

Clearing Notice SIX x-clear Ltd

SIX x-clear to change its default fund model and Financing contribution model

1.0 Overview

Members are advised that SIX x-clear will change its default fund model and financing contribution model into a model which has become a standard for European CCPs.

As a supplement to the existing margin and default fund pledge agreements which are currently in place, on Friday, 14 November 2014, SIX x-clear will send out an agreement with the necessary amendments.

This amendment Agreement for the Pledge Agreements for Margins and Default Funds has to be signed and returned by Members by **no later than 9 December 2014**.

2.0 Effective date

1 January 2015.

3.0 Impact on clients

SIX x-clear will change the current contractual collateral arrangements with its Members to establish a harmonized risk management framework across all SIX x-clear businesses.

The changes apply to the following contracts in place:

- Agreement for the financing of the Inter-CCP Collateral
- Pledge Agreement for Margins (irregular Pledge)
- Pledge Agreement for Default Funds (regular Pledge)

The following amendments will take effect on **1 January 2015**:

- a) Termination of the Agreement for the financing of the Inter-CCP Collateral.
- b) Amendment of the Pledge Agreement for Margins:
 - a. The current financing contribution concept to cover Co-CCP requirements will be replaced by the "Link Margin Element" concept.
 - b. Contrary to the financing contribution methodology (three pillar concept) currently in place with a funded amount of CHF 200 million, the Members henceforth are required to fund in full the funding of the Inter-CCP security (Link Margin) for a total of CHF 300 million for normal business day operations as of 1 January 2015. No upper limit in case of higher Co-CCP requirements (e.g. Triple Witching Days) against SIX x-clear Ltd will apply for Members.
 - c. SIX x-clear will change the distribution basis from a volume-based approach (Average Gross Open Position of the previous three months) to the more risk-sensitive Average Initial Margin of the previous 30 Business Days.

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- d. There will be no change to the current operational procedures for making the financial contribution as regards the new Link Margin Element under the existing account structure, the collateral placement and withdrawal procedures, the timing of monthly calculations and the end-of-month/intra-monthly calls for the Link Margin Element. See the applicable regulations in the Clearing Terms under chapter 14.
- e. Therefore with the planned margin model change effective 1 January 2015, the three pillar system under chapter 14.1 of the current Clearing Terms will be replaced by the following additional clauses regulating the Link Margin Element model:
 - i. The Link Margin Element shall enable x-clear to meet the margin requirements from the Co-operating Clearing House and/or Central Counterparty under a Link(s).
 - ii. The Link Margin Element shall be based on the Link Margin set by x-clear. x-clear shall calculate the Link Margin based on the recent margin requirements applicable to x-clear according to the obligations under the Link Agreement with the Co-CCP(s) with a scaled add-on based on the volatility of the requirements over a rolling period of 30 Business Days, in order to cover expected fluctuations above the recent margin requirements. The Link Margin set by x-clear shall apply until a new Link Margin is deemed necessary, for example in a situation of unexpected fluctuations in the margin requirements applicable to x-clear under the Link(s).
 - iii. The Link Margin Element payable by the respective Member shall be the Link Margin distributed between the relevant Members on a pro rata basis. The percentage ratio shall be estimated at the end of each calendar month, based on the Member's Average Initial Margin of the previous 30 Business Days.
 - iv. x-clear may, if required and at any time, vary the Link Margin and Link Margin Element, including but not limited due to intra-day margin calls made by a Co-operating Clearing House or Linked Central Counterparty. The Link Margin Element shall be posted in cash or securities as outlined in the Lending Norms.
 - v. x-clear shall disclose the Link Margin to the x-clear Member and also notify them of the individual pro rata distribution ratio and the Link Margin Element.
- c) Amendments of the Pledge Agreement for Default Funds:
 - a. x-clear will have one single default fund in place with several default fund segments along product lines. The following Default Fund Segments will apply:
 - a. Cash Markets (equities/bonds).

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- b. Derivatives (derivatives/securities lending & borrowing).
- b. The sizes of the default fund segments are defined to cover the default of the two largest participants or participant groups (cover 2 principle).
- c. Contrary to the current model, x-clear will change the distribution basis from a volume-based approach (Average Gross Open Position of the previous three months) to the more risk-sensitive approach which is based on the Member's Average Initial Margin over the last 30 Business Days or over the last 90 Business Days, whichever is higher.
- d. Any drawdown – be it partial or full – of the Default Fund Segment affected by an x-clear Member Default gives rise to an obligation on each non-Defaulting x-clear Member to replenish this Default Fund Segment by Supplementary Contributions and thus restore its total amount to the level as required at the time of its reassessment (“Replenishment Obligation”). Reassessment will be effected 5 Business Days prior to the end of the Cooling-off Period (as defined hereafter).
- e. The Replenishment Obligation of the respective Default Fund Segment will continue throughout the entire Membership of an x-clear Member.
- f. Following any full or partial drawdown of a Default Fund Segment, a grace period (“Cooling-off Period”) sets in for a time of 20 Business Days. During this period, non-Defaulting x-clear Members are relieved from making Supplementary Contributions in respect of that drawdown.
- g. The current minimum contributions will not change.

4.0 Contact

Please contact our Risk Management team in case of any questions. All contact details are listed at www.six-securities-services.com > Clearing > Contacts > Clearing > Risk Management.

In this context, SIX x-clear Ltd draws the Members' attention to clauses **7.1 lit. f. and 25.3** General Terms and Conditions of SIX x-clear Ltd stipulating that the Member bears responsibility for the tax requirements and consequences of clearing with x-clear pursuant to the Applicable Law and that SIX x-clear Ltd assumes no liability for any charges or other negative consequences arising in conjunction with clearing through SIX x-clear Ltd that are a result of tax laws or ordinances issued by tax authorities pursuant to the Applicable Law.