearing Members on a proportional basis to each Member's exposure, in relation to the total for all Clearing Members in the CCP. Exposure is defined as the median of the 5 largest stressed risk amounts recorded by each Clearing Member in the last natural quarter.

Those Members who are assigned an amount lower than the fixed minimum as a result of the allocation will be excluded from the distribution, and their contribution to the Default Fund will be the fixed minimum amount. For the remaining Members, the exposure percentages will be recalculated, and the additional variable amount to the fixed minimum contribution to the Default Fund will be determined by multiplying their exposure percentage by the difference between

the required amount that the Default Fund must hold, as specified in section 1, and the sum of the minimum contributions of all Clearing Members.

The additional variable amount of the contribution to the Default Fund will be required by BME CLEARING whenever it exceeds € 50,000, in multiples of € 50,000, and must be contributed by the Clearing Members with a value date on the following business day.

- 2.4. The Circular of Posting of Margins, or the Circular which replaces it, describes the forms in which the Default Fund contributions can be posted and the form in which margins are paid interest, if applicable.
- 2.5. The contribution to the Default Fund will not be considered for Risk Limits purposes.

3. UTILISATION, REPLENISHMENT, ADDITIONAL CONTRIBUTIONS AND LIMITS TO THE DEFAULT FUND

Utilisation for the posted Default Fund

- 3.1. In the event that the Default of a Clearing Member is declared, and the Default Fund has to be used, as provided for under Article 45 of the Rule Book, the provisions of said article shall be applied (execution of the collateral provided as Default Fund), and the amount utilised shall be allocated proportionally according to the Default Fund contribution made by each Clearing Member, as compared to the total Default Fund amount of the corresponding Segment prior to the default situation.
- 3.2. In the event that the Default Fund has to be used for more than 50% of its total amount, or more than once within 90 consecutive calendar days, Initial Margins will be calculated, for a minimum period of three months, with the same parameters that are applied to the Stress Test as described in the Annex to this Circular.

Additional contributions in the event of Default

- 3.3. In accordance with Article 45 of the Rule Book, if, after having disposed the posted Default Fund and the additional specific own resources of BME CLEARING, there are still uncovered losses arising from the Default, BME CLEARING may require the non-Defaulting Clearing Members to make additional contributions to the Default Fund. These contributions must be made on the following business day, and the collateral provided will be subject to immediate execution.

Replenishment of the Default Fund

- 3.4. Clearing Members must replenish the utilised part of their contribution with value date the following business day after the use of the Default Fund takes place and in an amount at least equal to the amount used for each Clearing Member.

Limits on contributions to the Default Fund

- 3.5. For a period of 90 consecutive calendar days, starting from the day following the day of the Declaration of Default, and in order to cover losses arising from that Default or any subsequent Defaults declared within such 90 calendar days period, the aggregate amount of replenishments of the Default Fund, as referred to in section 3.4, along with the additional contributions to the Default Fund specified in section 3.3, that may be required from non-defaulting Clearing Members shall not exceed twice their existing contribution to the Default Fund prior to the first Default.

At the end of this 90-day period, Clearing Members must make their contributions to the Default Fund according to the new Default Fund calculated at that time. The replenished Default Fund according to the new calculated size and proportions, may only be used to cover any Default declared after the above mentioned 90-day period.

4. REFUND OF THE DEFAULT FUND

If a Clearing Member informs BME CLEARING of its intention to cease its membership, BME CLEARING will refund its Default Fund contribution when the said Member has closed out its open position at BME CLEARING.

If, during the period between the notification of ceasing membership as a Clearing Member and the closing of the full position, as mentioned in the previous paragraph, a Member defaults, the contribution to the Default Fund of the Member who has withdrawn from membership may be used in accordance with the provisions contained in Chapter 9 of the Rule Book. In this case, the Member will not be obliged to replenish its contribution to the Default Fund or make the additional contributions required under Article 45 of the Rule Book if it closes out all its positions within 5 business days of the request for replenishment by BME CLEARING.

In any case, until the Member has definitively ceased and has no further liability or outstanding obligation to BME CLEARING, as stipulated in the Rule Book, BME CLEARING shall block funds belonging to the Member, up to an amount equivalent to the Margins posted by the Member, as a condition for the payment of all outstanding debts.

APPENDIX

CLEARING MEMBER'S RISK CALCULATION UNDER STRESS TEST CONDITIONS

The calculation of the Clearing Members' risk under Stress Test conditions is based on a model that envisages:

- The greatest upward and downward price fluctuations within 1 and 2 days recorded over the last 30 years or as long as there is reliable historical data available and depending on the market conditions at each point.
- No historical but plausible extreme fluctuations, according to Article 30 of Delegated Regulation (EU) 153/2013, which develops Article 42 of Regulation (EU) 648/2012.

Stress Test prices are calculated for different scenarios by applying the fluctuations referred to in the previous paragraph to closing prices and which are published in the Stress Test Calculation Parameters Circular of the Fixed Income Securities Segment.

Fluctuations are applied to the open position recorded at the close of the session, and the losses recorded in each scenario (compared to the position's value at close of the previous day) are compared to the Initial Margins of the Margin Accounts (hereinafter "the Account")

The Risk in a stress test situation for each Account is obtained by applying the following formula:

Account Risk = Loss of value recorded on the open position - Initial Margin posted

If an Account shows a negative result (gain) and it is a Client Account or a Non-Clearing Member, the risk is considered to be 0.

A Clearing Member's Risk is the sum of:

- The Risk of its Proprietary Account;
- The Risk of its Clients' Accounts;
- The Risk of its Non-Clearing Members, if it is a General Clearing Member.

Following the provisions of Article 30.1 of the Delegated Regulation (EU) No 153/2013, other Clearing Members' risks under a stress test situation, belonging to the same Group of that Clearing Member, will be also considered as they would default if the Clearing Member defaults.

Following the provisions of Article 30.1 of the Delegated Regulation (EU) No 153/2013, other

Clearing Members' risks under a stress test situation, belonging to the same Company Group of that Clearing Member, will be also considered as they would default if the Clearing Member defaults.

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