

Clearing Notice SIX x-clear Ltd

Introduction of a new margin factor in the context of margin validation and calibration

1.0 Overview

The purpose of this Clearing Notice is to inform clearing members about the introduction of a new initial margin factor in the context of margin validation and calibration.

In addition to the existing real-time margining module, SIX x-clear Ltd will apply a margin validation module in order to assess the quality of the real-time initial margin levels.

If indicated by the margin validation module, SIX x-clear Ltd will adjust the initial margin by a new scaling factor: the **lambda factor (λ)**

$$IM = \lambda \times RC \times IM_{CL}$$

where:

IM = Total initial margin

RC = Risk rating coefficient

IM_{CL} = Clean initial margin

The margin validation module will validate existing margin levels based on a risk factor-based Monte Carlo simulation technique applying

- a Value-at-Risk with 99% confidence level (NBO Art. 28c)
- 25% of the observations assigned to stressed market conditions in the look-back period (NBO Art. 28c, ESMA TS, Art. 28 par. 1)
- a liquidity adjustment to reflect the risk of concentrated open clearing positions (NBO Art. 28c)
- VaR-horizon: equities = 2 days, bonds = 7 days

The lambda factor λ will be calculated for all clearing members at credit group level. The computation of λ is based on a comparison of the real-time initial margin with the Value-at-Risk derived from the margin validation module.

Simulations indicate that the current margining model in place at SIX x-clear Ltd is conservative.

In certain constellations (e.g. concentrated positions) and if indicated by the margin validation module, SIX x-clear Ltd will call for additional margin by increasing the lambda factor ($\lambda > 1$). In order to avoid pro-cyclical margin requirements, λ values less than 1 will not be applied.

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2.0 Effective date

1 April 2015

3.0 Impact on clients

3.1 Break-down of the initial margin requirement in client reporting

Once the initial margin for a member has been computed using the real-time margining module (= clean initial margin), the formulas below will be used to derive the additional margins applying the lambda factor and the risk co-efficient.

$$IM_{\lambda} = IM_{CL} \times (\lambda - 1)$$

$$IM_{RC} = (IM_{CL} + IM_{\lambda}) \times (RC - 1)$$

The total initial margin as reported to the clearing members will be broken down into the following three additive components:

$$IM = IM_{CL} + IM_{RC} + IM_{\lambda}$$

where:

IM = Total initial margin

λ = Lambda factor for the member credit group ($\lambda \geq 1$)

RC = Risk rating coefficient of the clearing member

IM_{CL} = Clean initial margin computed by the real-time margining module

IM_{λ} = Incremental initial margin due to lambda

IM_{RC} = Incremental initial margin due to RC

3.2 Enhancements to client reports / messages / queries

To see the enhancements to client reports, messages and queries, please refer to chapter 3 of the *CloseUp SIX SIS Ltd - SECOM November Release 2014*. The CloseUp can be downloaded from www.six-securities-services.com > Login > SIX SIS Private > SECOM > Updates + release info.

Clearing members who wish to receive the new RDXL090 data format report are kindly requested to tick the relevant box in the updated *Member reporting for Clearing and Settlement Standing Instructions (CSSI) notification form (annex 2, form 002B)* and send the form to their Relationship Manager. This form is published at www.six-securities-services.com > Clearing > Forms & Guides > Forms.

3.3 Legal framework

Please be advised that the margin adjustment through the new lambda factor will be specified conceptually in chapter 6.2 of the Clearing Terms of SIX x-clear Ltd.



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The updated Clearing Terms of SIX x-clear Ltd can be found at www.six-securities-services.com > Clearing > Download Center.

4.0 Contact

For further assistance, please contact the x-clear Risk Management Operations team.

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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 Laws 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.