



## Member Notification

---

RISK NOTICE 2019-173

4<sup>th</sup> September 2019

LCH SA publishes hereinafter a Notice informing of the Fixed Income Default Fund for Transactions executed on trading and matching platforms and on MTS Italy regulated market, pursuant to Instruction IV.3-2

### **The Fixed Income Default Fund**

#### **Article 1**

The date of calculation of the Fixed Income Default Fund size and Clearing Members contributions ("Contribution Determination Date") mentioned in Articles 2,12 and 16 of Instruction IV.3-2 is the latest Clearing Day of each month (position at end of day).

The contributions are called on the morning of the 4<sup>th</sup> Clearing Day of each month.

#### **Article 2**

The cap mentioned in Article 13 of Instruction IV.3-2 is set at **2,000,000,000** Euros.

#### **Article 3**

The floor mentioned in Article 14 of Instruction IV.3-2 is set at **600,000,000** Euros.

#### **Article 4**

The "Minimum Contribution" mentioned in Article 16 of Instruction IV.3-2 is set at **2,500,000** Euros.

## Annex

This annex aims at:

- Presenting how the size of the Fixed Income Default Fund is set and how the individual contributions of the Clearing Members are calculated.

### 1. Daily Stress Test Loss Over Initial Margin (STLOIM)

$$STLOIM_D = \text{Stress Test Scenario}_D - \text{Initial Margin}_D$$

“STLOIM” means in respect of each fixed income Clearing Member and any day, the stress tested loss (calculated by LCH SA for a given scenario determined by LCH SA) in excess of Initial Margin, which could be incurred by LCH SA in respect of that fixed income Clearing Member’s fixed income Transaction if that fixed income Clearing Member became a Defaulting Member on that day.

### 2. Size of the Default Fund

The size of the Fixed Income Default Fund will be determined monthly on the Contribution Determination Date using the following formula:

$$\text{Default Fund}_{\text{Size}} = \text{Max}_{60 \text{ days}} STLOIM_{1+2} \times 1.1$$

Where:

“ $STLOIM_{1+2}$ ” means the sum on any given day, of the STLOIMs for the largest and second largest fixed income Clearing Members on that day using the same scenario.

On any day

$$STLOIM_{1+2} = \text{Max}_{\text{scenario}} (\text{Largest } STLOIM_{\text{scenario } i} + \text{Second Largest } STLOIM_{\text{scenario } i})$$

### Fixed Income Default fund cap amount:

The Fixed Income Default fund size will be capped at an amount set out in Article 2.

### Fixed Income Default fund floor amount:

The Fixed Income Default fund size will not fall below a floor amount set out in Article 3.

### 3. Contribution Calculation

Clearing Members contribute pro rata to their respective average Initial Margin over the last 60 days subject to application of the Minimum contribution set out in Article 4. The contribution of each Clearing Member is calculated according to the following formula:

$$Contribution_{M_i} = \text{Max} \left( \text{Default Fund}_{\text{Size}} \times \frac{\text{Average } IM_{M_i}}{\sum_i \text{Average } IM_{M_i}}; \text{Minimum Contribution} \right)$$

Where

- $M_i$  stands for Clearing Member  $i$ ;
- $IM$  stands for Initial Margin;
- the Minimum contribution is defined in Article 4.

For further information please contact:

LCH RepoClear Market Risk

---

LCH RepoClear Market Risk | LCH Tel +33 (0)1 70 37 65 45

Email: [riskinfo@lch.com](mailto:riskinfo@lch.com)

Website: [www.lch.com](http://www.lch.com)

 @ LCH