

# Regulation

## Liquidity Measures

## Table of Contents

<b>Introduction .....</b>	<b>3</b>
<b>Purpose.....</b>	<b>3</b>
<b>1. Definitions .....</b>	<b>4</b>
<b>2. Designation of Qualifying Clearing Participants .....</b>	<b>5</b>
<b>3. Settlement Exposure Add-on and the Settlement Prefunding Requirement.....</b>	<b>5</b>
<b>4. Determination of the Settlement Prefunding Requirement and the Settlement Exposure Add-on.....</b>	<b>6</b>
<b>5. Process of deposit and withdrawal of collateral for the Settlement Prefunding Requirement and the Settlement Exposure Add-on.....</b>	<b>7</b>

## Introduction

EuroCCP's liquidity risk management framework is designed to provide sufficient available liquid resources under normal and extreme but plausible circumstances. Next to its available liquid resources EuroCCP can apply any of the following measures:

Suspending rights to withdraw collateral

To continue to perform its settlement obligations towards the non-defaulting Clearing Participants in times of liquidity stress and without prejudice to the ability for EuroCCP to take any other action as described in the Clearing Rules, EuroCCP may suspend withdrawals of Contributions, Deposits and/or Collateral by non-defaulting Clearing Participants pursuant to article 8.13 of the Clearing Rule Book. It is a tool to ensure that the pool of liquid resources available to EuroCCP will not decrease in times of stress.

Rejection of certain OTC trades

EuroCCP may choose not to novate/accept certain OTC trades in order to keep its liquidity exposure within limits. Pursuant to article 2.2 (18) of the Regulation Trade Refusal EuroCCP may reject a Trade if the relevant Clearing Participant does not meet the Settlement Prefunding Requirement.

## Purpose

This Regulation relates to article 2.2 (18) of the Regulation Trade Refusal for the purpose of meeting a Settlement Prefunding Requirement.

This Regulation further relates to article 12 of the Clearing Rule Book pursuant to which EuroCCP can request a Settlement Exposure Add-on payment.

Capitalised terms used in this Regulation, and not otherwise defined herein, shall have the meaning ascribed thereto in the Clearing Rule Book.

This Regulation applies as of 1 July 2020.

Changes to this Regulation will be implemented in accordance with the EuroCCP Procedure Changes to Clearing Rules as published on EuroCCP's website.

## 1. Definitions

In this Regulation, the following capitalised terms shall have the following meaning:

“**Cover-2 Liquidity Risk**” means the amount of liquidity risk the two largest Clearing Participants cause. It is calculated as the combined long settlement obligation of the two largest Clearing Participants.

“**Designation Date**” means the Clearing Day on which a Clearing Participant is designated as Qualifying Clearing Participant in accordance with this Regulation.

“**Individual Settlement Exposure**” means the total value of all long settlement obligations of a Clearing Participant (i.e. buy legs) on a Clearing Day.

“**Liquidity Risk Threshold**” means a predetermined percentage of the total liquid resources available to EuroCCP.

“**OTC Trade**” means a Trade not concluded on a regulated market, multilateral trading facility or other trading venue within the meaning of the MiFID.

“**Qualifying Clearing Participant**” has the meaning ascribed thereto in article 2.2, but excludes, for the avoidance of doubt, a Co-operating Clearing House.

“**Reference Period**” means an uninterrupted period of three months immediately prior to the Designation Date.

“**Residual Liquidity Risk**” has the meaning ascribed thereto in article 4.2.

“**Settlement Exposure Add-on**” means, in relation to a Qualifying Clearing Participant, an amount as determined pursuant to article 4.

“**Settlement Exposure Add-on Cap**” means, the maximum possible total Settlement Exposure Add-on across all Qualifying Clearing Participants as set by EuroCCP from time to time.

“**Settlement Exposure Add-on Percentage**” means the percentage which will be allocated to each Qualifying Clearing Participant as its individual requirement in the total Settlement Exposure Add-on. This percentage is calculated for each Qualifying Clearing Participant as the total Individual Settlement Exposure per Clearing Day over the Reference Period divided by the total Individual Settlement Exposure of all Qualifying Clearing Participants per Clearing Day over the Reference Period.

“**Settlement Prefunding Requirement**” means, in relation to a Clearing Participant, an amount as determined pursuant to article 4.

“**Settlement Prefunding Requirement Percentage**” means the percentage which will be allocated to each of the two Clearing Participants as their individual requirement in the total Settlement Prefunding Requirement. This percentage is calculated for each of the two Clearing Participants as the Individual Settlement Exposure for that Clearing Participant for that Clearing Day divided by the total Individual Settlement Exposure of both Clearing Participants for that Clearing Day.

References to articles are to articles in this Regulation unless indicated otherwise.

## 2. Designation of Qualifying Clearing Participants

- 2.1 A Clearing Participant who fulfils the conditions of article 2.2 is designated as a Qualifying Clearing Participant by virtue of this Regulation.
- 2.2 A Clearing Participant is designated as a Qualifying Clearing Participant if it fulfils the following conditions on a Designation Date:
- a) it has been a Clearing Participant of EuroCCP for a period of at least one calendar month prior to the Designation Date; and
  - b) it is not an inactive Clearing Participant pursuant to article 4.2.9 of the Clearing Rule Book and it has not been declared in Breach pursuant to article 10.1.2 of the Clearing Rule Book or declared in default pursuant to article 10.3.1 of the Clearing Rule Book; and
  - c) its Individual Settlement Exposure is higher than 1 billion EUR equivalent on at least one Clearing Day in the Reference Period; or
  - d) if as a result of the outcome under c) directly above, the number of the Qualifying Clearing Participants is less than five (5) on a Designation Date, EuroCCP will designate further Clearing Participants (that will then be Qualifying Clearing Participants) to ensure that the number of Qualifying Clearing Participants is equal to five (5) by including Clearing Participants with the next largest Individual Settlement Exposure over the Reference Period.
- 2.3 A Designation Date shall be every first Clearing Day of each month or a date as determined by EuroCCP. The designation as Qualifying Clearing Participant will be effective as of the first Clearing Day immediately following the Designation Date.

## 3. Settlement Exposure Add-on and the Settlement Prefunding Requirement

- 3.1 The Settlement Exposure Add-on and the Settlement Prefunding Requirement will be called as part of and within the timelimes as set out under section 5 of this Regulation. The call must be met in EUR cash or if EuroCCP directs otherwise, in such currency or securities as specified in the Regulation Acceptable Collateral.
- 3.2 The amount for which a Settlement Exposure Add-on call and the Settlement Prefunding Requirement call can be issued is determined pursuant to section 4 of this Regulation.
- 3.3 The cash or securities to cover the Settlement Exposure Add-on and the Settlement Prefunding Requirement will be collected from and returned to the Clearing Participant following the process as set out in section 5 of this Regulation.
- 3.4 EuroCCP shall provide the relevant Clearing Participant on each Clearing Day both intraday and end-of-day, its Settlement Exposure Add-on and the Settlement Prefunding Requirement for that day by electronic means.
- 3.5 The Settlement Exposure Add-on and the Settlement Prefunding Requirement are not used to size the financial resources of EuroCCP as required under article 42 and/or article 43 of EMIR. The Settlement Exposure Add-on and Settlement Prefunding Requirement do not form part of the default waterfall, but in the event of a default of a Clearing Participant could be set off against the amount(s) owed by a defaulting Clearing Participant to EuroCCP. For this purpose any amounts paid for the purposes of a Settlement Exposure Add-on and/or a Settlement Prefunding

Requirement will be considered to be included in the definition of “Collateral” in article 10.4.5 of the Clearing Rule Book.

## 4. Determination of the Settlement Prefunding Requirement and the Settlement Exposure Add-on

4.1 EuroCCP shall for each non-defaulting Clearing Participant determine the Settlement Prefunding Requirement as per the below.

### Determination of Settlement Prefunding Requirement

- EuroCCP will calculate the Cover-2 Liquidity Risk on an intraday basis and compare it with the Liquidity Risk Threshold. If the Cover-2 Liquidity Risk is larger than the Liquidity Risk Threshold, EuroCCP will call for a Settlement Prefunding Requirement of the relevant (i.e. buying) Clearing Participant(s) that shall be the higher of:
  - (i) the positive difference between the Cover-2 Liquidity Risk and the Liquidity Risk Threshold; and
  - (ii) EUR 1 million (or its equivalent in any other currency).
- The Settlement Prefunding Requirement will be allocated to the two Clearing Participants that cause the Cover-2 Liquidity Risk by multiplying the Settlement Prefunding Requirement with the relevant Settlement Prefunding Requirement Percentage.

4.2 EuroCCP shall for each non-defaulting Qualifying Clearing Participant determine the Settlement Exposure Add-on as per the below.

### Determination of Settlement Exposure Add-on

- EuroCCP will calculate the amount of residual liquidity risk stemming from its liquidity risk stress test (the **Residual Liquidity Risk**) on an intraday basis and end-of-day basis, and compare it with the Liquidity Risk Threshold. If the Residual Liquidity Risk is larger than the Liquidity Risk Threshold, EuroCCP will call for a Settlement Exposure Add-on of the Qualifying Clearing Participants that shall be the higher of:
  - (i) the positive difference between the Residual Liquidity Risk and the Liquidity Risk Threshold; and
  - (ii) EUR 1 million (or its equivalent in any other currency).
- The amount payable by each individual Qualifying Clearing Participant is determined by multiplying the Settlement Exposure Add-on Percentage of that Qualifying Clearing Participant with the required Settlement Exposure Add-on.
- The Settlement Exposure Add-on is determined separately from the Settlement Prefunding Requirement and is determined on an intraday as well as end-of-day basis.
- The Settlement Exposure Add-on will be subject to the Settlement Exposure Add-on Cap. The Settlement Exposure Add-on Cap will be set to the largest Settlement Exposure Add-on plus

remaining liquidity shortfall observed on a Clearing Day over the last twelve months. Qualifying Clearing Participants will be informed of a change to and the new level of the Settlement Exposure Add-on Cap.

- The calculation of the Settlement Exposure Add-on Percentage is performed on a monthly basis by EuroCCP at the first Clearing Day of the month taking the last Clearing Day of the previous month as reference. The Settlement Exposure Add-on Percentage will be effective as of the calculation date.

## **5. Process of deposit and withdrawal of collateral for the Settlement Prefunding Requirement and the Settlement Exposure Add-on**

- 5.1 EuroCCP informs the Clearing Participant via e-mail of the call (request to deposit).
- 5.2 The amounts received as a Settlement Prefunding Requirement and Settlement Exposure Add-on will be held in a dedicated account as agreed by EuroCCP.
- 5.3 The Clearing Participant shall transfer the required collateral in cash or Financial Instruments to EuroCCP within one (1) hour after receipt of the call to an account as set out in the Standard Collateral Settlement Instructions as specified by EuroCCP.
- 5.4 Not meeting the Settlement Prefunding Requirement within the timelines as stipulated under 5.3 will lead to the rejection of any new OTC Trades pursuant to the Regulation Trade Refusal which would otherwise result in increased liquidity risk. The rejection of any new OTC Trade will remain in place for the remainder of the Clearing Day.
- 5.5 Not meeting the Settlement Exposure Add-on will be a Breach as per the Clearing Rule Book and EuroCCP may take enforcement action in accordance with the Clearing Rule Book.
- 5.6 Withdrawal requests that are submitted to EuroCCP on any Clearing Day before 11.00 CET, for both cash and Financial Instruments, will be handled the same day on a best efforts basis and will be subject to applicable collateral agent / custodial deadlines. Withdrawal requests will be handled no later than the next Clearing Day following the Clearing Day on which the request was received.