

MEMO

To : EuroCCP Clearing Participants
C.c. :
From : Arnoud Siegmann / Theo Houwink ten Cate
Date : 4 July 2014
Subject : Implementation of the Capital Requirement Regulation

Introduction

The Capital Requirement Regulation (EU 575/2013-CRR¹) introduces an obligation for CCPs to disclose information to allow Clearing Participants to determine their own funds requirements for their Default Fund contribution.

To this end, the CRR adds² a new Chapter 4 on the calculation and reporting for CRR purposes to Title IV of EMIR, as detailed in articles 50a - 50d.

On 2 June 2014, the Commission Implementing Regulation (EU 484/2014), which outlines the format and timing of the required disclosure, entered into force, which requires EuroCCP to define its disclosure procedures with regard to CRR.

Content of the disclosure

The new EMIR articles focus on the calculation and disclosure of the “hypothetical capital” of a CCP, which enables a Clearing Participant to determine its own funds requirement for the exposure from its contributions to the CCP's default fund.

The hypothetical capital – K_{CCP} – is the aggregate of the individual exposure of EuroCCP on each Clearing Participant less the margin collateral and clearing fund contribution posted by each Clearing Participant.

The exposure value is determined by article 378 of the CRR, which states that an increasing percentage of a price difference which may result in a loss to the CCP must be used to determine the exposure value of overdue unsettled positions. Given that article 378 introduces an 8% charge for the period starting on ISD + 5, in EuroCCP's opinion, no exposure value applies for cleared trades and subsequent settlement obligations until ISD + 5.

The Short Selling Regulation (EU 236/2012) requires EuroCCP to start the buy-in procedure on ISD + 4. In addition, our risk management system takes unsettled positions into account and will increase the margin requirement if the equities to be delivered increase in value.

Given the above, the hypothetical capital or K_{CCP} of EuroCCP will be zero.

Frequency

EuroCCP's reporting will be generated in the first days of each month, based on the data from the last Clearing Day of the preceding month.

Clearing Participant perspective

As previously stated, the disclosure is made to allow a Clearing Participant to calculate the own funds requirements for pre-funded contributions to EuroCCP's clearing fund. The CRR also defines the types of CCPs to which the capital requirements apply together with the rules which define the calculation.

¹ The CRR is part of the CRD IV framework which transposes the new global standards on bank capital (commonly known as Basel III) in Europe.

² Article 520 of the CRR.

In the list of contracts and transactions forming the material scope, cash equities with market standard settlement are not mentioned. However, the rules set out in EMIR through the CRR for CCP disclosure are generic for all CCPs and make no distinction to the asset classes cleared. The CRR states in the preamble that CCPs involve a very low counterparty credit risk and should therefore be subject to a very low own funds requirement.

EuroCCP is authorised under EMIR and is therefore a “qualifying central counterparty” (QCCP) as defined in the CRR. Exposures on a QCCP are treated favourably under the CRR with a 2% risk weight to trade exposures which include the margin (Article 306 1a of the CRR).

[The CRR provides Clearing Participants with two approaches to determine the capital charge for their clearing fund exposure to a QCCP.

The first option includes calculations which set the Clearing Participant’s own funds requirement according to the risk it faces on its contribution to a QCCP’s default fund and it therefore varies according to the CCP. Details of this calculation can be found in article 308 of the CRR. This method leads to a capital charge of approximately 0,16% over the clearing fund contribution (or EUR 1,600 in capital for each EUR 1 million in the clearing fund), provided that the hypothetical capital or K_{CCP} of EuroCCP is zero.

The alternative calculation³ (article 310) leads to an approximate capital requirement of the lower of (i) 100% of the clearing fund contribution or (ii) 1.6 % of the trade exposures to EuroCCP, as a QCCP. The trade exposures include the margin collateral provided to EuroCCP, whether it be cash or securities. Collateral held with third party agents may involve exposures on the agent involved, to which capital requirements may apply.]

Disclosure

Information related to hypothetical capital for June 30 2014 can be found in Annex 1.

³ If the alternative calculation is used, it must be used both for the calculation of the capital requirements for both the trade exposure and the clearing fund contribution.

ANNEX I

Information related to hypothetical capital

| Template ID | Description | Content |
|--------------------|---|------------------------------------|
| 10 | Central Counterparty (CCP) name | European Central Counterparty N.V. |
| 20 | Default fund identifier | N.A. |
| 30 | Calculation date | 2014-06-30 |
| 40 | Hypothetical capital (Kccp) | EUR 0 |
| 50 | Sum of pre-funded contributions (DFcm) | EUR 98100000 |
| 60 | Amount of pre-funded financial resources that it is required to use before using the default fund contributions of the remaining clearing members (DFccp) | EUR 3081162 |
| 70 | Total number of clearing members (N) | 50 |
| 80 | Concentration factor (β) | 0,21 |
| 90 | Total amount of initial Margin | EUR 349804251 |