

**Disclosure Statement**  
**on the risks associated with using the services of**  
**EUROPEAN CENTRAL COUNTERPARTY N.V.**

Disclosure Statement on the risks associated with using the CCP services of EuroCCP

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## 1. Introduction

Employing the services of EuroCCP is not mandatory, and using the services should be based on an informed decision to do so. This statement is intended to provide the Clearing Participant guidance with respect to the risks associated with using the services of EuroCCP, and to allow the Clearing Participants to provide information in this respect to their clients. In doing so, EuroCCP complies with Article 38(2) of EMIR.

Terms in capitals used in this disclosure statement but not otherwise defined herein, shall have the meaning ascribed thereto in the EuroCCP Clearing Rule Book.

## 2. Risks identified by EuroCCP

The risks that a user of the services of EuroCCP should be aware of are the following:

- the risk that EuroCCP fails in its core function and does not meet its securities settlement obligations;
- the risk that EuroCCP fails as a business and does not meet its other obligations as they fall due;
- the risk that third parties used by the Clearing Participant in connection with the services of EuroCCP fail.

## 3. Core CCP Function Risks

EuroCCP's core activities as CCP expose the company to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

### *Credit Risk*

Credit risk to EuroCCP arises from its commitment to guarantee the settlement obligations of all clearing participants' securities transactions. In the event of a Clearing Participant default, EuroCCP is required to deliver cash or securities to the other Clearing Participants without receiving that cash or those securities from the defaulting Clearing Participant(s). As guarantor, EuroCCP is confronted with the risk of having to buy or sell the securities in the market.

EuroCCP has mitigated these risks through prudent and careful monitoring of the exposures it faces in relation to each Clearing Participant (see Market Risk Section). EuroCCP accepts both cash and non-cash collateral where it is noted that haircuts have been imposed for collateral. The specific haircuts have been laid down in EuroCCP's Regulation Collateral.

Per 31 December 2017, 667.3 million euro was directly deposited with EuroCCP and 33.8 million euro was pledged to EuroCCP. When cash collateral is deposited on an account in the books of EuroCCP, EuroCCP will invest it in accordance with the Regulation EuroCCP Investment Policy.

Another type of credit risk faced by EuroCCP is exposure against Clearing Participants in case a trade fails to settle. To mitigate these risks, EuroCCP charges a fail fee to discourage late settlements. This fee covers not only the cost for EuroCCP but it is also meant to work as a deterrent, and to promote securities borrowing as alternative for failing. In the event that a trade still fails to settle after a certain period of time,

EuroCCP will start up a buy-in process for which the costs are carried by the failing Clearing Participant. For more detail, please refer to EuroCCP's Regulation Buy-in.

## *Liquidity Risk*

EuroCCP is faced with liquidity risk where EuroCCP is lacking liquidity and is unable to meet its payment obligations at any point in time, without incurring unacceptable costs or losses or risking damage to EuroCCP's reputation.

EuroCCP continuously manages the liquidity obligations which are covered through committed and uncommitted liquidity facilities. For more detail, highlights of the EuroCCP liquidity plan and liquidity risk framework are available upon request.

## *Market Risk*

EuroCCP operates a stringent framework that is designed to mitigate this risk. This requires the holding of collateral from the Clearing Participants to cover the margin requirements, holding assets provided by Clearing Participants by way of a contribution to the Clearing Fund and through EuroCCP's financial resources, including EuroCCP's own capital. This market risk framework consists of five layers:

- Membership requirements;
- Collateral, clearing fund contribution and interoperability fund deposit of the defaulting member;
- EuroCCP dedicated own resources pursuant to the Regulation Dedicated Own EuroCCP Resources (DOER), available on the EuroCCP website;
- Clearing fund; in the event that the collateral of the Clearing Participant does not cover the liquidation cost the clearing fund provides an additional buffer;
- EuroCCP's own capital.

Intraday, EuroCCP recalculates the margin requirement every three to five minutes, using the most up to date positions and prices. EuroCCP has the authority and the operational ability to demand additional collateral at any time, wherever there is a significant intraday margin deficit.

EuroCCP provides a real time cleared trade feed to its clearing participants to enable them to also perform intra day or real time risk management in respect of their clients.

## *Operational Risk*

Operational risk is monitored and controlled by EuroCCP's Risk Management Department. It initiates and coordinates the implementation of risk-reducing, mitigating actions, as decided by the Managing Board. Key risk indicators are used to monitor this process.

## **4. Other Obligations of EuroCCP**

### *Capital requirements and own funds*

EuroCCP has own funds in excess of euro 41.2 million as per year end 2017. This amount of capital is more than sufficient to cover the requirement set out in Regulation (EU) No 648/2012 on capital requirements for central counterparties.

The capital includes resources to cover:

- (a) winding down or restructuring our activities;
- (b) operational and legal risks;

- (c) credit, counterparty and market risks calculated in accordance with Basel rules; and
- (d) losses resulting from adverse business developments.

### *Margin collateral, clearing fund and interoperability fund*

The EuroCCP legal arrangements do not give any preferred rights to clearing participants in respect of collateral provided to EuroCCP directly and contributions to the EuroCCP clearing fund. For the deposits in the EuroCCP interoperability fund, the clearing participants bear the risk that the collateral provided by EuroCCP to co-operating clearing houses may be enforced and that residual interoperability collateral may form part of the bankrupt estate.

The credit and custodial risk exposure on the collateral agent (Clearstream) at which interoperability collateral is deposited is allocated to the Clearing Participants making Deposits pro rata.

EuroCCP requires that margin collateral is provided by the Clearing Participants. Clearing Participants must deposit a percentage (70%) of the collateral directly with EuroCCP either in a cash collateral account or by way of transfer title transfer of financial instrument. These collateral amounts are subject to counterparty and custodial risk on EuroCCP. Clearing Participants must also make Contributions to the EuroCCP Clearing Fund and Deposits in the EuroCCP Interoperability Fund. These amounts are also subject to counterparty and custodial risk. The margin collateral may only be enforced by EuroCCP in case of the default of the Clearing Participant providing the collateral. The Contributions and Deposits may be enforced in this case also, but they are also at risk for respectively the default(s) of other Participants, or of EuroCCP itself.

To appreciate the counterparty risks on EuroCCP, Clearing Participants are advised to take note of the Regulation EuroCCP Investment Policy.

## **5. Risks vis a vis third parties**

EuroCCP requires that margin collateral is provided by the Clearing Participants. Clearing Participants must deposit a percentage of the collateral directly with EuroCCP either in a cash collateral account or by way of transfer title of financial instrument. The remaining collateral obligations can be satisfied by using third party collateral agents.

By depositing any cash as Collateral with any of the third parties designated as collateral agents for cash, the Clearing Participant is likely to incur counterparty risk and must be aware that it relies on its own judgement in relation to the credit risk exposure towards the collateral agent resulting from depositing any such cash, and that EuroCCP does not accept any liability in this respect.

In respect of collateral in the form of financial instruments deposited with third parties, the Clearing Participant may incur custodial risk or risk through failing asset separating regimes. The Clearing Participant must be aware that it relies on its own judgement in relation to this risk exposure towards the collateral custodian resulting from depositing any instruments and that EuroCCP does not accept any liability in this respect.

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