
Members Meeting

Intra-day Margin Project - LCH.Clearnet SA

Paris
London

20th March 2007
22nd March 2007

Agenda

Derivatives

IDM

- **General Overview of project**
 - Scope and objectives
 - Launch timetable
 - Project Status update
 - Project readiness criterion
 - Members' report & files
 - Intra-day margin description
 - Treasury process & report
 - Next steps
 - Questions & Answers

Scope and Objectives – Reminder

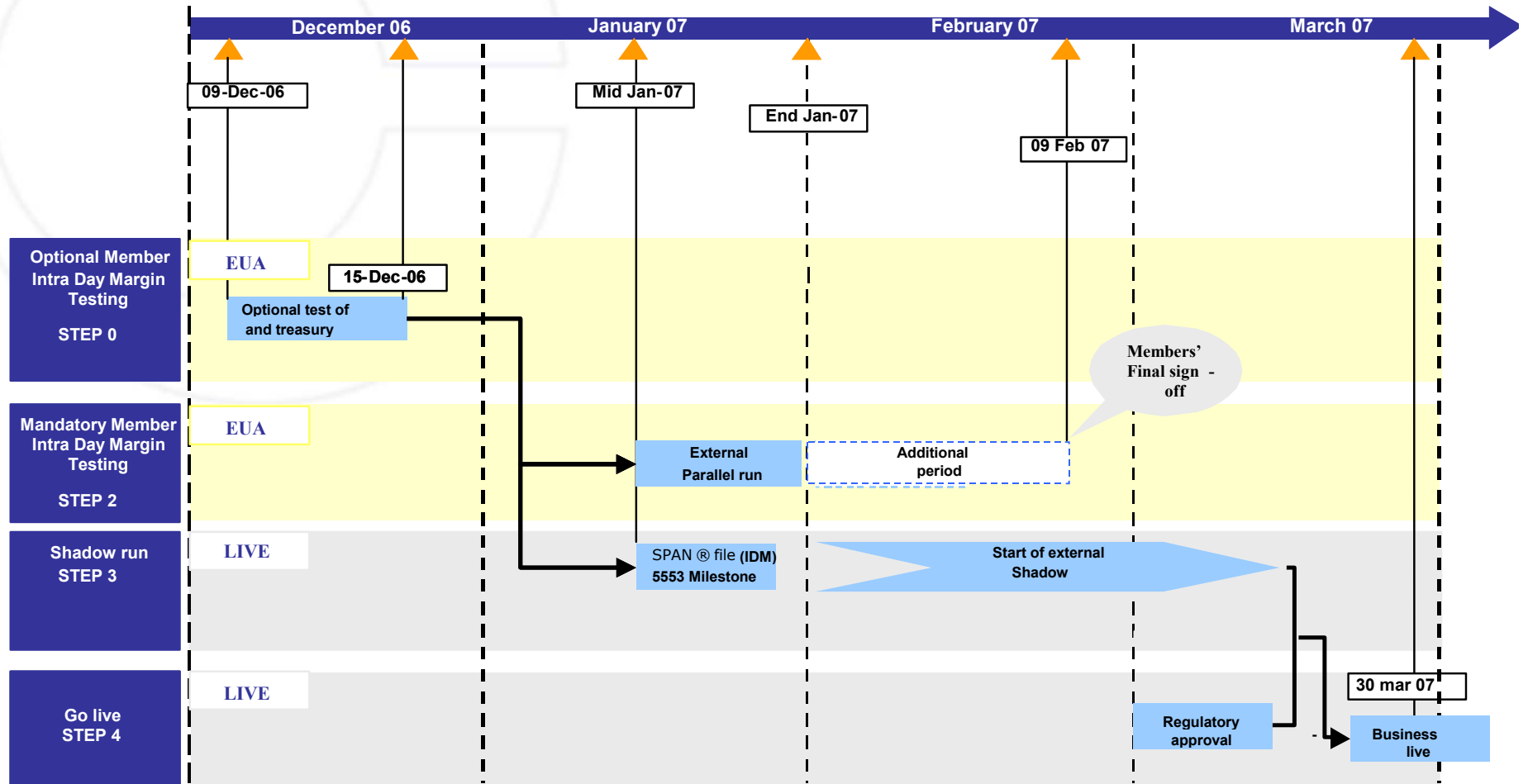
Derivatives

IDM

- In scope
 - Derivatives instruments of Amsterdam, Brussels, Lisbon & Paris cleared through LCH.Clearnet SA (futures & options on equities, index, currency & Amsterdam commodity instruments)
 - All securities eligible as collateral (as they will be re-valued)
- Objectives
 - To strengthen the Clearing House's safety and guarantee mechanisms
 - To implement standards of best practice for intra-day margin and monitoring policy
 - To meet regulatory requirements on intra-day risk management

Launch timetable – reminder

Derivatives IDM



Project Status update

Derivatives

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- Achievement of the Intra-Day Margin launch first three steps:
 - Step 1 – 15 January 2007: Dissemination of Intra-Day Margin public data in the live environment
 - Step 2 – From 15 January 2007 till 23 February 2007: Parallel-run testing on External User Acceptance (EUA) platform
 - Step 3 – 2 February 2007: IDM Shadow-run in Production with effect from 1 February 2007
- Step 4 – **Go-live** on Friday 30th March 2007:
 - Effective activation of IDM threshold levels
 - End distribution of current ITD files:
 - Intra-day Up & Down SPAN® files (SPAN.OP.XXX.BA & SPAN.OP.XXX.BB)
 - CLEARING 21 ® PB results private files – PB.OP.XXX.B1 and PB.OP.XXX.B2

Project readiness criterion

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- External project stakeholders' readiness
 - non-objection statement of regulatory authorities,
 - Central Banks' readiness,
 - Exchange of information with Euronext.liffe,
 - members' readiness (82%).
- Official threshold levels (part of margin parameters bulletin)
- Satisfactory results during production shadow run period
- Satisfactory back up tests
- Legal deliverables
 - Rulebook amendments,
 - Instructions I.5-1, I.5-2, I.5-3
 - Dedicated notice on IDM calls

Members' report & files – Reminder

Derivatives

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- Intra-day milestone message
 - Hourly reception on clearing member API
 - Indicating timing of position snap
 - Including with/without call indicator
- Intra-day derivatives SPAN[®] risk parameter file
 - Replacing the file currently provided end-of-day (Intra-day Up & Down SPAN[®] files)
 - Can be downloaded from LCH.Clearnet's website:
 - For each session “with and without call” resulting in 9 daily files
 - Average availability within the first 10 minutes after the start of an IDM session
- Intra-day treasury report
 - Intra-day treasury report systematically issued for “with call” session only

Intra-day Margin description (1/5)

Derivatives

IDM

Snapshot of updated positions

- Clearing system CLEARING 21[®] remains the source of position movements
- Non posted trades will be treated the same way similarly to the end-of-day process

Revaluation

- Of updated open positions
- Of deposited collateral
- Using updated intra-day prices

Re-computation of margins

LCH.Clearnet SA calculates margin requirements. It provides one amount calculated at Performance Bond account level (including initial margin, variation margin and premium).

Clearing fund algorithm adjustments

Intra-day margin calls collected are taken into consideration to decrease uncovered risks

Intra-day Margin description (2/5)

Derivatives

IDM

- Intra-day process
 - Re-computation of margins will be performed internally every hour from 9:45 am until 5:45 pm
 - The **1:45 pm** session (“with call “indicator) is set by default to generate a potential call before **2:45 pm**
 - A threshold is implemented to ensure the exceptional character of this call
 - The timings of the agreement period and the settlement period for margin calls have been slightly adapted in order to match the new sessions of the intra-day margin
 - The “with/without call “ indicator can be changed in case of extreme market movements
 - In case of very exceptional market circumstances, an additional intra-day call could be performed

Intra-day Margin description (3/5)

Derivatives

IDM

☉ Intra-day session timetable

Session number	Start time	Session qualification	Call time
1	09:45am CET	Without cover call	
2	10:45am CET	Without cover call	Before 11:45 pm CET
3	11:45am CET	Without cover call	
4	12:45am CET	Without cover call	
5	01:45pm CET	With cover call	Before 02:45pm CET
6	02:45pm CET	Without cover call	Before 03::45 pm CET
7	03:45pm CET	Without cover call	
8	04:45pm CET	Without cover call	
9	05:45pm CET	Without cover call	

Intra-day Margin description (4/5)

Derivatives

IDM

- Intra-day thresholds
 - Threshold levels
 - Have been determined during the shadow run period
 - Are based, for each clearing member, on the level of the initial margin of the previous end of day
 - Are set up in order to generate a call only in exceptional market or member position change situations
 - 5 calls out of 900 on the study period from 5th to 27th February 07
=> less than 1% of population called
 - The threshold is a percentage or a fixed amount according to the amount of the initial margin
 - The threshold will be reviewed and its adequacy checked regularly as any other risk parameter

Intra-day Margin description (5/5)

Derivatives

IDM

☉ Intra-day thresholds

Intra-day Margin thresholds		
<i>Initial Margin</i>	<i>Threshold</i>	<i>Threshold Amounts</i>
$MARGIN_{EOD(T-1)} \leq A$	Y Euro	1.000.000 Euro
$A < MARGIN_{EOD(T-1)} < B$	X %	81%
$MARGIN_{EOD(T-1)} \geq B$	Z Euro	Not yet activated

A is equal to 1.235.000 Euro

Treasury process (1/2)

Derivatives

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- “With call” session will be fixed at à 1:45 pm and will generate a potential cash settlement instruction at 2:05 pm

- Intra-day call will occur in the time-slot of 2:05 pm to 2:35 pm

In BoF: Agreement period: 2:05 pm to 2:30 pm

Settlement period: 2:30 pm to 2:35 pm

- In case of large fluctuations during the day, LCH.Clearnet SA will keep the possibility to set-up other intra-day session as being “with call “

Timings will be: in the morning: 11:05 am –11:35 am

in the afternoon: 3:05 pm – 3:35 pm

Treasury process (2/2)

Derivatives

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	BoF	BNB	DNB	BOP
Agreement period	25 minutes	0 minute	0 minute	0 minute
Settlement period	5 minutes	30 minutes	30 minutes	30 minutes

Next steps

- From Members to LCH.Clearnet SA
 - A number of information needs to be collected by LCH.Clearnet SA
 - Names of Members' operational contacts

- Operational Contact:
 - Risk Department: riskinfo@lchclearnet.com
+ 33(0)1 70 37 65 45

 - Treasury Department: lchclearnetsa_treasury@lchclearnet.com
+ 33(0)1 70 37 65 35

- Customer support at LCH.Clearnet:
Implementation team
 - Catherine Mollard +33 (0)1 70 37 66 57 catherine.mollard@lchclearnet.com
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Questions and Answers

